

FINANCIAL SOLUTIONS TO ENHANCE THE ATTRACTION OF FOREIGN DIRECT INVESTMENT IN VIETNAM'S AGRICULTURAL SECTOR

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Abstract: Foreign direct investment is playing an increasingly important role in promoting the growth and development of Vietnam's economy, as well as its various economic sectors. In addition, the agricultural sector is one of the key pillars of the economy. It has great potential and development advantages, but the inflow of foreign direct investment (FDI) in this sector is still limited. While the FDI inflows into Vietnam has been increasing, this capital inflow into the agricultural sector is too small in terms of scale, proportion, as well as quality of investment capital compared to the total FDI of the country. The following article examines the current situation and proposes financial solutions to enhance the attractiveness of foreign direct investment in Vietnam's agricultural sector over the coming years.

• Keywords: foreign direct investment, financial solutions, agricultural industry.

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1. Introduction

In Vietnam, rural areas are an important driver of economic development, closely associated with natural resources, cultural and social foundations, and ensuring national security and defense. The current deep and broad integration process is a favorable condition for foreign direct investors to invest in Vietnam to expand production and export to markets with which Vietnam has trade relations in economic sectors, including agriculture. FDI plays a very important role, especially supplementing capital for agricultural and rural development, contributing to promoting the restructuring of agricultural production and rural economy in the direction of producing quality goods. In fact, although Vietnam has much potential for agricultural development, the amount of FDI into this industry is still very limited. Currently, FDI in agriculture remains limited, accounting for less than 1% of total investment capital in this sector. Therefore, assessing the socio-economic situation at home and abroad in recent years is extremely necessary to have effective financial solutions to attract FDI to the agricultural sector in Vietnam.

2. The current situation of attracting foreign direct investment in Vietnam's agriculture in recent years

2.1. Results achieved

Extensive international cooperation supports the expansion of agricultural markets

Vietnam has signed many trade agreements of great significance since then, improving competitiveness,

creating conditions to increase incomes and jobs for farmers, and contributing to the sustainable development goals of Vietnam and the world. To date, Vietnam has participated in 15 Free Trade Agreements (FTAs), and is negotiating new FTAs with Israel and Canada. Up to now, Vietnam has signed FTAs with all key agricultural, forestry, and fishery export markets, helping businesses have a competitive price advantage (due to tax reduction) when exporting to the world market.

The scale and structure of foreign investment in the agricultural sector have changed positively.

Table 1: Foreign direct investment in Vietnam licensed by the agricultural sector from 2018 to 2024 (Million USD)

Year	Number of projects (projects)		Total registered capital ^(*)		Average FDI of 1 project in agriculture
	Amount	Agriculture	Amount	Agriculture	
2018	3.147	11.0	36.368,6	180,6	16,418
2019	4.028	18.0	38.951,7	104,1	5,783
2020	2.610	13.0	31.045,3	228,6	17,584
2021	1.818	15.0	38.854,3	161,4	10,760
2022	2.169	12.0	29.288,2	73,9	6,158
2023	3.314	19.0	39.390,3	68,5	3,605
2024	3.375	11.0	38.231,0	77,6	7,054
First 3 months of 2025	2.061	2.0	10.978,62	5,103	

^(*) Including newly granted capital and additional capital of projects that have been granted licenses from previous years. From 2016, it includes contributed capital and share purchases of foreign investors.

Source: General Statistics and Calculation Office of the author

Over the past time, the inflow of foreign direct investment (FDI) into the agriculture, forestry, and fishery sectors in Vietnam has recorded encouraging signals. FDI projects not only contribute to creating jobs for farmers but also promote the process of modernizing

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agricultural production, improving competitiveness, and expanding the export market for agricultural products. By the end of 2024, the country will have 537 valid FDI projects in the agricultural sector. If you include supporting industries such as processing, material supply, and trade, the total FDI of the whole industry reached more than 26 billion USD, equivalent to about 6% of the total FDI into Vietnam.

