

Vietnam's FDI Landscape: Growth, Drivers, and Opportunities





Introduction

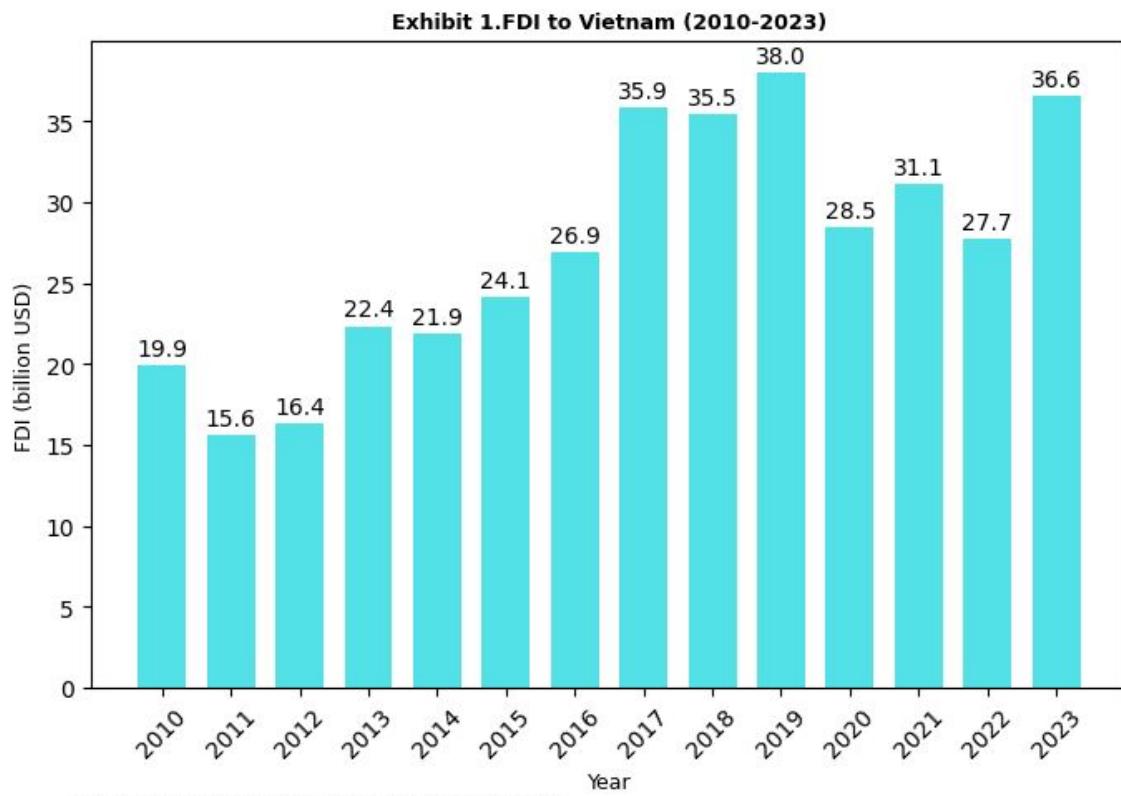
In 2024, Vietnam's Foreign Direct Investment (FDI) landscape presents a dynamic and promising outlook, perfectly complementing its robust economic growth. With projections indicating a growth rate of around 5.8% in 2024, double the global average of 2.9%, Vietnam stands out as an enticing destination for foreign investors seeking lucrative opportunities. Given its strategic location in Southeast Asia and a rapidly expanding economy, Vietnam has captured significant interest from foreign investors across various sectors. This article explores the growth trends, assesses investment opportunities, and examines key drivers of Vietnam's FDI, providing valuable insights for investors eyeing the Vietnamese market.



Growth Trends

FDI inflow 2010-2023

Vietnam has demonstrated a consistent pattern of Foreign Direct Investment (FDI) growth over the past decade. FDI inflows have followed a notable upward trajectory, rising from \$19.89 billion in 2010 to a record \$38 billion in 2019. The onset of the COVID-19 pandemic in early 2020 disrupted this trend, causing FDI to drop by 6.7% compared to 2019. However, FDI rebounded slightly to \$31.1 billion in 2021 before declining to \$27.7 billion in 2022. By 2023, FDI had recovered to \$36.61 billion.



