VET EXCLUSIVE

December 30, 2023 | 13:00 GMT+7

Grant Thornton Vietnam: FDI to benefit from improved global outlook

Phuong Hoa -

Mr. Kenneth Atkinson, Founder and Senior Board Adviser at Grant Thornton Vietnam, shares his thoughts with VET on FDI inflows in 2023 and what can be expected in 2024.

FDI capital to Vietnam reached $28.85 million in the first eleven months of 2023. How do you view Vietnam's FDI attraction in 2023 and the prospects for 2024?

Inflows of FDI in 2023 have proved to be extremely resilient in the face of economic uncertainty in some of Vietnam's traditional source markets. In the first eleven months of 2023, newly- registered FDI reached $28.85 billion, up 14.8 per cent over the same period of 2022 and a record in the last five years. Disbursed FDI was $20.3 billion, up 2.9 per cent.

Mr. Kenneth Atkinson, Founder and Senior Board Adviser at Grant Thornton Vietnam.

This of course shows that Vietnam is still recognized as a favorable destination for FDI and has retained its appeal as a destination for companies looking to reduce their dependency on China in their supply chains. This is further boosted by the country's political stability, availability of low cost labor, and large number of free trade agreements (FTAs) entered into.

I would expect that FDI will continue to show similar levels in 2024 for the reasons stated above, and also because of the expected improvement in the economic situation in Europe and North America as interest rates start to decrease. Many companies, I believe, have delayed investment decisions and will now start to move ahead in 2024.

Which sector will attract the most FDI capital in the country in 2024?

As in 2023, I would expect the most popular sector to continue to be manufacturing, as international companies look to continue the "China plus one" story, and with Vietnam's determination to attract chip manufacturing and expected further investments in the electronics sector.

What do you see as the opportunities and challenges for Vietnam's FDI attraction in the new year?

The opportunities are numerous if the government continues to focus on improving administrative procedures for licensing, remove bottlenecks, and create a better operating environment. As mentioned above, the government's determination to attract major chip manufacturers and other high-tech industries is a major opportunity. Increasing investment from Europe and North America, as their economies recover and interest rates fall, in addition to traditional regional investors, is a major opportunity. Continued attraction of FDI will help create more employment with higher wages, which will boost average per capita incomes, which in turn will help Vietnam avoid the middle-income trap.

Of course, there are also many challenges, which include the introduction of the Global Minimum Tax of 15 per cent for larger multinational companies and finding a way to offer incentives in place of previous tax benefits, which many large investors will be seeking. Creating stronger links between FDI and local companies continues to be a challenge, reflecting a lack of capital at many Vietnamese companies and a lack of experience in working with international companies.

The disconnect between central government directives and their application at the local level continues to be a challenge, as does a lack of transparency when dealing with government departments. The slow process of approving work permits and temporary residence cards (TRCs) is another challenge frustrating investors. Air quality is a concern for people living in major cities in Vietnam and for incoming expatriate workers.

What should Vietnam do to boost FDI inflows in 2024 and subsequent years?

In my personal opinion, Vietnam would be well advised to continue to address the challenges mentioned above to improve the attractiveness of its investment environment, and to focus on assisting the development of key sectors in the economy by reducing the challenges faced by existing stakeholders. A good example of this is the tourism sector, which pre-Covid contributed more than 10 per cent to GDP. The government needs to consider issuing ten-year retirement visas to people who wish to retire in Vietnam, as there is no downside, only upside, with a good regulatory regime.

This would encourage investment in real estate, particularly in coastal areas where there is a massive inventory of properties. It would also encourage investment in retirement villages. Facilitating MICE (Meeting, Incentive, Convention, Exhibition) travel, through the creation of a one-stop shop and incentives, or at least the removal of the current red tape and bureaucracy, would have a major impact on such travel, encouraging investment in MICE facilities and hotels.

Other action could include professionally organized road shows to different countries, promoting Vietnam as an investment destination, and these should include officials as well as investors from Vietnam. This has been successfully done in the UK, because of the strong strategic partnership between the UK and Vietnam and the great work of the Vietnamese Embassy in London. Also, encouraging greater cooperation between businesses and colleges and universities, particularly in industrial parks and export processing zones, would be a major step with mutual benefits. It would also assist in the development of graduates who are “work ready”.