Analysis of the Impacts of China’s Foreign Direct Investment in Vietnam

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Abstract. China's Foreign Direct Investment in Vietnam has made remarkable progress in the recent years. China's Foreign Direct Investment (FDI) projects have given Vietnam certain benefits in economic wise – social: contributing to the economic restructuring and labor structure, improving the industrial production capacity, solving the employment problem, increasing the labor productivity and certain contributions to the State budget. In addition to the positive effects, China’s FDI have also had certain limitations such as: outdated technology, short-term investment, small investment capital, environmental pollution, etc. This research presents an overview of China's FDI in Vietnam, thereby analyzing the positive and negative impacts along with possible in depth explanation.

Introduction

Vietnam officially promulgated the Foreign Investment Law since 1987. In the past 30 years, FDI into Vietnam has made a great contribution to the Vietnam's economic development. In 2009, China surpassed Germany, ranked second in international trade. In 2010, China became the second largest economy in the world. Now, China ranks fifth in the world for FDI. By the year 2020, China is likely to become the world's leading investor [1].

China and Vietnam are two neighboring countries, not only geographically close, but also having long-lasting cooperative relations. Vietnam and China have many similarities in history, culture and society. In that condition, Vietnam and China are more likely to become long-term strategic partners. However, China’s FDI into Vietnam until now has not matched the potentials of the two sides, accounting for only a very small proportion of total FDI into Vietnam. And judging by Vietnam’s benefits, China’s FDI is also emerging problems to overcome.

How does China’s FDI in Vietnam take place? What are the positive and negative impacts of China's FDI projects on the economy and social life of Vietnam? What are the causes of these limitations? That is the content that will be mentioned in this research.

Overview of China's Foreign Direct Investment in Vietnam

As of March 20, 2016 China has 1616 valid projects with total registered investment capital of USD 11.19 billion, ranked No. 8 out of 116 countries and territories having investment projects in Vietnam [2].

The average China’s FDI scale in Vietnam is about USD 6.9 million per project. Meanwhile, the average level of foreign direct investment projects in Vietnam is about USD 13 million per project.

Like many other countries and territories, China's FDI is mainly in the processing and manufacturing industry with 1,072 projects with registered investment capital of USD 6.87 billion (accounting for 61.4% of the total registered investment capital of China in Vietnam). The second are production and distribution of electricity, gas, water, air conditions with 4 projects; registered investment capital of USD 2.04 billion (accounting for 18.2% of the total registered investment capital of China at Vietnam). The third is estate-sales business with 24 projects, reaching USD 631.2 million (accounting for 5.6% of total registered investment capital of China in Vietnam).
China's FDI projects are mainly invested with 100% Foreign Investment Capital have 1318 projects, with investment capital of USD 7.45 billion (accounting for more than 66.5% of total registered investment capital of China in Vietnam). 18.4% of the total registered investment capital are contracts form BOT (Build – Operate – Transfer), BT (Build – Transfer), BTO (Build – Transfer–Operate) [3]. About 15% total registered investment capital are in the form of joint venture, business cooperation contract, joint stock company.

China's FDI has been present in 54 localities in total 63 provinces and cities of Vietnam [3]. Binh Thuan province is attracted the most attractive for China’s FDI with only 7 projects, but the registered investment capital of up to USD 2.03 billion (accounting for 18.1% of total registered investment capital of China in Vietnam ). Tay Ninh province ranked second with 46 projects, registered investment capital of USD 1.65 billion (accounting for 14.8% of the registered investment capital of China in Vietnam). Bac Giang province ranked third with 61 projects, registered investment capital of USD 957.56 million (accounting for more than 8.5% of the total registered investment capital of China in Vietnam).

Analysis of the impacts of China's Foreign Direct Investment in Vietnam

Positive Impacts

Firstly, China's FDI is a necessary source of capital for the cause of Vietnam's renovation, contributing an important part of the capital investment, developing and overcoming the shortage of capital in the Vietnamese economy, especially in the period of Vietnam's integration into the international economy [4]. China's FDI in Vietnam are mainly foreign currency and focuses on the processing and manufacturing industries. In particular, the two sides have invested effectively in many projects in the building infrastructure, energy, transportation contributes to the creation of new material bases, to supplement and perfect the infrastructure system, to increase the new production capacity of the entire economy, especially the industrial sector.

Secondly, China's FDI in Vietnam currently have 1072 projects in the processing and manufacturing sector, 98 in the construction sector, which are the areas that require large labor force, China's FDI has contributed to job creation, income generation and improve performance for workers in Vietnam. In 2016, China's FDI generated about 53000 jobs and significantly increased incomes for Vietnamese workers [5]. In addition, China's FDI contributes to the training of Vietnamese managers and workers, who have technical and professional skills, were fluent in Chinese and contribute to the restructuring of social labor in the direction of reducing agricultural labor, increasing industrial and service labor.

Thirdly, China's FDI in Vietnam has contributed to the economic restructuring in the direction of industrialization and modernization [6]. Research shows that over the years China's FDI in Vietnam has changed from the light industry and consumer goods industry to the construction, processing and manufacturing sectors. This has contributed to speeding up the urbanization and modernization of backward areas, narrowing the development gap between the poor and backward provinces in the North of Vietnam with other areas.

