EXPERIENCES OF SELECTED COUNTRIES IN FORMULATING AND IMPLEMENTING FDI ATTRACTION POLICIES ORIENTED TOWARDS SUSTAINABLE DEVELOPMENT

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Abstract: ***The need to adjust Vietnam's foreign direct investment (FDI) attraction policies towards a sustainable orientation has become increasingly urgent. Over the past years, Vietnam has attracted a significant volume of FDI; however, the quality of FDI remains modest as most investments continue to concentrate in labor-intensive and resource-intensive sectors, while the proportion of high-technology and environmentally friendly projects is still low. Moreover, many FDI projects have caused serious environmental problems, such as water and air pollution and the degradation of natural resources, posing major challenges to sustainable development. At the same time, the social impacts of FDI also require careful consideration, as some foreign-invested enterprises have failed to ensure labor rights, thereby exacerbating income inequality and exerting pressure on the domestic labor market. These issues necessitate a new approach to FDI attraction that not only focuses on the quantity of capital but also emphasizes the quality and sustainability of investment projects. Accordingly, this article outlines the experiences of selected countries, namely China and Thailand, in formulating and implementing FDI attraction policies oriented towards sustainable development.***

• Keywords: *FDI attraction policy, sustainable development, FDI capital.*

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Problem Statement

The increasing orientation of enterprises and projects towards foreign direct investment (FDI) sources that deliver positive environmental objectives and impacts has become critically important in the current context. Vietnam's overarching goal has always been long-term sustainable development, in which economic growth goes hand in hand with environmental protection. This trend, together with practical issues that have emerged after 35 years of FDI attraction, has been concretized by Vietnam in numerous national policies and strategies on green growth and climate change adaptation. At the 2021 United Nations Climate Change Conference, Prime Minister Pham Minh Chinh committed that Vietnam would strive to achieve net-zero emissions by 2050, reflecting the Vietnamese Government's strong commitment and strategic vision to the international community regarding green growth. Consequently, Vietnam is shifting its strategies and policies to attract FDI inflows that support sustainable activities and minimize impacts on the natural environment. Although there have been numerous studies on FDI and its impacts on the environment, society, and economy, a research gap remains concerning policies for attracting FDI oriented towards sustainable development in Vietnam. Previous studies have primarily focused on the economic effects of FDI, such as contributions to GDP growth, job creation, or export promotion, while comprehensive assessments of FDI's impact on sustainable development are still limited. In particular, there is a scarcity of in-depth research comparing Vietnam's FDI attraction policies with those of other countries in the region to draw lessons and propose appropriate solutions. Therefore, learning from the experiences of selected countries in formulating and implementing FDI attraction policies oriented towards sustainable development is essential.

International Experiences

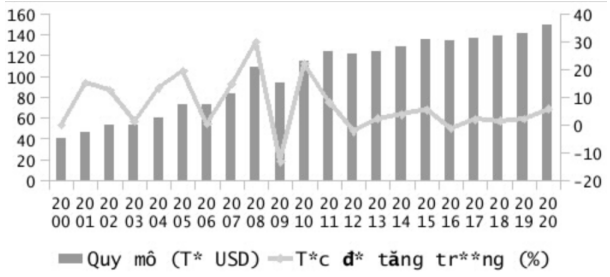
Experiences of China

In December 1978, the Third Plenum of the 11th Central Committee of the Communist Party of China marked a turning point in the country's foreign policy, initiating the policy of expanding relations with the outside world. From this period onward, China continued to vigorously promote its policy of attracting investment. In the initial phase (1979-1984), which was essentially exploratory, the volume of FDI inflows into China remained very low. During the period 1985-1989, China further

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pursued the policy of thoroughly utilizing previously attracted FDI sources while drawing lessons and significantly improving the investment environment. On 12 April 1986, the National People's Congress of China enacted the Law on Enterprises with Foreign Investment, and the Chinese Government issued new regulations in October 1986 to encourage foreign investment. In April 1990, China adopted the amended Law on Chinese-Foreign Equity Joint Ventures originally promulgated in 1979. In the same year, the State Council issued regulations to encourage investment by overseas Chinese and compatriots from Hong Kong, Macao, and Taiwan; it also introduced regulations encouraging foreign investment and granting income tax exemptions and reductions as well as investment fee relief for foreign-invested companies in the new Pudong District of Shanghai. As a result, during the period 1990-1994, China achieved remarkable success in attracting FDI. In the subsequent five years (1995-1999), FDI inflows into China continued to grow steadily.

