

Assessment of the Current Situation and Solutions to Attract Australian FDI Capital to Vietnam in the Context of International Integration

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Abstract:

Foreign Direct Investment (FDI) has played a pivotal role in Vietnam's economic transformation, significantly contributing to industrialization, job creation, and export growth. Since the introduction of the Law on Foreign Investment in 1987 and Vietnam's accession to the World Trade Organization (WTO) in 2007, the country has emerged as a leading destination for foreign investors in Southeast Asia. Key sectors attracting FDI include manufacturing, real estate, and services, which have driven economic development and facilitated Vietnam's integration into the global economy.

Despite these successes, challenges remain that hinder FDI's full potential, including administrative inefficiencies, complex regulations, corruption, and inadequate infrastructure. The shortage of highly skilled labor, especially in technology-driven fields, also limits the country's ability to attract higher-value FDI projects. Moreover, there are regional disparities in FDI distribution, with major urban centers like Ho Chi Minh City and Hanoi receiving most investments, while rural areas are often overlooked.

The impact of new-generation Free Trade Agreements (FTAs), such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), is also examined. These agreements enhance market access, legal protections for investors, and reduce trade barriers, making Vietnam increasingly attractive for high-tech and service industries.

This paper assesses the current FDI landscape in Vietnam, identifying opportunities and challenges for foreign investors. Recommendations include simplifying business procedures, implementing anti-corruption measures, improving infrastructure, and enhancing workforce training to address skills gaps. By adopting these reforms, Vietnam can attract higher-quality investments, strengthen ties with global supply chains, and foster sustainable economic growth.

Additionally, the research emphasizes the importance of building stronger partnerships between FDI enterprises and local firms to ensure the widespread distribution of investment benefits across the economy. With a more favorable investment climate, Vietnam can reinforce its position as a premier destination for global investors and enhance its role in the international market.

Keywords: FDI, Investment, Global investor.

1. Introduction

Since the enactment of the Law on Foreign Investment in 1987, Vietnam has actively attracted Foreign Direct Investment (FDI), transforming from an agrarian economy into an emerging industrial power. Key factors such as political stability, low labor costs, strategic location, and continuous reforms have made Vietnam a prime FDI destination in Southeast Asia. Vietnam's 2007 accession to the World Trade Organization (WTO) and subsequent trade agreements like the CPTPP and RCEP further boosted its FDI appeal, helping it become one of the top global recipients by 2020 [1].

Australian FDI in Vietnam, though smaller than that from countries like South Korea and Japan, has grown steadily. While Australia initially focused on agriculture, mining, and services, recent investments have expanded into sectors like education, renewable energy, and high-tech industries. These investments align with both countries' strengths, deepening economic ties and offering new opportunities for cooperation.

This paper examines the characteristics, challenges, and future prospects of Australian FDI in Vietnam, focusing on sectoral trends and key industries like agriculture, education, and renewable energy. Challenges for Australian investors include navigating Vietnam's complex regulations, administrative inefficiencies, corruption, and workforce skills gaps. Despite reforms, issues like land acquisition and inconsistent regulation enforcement remain hurdles.

The paper also highlights the importance of leveraging bilateral relations through Free Trade Agreements (FTAs) and diplomatic initiatives. Agreements such as the CPTPP and RCEP provide new avenues for investment by reducing barriers and enhancing legal protections. Additionally, the Vietnam-Australia Comprehensive Partnership Agreement and ongoing economic dialogues strengthen investment ties, facilitating cooperation in sectors of mutual interest.

The paper's objective is to identify how Vietnam can enhance its FDI appeal to Australian businesses by addressing challenges and creating opportunities. Policy reforms in administration, anti-corruption measures, workforce development, and infrastructure are critical to attracting Australian investment. Strengthening bilateral ties through joint ventures, technology transfer, and workforce development initiatives can further modernize Vietnam's key sectors and deepen economic cooperation between the two countries.

Ultimately, with the right strategies, Vietnam can solidify its position as a top destination for Australian FDI, promoting long-term economic growth and offering Australia access to a dynamic and expanding market.

2. Literature Review

Foreign Direct Investment (FDI) has long been recognized as a key driver of economic development, particularly in developing economies like Vietnam. Numerous studies have explored the impacts of FDI on host economies, focusing on aspects such as economic growth, technological transfer, and labor market development. This section reviews the existing literature on FDI in Vietnam, focusing on its historical context, the determinants and barriers of FDI, the role of Free Trade Agreements (FTAs), and the specific challenges facing foreign investors, particularly Australian firms.

