ATTRACT "GREEN" FDI INTO VIETNAM FOR THE GOAL OF SUSTAINABLE DEVELOPMENT

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Abstract: ***In the new period, attracting Foreign Direct Investment (FDI) requires adjustments in orientation and policy to implement the Green Growth Strategy. The goal is to enhance resource efficiency, protect biodiversity and ecosystems, and thereby achieve the highest socio-economic benefits in the development process. Although Vietnam has achieved impressive results in attracting FDI, it has increasingly recognized the need for a strategic policy shift. Specifically, the focus is now on attracting new-generation FDI and "green" FDI to sustain competitiveness and align with the goal of sustainable development.***

• Keywords: *green FDI, sustainable development, Vietnam.*

JEL codes: E22, F2, O16

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1. Introduction

Many countries need green FDI capital for sustainable development and green transformation. However, green FDI capital flows are targeting developed countries, which account for about 60% of green FDI capital globally; More than 30% goes to developing countries. In particular, it is noted that some countries have made great leaps in attracting green FDI capital such as Malaysia, for example, which has now attracted 43 billion USD of green FDI capital thanks to the policy framework on climate change and green infrastructure construction, exporting green technology...

As a destination to attract FDI in the ASEAN region, along with the green transformation trend, a number of large investors from Europe have chosen Vietnam to pour green capital. This article will present the theoretical basis of green FDI and the current context and orientation of attracting FDI in Vietnam, thereby proposing solutions to promote attracting green FDI into Vietnam.

2. Theoretical basis of green FDI

2.1. Foreign direct investment

FDI is a form of long-term investment where individuals or organizations from one country invest in another country by establishing factories or business operations. The World Trade Organization provides a detailed definition of FDI. FDI takes place when an investor from one country acquires assets in another country and obtains the right to manage those assets. This element of management is what sets FDI apart from other financial instruments.

2.2. Green FDI

Defining and measuring green FDI is not a simple process, there is still a lack of internationally agreed definitions and relevant data on green FDI. This concept is primarily discussed in some studies by UNCTAD and an official 2011 study by the OECD, which is considered a foundational reference for subsequent research on green FDI-related issues.

Green FDI as encompassing two types of investment: (i) Foreign direct investment that adheres to national environmental standards, and (ii) Investment in the direct production of environmental products and services within the host country (UNCTAD, 2008).

OECD (2011) has had one of the first studies on the definition of green FDI. Gathering from previous documents, OECD believes that green FDI consists of two parts: (i) FDI in environmental goods and services and (ii) Foreign investment in the process of minimizing environmental damage such as using cleaner or more energy efficient technology.

Vietnam does not define green FDI, but in the 2012 "National Strategy on Green Growth", it mentions that the "Green Growth Strategy" is "a strategy to promote the process of restructuring and improving economic institutions towards more efficient use of natural resources, enhancing the competitiveness of the economy, through increased investment in technological innovation, natural capital, and economic instruments. Thereby contributing to responding to climate change, reducing poverty and ensuring sustainable economic development". In this strategy, Vietnam also defines green technology and green products. In which, green technology is "technology to develop, apply products, equipment and systems used to conserve the environment and resources, minimize negative impacts from human activities"; and green products are "non-toxic products, use energy and water efficiently and

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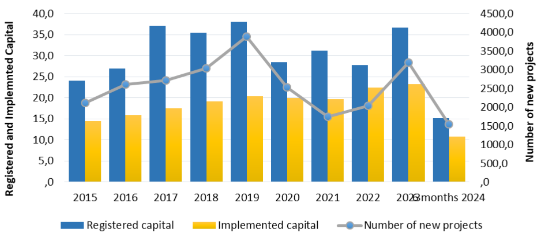
are harmless to the environment". And so, in summary, green FDI can be understood as FDI in environmental products and services or in production processes that minimize environmental impact aims to foster economic development while ensuring responsible resource use. This approach seeks to prevent environmental damage, address climate change, and maintain ecological balance in the host country.

