Thailand’s Foreign Direct Investment (FDI) in Vietnam

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Abstract: The similarities between Thailand and Vietnam can be seen in the countries’ geographical features, society, cultural proximity, economy, and the bond between the citizens of the two countries. The diplomatic relationship between Thailand and Vietnam was established in 1976 and continues to get stronger. In 1986, Vietnam implemented the “Doi Moi” policy to reform the socialist market economy which paved the way to economic relationship, the legislation on investments, and exposure to foreign investments. Thailand started investment in Vietnam in the 1980s, which increased during the 1990s. However, in 1997, the investment declined due to the economic crisis in Thailand. When the crisis passed, Thailand's investment in Vietnam was revived in the late 2000s, and was rated one of the top 10 foreign investors in Vietnam. It has now been 4 decades since Thailand and Vietnam founded their relationship. There are three factors related to investment, namely: 1) Geographical factors; 2) Political factors; and 3) Economic factors. Such factors can affect the development of relationship between Thailand and Vietnam, and the cooperation within ASEAN countries. These factors motivate Thailand’s Foreign Direct Investment (FDI) to Vietnam from 1976 to 2016. This paper aims at suggesting some feasible solutions to encourage higher market size, GDP growth, openness to trade and better infrastructure development that strengthens Economic Cooperation (EC) between East Asia and Southeast Asia, and to work constructively together for the common benefit of the region in the future.

Keywords: Thailand, Vietnam, Foreign Direct Investment (FDI).

1. Introduction

Thailand and Vietnam officially established diplomatic relations on August 6, 1976, and has grown stronger. Vietnam is a predominantly agriculture economy with most of the marks of a developing nation. The conservative government which was resistant to radical reform impeded the process of economic restructuring. This debate on the desirability and necessity of liberalization continued into the 1980s. It was only in 1986 when the new party general secretary Nguyen Van Linh came to power that many of the conservative national leaders retired, and more pragmatic policies and attempts to open up relations with the West, took off. After approval at the Sixth Party Congress in late 1986, the government finally agreed on the implementation of Doi Moi, with the aim of restructuring the economy into one that is market-oriented. (Tan Cheng Leong and Terence T.S. Lim, 1993, p.19) [1]

Since the Vietnamese economic reforms of 1986, Vietnam’s economy has been among the fastest growing in ASEAN. Foreign direct investment flows (FDI) from Thailand are an important factor in helping economic growth and development in Vietnam. This paper

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explores factors that determine foreign direct investment in Vietnam from 1988 to 2016. The main results show that higher market size, GDP growth, openness to trade and better infrastructure development are factors attracting FDI inflows into Vietnam.

Vietnam has been in transition from a centrally planned to a market-oriented economy since 1986. These economic renovation policies called “Đoi Mới” were very successful at generating economic growth and reducing poverty. Vietnam has seen remarkable economic achievements in growing gross domestic product (GDP), GDP per capita, export and foreign investment and important trades and economic agreements signed with major partners. Large amounts of FDI have flown into Vietnam. FDI not only brings additional capital to the Vietnamese economy, but can also bring modern technology, managerial expertise and more industries, products and jobs.

Therefore, FDI might promote better utilization of domestic resources and accelerate economic structural transformation in the direction of industrialization and modernization. Vietnam’s economy now is among the fastest growing in ASEAN and the FDI in Vietnam has been expanded along with the country’s rapid economic growth that spreads to the rest of the world. It is useful to know the important factors determining FDI in Vietnam. However, there are not many studies on determinants of FDI in Vietnam due to the lack of data and information on Vietnam. The purpose of this study is to examine factors which have been important for increasing Thailand’s FDI in Vietnam from 1988 to 2016.

The increased openness of the Vietnamese economy in the 1990s was partly a reflection of the policies that were introduced to liberalize trade and promote FDI, and the ending of the trade embargoes that limited trade during the 1980s. Trade liberalization began at the end of the 1980s. (Rhys Jenkins, 2006) [2] The main elements included: liberalization of entry into international trading activities, removal of most export taxes, removal of non-tariff barriers, reductions in tariff levels and bands-the maximum tariff was reduced from 200% to 120% and the number of bands to 15, negotiation of various trade agreements, the ASEAN Free Trade Area (AFTA), agreements with the European Union (1992) and with the United States (2000), and measures to promote export-import duty rebates and establishing export processing zones.