2.1. The Evolution of FDI in Vietnam

FDI has played a transformative role in Vietnam's economic development since the introduction of the Law on Foreign Investment in 1987. It has been a key driver in the country's shift from an agrarian economy to an industrialized one, boosting sectors like manufacturing, services, and exports. Vietnam's accession to the WTO in 2007 further accelerated FDI inflows by integrating the country into the global economy.

However, regional disparities in FDI distribution persist. Coastal cities such as Ho Chi Minh City and Hanoi attract the most investment due to better infrastructure and access to international markets, while rural areas and smaller provinces receive less, raising concerns about unequal development across the country.

2.2. Determinants and Barriers of FDI in Vietnam

Vietnam's attractiveness as an FDI destination is supported by its geographical location, low labor costs, political stability, and growing consumer market. The OLI (Ownership, Location, Internalization) framework explains these factors as key determinants. However, significant barriers hinder FDI inflows, including administrative inefficiencies, corruption, and inconsistent regulatory frameworks, particularly in land acquisition and business registration.

While Vietnam's abundant low-cost labor is appealing for industries like textiles and electronics, a shortage of skilled labor in technology and management limits high-value investments. This skills gap poses challenges for attracting high-tech industries and deeper participation in global value chains.

2.3. The Role of Free Trade Agreements (FTAs)

Free Trade Agreements (FTAs), particularly the CPTPP and RCEP, have significantly impacted FDI inflows into Vietnam. These agreements reduce tariffs, enhance market access, and provide stronger legal protections for foreign investors, contributing to a more predictable business environment and supporting long-term investment.

The CPTPP has attracted investments in services, education, and renewable energy, sectors of particular interest to Australia. Similarly, the RCEP has fostered deeper economic integration with regional economies, helping Vietnam expand export markets and attract more FDI, especially in manufacturing and technology-driven industries.

2.4. Challenges Facing Foreign Investors in Vietnam

Foreign investors in Vietnam face several challenges despite the advantages of FTAs and reforms. These include regulatory and legal uncertainties, with inconsistent law interpretation across government levels causing delays and added costs. Poor infrastructure—such as underdeveloped transport, logistics, and energy systems—further hinders industrial growth, particularly outside urban areas.

Corruption is a persistent issue, with bribes common in sectors like construction, real estate, and public procurement. This increases uncertainty and discourages foreign investment where corruption poses significant risks.

2.5. Australian FDI in Vietnam

Australian FDI in Vietnam, though smaller compared to Japan and South Korea, is growing in sectors like agriculture, education, and renewable energy. Australia's strengths in agribusiness align with Vietnam's opportunities in modern farming and food production. The education sector, particularly higher education and vocational training, is also a key area due to Vietnam's demand for skilled labor and educational internationalization.

However, Australian investors face challenges similar to other foreign businesses, such as complex regulatory frameworks, lack of transparency, and insufficient infrastructure. Strengthening links between Australian FDI and local businesses could boost technology transfer and build domestic capacity.

2.6. Policy Recommendations for Improving the FDI Environment

To enhance Vietnam's FDI environment, Le and Pham (2020) [1] recommends simplifying business registration, improving contract enforcement, and addressing corruption. Strengthening transparency and institutions would attract more high-quality, high-tech investments.

The research of Doan and Nguyen (2019) [2] highlights the need to invest in human capital by expanding technical education and vocational training to address the skills gap. The research of Nguyen and Wilson (2021) [3] suggests forming partnerships between foreign investors and local educational institutions to tackle this issue.

The work of Hoang (2021) [4] analyzes the importance of developing infrastructure, particularly in transport, energy, and digital networks. Public-private partnerships (PPPs) could help fund large-scale infrastructure projects critical for sustaining FDI growth in both urban and rural areas.

The literature on FDI in Vietnam provides valuable insights into the factors driving foreign investment, as well as the challenges that remain. While Vietnam has made considerable progress in attracting FDI, particularly through its participation in global trade agreements and continuous reforms, the country still faces significant obstacles, including regulatory inefficiencies, corruption, and an underdeveloped infrastructure. For Australia, there is great potential to deepen investment in Vietnam, especially in agriculture, education, and renewable energy. However, targeted policy interventions are necessary to create a more favorable investment climate, ensuring that FDI can continue to drive Vietnam's economic growth in a sustainable and inclusive manner.

