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CHINESE INVESTMENT IN TO VIETNAM

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ABSTRACT

The establishment of the China-ASEAN Free Zone A trade area has brought unprecedented opportunities and space as well as greater mutual benefits for China and ASEAN in developing countries and regions. The desire to find a common development based on economic cooperation has become increasingly strong. Since 2011, China's foreign direct investment (FDI) into Vietnam has increased in the ranking of countries investing in Vietnam, and expanded in geographic scope and investment sectors. From 2015 up to now, especially since Vietnam signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), China is often in the top 10 countries investing the most in Vietnam, because they seek to gain a foothold in the vast CPTPP market through Vietnam. Within the scope of this article, the overview of China's FDI investment in Vietnam is presented and analyzed. At the same time, the article also evaluates the advantages and disadvantages of Chinese FDI inflows into Vietnam. Since then, a number of suitable solutions have been proposed.

Keywords: Foreign Direct Investment (Fdi), Investment Trend, Foreign Enterprises.

1. INTRODUCTION

The first study in the theory of foreign direct investment (FDI) is due to the study of foreign investment in developed countries. In 1957, Mundell states in International Trade and Factor Mobility that there is an alternative relationship between investment and trade. In his view, the existence of trade barriers will generate capital flows, and the barriers of capital flow will generate trade [1].A professor at Harvard University in the United States named Vernon (1966) put forward the theory of product life cycle (PLC) in “International Investment and International Trade in the Product Cycle”. In his view, the technological development of new products generally goes through three stages: Innovation, maturity and standardization; the proportion of factors of production of this kind of products will also change regularly, beginning to change from technology-intensive to labor-intensive, and then from capitalintensive to labor-intensive. In addition, those countries with relatively large production advantages will also change accordingly, starting from individual developed countries to general developed countries, and then to developing countries.

The trade strategies of the innovative countries also begin to change slowly, that is, to produce and export to the neighboring countries, in order to reduce production and exports. And then invest in close countries, and then stop production. According to the investment, production part is transferred to developing countries. Their own needs are gradually satisfied through overseas imports [2].

American Scholar Hymer first analyze the foreign investment in the United States from 1914 to 1956, and put forward monopoly advantage to explain the occurrence of FDI. In his PHD dissertation “The International Operations of National Firms: A Study of Direct Foreign Investment”. After its development by Kindleberger, Caves, Buckley and Casson [4][5][6] ,Professor J. H. Dunning of the University of Reading, UK, absorbs the essence of the various OFDI theories that have emerged over the past 20 years, in passage named “Trade, location and economic activity and the multinational enterprise: A search for an eclectic approach”, elaborating the theory of international production compromise in detail, putting forward the necessary advantages of foreign direct investment., there are three kinds: firstly, "Ownership" refers to the ownership of a country's business, while foreign enterprises are impossible to get assets and ownership.; secondly, "Internalization" means that those enterprises whose ownership is dominant can expand their business activities, using these advantages internally and getting the maximum profit.; thirdly, "Location" refers to the favorable conditions for the host country to provide foreign enterprises with direct investment in the country. He believes that only when enterprises have the above three advantages at the same time can they have the conditions for foreign direct investment [7]. Since 1990s. Veugelers use the game theory analysis tool, explaining the phenomenon of strategic foreign investment in the field of international investment in published article “Strategic Intentives for Multinational Operations”. He states that as a result of the change of international operating environment, transnational companies make strategic changes, trend of strategic foreign investment of transnational companies is becoming more and more obvious. This theory complements the monopoly advantage theory which presents that enterprises are considered from their own specific advantages, less considering the market competition and competitors, lacking analysis of the interact influence between transnational corporations [8]. In 1977, Lecraw investigates more than 20 foreign direct investment companies from different Asian countries in Thailand in his paper “Direct Investment by Firms from Less Developed Countries”. And it is concluded that these companies are located in labor-intensive industries, and the market is not only for the host country but also for overseas; this type of investment is adapted to the application of labourintensive technologies, small-scale mature production, generic products; investors prefer to hold minority shares in joint ventures with local enterprises, and the family relationship of the host company plays an important role in the business.

