



FOREIGN DIRECT INVESTMENT ATTRACTION INTO THE INDUSTRIAL ZONES OF VINH PHUC PROVINCE IN VIETNAM

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Abstract

This study focuses on analyzing the status of attracting foreign direct investment in the industrial zones of Vinh Phuc province in Vietnam through analysis and evaluation of the secondary data on the investment environment of Vinh Phuc province and FDI projects as well as the amount of FDI capital invested in the industrial zones and analysis of the primary data from the survey of foreign investors' satisfaction on industrial zones. The research has found that foreign investors have not satisfied with the quality of labor resources and the discipline of labor yet. In addition, the services of health care, education and entertainment have not met their needs. In order to overcome these limitations, this study has proposed a number of policy solutions, thereby enhancing the satisfaction of foreign investors and increasing FDI attraction in the industrial zones.

Keywords: FDI, Industrial zones; Investor, Satisfaction, Vietnam

INTRODUCTION

Vinh Phuc is a province in the Northern key economic region of Vietnam, is the gateway of the Capital, near Noi Bai International Airport, so this province plays a very important role in the economic development strategy of the region as well as the nation. One of the important socio-economic development strategies of Vinh Phuc province is the development of industrial zones. Up to 2018, 11 industrial zones have been established in the province with a total planned area of more than 2,300 ha, of which 46 enterprises have 100% domestic capital and 171 FDI enterprises. Just only 2 industrial zones have achieved a high occupancy rate such as: Khai

Quang Industrial zone (nearly 98%); Binh Xuyen Industrial zone (above 92%), while other industrial zones have a low occupancy rate [16][17]. Compared to the great potential of the province in attracting investment capital, the industrial zones have not attracted lots of FDI projects yet, not worthy of the potential of the province. Therefore, it is necessary to analyze the status of attracting FDI into the industrial zones of the province. This study will focus on analyzing the results of attracting FDI to industrial zones in Vinh Phuc province in recent years, conducting a survey on the satisfaction of foreign investors on industrial zones, basing on this, analyzing the secondary and the primary data to find out the reasons for the existing limitations in attracting FDI into the industrial zones of the province and propose some solutions.

RELATED LITERATURE

Attracting FDI into the developing countries such as Vietnam is a issue that has been taken interest by many researchers. They have explored and analyzed the factors affecting FDI attraction, on that basis, proposed solutions to attract this capital to develop the socio-economic development of the country [7] [8] [13] [15]. In addition, many researchers more focused, more intensive in the study of FDI attraction into industrial zones [2] [9] [11]. This is a very important issue in developing countries because the development of industrial zones will boost the national socio-economic development [18]. Many studies approached this issue through analyzing and assessing the current situation of attracting FDI into industrial zones, thereby found out the limitations as well as the causes of these limitations in attracting FDI and proposing solutions [9] [11]. Meanwhile, a number of studies have approached the issue through studying the satisfaction of foreign investors in industrial zones to find out the influencing factors, analyzing these factors to detect the limitations in attracting FDI and based on that, propose solutions to enhance the satisfaction of foreign investors and increase FDI attraction in industrial zones [2] [3] [5] [8] [10]. For Vinh Phuc province, up to this present, although there have been many studies on attracting FDI into the province, there has not been any research on attracting FDI into industrial zones through researching on the foreign investors satisfaction [4] [12]. This is the knowledge gap that the author can focus on research, to find out the limitations in attracting FDI into the industrial zones of Vinh Phuc province and propose effective solutions to enhance attraction FDI into industrial zones.

RESEARCH METHODOLOGY

Methods of information collection

This study used the secondary data on FDI, on the characteristics of industrial zones and some indicators of the provincial competitiveness such as PCI and component indicators. These data

were collected by the author from the reports of the Department of Planning and Investment and the industrial zone management authority of the province, from provincial websites and VCCI (Vietnam Chamber of Commerce and Industry).