3. Current status of attracting green FDI in Vietnam in recent times

3.1. Current status of attracting foreign direct investment capital in the period 2015 to June 2024

Period 2015 - June 2024: Project scale in terms of total registered capital, total implemented capital and number of projects increased steadily over the years. Regarding registered capital, as of June 2024, in Vietnam there were 1,538 newly registered investment projects with a capital of 9.54 million USD. As of June 20, 2024, Vietnam had 40,544 valid FDI projects with a total registered capital of 484.77 billion USD. The accumulated implemented capital for these foreign investment projects is estimated at approximately 308 billion USD, representing 63.5% of the total registered investment capital.

Figure 1. Number of projects, total registered capital and total implemented capital of FDI capital in Vietnam in the period 2015-6/2024 (Number of projects, Billion USD)



Source: Foreign Investment Agency - Ministry of Planning and Investment

According to the Ministry of Planning and Investment, FDI capital in Vietnam began to rise significantly in 2016 with the implementation of several Free Trade Agreements (FTAs). In that year, the total registered capital for newly licensed projects, additional investments, and capital contributions or share purchases reached over 24.3 billion USD, marking a 7.1% increase from 2015. Notably, the disbursed FDI capital in 2016 was estimated at 15.8 billion USD, a 9% increase from the previous year and the highest level of FDI disbursement to date.

In 2018, according to the Foreign Investment Agency of the Ministry of Planning and Investment, the total FDI, including newly registered, increased, contributed, and share purchases, was 35.46 billion USD, which was 98.8% of the amount in 2017. Although overall FDI capital attracted in 2018 decreased compared to 2017, there was a nearly 60% increase in capital contributions and share purchases. By December 20, 2018, Vietnam had 3,046 new projects with Investment Registration Certificates, totaling nearly 18 billion USD in newly registered capital, which was 84.5% of the amount in the same period of 2017. Additionally, 1,169 projects had their investment capital adjusted, with a total increase of 7.59 billion USD, or 90.3% compared to the same period in 2017.

Since 2020, the impact of the COVID-19 pandemic has led to a decline in Foreign Direct Investment in Vietnam, affecting both registered capital and newly licensed projects. In 2020, the total FDI, including newly registered, adjusted, contributed, and purchased capital, was 28.53 billion USD, representing 75% of the amount from 2019. Meanwhile, the implemented capital for FDI projects was 19.98 billion USD, equivalent to 98% of the previous year's figure.

The situation improved in 2021, with registered FDI capital reaching 31.15 billion USD, up 9.2% from 2020. Both newly registered and adjusted investment capital increased, with adjusted capital rising by 40.5%. The realized FDI capital in 2021 was estimated at 19.74 billion USD, a slight decrease of 1.2% from 2020. These figures are considered remarkable given the global decline in investment flows and the disruptions caused by the pandemic.

As of December 20, 2022, the total newly registered, adjusted, and contributed capital, including share purchases and capital contributions, amounted to nearly 27.72 billion USD, which is 89% of the amount recorded in 2021. The realized capital of foreign investment projects reached approximately 22.4 billion USD, marking a 13.5% increase compared to the same period in 2021 (Foreign Investment Agency, 2022).

According to the Foreign Investment Agency's report, in 2023, the total newly registered capital, adjusted capital, and capital contributions for share purchases and investments in Vietnam reached nearly 36.61 billion USD, representing a 32.1% increase compared to the previous year. The realized capital for foreign investment projects is estimated at approximately 23.18 billion USD, reflecting a 3.5% increase from 2022.

Additionally, green FDI from other countries is making significant inroads into Vietnam. Notable projects include the Bac Lieu Liquefied Natural Gas (LNG) Power Plant, part of the Bac Lieu LNG Thermal Power Center, with a registered investment capital of 4 billion USD, and the Long An I and II LNG Power Plant projects, which have a combined registered capital of over 3.1 billion USD... Green FDI from European countries - the 6th largest foreign investor in Vietnam is forecast to continue to grow in the coming time. The Business Confidence Index survey of the European Chamber of Commerce in Vietnam confirmed this upward trend. 31% of members ranked Vietnam among the top 3 global investment destinations and more than half planned to

