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THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT (FDI) FROM KOREAN ENTERPRISES TO HAIPHONG CITY

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Received: 18th July 2022  
Revised: 25th September 2022  
Accepted: 18th October 2022

In recent years, The Foreign Direct Investment (FDI) inflow of Korean enterprises into Haiphong is always considered as an important part in the social – economic developing strategies of the city. International groups, such as LG, Samsung... have considered their industrial bases in this country as extremely important nodes of global supply chain strategies. Haiphong, Thai Nguyen and some other provinces have been attractive places to set up business. The Haiphong city has many advantages of geography, transport connection, social stability but it needs to have more efforts to improve the inflow of foreign direct investment, especially from Korean enterprises. The article is going to focus on finding the determinant factors of FDI from Korean enterprises to Haiphong city by; first, analyzing relevant literature to construct theoretically a list of factors that affect the capability of attracting FDI, and then, carrying out the expert interviews to draw conclusions. The research results can be applied in further studies to further promote foreign direct investment in Haiphong as well as can be used by management level of the city in decision making and planning.

Keywords: Haiphong, foreign direct investment, competitive advantages, determinants

JEL Classifications: F21, O10, R10

DOI: 10.54404/JTS.2023.11.01.04

1. Introduction

Currently, Vietnam has been emerging as one of the top open and fast growing economies in the world (The World Bank, 2019). Regarding the determinant factors, those achievements have been largely attributed to the foreign-invested sector. The process of attracting foreign investment to Vietnam from the year 1986 up to the present has been divided into three periods in accordance with the country’s socioeconomic development strategy as follows: the first period is from 1991 to 2000; the second one is from 2000-2010; and the third one is from 2011 to 2020 (Editorial board of Vietnam Foreign Investment Annual Reports, 2021). Impressively, the third period, from 2011 to 2020, was marked as the turning point of the FDI sector in Vietnam, which experienced improvement both in quantity and quality. Particularly, in the second half of this period, from 2016 to 2020, FDI inflows to Vietnam increased significantly, with an annual
average of 15 billion USD as a result of the government efforts in the business environment and competitiveness improvement. From the statistics of The Ministry of Planning and Investment as to the end of 2021, Korea continued to be the leading foreign investor in terms of the number of projects and total registered investment capital in Vietnam. The followers are, correspondingly, Japan, Singapore, Taiwan (China), and Hong Kong (China)… According to The Ministry of Planning and Investment, the ranking of the top 10 cities in FDI attraction marked the great progress of Haiphong from 6th place in 2019, and 2020 to 1st in 2021 with a total registered capital of 5.262 million USD, which accounted for 17% of the total FDI of the country. In the ranking of the top industrial areas in FDI attraction, Haiphong ranked fourth place in the country after Dong Nai, Binh Duong and Bac Ninh.

The FDI from Korean enterprises to Haiphong city is one of the important determinants in the implementation of the city’s socio-economic development strategy. However, there are concerns arising from the disruption of the global supply chain as a consequence of the Covid-19 pandemic, political and military conflicts among the world’s great economies, and the law of U-turn which make Korean investors being more considerate to re-shore their business and plants to local or near their motherland. Haiphong, although, has a relative advantage in geographical position in socio-economic development by connecting transportation and trade hubs, there is an urgent need to attract more foreign capital to the city, especially from Korean enterprises. This paper is going to focus on finding the determinant factors of FDI from Korean enterprises to Haiphong city by, first, analyzing relevant literature to construct theoretically a list of factors that affect the capability of attracting FDI, and then, carrying out the expert interviews to draw conclusions. The results of the study will play an important role in future works, and policy-making of local authorities to promote FDI in Haiphong as well.