Source of Data: Ministry of Planning and Investment

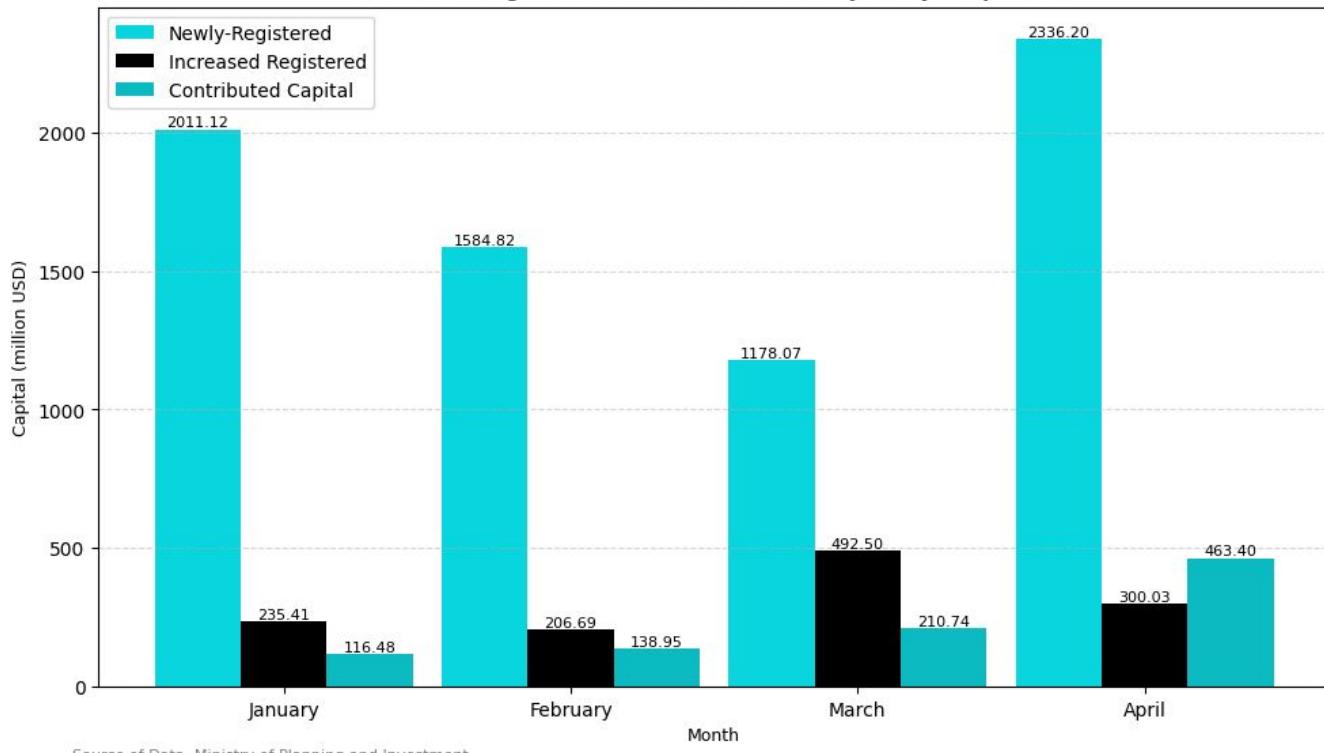
Data from the United Nations Conference on Trade and Development (UNCTAD) revealed a 3% increase in global Foreign Direct Investment (FDI) in 2023 compared to the previous year, amounting to over 1.365 trillion USD. This growth was primarily driven by a notable surge in European Union countries. Conversely, FDI in the Asia-Pacific region, traditionally a significant contributor to global investment, experienced a decline of 9%, totaling 849 million USD. This decline was marked by a 6% reduction in China, a 47% decrease in India, and a 16% drop in ASEAN countries.

Despite these regional trends, Vietnam, Thailand, and Indonesia demonstrated remarkable resilience, maintaining substantial growth in FDI throughout 2023. Vietnam, in particular, emerged as a standout performer, recording a significant increase of 32.1%, with Thailand and Indonesia also posting impressive growth rates of 42% and 13.7%, respectively.

Vietnam's FDI Surge in the First Four Months of 2024

Recent data from Vietnam's Foreign Trade Agency underscores a remarkable surge in Foreign Direct Investment (FDI) during Q1 of 2024. With over \$6.17 billion newly registered, increased registered, and contributed capital, along with share purchases by foreign investors in Q1 2024, there was a notable 13.4% increase compared to the previous year.

Exhibit 2. Foreign Direct Investment Data from January to April 2024



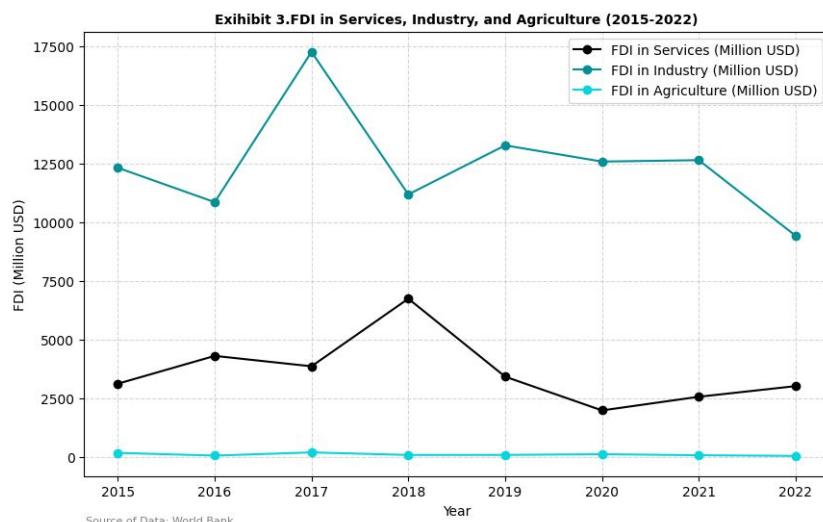
In the First Four Months of 2024, Vietnam issued investment certificates to [966 new projects](#), totaling [\\$7,110.21 million registered capital](#). This represents a significant year-on-year increase of 23.4% in the number of projects and 57.9 percent in capital value.