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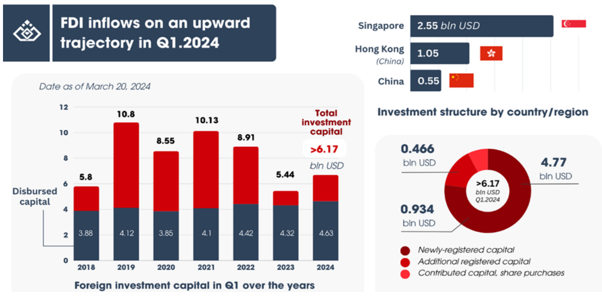
boost Vietnam's investment in 2023, especially in the high-tech manufacturing sector. This investment boom highlights the effectiveness of the implementation of the EU-Vietnam Free Trade Agreement in attracting sustainable, high-quality FDI and making Vietnam a strategic destination. In addition, the adoption of green technology requires huge investment, while ensuring transparent, sustainable sourcing from local suppliers can be a challenge.

Figure 2. FDI inflows into Vietnam in the first quarter of 2024



Source: Ministry of Planning and Investment

According to data from the Foreign Investment Agency, in the first 3 months of 2024, the total newly registered capital, adjusted capital, and capital contributions for share purchases and investments by foreign investors have surpassed 6.17 billion USD, an increase of 13.4% over the same period in 2023. The number of new investment projects also rose, though the scale of these projects was smaller due to a lack of large investments. As a result, while the total registered investment capital over the three months increased by 13.4% compared to the same period last year, this growth rate was 25.2 percentage points lower than the increase observed in the first two months of 2024. There were 62 countries and territories investing in Vietnam in the first 3 months of 2024. Of which, Singapore led the investment rankings with a total capital of over 2.55 billion USD, representing 41.3% of the total investment capital and marking a 51.3% increase from the same period in 2023. Hong Kong followed with more than 1.05 billion USD, accounting for 17.1% of the total investment capital and nearly 2.3 times higher than the previous period. Investments from Singapore and Hong Kong are predominantly new investments, making up 89.5% of their total contributions and 79.1% of the total investment capital of Singapore and Hong Kong in 3 months, respectively.

Table 1. FDI attraction in Vietnam in the first 6 months of 2024 and comparison with 2023 (Billion USD)

	New capital	Adjusted capital	Contribute capital to buy shares	Total
6 months 2024	9.54	3.95	1.7	15.19
2023	6.49	2.93	4.01	13.43

Source: Ministry of Planning and Investment

In the first six months of 2024, total FDI capital in Vietnam, including newly registered capital, adjusted registered capital, and capital contributions or share purchases by foreign investors, reached nearly $15.19 billion, marking a 13.1% increase compared to the same period in 2023. This total comprises 1,538 newly licensed projects with registered capital amounting to $9.54 billion, reflecting an 18.9% increase in the number of projects and an 46.9% increase in registered capital. The increase in newly registered capital means that new projects will increase the production and business capacity of the economy. Adjusted capital has 592 investment projects, the total registered capital increased to more than 3.95 billion USD. Capital contribution and share purchase had 1,420 transactions by foreign investors the total value of capital contribution reached nearly 1.7 billion USD.

3.2. Attracting "green" FDI associated with sustainable development goals

After 30 years of implementing the reform policy, Vietnam has increasingly integrated into the global economy. The process of industrialization and modernization has opened up numerous new investment opportunities, leading to the development of a diverse range of investment projects with various forms, scales, and sectors. This has significantly contributed to the overall achievements in the country's economic and social development.

In the development process, the Party and the State have thoroughly implemented the consistent policy, which is: "Fast, effective and sustainable development, progress, social equity and environmental protection"; "Socio-economic development is closely linked to environmental protection and improvement, ensuring harmony between the artificial environment and the natural environment, preserving biodiversity"; "Environmental protection is a continuous requirement throughout the development process and is the responsibility of the entire political system, community, businesses, and citizens.

To implement these policies and viewpoints, the government has directed, managed, and issued numerous incentives to attract FDI to support socio-economic development. Drawing on the experiences of developed countries, Vietnam is actively restructuring its economy towards green production, researching, and applying advanced technologies to use natural resources efficiently and reduce greenhouse gas emissions.