3. Data preparation and proposed methods

Data and Method

This section outlines the data sources and methodologies employed in this study to analyze the current situation of Foreign Direct Investment (FDI) in Vietnam and formulate actionable recommendations for enhancing its attractiveness to foreign investors, particularly from Australia. The methodology combines quantitative and qualitative approaches to provide a comprehensive overview of the FDI landscape in Vietnam.

3.1. Data preparation

The research relies on a variety of qualitative and quantitative data sources to provide a robust analysis of FDI in Vietnam:

Official Statistics:

- **General Statistics Office of Vietnam (GSO):** The GSO is the primary source for comprehensive statistical data on Vietnam's economy. It publishes annual reports on FDI inflows, providing breakdowns by sector, geographical distribution, and country of origin. These datasets are critical for identifying trends in FDI and understanding its impact on the Vietnamese economy.
- **Ministry of Planning and Investment (MPI):** The MPI provides detailed information on policies that affect FDI, including investment procedures, legal frameworks, and incentives for foreign investors. Reports from the MPI also include data on the number of registered foreign investment projects and their capital inflows, which help contextualize FDI performance within the broader economic framework.

International Reports:

- **World Bank and International Monetary Fund (IMF):** Both institutions publish macroeconomic reports that provide insight into Vietnam's economic environment, governance, and overall business climate. These reports are valuable for understanding how Vietnam compares to other countries in the region in terms of attracting FDI.
- **United Nations Conference on Trade and Development (UNCTAD):** UNCTAD's annual World Investment Reports provide analysis on global investment trends, including FDI patterns in Vietnam. These reports help to contextualize Vietnam's performance in the global FDI landscape, allowing for comparative analysis with other emerging markets.

Academic Literature:

- A review of peer-reviewed journal articles, theses, and conference papers related to FDI in Vietnam serves to ground the research in existing theoretical frameworks and empirical studies. Key works referenced in the literature review provide insight into the historical context of FDI, determinants, barriers, and sector-specific analyses. This academic literature forms the theoretical foundation for the research questions and methodologies employed.

Surveys and Interviews:

- **Industry Surveys:** Surveys conducted among Australian investors operating in Vietnam provide first-hand insights into their experiences, challenges, and perceptions of the investment climate. These surveys are designed to gather quantitative data on investor sentiment, perceived barriers to entry, and sector-specific opportunities.
- **Semi-Structured Interviews:** Qualitative data from semi-structured interviews with key stakeholders, including representatives from the Australian Chamber of Commerce in Vietnam, Vietnamese government officials, and business leaders, offer nuanced perspectives on the FDI landscape. This method allows for flexibility in responses while ensuring that key topics of interest are covered.

3.2. Proposed method

The methodology employed in this research is a mixed-methods approach, integrating both quantitative and qualitative analyses to provide a comprehensive understanding of the current state of FDI in Vietnam and formulate actionable recommendations.

Quantitative Analysis:

- **Statistical Analysis:** Statistical techniques are applied to analyze trends in FDI inflows into Vietnam over the past two decades. This includes descriptive statistics to summarize data on

FDI by sector, country of origin, and regional distribution. For instance, statistical tools like regression analysis may be used to explore the relationship between FDI inflows and key economic indicators such as GDP growth, employment rates, and export performance.

- **Time Series Analysis:** Time series analysis is employed to identify patterns, trends, and correlations over time. This allows the study to assess the impact of macroeconomic factors and regulatory changes on FDI inflows. For example, seasonal variations in investment patterns may be analyzed to determine the influence of specific policies or economic events.

Qualitative Analysis:

- **Thematic Analysis:** Qualitative data collected from surveys and interviews are subjected to thematic analysis to identify common themes and patterns regarding the challenges faced by foreign investors in Vietnam. The process involves coding the data and categorizing responses into key themes, such as regulatory challenges, market opportunities, and support mechanisms.
- **Case Studies:** Selected case studies of successful Australian FDI projects in Vietnam are examined to illustrate best practices and the factors contributing to successful investment outcomes. These case studies provide practical examples that can inform future investments and policy recommendations, showcasing the strategies employed by companies that have navigated the Vietnamese market effectively.

Policy Analysis:

- An analysis of existing policies and regulatory frameworks governing FDI in Vietnam is conducted to identify gaps and areas for reform. This involves reviewing relevant legislation, government initiatives, and the implementation of international agreements such as the CPTPP. The analysis also includes assessing how well these policies align with the needs of foreign investors and the effectiveness of their implementation.