Furthermore, substantial capital was allocated to existing projects, with [\\$1,234.63 million](#) registered for expansion across [345 projects](#). Additionally, [\\$929.56 million](#) was designated for stake purchase and capital contribution activities.



Key Invested Sectors

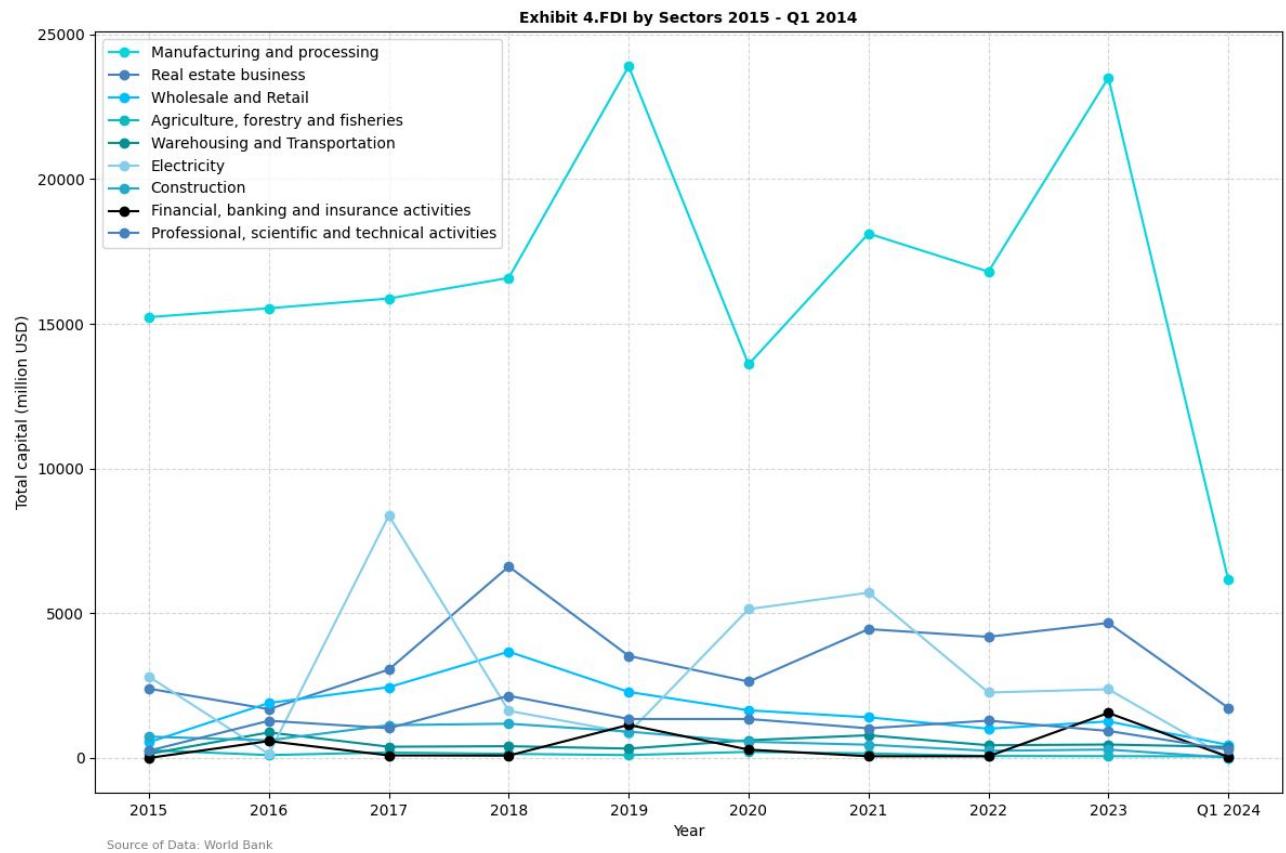
From 2015-2022, the **Industry sector** consistently attracted the highest FDI among the three sectors. It saw an upward trend from 2015, culminating in a peak of \$17,247 million in 2017. Although there was a decline after 2017, the investment levels remained relatively high until a noticeable drop in 2022, when FDI fell to \$9,412 million. The consistently high levels of FDI in Industry underscore its status as a primary focus for investment during this period.



Service sector is the second largest recipient, with significant FDI but fluctuations over time. From 2015 to 2018, the service sector marked an increase in FDI, peaking at \$6,730.80 million USD in 2018. However, this was followed by a sharp decline, reaching a low of \$1,969.70 million USD in 2020. Post-2020, the sector showed signs of recovery, with FDI rising steadily to \$3,005 million by 2022.

The **Agriculture sector**, on the other hand, consistently received the least FDI. There was some fluctuation, with a peak in 2017 at USD 179.3 million, but the overall trend has been one of decline, particularly notable from 2020 onwards. By 2022, FDI in Agriculture had decreased to USD 30.0 million. This persistent low level of investment suggests that Agriculture is the least attractive sector for FDI, possibly due to higher perceived risks or lower potential returns compared to Services and Industry.

More specifically, over the past decade, **manufacturing, wholesale and retail, real estate, and electricity** have been the top recipients of Foreign Direct Investment (FDI), reflecting their pivotal roles in industrial growth and export competitiveness.



The Manufacturing and processing sector: has consistently attracted the highest FDI, demonstrating a steady increase over the years. Starting from approximately \$15,233 million in 2015, it reached around \$23,505 million by 2023, highlighting its critical importance in driving industrial development and enhancing export capabilities.