FDI continues to be recognized as an important investment channel to help Vietnam build a green economy and quickly realize development goals. To achieve these objectives, the Vietnamese government has implemented and issued several important policies, including completing the Economic Restructuring Plan, the National Strategy on Climate Change Response, and the National Green Growth Strategy.

The National Green Growth Strategy includes three main objectives:

(1) Restructure and improve the economic institutions towards greenizing existing industries, encouraging the development of economic zones that use energy and resources efficiently with high-value-added.

(2) Research and increasingly apply advanced technologies to use natural resources more efficiently, reduce greenhouse gas emissions, and effectively respond to climate change.

(3) Improve the livelihoods of people and build an environmentally friendly lifestyle by creating more jobs in green industries, agriculture, and services, investing in natural capital, and developing green infrastructure.

In short, although FDI attraction activities have achieved impressive results, Vietnam is gradually realizing that it is necessary to revise the policy strategy, specifically by focusing on attracting "green" FDI, to maintain competitiveness and attract sustainable FDI in line with sustainable development goals.

4. Proposed solutions to attract "green" FDI in Vietnam towards sustainable development goals

4.1. Orientation viewpoints

For FDI to be directed towards a green economy, the Government needs to resolutely not allow provinces and cities to receive new FDI projects in industries that consume a lot of energy, cause greenhouse effects, and are not environmentally friendly such as cement, iron and steel, petrochemical refining; limit FDI attraction in coal-fired power, textile dyeing with strict requirements on technology, require investment in wastewater and solid waste treatment systems, establish specialized zones for textile dyeing and garment to both create a highly economically efficient textile-dyeing-garment supply chain and ensure environmental and emission requirements.

The Government has issued preferential policies to encourage investment in solar power, wind power, and renewable energy with the purchase price of solar power at 9.35 cents/kWh, wind power at 8.5 cents/kWh onshore, and 9.8 cents/kWh onshore. With this price, investors have made a profit and the policy is attracting many domestic and FDI projects. In order to quickly implement clean power projects, along with the electricity price policy, it is necessary to: First, quickly establish and approve energy development plans so that localities have conditions to attract and implement projects; Second, facilitate the signing and implementation of power purchase and sale contracts, ensuring foreign currency conversion according to the legitimate needs of investors; Third, eliminate EVN's monopoly status as soon as possible, synchronously apply market mechanisms in electricity production and trading to protect the legitimate rights of investors and consumers; Fourth, in addition to preferential policies on tax and land, it is necessary to study and apply preferential financial policies and subsidies for a number of large projects in the first years using the State budget.

For FDI projects in industries and fields that continue to be encouraged, it is necessary to pay attention to advanced technology, energy saving, environmental friendliness, and closely monitor the construction process of factories and architectural works to contribute to creating a green economy.

The Government also needs to have preferential policies to encourage FDI enterprises that are using outdated and environmentally unfriendly technology to convert to technology that meets green economic standards; set a deadline for enterprises to implement.

Investment, including foreign direct investment, to create a better and more sustainable life for people. If an investment does not ultimately increase the well-being and happiness of all people in a green economic direction, then the investment should not be made and certainly should not be pursued.

4.2. Recommendations and solutions

In the context of depleting natural resources and increasing climate change, the trend towards green and sustainable economic development is becoming increasingly prevalent. Renewable energy and new energy sources are being invested in and developed, with the potential to become the main sources of energy in the future.

There is a need to enhance the attraction of FDI with high technology, environmental friendliness, and labor intensity. Investment should be encouraged in infrastructure development and supporting industries, renewable energy, new materials, electronics, information technology, crop and livestock breeding, human resource training, and high-quality healthcare, with flexible mechanisms for specific projects. Additionally, establishing research and development centers of foreign-invested enterprises in Vietnam should be encouraged.

However, in order to attract and use "green" FDI resources effectively, in the coming time, Vietnam needs to adjust its FDI attraction policy orientation:

First, it is essential to prioritize attracting FDI into high-tech and advanced sectors, including environmentally friendly technologies, clean energy, and renewable energy. Other important areas to focus on include the production of medical equipment, healthcare services, education and training, high-quality tourism, financial services, logistics, and other modern services. Additionally, attention should be given to high-tech agriculture and smart farming, as well as the development of modern infrastructure, especially in new industries based on Industry 4.0. When attracting FDI, it is important to ensure a balance between export growth and investment in the development of high-value-added products and services.

