

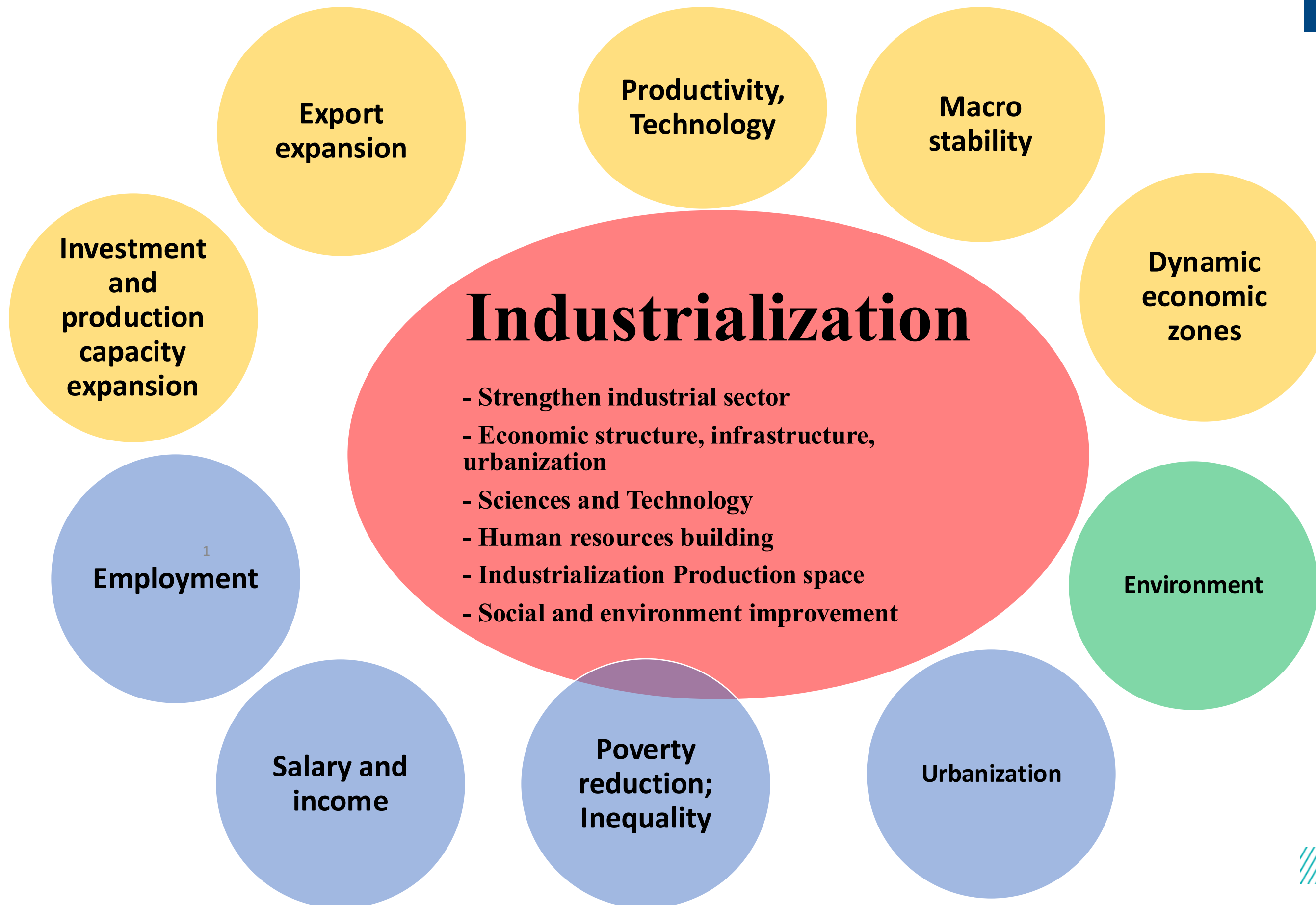


# How does FDI inflow contribute to industrialization in Vietnam?

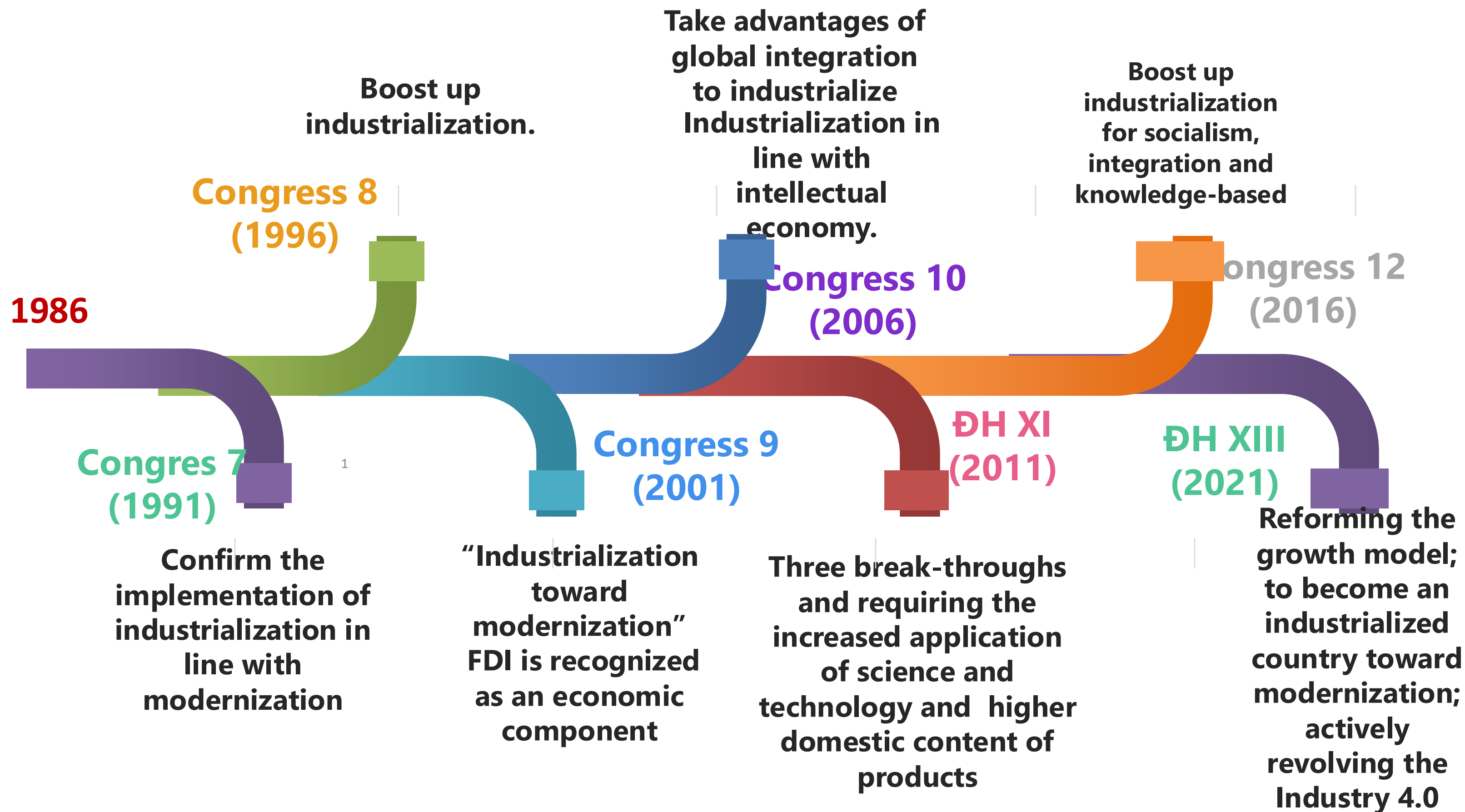
1

**Ha noi, 07/08/2025**

## How contribute



# **The Industrialization in Vietnam**



# Approach to industrialization

Before  
1986

Heavy industries following Soviet Union model  
Based on the aid from Soviet Union  
=> Ineffectiveness -  
> crisis

Reform

Focusing on food production, consumption goods and export.  
Open the economy, recognize the private sector. The first version of foreign investment law (1987).  
Emphasize the importance of FDI

2006

Emphasizes the opportunities from integration for shorten up the way to industrialization; emphasize the leading role of state economy while confirming the importance of other economic sectors

2011

Three breakthroughs: Infrastructure, human resources and institutions. Sustainable development. Selective FDI attraction.

2021

Become a modern and industrialized country by 2030; and a developed country by 2045.  
Industrialization based on sciences and technologies, innovation and digital transformation.  
Priorities FDI: renewable energy, electronics, agro processing and supporting industries.



## Achievements of targets in 2020

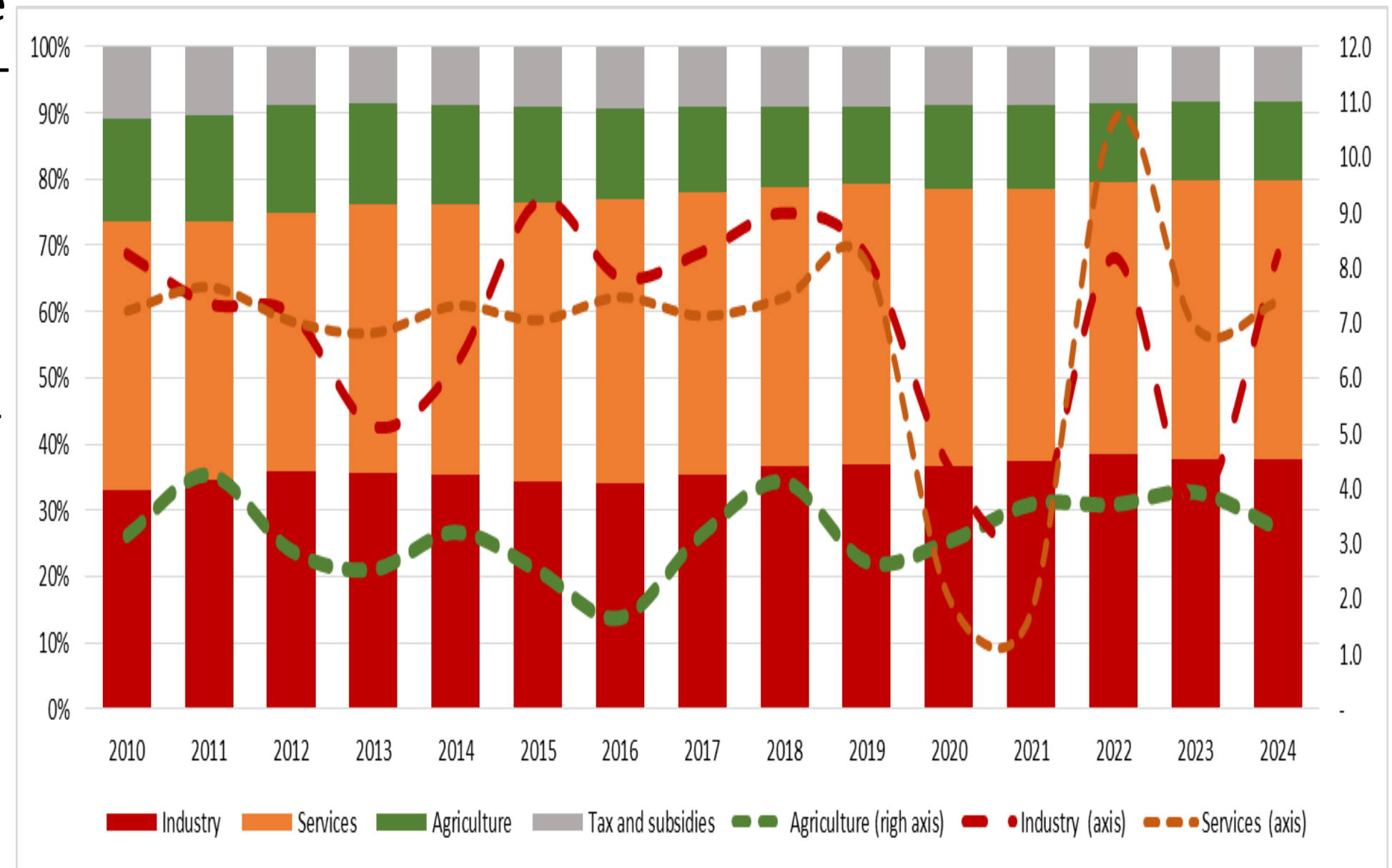
- **NOT** achieved the target to be come industrial country in 2020, though some remarkable achievements.
- Not obtained the priority targets set since the Congress VII (1991), and the SEDS 2011-2020.

Indicators	Targets/Criteria to be an industrialized country	Results (in 2020)	Note
GDP growth (%, 2011-2020)	7,0 - 8,0%/year	6,19%/năm	NOT achieved
Share of industrial and services in GDP (%)	85	73,49 (2011) 78,57 (2020)	NOT achieved
Income per capita (USD)	3000 4626 (middle-upper high income )	1630 (2011) 3400 (2020)	Achieved NOT achieved
Urbanisation (%)	45%	31,4 (2011) 36,76 (2020)	NOT achieved
R&D/ GDP (%)	1-2% GDP	0,15 (2011) 0,417 (2019)	Far below
Contribute of TFP in GDP growth (%)	35	34,2	NOT achieved

- **Industry-construction: play importance role in GDP growth**, increased by 7.64%/year for 2011-2020, higher than 6.48% in the service sector and 2.81% in the agriculture-forestry-fishery sector.
- **Competitive industrial performance (CIP) ranking improved from 95 (1990) to 31 (2022).**
- **Labour productivity improvement**, in 2011-2020 was 5.29%/year, in 2019 was 6.28%.

1

## GDP shares and sector growth (%)





## Substantial structural and long-term limitations of industrialisation in Vietnam, requiring critical reform

1. Overall, weak internal forces, including inefficiencies of SOE, weakness of domestic private sectors, and lacking of domestic leading firms
2. Slow institutional reform
3. Slow in creating bases for industrialisation
  - Human resources
  - Market
  - Sciences and technologies
  - Core infrastructure

...





