Vietnam has been one of the most promising and active FDI markets in the Southeast Asian region and in the world. Since 2015, Vietnam has ranked third in ASEAN for inbound FDI, behind only Singapore and Indonesia, and one spot ahead of Malaysia.\(^1\) Vietnam is also among the top 20 countries attracting the most foreign direct investment (FDI), according to the *World Investment Report 2021* by the United Nations Conference on Trade and Development (UNCTAD).\(^2\) With FDI accounting for about 70 percent of Vietnam's exports, FDI has also been a significant driver of economic growth.\(^3\)

The EU-Vietnam Free Trade Agreement (EVFTA), which came into force on 1 August 2020, was expected to boost bilateral trade and FDI. As a result, two years following its implementation, it is worthwhile to assess its impact on FDI.

Newly registered FDI and registered FDI have both increased since the EVFTA was implemented. COVID-era reductions were initially seen for both. Registered FDI capital dropped from $38 billion in 2019 to $28.5 billion in 2020, while newly registered FDI capital dropped from $15.2 billion in 2019 to $14.8 billion in 2020.

However, both rose in 2021. FDI capital registered in 2021 rose to $31.2 billion, an increase of 9.2 percent year-on-year, while newly registered FDI capital reached $18.6 billion.\(^4\)

Overall FDI disbursement over the past four years has remained relatively stable, fluctuating between $19.1 billion USD in 2018, followed by a new high of $20.4 billion in 2019, then dropping to $20.0 billion in 2020 and $19.7 billion in 2021.\(^5\)

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\(^1\) Vietnam's Association of Foreign Invested Enterprises (VAFIE) 2021 Annual Report on FDI
\(^3\) https://www.cnbc.com/2022/03/28/vietnams-q1-2022-foreign-direct-investment-up-7point8percent-year-on-year.html
Between August 2020 and August 2021, the year immediately following the EVFTA implementation, EU investments dropped by 12.7 percent year-over-year, with newly registered capital of $423 million. Additionally, EU FDI projects decreased 21.35 percent year-over-year to 151. Registered FDI from EU countries to Vietnam fell 38.2 percent to $1 billion in the same period.

Between January and September 2021, EU FDI contributed to 2,249 projects, representing 6.59 percent of all FDI projects, and cumulative registered capital of $22.27 billion, or 5.52 percent of total investment capital.

Up to now, 2022 has seen mixed results for FDI. FDI disbursement into Vietnam increased by 7.8 percent year-on-year between January and May 2022, reaching $7.72 billion. Meanwhile, FDI pledges, which indicate the size of future FDI disbursements, fell 16.4 percent year-on-year to $11.71 billion. An estimated $4.12 billion of this was invested in 578 newly licenced projects, a decrease of 5.7 percent in project count and 53.4 percent in value. An additional $5.61 billion was invested in 395 ongoing projects, representing a 45.4 percent increase in value.

So far, European FDI has played a significant role in 2022, as evidenced by Denmark ranking third for FDI contributors to Vietnam in the first five months of the year. However, this is primarily due to Danish toy company The Lego Group investing $1.3 billion in a new carbon-neutral manufacturing facility in the Vietnam - Singapore Industrial Park (VSIP) No. 3 in southern Binh Duong Province.

Regardless, the majority of Vietnam's FDI has come from and continues to come from Southeast Asia and East Asia. In 2021, Singapore accounted for 34 percent of Vietnam's newly registered FDI capital, valued at $6.4 billion USD, followed by the Republic of Korea ($3.5 billion USD, 19 percent), Japan ($3.2 billion, 17 percent), Hong Kong ($1.7 billion, 9 percent) and China ($1.6 billion, 9 percent). The first five months of 2022 saw 79 countries and territories invest in Vietnam. A total of $3 billion of this was invested by Singapore, followed by South Korea ($2 billion) and Denmark ($1.3 billion).

### Total Registered Capital by Country/Territory from January to April 2022

<table>
<thead>
<tr>
<th>Country/Territory</th>
<th>Total Investment (billions of USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>$3.1</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>$1.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>$1.3</td>
</tr>
<tr>
<td>China</td>
<td>$1.1</td>
</tr>
<tr>
<td>Japan</td>
<td>$0.7</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>$0.6</td>
</tr>
</tbody>
</table>

Overall, this geographic trend has remained largely the same with FDI amounts in each of these countries expanding and contracting but maintaining a similar trajectory. According to a report by Vietnam's Association of Foreign Invested Enterprises (VAFIE), this is due to Vietnam's proximity to other Southeast and East Asian countries, which they interpreted

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7 https://tradingeconomics.com/vietnam/foreign-direct-investment
9 https://en.vietnamplus.vn/fdi-disbursement-up-7-8-percent-in-five-months/229325.vnp
as making Vietnamese culture and customs more familiar to investors in these countries.\textsuperscript{11}

According to the same VAFIE report, factors such as Vietnam’s lack of intellectual property rights protection, burdensome administrative procedures, and corruption may contribute to underwhelming investment from the United States, Germany, France, and the United Kingdom compared to their peers in East and Southeast Asia.\textsuperscript{12}