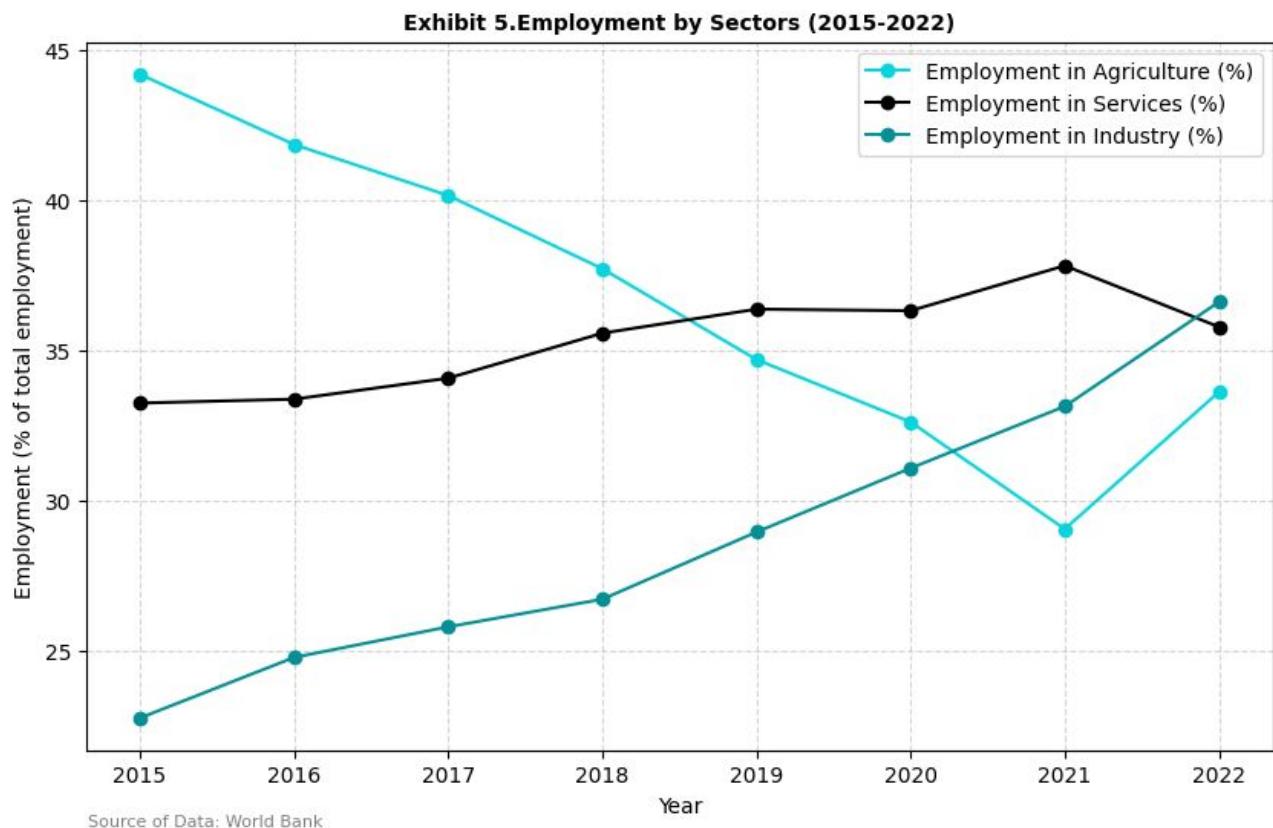
The Real Estate sector: experienced notable fluctuations but maintained an overall upward trajectory. It saw a significant spike in 2018 and continued to grow, reaching \$4,666 million by 2023. This indicates the sector's resilience and potential for long-term investment returns.

The Wholesale and Retail sector: displayed an increasing trend despite some fluctuations. After a significant peak in 2018 at \$3,673 million, the sector faced some declines but started to recover, reaching \$1,262 million by 2023. This trend underscores the sector's adaptability and potential for growth amidst varying economic conditions.

The Electricity sector: was marked by high volatility, with dramatic increases in 2017 and 2020, followed by declines and slight recoveries. By 2023, the FDI in this sector reached approximately \$2,373 million, reflecting ongoing investments in energy infrastructure and renewable energy projects, which are crucial for sustainable industrial growth

During the first four months of 2024, the **manufacturing and processing industry** remained the top destination for FDI, securing a total registered capital of \$6,153 million, though this marked a slight decline of 1.3 percent from the same period last year. The real estate sector saw a remarkable surge, with investment increasing by 2.1 times compared to the previous year, reaching \$1,732 million in total registered capital. Furthermore, the wholesale and retail industry attracted \$451.4 million, and the science and technology sector garnered \$285.2 million in investments.