This research paper “Thailand’s Foreign Direct Investment (FDI) in Vietnam” shows that from its beginning FDI has played an important role in economic development and the relationship between Thailand and Vietnam. The rest of this paper is organized as follows: (1) Introductions; (2) Concept and Theories of FDI; (3) Foreign direct investment in Vietnam; (4) Thailand’s FDI in Vietnam; and (5) conclusion.

2. Concept and theories of FDI

FDI is an important source of capital and economic growth in developing countries as it provides a package of new technology, management expertise, finance and market access for the production of goods and services. However, when it comes to attracting FDI, it is a challenge for developing countries as it is not easy to identify the main factors which motivate and affect the FDI decision. (Thi Minh Hieu Vuong and Kenji Yokoyama, 2011) [3].

Each of the theories on FDI tries to point out the main determinants, explaining why FDI happens in a certain place. (Hymer, 1976) [4], (Kindleberger, 1969) [5], and (Calvet, 1981) [6], market imperfection theory emphasized the relationship between firms and the market and argued that FDI exists due to two conditions: (1) foreign firms must have a countervailing advantage over the local firms; and (2) the market for sale of this advantage must be imperfect. The theory was further developed by Dunning and Rugman (Rugman, 1979, 1981), (Dunning and Rugman, 1985) [7], and Casson (Casson, 1976) [8], who aimed to differentiate
the market imperfection of structural type and transaction-cost type.

As for theories of the firm, the internalization theory convinced that foreign investment activities by multinational enterprises (MNEs) are resulted from the internalization of markets for intermediate products (mostly in the form of knowledge and expertise) across national borders, in which internal production is not just the transferring of capital but the extension of managerial control over subsidiaries (Buckley and Casson, 1976) [8].

The eclectic paradigm by Dunning (1977, 1993) [9, 10] specified three conditions for FDI to occur, including firm-specific advantage (O: ownership), the (foreign) country-specific advantage (L: location) and internalization (I). In diversification theory, foreign investment is regarded as a means to reduce business risk. Bende-Nabende (1998) [11] investigated the data from 5 South East Asian countries, and found a positive direct link between FDI and economic growth. In the paper, he found that FDI for Indonesia, Malaysia and the Philippines were positively correlated with growth, while that for Singapore and Thailand were negatively related. Moreover, the result revealed that FDI stimulated economic growth in those ASEAN countries mostly through human capital and employment. Likewise, the investigation by UNCTAD (1999) [12] found FDI had both positive and negative impacts on economic growth depending on the variables that were entered in the equation.

3. Foreign direct investment in Vietnam

Since 1986, Vietnam has been very successful in attracting FDI. Indeed, FDI has been an important contributor to economic transition, business liberalization and macroeconomic growth over the past decade. It is hard to envisage “Doi Moi” without FDI activity. Foreign investors created an imported “private sector” for a country that only had a fledgling private sector of its own at the beginning of the 1990s. With advantages of short distance and cultural similarity, businesses from neighboring countries such as South Korea, Taiwan and Japan set their footholds in Vietnam early after its open door policy.

Along the Lines of “open door” economic policy, the government of Vietnam is encouraging foreign organizations and individuals to invest in the following priority projects: (Tan Cheng Leong and Terence T.S. Lim, 1993, p.96.) [1].

- Major economic programmes involving export-oriented production and import substitution;
- Industries involving the transfer of high technology;
- Labour intensive industries using raw materials and natural resources available in Vietnam;
- Infrastructure projects; and
- Foreign exchange-earning services.

And FDI can take many forms in Vietnam, including: Business Cooperation Contract (BCC); joint venture (JV); companies with 100% foreign capital; and investments in Export Processing Zone (EPZ), Building-Operation-Transfer (BOT), Building-Transfer-Operation (BOT), and Building-Transfer (BT). (Do Hoai Nam, Vo Dai Luoc, 2011) [13].

In line with pro-active economic integration, Vietnam has carried out various measures to attract foreign direct investment (FDI) flows. These infusions are essential to equip Vietnam with much-needed capital, technology and management expertise in the country’s early stages of economic development. The adopted measures have a rather wide scope, ranging from the provision of a legal framework to other supporting statutes to improve the domestic investment environment (Vo, TT and Nguyen, 2016) [14].