In keeping with previous years, processing and manufacturing continued to lead in 2022 with $6.8 billion, or 58.2 percent of total FDI. Almost $3 billion, or 25.6 percent, came from real estate, followed by $375 million from science, technology, and professional activities.\textsuperscript{13}

The EU currently invests in 18 of Vietnam’s 21 economic sectors. Manufacturing and processing account for the largest share. In this category, 36.3 percent of EU investment goes to refining and petrochemicals, 11 percent to textiles, 6.94 percent to electronics, 5.6 percent to food processing, and 5.2 percent to automobiles and transportation. With 20.7 percent, energy production and distribution ranks second among economic sectors, followed by real estate (11 percent), and information and communication (6.6 percent).

\begin{itemize}
\item EU FDI to Vietnam by Sector\textsuperscript{14}
\end{itemize}

\begin{table}[h]
\begin{tabular}{|c|c|c|}
\hline
Sector & \# of projects & Capital (millions of USD) \\
\hline
1 Manufacturing & 611 & $13,099 \\
2 Producing & 29 & $4,812 \\
3 Real estate business & 49 & $2,243 \\
4 Information & 303 & $1,639 \\
5 Real estate business & 450 & $1,398 \\
6 Mining & 14 & $855 \\
7 Other services & 13 & $529 \\
8 Warehouse transportation & 75 & $514 \\
9 Professional activities, science and tech & 521 & $489 \\
10 Water supply & 4 & $473 \\
11 Finance, banking & 10 & $462 \\
12 Construction & 45 & $350 \\
13 Accommodation & 80 & $318 \\
14 Agriculture, forestry & 39 & $180 \\
15 Health & 13 & $56 \\
16 Education & 32 & $32 \\
17 Administrative activities & 30 & $14 \\
18 Art & 14 & $8 \\
\hline
Total & 2,332 & $27,473 \\
\hline
\end{tabular}
\end{table}

Although EU investments are still mainly geared towards high-tech industries, the Ministry of Public Investment’s (MPI) Foreign Investment Agency (FIA) notes that the focus has recently shifted to services, with special attention being paid to communications, finance, commercial leasing, retail, clean energy, food processing, agricultural technology, and pharmaceuticals.\textsuperscript{15}

Economic growth is predicted to rebound in 2022 because of Vietnam’s rapid vaccination campaign and a relaxation of pandemic-related restrictions. Even so, the outcome will take some time to emerge, especially when external factors are causing inflation and high energy, commodity, and logistics costs, likely slowing worldwide economic growth.

\textsuperscript{11} Vietnam’s Association of Foreign Invested Enterprises (VAFIE) 2021 Annual Report on FDI
\textsuperscript{12} Vietnam’s Association of Foreign Invested Enterprises (VAFIE) 2021 Annual Report on FDI
\textsuperscript{13} https://vir.com.vn/fdi-grow-strongly-in-the-first-five-months-93775.html
\textsuperscript{14} Source: data from FIA, MPI, May 2022
\textsuperscript{15} https://fia.mpi.gov.vn/Detail/CatID/95f75c5b-b0bf-40a3-b486-2cc4e2d5cc01/NewsID/a3ea06a2-2899-4eb9-b4ec-8db8b5be5c24/MenuID/50557cad-3121-46e2-8449-37fb0a04483
Vietnam is currently aiming to achieve socioeconomic goals such as transitioning from being a low-income middle-income country to a middle-income country with a modern industry by 2025, and a high-income developed country by 2045. This is to be done by promoting the quality of FDI and domestic firms through knowledge and tech sharing initiatives, developing human capital, and adhering to high standards for accepting FDI.

The interests of Vietnam and Europe are aligned in this regard. It is likely that FDI from Europe to Vietnam will benefit in the long run since many European nations and firms remain world leaders in advanced manufacturing and high-tech sectors, including digital technologies, green technologies, clean energy, high-tech agriculture, and so on.

In view of all the information presented above, it is necessary to present a few caveats.

As a result of the pandemic, it is difficult to fully assess how the EVFTA impacted foreign direct investment. Since the economic situation has been inextricably linked to the pandemic over the past two and a half years, it is hard to separate the pandemic's effects from economic conditions over the same period. The start of the war in Ukraine has had a major impact on the global economy as well, making it even more difficult to assess the situation.

EuroCham's representatives also encountered difficulties when requesting FDI statistics from the MPI's FIA. A breakdown of FDI statistics by year or month from the past five or ten years would have provided a more comprehensive picture of Vietnam’s FDI situation. It was disappointing to find that the statistics provided to EuroCham were either too general or too detailed to provide a comprehensive picture of how FDI has developed in Vietnam, particularly for European FDI. In the interest of transparency, the MPI and its FIA should make accessing relevant statistics easier.

It is also difficult to fully utilise the benefits of the EVFTA due to the non-implementation of the EU-Vietnam Investment Protection Agreement (EVIPA). By creating commitments for fair and equitable treatment, investment protection, and legal transparency, the EVIPA would likely boost bilateral trade ties and foreign direct investment. Nevertheless, all EU member states need to ratify it before it takes effect. The process has yet to be completed. Vietnamese officials are aware of the negative impact that lack of EVIPA implementation is having, so they have personally sought EuroCham’s support to encourage all EU member states to ratify the agreement.