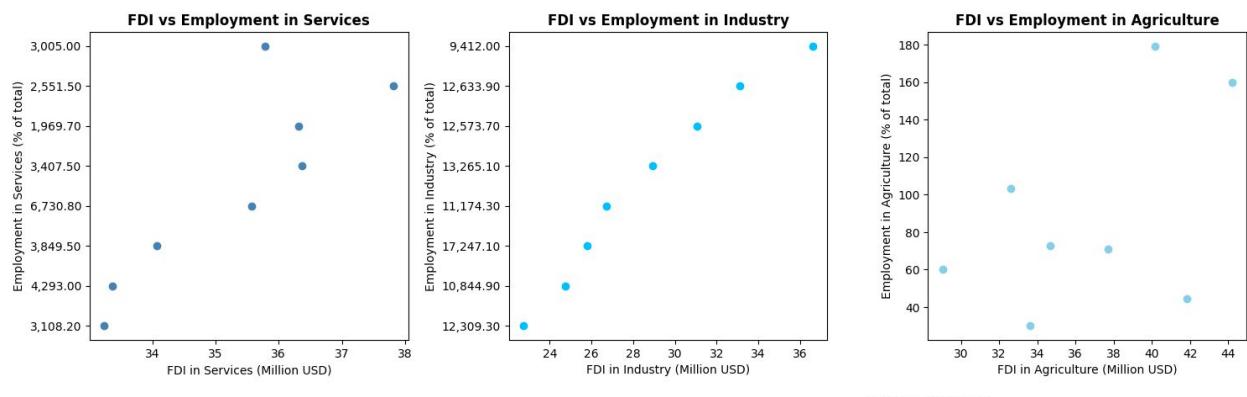
Employment in economic sectors and the association between FDI & Employment



The **agriculture sector** is seeing a decline in employment, reflecting broader economic shifts towards more industrial and service-oriented economies.

The **Services sector** has gained prominence, peaking in 2021, indicating its growing role in the economy, though it faced a slight decline in 2022.

The **industry sector** has consistently increased its share of employment, reflected successful industrialization and possibly benefited from higher FDI in this sector.

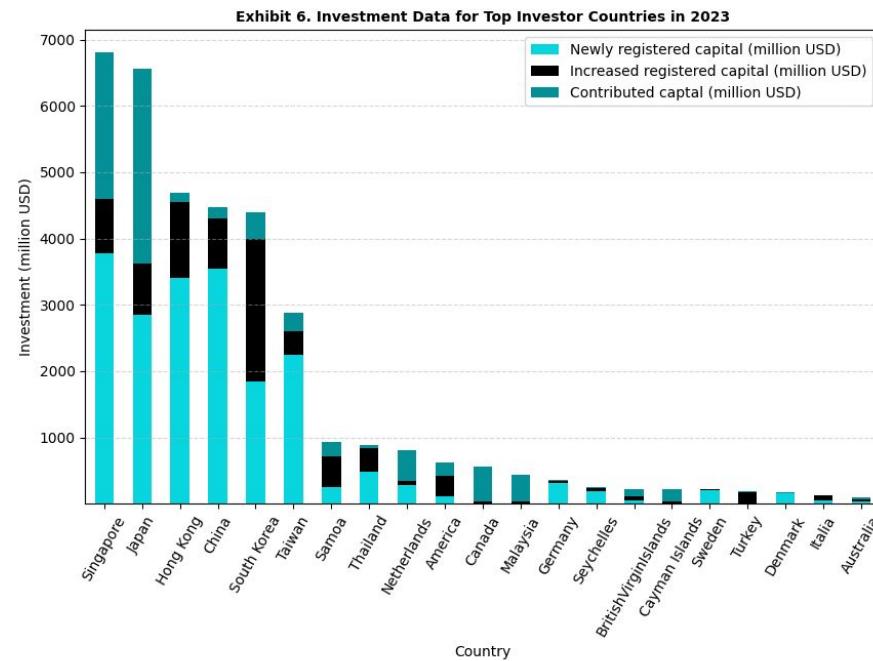


Analysis of Foreign Direct Investment (FDI) reveals a nuanced relationship with employment across sectors. Notably, FDI demonstrates no significant correlation with employment in the agricultural sector. Conversely, a discernible moderate positive correlation emerges between FDI and employment within the industry and services sectors. This suggests a more pronounced impact of FDI on employment dynamics in industry and services compared to agriculture.