# **FDI performance in VIET NAM**

- **Equalization treatment to FDI**

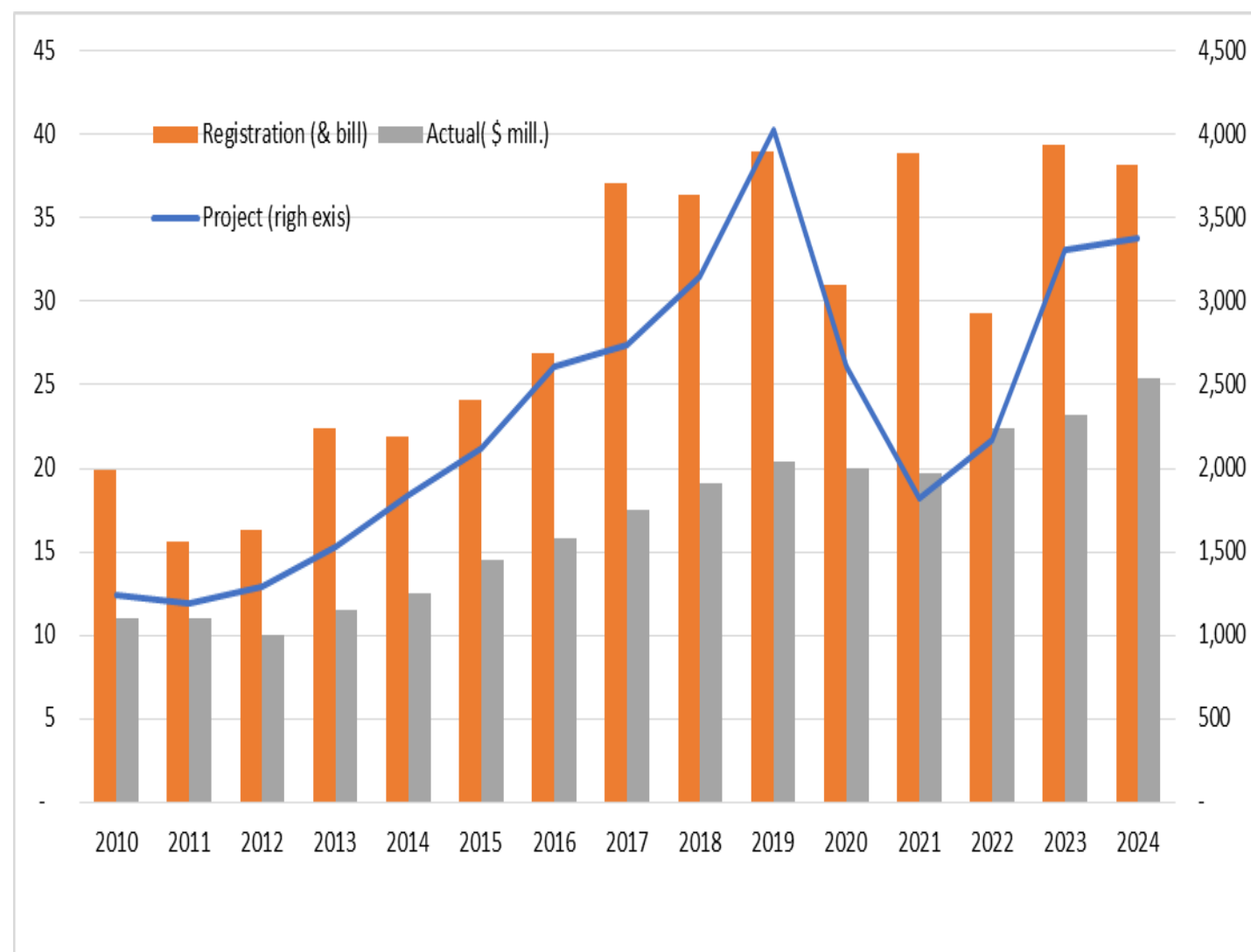
- ✓ Investment law 2005: “extensively priorities” for attracting FDI for investment demand and job creation.
- ✓ Resolution 103/NQ-CP: starting raising the selective attraction
- ✓ Investment law 2014, business environment improvement to remove red-tape, but it still lacked strong tools for attracting high-tech FDI.
- ✓ Investment law 2020 has many turning points, institutionalizing the orientation of Resolution 50, shifting the focus from quantity to quality, establishing preferential policies targeting innovation and R&D.

Resolution 50/NQ-TW: innovation, linkages, high technology, clean technology



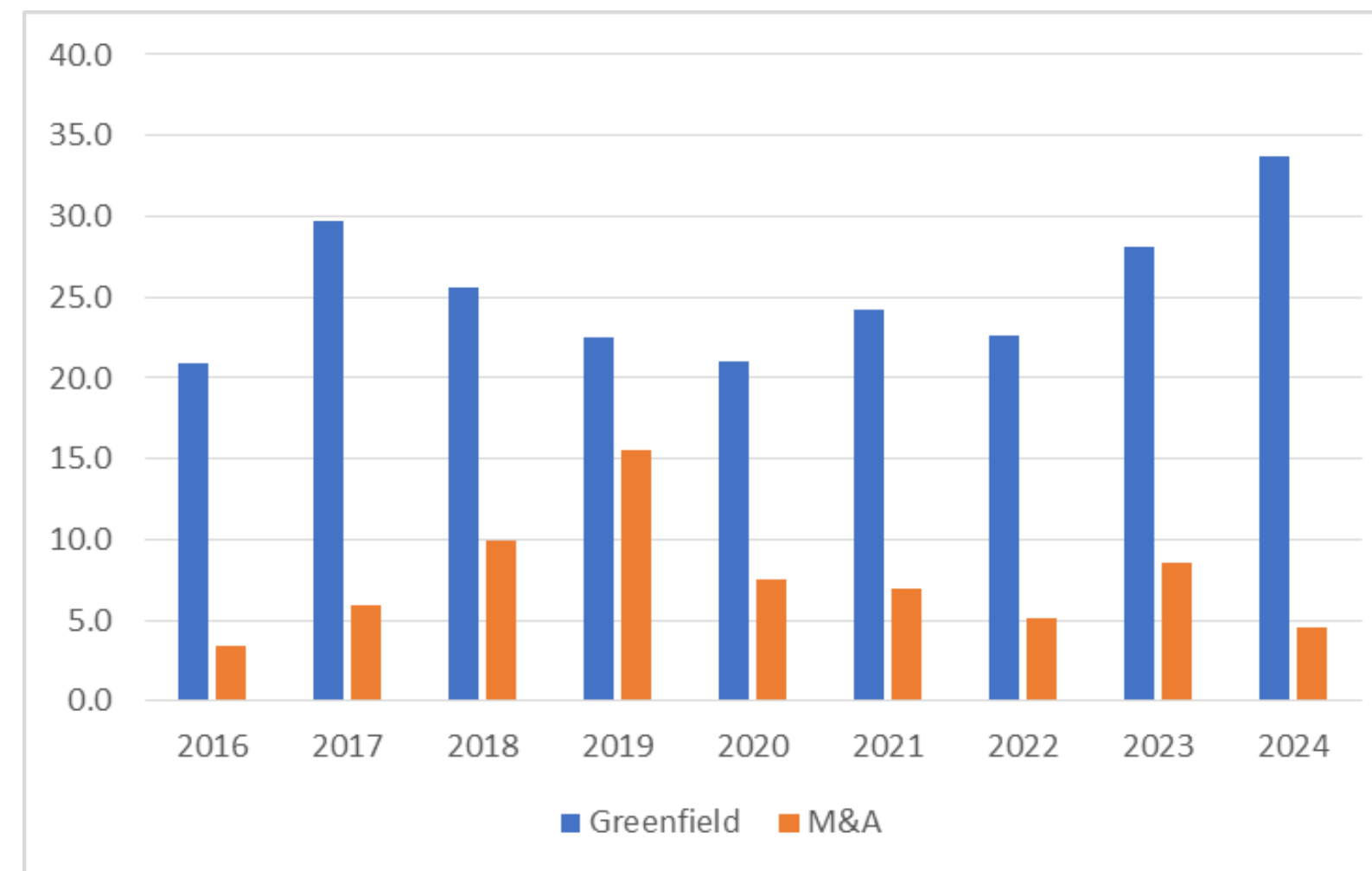
# FDI performance

## Total investment (bill USD)



**High registration FDI, but low actual numbers**  
**Almost double actual investment since 2011**

## By mode of investment (Bill USD)



**Significant shift in forms of investment.**

2016-2019: booming M&A, from 3.4 bill USD to 15.5 bill USD, shared 41% total (2019)

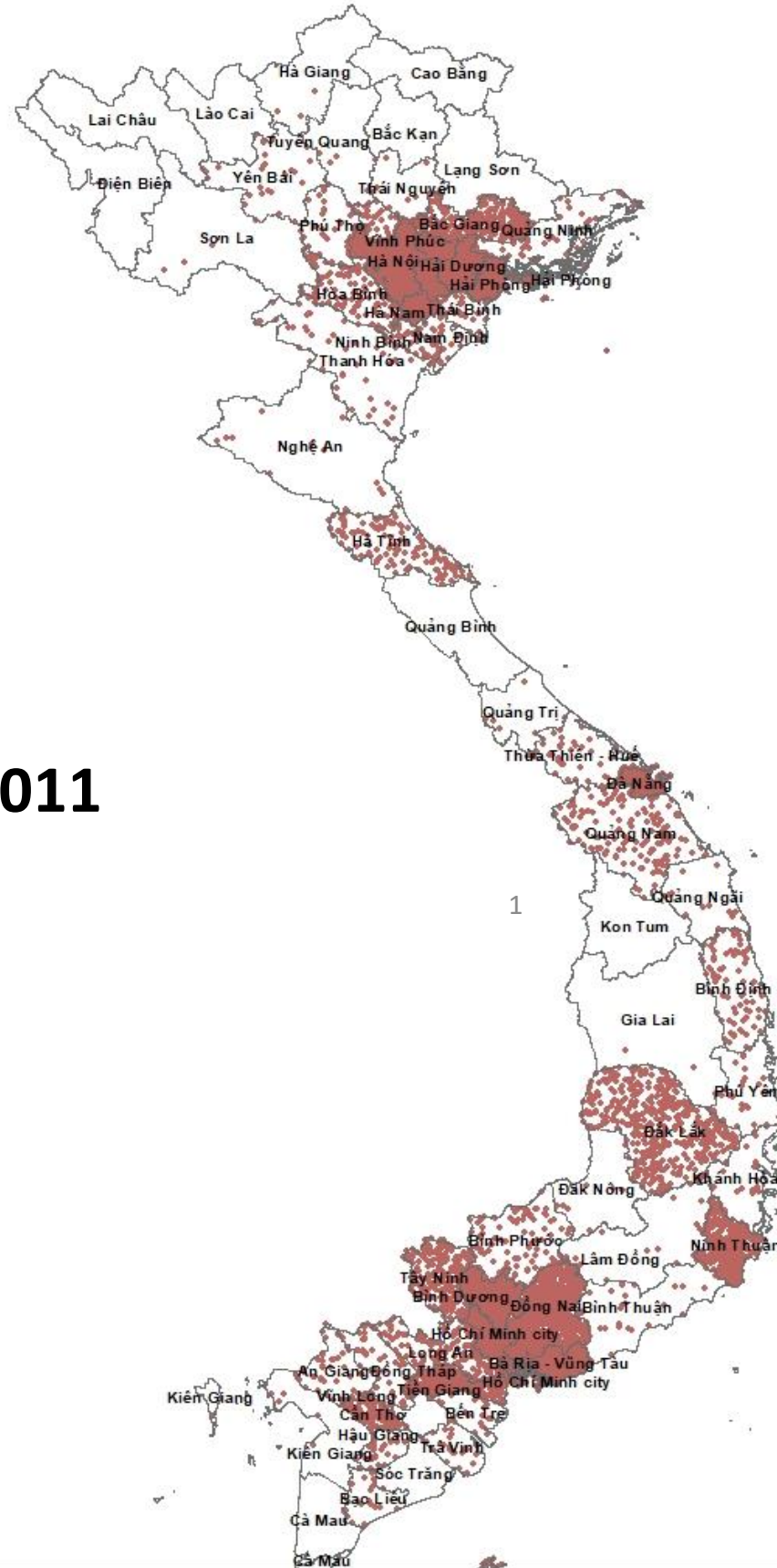
- Reduced since 2020
- 2024: Record in greenfield, share 88%