Compared with foreign direct investment from developed countries, this kind of FDI has higher degree of autonomy [9].Afterwards, Wells (1983) states that the biggest shortcomings of the traditional theory of foreign direct investment is the put competitive advantage of transnational companies in absolutization in his paper “Third World Multinationals: The Rise of Foreign Investment from Developing Countries”. He thinks that the competitive advantages of transnational companies in developing countries are relative, most of them are low in production cost, and this low production cost is closely related to the market characteristics of their home country. Wells also points out in the paper that not only because of its large-scale production of modern technology in a strong competitive advantage, but also those technology suitable for small-scale production can have big advantage in the competition. In summary, the comparative advantages of transnational companies in developing countries usually have the following three aspects:(1) Small-scale production technology as a result of its greater flexibility in production; (2) having a certain advantage in the overseas production of national products, most of the overseas investment enterprises in developing countries need to set up a group to serve the same ethnic groups overseas; (3) low price marketing strategy of products is an important weapon for transnational companies in developing countries to seize the market. The product marketing strategy of developed country transnational companies is usually a large amount of advertising costs to create famous brand effects. Developing countries, on the other hand, spend less on advertising and use low-cost marketing strategies [10]. Lallen and Tolentinoy further supplement the Wells theory, emphasizing the regeneration process of technology introduction. That is, the transnational companies of developing countries do not simply copy the imported foreign technology, but do further digestion, absorption, improvement and innovation of the technology. It is precisely because of this kind of innovation activity, bringing new vitality to the imported technology, and then bringing new competitive advantage to those enterprises that introduce technology. As it is accumulated step by step, technical ability is developed, further promoting upgrading of the industrial structure of outward direct investment in developing countries [11] [12]. In 1988, Dunning came to a similar conclusion based on different theoretical frameworks. In his theory of investment development path (IDP), he regards the development of a country's FDI as a process corresponding to the development of the country's economy. With the economic development to a certain level, FDIs will be exported gradually, a country must first accept a certain amount of FDI inflow [13].

In 2006 ASEAN-UNCTAD seminar, Daisuke Hiratsuka presents that the reason for FDI among ASEAN regions is transport costs in his FDI theme paper “Outward FDI from and Intraregional FDI in ASEAN: Trends and Drivers”: if the cost of transporting the goods is too high, the enterprise will place the production department near the market. He believes that there are four forces driving ASEAN multinational enterprises to invest abroad: first, the efficiency of foreign direct investment, the pursuit of the host country cheap wage rate; second, market-oriented type, in order to enter the host country's huge market; third, "supplier follows the production line" type of foreign direct investment, pointing that the host country suppliers follow the foreign manufacturing production line for direct investment; fourth, function-oriented foreign direct investment [14].The research subjects of this study are ASEAN, especially the more developed countries such as Singapore, Malaysia, Thailand, and even Hong Kong, Japan, Korea and so on. The study on the underdeveloped countries in ASEAN member countries is difficult to consult, not even to mention the motivation and cause analysis of FDI from China and Yunnan Province to ASEAN. After analyzing ten country, AtherMaqsood Ahmed [15] has concluded that FDI has played an active role in promoting national economic growth. After analyzing the 30-year sample data of 91 developing countries in the world, Ali AI-sadig [16] is found that the entry of FDI will increase investment in the enterprise sector that affects the host country, and then affect the economic growth of the host country.

Accordingly, Vietnam needs to focus on researching and applying mechanisms and policies. That is to strengthen the appraisal, to select carefully. Resolutely refuse projects that consume a lot of raw materials and energy; occupy large premises, use outdated technology. In particular, it is necessary to promote self-control and the position of the host. From there, detect and resolutely eliminate projects that may pollute and destroy the environment.

Thus, in the face of unpredictable changes in the world market, Vietnam has the right to be excited about its achievements. However, Vietnam also needs to be very alert to determine the situation. Large and small-scale FDI projects all contain dangers of emerging economies.