Figure 1: FDI Attraction Process in China, 2000-2020



Source: UNCTAD (2021)

On 10 January 2002, China became a member of the World Trade Organization (WTO). Subsequently, China made rational adjustments and refinements to its FDI attraction policies. From the year 2000 onward, FDI inflows into China exhibited an upward trend. In recent years, China has consistently ranked among the top five economies worldwide in attracting FDI. In 2019 and 2020, despite the impact of global economic instability, the Covid-19 pandemic, and the US-China trade war, FDI flows into China continued to rise significantly. According to data from China's Ministry of Commerce, FDI in 2020 reached nearly 1 trillion CNY, representing a 6.2% increase compared to 2019. The number of newly registered foreign-invested enterprises reached 38,570, averaging approximately 100 new enterprises registered per day. According to the latest UNCTAD report, China's FDI inflows in 2020 stood at 149.34 billion USD, an increase of 1.3 billion USD compared to 2010 and 3.7 times higher than in 2000 (Figure 1).

The volume of registered capital and realized investment has consistently increased over the years; the scale of projects has become progressively larger and more aligned with China's modernization objectives. This demonstrates the effectiveness of this country's FDI attraction efforts. These outcomes have been achieved after more than 40 years of attracting and utilizing FDI, during which China has accumulated substantial successful experience.

(i) China has placed great emphasis on developing FDI attraction policies, actively amending and refining relevant laws to effectively attract and utilize this capital flow. In the period 1979-1986, China adopted three fundamental laws related to FDI: the Law on Chinese-Foreign Equity Joint Ventures, the Law on Chinese-Foreign Contractual Joint Ventures, and the Law on Wholly Foreign-Owned Enterprises. To ensure more synchronized and rigorous implementation of the laws, China consolidated these three laws into a new investment law known as the Law on Enterprises with Foreign Investment, enacted around April 1986. Through multiple rounds of revision and improvement, on 15 March 2019, the 13th National People's Congress of China promulgated the Foreign Investment Law of the People's Republic of China, which replaced the three aforementioned laws. After the new law took effect on 1 January 2020, the Foreign Investment Law has become the fundamental legal instrument governing China's investment diplomacy, protecting legitimate rights and interests, and attracting, encouraging, and safeguarding foreign investment.

(ii) China has made strenuous efforts to reform its business investment environment. Since 2013, China has begun piloting the establishment of free trade zones, applying global-standard management principles, and developing a legal framework to create a fair and competitive investment environment for both domestic and foreign enterprises, including government procurement activities. In terms of procedures, China has enhanced the transparency of documents, procedures, and regulations across various investment sectors to minimize abuse of power, bribery, and harassment by certain administrative officials. A more significant reform has been the encouragement of foreign investors to withdraw capital from China. This represents a major effort by the Government to substantially improve the investment environment and strengthen foreign investors' confidence in China's stock market. According to the World Bank (WB), China's ranking in the ease of doing business improved by 15 places, from 46th (in 2018) to 31st (in 2019).

(iii) China has established a rigorous legal framework regarding environmental standards and administrative procedures in attracting foreign investment to draw in clean FDI flows and ensure the promotion of sustainable growth. Although China does not maintain separate environmental standards exclusively for foreign investment, FDI investors are required to comply with China's environmental protection laws and regulations. Several policies and administrative procedures for managing and controlling FDI related to environmental protection, as stipulated in the Foreign Investment Law, have set out environmental protection requirements for each foreign investment project. These regulations prohibit investment in projects harmful to the environment, ban foreign investment in rare natural resources, or projects that damage the environment, threaten human life, or destroy natural resources. In addition, supplementary regulations include: the 1992 Circular guiding the management of construction projects with foreign investment; regulations on offshore petroleum resource exploitation involving foreign enterprises; the issuance of joint venture regulations in the construction and operation of projects under Part III of the Regulations on the Registration of Foreign-Invested Enterprises in China;

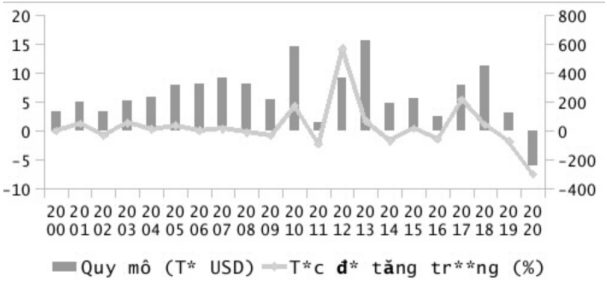
(iv) In response to the developments of the Covid-19 pandemic, the Chinese Government implemented swift measures to control the pandemic and endeavored to restore the production activities of enterprises, thereby creating conditions to attract foreign investment. The Chinese Government sought to revive all sectors of the economy on a long-term basis from the time the outbreak occurred around January–February 2020. As early as March 2020, China's Ministry of Commerce began discussions on amending and supplementing the catalogue of industries with restricted foreign investment and initiated the development of policies to support stable, long-term investment attraction. In April 2020, Shanghai issued 24 measures to promote FDI, including a series of proposed actions aimed at creating a favorable business environment. In Shanghai as well as Guangdong, Jiangsu, and Jiangxi provinces, many foreign-invested projects were implemented through online contract signing. Furthermore, provinces across China introduced supportive policies on taxation, finance, and land-use tax exemptions and reductions for all enterprises, particularly those with foreign investment.

