The Marketing Approach to FDI Attraction*

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This paper reviews FDI attraction activities in Vietnam from the viewpoint of marketing and offers some ideas for improving them. Section 1 introduces key concepts of marketing variables and their interpretations as applied to FDI attraction. Section 2 addresses problems in Vietnam's FDI attraction. Section 3 contains proposed steps to set up and strengthen Vietnam's FDI attraction strategy by solving the problems raised in the previous section.

I. Marketing from the Perspective of FDI Attraction

In Vietnam, the term "marketing" is usually translated as "tiếp thị." However, since this Vietnamese term does not fully reflect the concept, many choose to keep the original term "marketing." The general idea of the term "marketing" is simply described as the principle that one should provide what the market needs rather than what he/she has. At the level of general discussion, this is a widely accepted idea among businesses, policy markers and academic people. In practice, it is not always applied when designing and implementing economic policies. Among policy makers of the government, the questions often raised are what role the government should play and what concrete action the government should take for this purpose. Answers to these questions are not yet united and, for this reason, policies are not always consistent and transparent. The policy of FDI attraction is no exception.

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Generally, marketing is defined as "the process by which a product or service originates and is then priced, promoted, and distributed to consumers" (*MSN Encarta*, an online dictionary). The American Marketing Association (AMA) defines it to be "an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.[1]" As seen here, several related concepts such as product, price, distribution, promotion, etc. are normally used to define marketing. In practice, however, the most important thing is to integrate all these variables into one united marketing program.

The Fulbright Economics Teaching Program (FETP) in Ho Chi Minh City uses two textbooks on marketing *places*, proposing the marketing approach to FDI attraction of provinces and the participation of provinces in the world market (FETP 1999a, 1999b). These textbooks cite many cases in which the marketing approach to FDI attraction has been used by various investment promotion agencies around the world. One of these textbooks also quotes Wells and Wint who discuss the roles of various promotion techniques (Wells and Wint, 1991), appropriate organization for FDI promotion, and the evaluation technique for investment promotion function. While these present important inputs to the marketing strategy to attract FDI, these textbooks do not show how to integrate all elements of marketing into one program.

MPI and JICA (2003) conducted a comprehensive study on FDI promotion strategy. It suggests that FDI promotion activities should aim at changing the image of Vietnam. The study proposes that Vietnam clearly identify target investors and use relevant promotion techniques. It also stresses specific measures such as setting up a national investment promotion agency and implementing action programs to ensure the success of FDI promotion. Currently, MPI is following up on the suggestions of this study. However, there still remain some vital problems in FDI attraction which need to be addressed and solved.

From the marketing point of view, foreign investors come to a host country not because of good investment environment as perceived by the authority but because of the actual benefits from that investment environment. The government should understand the requirements of FDI firms and target policies to satisfy them. The remainder of this section will present the idea that investors are customers and discusses the importance of understanding investors' needs. We will also explain how to use key marketing variables in FDI attraction.

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[1] These definitions are available at: www.marketingpower.com and encarta.msn.com.

1. Investors are customers

If the government considers FDI enterprises to be its customers, from the modern marketing approach, it is crucial that it truly understands customers' behaviors and desires. The Vietnamese government always says that its policy favors all enterprises operating in Vietnam including domestic and FDI enterprises. However, FDI enterprises keep complaining that they hardly benefit from current policy instability and the dual price mechanism. In the electronic industry, for example, issues like localization requirement and tariff structure raise the concern of Japanese assemblers (Mori and Ohno, 2004). How should the government overcome this situation? As a first step, the government must listen to enterprises and find out the root cause of their worries. Its views and policies must be shared with and communicated effectively to all investors. Investors have the right to be understood by the authorities.

2. Understanding investor needs is the key to satisfy them

The government tries to achieve a large number of economic, political and social goals. These are often sets of goals pursued independently by businesses, targeted groups and executing organizations which are not always integrated or mutually consistent. The government must set priorities, coordinate among these goals and try to create a "win-win-win" situation among the three stakeholders mentioned above. In order to achieve this, the government must understand the requirements of all participants including those of foreign investors. Understanding investors' needs is the key to satisfy and retain them, and to increase the number of investors in the future. Since there are many different business motivations and models among FDI enterprises, satisfaction of the needs of FDI enterprises is not simple or easy. For example, Mortimore (2003) shows that investors' goals vary widely and include: (i) securing raw materials; (ii) market access (national or regional); (iii) seeking efficiency; and (iv) gaining strategic elements.