Besides, in order to assess the satisfaction of foreign investors in industrial zones of Vinh Phuc province, the author conducted a survey of foreign investors who are the managers in FDI enterprises in industrial zones. 175 FDI enterprises (100% of FDI enterprises in Vinh Phuc's industrial zones) were surveyed. The author interviewed 2 respondents in each enterprise. Therefore, the number of survey instruments issued is 350. After collection, the valid number of survey instruments used for analysis is 342.

Research Instrument

Questionnaire

The questionnaire was designed based on learning from Dinh Phi Ho's questionnaire in the study "Factors affecting investment attraction in industrial zones: quantitative models and policy implications"[1].

In addition to information on respondents, the main content of the questionnaire focuses on the level of evaluation of foreign investors on industrial zones, specifically on some factors affecting the attraction of FDI in industrial zones. These factors are: Infrastructure for investments; Investment policy; Working and Living environment; Advantages of invested industry; Quality of public services; Local brand; Human resource; Competitive input costs.

Scale

The study used the Likert 5 point scale to rate the level of investors' satisfaction about affecting factors. The Likert 5 point scale has choices ranging from 1 to 5 as follows (Table 1):

Table 1: The Likert 5 point scale.

Scale	Range	Evaluating level
5	4.21 – 5.0	Highly satisfied
4	3.41 – 4.2	Satisfied
3	2.61 – 3.4	Neutral
2	1.81 – 2.6	Dissatisfied
1	1.0 – 1.8	Highly dissatisfied

Methods of processing and analyzing data

In addition to using descriptive statistical methods and comparative analysis, this study used SPSS 20.0 software to analyze the primary data to find out the level of evaluation of foreign investors about the industrial zones.

RESULTS AND DISCUSSION

Investment environment of Vinh Phuc province

In order to attract FDI into industrial zones, the improvement of the investment environment of the province is very necessary. For many years, Vinh Phuc has made achievements in improving the provincial competitiveness. This is evidenced through the provincial competitiveness index of Vinh Phuc, which has had a relatively stable increase. Specifically, the PCI in 2017 reached 64.90, 3.38 points higher than the PCI in 2016.

Table 2: PCI index of Vinh Phuc province in the period of 2015 – 2017

Indices	2015	2016	2017
PCI	62.56	61.52	64.90
Entry Costs	8.41	8.48	7.10
Land Access	6.13	5.72	5.77
Transparency	6.49	6.90	6.59
Time Costs	7.48	6.01	7.27
Informal Charges	5.88	5.50	6.05
Equal Competition	5.65	4.92	5.00
Proactivity	5.78	5.46	5.97
Business Supports	5.26	5.64	6.81
Labour Training	6.65	6.36	6.68
Legal Institutions	6.28	5.84	6.28

Source: Provincial Competitiveness Index PCI (2019)

In the national PCI rankings in 2017, Vinh Phuc province is ranked 12th, down 3 places compared to 2016 and 8 places compared to 2015 and in the group of provinces and cities which have a quite good competitiveness capacity. Although PCI decreased, but in 10 component indexes, Vinh Phuc has only 2 indexes of decline, which is the Entry Costs index from 8.48 points in 2016 to 7.10 points in 2017 and the Transparency index from 6.90 points down to 6.59 points. Meanwhile, 8 other indicators increased, including: Index of Land Access, Time Costs, Informal Charges, Equal Competition, Proactivity, Business Support, Labor Training and Legal Institutions. In which, the 2 indexes with the highest increase were the Time

Cost index increased from 6.01 points in 2016 to 7.27 points in 2017; The index of Business Support increased from 5.64 points to 6.81 points. These advances show that the leaders and managers of the province have made great efforts in improving the investment environment, creating a basis to promote the attraction of investment capital in the province in general as well as the industrial zones.