The State implements many financial solutions to increase FDI attraction in agriculture

Vietnam has gradually perfected the legal corridor to promote the attraction of FDI investment in the agricultural sector. In addition to the Law on Investment and the Law on Enterprises, many related legal documents have been issued. For example, Decree No. 210/2013/ND-CP on encouraging enterprises to invest in agriculture; Decree No. 57/2018/ND-CP on mechanisms and policies to encourage enterprises to invest in agriculture and rural areas... In particular, Vietnam's active participation in the signing of free trade agreements is a favorable condition for Vietnam to rise to become a center for the production and processing of agricultural products and a green environment of the region, thereby contributing to attracting FDI in the agricultural sector.

The structure of foreign investment in the agricultural sector, according to investment partners and localities receiving investment, is more diversified

By the end of 2024, there were more than 110 countries and territories investing in our country's agricultural sector. The leading countries are: South Korea, Japan, Taiwan, Hong Kong, and Malaysia. Japan is the country with the highest level of investment, which has had successful projects in the application of science and technology to agriculture in Vietnam. In addition to countries that invest a lot of FDI in Vietnam's agriculture, several investment partners with technological strengths have also paid certain attention through a few projects, such as Singapore, France, South Korea, Taiwan, etc. Currently, the country has about 30 high-tech agricultural zones planned in 12 provinces and cities, of which 7 have been put into operation. The current number of high-tech agricultural enterprises is 35 high-tech agricultural enterprises. Agricultural production activities have applied modern technologies instead of traditional methods. Most FDI projects in agriculture are concentrated in localities with advantages in infrastructure, resources, agricultural products, favorable natural conditions, and many incentives for foreign investors when investing in this field, such as Lam Dong, Binh Dinh, Vinh Phuc, Mekong Delta...

Although Vietnam's agriculture is gradually asserting its position in the global value chain, more solutions are still needed to improve the attractiveness of international investors, especially in areas with high added value and

associated with sustainable development.

2.2. Limitations

In terms of scale and quality, FDI in Vietnam's agricultural sector still accounts for a modest proportion compared to the whole, not commensurate with the sector's potential and importance to the economy, and has not created a rapid development in the production of goods with the desired high quality.

Firstly, the scale of FDI in agriculture is still quite modest. Although Vietnam has the advantage of being an agricultural country, FDI inflows into this sector only account for about 5-6% of total FDI. International investors still prioritize pouring capital into the processing, manufacturing, or real estate industries - sectors that are said to be more profitable and stable than agriculture. The majority of FDI projects in agriculture are small-scale, mainly less than 10 million USD. Not many large corporations bring modern and advanced technology. Therefore, the spillover impact of technology and governance in the agricultural value chain is still limited. In the period 2018-2024, FDI into Vietnam's agriculture is in an unstable state. The scale and structure of projects in the whole period of continuous change (Table 1): sharply decreased by 06 projects in 2018 compared to 2017, then increased by 07 projects in 2019, then decreased in the next 3 years due to the impact of the Covid-19 epidemic, by 2023 increased by 07 projects, and then decreased again in 2024. The total registered capital is also unstable, reaching a peak in 2020 and then gradually decreasing in recent years. Up to 95% of small and medium-sized agricultural enterprises, agricultural investment attracts less than 1% of foreign direct investment, while the world average is about 3%. Instability also occurs in the agricultural sector of Vietnam's economic regions.

Second, difficulties in accessing and accumulating land, as well as market fluctuations. Although the Government has many preferential policies, the regulations on attracting FDI in agriculture are still not attractive enough compared to other industries. In addition, investors are also concerned about risks from natural disasters, climate change, epidemics, and unpredictable fluctuations in global agricultural prices. The current land policy has not really created favorable conditions for foreign investors. Many projects encounter problems in site clearance and long-term land use rights, making it difficult to form large-scale, concentrated raw material areas.

Third, there is a shortage of high-quality human resources in agricultural and rural development. Although our country has an abundant labor source, the workers in the agricultural sector are mainly unskilled, lacking in-depth skills in agricultural technology, product management, and processing. This reduces the region's

attractiveness to foreign investors who need highly qualified human resources and professional skills to implement high-tech projects. Moreover, this shortage makes the implementation of high-tech FDI projects not as effective as expected.