Vietnam needs to examine why FDI enterprises choose Vietnam or China or Thailand. It needs to know what encourages foreign investors to invest in a country like Vietnam. It must find out who are the key players in the investment decision-making process. It also needs to know what it should do concretely to draw the attention of FDI enterprises and inspire other influential parties. Vietnam needs to be aggressive in assisting FDI companies already operating in Vietnam to overcome obstacles so they will say, "Vietnam is a good (or potentially good) investment destination."

Case 1: Procurement behaviors of Japanese enterprises in the electronics industry

Mori and Ohno (2004) show that FDI companies in electronics already in Vietnam are willing to purchase bulky parts domestically while importing compact and globally common parts. They are seeking optimal procurement pattern from the best suppliers in the world, not just in Vietnam or even in ASEAN.

Regarding localization, Canon places high priority on localizing those parts that help the company solve management and operation issues, such as (i) parts that reduce the transportation cost, especially heavy or bulky parts; (ii) high-tech parts; and (iii) parts affecting cash flow. While the decision-making of Canon has been from the headquarters to affiliates, the company is now considering to reduce the involvement of the headquarters in parts procurement of affiliates. Canon would particularly like to see the supporting industry in plastic parts, molding tools for plastic parts, metal parts, and molding tools for metal parts to grow in Vietnam.

In the electronics industry, suppliers follow assemblers. Japanese companies look for suppliers who understand the Japanese production system which focus on achieving high quality. In searching local suppliers, *quality*, *quality* and *quality* are the first, the second and the third concerns of Japanese companies. They are followed by *promptness in delivery* and *cost factor* as the fourth and the fifth concerns of Japanese companies. In addition to superb engineering skills, potential suppliers must be able to communicate with Japanese assemblers effectively in the Japanese language. It is understood that, compared with Thailand, Vietnam currently has only a very small supporting industry base. To catch up, Vietnam must support and work effectively with small and medium enterprises (SMEs) and foreign invested enterprises (FIEs) so they will invest vigorously in the required supporting industry.

At the general level, the promotion of supporting industry for electronics is shared widely among Vietnamese officials and foreign investors. However, the Vietnamese government and some local suppliers have not yet understood the concrete procurement behaviors of Japanese electronics producers.

Case 2: Export behaviors of FDI enterprises in automobile industry

Some say that foreign automobile assemblers in Vietnam complain too much while their operations are very profitable. Others argue that these automobile companies should find new export markets rather than lamenting the unfavorable policy climate for selling in the domestic market. Assemblers are also criticized for importing too many parts and not collaborating with the government policy to develop supporting industries. Policy makers and businesses both agree that it is difficult to rapidly develop supporting industries for the automobile industry in Vietnam. On the other hand, foreign assemblers state that exporting their products is hardly possible since the high price of cars assembled in Vietnam does not allow them to compete internationally (Ohno and Mai, 2004).

This case shows, among other things, that Vietnamese government fails to understand the export behaviors of FDI enterprises in the automobile industry. It does not recognize that market access has been one of the main motivations of automobile enterprises investing in Vietnam.

3. Five marketing variables for FDI attraction

Textbooks on marketing usually start with the general concept of marketing followed by discussions on the strategies for product, pricing, distribution, promotion and so on. Each policy is discussed separately. In practice, this approach is not effective in creating a marketing plan *unless they are integrated*. Professor Philips Sidel (2002) at the MBA program of the International University of Japan uses five strategic variables to build and analyze a marketing plan: product, positioning, target audience, scope of distribution and scope of communications. In the case of FDI attraction, these five variables can be described as follows.

Product:

Product is what satisfies customers' need. The modern marketing theory shows that customers buy a product not because of its goodness as perceived by producers but for the benefit of the product as perceived by customers. What is the product when we talk about FDI attraction programs? Is it the policy, the benefits of the policy, or the resulting business environment? The Vietnam-Japan Joint Initiative (2003) is very clear on this point. It states that the product of FDI policy is not the policy itself but the investment environment. This paper agrees with this.

