

## Attracting foreign direct investment in higher education industry in Vietnam

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### Abstract

Recognizing the importance of higher education, the Vietnam Communist Party and the State of Vietnam have many policies to encourage investment in higher education, calling for and creating the best conditions for foreign investors. The education market in Vietnam is highly appreciated by foreign investors, especially after the Decision on university autonomy was approved in March 2015. From seeing the necessity of attracting FDI to Vietnam's education services, this article was written to show the fundamental role of universities in attracting FDI. By analyzing the above problem, we can make comments on the importance of Vietnamese universities, thereby giving opinions to improve the ability to attract foreign direct investment into Vietnamese higher education industry.

**Keywords:** university's role, foreign direct investment, higher education, Vietnam

### 1. Introduction

Foreign direct investment (FDI) has always been considered one of the pillars of Vietnam's industrialization and modernization and economic growth. FDI has been an important source of capital, contributing to the national economic restructuring towards industrialization and modernization, contributing to improving management capacity, promoting technology transfer, expanding markets and creating more jobs (Nguyen Thi Mai Huong, 2014). However, one of the conditions for attracting foreign direct investment is human resources. According to the World Bank, Vietnam is very short of skilled workers, high-level technical workers. So far, a shortage of highly qualified human resources is one of the reasons affecting the ability to absorb FDI (Nguyen Thi Kim Anh, 2014). A country, rich or poor, always puts education first, especially higher education and training high-quality human resources for the national socio-economic development. At the 11th National Congress, Vietnamese Communist Party affirmed that developing and improving the quality of human resources, especially high-quality human resources is one of the factors determining fast and sustainable development of the firms in the country <sup>[1]</sup>. Higher education is the driving force for social development, being always in parallel with the national economic development. Therefore, a large and comprehensive task to be implemented for education and training system is to bring into full play its role in the development of human resources in Vietnam. It requires fundamental and comprehensive innovation of education and training according to the development needs of the society (Ngo Thi Thu Ha, 2014). In particular, today, international integration has become a great trend of the modern world, strongly impacting all the fields of life of each country. Vietnamese higher education will inevitably be influenced by the increase in quality and innovativeness of international education system set by the most advanced countries in the world. This is an opportunity as well as a challenge for Vietnamese higher education to take

appropriate steps to integrate with the world (Nguyen Thi Kim Thoa, 2015).

In the spirit of fundamental and comprehensive innovation of Vietnamese education in the direction of standardization, modernization, socialization, democratization and international integration <sup>[1]</sup> on November 4, 2013, the Party Central Committee issue Resolution No. 29-NQ / TW on basic and comprehensive innovation of education and training, meeting the requirements of industrialization and modernization in the context of socialist-oriented market economy and international integration which clearly explains major solutions for comprehensive education innovation (Pham Cong Nhat, 2014). The implementation of Resolution No. 29 has been going on, despite many difficulties and challenges and so far Vietnamese education has made positive changes, contributing to improving the quality of human resources as well as attracting foreign direct investment.

### 2. Theoretical Framework

#### 2.1 Foreign Direct Investment

Foreign direct investment refers to the fact that foreign investors bring into Vietnam their capital in cash or in any assets to conduct the investment activities <sup>[2]</sup>. Foreign direct investment is made up of multinational companies having their own advantages that local rivals do not have, these advantages focus on advanced management and technology methods. Therefore, foreign direct investment promotes the international dissemination of new technologies and intangible assets, while increasing the efficiency of management or production organization. On the other hand, having such advantages, multinational companies will impact the natural factors of the nations, thereby increase level of income. Finally, foreign direct investment will stimulate competition among domestic companies. (Tran Ngoc Tho and Nguyen Ngoc Dinh, 2008). There are following forms of foreign direct investment.

- Form of business cooperation contract - This is a

document signed between a foreign investor and a domestic investor (investment recipient) to conduct one or more production and business activities in the host country on the basis of regulations and distribution of achieved business results without establishing a company, enterprise or creating a new legal status. (Tran Ngoc Tho and Nguyen Ngoc Dinh, 2008).