These countries are seen as the top rankings of FDI in Vietnam. Right after Vietnam’s economic reforms in 1986, the first “Law on Foreign Investment” was introduced by the National Assembly of Socialist Republic of Vietnam in December 1987. The law states that
Vietnam welcomes and encourages foreign organizations and countries to invest capital and technology in Vietnam. The State shall guarantee the ownership of the invested capital and other rights of the foreign investors, and extend to the latter favorable conditions and easy formalities. The law was revised to improve the investment environment and further attract foreign capital in 1990, 1992, 1996, 2000, and 2003 and recently in the new FDI law in 2005 by the amended tax, land, currency policies and environment.

Furthermore, FDI inflow into Vietnam increased rapidly during the 1990s and in the first half of the 2000s. From 1988 up to December 2005, there were 7,279 FDI projects receiving investment licenses with total registered capital amounting to US$ 66,244.4 million. In 2005 alone, there were 922 projects with registered capital of US$ 4,268.4 million. Even though the number of contracts in the five years of 2001-2005 were more than double of that in the five years of 1996-2000, the registered capital in the 2001-2005 period were smaller than that of the 1996-2000 period. The registered capital in 1996 was the highest amount (US$10164.1 million) and accounted for 1/6 of total capital registered.

The real turning point, however, was the East Asian financial crisis in 1997. Since the effect of output collapsed around the region and the risk of a global contagion was real, foreign investors put projects on hold. During the 1990s East Asian boom, many investors from the region had started turning to Vietnam as a new location to expand export facilities, as well as to access a new emerging market for their goods. With over 60 per cent of FDI in Vietnam originating from countries in the region, inflows were cut sharply as the main corporations in the Republic of Korea, Singapore, Thailand or Hong Kong (China) were caught in a wave of restructuring, liquidation or mergers and acquisitions (M&As). (UNITED NATIONS, 2008) [15].

Vietnam is rapidly emerging as a new center of economic growth in Southeast Asia. Foreign investors seek business opportunities in both the domestic market of over 80 million potential consumers, and in low cost production sites. North American and European investors are in particular eyeing the domestic markets while investors from neighbouring countries such as Taiwan are developing Vietnam as an export platform. (Meyer, Klaus E., Tran, Yen Thi Thu & Nguyen, Hung Vo, 2006) [16].

During the reform process, Vietnam embarked on the initiation and expansion of international economic relations in the direction of gradual, diversified and multilateral international economic integration. Vietnam has resumed relations with international financial institutions such as the World Bank and ADB since 1993, and they have been supportive in providing financial support to the economic reform of the country. Vietnam has become an official member of ASEAN since 1995 and has been actively participating in the free-trade ASEAN (AFTA) and in 1996 as a founding member of the Asia-Europe Cooperation Forum (ASEM). (Dang Thi Loan, Le Du Phong, and Hoang Van Hoa, 2010, p. 39) [16].

Vietnam was expected to join the World Trade Organization (WTO) at the end of 2005. This would further enhance the institutional development of Vietnam, and create more stable and transparent trade and investment relationships with countries worldwide. Membership in the WTO would facilitate both exporting from Vietnam production facilities and entry to the Vietnamese market. At the same time, competition is likely to get tougher as more foreign importers and investors enter the market. (Meyer, Klaus E., Tran, Yen Thi Thu & Nguyen, Hung Vo, 2006). Moreover, the ASEAN countries are negotiating with China, Japan and other countries about new free trade zones. Vietnam may thus serve as a gateway to a free trade region of more than 600 million people and a bridge to a massive market of 1.3 billion Chinese consumers.
4. Thailand’s FDI in Vietnam

Thailand and Vietnam are two close neighbours. Since diplomatic relations were established in 1976, the two sides have continued to reap successes on all fronts. And, strong economic cooperation is an important cornerstone in Thailand-Vietnam relations. Thailand also started investing in Vietnam in the 1980s, and has increased investment in the 1990s. Due to the economic crisis in Thailand, current investment in Vietnam was slow. When the crisis passes, Thailand’s investment in Vietnam was revived in the late 2000s, and was rated one of the top 10 foreign investors in Vietnam.