Top sources of FDI in Vietnam

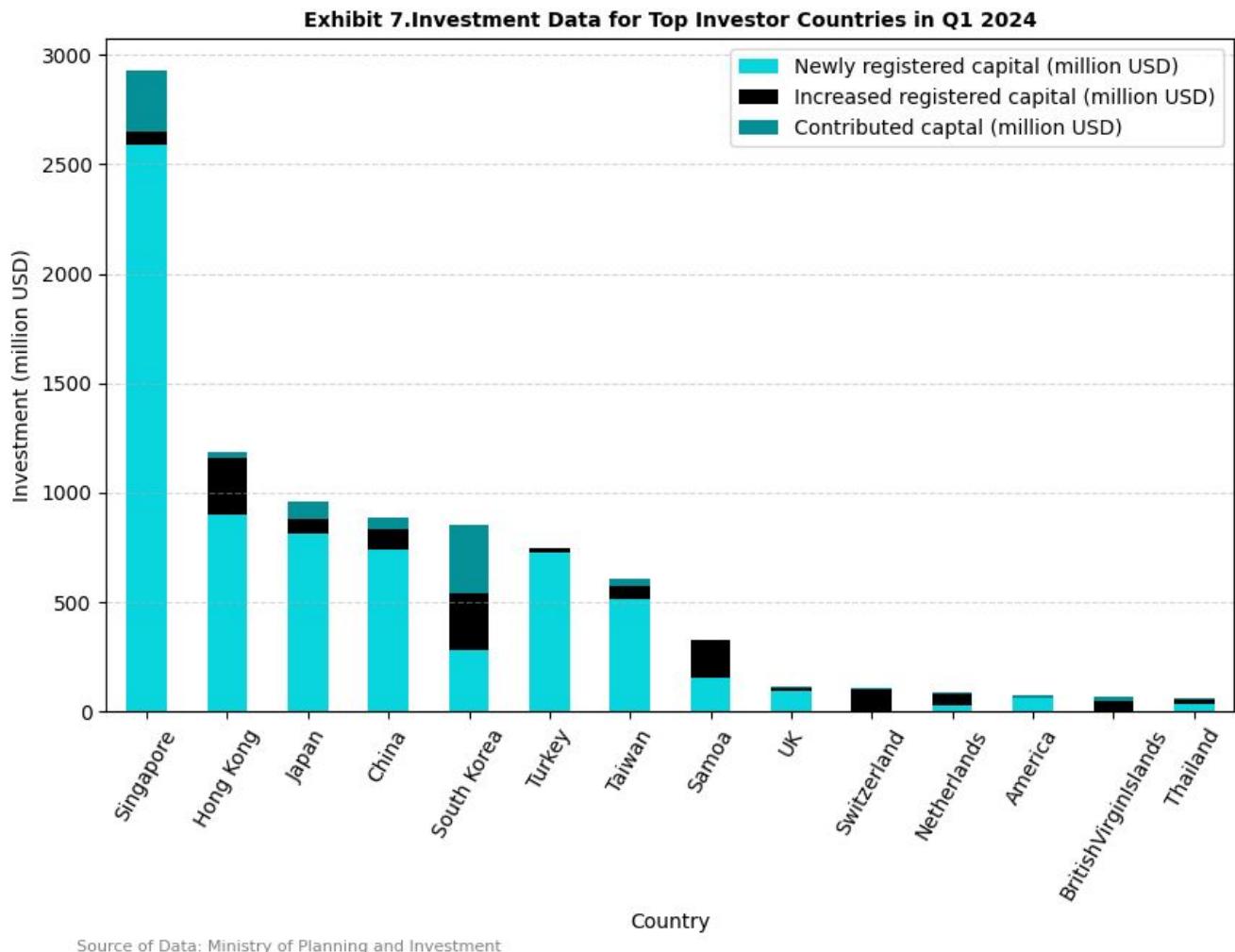
In 2023, Singapore led as the primary source of foreign investment, contributing a substantial \$6.9 billion, which accounted for 18.6 percent of the total Foreign Direct Investment (FDI). This investment included 410 newly registered projects with a combined capital of \$3,769 million. Additionally, there were 153 projects that received increased capital, amounting to an additional \$832.034 million in registered capital. Japan closely followed in second place with \$6,566 million including 302 newly registered projects with a combined capital of \$2,856 million, while Hong Kong (China) secured the third position, contributing 12.8 percent of the total. Additionally, mainland China and South Korea were significant contributors to Vietnam's FDI landscape, especially South Korea contributed to the highest amount of increased registered capital at \$2159 million during this period.



Source of Data: Ministry of Planning and Investment

Comparing this with data from 2023, a similar trend is observed. In the first four months of 2024, Singapore, Hong Kong, Japan, South Korea, and mainland China emerged as prominent contributors to foreign direct investment (FDI). Investment from Singapore and Hong Kong is predominantly new, comprising 88.6% and 75.9% of their total investment capital over the first four months, respectively. Following them are Japan and China, with newly registered capital of \$814 million and \$740 million, accounting for 85% and 83.6% of their total investment, respectively.

However, when considering the number of projects, China leads in new investment projects, representing 27.8% of the total. South Korea stands out in terms of capital adjustments, making up 23%, and in capital contributions and share purchases, accounting for 27.8%.



In terms of total investment, Singapore remains the leader with over \$2,926 million in total investment capital, representing more than 42% of the overall investment and marking a 51.3% increase compared to the same period in 2023. This investment includes 138 newly registered projects with a combined capital of \$2,590 million. Additionally, 38 projects saw increased capital, adding an extra \$57 million in registered capital. One major project that Singapore invested in Vietnam over the past three months is the Lumi Hanoi Urban Area Project, with an investment capital exceeding \$662 million. Hong Kong ranked second with more than 1.05 billion USD, accounting for 17.1% of total investment capital, nearly 2.3 times more than the same period.



Key Catalysts for FDI's Growth

Vietnam's allure to Foreign Direct Investment stems from various factors. Let's delve deeper into these pivotal drivers:

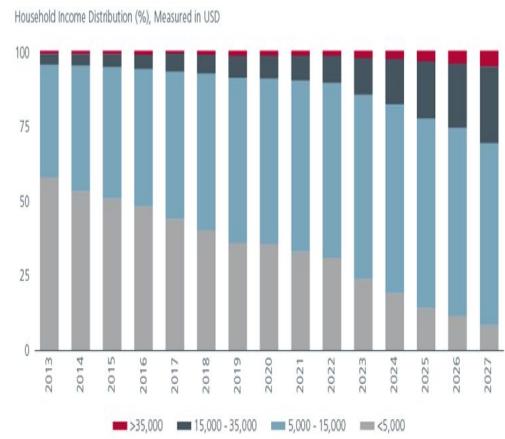
Geographical Positioning

- **Southeast Asia's Gateway:** Vietnam's central location amidst major economies like China, Laos, and Cambodia provides access to a vast market of over 650 million people, making it an ideal entry point for businesses into the Southeast Asian region.
- **Maritime Importance:** With an extensive coastline and deep-water ports, Vietnam serves as a pivotal junction in global trade routes, facilitating smooth import and export activities while cutting down logistical costs for foreign enterprises.