Experiences of Thailand

Thailand has risen to become a leading economy in ASEAN after just a few decades of focused economic development. A significant part of these achievements stems from the Thai Government's effective exploitation of opportunities to attract FDI into the economy. The investment promotion plan adopted by Thailand in 1959 created favorable investment conditions for foreign investors relative to domestic enterprises. Although FDI inflows into Thailand remained modest in the initial period, from the mid-1980s onward, thanks to Thailand's export-oriented growth strategy, coupled with tariff reductions and significant growth in import-export turnover, FDI increased markedly. In addition, the 1985 Plaza Accord led to further increases in FDI inflows, resulting in the depreciation of the Thai baht (THB) against the US dollar and other Asian currencies. FDI flows into Thailand declined sharply due to the 1997 Asian financial crisis but gradually recovered in subsequent years, becoming a key driver of economic growth for Thailand. During the period 2000-2010, despite the 2007-2008 global economic crisis affecting Thailand more severely than other ASEAN countries (primarily Singapore and Malaysia), FDI inflows continued to rise, reaching a peak of 14.55 billion USD in 2010 - the highest level in that decade.

However, from late 2013 to 2015, prolonged political instability severely damaged Thailand's investment prospects. Therefore, in December 2014, to restore Thailand's attractiveness to FDI, the Thai military government issued a new strategy for the period 2015-2021. Thailand would focus on attracting FDI into manufacturing, research, and development sectors aligned with the goal of building a "digital economy" under the new strategy. FDI inflows into Thailand during 2014-2018 showed an upward trend. However, in 2019, capital inflows declined by 72.5%, and the situation reached its peak in 2020 when, for the first time since 2000, Thailand recorded a negative FDI of -6 billion USD as foreign investors withdrew capital (Figure 2).

Figure 2: FDI Attraction Process in Thailand, 2000-2020



Source: UNCTAD (2021)

In Thailand, attracting FDI continues to be regarded as one of the key driving forces of the economy. Although foreign capital inflows have declined due to geopolitical fluctuations, Thailand has consistently been viewed as a bright spot in FDI attraction by focusing on strategic sectors and implementing flexible policy adjustments, specifically as follows:

(i) The Thai Government promptly recognized the important role of FDI and timely promulgated policies to attract and utilize investment capital effectively, in line with each stage of the country's socio-economic development. Thailand implemented an import-substitution industrialization strategy during the period 1959-1971, with the guiding principle of reducing government investment while attracting private sector and FDI enterprises.

To pursue an industrialization-oriented national development strategy in the period 1972-1996, the Government introduced policies to attract foreign experts and high-quality human resources with incentives related to land and taxation. From 2005 onward, Thailand's FDI attraction policies underwent significant shifts toward encouraging domestic investors and promoting non-manufacturing business forms such as financial services. Among the sectors attracting FDI, the manufacturing sector has attracted the largest share (particularly high value-added manufacturing projects, high-technology, and environmentally friendly fields), followed by agriculture, services, and others. The FDI attraction strategy adopted in September 2014 focused on investment in high-technology, food processing, minerals, light industry, machinery, and transportation equipment sectors, aiming to draw additional FDI from both foreign and domestic investors.

(ii) To enhance appeal to foreign investors, Thailand has concentrated on improving investment procedures. The Government has reformed investment procedures toward greater simplicity, providing detailed guidelines to facilitate foreign investors, through the Investment Promotion Act which clearly defines the rights and responsibilities of all parties involved.

In addition, the country has emphasized the modernization and improvement of infrastructure to support international trade activities, with particular focus on developing road and rail networks, airport systems, ferry terminals, industrial clusters, and logistics facilities. Furthermore, the development of high-quality human resources has also been a priority for Thailand. To enhance workforce quality and improve operating conditions for foreign enterprises, the Government has placed special emphasis on investment in education and training.

(iii) To encourage and attract foreign investors, Thailand has regularly introduced investment incentive packages. In September 2019, the "Thailand Plus" incentive package was launched to promote foreign investment and large-scale projects in priority industrial sectors. Under this package, foreign enterprises investing in Thailand are eligible for up to 50% exemption on corporate income tax for five years, doubled incentives for investments in education, and an additional five-year corporate tax exemption for establishing new skill development facilities.