2. INVESTMENT TREND OF CHINA INTO VIETNAM

The Vietnamese government has long considered relatively cheap labor as a competitive advantage in attracting foreign investment, including investment from China. This is especially relevant at a time when labor prices in China are rising. Currently, the average monthly labor price in Vietnam is in the range of 300-350 USD, half of the labor price in China. Vietnam also encourages foreign companies to come here to introduce new and more advanced technologies as well as the latest management models. This is a good opportunity for local businesses to learn and improve their management skills and productivity. Chinese enterprises in Vietnam have made significant contributions in this area.

Foreign businesses also help boost Vietnam's exports. Currently, foreign enterprises account for 70% of Vietnam's total export value. At the same time, these businesses also create positive pressure for various agencies and ministries under the Government of Vietnam to improve the legal and administrative environment to become more business-friendly and suitable. with international practices.

Moreover, with a potential market of more than 100 million people with high consumption demand, e-commerce in Vietnam is an industry that attracts a lot of FDI. In the years 2016-2018, the two most developed e-commerce sites in Vietnam, Lazada and Tiki, both received large investments from Chinese businesses. In 2016 and 2017, China's Alibaba Group invested $2 billion in Lazada. In early 2018, Alibaba Group said that it would double its investment in Lazada to finance their regional expansion in Southeast Asia. In January 2018, the second largest e-commerce group in China, JD.com, confirmed a $44 million investment in Vietnamese online retailer Tiki.vn to compete with Lazada. These investments are fueled in part by Vietnam's prospect of attracting a growing and relatively young population and its largely untapped potential for online retailing.

Chinese businesses have been choosing Vietnam as their investment destination as part of the Chinese Government's long-term strategy to pursue economic integration with the world and neighboring countries. In fact, for many years, China has actively pursued the goal of international economic integration, especially after it joined the World Trade Organization (WTO) in 2001. Until now, the government The Chinese government has signed more than 100 bilateral or multilateral trade and investment agreements with other countries. In the early years, such agreements provided the basis for China to attract FDI. These deals now pave the way for China to invest abroad in search of new sources of growth.

In this respect, Vietnam is a viable destination for Chinese enterprises thanks to the following inherent advantages. First, China is now one of the 10 largest investors in the world. Second, in recent years, the productivity and capacity of Chinese enterprises have increased significantly. Third, Chinese enterprises venture to invest abroad to achieve the goal of expanding external markets, promoting exports of goods, and exploiting external resources. Furthermore, slowing domestic growth is prompting China's manufacturing industry to look for opportunities abroad.

Investment projects of Chinese enterprises in Vietnam are also in line with China's ambitious Belt and Road Initiative (BRI). Among the projects under the BRI framework in Vietnam are the construction of an expressway connecting the southern provinces of China with Hanoi and the northern ports of Vietnam, and the project to upgrade or build new port in this area.

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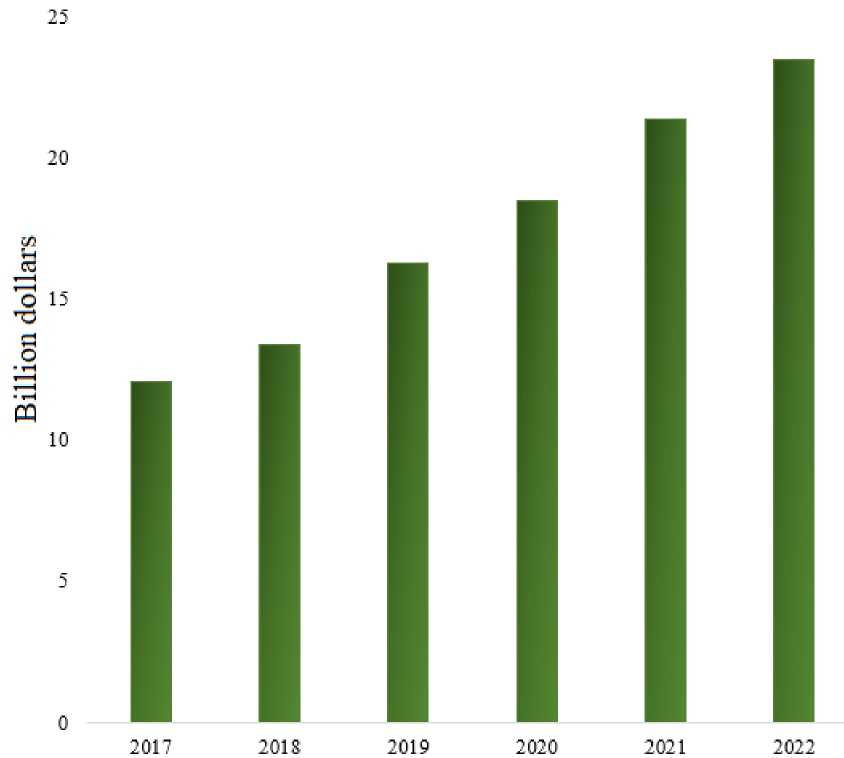