- Form of company or joint venture enterprise - The enterprise or joint venture is established between a party that is a member of the investment recipient country and a party who is an investor in another country participating. A joint venture enterprise may consist of two or more parties to a joint venture.
- Form of company or enterprise with 100% foreign capital - This is the form of companies wholly owned by foreign individuals or organizations and by the foreign party to establish itself, self-manage and take full responsibility for the business results (Tran Ngoc Tho and Nguyen Ngoc Dinh, 2008). It could be established in the form of a limited liability company that has legal status under Vietnamese law<sup>[3]</sup>.
- Other forms - Investment in export processing zones, special economic zones, within construction - operation - transfer (B.T.O) projects are often facilitated by developing countries' governments to implement economic infrastructure upgradation (Nguyen Cong Van, 2016).

## 2.2 Advantages from attracting Foreign Direct Investment

**Supplementing domestic capital** - In the arguments about economic growth, this factor is always one of the first mentioned factors. When an economy wants to grow faster, it needs more capital. If domestic capital is not enough, the economy will need foreign capital, including FDI. (Tran Ngoc Tho, Nguyen Ngoc Dinh, 2008).

**Acquiring management technology and know-how** - In some cases, capital for growth, though lacking, can be mobilized somewhat by austerity policy. However, management technology and know-how cannot be obtained by that policy. Attracting FDI from multinational companies will give a country the opportunity to acquire new technology and business management know-how that these companies have accumulated and developed over the years and with large expenses. However, the dissemination of such technologies and management skills to the whole country to attract investment depends very much on the country's ability to absorb them.

**Join the global production network** - When attracting FDI from multinational companies, not only multinational companies, but also other domestic enterprises that have business relations with that them will participate too in the regional division of labor. Therefore, the country attracting investment will have the opportunity to participate in the global production network to facilitate export and increase trade with many countries in the region and the world. (Tran Ngoc Tho and Nguyen Ngoc Dinh, 2008)

**Increasing the number of jobs and training workers** - Because one of the purposes of FDI is to exploit the conditions for achieving low production costs, foreign-invested enterprises will hire many local workers. The income of an given part of the local population will contribute positively to the local economic growth. In the hiring process, vocational skills training, which in many cases is new and progressive in developing countries

attracting FDI, will be provided by the enterprise. This creates a skilled workforce for the country attracting FDI. Not only ordinary workers, but also local experts have the opportunity to work and be professionally trained in foreign-invested enterprises.

**Big budget revenue** - For many developing countries, or for many localities, taxes paid by foreign-invested enterprises are an important source of state budget revenue up to 50 percent of domestic revenues in the some localities.

## 2.3 The role of education insocio-economic and human resource development

### The position of education for socio-economic development

In social life, education in general and higher education in particular is an important area for all nations in each of their stage. In the trend of knowledge development today, higher education is considered a policy, a leading important measure for economic development in many countries around the world and Vietnam is not an exception. Education and training is not only a goal but also a driving force for economic development. The origin of development and prosperity is not only based on natural resources, but most importantly on human creativity. Thanks to education, people have intellectual ability, knowledgeable and professional abilities. Higher education aims to promote the endogenous capacity to shorten the distance to the national industrialization and modernization. Most countries in the world place education at the forefront of national socio-economic development priorities (Nguyen Thi Quynh Nhu, 2007). According to Article 5, Vietnam's constitution, education and training is the first national policy, the cause of the State and the entire people.

### The role of education in human resource development

Today, in the context of the scientific and technological revolution, the rate of muscle labor is declining, intellectual labor is increasing. Comparative advantage based on the number of workers and cheap labor costs is declining and moving towards the rate of high quality human resources. Therefore, the quality of human resources is becoming the most decisive factor for increasing competitive advantage as well as the rapid and sustainable development of each nation. In Vietnam, Party (Vietnam Communist Party) is also consistent with the viewpoint affirming that human resources are precious and play a decisive role, especially for Vietnam, when financial and material resources are still limited<sup>[4]</sup>. However, in order to develop high quality human resources to meet the increasing demands of industrialization and modernization, we need synchronous solutions for education and training, for health care to improve the population quality, the living environment, to boost job creation and organization of labor force exploitation, cultural development to create working motivation in people.