Growing middle class

- Middle-income households are projected to make up almost 30% of Vietnam's population by 2026. The country aims to achieve upper-middle-income status by 2035 and become a high-income nation by 2045. Vietnam is already on track to meet these goals, boasting the 7th fastest-growing middle class globally.

As illustrated in the bar chart below, Vietnam's consumer class has surged over the past two decades. The country is expected to add 36 million people to its middle class by 2030. These developments indicate a growing demand for higher value-added products and services, positioning Vietnam as an increasingly attractive consumer market.



Government Policies Favorable to Investors

The Vietnamese government offers a range of incentives to attract foreign direct investment. These incentives are designed to align with national development strategies and support economic growth.

Corporate Income Tax (CIT) incentives: are a key component of Vietnam's strategy to attract foreign investment, benefiting both local and foreign investors in alignment with national development goals. The Vietnamese Law on Investment outlines two primary forms of CIT incentives: preferential tax rates and tax holidays

- Preferential tax rates vary, including 10% for the lifetime of a project or for 15 years from the first year of income generation, and 17% for either the lifetime of a project or for 10 years from the first year of income generation.
- Tax holidays offer full tax exemptions for periods of 2 to 4 years, followed by a 50% tax reduction for 4 to 9 subsequent years

Incentives in economic zones: Vietnam encourages the establishment of economic zones to attract foreign investment by offering enhanced infrastructure, skilled labor pools, and supplier networks. These zones provide significant tax incentives, including tax holidays and, in some disadvantaged areas, preferential corporate income tax rates. For economic zones, tax incentives typically include 2 to 4 years of tax exemption, followed by a 50% reduction in payable CIT for 4 to 9 years. In extremely disadvantaged areas, the incentives can extend to a 10% CIT rate for the lifetime of the project. Firms looking for specialized labor, access to ports, and favorable business conditions are advised to consider these zones for their operations.

Incentives for disadvantaged locations: the Vietnamese government offers location-based incentives to attract investment in less developed regions, particularly near the borders with China and Laos, and the southern Mekong region. Disadvantaged areas offer a 17% corporate income tax (CIT) rate for 10 years, with a two-year tax holiday and a 50% tax reduction for the next four years. Extremely disadvantaged areas provide a 10% CIT rate for the project's lifetime, a four-year tax holiday, and a 50% tax reduction for the following nine years. These incentives aim to spur development and are outlined in Government Decree 118/2015/ND-CP.

Prioritized sector incentives: Vietnam offers industry-based tax incentives to encourage investment in prioritized sectors such as high-tech, large-scale, and socially important industries. These

sectors include information technology, biotechnology, new material technology, automation technology, high-tech supporting products, scientific research, software production, education, vocational training, healthcare, culture, sports, and environmental projects. For projects of social importance, 10% CIT for the project's lifetime, with 4 years of CIT exemption and a 50% reduction for 5 years

Industrial zones

Vietnam's three key economic zones—the NKEZ (Northern Key Economic Zones), CKEZ (Central Key Economic Zones), and SKEZ (Southern Key Economic Zones)—attract investors through their specialized strengths and strategic locations. The NKEZ, comprising Hanoi, Hai Phong, Bac Ninh, Hai Duong, Hung Yen, Vinh Phuc, and Quang Ninh, excels in electronics, motorcycles, high-tech products, and machinery manufacturing. The CKEZ, including Thua Thien Hue, Da Nang, Quang Nam, Quang Ngai, and Binh Dinh, focuses on light industries like food processing, apparel, construction materials, and forest products. The SKEZ, featuring Ho Chi Minh City, Binh Duong, Dong Nai, Long An, Ba Ria – Vung Tau, Binh Phuoc, Tay Ninh, and Tien Giang, is the hub for rubber, plastics, and apparel industries, as well as machinery, equipment manufacturing, and metallurgy. This zone's diverse economy and abundant resources make it especially attractive to small and medium-sized manufacturing companies.

Technology and Digital Innovation

Vietnam's technology sector has been rapidly evolving, making it an attractive destination for investors who want to invest in Vietnam and looking to tap into the digital transformation wave. The country's youthful population and increasing internet penetration create a fertile ground for tech startups and innovations. E-commerce, fintech, health tech, and edtech are areas experiencing substantial growth. With the government's focus on promoting a digital economy, investments in tech infrastructure, software development, and digital solutions are likely to yield significant returns.

The technology sector in Vietnam has witnessed significant foreign investment, especially in software development, IT services, and electronics manufacturing. The country's growing talent pool and government support for tech startups and innovation have made it an emerging tech hub in the region.

