

### **Abstract**

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This study examines and explains the spatial allocation of FDI at the subnational level in the Socialist Republic of Vietnam over the period 1988-2000 using a comprehensive conceptual framework concerning definitional and theoretical aspects. The level of analysis applied in this study goes beyond aggregate balance of payments data by performing a careful dissection of the anatomy of FDI in order to examine its constituent components. The study offers novel insights into the evolving spatial patterns of FDI by reporting FDI data at the most comprehensive level of detail published to date.

Based on the definition of FDI applied in this study, Vietnam attracted 3,333 projects with total approved FDI amounting to USD 42.7 billion of which about 43 percent was disbursed over the period 1988-2000. FDI in Vietnam is very much an intra-regional affair where approximately two thirds of the projects, capital commitments and disbursements originate from source countries in East and Southeast Asia including important amounts derived from the regional ethnic Chinese diaspora. FDI capital from extraregional source countries in Europe, North America, and Australia, was in comparison limited. In aggregate, the sectoral allocation of FDI was biased towards the industrial sector, and especially manufacturing, accounting for over two thirds of the capital with the remainder in service-related activities and minor amounts in the primary sector. FDI was dispersed across the whole country during the 1990s, however, with major concentrations to the urban centers of Ho Chi Minh City and Hanoi with adjacent provinces.

Based on relevant aspects of the eclectic framework of FDI analysis this study finds manifest dissimilarities in the locational behavior, mode of entry, sectoral involvement, market-orientation, and technological scope of investments among foreign investors of different country-of-origin. Geographic incentives offered to foreign investors in an attempt to influence their locational decisions have had little effect on the spatial allocation of FDI. This study indicates that ownership and locational strategies adopted by foreign investors have been heavily influenced by the impact of formal and informal domestic institutions that to a large extent explain the spatial distribution of FDI locations. The geography of existing state-owned enterprises dictated the spatial allocation of foreign invested joint ventures. In general, manufacturing FDI in joint ventures with state entities contributed to reinforce existing industrial agglomerations whereas wholly foreign owned enterprises to a larger extent transformed and expanded the industrial landscape by establishing production in new industrial zone developments located in rural areas adjacent to the major cities.

**Keywords:** Vietnam, Southeast Asia, FDI, eclectic paradigm, source country, country-of-origin, location, subnational locational patterns, manufacturing, nonmanufacturing, industrial zone, export processing zone, regional economic development

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