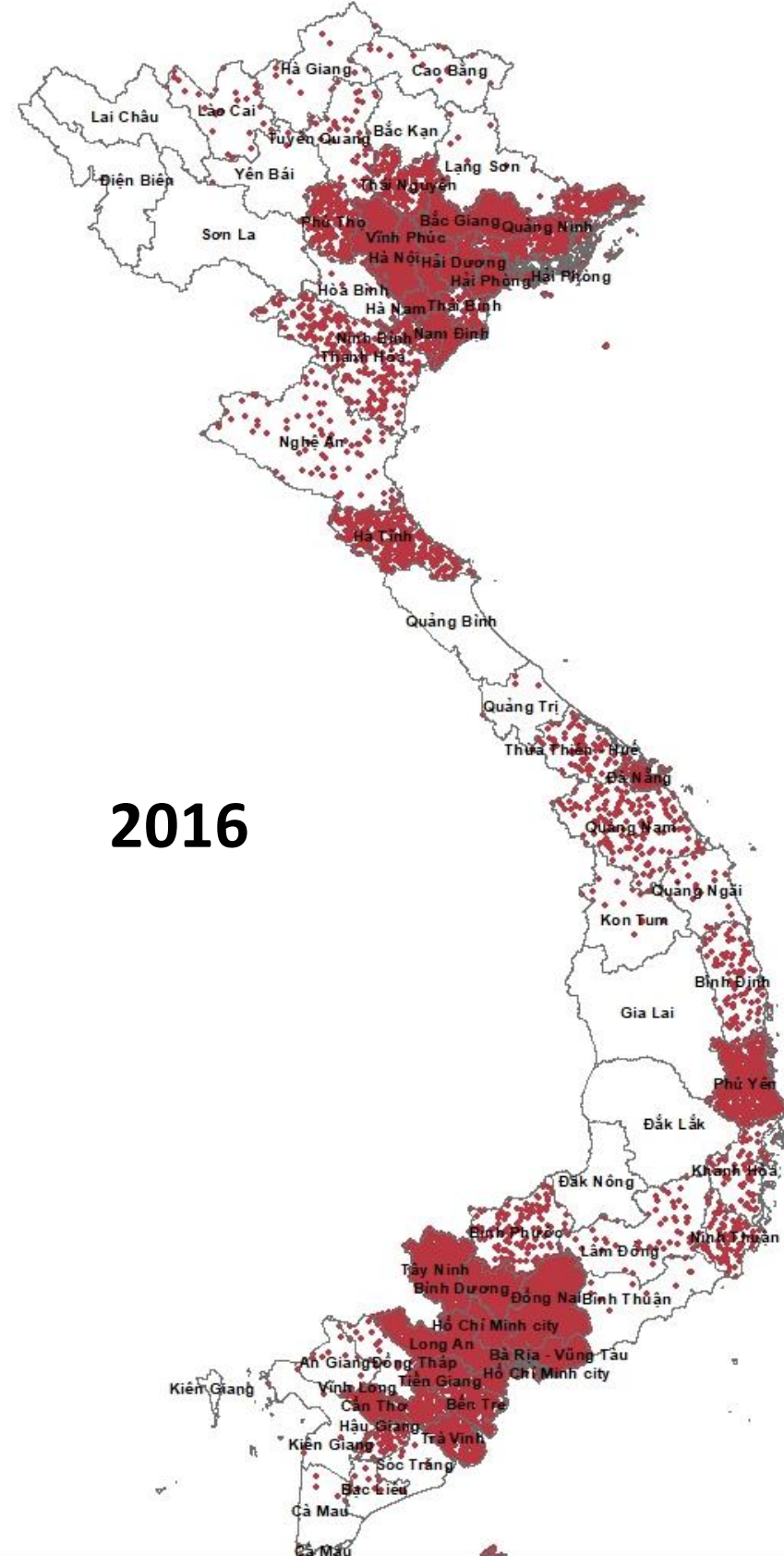


# FDI BY PROVINCES

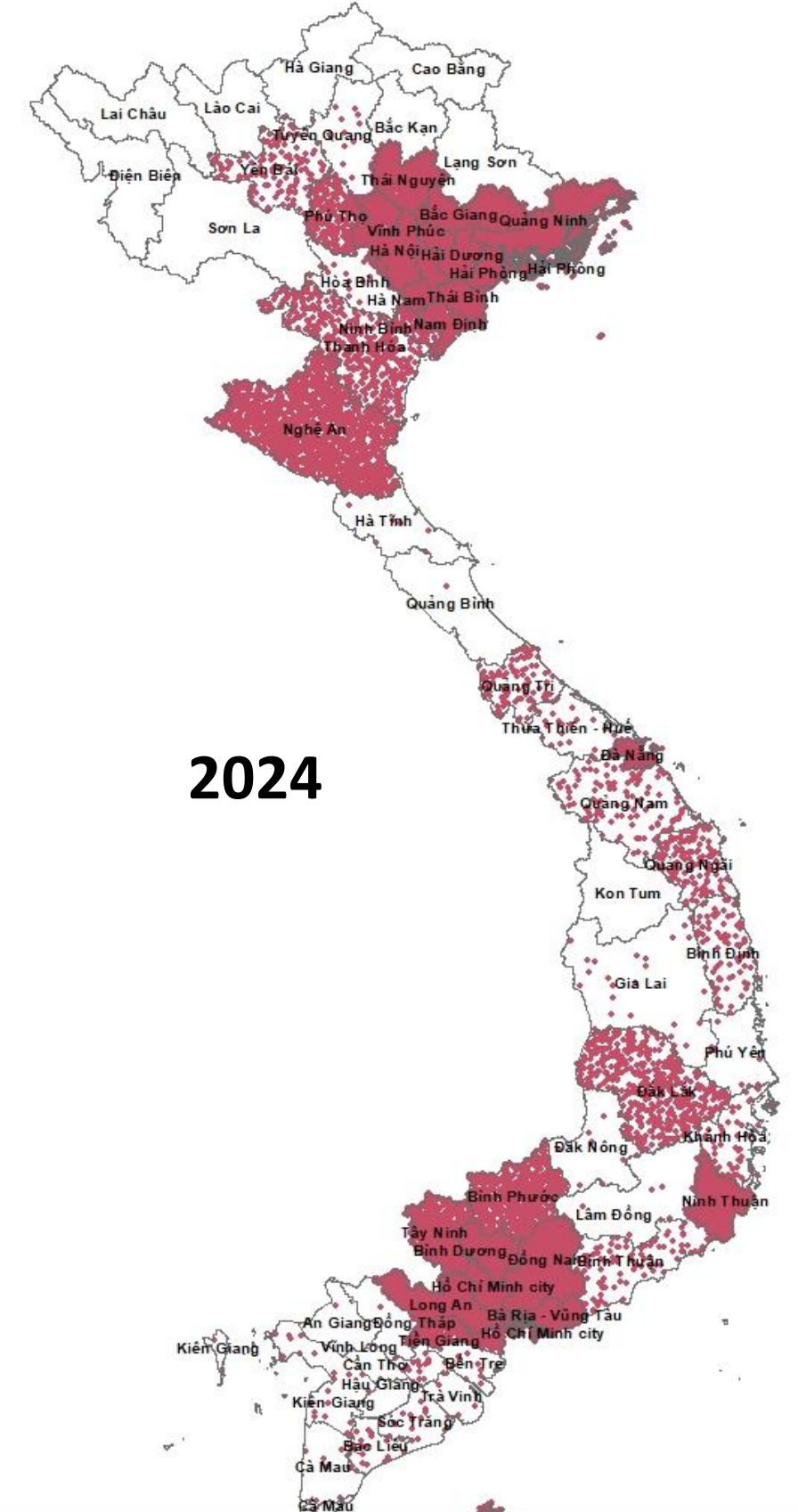
2011



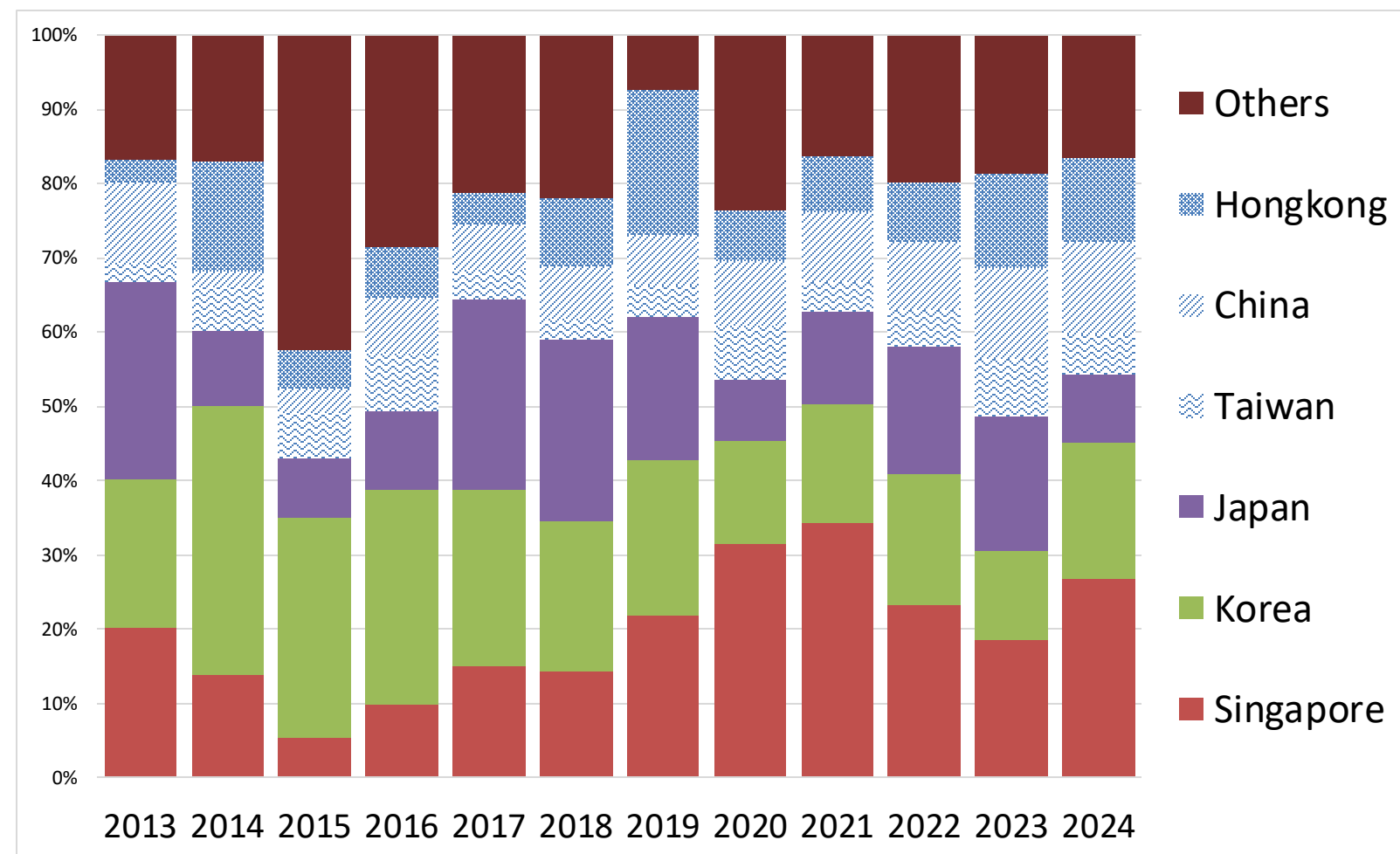
2016



2024



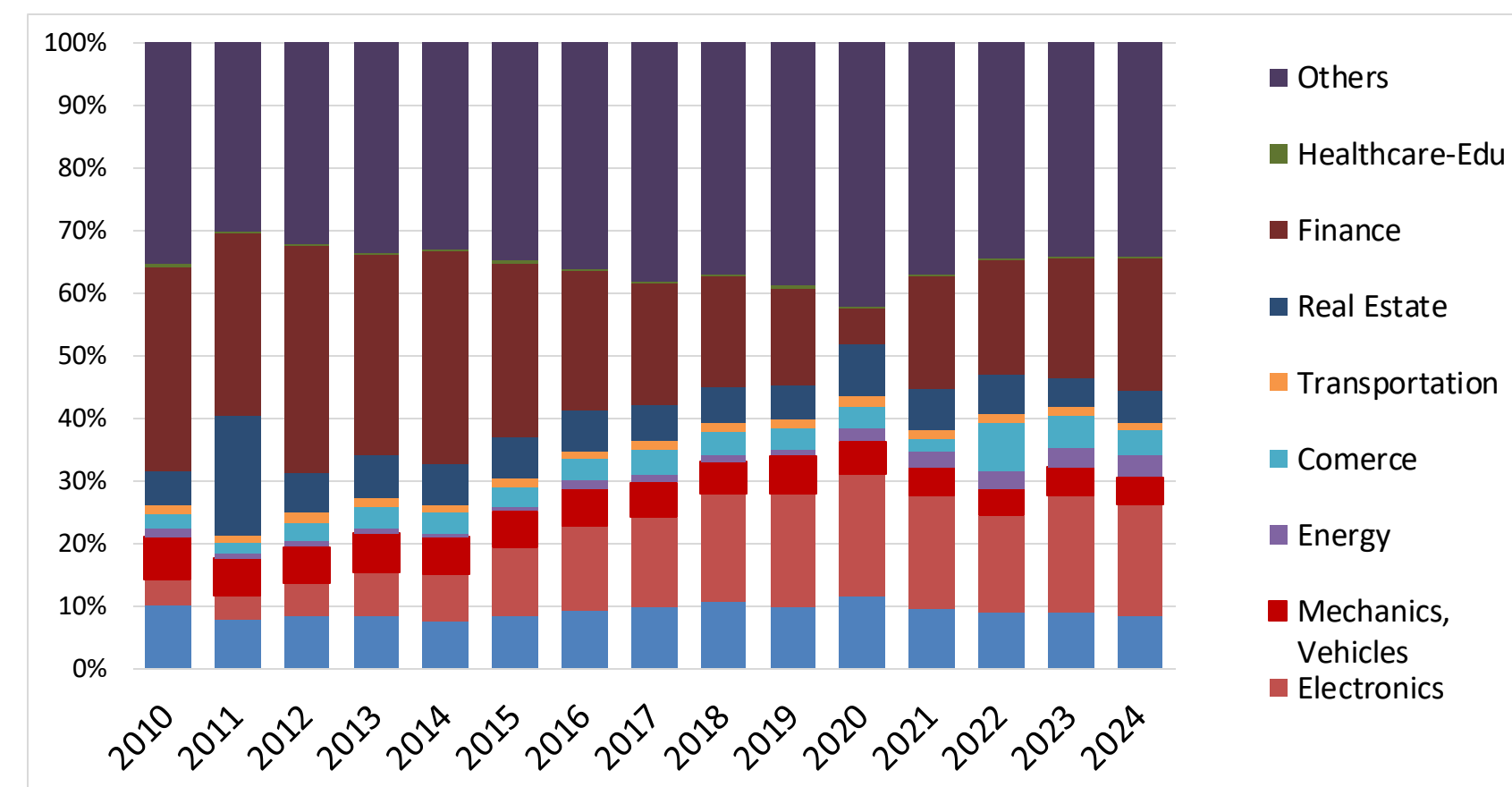
## By home countries (%)



FDI = FDI East Asia

Emerging of the “China” group

## FDI by sector (%)



Shifting industry structure and capital flow quality

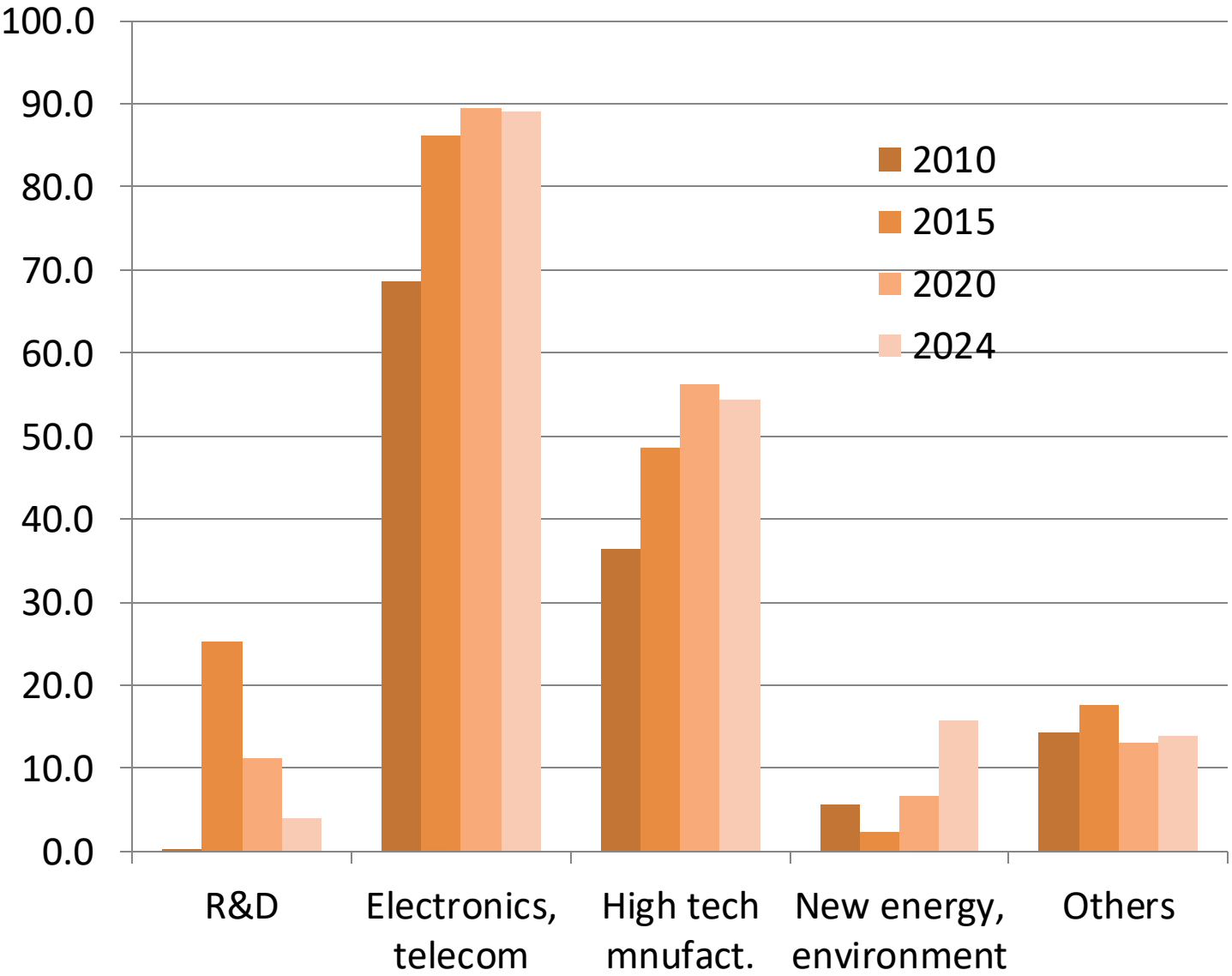
Electronics: 4.1% (2010) => 17.8% (2024); Textiles, footwear and leather decreased slightly

Services: focusing on high value-added industries such as finance-banking-insurance (21.2% (2024)) Healthcare, education, tourism. Proportion Mechanical industry ????