Accumulation of total Chinese FDI into Vietnam

3. THE INFLUENCE OF CHINESE FDI INVESTMENT

Positive impact of Chinese FDI investment

FDI from China has contributed significantly to creating jobs, restructuring labor and improving the quality of human resources. Figures from the Ministry of Planning and Investment of Vietnam show that the number of direct jobs in the foreign investment sector has increased from 330,000 in 1995 to 3.6 million in 2017, while also creating indirect jobs for about 5 people. -6 million workers. Although there are no detailed figures on the number of jobs created by Chinese investment, the large role of Chinese FDI shows that it has significantly increased employment opportunities. Moreover, China's increasing role as a key source of FDI into Vietnam has particularly helped Vietnam to upgrade and industrialize its economy. Especially in the post-global financial crisis in 2008, Vietnam desperately needed capital to recover from the crisis and pursue sustainable development goals. In the long term, although domestic capital plays a decisive role, foreign capital (including official development assistance – ODA, FDI and indirect investment) is still a very important source for foreign investors. industrialization and modernization of Vietnam. Moreover, when Chinese enterprises invest in Vietnam, foreign capital will also act as a catalyst in attracting investment from other countries into Vietnam.

In recent years, Chinese investment in Vietnam has shifted from light industry and consumer goods to construction and manufacturing. In addition to the key cities and localities mentioned above, Chinese FDI also targets some Vietnamese border provinces that are often overlooked by foreign investors due to poor infrastructure and qualifications. economic development is still low. These provinces include Lao Cai (27 projects), Lang Son (20 projects), Cao Bang (7 projects) and Lai Chau (2 projects). Capital flows into these areas have helped accelerate the urbanization and modernization of remote areas, narrowing the gap between the less developed northern provinces and other parts of Vietnam.

The export-oriented nature of Chinese FDI into Vietnam also boosts Vietnam's export industry by providing a convenient route for Made in Vietnam products to reach foreign markets. In general, Vietnamese goods are not well known in Asia and around the world, while Vietnamese enterprises lack competitiveness compared to their more prestigious foreign counterparts in countries with a strong background. solid economy. Therefore, Chinese investment in Vietnam's export sector helps create favorable conditions for Vietnamese goods to reach different markets, including China and other Asian countries. This also paved the way for domestic firms to access international markets. At the same time, the export activities of the FDI sector also help to promote the growth of other relevant sectors in Vietnam such as hotels, tourism, foreign exchange and consulting.

Negative impact of Chinese FDI investment

A major obstacle for Vietnam is that exports are heavily dependent on foreign enterprises (more than 70%), exposing Vietnam to unnecessary risks. In general, when production depends on cross-border supply chains, foreign enterprises in Vietnam are often deeply involved in both import and export processes, making the Vietnamese economy vulnerable. to the global economic situation. Vietnam's Minister of Industry and Trade Tran Tuan Anh said: "This over-dependence is a disadvantage and unsustainable point for our country's export sector, because the production and export of FDI enterprises are very dependent on FDI enterprises. heavily into regional and global supply chains, so it is quite sensitive to trade fluctuations in the world market".