In September 2021, to attract new foreign investors, the Government approved a new support package and called for highly skilled foreign experts, thereby contributing to economic recovery after Covid-19. The granting of 10-year long-term residency visas in Thailand was one of the measures introduced to benefit investors and their family members. In addition, Thailand has offered numerous incentives such as the right to extend work permits, personal income tax exemption equivalent to that of Thai citizens, and reductions in income tax for non-Thai citizens who own land and housing, aimed at attracting wealthy investors and high-level foreign expert teams.

(iv) To develop and enhance the country's technological capacity, Thailand has actively promoted technology transfer through FDI projects. In each specific development phase, the Government has created favorable conditions for technology acquisition and transfer. Policies have focused on encouraging research and development investment, promoting environmentally friendly technology transfer, resource-saving technologies, and directing investment into priority sectors.

Moreover, the Government has implemented a technology transfer strategy through FDI projects in a sequential manner with clear sectoral and field priorities for each period. During 1960–1980, Thailand promoted technology transfer oriented toward welcoming FDI inflows, particularly from Japan and the United States. In the period 1981–1986, policies aimed at attracting FDI in machinery and electronics for export, while simultaneously developing domestic supporting industries. From 1986 to 1991, Thailand oriented toward serving agricultural development. During 1991–1996, technology transfer activities were directed toward high-technology fields to meet advanced production needs. Since 1997, technology transfer has been oriented toward sustainable development, such as clean energy technologies and

energy-saving technologies. Notably, Thailand has established a foundation for technology transfer and innovation up to 2026.

Lessons Drawn on Formulating and Implementing FDI Attraction Policies Oriented Towards Sustainable Development for Vietnam

In the context of deepening globalization and economic integration, attracting foreign direct investment has become one of the key drivers helping developing countries promote economic growth, create employment, and facilitate technology transfer. However, FDI attraction should not solely serve economic development objectives but must also be linked with sustainable development requirements to ensure harmony among economic, social, and environmental benefits. Drawing from the successful experiences of countries such as China and Thailand, Vietnam can extract many valuable lessons for developing and refining FDI attraction policies oriented towards sustainable development in the coming period. Specifically:

Firstly, perfecting a transparent and stable investment environment

A transparent, stable, and investor-friendly environment is a critical factor in attracting FDI. The experiences of Singapore and Thailand demonstrate that building a rigorous, consistent, and equitable legal system plays an important role in strengthening the confidence of foreign investors. Vietnam needs to continue vigorously advancing administrative reforms, simplifying investment licensing procedures, and eliminating unnecessary barriers to investment activities. In addition, the application of digital technology in administrative processes should be strengthened to reduce time and costs for businesses. Combating corruption and enhancing transparency in investment management will contribute to improving the reputation and attractiveness of Vietnam's investment environment on the international stage. Furthermore, Vietnam needs to develop a clear legal framework regarding the social and environmental responsibilities of FDI enterprises. The lesson from China shows that introducing strict regulations on environmental protection and close supervision of FDI enterprises' operations can help limit negative environmental impacts while directing FDI flows into sustainable development sectors.

Secondly, strengthening selective investment incentive and promotion policies

The experiences of Thailand and Singapore indicate that selective incentive policies play a significant role in attracting high value-added and environmentally friendly FDI projects. Vietnam should develop tax incentive programs, financial support, and tax exemptions for enterprises investing in areas such as renewable energy, clean production, high technology, and research and development. The development of eco-industrial parks and special economic zones with distinct incentives will create favorable conditions for attracting FDI inflows oriented towards sustainable development. Moreover, investment promotion activities need to be implemented strategically and flexibly. Vietnam can learn from Singapore in developing international investment promotion programs and establishing investment promotion representative offices in potential markets such as Europe, the United States, and Japan. At the same time, participation in free trade agreements and double taxation avoidance agreements will help enhance the country's ability to attract FDI from partner nations.

Thirdly, linking FDI with sustainable development and improving the quality of human resources

One of the important lessons from China and Singapore is the integration of FDI projects with sustainable development goals. Vietnam needs to establish legal regulations requiring FDI enterprises to comply with international environmental standards, while encouraging investment projects in environmentally friendly fields such as renewable energy, clean production, and green technology. Financial support policies and tax incentives can be applied to enterprises that commit to implementing environmental protection and community development initiatives. In addition, developing high-quality human resources is one of the decisive factors in attracting FDI oriented towards sustainable development. Singapore's experience shows that strong investment in education and human resource training can create a highly skilled workforce capable of meeting the needs of FDI enterprises in high-technology and innovation sectors. Vietnam should implement cooperation programs with FDI enterprises in training and developing human resources, while promoting scholarship programs and student exchange initiatives to enhance the qualifications and skills of the domestic workforce.

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