Not only in the current stage, but the contemporary Marxist-Leninists theory have placed education at the center of the cause of building socialism. In the book "Discussing cooperation regime", V.I. Lenin wrote that fundamental change is done when do not focus our efforts on the political struggle, on the revolution idea, on gaining government control by the Party but instead to focus of our work and efforts on education (Lenin, 1987). He also explained why education is so important and the development of education and training is the top national

policy as they have a mission to improve people's intellectual standards, develop human resources, foster talents and make an important contribution to the national development <sup>[5]</sup>. Human resource development can be understood as the overall forms, methods, policies and measures to create the growth in quantity and quality of human resources. At the same time, we need to improve the management staff efficiency so that this resource can better meet the national goal of sustainable development. From the content of such human resource development policy and guidelines, we can see that the role of education in human resource development is in fact increasing the quality of human resources and ensuring the right quantity structure to work in each industry and field of the economy.

The reason that education plays an important role in human resource development is because the object of education is the working people and the goal is to equip necessary competencies and capabilities for people participating in economic life of the society. Education impacts people as the subject of social activities to transform them in terms of increasing physical and mental strength, their ability to participate in socio-economic activities. Education contributes to the improvement of the educational level, scientific and technical level, processing technology, management organization and practical operation capacity of employees. Thus, education reproduces the capacity of human activities, promoting social development. Education is not only the main method to preserve, disseminate, exchange and develop culture and science, but also creates human resources for the purpose of labor re-production. Therefore, today, people conceive that education is not only a social welfare to improve spiritual life, but also a part of the cultural revolution and ideology, holding a fundamental position and a decisive role for socio-economic development, to provide manpower for all sectors of national economy.

### 3. Research Methodology

Research methods used in the article include data collection methods and data analysis methods. Methods of data collection including documents and secondary data which are mainly synthesized from the published studies in books, newspapers, magazines and official websites of related ministries and branches. Methods of data analysis include:

- Descriptive statistical analysis method - the article uses descriptive statistical methods through the tools such as: relative number, absolute number to describe the situation of attracting, using FDI in the universities in Vietnam in the past time.
- Comparative statistical analysis method – the comparative statistical method is used to compare the criteria of attracting capital of universities over the years.

### 4. Research Results and Discussion

#### 4.1 Research results

In 2000, only a modest number of projects were occupied, but it was the year with the largest investment capital in all years, because the projects were mainly large projects to establish University, language institute and centers. In general, the investment capital of projects over the years tends to increase, but in 2007 alone, there is a downward trend because Vietnam must implement WTO commitments on education services. The number and capital of projects

invested in education services generally tend to increase. On January 11, 2007, Vietnam officially joined the WTO as a result of the Party's and the State's correct guidelines in the trend of international economic integration. So far, 204 projects have been attracted with a total registered capital of 825.5 million USD, including 522.6 million USD of 100% foreign capital projects, 277.68 million USD of joint venture project, the rest is in the form of joint stock companies and business cooperation contracts. Particularly in 3 big cities, namely Ho Chi Minh City, Hanoi and Da Nang with a total investment of approximately 749.15 million USD in the field of education and training. Other localities such as Hai Phong, Ha Tay, Da Nang and Hai Duong also have 7 foreign-invested educational and training establishments with the capital of up to 1 million USD. In general, the average capital scale of projects ranges from 450 thousand to 600 thousand USD, a figure is still quite modest compared to other sectors. Currently there are foreign-invested universities and colleges, such as RMIT University, British University in Vietnam, and the international college Kent, College International Cetana PSB Intellis, American Pacific University (APU), Vietnam - Singapore Vocational College. About investment partners, Australia is the largest partner in foreign invested education and training. With 10 projects, including a project to establish RMIT Vietnam University with a total investment of over 37 million USD, Australia has demonstrated its role in establishing reputable educational institutions in Vietnam. Singapore is the country with the largest number of foreign investment projects in education and training in Vietnam (23 projects). However, the scale of these projects is relatively small, so the total registered capital is only is 3.4 million USD. The United States, Britain, South Korea and Japan also have many vocational training, foreign language and general education projects in Vietnam. In terms of investment forms, all projects are invested in the form of 100% foreign capital with the main training level being vocational training, language teaching, IT skills training. In addition, preschool education accounts for 9 projects with a total capital of nearly 17 million USD. Australia has invested 41.1 million USD in RMIT University projects in Vietnam, British University Vietnam (BUV) with a total investment of 70 million USD. Primary, secondary and high school education have a total of 4 projects with a total registered capital of nearly 12 million USD <sup>[6]</sup>.