Positioning:

According to Prof. Sidel, "Positioning is what we say to our customers. It helps shape the image of what need, want or desire our product meets, and the value that should be placed on our solution" (Sidel 2002). In other words, positioning is concerned with what perception we would like customers to have about the product. It is important for the government to know the evaluation of investors on the investment environment of Vietnam (which is the product). For effective positioning, the government ought to objectively know the present strengths and weaknesses of Vietnam vis-à-vis its rival countries and define a realistic direction toward which Vietnam can travel in order to dramatically improve its investment environment in the minds of investors. "Appropriate positioning" is more important than "high positioning." Setting goals that are too ambitious will reduce feasibility in implementation and credibility in the eyes of potential investors.

Target Audience:

Since foreign investors are not uniform, they must be categorized into different segments. They can be divided into groups by country origin, by industry, by company type (MNCs or non-MNCs), or by the strategy they follow (domestic market-oriented versus globally-oriented). The government cannot satisfy all investors at the same time. The benefits of investment environment should be geared to the targeted foreign investors[2].

Different provinces may target different audiences. Hanoi, while welcoming all investors, prefers investors in finance and services. Similarly, Vinh Phuc Province states that its target audience is all kinds of investors (Dam 2004). However, Vinh Phuc actually targets foreign investors located in small cities rather than those located in capital cities since competition for attracting FDI is high in capital cities which receive a large number of commercial delegations. In addition, Vinh Phuc does not target export-oriented investors as it does not think it has comparative advantage as an export base and does not currently enjoy as much benefit from export-oriented FDI firms as other provinces.

Scope of Distribution:

In marketing terminology, the scope of distribution is the process and location in which customers can purchase the product. With respect to FDI attraction, the scope of distribution should be understood as the place and process in which investors can register and implement their investment projects in Vietnam. Currently, foreign investors can register their investment at the national, provincial and industrial park levels depending on the amount of investment and

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[2] Some may object to this view by saying that in principle, the government should create a fair and nondiscriminatory investment environment. I am not against this argument. However, since different investors draw different benefits from the same "nondiscriminatory" investment environment, it is hardly possible to construct a completely neutral business climate in the true and practical sense.

the branch of industry. Vietnam has made a great progress in investment registration procedure. For example, to invest in Hanoi, foreign investors must wait for 7 working days to receive an approval if the project is in the specially encouraged sector, for 15 working days if it is in the encouraged sector, and 21 working days otherwise (DPI of Hanoi, 2004). In the Vietnam Singapore Industrial Park in Binh Duong Province, foreign investors in any sector need to wait for just a week for an approval.

Receiving the approval is only the first step toward realizing an investment project. Investors want to see their plan come to life and generate profits from their investment. Vietnam must also improve post investment services to satisfy investors' needs after they come to Vietnam. While Vietnam is making progress in attracting FDI through public relation activities and the simplification of registration procedure, FDI enterprises that have come to Vietnam keep complaining about the lack of policy stability and transparency. It is sometimes said that Vietnam has implemented a "one door" policy but many "locks" are still on the door. This situation discourages FDI enterprises from inviting other investors from their home. In marketing theory, the cost of attracting a new customer is always higher than the cost of persuading a present customer into repeat buying. If the theory is also true for FDI in Vietnam, existing foreign enterprises have a great potential for expanding their projects in Vietnam and advising other enterprises to come to Vietnam.

What are the crucial elements in post investment services in order to attract more FDI to Vietnam? There should be a deeper and more comprehensive coordination among ministries in designing and implementing administrative procedures (land clearance, taxes, accounting, tariff rates, customs clearance, etc) so that investors are positively assisted, rather than hindered, in starting and running their businesses. Another key issue is a clear policy framework complete with an overall industrial master plan, master plans for individual industries, and plans to promote supporting policies[3].

Scope of Communications:

The scope of communications is how and where positioning is delivered to the target audience. As noted above, foreign investors consist of different groups. After deciding the target audience, the government should work out communication programs that deliver its message regarding

[3] One senior manager of an international logistic company stated that Vietnam's custom procedure was extremely complicated. Moreover, the working hour of customs offices is until 4.30 pm only when it should be a 24-hour service.

the investment environment to the target audience. Communication programs must be consistent with and supportive to the positioning statement.