Thailand does not have a specific policy on outward FDI. However, the Government has been encouraging Thai enterprises to go abroad since the early 1990s through various measures and institutional support facilities. It had also signed 39 bilateral investment treaties and 56 double taxation treaties with partner economies by 1 January 2006, and concluded various regional arrangements (ASEAN Free Trade Area, ASEAN Investment Area, ASEAN Framework Agreement on Services) and bilateral FTA agreements (with Australia, China, India, New Zealand), which contained investment provisions. (Kee Hwee Wee, 2007) [18].

The Government of Thailand also encourages investment in infrastructure, such as the construction of roads and bridges, in various sub-regional economic cooperation areas that Thailand is a member. These sub-regional areas include the Greater Mekong Sub-region (GMS), the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) and Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS).

From the data FDI of The National Statistics Office of Vietnam General Statistics Office of Vietnam (2015) found that since 1988 up to 2014 there were 17,768 foreign investment projects worth US$ 252,716.0 million. The investment in 2014 amounted to 1,843 projects worth US$ 21,922.0 million. (Table 1) Thai investment projects focus on such areas as building infrastructure for industrial zones, new urban centers with hotels, and facilities for tourism and industry, concentrating on Dong Nai and Binh Duong provinces, Ha Noi and Ho Chi Minh City.

Table 1. Foreign Direct Investment in Vietnam (1988-2014)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>No. project</td>
<td>Value (US$)</td>
</tr>
<tr>
<td>1. Rep. of Korea</td>
<td>4,190</td>
<td>37,726.3</td>
</tr>
<tr>
<td>2. Japan</td>
<td>2,531</td>
<td>37,334.5</td>
</tr>
<tr>
<td>3. Singapore</td>
<td>1,367</td>
<td>32,936.9</td>
</tr>
<tr>
<td>3. Taiwan</td>
<td>2,387</td>
<td>28,468.5</td>
</tr>
<tr>
<td>4. British Virgin Islands</td>
<td>551</td>
<td>17,990.0</td>
</tr>
<tr>
<td>5. Hong Kong SAR</td>
<td>883</td>
<td>15,603.0</td>
</tr>
<tr>
<td>6. United States</td>
<td>725</td>
<td>10,990.2</td>
</tr>
<tr>
<td>7. Malaysia</td>
<td>489</td>
<td>10,804.7</td>
</tr>
<tr>
<td>8. China, PR</td>
<td>1,102</td>
<td>7,983.9</td>
</tr>
<tr>
<td>9. Thailand</td>
<td>379</td>
<td>6,749.2</td>
</tr>
<tr>
<td>10. Netherlands</td>
<td>229</td>
<td>6,625.4</td>
</tr>
<tr>
<td>11. Cayman Islands</td>
<td>57</td>
<td>5,948.5</td>
</tr>
<tr>
<td>12. Canada</td>
<td>143</td>
<td>4,995.2</td>
</tr>
<tr>
<td>13. Samoa</td>
<td>122</td>
<td>4,270.2</td>
</tr>
<tr>
<td>14. Germany</td>
<td>247</td>
<td>1,359.7</td>
</tr>
<tr>
<td>Other</td>
<td>2,366</td>
<td>22,929.8</td>
</tr>
<tr>
<td>Total</td>
<td>17,768</td>
<td>252,716.0</td>
</tr>
</tbody>
</table>


The concerning Thailand investment in Vietnam, Thai entrepreneurs who invested with more than 100 cumulative investments were ranked No.9 with 379 projects which had an investment value of US$ 6749.2 million in 1988-2014. In 2014 alone Thailand ranked No. 13 with 41 projects that had an investment value of US$ 232.8 million. The latest data from the Bureau of International Trade at the Ho Chi Minh City found that from 1 January-20 June 2015 there were a number of Thai companies invested 13 projects that worth a total of US$ 56.3 million. (Table 2)