Comparative Analysis:

- Comparative analysis is utilized to assess Vietnam's FDI performance against that of other Southeast Asian countries. This approach helps identify best practices and lessons learned from countries that have successfully attracted FDI. By benchmarking Vietnam's performance against countries like Thailand, Malaysia, and Indonesia, the study can highlight areas where Vietnam can improve its competitiveness in attracting foreign investment.

4. Obtained results and discussion

4.1. Strengths of Vietnam's FDI Environment

Vietnam's political and economic stability, along with robust market growth, makes it an attractive destination for Foreign Direct Investment (FDI). The country has experienced consistent GDP growth, positioning it as one of Southeast Asia's fastest-growing economies. Australian investors are particularly drawn to low labor costs and access to a large consumer base in sectors like retail, education, and agriculture.

With a median population age of around 30 years, Vietnam offers significant market opportunities. The government's effective response to the COVID-19 pandemic has further boosted investor confidence by maintaining economic activities while controlling the virus. Consequently, businesses view Vietnam as a safe and stable environment for long-term operations, presenting favorable conditions for investment and growth.

4.2. Challenges for Australian Investors

Despite Vietnam's appeal, Australian investors encounter several challenges. Common issues include administrative bottlenecks, such as slow bureaucratic processes, inconsistent law enforcement, and corruption, which lead to higher operational costs and extended project timelines. Newcomers often struggle to navigate local regulations and compliance requirements without local expertise.

Additionally, while Vietnam's tax system is improving, it remains complex and inconsistent, presenting significant hurdles. Investors report difficulties with tax refunds and unclear tax exemption policies, along with frustrations over frequent regulatory changes that require constant adaptation for compliance. The lack of transparency in tax regulations can result in misunderstandings and unintentional violations, complicating efforts to establish stable operations.

4.3. Opportunities and Challenges for Australian FDI

A significant challenge for Australian companies in Vietnam is the shortage of skilled workers, particularly in high-tech and managerial roles. This skills gap makes it difficult to recruit adequately trained personnel in sectors like engineering and IT, hindering business growth and the overall competitiveness of Vietnam in attracting high-tech investments. Increased reliance on expatriates raises operational costs and can create cultural divides in the workplace due to differing management styles and expectations.

Vietnam's education and training systems are struggling to keep pace with rapid technological advancements, worsening the skill shortage. There is an urgent need for targeted training programs and partnerships between educational institutions and businesses to cultivate a workforce that meets modern economic demands. Addressing these labor challenges is essential for creating a favorable environment for Australian investors and ensuring sustainable economic growth in Vietnam.

Opportunities from Trade Agreements

Vietnam's involvement in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) presents new opportunities for Australian investors. These agreements offer broader market access, especially in services, education, and technology-intensive industries, while highlighting Vietnam's commitment to global economic integration. By reducing tariffs on various goods and services, these FTAs improve the competitive landscape for Australian exporters and businesses looking to invest in Vietnam.

Australian firms can leverage these trade agreements to benefit from lower tariffs and more transparent regulations in sectors where they excel, such as agriculture, healthcare, and financial services. Furthermore, the agreements promote collaboration in research and innovation, allowing Australian companies to partner with Vietnamese firms to create new products and services tailored to local markets.

Sectoral Opportunities

Several sectors present promising opportunities for Australian FDI:

- **Agriculture:** Vietnam's modernization of its agricultural sector presents opportunities for Australian expertise in high-tech farming and agribusiness. Investments in food processing and sustainable practices can yield high returns, especially as Vietnam seeks to enhance productivity and export capacity. The rising global demand for organic and sustainably sourced products aligns well with Australia's reputation for quality agricultural goods.
- **Renewable Energy:** With Vietnam's increasing demand for renewable energy, Australian investors can find opportunities in wind, solar, and energy storage technologies. The Vietnamese government aims to boost renewable energy's share in its energy mix, creating a favorable environment for Australian companies to form partnerships and invest in large-scale projects. Joint ventures in innovative energy solutions, such as smart grids and energy efficiency technologies, are also viable.
- **Education:** Australia's education sector can leverage the growing demand for high-quality tertiary and vocational training in Vietnam. With a rising middle class and emphasis on education, there is significant interest among Vietnamese students in international education. Australian institutions can collaborate with local universities to establish joint programs and address local workforce needs through specialized training in fields like technology, healthcare, and business management.