#### 4.2 Discussion

Welcoming FDI streams into education also means that domestic education faces fierce competition. It is this competition that forces domestic education to have certain changes in order not to lag behind; to reform the entire way of teaching foreign languages in schools. In order to be confident in competing with foreign partners, one of the must-do requirements is to internationalize the teaching staff, increase the contingent of human resources from abroad not only in teaching, but also in management. This is an opportunity to help upgrade the quality of teaching in Vietnam. There are not many investment projects, training facilities with FDI capital in recent years that brought about effective results. Most of the projects are from investors from United States, UK, Australia, countries with top quality education in the world, with a long development history. Qualifications of these countries are recognized and regarded as highest standards worldwide. Thus, the

education and training sector in Vietnam has quickly approached international education, with implemented advanced teaching, research and learning methods, creating conditions for Vietnamese students to develop their full potential. Vietnamese students can now have opportunities to study international quality programs right in their homeland. (Dinh Trong Thinh, 2017). To further meet economic growth goals in the context of deep integration into the world economy, especially in order to attract and effectively use FDI in the future, we believe that Vietnam needs to implement some following measures soon:

First, focus on improving the legal system and policy mechanisms in line with the requirements of the international economic integration committed, contributing to creating a favorable business environment to attract all necessary resources, both at home and abroad for the purpose of development investment. To synchronously develop and effectively manage all kinds of markets/sectors in the economy, including real estate, capital, services, labor, science and technology.

Second, we need to continue administrative reforms under the one-stop-shop mechanism for dealing with investment procedures. We need handling in time all problems with issuing investment certificate, improving the qualifications of the contingent of civil servants to ensure compliance with the provisions of the Investment Law and new regulations on decentralization of FDI investment management.

Thirdly, we need to focus all resources to invest in upgrading infrastructure systems, especially traffic, airports and seaports in order to create favorable conditions for investors in the process of conducting investment activities in Vietnam.

Fourthly, the State needs to invest in developing human resources to better meet the requirements of enterprises. At the same time, strengthening the monitoring and supervision activities for FDI enterprises is needed to ensure fairness for domestic enterprises and maintain friendly relations with investing countries. In particular, it is necessary to create a unified legal corridor, ensuring effective management for all business sectors <sup>[7]</sup>.

## 5. Conclusion and Recommendation

### 5.1 Conclusion

The reality of 20 years of attracting FDI to all sectors in general and to the education and training industry in particular has shown great contributions of this economic sector. During the negotiations to join the WTO, Vietnam has pursued a positive, proactive and committed stance to implement GATS (General Agreement on Trade in Services) for all 12 service sectors, including education. Commitment to implementing GATS on education will put Vietnam's education at great challenges. If there is no will and determination to innovate and develop then higher education will not be competitive, national cultural identity and traditional cultural values will be faded, the loss of manpower will be increasingly serious, national interests will be violated, the gap between Vietnam and developed countries will increase. Therefore, attracting foreign direct investment to develop educational services is an extremely right step in front of the lack of facilities and difficulties in education management in Vietnam. Having a reasonable policy to attract foreign direct investment will promote the development of educational services, contribute to improving people's intellectual standards, and provide the

country with highly qualified human resources, thereby contributing to promoting the economic development of the country, raising the position of Vietnam to a new height.

### 5.2 Recommendation

- Unifying awareness and views on FDI attraction to develop educational services.
- Defining clearer products and educational institutions.
- Completing the system of laws, mechanisms and policies related to FDI attraction to develop educational services.
- Regarding the guidance of procedures, calling more for investment in education and training projects.
- Improving the effectiveness of public management of FDI activities in developing educational services.
- Research and expand models to attract FDI capital to develop educational services.

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