Another obstacle concerns the type and quality of industry and technology being brought into Vietnam. Chinese FDI flows often flow into sectors such as textiles, footwear, fibres, energy, thermal energy and mining, which are potentially polluting industries. The serious pollution case related to Hung Nghiep Formosa Ha Tinh Iron and Steel Co., Ltd. has raised concerns about the consequences of Chinese FDI projects on the environment. Furthermore, many Chinese FDI projects either have low technology content or use outdated technology. Therefore, Vietnam is at risk of becoming China's "technological landfill" due to carelessness in choosing Chinese FDI projects. In addition, in some cases, machinery and equipment brought to Vietnam by Chinese companies are types that Vietnam can produce domestically. Mass imports of low-cost consumer goods from China also make it difficult for some of Vietnam's domestic industries to survive.

The third obstacle is transfer pricing. Investment costs in projects using Chinese technology are usually 2-3 times higher than investment costs in similar domestic projects that depend on Japanese and European technology. This disparity leads to erroneous assessments of the efficiency of FDI, thereby distorting indicators of economic performance in general. Research shows that reporting losses is not limited to one industry, but is especially common in many industries such as apparel and footwear manufacturing, retail and beverage. For example, according to a report by the Ho Chi Minh City Tax Department, foreign enterprises in the garment industry in Ho Chi Minh City all reported losses, but most domestic companies operating in this industry have interest. This phenomenon seems difficult to explain because domestic firms are often thought to have lower

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productivity and less competitive advantage over their foreign counterparts. According to the Corporate Finance Department (under the Ministry of Finance of Vietnam), about 44%-51% of foreign enterprises report losses every year. In 2015, 51% of foreign enterprises reported losses; In 2016, this figure was 50%. Notably, there are foreign enterprises that report losses for a long period of 10 years or even 20 years, but continue to increase capital and expand investment in Vietnam. This shows that the transfer pricing situation in the foreign investment sector is increasing and complicated. The Vietnam Chamber of Commerce and Industry (VCCI) and the United States Agency for International Development (USAID) conducted a survey in 2014 to understand the transfer pricing behavior of foreign enterprises in Vietnam and develop the It was found that 20% of these enterprises admitted to carrying out transfer pricing practices.

According to experts, the transfer pricing process involves foreign enterprises overstating the value of their initial investment, leading to tax loss, reduced profits and unfair competition. to the host country. Foreign enterprises are often seen as large corporations with modern technology and equipment, and therefore are expected to contribute capital. Since Vietnamese partners are often incapable of valuing modern technology and equipment, foreign partners tend to overestimate their contributions, leading to an exaggeration of the amount of capital contributed to any any joint venture. Next, in the process of production and business, foreign enterprises often declare high input material prices, and seek to increase other costs such as advertising costs in order to reduce or eliminate profits. These companies will also take advantage of the interest payment to carry out transfer pricing. Therefore, even if a branch of a company in Vietnam has a nominal profit, that profit will also be used to pay interest and be charged as an expense, thus eliminating be profitable. This leads to the phenomenon that some foreign enterprises in Vietnam expand their production activities and increase their revenue streams despite continuously reporting losses. Currently, the majority of transfer pricing cases in Vietnam have not been brought to court due to the weakness of the Vietnamese legal framework on handling transfer pricing behavior and the sophistication of FDI enterprises in concealing their behavior. this vi.

In addition to the above negative impacts, a number of Chinese projects in Vietnam still have many unresolved issues, thus affecting the progress of these projects as well as the image of enterprises. China is involved. The Cat Linh-Ha Dong elevated urban railway project in Hanoi is a typical example.

4. MANAGERIAL IMPLICATIONS

In order to maximize the benefits of Chinese FDI and limit the negative impact of these investments, Vietnam will need to continue to improve its regulations and procedures to create an enabling environment for FDI. push foreign investment into Vietnam. In this respect, Vietnam can accumulate useful lessons from the experience of Ho Chi Minh City as it is the most popular destination for FDI into Vietnam. In 2016 and 2017, total direct and indirect investment in Ho Chi Minh City amounted to a staggering $10.06 billion. This contrasts with the investment situation of the previous 5 years (from 2011 to 2015) when the city only attracted a total of 10.36 billion USD.