Challenges in Capturing FDI Potential

Despite the promising opportunities, Australian investors encounter significant challenges in Vietnam's regulatory environment. Key issues include four following aspects. First, regulatory complexity: Navigating Vietnam's complex legal landscape can deter investors due to inconsistencies in regulations and enforcement, leading to uncertainty. Second, administrative inefficiencies: The investment process is complicated by bureaucratic hurdles and a lack of developed infrastructure and support industries. Third, logistical challenges: Inadequate cold chain logistics in agriculture hinder the efficiency of food production and export, leading to increased costs and spoilage, which affects competitiveness. Lastly, cultural and

language barriers: Differences in culture and language can complicate the formation of local partnerships and understanding of consumer preferences.

To successfully capitalize on FDI opportunities, Australian investors must invest in building relationships with local stakeholders, grasp market dynamics, and adopt a flexible approach to adapt to the changing business environment.

4.4. Current status of Australian FDI in Vietnam

Australia is one of the countries with the largest foreign direct investment in the world. During the period 2016-2020, Australia's foreign direct investment increased continuously, with an average growth rate of 8.6%/year. Accumulated to 2020, Australia was the 15th largest foreign direct investor in the world, with foreign investment value reaching 627.3 billion USD, accounting for 1.6% of the world's total FDI investment (Australian Department of Foreign Affairs and Trade, 2021). Australia's main FDI investment markets are the US, UK, EU, New Zealand, Canada, China, ASEAN...

ASEAN region has always been in the top of Australia's largest FDI investment destinations with investment value increasing continuously during the period 2016-2020 (except 2018). In 2020, Australia's total FDI in the region was US\$1.9 billion (accounting for 19.5% of Australia's total foreign direct investment), ranking 2nd among the markets attracting the most FDI from Australia - up 3 places compared to the 5th position in 2019 (Australian General Statistics Office, 2021). In ASEAN, the countries attracting the largest FDI from Australia are Singapore, Malaysia, and Indonesia.

Vietnam ranked 4th among the destinations of Australian FDI in the ASEAN region in 2019, but the investment value is still very limited. According to the General Statistics Office of Vietnam, Australia's FDI capital in Vietnam in the period 2010-2020 fluctuated unevenly. Specifically, in the 2010-2016 period, after the ASEAN - Australia/New Zealand Free Trade Agreement (AANZFTA) took effect in 2010, Australian FDI capital in Vietnam tended to increase, reaching a record in 2016 with a total value of newly granted and adjusted capital of 323.1 million USD. However, the investment value in the following years fluctuated sharply, falling sharply in 2017 and 2018, recovering slightly in 2019 (possibly due to the positive effect of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership - CPTPP coming into effect in early 2019 with Vietnam), but falling sharply in 2020 (partly due to the impact of the global COVID-19 pandemic). Figure 1. Show the investment capital from Australia to Vietnam in the period 2010-2021.