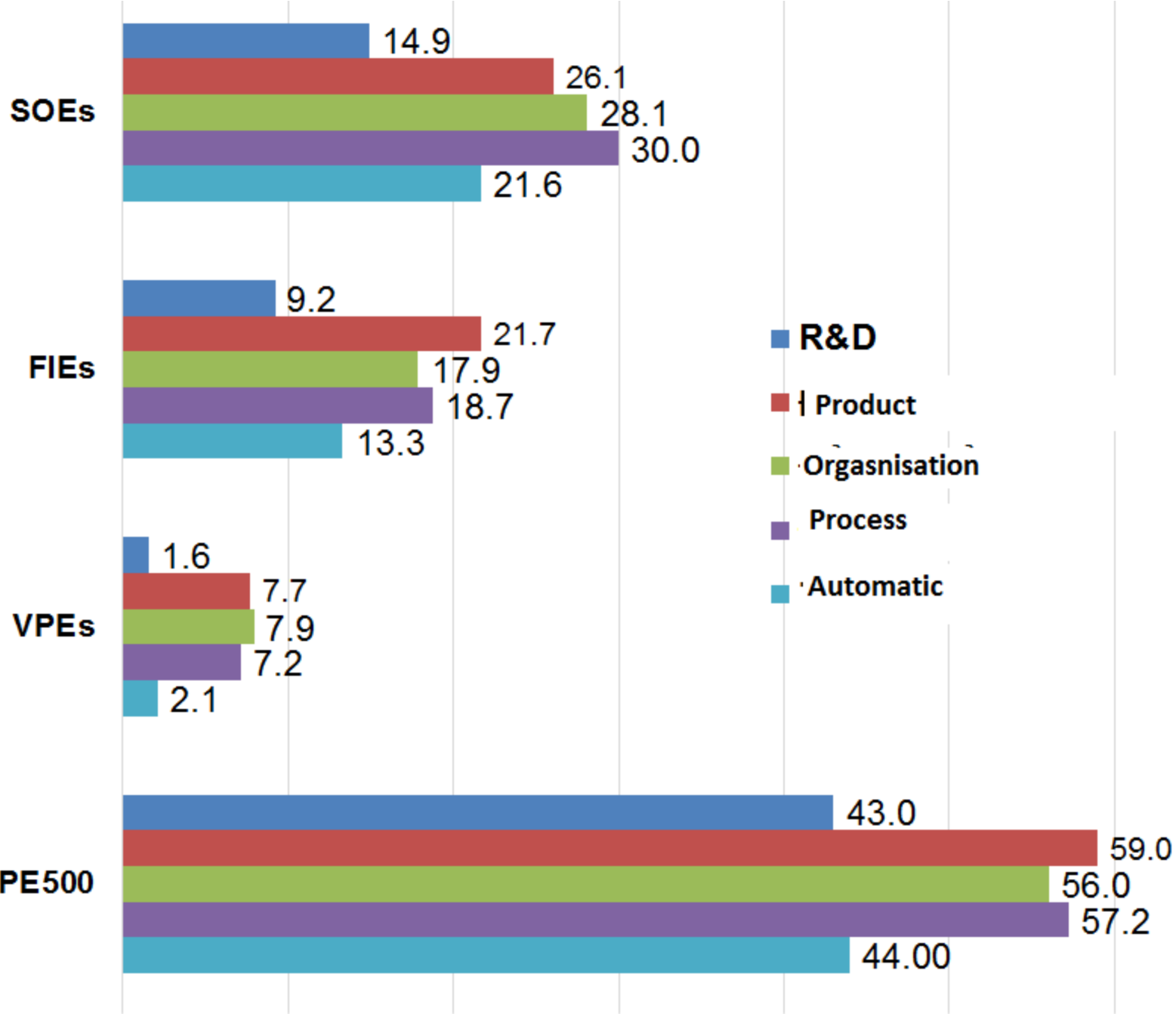


# Innovation activities of FDI sector

Share of FDI in some high-tech sectors (%)



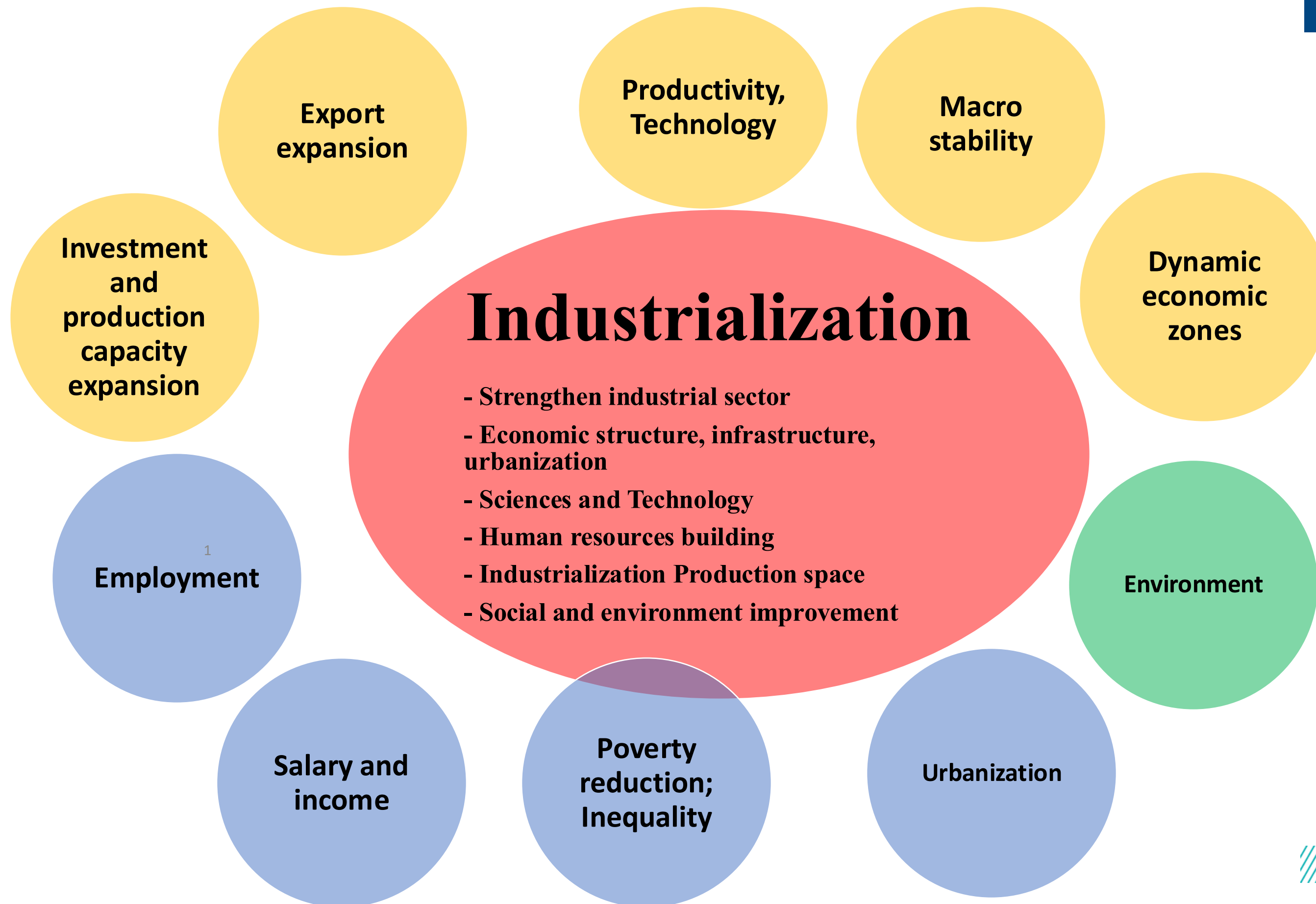
Share of firms engaged in R&D and innovation



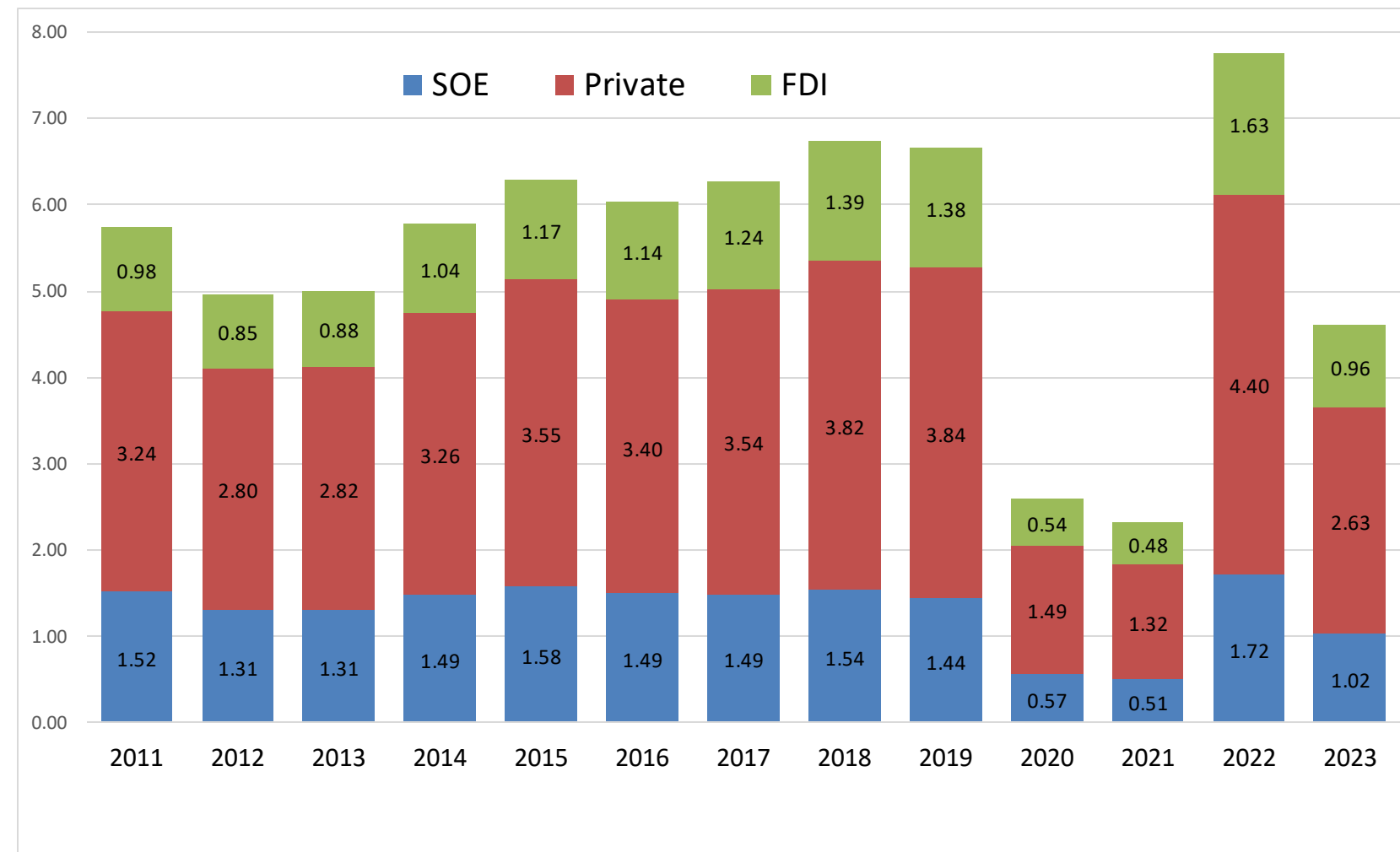
# **CONTRIBUTION OF FDI TO INDUSTRIALIZATION**



## How contribute

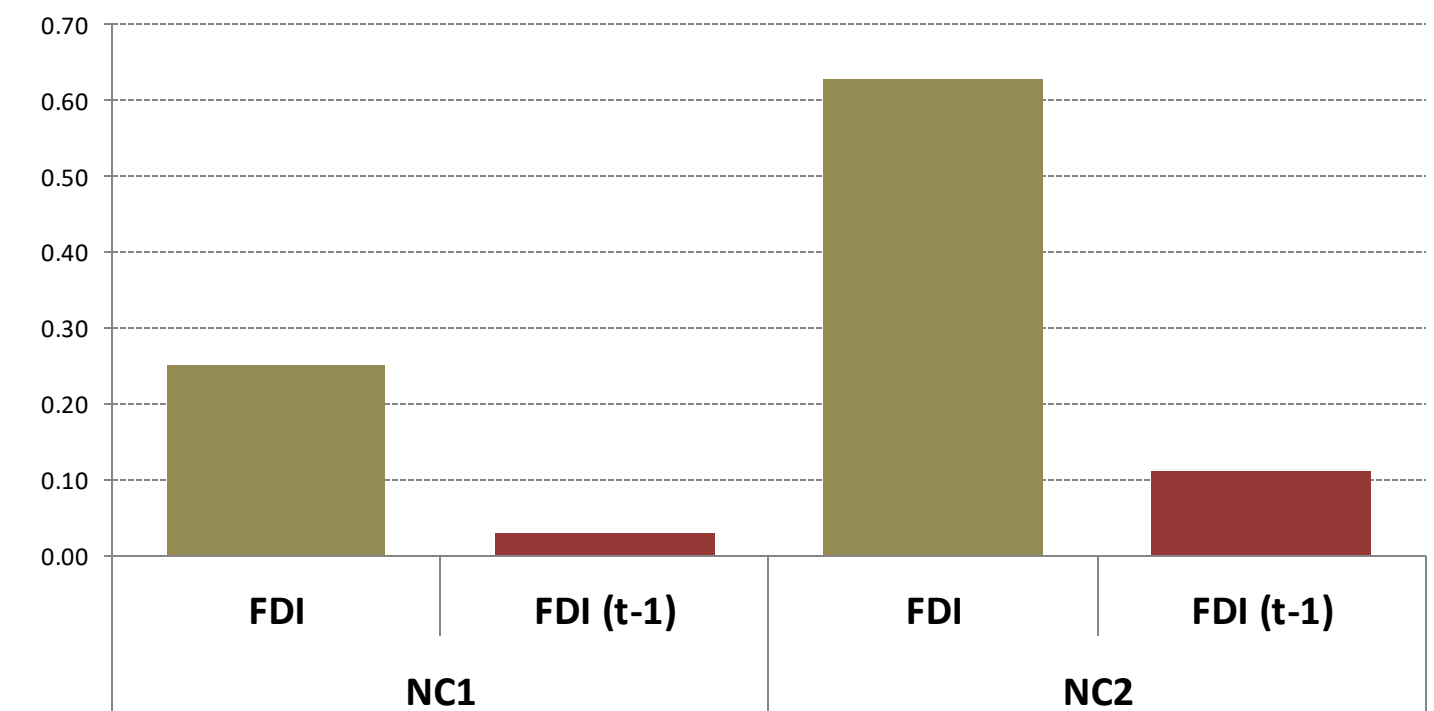


Contribute to growth (% point)



$$GRDP_{it} = \beta_0 + \beta_0 FDI_{it} + \sum \beta_n I_{it} + \alpha_{it}$$

$$FDI_{it} = \lambda_0 + \lambda_1 GRDP_{it} + \sum \lambda_n I_{it} + \varepsilon_{it}$$

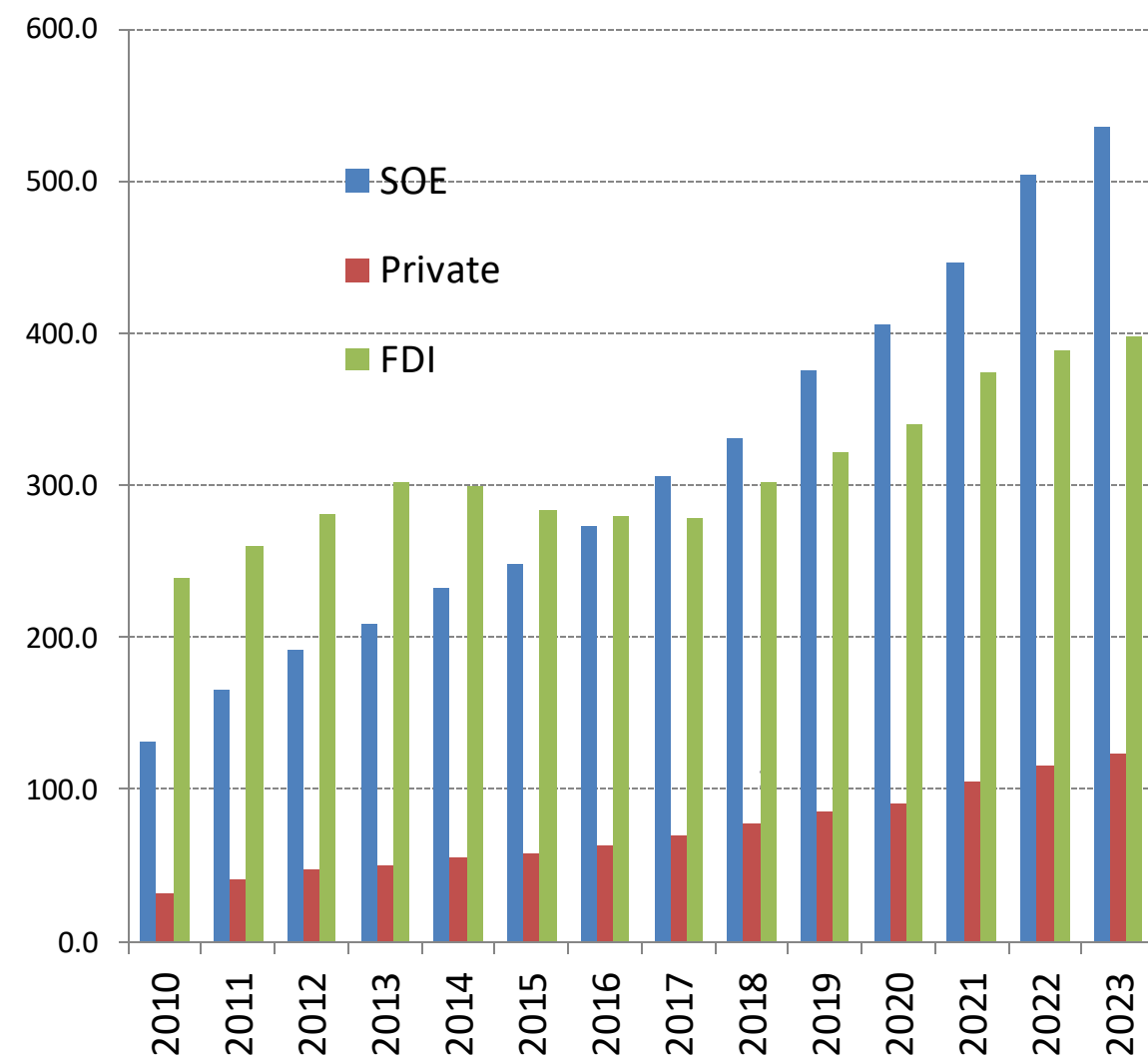


- FDI/GDP ratio from 18.22% (2011–2015) => 21.06% (2016–2020); 22.25% (2021–2023);
- Absolute contribution of FDI to growth: from 0.98 percentage points (2011) to 1.39% (2019), 1.63% (2022);
- Relative contribution of FDI sector to GDP growth: from 15.3% (2011) => 19.1% (2022)