Wells and Wint (1991) describe three types of promotion techniques used by investment agencies, namely, (i) primary image building techniques; (ii) primary investment generating techniques; and (iii) investment service techniques. They are to be used in the communication programs for effectiveness. It should be noted that some countries that have already established a clear image as an FDI destination such as Malaysia, Thailand and Singapore no longer focus on image building. The orientation of investment promotion programs of the Malaysian Industrial Development Authority (MIDA), Thailand's Board of Investment (BOI) and Singapore's Economic Development Board (EDB) has shifted entirely to investment generation. But in Vietnam where the country image as an FDI host is ambiguous and unstated, primary image building remains crucial.

Table 1. Investment Promotion Techniques

Primary image building techniques	**Primary investment generating techniques**	**Investment Service Techniques**
1. Advertising in general media 2. Participating in investment exhibitions 3. Advertising in industry- or sector-specific media 4. Conducting general investment missions from source country to host or from host country to source country 5. Conducting general information seminars on investment opportunities	6. Engaging in direct mail or telemarketing campaign 7. Conducting industry or sector specific investment missions from source country to host country or vice versa 8. Conducting industry or sector specific information seminars 9.Engaging in firm specific research followed by sales presentations	10. Providing investment counseling services 11. Expediting the processing of applications and permits 12. Providing post investment services

Source: Compiled from Wells and Wint (1991).

Some promotion techniques have been used by MPI, provinces and industrial parks from time to time. However, they are often used independently without being integrated into a consistent whole.

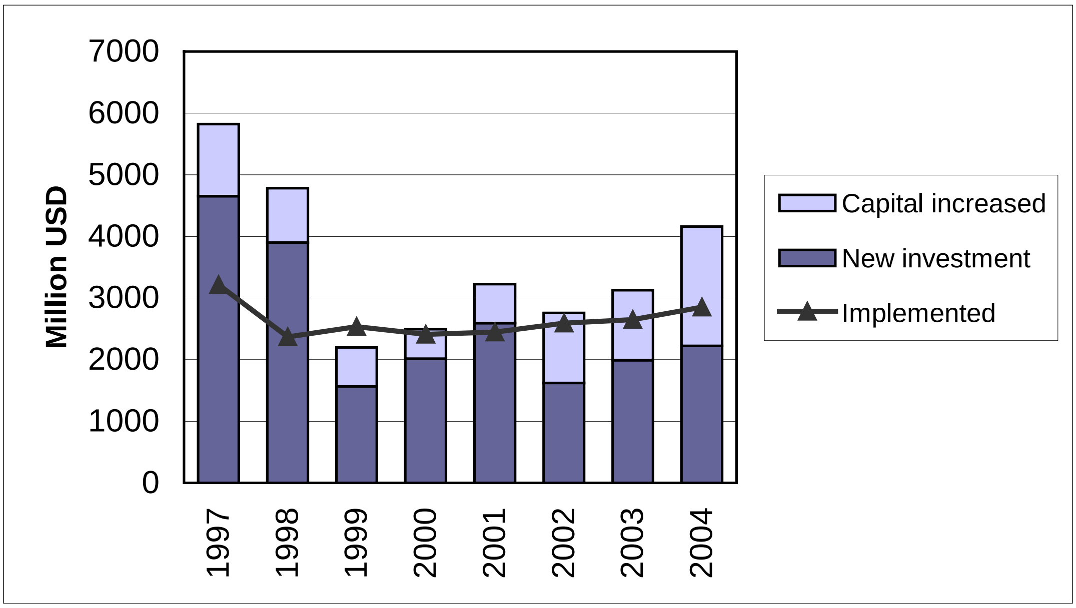
In principle, the government needs to provide potential FDI enterprises with reliable and useful information which fully reflects Vietnam's policy on FDI attraction. The government must be sure that what it says is what FDI enterprises really want to hear. For example, if Vietnam targets MNCs in electronics such as Canon, Sony, Matsushita, Philips, LG and Samsung in search of a production site to supply electronic products to the ASEAN market, it is necessary to make sure that they know Vietnam's intention and "selling points" as well as its commitment to realize them through conferences, seminars and especially a lucid master plan for the development of the electronic industry.