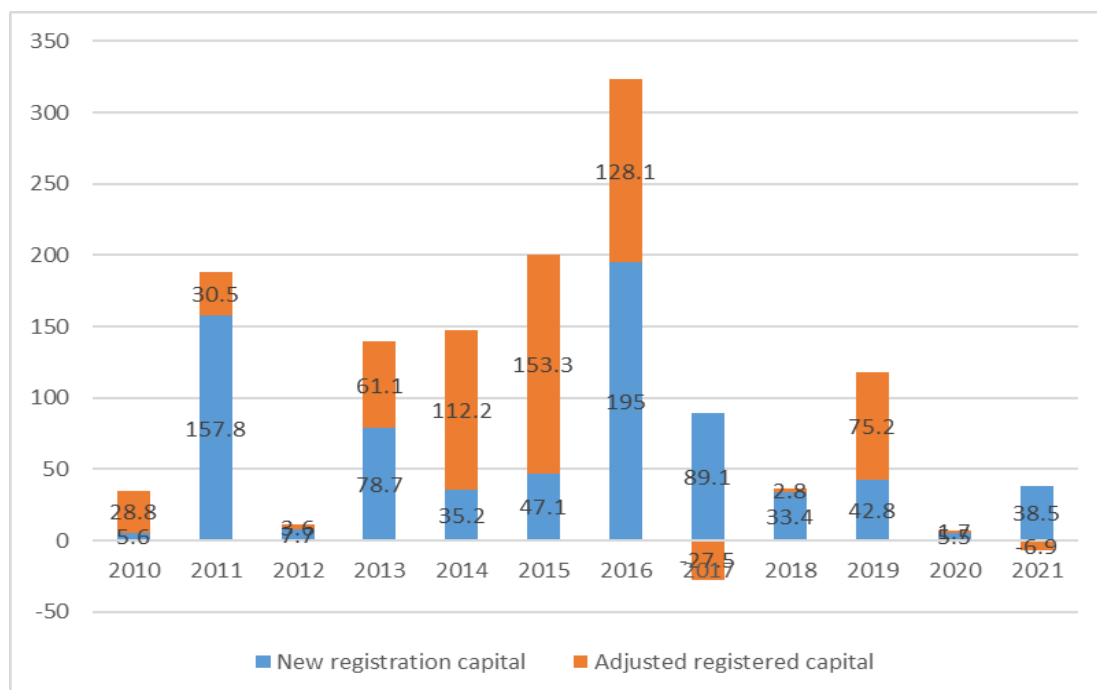


Figure 1. Investment capital from Australia to Vietnam in the period 2010-2021 [5]
(Unit: million USD)

(Source: Foreign Investment Agency - Ministry of Planning and Investment, 2021)

However, the situation has improved somewhat in 2021. In the first 11 months of 2021, there were 30 new projects of Australian investors in Vietnam with a total capital of 38.5 million USD - close to the level of new capital attraction in 2019. However, during this period, 8 Australian enterprises adjusted their capital, with the total adjusted capital decreasing by 6.9 million USD - showing that the pandemic has also forced some Australian enterprises to reduce the scale of production and business in Vietnam.

As of November 20, 2021, Australia has invested in 545 projects in Vietnam with a total value of 1.94 billion USD, accounting for about 0.5% of the total registered FDI capital in Vietnam. With that result, Australia is the 19th largest foreign investor in Vietnam, behind many partners that do not even have an FTA with Vietnam such as Taiwan, the United States, Switzerland... The average value of an Australian investment project in Vietnam is 3.56 million USD, much lower than the average value of an FDI project in Vietnam of 11.8 million USD. Part of the reason may stem from the fact that the majority of Australian FDI enterprises in Vietnam operate in the service sector - a sector that does not require large investment capital like the manufacturing sector.

Regarding the investment capital structure in the period 2010-2021, the total FDI capital from new FDI projects in Australia is nearly equal to the total adjusted capital from ongoing projects, in contrast to the general FDI structure of Vietnam (the amount of newly granted capital is always 2-3 times higher than the adjusted capital). This fact shows that Vietnam has not attracted many new investors from Australia (the average annual increase in investment capital still depends on about half from the expansion of investment in existing projects in Vietnam) despite convincing existing investors to continue investing.

Structure of FDI investment from Australia to Vietnam by economic sector.

Similar to the general trend of FDI investment in Vietnam, the amount of investment capital from Australia is also most concentrated in the processing and manufacturing industry - accounting for nearly half (47.2%). A typical example in this industry is the Bluescope Steel Group, which entered Vietnam in 1993 and is currently the largest Australian investor in Vietnam with an investment value of up to 105 million USD. In addition to the processing and manufacturing industry, about half of Australia's remaining FDI capital in Vietnam is dispersed in many different industries, including: accommodation and food services (8.1%), construction and real estate (7.1%), agriculture, forestry and fisheries (6.4%), healthcare (6.1%), mining (5.9%), arts, entertainment and recreation (5.5%), education and training (4.1%) Notably, with a proportion of 6.4% in total FDI capital, Australia is one of the countries with a significant investment rate in the agriculture-forestry-fishery sector in Vietnam (the overall rate is less than 1%).