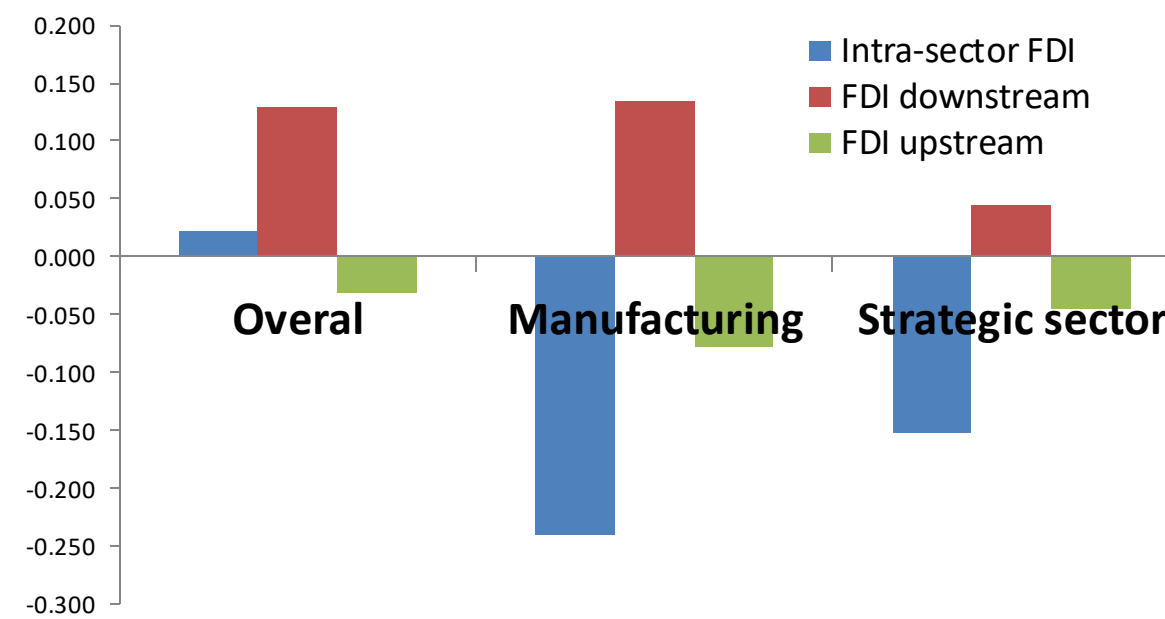
# Productivity impact

## Labor productivity (Mill VND)



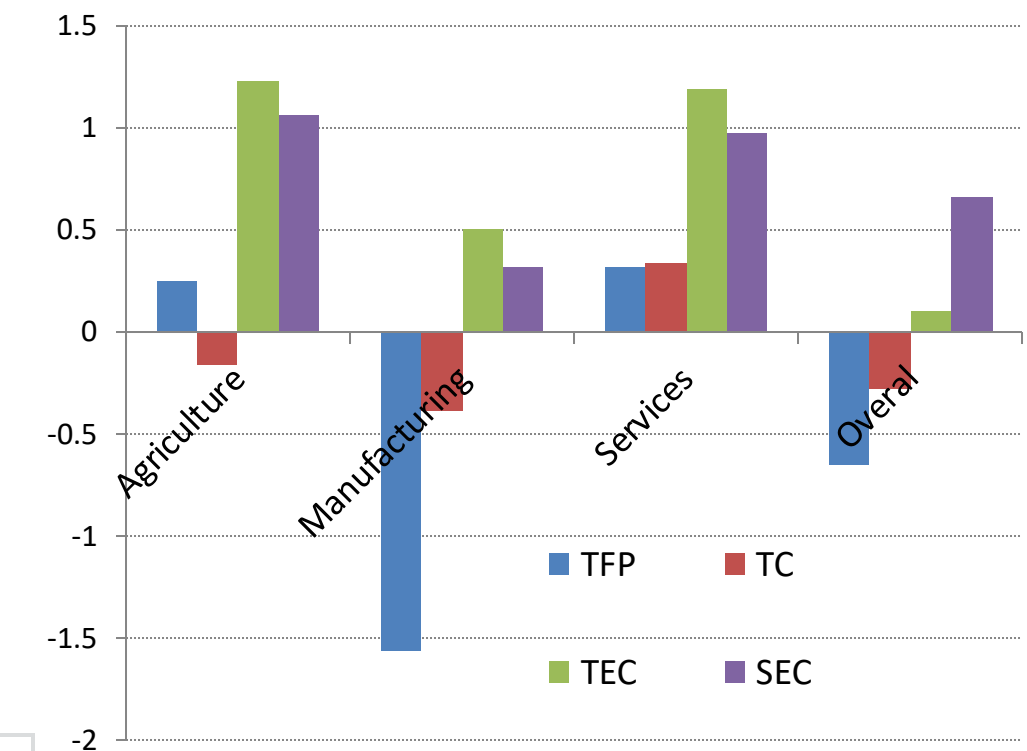
## Competition, imitation, learning, supplying, labor turnover

$$TFP_{it} = \beta_0 + \beta_0 FDI_{it} + \sum \beta_n I_{it} + \alpha_{it}$$

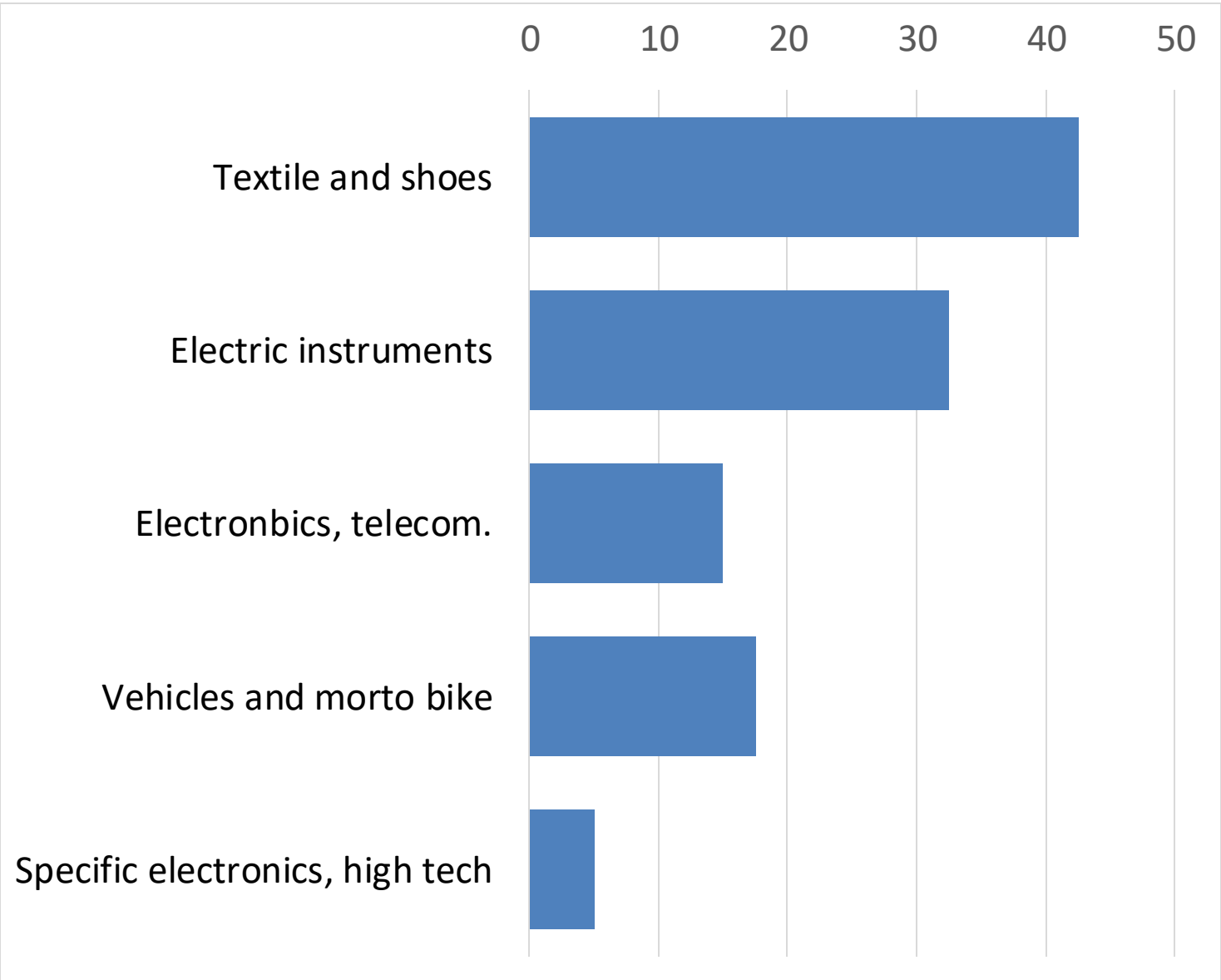
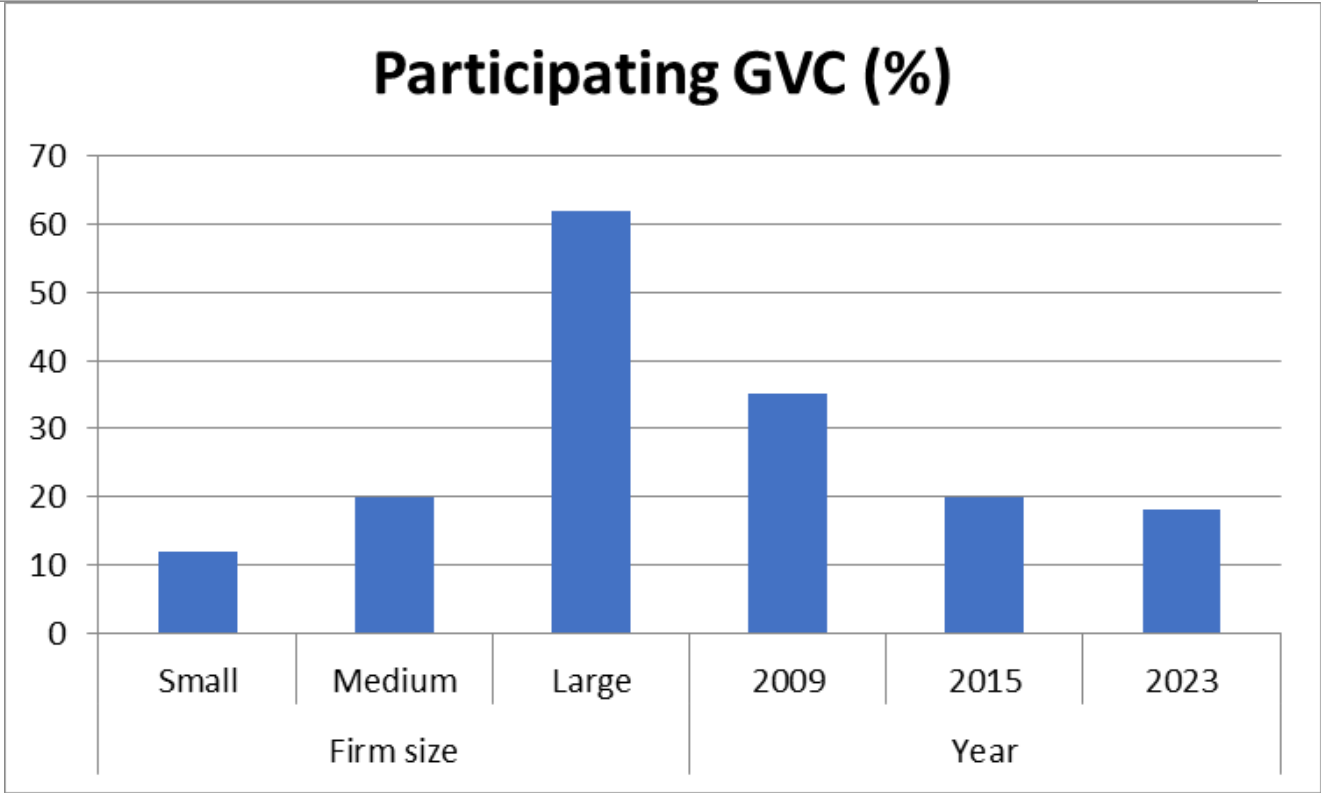
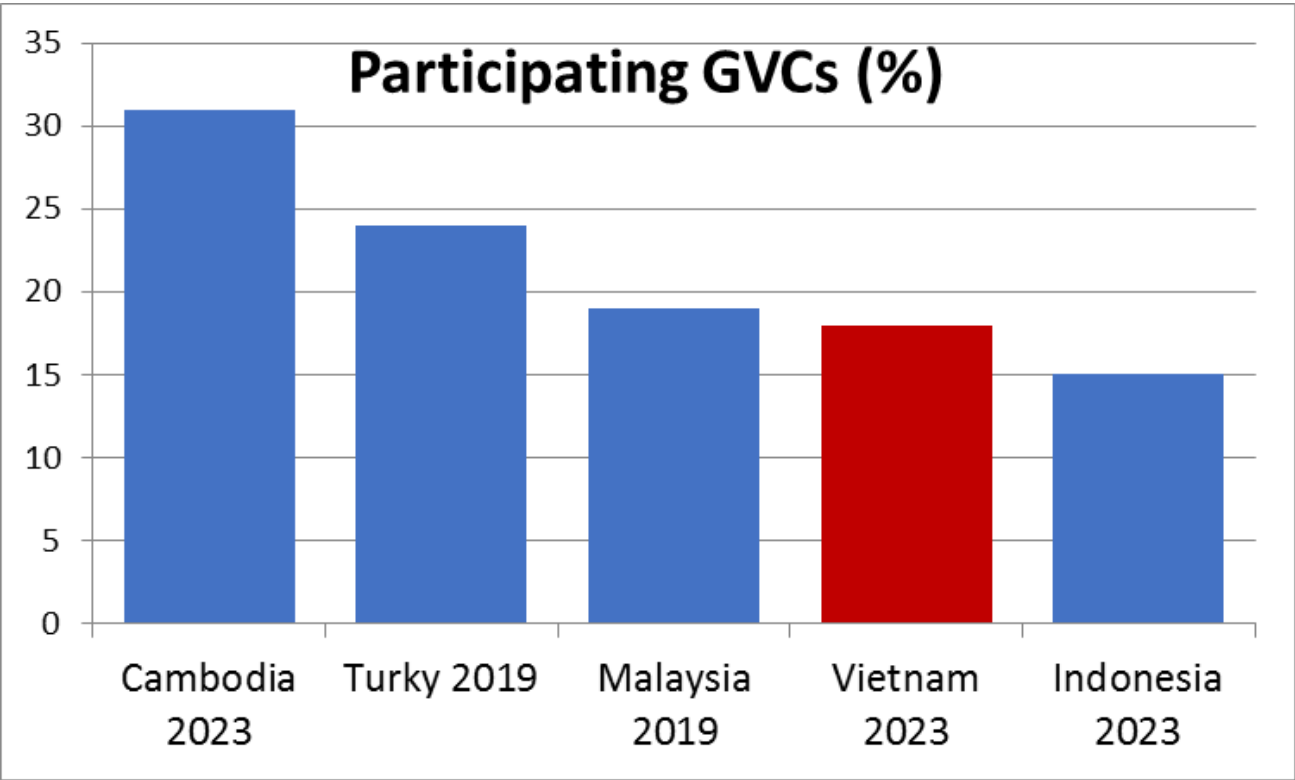