Fourth, the infrastructure and supply chain are not synchronized. The logistics, cold storage, and post-harvest preservation systems of Vietnam's agriculture are still weak. The transportation system is not synchronized, and the transportation of agricultural products from production areas to export ports faces many difficulties, increasing costs, and affecting the competitiveness of agricultural products in the international market, making investors afraid to pour capital.

Fifth, the structure of FDI by locality is only concentrated in a few provinces and cities, causing unbalanced development between regions. FDI is invested in agriculture in many localities, but most of the projects are concentrated only in some localities such as Binh Dinh, Hanoi city, Vinh Phuc, Lam Dong, etc. On the other hand, even localities that are considered to have attracted quite a lot of FDI projects are still a modest number in terms of both the number of projects and investment capital compared to localities that attract many projects and FDI in the country. Thus, under the impact of FDI, it can not only cause an imbalance in the development of the agricultural sector between regions, but at the same time, not take advantage of and promote the agricultural advantages of each region in the country.

2.3. Causes of limitations

First, the unique characteristics of the agricultural sector. Investment in agriculture is high-risk, significantly affected by climate, weather, epidemics, and factors related to natural resources, such as weather conditions, unpredictable climate changes, epidemics, seasonal agricultural products, etc, easily perishable, so it is not as attractive to foreign investors as the industry or real estate. This is the core reason why large corporations are less interested in investing.

Second, the policy of attracting FDI is not consistent, prioritizing the agricultural sector as well as the agricultural development policy is still limited. Currently, Vietnam has not developed a general strategy in attracting FDI into the agricultural sector, so that, on that basis, it can be deployed to localities, and a clear attraction strategy can be determined. The legal framework and land policy are still overlapping and not really open. Preferential policies and investment protection in agriculture are still limited. Tax incentives, credits, as well as investment guarantee mechanisms are not attractive enough to compete with other countries in the region. In a study on industry restructuring, through the I-O model, Bui Trinh and his colleagues pointed out that the agricultural sector is an industry that needs to be prioritized for investment. With

the calculation results of the research team, it can be seen that the Agriculture sector has a good economic spillover index (greater than 1), but does not stimulate high imports (less than 1). For industries such as consumer goods processing, raw material processing, machinery, and equipment, if there is a focus on development, it will also have to import more.

Table 2. Economic spillover index and import stimulus index of some industries

Field	Economic spillover index	Import Stimulus Index
Cultivation and animal husbandry	1.0293	0.9643
Aquatic products	1.3505	1.0276
Forestry	0.8934	0.9959
Mining	0.7774	1.0039
Food Processing Industry	1.4492	0.9564
Consumer Goods Processing Industry	1.2093	1.3754
Material Processing Industry	1.2644	1.3595
Machinery and equipment	1.2475	1.3279
Electricity	0.7220	0.9011

Source: Bui Trinh and collaborators

Table 2 shows that it is very noteworthy that most of the service industry groups have a low spillover index to output, but a spillover to added value higher than the general average. Thus, only the final product group of the cultivation industry, the agricultural and fishery product processing industry, and the service industry have a high spillover to the added value of the economy. Therefore, in the industry structure, Vietnam's agricultural industry is a priority industry and needs to attract investment for this industry.

Third, rural infrastructure has not developed synchronously, lacking high-quality human resources to meet the demand for digital technology application in operation management from farm to finished product... Although Vietnam's rural infrastructure is generally well evaluated, there are still some points that have not created direct conditions for agricultural production, because there is no synchronous development investment, so the advantages of the region and territory cannot be promoted. In terms of road quality, compared to many cities and countries around the world, Vietnam's road system has not been highly appreciated. Moreover, the proportion of trained workers in Vietnam's agriculture is very small compared to the total workforce; agricultural labor productivity is also lower than that of other sectors and compared to other countries in the region. This limits FDI attraction as well as the competitiveness of the agricultural sector compared to other industries.

Fourth, fierce international competition in attracting FDI into agriculture. On the international scale, Vietnam's investment environment is still considered less competitive. According to the Provincial Competitiveness Index (PCI) survey, 54% of foreign-invested enterprises in Vietnam in the agricultural sector have considered other countries when investing in Vietnam, of which China is the most popular (11.1%), Thailand (10.6%), and Cambodia (7.7%).