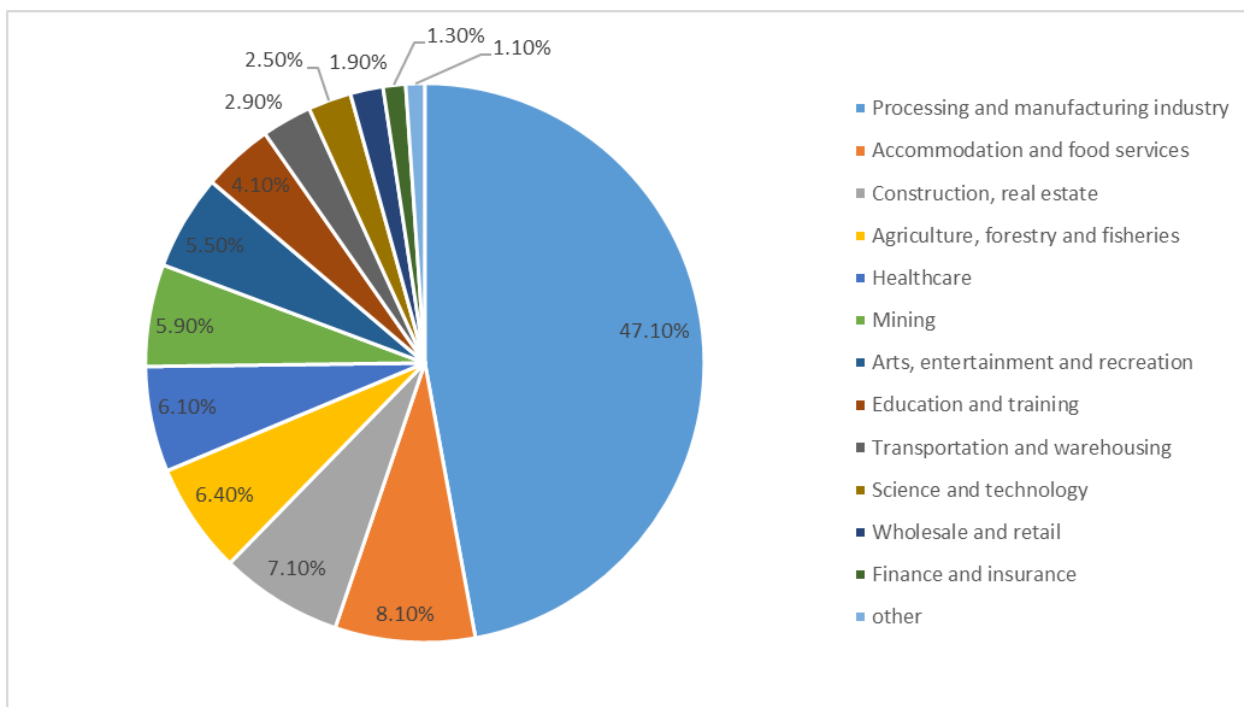


Figure 2. Australian FDI capital structure in Vietnam by industry [6]

(Source: Australian Department of Foreign Affairs and Trade, 2019)

However, in terms of investment projects, the main investment sectors of Australian businesses in Vietnam are in the service sector. According to the 2021 business survey of the Australian Chamber of Commerce in ASEAN (Auscham ASEAN), Australian businesses in Vietnam responding to the survey operate in the education and training sector with the highest proportion (28), followed by entertainment hotels (20%), professional services (16%), manufacturing industry (16%), and agriculture (8%). Notably, these proportions have not changed significantly in the results of the annual survey over the past 6 years of Austcham ASEAN. Compared to the structure of Australia's investment abroad, the structure of investment in Vietnam has significant differences. According to OECD data, in 2019, the three sectors with the largest proportion, accounting for 68% of Australia's foreign investment capital, were processing and manufacturing (24%), financial services and insurance (23%), and mining (21%). Other sectors accounted for only small proportions such as real estate (2.31%), healthcare (1.2%), retail (1.15%), construction (1.08%)... This difference may be due

to the fact that Australia's largest FDI investment destinations are developed countries such as the EU and the US, which have different industry structures, market demands, and investment attraction trends than a developing country like Vietnam. This also shows that the investment space in Vietnam with Australia's strong industries is still very large, with much potential for development in the coming time. Figure 2. shows Australian FDI capital structure in Vietnam by industry.

The above results are due to favorable business environment factors that have helped Vietnam attract foreign investors.

Vietnam is one of the 20 largest destinations for FDI flows in the world in 2020. In the ASEAN region, for many years, Vietnam has only been behind Singapore and Indonesia in attracting foreign investment. This achievement is because Vietnam has more favorable conditions than its competitors in the region and the world for foreign investors. According to the 2020 PCI Survey, the 5 most favorable factors of Vietnam's investment environment are generally considered by foreign investors to be better than other countries they have considered investing in: More stable politics, Lower policy instability, Lower risk of business premises being revoked, Lower taxes, and Higher ability to influence policies. For Australian investors, the responses from surveyed businesses show that they share the same opinion as the majority of other foreign investors in Vietnam about the more favorable factors of Vietnam's investment environment compared to other countries, which are more stable politics (100% of businesses responded in agreement), lower risk of having their production and business premises revoked (71% agreed) and lower policy instability (57% agreed). In addition, Australian businesses also highly appreciate Vietnam for two other factors: lower labor costs (86% agreed) and better ability to respond to environmental/health emergencies (71% agreed)