Fourthly, China's FDI has contributed significantly to Vietnam’s GDP, increased export turnover and state budget [7]. China's FDI also positively impact the major balances of the economy such as: balancing the budget, improving the current balance and international payment balance through the transfer of capital into Vietnam and some indirect revenues such as land rent, money to buy machinery and raw materials, etc.

Fifthly, China's FDI into Vietnam has contributed to the economic integration of Vietnam in the economies of countries in Asia and the world economy. As a big country in the Asian and the world, Chinese investors have increased their FDI inflows into Vietnam, which has had a strong impact on other foreign investors; this will give them more confidence in Vietnam's policy and increase the attractiveness of this potential market. In addition, China's FDI in Vietnam also contributes to increasing export turnover, expanding international markets. Exporting through China’s FDI is an
effective way to help Vietnamese goods assess to China’s markets as well as some Asian countries markets. China’s FDI has contributed to increasing the competitiveness of the economy and increasing the strength and power of Vietnam in the process of international integration.

Sixthly, through effective investment cooperation, the two countries will facilitate the expansion of international economic relations. In addition, through the creation of favorable conditions for Chinese investors in Vietnam, the two countries are constantly improving and developing.

**Negative Impacts**

In addition to the positive impacts, China's FDI into Vietnam also has some negative impacts:

Firstly, when investing in Vietnam, Chinese investors have favorable conditions that not all foreign investors have such as: geographical proximity, economic, culture and politics similarity, etc. However, China's FDI in Vietnam has not really matched with the two countries’ relationship as well as the market potential of Vietnam and China's economic strength. Most of the China's FDI projects are short-term investment, small investment capital and mostly done by small businesses [8]. The average scale of Chinese projects is only 50% of the average scale of other investors.

Secondly, low disbursement rate, disbursement schedule delays. Realized capital of Chinese enterprises is only about 30% of total registered capital, while the common rate of other FDI areas is approximately 50%.

Thirdly, the wage level of Chinese enterprises is lower than other FDI enterprises, thereby slower in improving the income for local workers.

Fourthly, China's FDI in Vietnam is not suitable with planning for the development of the sector and economic zones of Vietnam. Chinese FDI do not pay attention to agriculture, forestry and fisheries sectors, only pay attention to resource exploitation of Vietnam and this is an unexpected investment structure. Practices show that China has invested in many natural resource exploitation projects stretching from North to South of Vietnam. This situation has caused a disturbance in the planning of Vietnam’s sector and economic region. On the other hand, if the management of these projects is not good, there will also be risks of environmental pollution, affecting the sustainable development of Vietnam [9]. In the future, China's FDI development is a big challenge for Vietnam about the risk of resource depletion.

**Explain the Cause**

**Causes from China**

The top reason of the FDI capital flow from China to Vietnam is still low because China attaches importance to attracting FDI rather than investing overseas (China is the largest FDI attraction in Asia and the third largest in the world).

The second reason is that Chinese enterprises to invest in Vietnam still have many difficulties such as: not fully understand the investment environment of Vietnam, difficult to find the ideal partner, does not create trust with businesses and local governments because some Chinese businesses have not kept their reputation, poor brand awareness and poor after-sales service, which has affected the image of Chinese investors in Vietnam (according to the opinion of the Chinese Research Institute).

**Causes from Vietnam**

Firstly, the legal system of Vietnam still has many flaws and frequent changes that make Chinese investors do not fully understand and does not offer secured investment [10].

Secondly, in the opinion of some Chinese investors, Vietnam is not really a suitable and ideal investment location because they think that the development space of Vietnam is limited, at the same time Vietnam has not fully exempted export tax and have quotas to export on some commodities when exported to Europe and the Americas, while China's goal is relocation of labor intensive production facilities, low wages, cheap goods and low technology abroad.
Thirdly, infrastructure system in Vietnam is still weak and not synchronized. Therefore, although many localities have great potentials but they attract very little investment capital. Except for investment projects in the field of infrastructure construction, most of the investment projects of Chinese investors mainly focus on big cities with relatively good infrastructure system such as: Hanoi, Ho Chi Minh City, Hai Phong city, Quang Ninh province, etc.

Conclusion

China is a neighboring country of Vietnam and is gradually asserting itself as an economic superpower in the world. Therefore, promoting economic relations of equality and attracting China’s FDI has become the focus of Vietnam's foreign economic policy. Vietnam appreciates the role of China's FDI in contributing to the socio-economic development of Vietnam, desirable Chinese businesses to strengthen investment cooperation with Vietnamese businesses. Practice shows that there are many factors that motivate China to invest in Vietnam. However, China's FDI into Vietnam is not much, besides the positive impact, there are limitations with many risks and unpredictable consequences. In the preceding time, China's investment projects in Vietnam take advantage of cheap labor, exploit mineral resources, pollute the environment, use more energy, and increase trade deficit, and others will definitely be cut. Therefore, the issue for both China and Vietnam are to be carefully study the strategic issues surrounding the transformation of the socio-economic development model of both countries; studying the legal system and priority areas of investment. For Vietnam, the attraction of China’s FDI into Vietnam should be thorough, comprehensive and equitable. At the same time, Vietnam must actively improve the business environment, improve the competitiveness and skill of relevant agencies and partner enterprises of Vietnam.

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References