Vietnam Investment Climate

Disbursed FDI in 2022 reached USD 22.4 bn (+13.5%YoY), the highest level in 5 years. However,

due to the uncertainty of the global market, registered FDI has decreased 11%YoY and this may affect the disbursed FDI in 2023. Therefore, the Government has aggressively in the attraction of new FDI flows, especially in the technology and green energy sectors, for the future development of Vietnam.

Free Trade Agreements (FTAs)

Vietnam has engaged in 18 active and planned Free Trade Agreements, encompassing both bilateral and multilateral arrangements:

- **Bilateral FTAs** involve partnerships with Japan, Chile, South Korea, the Eurasian Economic Union, the European Union, the United Kingdom, with ongoing negotiations with Israel and the European Free Trade Association.
- **Multilateral FTAs** include agreements within the ASEAN framework with China, South Korea, Japan, India, Australia, and New Zealand, alongside the ASEAN-Hong Kong, China Free Trade Agreement, EU-Vietnam Free Trade Agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Regional Comprehensive Economic Partnership (RCEP).

Besides that, Vietnam also maintains Comprehensive Strategic Partnerships with 7 countries including Russia, China, India, Rok, US, Japan and Australia.

These FTAs and strategic partnerships significantly boost Foreign Direct Investment (FDI) in Vietnam by enhancing trade competitiveness through reduced tariffs and diversified sourcing. They facilitate the driven Vietnam's economic transition from low-tech exports to high-tech goods like electronics, machinery, vehicles and medical devices, facilitating trade relations and bolstering participation in global supply chains. Furthermore, by aligning with international standards, these agreements improve product quality, labor rights, and environmental protections, thereby making Vietnam an attractive destination for foreign businesses and investors.

Government Investment in Infrastructure

Vietnam's government has invested about 6% of its GDP in infrastructure since 2022, which is double the ASEAN average. This is a significant increase from 2016 when the country spent 2.6% of its GDP on infrastructure. The government has approved a plan to spend \$43-65 billion on building and upgrading road, rail, inland waterways, sea, and air transport infrastructure between 2021 and 2030. This improved infrastructure creates a more conducive environment for foreign businesses and facilitates efficient operations.



Anticipated Trends Shaping FDI in Vietnam

Healthcare

Vietnam's healthcare sector is experiencing rapid growth, driven by factors such as a burgeoning middle class and an aging population. Both public and private hospitals are expanding steadily, with a notable focus on specialized care in the private sector. The pharmaceutical market is also witnessing strong expansion, fueled by population growth and increased healthcare awareness. Foreign investors can explore promising opportunities in medical tourism, specialized hospitals, telemedicine, and pharmaceutical production. For instance, Vietnam's pharmaceutical market grew from \$2.7 billion in 2015 to \$7 billion in 2022 and is forecast to reach more than \$10 billion by 2026. Additionally, the Department of Tourism estimates that Vietnam currently attracts an average of 300,000 foreign visitors each year for medical examination and treatment. These trends underscore Vietnam as a promising destination for healthcare investment, offering both growth potential and a conducive business environment.

Renewable Energy

Vietnam is navigating the challenge to balance between its burgeoning energy demands and environmental sustainability, driving a notable shift towards renewable energy solutions such as solar and wind power. This transition opens up substantial investment avenues for foreign investors keen on contributing to Vietnam's sustainable energy future. Vietnam aims to elevate renewable energy to 30.9-39.2% of its energy mix by 2030, potentially even reaching 47% with a steadfast commitment to its Just Energy Transition Partnership pledges.

Looking further ahead, renewables are projected to dominate Vietnam's energy landscape, accounting for 67.7-71.5% by 2050, effectively phasing out coal. Biomass and ammonia are poised to emerge as prominent fuel sources, underscoring Vietnam's resolute march towards a cleaner, greener energy paradigm.

Technology

Software Development: Vietnam boasts a vast reservoir of skilled software developers proficient in cutting-edge technologies like artificial intelligence, blockchain, and the Internet of Things (IoT). With an annual output of over 50,000 IT graduates, the country hosts more than 530,000 software developers, making it an enticing destination for foreign tech firms. Moreover, Vietnam offers competitive labor costs, with software engineer salaries averaging around \$12,000 per year, significantly lower than those in Western countries.

Electronics Manufacturing

Vietnam's well-established manufacturing base and strategic geographical location have made it a preferred destination for foreign electronics giants seeking to expand their production capacities. With electronics exports hitting \$78.5 billion in 2023, key companies like Samsung, LG, and Foxconn have made substantial investments in production facilities within the country.



Conclusion

Vietnam has demonstrated consistent FDI growth over the past decade, with a marked recovery in recent years following the initial impact of the COVID-19 pandemic. Notably, in the first four months of 2024, the country issued investment certificates for 966 new projects, marking significant increases in both project numbers and capital value. Key sectors attracting investment include manufacturing and processing, real estate, wholesale and retail, and science and technology.

The dynamic FDI landscape in Vietnam is driven by several factors. Its geographical positioning as a gateway to Southeast Asia, a rapidly growing middle class, and favorable government policies create an attractive environment for investors. Additionally, the country's investment in infrastructure, participation in free trade agreements, and focus on technology and digital innovation further enhance its appeal.

Looking ahead, anticipated trends in healthcare, renewable energy, and technology sectors present promising opportunities for foreign investors. Vietnam's commitment to sustainable development and its strategic initiatives to foster a conducive investment climate underscore its potential as a premier destination for FDI.