2. Literature review

Determinants of Foreign Direct Investment (FDI) have been studied for years in different areas. For developed countries such as United Kingdom (Driffield, 2002), Dunning (1958)), United States of America (Vernon (1971), Graham and Krugman (1989), Dunning (1994)), Austria (Brash, 1966), Brazil (Eduarda et al, 2017), Canada (Safarian, 1966), Eastern Asia and Latin America (Zhang, 2001), Norway (Stonehill,1965), New Zealand (Dean, 1970), Netherland (Stubenisky, 1970), Spain (Galan (2001), Galan et al (2007)), Singapore (Mirza, 1986), the determinants are political stability, liberalized trade regime, pricing policy or level of economic activities. For developing countries such as India (Kumar (1990), Dhir and Sidhu (2011), Adhana (2016)), Malaysia (Athukorala and Menon, 1995), Thailand (Brahma and Jiranyakul, 2001), China (Zhou et al (2002), Ali and Guo (2005), Na and Lightfoot (2006), Pheng and Hongjin (2006), Fei (2009), Lv et al (2010), Boermans et al (2011), An (2012), Liu et al (2012)), Pakistan (Khair et al, 2006), Sri Lanka (Don, 2007) and some others (Shahmoradi and Baghbanyan (2011), Anyanwu (2012), Campell et al (2012), Hang et al (2012), Husmann and Kubik (2019)), important factors to attract FDI are possession of intangible assets, internationalization of production, real income, special economic zones and opening coastal cities, market size, GDP growth rate, the progress of reform, physical infrastructure, financing constraints, institutional problems, labor cost, trade openness, exchange rate, market potential and geography. In the case of Vietnam, sub-national institutional variables, market size, reforms in FDI policies and investment climate, infrastructures, trade openness, labor costs have been noticed by Meyer and Nguyen (2005), Hoang (2006), Le (2007), Tran (2008), Dinh (2009), Ho (2010), Phan (2011), Bui (2011), Hoang (2013), Le and Nguyen (2013), Nguyen et al (2013), Tran (2014), Ngo et al (2017). Other authors including Nguyen (2010), Nguyen (2013), Nguyen (2014), Vu (2018) performed studies to examine determinants of FDI flows to Vietnamese provinces or regions and concluded attracting FDI policies, geography, natural resources, economical and social stability and development, local planning, physical infrastructures, labor quality, public service quality and regional connection. Introduced in 2005, the Provincial Competitiveness Index (PCI) on Vietnam’s business environment conducts an annual...

3. Analysis on the current situation of FDI inflow from Korean enterprises to Haiphong city

Haiphong is a seaport city, located in the East of the North Coast region, with an area of 1.523.4 km². Haiphong has a critical position in the traffic network both on domestic and international routes, through a system of road, railway, sea, river, and air transport. Haiphong Port, developed quite early, is one of the country’s major ports, a gateway to economic exchange, integration, and cooperation with other countries in the region and around the world. With a highly convenient transport and seaport system, Haiphong has been attracting foreign investors in terms of saving costs for transporting goods and industrial products. In addition, Haiphong has been identified as a growth polar of the northern economic region including Hanoi - Haiphong - Quangninh, an important link in the route of “two corridors, one economic belt of Vietnam - China”; and a significant role in the expansion and promotion of foreign trade efficiency for northern provinces. In recent years, Haiphong has been on top of Vietnam in terms of GRDP growth rate (Table 1).

In 2021, Korea ranked 2nd among 106 countries and territories in terms of total FDI invested in Vietnam and is the leading country in terms of the number of new investment projects as well as capital-adjusted projects. In Haiphong, particularly, the city has attracted 171 FDI projects from Korea with a total registered capital of 9.56 billion USD, which accounts for 36.6% total FDI of the city. The industrial zones and economic areas, solely, have attracted 102 projects with a total investment capital of 8.5 billion USD. Typically, the project complex of LG Group has invested 7.24 billion USD in the Trang Due industrial park, bringing approximately 25 thousand jobs for local laborers and 14.5 billion USD of revenue in 2021, from which it contributed more than 95 million USD to the budget. Figure 1 presents the FDI inflow from Korean enterprises to Haiphong city from 2010 to 2021. It can be seen that except the peaks of capital registered and number of project in 2016 and 2018, respectively, the Korean FDI inflow to Haiphong city has not recorded a clear upward trend in the last 10 year period. Considering the important role of attracting foreign investment in the city’s economic development, Haiphong, however, has a selective view in choosing FDI projects with top criteria being efficiency, advanced technology, environmentally friendly, innovative products, and large-scale invested capital projects from large companies and corporations to create motivation and vibrant effect to the local industries.

4. Determinants of foreign direct investment from Korean enterprises to Haiphong city

In total, 10 stakeholders including managers from Korean enterprises in Haiphong and other provinces, Haiphong Economic Zone Authority

<table>
<thead>
<tr>
<th>Table 1: Top 5 Vietnamese provinces with fastest GRDP growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2018</strong></td>
</tr>
<tr>
<td>Ha Tinh</td>
</tr>
<tr>
<td>Hai Phong</td>
</tr>
<tr>
<td>Bac Giang</td>
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<tr>
<td>Thanh Hoa</td>
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<tr>
<td>Quang Ninh</td>
</tr>
</tbody>
</table>

Source: General Statistics Office of Vietnam (2022)
HEZA), Haiphong Government and scholars in the given research field have been interviewed independently. All the interviewees are managers at senior level with more than 10 years of experience in the field of FDI. The interviews have been carried out by direct method to assure the most accurate understanding both ways. A list of questions based on predefined determinants summarized from previous studies to verify and identify important factors to investors’ decision making process. Furthermore, interviewees were also asked to freely propose opinions for other potential determinants which not be included in the list.