Table 2. Thailand Companies in Vietnam

<table>
<thead>
<tr>
<th>Range</th>
<th>Company Name</th>
<th>Industry/Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Amata Vietnam JSC</td>
<td>industrial estate</td>
</tr>
<tr>
<td>2</td>
<td>Thai Hoa</td>
<td>industrial estate</td>
</tr>
<tr>
<td>3</td>
<td>SCG - SCG Trading (Vietnam)</td>
<td>Transportation /Logistic/Trading</td>
</tr>
<tr>
<td>4</td>
<td>SCG - Long Son Petro Chemicals</td>
<td>Petrochemicals</td>
</tr>
<tr>
<td>5</td>
<td>PTT - Hoang Long &amp; Hoan Vu</td>
<td>Petroleum</td>
</tr>
<tr>
<td>6</td>
<td>Thai Oil - Top Solvent (VN)</td>
<td>Petrochemicals</td>
</tr>
<tr>
<td>7</td>
<td>Oriental Garment</td>
<td>sport clothing</td>
</tr>
<tr>
<td>8</td>
<td>Pranda Vietnam</td>
<td>Jewelry</td>
</tr>
<tr>
<td>9</td>
<td>Red Bull (Vietnam)</td>
<td>Energy Drink</td>
</tr>
<tr>
<td>10</td>
<td>CP Packaging Vietnam</td>
<td>Agriculture</td>
</tr>
<tr>
<td>11</td>
<td>Bangkok Bank</td>
<td>Bank</td>
</tr>
<tr>
<td>12</td>
<td>Siam Commercial Bank</td>
<td>Bank</td>
</tr>
<tr>
<td>13</td>
<td>Kasikorn Bank</td>
<td>Bank</td>
</tr>
<tr>
<td>14</td>
<td>Central Global Services JSC</td>
<td>Retail Store</td>
</tr>
<tr>
<td>15</td>
<td>Dusit Thani</td>
<td>Hotel</td>
</tr>
</tbody>
</table>

Source: Department of International Trade Promotion, Ministry of Commerce, 2015

Among Thai projects operating profitably in Viet Nam is the CP Vietnam animal feeds company in Dong Nai province. With a capital of US$ 328 million, it turns out feeds for cattle and breeding poultry. In 2006, the company fetched revenue of US$ 300 million, generating jobs for more than 5,000 locals. (http://www.vietnamembassy-tanzania.org/vi/vnemb.vn, Thursday, November 17, 2016) and the ranking among countries and territories with investment in Vietnam and placed third among ASEAN countries (after Singapore and Malaysia).

5. Thailand companies in Vietnam

For Viet Nam, Thailand is one of important addresses for its promotion activities to lure foreign direct investment. Phan Huu Thang, Director of the Foreign Investment Department, said that Vietnamese localities and businesses will increase efforts to attract Thai investment into the production of export goods, processing industry, service industry and agricultural and rural economic development, IT applications, biotechnology and electronics. (http://www.vietnamembassy-tanzania.org, Thursday, November 17, 2016).
- Amata Corp Pcl is currently the only Thai industrial park developer to operate in Vietnam with its first park opened in the southern province of Dong Nai in 1994 and Amata is expected to open the second complex also in Dong Nai.

- Hemaraj Land and Development Pcl., one of Thailand’s top industrial real estate developers, is seeking permission to build two massive manufacturing zones in the central province of Nghe An. Located near each other in the southeast of Nghe An, one of the industrial parks will cover more than 2,000 hectares and another around 1,100 hectares. Hemaraj also signed an investment agreement with state-owned Civil Engineering Construction Corporation No. 4 (Cienco 4) to co-develop other industrial parks in the province’s Dong Nam Economic Zone.

- CP will spend 150-200 million US dollars to build the fish feed processing plant, processed chicken and frozen storage plant in Vietnam. Investment abroad is part of plans to raise 100% of CP operations in Vietnam.

- Siam Cement Group (SCG) is also seeking additional funds to increase investment in the domestic market and Southeast Asia. SCG is currently building a new petrochemicals complex in Vietnam and recently announced plans to provide at least 100 billion baht (US$ 3.3 billion) to expand operations in markets in Southeast Asia (ASEAN). Given its booming economy, Vietnam’s demand for packaging paper is set to show steady growth in the years to come. The country is expected to expand by more than 8% per year, outpacing the 7.1% rate projected for the Asia Pacific region, with the Vietnamese government relying on exports as a key growth driver.