Current status of FDI attraction in industrial zones of Vinh Phuc province

Vinh Phuc province in recent years has exploited the advantages of geographical location, convenient transportation network, abundant labor resources, stable socio-political environment, making the innovations in the investment promotion towards inviting directly large corporations and corporations with big financial, technological and market capacities invest into the province, specially into the industrial zones. In 3 years (2015-2017), industrial zones in the province attracted 65 FDI projects with a total registered capital of USD 738.3 million, implemented capital of VND 12,181.9 billion; 108 domestic investment projects with a total registered capital of nearly VND 7,000 billion. As of December 2017, the industrial zones of the province have 171 FDI projects with a total registered capital of USD 2,600 million, concentrated in the main areas such as textiles, production of canvas PP, PE , electronic components, tea cultivation and processing for export, ...were invested by Chinese, Korean, Japanese, Taiwanese investors.

Table 3: FDI projects and registered capital in Vinh Phuc industrial zones in the period of 2015 - 2017

Indicators	2015	2016	2017
Number of projects (Project)	19	22	24
Number of registred capital (US \$ Mil.)	152.1	229.3	356.9
The growth rate of registered capital (%)	-	50.76	55.65
Average registered capital of each project (US \$ Mil.)	8.01	10.42	14.87
The growth rate of average registered capital of each project (%)	-	30.09	42.71

Source: Vinh Phuc Industrial Zones Authority (2019)

Currently, there are 6 industrial zones operating in Vinh Phuc province. In which, Khai Quang Industrial zone has the most FDI projects (accounting for 34.5%), followed by Binh Xuyen Industrial zone (with number of projects accounting for 25.7%), while Thang Long Vinh Phuc Industrial zone has only 2 FDI projects (accounting for 1.2 %). Regarding the registered FDI capital, Ba Thien Industrial zone attracted the most (accounting for 32.07% of the total capital in industrial zones with 833.9 million USD) despite this industrial zone has only 20 FDI projects.

Table 4. Foreign direct investment by industrial zones in Vinh Phuc province

Industrial Zones	Number of projects (Project)	Registered Capital (US \$ mil.)	Proportion (%)	
			Number of projects	Registered Capital
Khai Quang	59	754.7	34.5	29.03
Binh Xuyen	44	330.3	25.73	12.7
Binh Xuyen II	26	231.5	15.2	8.9
Ba Thien	20	833.9	11.7	32.07
Ba Thien II	20	364.5	11.7	14.02
Thang Long Vinh Phuc	2	85.1	1.17	3.28
Total	171	2,600	100	100

Source: Vinh Phuc Industrial Zones Authority (2019)

FDI projects in industrial zones of Vinh Phuc province invested in 7 fields: Industry (145 projects, accounting for 84.8%); Tourist hotels (9 projects, accounting for 5.3%); Health, Education, Information, Culture (6 projects, accounting for 3.5%); Agriculture and Forestry; Fishing; Service; Transportation, Postage. Some sectors have not attracted foreign investors such as Banking and Construction.

Table 5. Industry structure of FDI projects in the industrial zones of Vinh Phuc province

No	Sectors	Projects		Investment capital	
		Number of projects (Project)	Proportion (%)	Number of registered capital (US \$ Mil.)	Proportion (%)
1	Industry	145	84.8	1,679.60	64.6
2	Tourist, hotels	9	5.3	33.8	1.3
3	Health, Education, Information, Culture	6	3.5	228.8	8.8
4	Agriculture and Forestry	3	1.8	65	2.5
5	Fishing	3	1.8	70.2	2.7
6	Service	3	1.8	2.6	0.1
7	Transportation, Postage	2	1.0	520	20
	Total	171	100	2,600	100

Source: Vinh Phuc Industrial Zones Authority (2019)

Foreign investors' evaluation on the industrial zones in Vinh Phuc province

Through surveying the satisfaction of foreign investors on industrial zones, this research finds out what investors have not satisfied yet that the industrial zones need to improve, to find effective solutions to attract more FDI in the future. Average values of investors' rating are calculated, reflecting investors' satisfaction. The following table lists the survey results after being synthesized and processed by SPSS software.