This section has argued the need for the government to regard investors as customers and for fully understanding their behaviors. The key strategic marketing variables of product, positioning, target audience, scope of distribution and scope of communications were explained from the angle of FDI attraction. These five variables imported from the marketing approach can help policy makers to build and implement an FDI attraction plan, whose detailed steps will be proposed in section 3. Before that, however, section 2 will discuss the current problems in Vietnam's FDI attraction.

II. Two Crucial Problems of Vietnam's FDI Attraction

Over the last few years, Vietnam has organized many forums between businesses and government officials and hosted public relations activities in a number of foreign countries. While Vietnam has a potential to attract a critical mass of FDI to accelerate its industrialization (Ohno, 2004), the number of projects and registered and implemented capital are still relatively small and fluctuate annually.

Figure 1. FDI into Vietnam



Source: Vietnam Economic Times (January 2005).

As mentioned at the outset, the Ministry of Planning and Investment (MPI) is following the recommendations of the study conducted by MPI and JICA (2003). By scrutinizing its policy by the criteria of the five strategic marketing variables, it is found that Vietnam's FDI attraction has two crucial problems, namely, (i) unclear positioning statement; and (ii) ineffective promotion strategy and communication programs.

1. Unclear positioning statement

How is Vietnam positioning itself as an FDI destination? This question is not yet answered clearly. Is Vietnam trying to be the principal risk diversification alternative for China? Does Vietnam want to offer the lowest production cost in ASEAN? Is Vietnam hoping to become a host country offering most stable FDI attraction policy in ASEAN? Will Vietnam be a country where investors can achieve the highest profit margin in the world?

The Vietnamese government lists a large number of features as the “selling points” of Vietnam to foreign investors. They include: (i) political stability; (ii) stable macroeconomy; (iii) ideal geographical location; (iv) young human resource with skill and knowledge; (v) the competitive wage level of Vietnamese workers (60-70% of Thailand, 18% of Singapore and 3-5% of Japan); (vi) prospective market size with a large population and rising income; (vii) legal reform with commitments to international integration; (viii) the ongoing reduction of the cost of doing business; (ix) low corporate taxes and import tax exemption; (x) permission of 100% foreign owned companies; (xi) elimination of foreign exchange control; (xii) the move toward the one price system; and (xiii) broadening of sectors in which FDI is permitted (Phan 2004). However, when asked to give only one or two main points for attracting FDI to Vietnam, the answer varies significantly among authorities and officials.

2. Ineffective promotion strategy and communication programs

Before 2003, Vietnam’s FDI promotion was highly limited. For this purpose, MPI merely used techniques 2, 4 and 5 in Table 1. More specifically, they included: (i) a list of projects calling for FDI (UNIDO project); (ii) conferences on FDI promotion in Hanoi and Ho Chi Minh City; (iii) seminars in foreign countries; (iv) guidebooks (law and legal procedure, an introduction of the State Committee for Cooperation and Investment (SCCI) and so on); (v) a video tape used in FDI promotion seminars and given to investors; and (vi) cooperation with successful FDI corporations to organize workshops, seminars with potential investors since 2000 (Nguyen 2004a).

The Vietnamese government has recognized the weaknesses in current FDI attraction. They are: (i) the lack of a master plan for FDI attraction; (ii) the list of projects calling for investment does not mesh with the need and interest of investors; (iii) ineffective promotion activities in foreign countries; (iv) communication materials are not sufficient; and (v) online information is available but not updated (Phan 2004).

Potential foreign investors are hearing conflicting messages from different FDI promotion delegations organized by MPI and provinces. The problem with a national delegation is that provinces do not have the chance to speak up. Even if the delegation is split into small groups to talk to investors, that still does not seem to solve the problem completely. The structure of the delegation is another issue. Provincial delegations are typically made up of Chairman or Vice Chairman of the People’s Committee as well as representatives from the Departments of Finance, Planning and Investment, People’s Committee Office, and so on. Some members do not even know their expected roles in the delegation (Dam 2004). When seminars and workshops are over, an effective following-up on the Vietnamese side is the most important factor to arouse potential investors' interest and desire. In reality, while Vietnam's delegations provide the contact addresses of their departments, no one is assigned to follow up and be actively in touch with potential investors at home.