Ho Chi Minh City's success is partly due to its favorable geographical location, its reputation as the most economically dynamic city in Vietnam, and its stable socio-economic environment. At the same time, the city has the necessary infrastructure to facilitate foreign investment, especially connectivity through seaports and air routes and logistics capacity. More importantly, Ho Chi Minh

City has policies and procedures that are favorable to investors. The city can quickly authorize investment projects because the power to make such decisions has been transferred to the local government and departments. Previously, investment projects had to be licensed by the Ministry of Planning and Investment in Hanoi. Since 2015, this role has been transferred to the respective provincial and city departments of planning and investment. In addition, the city has increased activities to promote investment and streamline administrative procedures. The city further focuses on developing a one-stop shop service, providing investors with information on import-export activities in processing and industrial areas, as well as supporting businesses solve the problems encountered in the implementation of the project.

In parallel with efforts to improve the overall environment to attract FDI, Vietnam needs to take appropriate measures to handle the current outstanding problems related to Chinese FDI projects. In the immediate future, Vietnam needs to enact an anti-transfer pricing law and perfect the legal framework to combat transfer pricing between companies. Vietnam also needs to narrow to some extent the gap in tax incentives between domestic and foreign enterprises to create a more fair overall competitive environment for both groups of businesses. Vietnam needs to act towards authorizing the investigation of capital under the General Department of Taxation in Hanoi to local tax authorities at the provincial and city levels so that they can better monitor the activities of FDI enterprises and promptly prevent them from doing so. illegal acts. Vietnam also needs to build a database of tax payers and individuals to more closely monitor changes in their income and revenue streams. For foreign enterprises that flout Vietnam's business regulations, Hanoi should introduce appropriate sanctions such as reducing the duration of the preferential tax rate or even increasing the imposed tax rate. . Last but not least, Vietnam needs to better align its legal framework with international practices as part of improving the overall operating environment for businesses.

As part of its industrial upgrade plan, Vietnam will need to find ways to attract foreign investors to invest in high-tech, advanced, environmentally friendly activities, clean energy. and renewables, advanced medical equipment, healthcare services and especially new industries based on Industry 4.0. Vietnam also needs to strengthen human resource training and improve the quality of the domestic workforce.

In addition, in recent years, China's FDI flows into Vietnam have concentrated mainly in high-risk industries such as thermal power, steel, chemicals and cement. These investment projects need to be checked because they require huge investment costs, consume a lot of energy and have the risk of causing environmental pollution. Closer inspection can also help avoid the transfer of old, outdated, energy-intensive equipment and technology into Vietnam.

It is important to promote balanced and sustainable economic relations between Vietnam and China as neighbors. Vietnam highly appreciates the role of Chinese FDI in contributing to its socio-economic development. However, China's FDI activities in Vietnam in general tend to take advantage of Vietnam's cheap labor, exploit mineral resources, pollute the environment, consume a lot of energy, and increase trade deficic. The two countries can further cooperate to improve the quality of Chinese investment projects in Vietnam. This will help promote economic relations to further benefit both sides, which will create positive political influence for both countries.

5. CONCLUSION

Vietnam needs to selectively attract FDI projects with high quality, high added value and modern and advanced technology. At the same time, it is necessary to set up barriers to prioritize good technology in attracting FDI. Emphasis on pouring capital into high-tech, environmentally friendly and low-energy industries. Policies to attract and use FDI must ensure effective supervision. Projects related to the production of medical equipment and cosmetics must be strictly managed.

Accordingly, Vietnam needs to focus on researching and applying mechanisms and policies. That is to strengthen the appraisal, to select carefully. Resolutely refuse projects that consume a lot of raw materials and energy; occupy large premises, use outdated technology. In particular, it is necessary to promote self-control and the position of the host. From there, detect and resolutely eliminate projects that may pollute and destroy the environment.

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