	Labor intensive	Capital intensive	High-tech industry
FDI	-1.25	-0.04	-0.6
FDI (t-1)	0.13	0.13	-0.27
Backward	0.75	-0.04	0.48
Backward (t-1)	-0.07	-0.13	0.25
Forward	0.11	-0.02	-0.24
Foreward (t-1)	-0.02	-0.06	-0.03

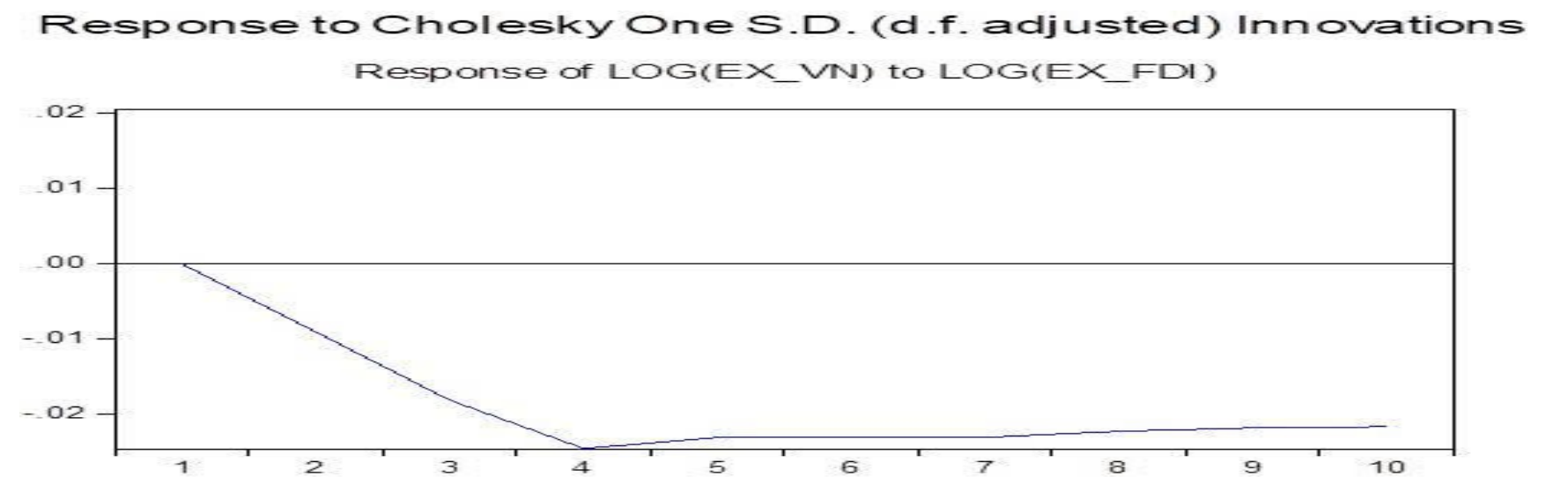
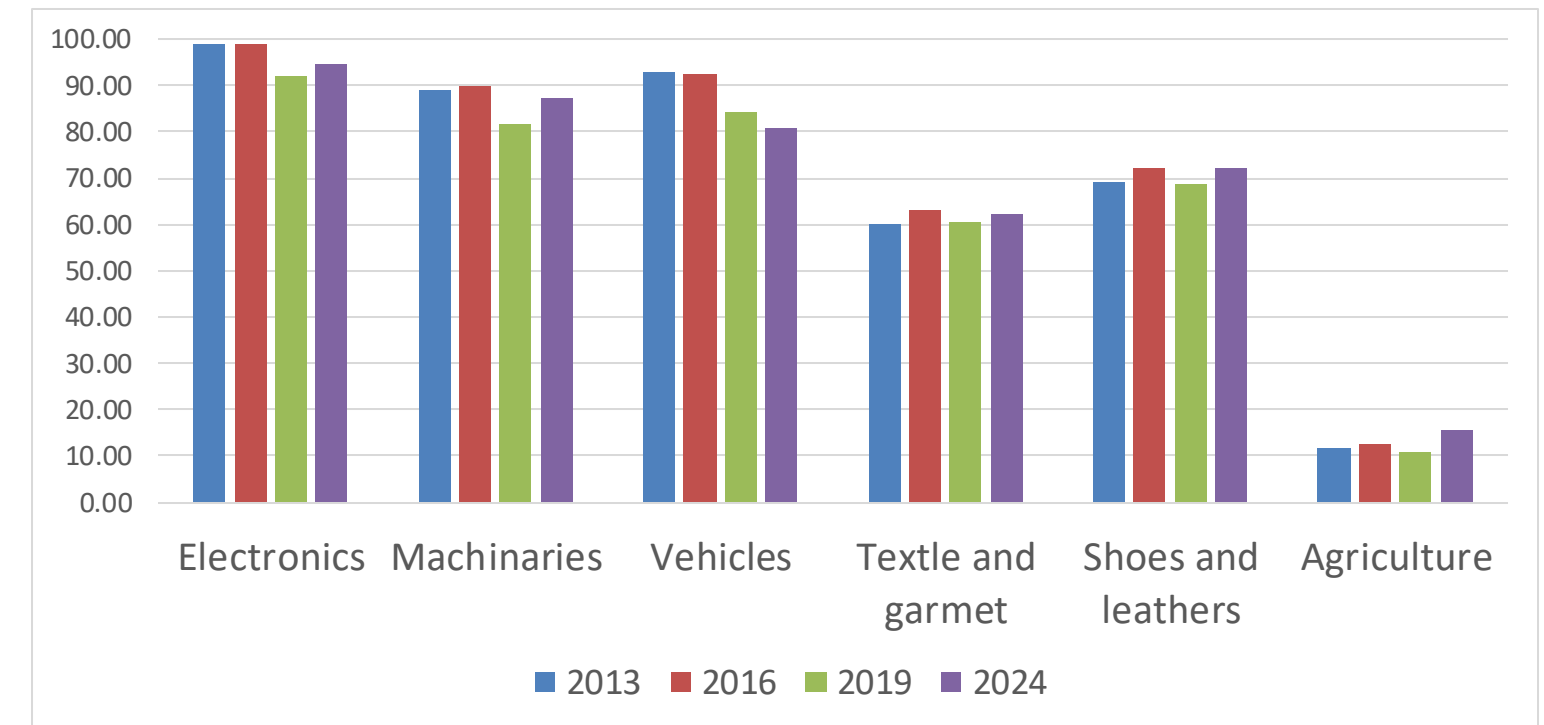
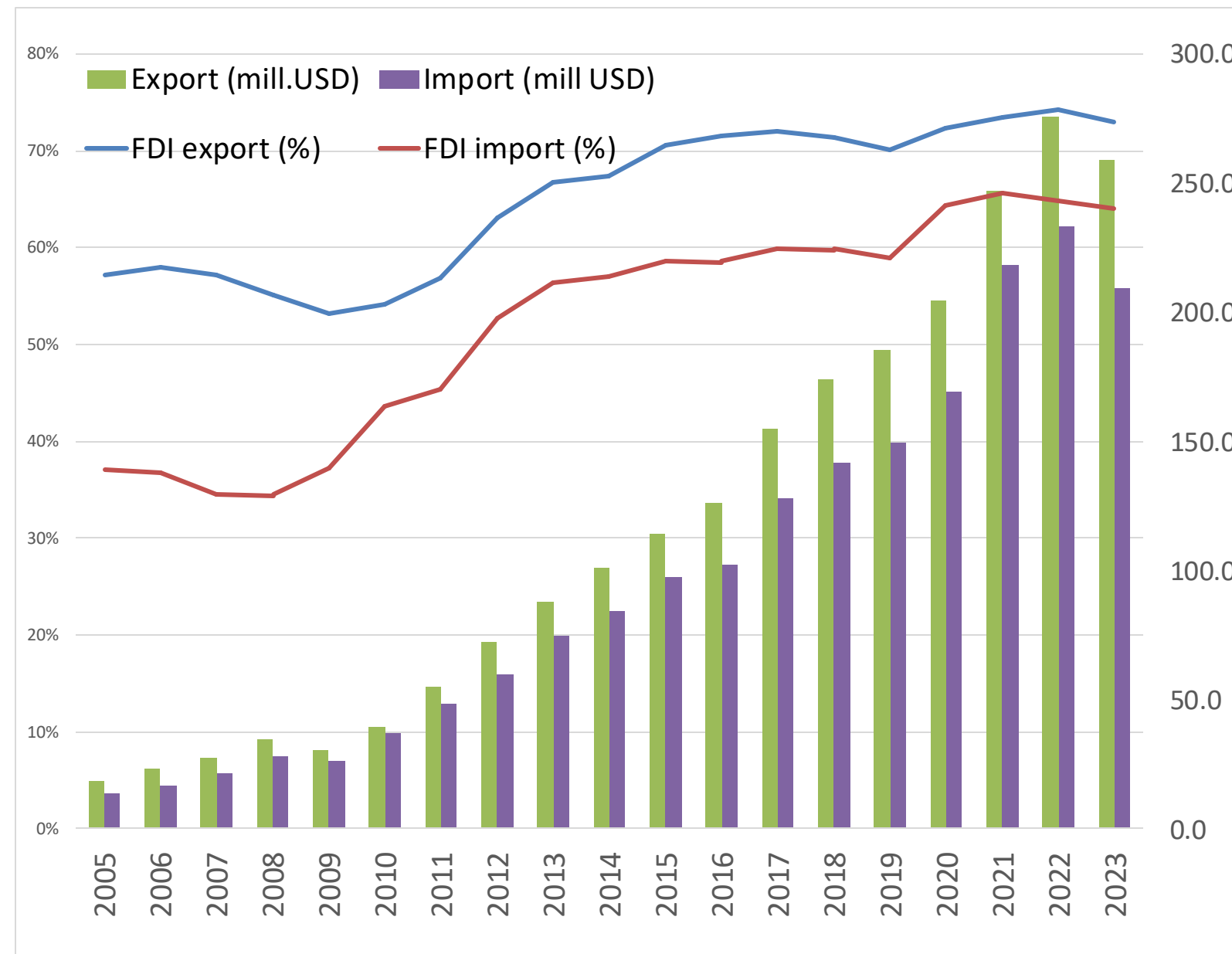
## Net effect to productivity