The new capacity in Vietnam will effectively increase Siam Cement’s packaging paper production to a combined 1.74 million tons per year, 1.32 million tons in Thailand, 200,000 tons in Philippines, and 220,000 tons in Vietnam. Further, according to Siam Cement’s predictions demand for packaging paper in Vietnam will remain strong at around 580,000 tons per year in 2006, 45% of which was imported. Siam Cement has chosen the My Phuoc Industrial Park in Binh Duong operated by Becamex, Vietnam’s leading industrial Park operators for its location.

- Sahaviriya Steel Industries Pcl, The Vietnamese government is interested in attracting foreign investment in capital and property development to increase domestic consumption of construction steel. Vietnam can produce six million tons of construction steel per year but local demand is limited at 3.5 million tons.

- Thai Rung Union Car Pcl, sees large potential for the automotive and parts industry in Vietnam, where demand for passenger cars is rising by 80,000 units per year. Vietnam’s automotive market is similar to the Thai market 25 years ago with plenty of room to expand. Vietnam has a population of 85 million but not a wide array of consumer products. Vietnam is already gaining a wider range of Japanese and Korean auto parts makers. The competitiveness of Vietnam’s vehicle production with that in Thailand, however, appears more problematic although Thailand must continue to innovate and cut costs if it is to maintain its current advantage. (Business-in-asia, 2007) [19].

- Thai Chemical Group, which has operated many investment projects in Viet Nam, also plans to enter a joint venture with the Viet Nam Oil and Gas Corporation to launch a petrochemical complex in southern Ba Ria-Vung Tau province with a total investment of over 1.5 billion USD. Viet Nam's potential in natural resources, labour force in addition to stable political situation is the main factors to attract Thai investors to the country.

Among Thai investment projects in the country are Robinson Department Store’s outlet, an industrial estate established by Amata Corp, and a petrochemical complex set up by Siam Cement Group. PTT also received the final approval to go ahead with its plan to build a 20 million tonnes per year refinery and petrochemical project. (Amy Sawitta Lefevre Thailand's PTT delays $20 billion Vietnam
refinery and petrochemical complex, Jun 28, 2016 (http://www.reuters.com/article/us-ptt-vietnam-idUSKCN0ZE1V1) Reportedly, Siam Cement Group (SCG) one of Thailand's big corporations will raise its investment capital in Vietnam by expanding its existing projects. Recently, Central Group officially completed the acquisition of Big C Vietnam for more than US$ 1 billion. Thai Charoen Corp (TCC) also acquired Metro Cash & Carry Vietnam supermarket chain (Germany) for US$ 876 million.

6. Factors of Thailand FDI in Vietnam

Foreign direct investment (FDI) has played an important role in economic development, both for Thailand and Vietnam since 1976-2016. The effect of Doi Moi on FDI materialized rapidly after the opening of the economy to foreign investors in 1987. This surge in FDI coincided with and reinforced the strong increase in economic activity as “Doi Moi” started to unleash market forces and private initiative. While some of the initial foreign investments took place in oil and gas, manufacturing became the primary driver of FDI.

Thailand’s FDI in Vietnam to scout for investment opportunities focusing on a wide range of sectors such as energy, retail, agriculture, processing, building material, and animal feed. “Thousands of Thai firms wish to join hands with Vietnamese partners to leverage the existing potential of both countries”, said Sanan Angubolkul, president of the Thailand-Vietnam Business Council, at a recent press conference in Hanoi. According to Tharabodee Serng-Adichaiwit, general manager of Bangkok Bank Public Company Limited in Vietnam, Vietnam is one of the best destinations for Thai investments in Asia and there will be more Thai investments into Vietnam in the near future. Bangkok Bank has recently tripled its capital in hope of providing more loans for Thai investments to expand in Vietnam. (Thanh Dat, 2016) [20].

And according to Vietnam’s Ministry of Planning and Investment, as of June 2016, Thailand ran 466 projects in Vietnam with a total investment capital of US$ 9.44 billion, ranking 10th out of the 116 countries and territories investing in Vietnam. The average capital of a Thai project is around US$ 20.26 million, US$ 14 million higher than that of a foreign-invested project in Vietnam. Thai businesses pumped big investment into the supporting industry in Vietnam. (VNA/Hanoitime, 2016) [21].