Furthermore, due to the lack of knowledge about investors, Vietnamese delegations tend to present too much unnecessary information while providing little on what potential FDI enterprises really want to know. For example, a typical presentation structure of an FDI promotion mission contains main economic indicators and statistics on FDI, ODA, trade and tourism. Bilateral information featuring the country they are visiting are also given, including the types of investment (wholly foreign owned, joint venture or business cooperation contract), the number of invested projects, registered capital, number of job created by the investment from that country, and so on. Such information is useful to potential investors to some extent, but they need more specific information on how they can start a business operation in Vietnam, what incentives they are given, how the government helps them to solve difficulties in doing business, and so on. This kind of information is not provided in presentation materials. Moreover, international comparison of Vietnam with China and other ASEAN countries, which is very useful, is rarely provided. If Vietnam just presents the country profile, policy and potential of its own, it will be too much and too little.

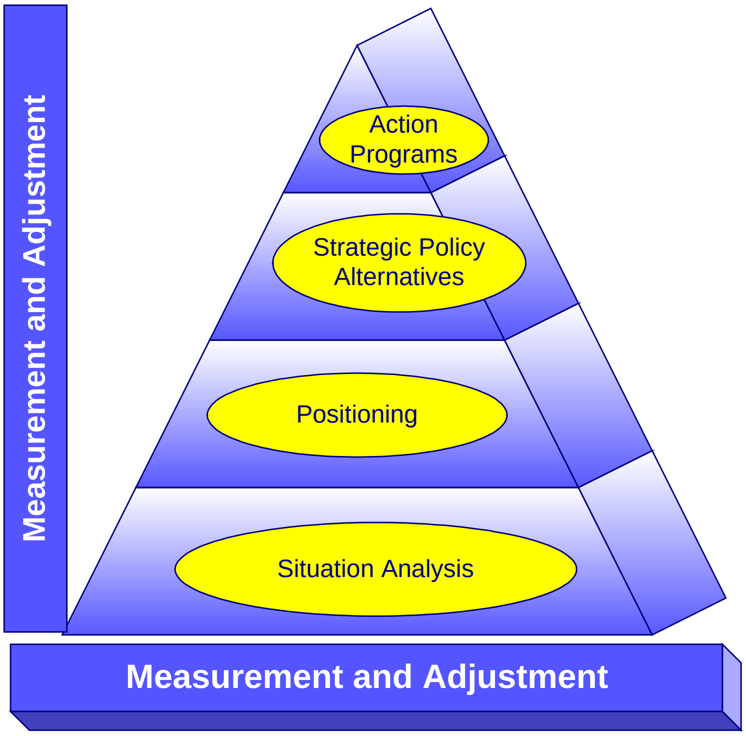
One task which consumes much effort and time of MPI and provinces is the updating of projects calling for foreign investment, announcing the desire on the host side of FDI. This information is provided in Vietnamese, English and Japanese and available on pamphlets and CD-ROM. These media are technically well designed and distributed to all potential investors. For example, 170 projects are specified in the "list of projects calling for foreign investment into Hanoi-Vietnam" (Hanoi City People's Committee 2004). Hanoi also expresses its desire to attract investment from the US. It provided the list to a consulting firm for distribution at FDI promotion seminars organized by the firm. The target audience was US companies. As argued earlier, however, foreign investors come to a host country because of the actual benefits from the investment environment of that country. This perception is not yet in the mind of policy makers. Clearly, promotion materials should address the needs of investors, not the desire of policy makers. In the case of Hanoi's effort to attract US investment, the list is not useful since there is little connection between the projects in the list and the interest of potential US investors (NEU 2005).

In summary, the two crucial problems in Vietnam's FDI attraction are related to the positioning variable and the scope of communications variable explained in section 1. With respect to positioning, MPI and provinces should choose a concise advertising statement which inevitably stimulates the interest of potential investors. Similarly, with respect to the scope of communications MPI and provinces need to start not from their own desires but from the desires of investors in designing presentation materials, listing projects calling for foreign investment and organizing FDI promotion delegations. The next section will propose concrete measures to market Vietnam as an FDI host country. It will also suggest ways to solve the two problems identified in this section.