## Domestic content (%)



# Contribution to exports

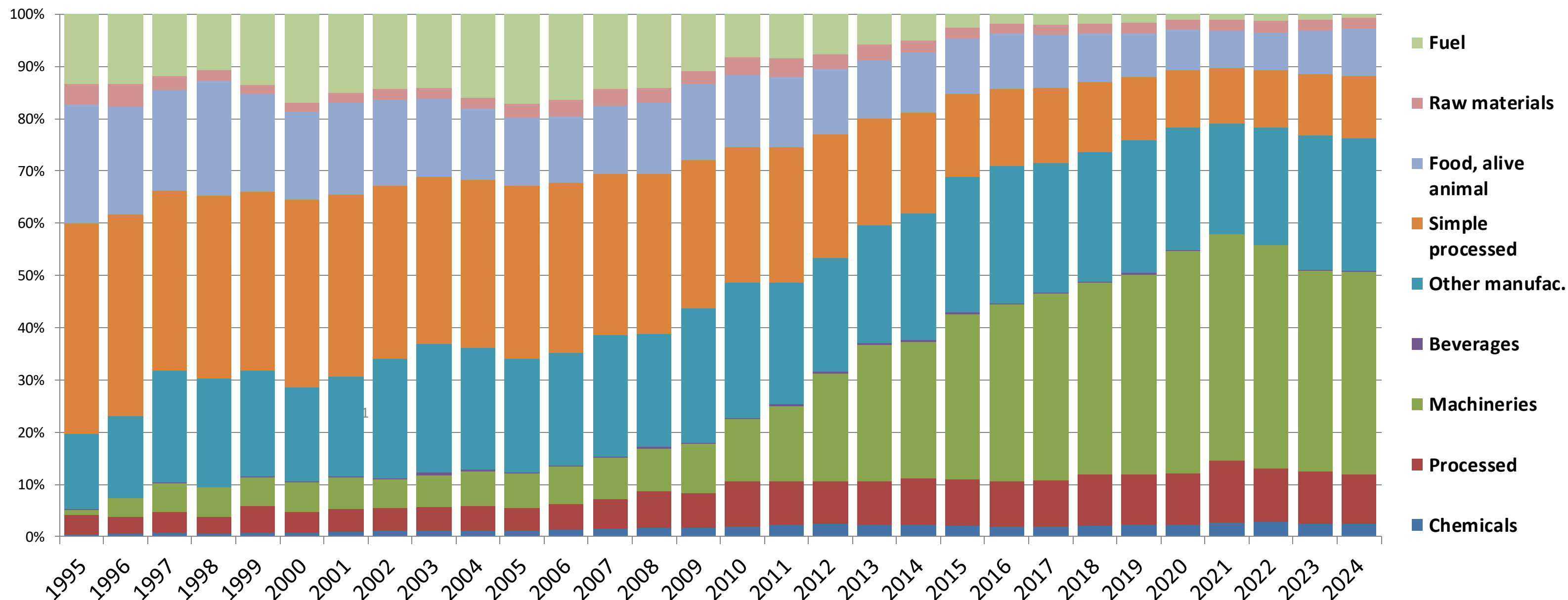




# Economic contribution



## Significant shift in export structure

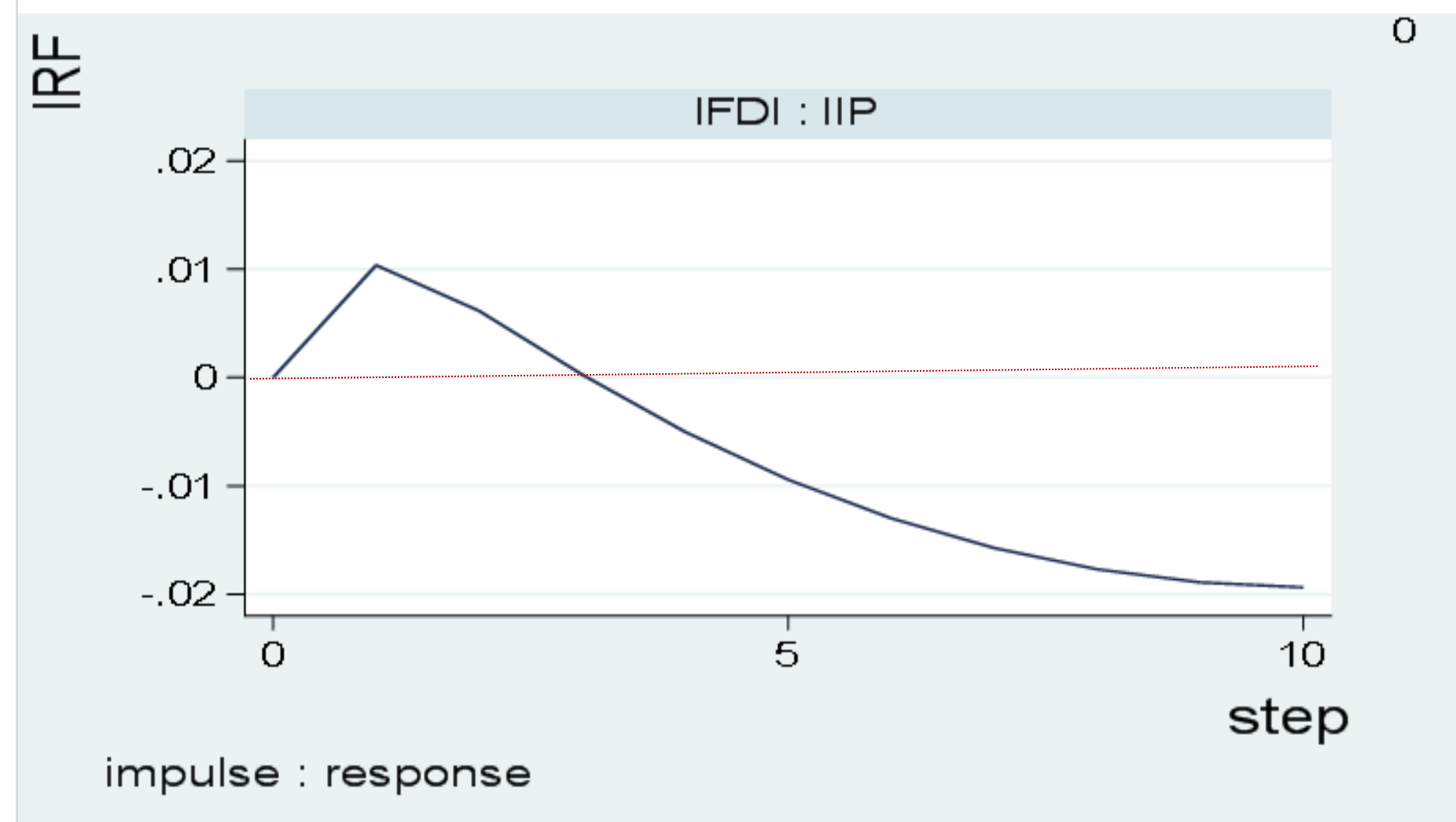
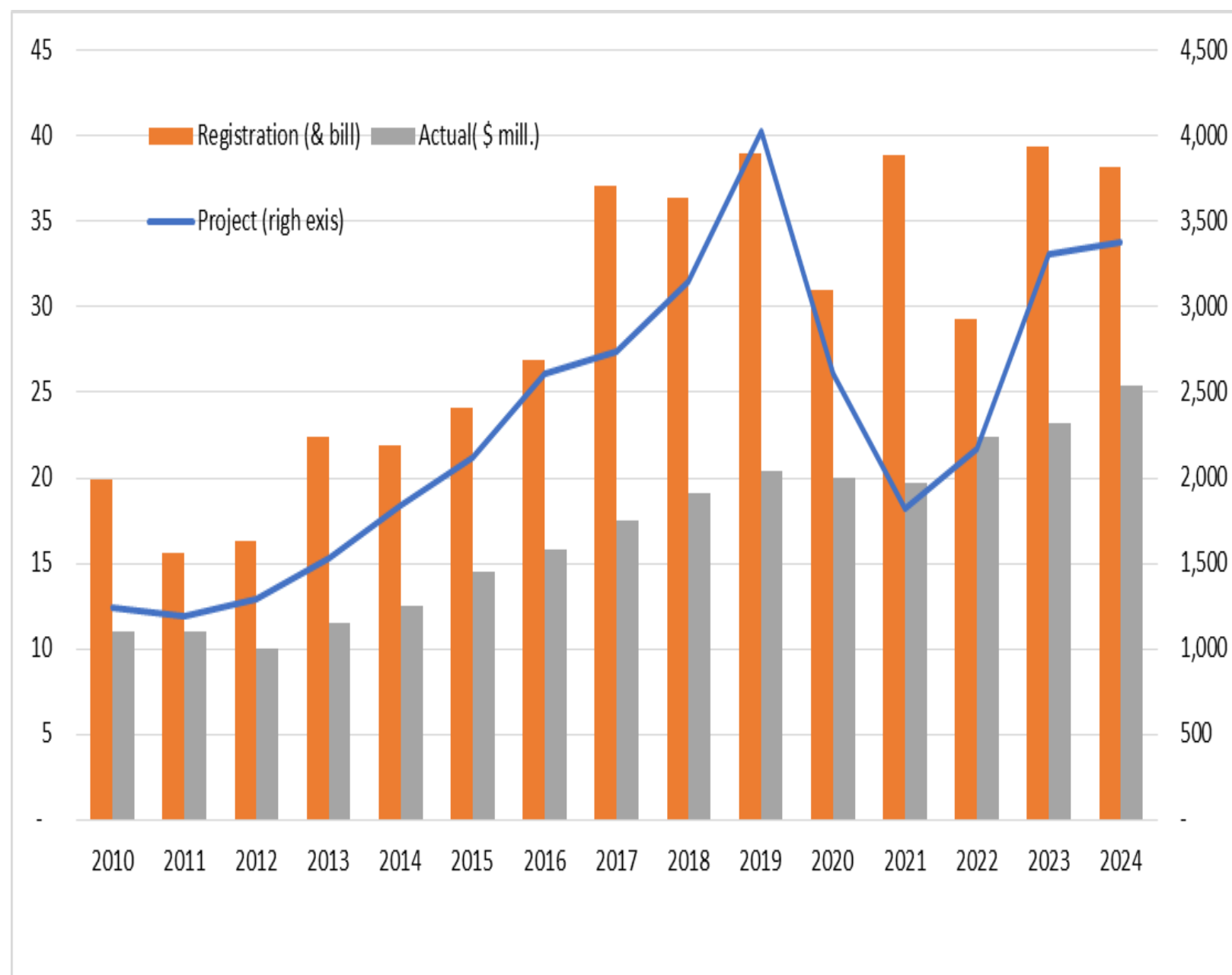


In 2010 (Total: 80,5 bill USD)

In 2023 (Total: 424 bill USD)



## Investment capital contribution







Enhancing industrial production capacity

FDI’s contribution to the manufacturing sector (2024, %)

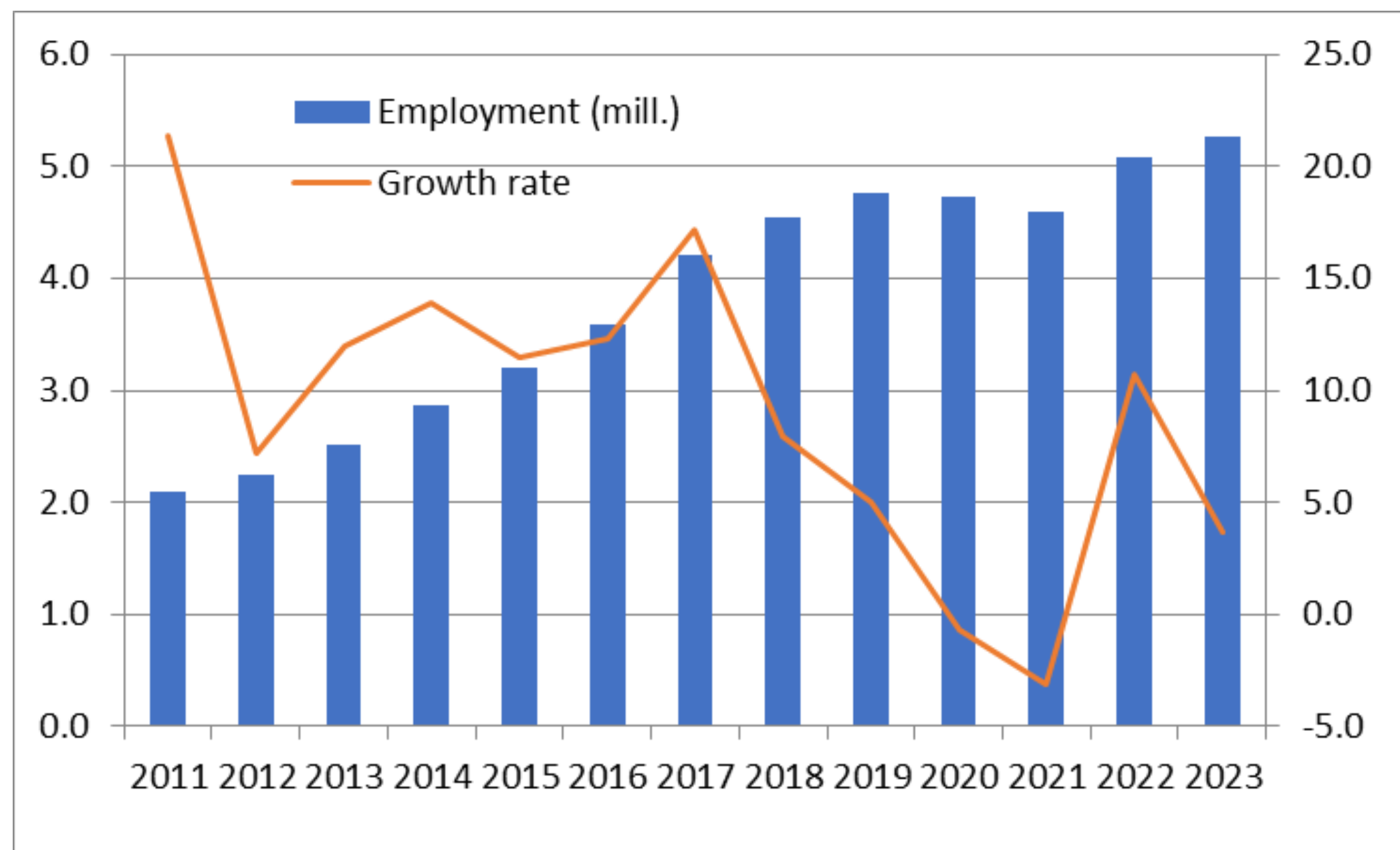
	Manufa.	Textile	Leather	Electronics	Mechanics
Assest	56.3	64.6	76.9	97.9	56.7
Revenue <sup>1</sup>	61.9	61.6	83.4	99.2	79.2
Employment	59.7	56.8	82.0	95.8	75.1



## Contribution to employment

The number of workers in FDI sector doubled from 2.1 million (2011) to 5.3 million (2023)

1



## Employment in FDI sector

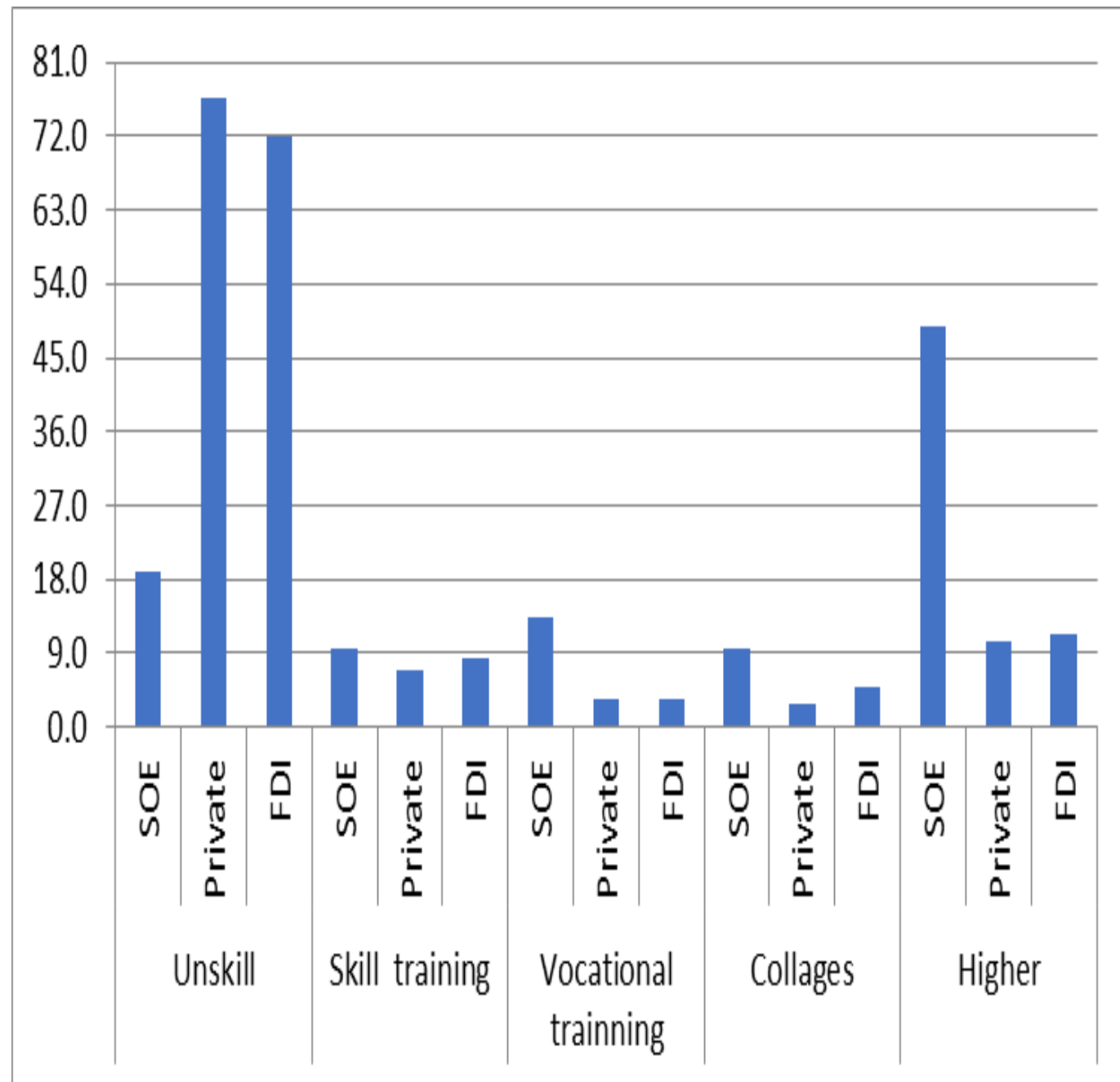
Contribute to shift employment opportunities from urban to rural areas.