Table 6: Investors' satisfaction on the industrial zones in Vinh Phuc province

Code	Scale	Mean value	Satisfaction level
IFI	Infrastructure for investments (IFI):	3.45	Satisfied
IFI 1	Convenient transportation	3.45	Satisfied
IFI 2	Electricity system meets the requirements	3.48	Satisfied
IFI 3	Water supply system and sewerage system meet the requirements	3.18	Neutral
IFI 4	Communication system meets the requirements	3.54	Satisfied
IFI 5	Premises meet requirements in terms of size and location	3.17	Neutral
IFI 6	Banking system meets the requirements	3.86	Satisfied
IPO	Investment policy (IPO):	3.31	Neutral
IPO 1	Local leaders support enterprises dynamically	3.03	Neutral
IPO 2	Policy systems are transparent and quickly deployed to enterprises	3.38	Neutral
IPO 3	The investment incentive policies are attractive	3.15	Neutral
IPO 4	Tax policies are clearly (tax officials are not corrupt)	3.66	Satisfied
WLE	Working and Living environment	3.39	Neutral
WLE 1	Educational system meets the requirements	2.96	Neutral
WLE 2	Health care system meets the requirements	3.12	Neutral
WLE 3	Environment is unpolluted	3.32	Neutral
WLE 4	The entertainment service is attractive	3.35	Neutral
WLE 5	Local people are friendly	3.95	Satisfied
WLE 6	Living cost is reasonable	3.62	Satisfied
WLE 7	Disagreements between workers and businesses are satisfactorily resolved	3.41	Satisfied
All	Advantages of invested industry (All)	3.57	Neutral
All 1	Convenience of the main raw materials for production	3.36	Neutral
All 2	Convenience of the main consumer market	3.76	Satisfied
All 3	Near the suppliers and main distributors	3.77	Satisfied

All 4	Capable of competing market with main competitors	3.40	Neutral
QPS	Quality of public services (QPS):	3.46	Satisfied
QPS 1	Administrative procedures are simple and fast	3.68	Satisfied
QPS 2	Local authorities provide thoughtful support when businesses need	3.32	Neutral
QPS 3	Customs procedures are fast and compact	3.30	Neutral
QPS 4	Investment and trade promotion centers have good support for businesses	3.55	Satisfied
LOB	Local brand	2.88	Neutral
LOB 1	This locality is an impressive brand	2.94	Neutral
LOB 2	This locality is the destination of investors	2.73	Neutral
LOB 3	Many successful investors in this locality and I want to be like them	2.86	Neutral
LOB 4	I invest here simply because I want to invest in this locality	3.01	Neutral
HRE	Human resource	3.15	Neutral
HRE 1	Vocational training schools meet the requirements of enterprises	3.02	Neutral
HRE 2	Unskilled labor source is abundant	3.74	Satisfied
HRE 3	Labor is highly disciplined	2.92	Neutral
HRE 4	Labor's ability to absorb and apply technology is good	2.91	Neutral
HRE 5	The enterprise does not encounter language barriers	3.11	Neutral
HRE 6	Easily recruit good managers in the locality	3.20	Neutral
CIC	Competitive input costs	3.82	Satisfied
CIC 1	Land rent is low	3.99	Satisfied
CIC 2	Labor cost is low	3.96	Satisfied
CIC 3	Electricity prices, water prices and transportation fees are reasonable	3.70	Satisfied
CIC 4	The price of communication services is competitive	3.63	Satisfied
SAT	General satisfaction level	3.38	Neutral