**Figure 1: Korean FDI inflow to Haiphong in capital registered and number of project**

**Table 2: Questions to interviewees**

<table>
<thead>
<tr>
<th>No.</th>
<th>FDI Determinants</th>
<th>Explanation</th>
<th>Yes</th>
<th>No</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Geography</td>
<td>Advantages of province’s location to import/ export</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Social and political Stability</td>
<td>To assure safe and smooth operation of factories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Local government’s Policies</td>
<td>Efforts of local government to support foreign enterprises in different aspects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Human resources</td>
<td>The availability of manpower to meet demand of factories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Labor cost</td>
<td>Average monthly salary, bonus or support for labor</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Infrastructures in industrial parks</td>
<td>Availability and quality of physical infrastructures offered to foreign investors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Supporting industries</td>
<td>Capabilities of local factories in supplying materials, components…</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Other determinants</td>
<td>and comments</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
It is founded that the two factors Social and Political Stability and Labor cost are not considered important to attract FDI inflows from Korean investors to Haiphong city.

A manager of a Korean enterprise said that:

... Vietnam is a safe and stable country. Social and Political Stability might be important when we decide place for investment in national or regional level. When we decide to invest to a specific province, this factor is not very critical, especially in the case of Vietnam...

Labor cost which was highly recommended by number of previous research is denied as determinants of FDI inflow to Haiphong city. It is explained by a manager from Haiphong Economic Zone Authority:

... Actually, labor cost in Haiphong is one of the highest in Northern Vietnam compared with almost other provinces but Haiphong is still on top of FDI competitiveness last year. Labor cost is not a decisive factor from perspective of Korean investors, many other factors are much more important...

Instead of labor cost, a Korean manager suggests further details for the Human resources:

... local population might be critical to meet high demand on unskilled working in factories today, but day by day; high quality manpower is more important to investors. Provinces where there are high ranked universities and colleges are more attractive...

All the other factors are considered important by all the interviewees with some comments. A scholars who have long time doing research in international trade and foreign investment mentioned Geography as follow:

...Haiphong has an absolute advantage of geography. Haiphong port is the most important international gateway in Northern Vietnam which makes import and export process more efficiently. Noi Bai airport is another advantage for surrounded provinces but the volume of containerized cargoes carried by sea is much higher. Haiphong, therefore, should sharpen this advantage to maintain its competitiveness in long term...

The suggestion of the scholar is very similar to the Korean manager who suggest the role of logistics centers connected to Haiphong seaport in order to offer more value added services and saving logistic cost for factories' imported, exported cargo flow:

...current logistics centers in Haiphong have not met expectation of Korean investors. The volume of our imported, exported containers is huge but lack of place connected to seaport for storage, custom clearance, packing & packaging, insurance. Haiphong government has planned for new terminals in Southern Do Son area and airport in Tien Lang district. Logistics centers which have good connection to those nodes would be beneficial for factories...

Supporting industries are agreed by all interviewees as the weakness of not only Haiphong but all the other provinces in Vietnam. It is recommended that foreign investors will pay much attention to the place with better supporting industries. A senior government officer from Department of Trade and Industry provide further details:

...Korean factories in Vietnam are now importing supplies from China and Thailand due to the lack of local supporting industries capabilities. If Vietnamese factories are improved to meet the international demand, they will be the first choice of Korean partners, especially in the context of the pandemic...

Haiphong is also highly appreciated by Korean investors in terms of Local government’s policies. Further explanation has been provided:

...Haiphong government officers have good English communication. They are always very active in discuss and negotiate with foreign enterprises for accurate understanding and timely solutions. Many Korean investors have been persuaded by Haiphong government efforts. However, in order to secure a long term development, the importance is political stability and transparency...

Some other factors are suggested by few of interviewees, for example: living expenses, living environment, health care services, food or cultural similarity... To finalize all the experts' opinions, determinants of FDI from Korean enterprises to Haiphong city are concluded as follow:

5. Conclusion

The paper has studied number of both international and Vietnamese previous research for theoretical background before interviewing experts from various sectors. It also has synthesized domestic and foreign studies to determine the competitive advan-
Table 3: Determinants concluded based on experts’ opinions

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<th>Explanation</th>
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<td>1</td>
<td>Connection to terminals</td>
<td>Distance to air/maritime terminals and availability of effective logistics facilities</td>
</tr>
<tr>
<td>2</td>
<td>Local government’s policies</td>
<td>Supportive policies and collaboration of public officers to attract FDI inflow</td>
</tr>
<tr>
<td>3</td>
<td>Local government’s political stability and transparency</td>
<td>To secure investors’ long term strategies</td>
</tr>
<tr>
<td>4</td>
<td>Human resources</td>
<td>The availability and quality of manpower</td>
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