Year	Total (thousand)	Labor share (%)			
		Male	Female	Urban	Rural
2011	2,099	38.0	62.0	48.5	51.5
2016	3,591	33.7	66.3	41.0	59.0
2019	4,768	58.2	41.8	18.3	81.7
2020	4,734	58.3	41.7	18.7	81.3
2021	4,586	57.4	42.6	19.5	80.5
2022	5,077	57.6	42.4	20.0	80.0
2023	5,261	57.7	42.3	20.6	79.4

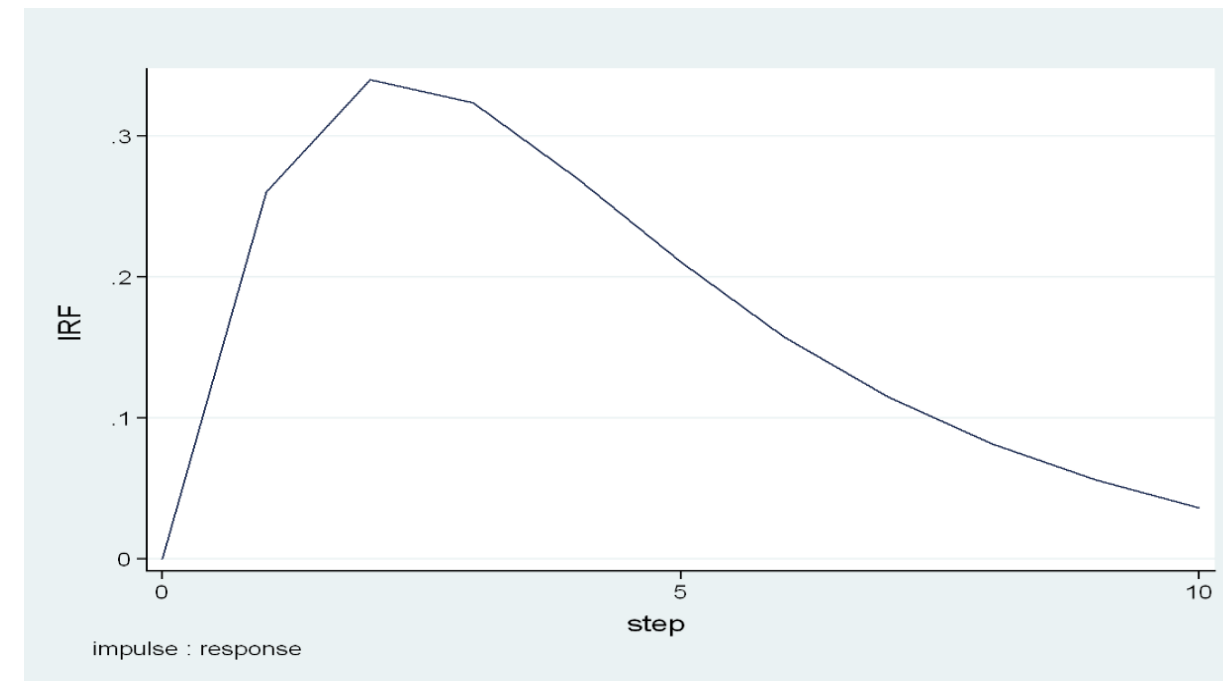


# Employment and social Contribution

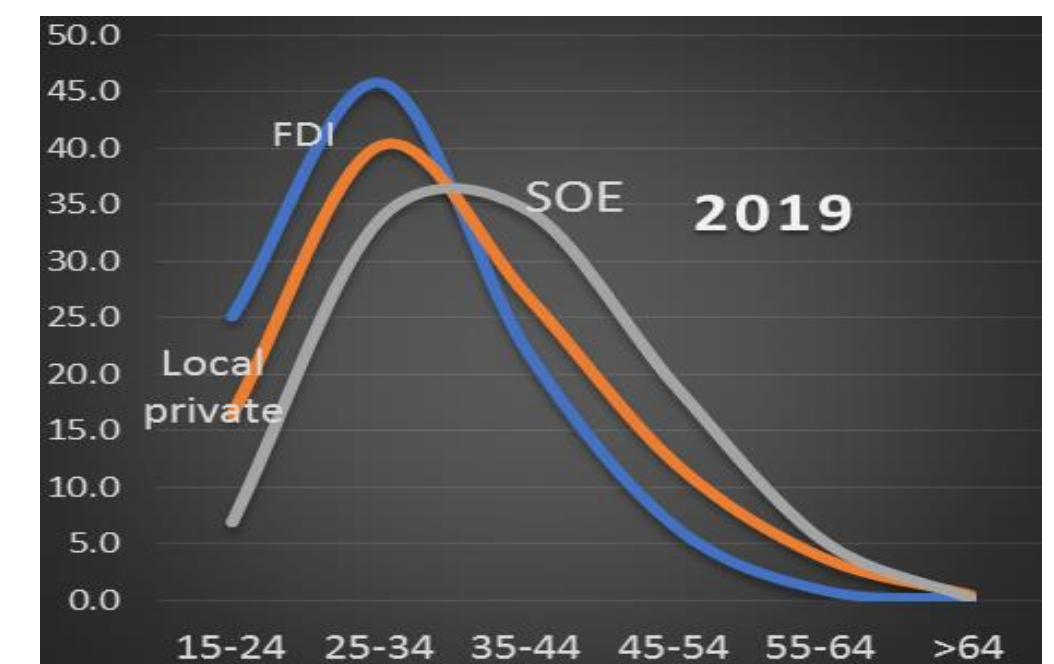
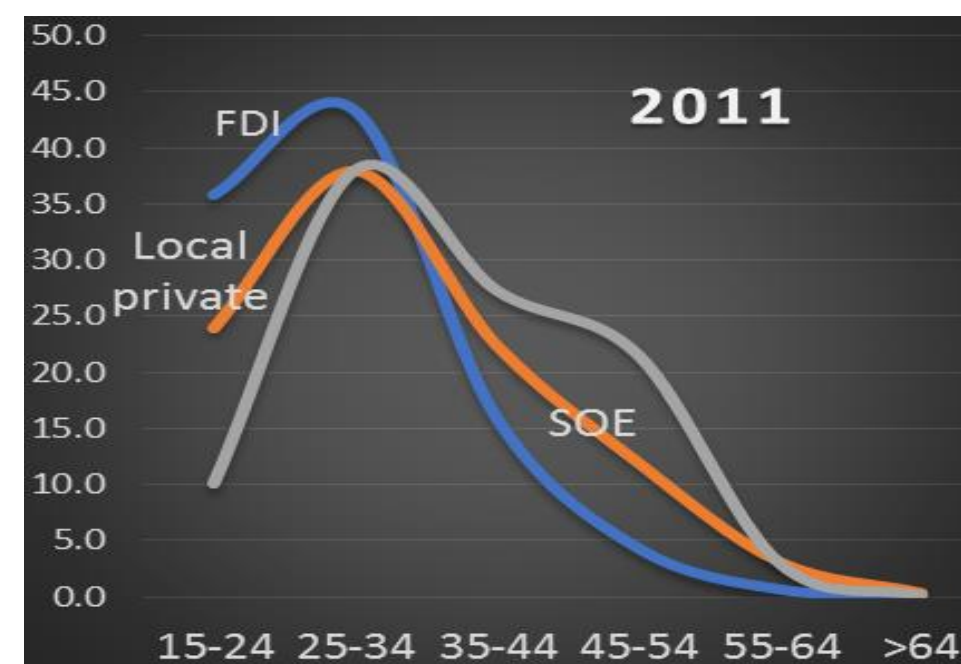
## Job quality



## Wage spillovers (impulse)



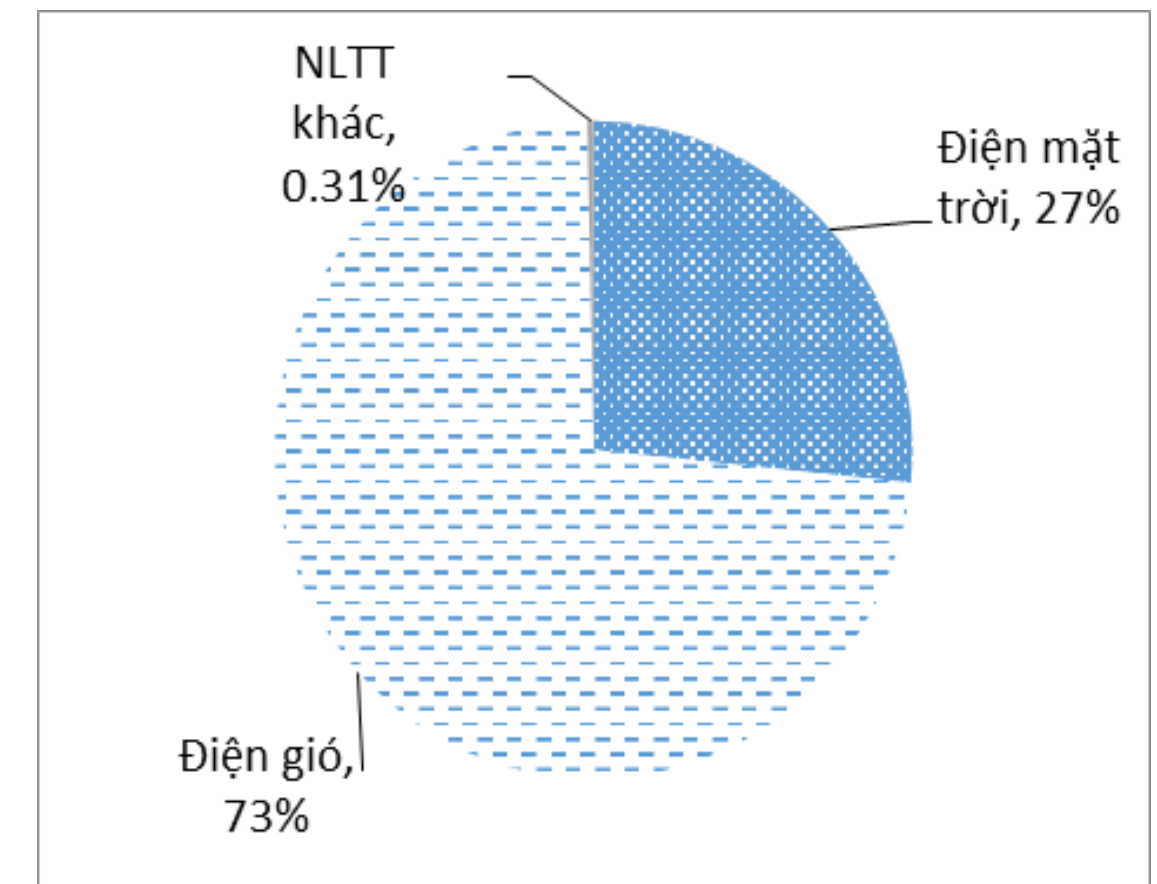
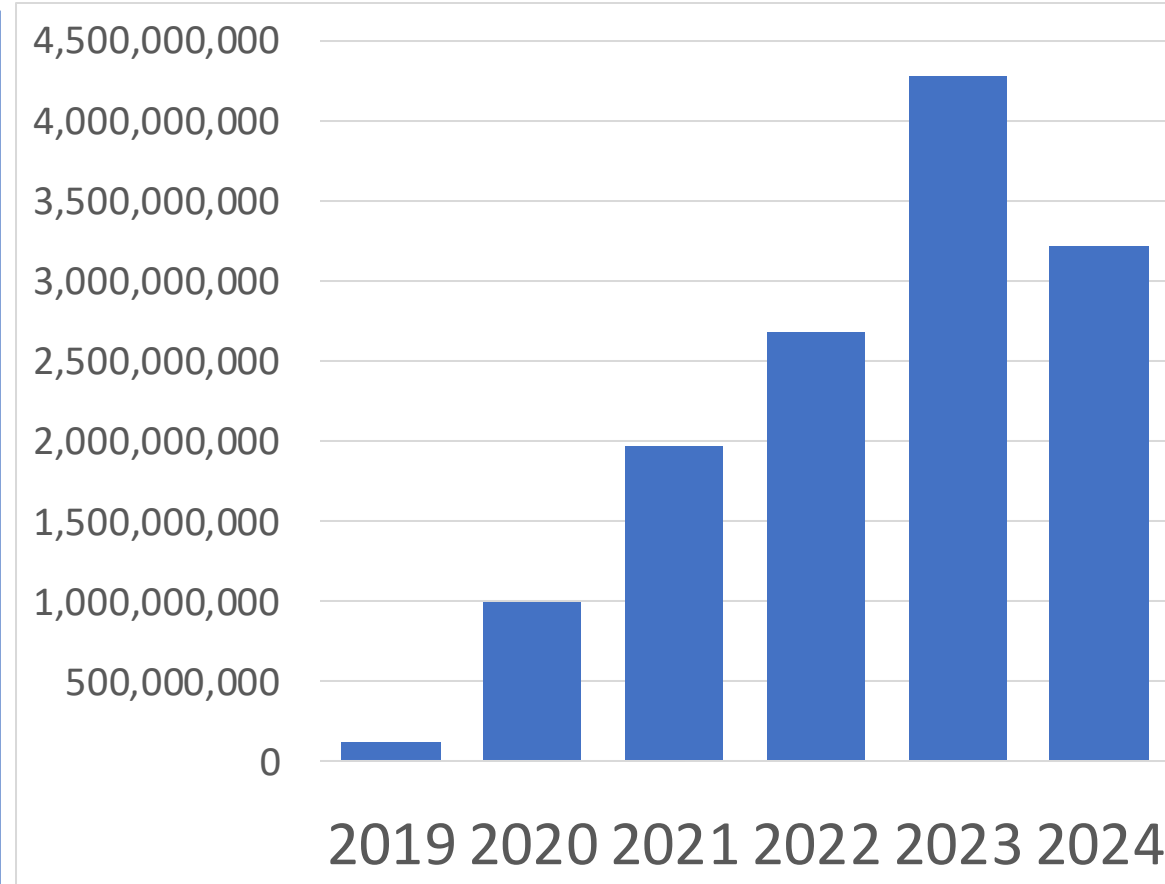
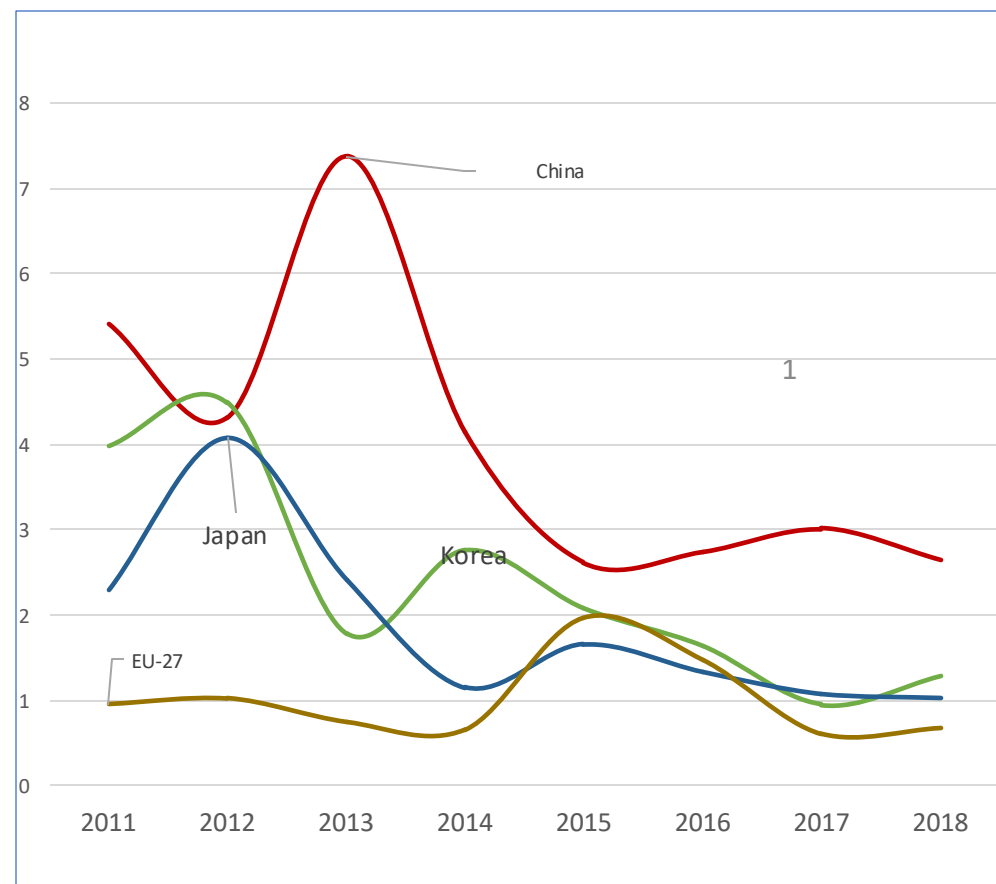
- Poverty reduction effect is lower than private firms
- Challenging for regional equality



**Proportion of enterprises violating environment legal protection regulations has increased: 12/27 firms (in 2017, share 44,5%); 14/25 firms (2018, 56%); 13/19 (2019, 68%)**

**Help Viet Nam to fulfil its international commitments on net-zero emissions by 2050**

**FDI in renewable energy 2017-2022**



- **Positively contribute to industrialization**
- **There are some evidence of negative effects**
  - Assembly model => low value added, dependence on imported inputs
  - Poor linkages to domestic sector
  - Small crowding out effect due to input competition
  - Lack of high quality FDI
  - Resource intensive => potential environment pollution

**Reasons: Industrial policy shortcomings and internal capacity**





## Policy implications

- Comprehensively reform investment incentive policies in a targeted, performance-based and conditional manner;
  - Strengthen domestic enterprise capacity, build a substantial supporting industry;
  - Breakthrough in developing high-quality human resources to meet the requirements of Industry 4.0<sup>1</sup>
- Establish a governance framework to attract FDI with inter-sectoral coordination;
  - Strengthen environmental governance capacity for FDI;
  - Enhance institutional capacity and policy implementation effectiveness







# tHANKS!

1



[www.kas.de](http://www.kas.de)