Second, Regarding investment partners:

***Focus on Multinational Corporations**:* Specifically, target multinational corporations that collaborate with domestic businesses to form and develop industry clusters along value chains. Initially, continue attracting FDI into sectors where Vietnam has advantages, such as textiles and footwear. Also, focus on high-value-added stages and processes associated with smart and automated production.

***Diversify FDI Sources**:* Effectively leverage relationships with strategic partners, focusing on leading developed countries and multinational corporations that hold advanced technologies and modern management capabilities.

***Monitor and Prevent**:* Proactively monitor FDI trends from countries with outdated technology and environmental pollution risks. Implement timely preventive measures to ensure a sustainable investment environment.

***Attract Small and Medium Enterprises**:* For small and medium-sized enterprises and small-scale projects, ensure they can upgrade technology, integrate into global production networks and value chains, and develop supporting industries.

Third, FDI attraction needs to be aligned with the advantages, conditions, development levels, and planning of each locality within regional linkages, while ensuring overall economic, social, and environmental effectiveness. For sensitive areas related to national defense, security, borders, seas, islands, and exclusive economic zones, FDI attraction must prioritize national defense, security, and sovereignty.

Additionally, Vietnam needs to improve mechanisms and policies to create new incentives for attracting and utilizing FDI in industrial parks, export processing zones, economic zones, high-tech zones, and high-tech agriculture zones. Mechanisms and policies should be researched and established to attract strategic investors and multinational corporations into special administrative-economic units as designated by the National Assembly when conditions are met.

Fourth, there should be proactive mechanisms and policies to support the development and upgrading of Vietnamese enterprises, promote supporting industries, and create linkages between FDI enterprises and domestic businesses.

The draft strategy for attracting new-generation FDI (2018-2030) recently solicited wide opinions and also proposed 8 breakthrough recommendations across specific phases as follows:

Short- to medium-term priorities (2018-2030):

- Strongly promote skill provision to ensure the implementation of new-generation FDI.
- Create a "4.0 Business Environment" that meets business needs in the digital age.
- Thoroughly reform the current incentive policy framework, shifting to performance-based incentives.
- Open key sectors that are foundational for competitiveness and FDI growth.
- Implement strategic policies to promote outward FDI.

Specifically:

i) There needs to be a synchronized policy for connecting FDI enterprises:

- Develop and implement a synchronized policy for connecting FDI enterprises to address market weaknesses and limitations and align with the incentive structure.
- The 100% localization rate should not be used as the target for connecting FDI enterprises in Vietnam or as a localization policy. Instead, it should be market-based and aim to support FDI investments to maximize the economic efficiency of domestic production.
- Clarify the roles of the Ministry of Planning and Investment, the Ministry of Industry and Trade, and other stakeholders in implementing a comprehensive FDI enterprise linkage program.

ii) Implementing the FDI enterprise linkage policy:

- Key components of the FDI enterprise linkage policy typically include the establishment of supplier databases, service connectivity, targeted supplier development programs, investment promotion to attract foreign suppliers, and providing support and/or credit incentives to help upgrade domestic enterprises.
- In countries with strong institutional frameworks, the role of investment promotion agencies mainly involves introducing domestic suppliers, considered as service provision to investors and post-investment care, as well as targeted investment promotion to attract foreign suppliers when necessary.

5. Conclusion: Vietnam is on the path of strong reform and increasingly deep integration into the world economy. With a favorable geographical location, competitive labor costs, and open trade and investment policies, Vietnam has been very successful in attracting FDI capital. However, in order to make breakthroughs in development, while addressing internal challenges and effectively attracting green FDI and new-generation FDI in the coming period, Vietnam needs to soon adjust its strategic orientation on FDI attraction, along with an action plan associated with reforming the investment environment, policies and specific institutions, only then can it fully exploit the potential that green FDI and new-generation FDI bring.

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