Fifth, the trend of climate change in the country. Recently, the climate change situation has had a great impact on our country, as Vietnam is one of the 6 countries most affected by climate change in the world. The clearest proof of the impact of climate change in Vietnam is the phenomenon of early heat, reduced rainfall, and very clear climate changes, leading to drought and a very high risk of forest fires in some areas of the country. In that condition, agriculture will be directly affected very badly, crop production will decrease, plant ecosystems and marine ecosystems will also be greatly affected

3. Several financial solutions to increase the attraction of foreign direct investment in Vietnam's agriculture in the coming time

The Ministry of Agriculture and Rural Development has set a target that by 2030, registered FDI in the agricultural sector will reach 25 billion USD. In particular, focusing on investment projects with high-tech and environmentally friendly content, Vietnam's agricultural products have the strengths to meet socio-economic requirements. To do that, in addition to general solutions, it is necessary to implement several financial solutions to increase FDI attraction into Vietnam's agricultural sector, as follows:

- Infrastructure financing solutions for agricultural development. It is necessary to balance the budget capital for investment and synchronously complete technical infrastructure items. Expand access to credit for agricultural producers to build facilities, expand scale, and improve production capacity. To meet the investment needs of foreign enterprises, Vietnam needs to invest more in the road and bridge system... only then can it attract many FDI sources. The Government should also implement policies related to logistics, power grid systems, information technology systems, irrigation systems, policies related to support for plant varieties, livestock, etc., to create a foundation for the development of high-tech agriculture, helping to increase the ability to attract FDI capital to this field.

- Land financing solutions for agricultural development. In the context and requirements of new tasks, the agricultural sector needs to quickly establish strategic goals and policies, such as shifting from agricultural production thinking to agricultural economic development, perfecting mechanisms and policies to promote and diversify forms of land accumulation. This policy framework needs to specify the preferential levels based on the sectors and capital sources that these enterprises will invest in agriculture, taking into account the benefits of the project on the domestic socio-economic development situation. In the process of implementing land accumulation and concentration, local authorities need to make efforts and actively promote their role to mobilize farmers to see the effectiveness and actively cooperate. At the same time, local authorities act as a bridge between farmers and businesses, ensuring the

rights and interests of all parties in the process of land accumulation and concentration.

- Financial solutions for human resources for agricultural development. The State and localities need to pay attention to the issue of improving the labor quality of farmers so that they can meet the requirements of high-tech agriculture, as well as other industries, when changing agricultural production methods. Vietnam needs to strengthen training, vocational training, and high-skilled labor transfer activities with advanced countries. In particular, it is necessary to focus on providing information to farmers through application programs and websites to help farmers be proactive in renewing their production thinking.

- Financial solutions on agricultural product consumption markets for agricultural development. Increasing investment in improving the capacity to forecast agricultural product market information, supporting the provision of information on the demand situation, and market forecasting is a necessary factor to expand the market for agricultural producers to take the initiative in production. Promote activities to attract FDI and build infrastructure in the agricultural sector. Strengthen investment promotion conferences in the field of attracting FDI in high-tech agriculture, and at the same time, survey and learn from the experiences of countries in the field of high-tech agriculture, especially countries in the ASEAN bloc.

- Group of other solutions: The State in general and FDI enterprises in particular need to implement solutions for environmental protection. Due to climate, weather, and environmental conditions that greatly affect production and business activities in the agricultural sector, it is necessary to have an agricultural insurance policy in case of natural disasters and crop failures,... This is a policy that is not only beneficial for farmers, but also for investors to reduce risks caused by weather, natural disasters, and climate. Proactively monitor the climate with the modernization of the monitoring system and hydrometeorological forecasting technology to ensure early warning and forecasting of extreme weather and climate phenomena; consolidating the construction of natural disaster prevention and control works. At the same time, attracting FDI is associated with climate, green growth, and ecological security in the context of climate change and the requirement to reduce global emissions.

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