The research results show that in general foreign investors have not satisfied with Vinh Phuc industrial zones yet, but they have not dissatisfied with these industrial zones. Although they have satisfied with some characteristics of industrial zones, such as: Infrastructure for investments (Convenient transportation, Electricity system, Communication system, Banking system); Advantages of invested industry (Convenience of the main consumer market, Near the suppliers and main distributors); Quality of public services (Administrative procedures; Investment and trade promotion centers have good support for businesses); Competitive input

costs(Land rent and labor cost are low; Electricity prices, water prices and transportation fees are reasonable; The price of communication services is competitive), but the investors have not satisfied with the issues: Investment policy; Working and Living environment; Local brand; Human resource. The causes of these limitations are that local leaders have not been active in supporting businesses, the system of universities and colleges has not yet trained enough human resources to meet the requirements of enterprises, making many businesses have to retrain; there are not many high-quality medical facilities near industrial zones; the entertainment services near industrial zones are few and unattractive, not enough to meet the needs of investors; Vinh Phuc industrial zones has no impressive brand name. Regarding labor resources for industrial zones, foreign investors believe that despite the abundant labor force, the discipline of labor is not high, the ability to use technology is not really good and the enterprises still are difficult to recruit managers in the locality.

CONCLUSION

The development of industrial zones plays an important role for the socio-economic development of each locality as well as the nation. In order to do this, it is necessary to attract many projects investing in industrial zones, so in Vietnam, the government pays great attention to attracting FDI into industrial zones. Vinh Phuc province in recent years has had many achievements in attracting FDI into industrial zones because local leaders have done quite well the work of improving the investment environment, improving the provincial competitiveness. However, the number of projects as well as the amount of FDI invested in industrial zones is still not commensurate with the potential of the province. Although the province has 11 industrial zones, so far only 6 industrial zones have FDI projects. In addition, through the survey results, this study has found some reasons that foreign investors have not satisfied yet with Vinh Phuc industrial zones. They have not satisfied with some factors belonging to the Industrial zones such as labor quality issues, discipline of labor, local brand, education system, health system, entertainment services, etc. yet. Therefore, to enhance attraction FDI in industrial zones in the coming time, overcoming these limitations is very necessary.

RECOMMENDATIONS

Based on the results of analysis and assessment of the status of FDI attraction in Vinh Phuc industrial zones, this study proposes some solutions to enhance the satisfaction of foreign investors in industrial zones as well as further improve the investment environment of the province.

* *Vinh Phuc Industrial Zones Authority and Vinh Phuc Provincial People's Committee need to adjust investment incentive policies to better support foreign investors when they invest in industrial zones.* Specifically: Developing policies of support training for people whose land is recovered for industrial - urban areas - services and support for vocational training schools in those areas; Adjusting the policies of support the income tax for enterprises; Adjusting the land rent rates in the industrial zones which had infrastructure investment, ensuring the recovery of part of the investment capital and maintenance costs.

* *Developing the industrial zones in Vinh Phuc province with good technical infrastructure, premises for production and business and auxiliary works which can meet the needs of FDI enterprises in the industrial zones.* Provincial People's Committee and Vinh Phuc Industrial Zones Authority should direct and promote the investment in synchronous construction of infrastructure of industrial zones, outside works of fences, public services, workers' houses project approved to attract investment, and at the same time developing the plan for expansion of industrial zones with favorable development conditions. Need to promote the construction of infrastructure for entertainment, medical treatment, housing for citizen to follow the trend of developing new high-class urban models, in line with the general development trend of the whole society and worthy of the advantages of the province, make the premise for future economic development, well serve projects when encountering difficult ground clearance, at the same time gradually economic restructuring of the province in accordance with the potential and strengths of the province.

* *Improving the quality of human resources.* The leaders of Vinh Phuc province need to pay more attention to the training of skilled workers in vocational schools. Need to improve both the quality and quantity of labor, training the industries that enterprises need. It is necessary to have a close coordination between the local universities - colleges - high schools and enterprises, especially FDI enterprises. This helps graduates to find jobs and help FDI enterprises to easily recruit labor. In addition, training to improve the qualification of foreign language and information technology, knowledge of law, improving discipline in work for labor resources is also essential.

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