7. Geography factor

- Geography: Thailand FDI flows smoothly to Vietnam because they are near markets (e.g. China and ASEAN). There are, however, plenty of counterexamples, with substantial investment flowing to such out of the way places, and such culturally distinct countries as Thailand.

- Infrastructure: The quality of infrastructure in major cities such as Hanoi and Ho Chi Minh City has vastly improved. The skylines of Vietnam’s major cities, and roads and ports are being upgraded or newly built all across the country. Telecom infrastructure is improving and prices are coming down. Also secondary aspects of infrastructure that are of concern to expatriates, such as good restaurants, well stocked supermarkets, and international schools are generally available in the larger cities.

- Natural resources: Some FDI flows to countries that have natural resources, especially oil and minerals. On the other hand, the presence of natural resources cannot guarantee that foreign investors will be either interested or welcome. The bulk of FDI flows to sectors other than natural resources; countries with large resource endowments may actually be at a disadvantage in attracting this type of FDI.

- Vietnam’s young population: 95% of its population are younger than 65. They are eager to explore western consumer goods, and present a huge potential market for foreign investors.
The rapid economic growth of the 1990s, on the average of 7.3% annually, is expected to continue, suggesting an even larger market in the future (Statistics Publishing House, 2004) [22]. International integration, notably the membership in the ASEAN, and the anticipated membership in the WTO also facilitate access to this attractive market.

8. Political factor

- The economic renovation policies called “Doi Moi” were very successful at generating economic growth and reducing poverty. Vietnam had seen remarkable economic achievements in growing gross domestic product (GDP), GDP per capita, export and foreign investment and important trade and economic agreements signed with major partners.

- Attractive Incentives, Vietnamese government had amended various laws covering investment, enterprise, land, and business competition to become more favourable to foreign investors. For instance, foreign investors may invest in all sectors not specifically prohibited by law, which include telecommunications, newspapers, and retail businesses.

- Foreign investors are allowed to acquire 100% shares in private firms. Vietnam’s investment promotional privileges are very attractive as they offer a corporate tax holiday for 10 years for projects in promoted industries implemented between 2006 and 2020, compared to eight years granted by Thailand’s Board of Investment (BoI). Furthermore, the Vietnamese government has promised to provide all necessary infrastructure, including roads, water systems, and electricity for factories in promoted industries. Investing in mining in Vietnam is potentially lucrative as the country has abundant natural resources like high-grade coal, zinc, and copper. It has the largest anthracite coal reserves in the world.

9. Economic factor

Thailand and Vietnam, both parties agreed to increase mutual trade value from US$15,000 million to US$20,000 million within 2020. Trade obstructions would be eliminated. Use of Baht and Dong in financial transaction is to be promoted. Informal mechanism on investment protection and promotion would be established, and branches of commercial banks would be opened in both countries.

- Possible influences—the growth rate of GDP. There is strong evidence that proves that FDI is closely related to economic growth.

- Tax incentives. These include corporate income tax holidays, lower tax rates for foreign investment, and generous loss carry forward provisions. It is widely held that such incentives are of limited (albeit not negligible) value.

- Low wages. It is sometimes argued that foreign investors are looking for low-wage locations. This is partly true as most FDI is still undertaken by developed-country firms in other developed countries. Even the FDI that flows to less-developed countries does not necessarily go to the lowest-wage countries (e.g. more goes to moderate-wage countries like China than to low-wage countries like India or in Africa).

- Investors are interested in “good value labor” rather than cheap labor perse; in absolute terms the lure of Bangalore is not come from the fact that computer programmers are low paid, but rather than that they are very productive to what they need to be paid.

This illustrated the solid foundation of economic relations and complementary relations between the two countries. Vietnam mainly imports raw plastics; automobile components, electrical household appliances; petroleum, chemicals, fabrics and paper; and fibres and yarns from Thailand. In the meantime, Vietnam exports telephones and parts; crude oil; vehicles and spare parts; iron and steel; computers, electronic products and components; seafood; fibres and yarns; wood products, precious stones, and agricultural products to Thailand.
Thai investors always want to create more jobs, raise incomes, improve professional skills and develop human resources in Vietnam. They perceive and expect a long-term relationship with Vietnam by providing standard products and services in Thailand. The 2,000 Thai companies have expressed their intention to invest in Vietnam in addition to a number of experienced businesses seeking to increase their market shares in Vietnam. The establishment of the ASEAN Economic Community (AEC) is a great motivation for Thai investors to bring their capital to Vietnam and expand their business presence.