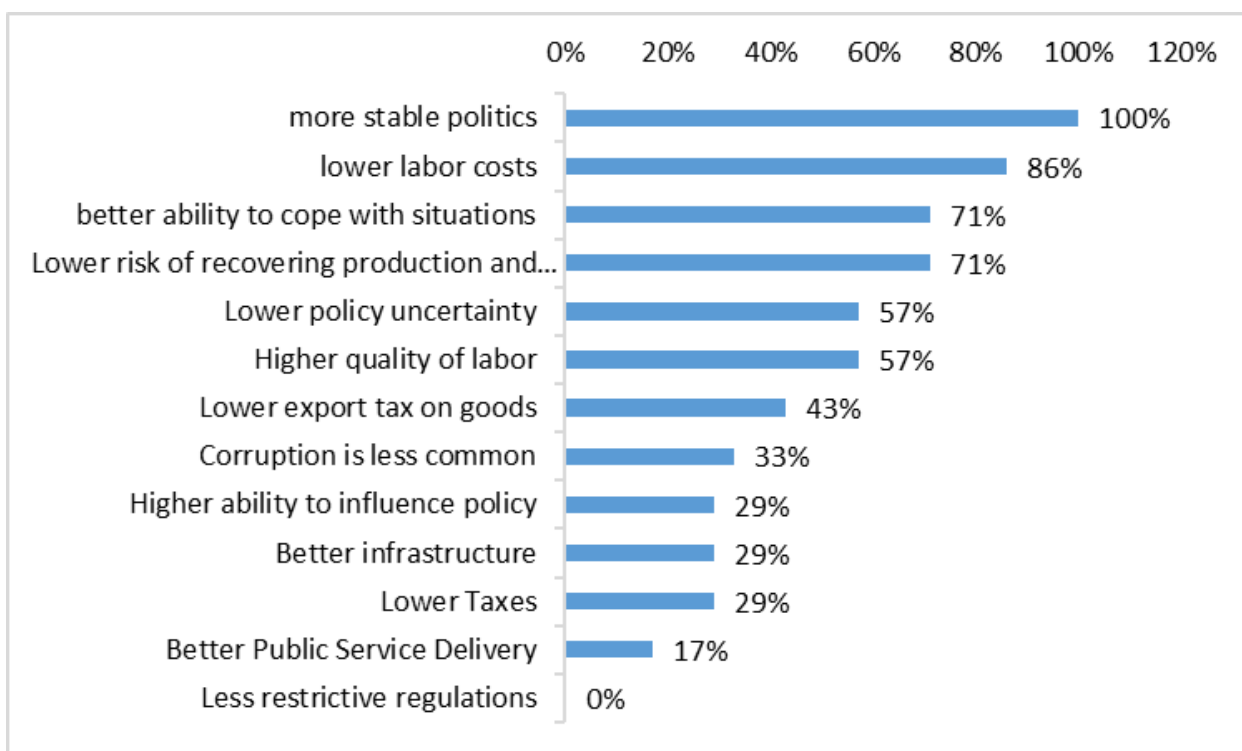


Figure 3. Factors attracting capital from Australian FDI enterprises [7].

Low labor costs have always been one of Vietnam's advantages in the eyes of foreign investors. Although Vietnam's average labor costs have increased in recent years, they are still lower than those of some countries in the region, especially in some areas where Australia has a lot of FDI in Vietnam such as services and agriculture. Perhaps for this reason, the percentage of Australian investors choosing "Labor costs" is higher than the general percentage of foreign investors in Vietnam. In addition, Vietnam's good control of the COVID-19 pandemic in 2020 (PCI survey conducted in mid-2020) [8] also made Australian investors appreciate and consider this as one of the favorable factors they consider when investing in Vietnam. Figure 3. Shows factors attracting capital from Australian FDI enterprises.

5. Conclusion

Vietnam's foreign direct investment (FDI) environment offers significant opportunities for Australian investors, particularly through new-generation Free Trade Agreements (FTAs) such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). These agreements have positioned Vietnam as an increasingly attractive destination for FDI, providing access to a large and dynamic market while lowering tariffs and non-tariff barriers.

However, to fully capitalize on these opportunities, Vietnam must address key challenges that hinder investment. These include bureaucratic inefficiencies, pervasive corruption, and a notable lack of skilled labor in various sectors. Bureaucratic hurdles can delay project approvals and complicate business operations, discouraging foreign investors. Moreover, corruption can create an uneven playing field, undermining the competitiveness of honest businesses and damaging the overall investment climate. The scarcity of skilled labor, particularly in high-tech and specialized sectors, limits the potential for Australian investors to operate effectively and innovate within the Vietnamese market.

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