The Thai Foreign Minister welcomed Vietnamese investors to invest in Thailand. The Government of Thailand pledges to provide maximum supports, including cooperation with the Government of Vietnam and the business sector, to organise retailer business connections for Thai retailers and Vietnamese suppliers. Last year, Vietnamese airline, VietJet Air, injected more than US$150 million in Thailand.

Moreover, Thai businesses also expect to cooperate with Vietnamese partners to tap existing potential of the two countries in order to make inroads into the AEC market where there are over 600 million consumers and a GDP of up to US$3,000 billion. (Quynh Chi, 2016) [23].

Since Vietnam has become a full member of ASEAN in 1995, positive results in trade and investment relations between Vietnam and Thailand have been observed. Particularly, the two countries upgraded their relationship to a strategic partnership, on the occasion of the General Secretary H.E. Mr. Nguyen Phu Trong’s official visit to Thailand in 2013, meaning that Thailand attached much importance to its relations with Vietnam. Later in 2014, on the occasion of Thai Prime Minister Prayut Chan-o-cha’s official visit to Vietnam, the two sides signed the Action Program to implement the Vietnam-Thailand Strategic Partnership during the period from 2014 to 2018.

Over the past years, the two-way trade turnover between Vietnam and Thailand has experienced fast growth. The turnover was valued at US$9.4 billion in 2013, 9.2 percent higher than 2012, and it reached US$10.6 billion in 2014, 12.5 percent higher than 2013. As of June 2015, Thailand with registered investment capital of US$6.8 billion has ranked 10th among the 101 investors in Vietnam. Thai firms mainly invest in machinery manufacture, food and forestry processing, construction, wholesale and retail networks, and machinery repair. Meanwhile, Vietnam has 7 investment projects in Thailand with total investment of US$11.35 million and the Vietnamese firms focus their investment on property, household goods, tourism and software. (Vietnam Trade Promotion Agency, 2015) [24].

Thai Ambassador to Vietnam Manopchai Vongphakdi expressed his delights at the growing relations between the two countries over the past four decades. The two sides elevated their ties to a strategic partnership covering all fields ranging from politics and security to economy, trade, investment, culture, education and people-to-people exchange, he said. Meanwhile, Ta Quang Ngoc, Chairman of Vietnam-Thailand Friendship Association, said that along with promoting bilateral relations in multi-faceted spheres, the two countries have paid due attention to people-to-people exchanges.

Present at the event, former Thai Deputy Prime Minister and Foreign Minister Bhichai Rattakul, who represented the Thai Government to ink the joint statement to set up diplomatic relations with Vietnam in 1976, said he believes that the friendship and multi-faceted cooperation between the two countries will further develop in the future, meeting expectations and practical benefits of their people. Vietnam and Thailand officially established diplomatic relations on August 6, 1976. (VNA, 2016) [24]. The associations are set to hold an exchange between the two countries’ people in Thailand in November to elevate bilateral relations to a higher level. With 392 projects worth US$7 billion last year, Thailand was the fifth largest trade partner and
also the 10th largest investor of Vietnam. (Anh Kiet, 2016) [25].

10. Conclusion

This paper analyzes the determinants of Thailand FDI in Vietnam during 1988-2005 using descriptive analysis. The paper shows that FDI inflows into Vietnam increased rapidly during the 1990s and in the 21st century. FDI flowed into different sectors and provinces disproportionately. Next, the paper constructs a model to find out important factors attracting the FDI inflows, geography factor, political factor and economic factor. The results reveal that higher market size and higher GDP growth are encouraging FDI inflows into Vietnam which is consistent with the widely accepted belief that growing market size creates an incentive for foreign investors to gain market access. These factors motivate Thailand’s Foreign Direct Investment (FDI) to Vietnam. This paper aims at suggesting some feasible to encourage higher market size, GDP growth, openness to trade and better infrastructure development that strengthen Economic Cooperation (EC) between East Asia and Southeast Asia, and to work constructively together for the common benefit of the regions in the future.

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Từ khóa: Thái Lan; Việt Nam; Đầu Tư trực tiếp nước ngoài (FDI).