III. Steps to Market Vietnam as a Preferred FDI Destination

In business strategy formulation, a marketing plan is created by the following nine steps: (i) situation analysis; (ii) issues and priorities; (iii) objectives; (iv) strategic alternatives; (v) strategy; (vi) detailed objectives; (vii) tactics; (viii) agenda; and (ix) financial projection (Sidel 2002). In execution, these steps are frequently measured and adjusted. However, the nine-step procedure is a little too complicated for application to FDI attraction. We propose the simplified five steps for the purpose of setting up and improving FDI attraction strategy in Vietnam. They are: (i) situation analysis; (ii) positioning; (iii) strategic policy alternatives; (iv) action programs; and (v) measurement and adjustment.

Figure 2. Suggested Marketing Steps for FDI Attraction

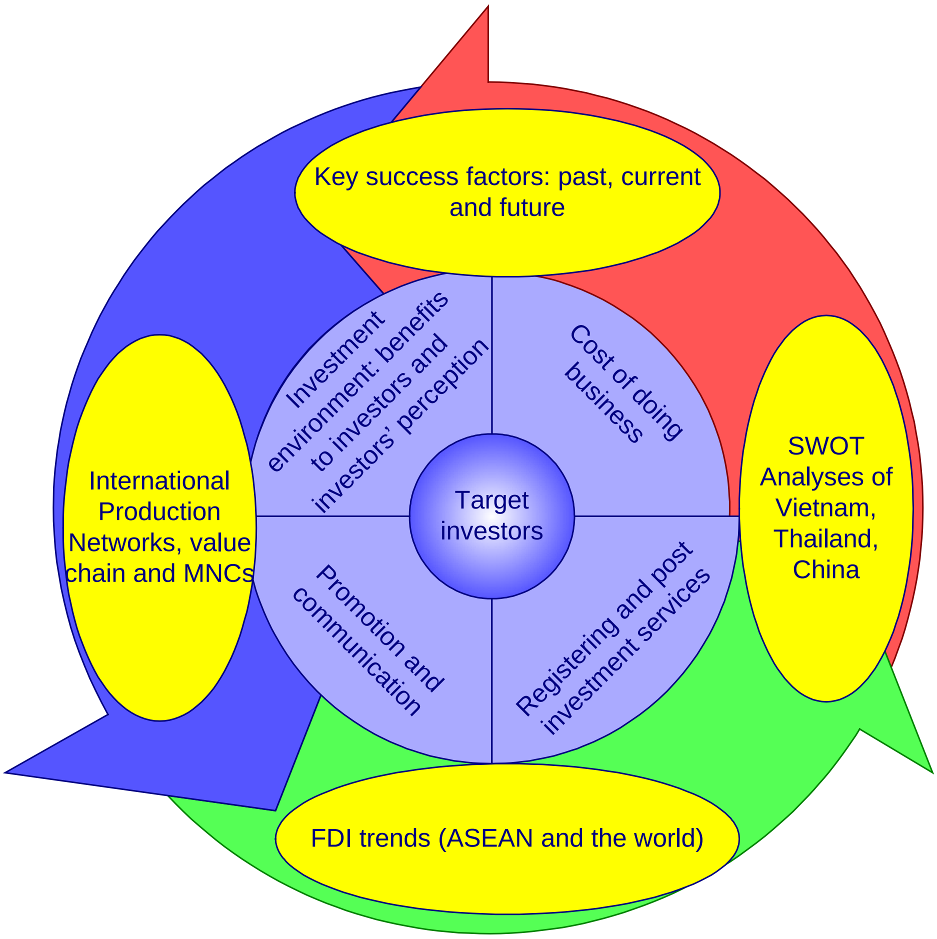


Source: Modified from Prof. Philips Sidel's lecture note for the MBA course in the International University of Japan (2002).

1. First step: situation analysis

This step must provide an overall picture of FDI environment in the world and the region. The analysis should include the trends of FDI in the world, East Asia and ASEAN, international production networks, value chains and MNCs. The government must identify key players and their characteristics and know how they are likely to respond to a host country's FDI attraction policy. The SWOT analysis of Vietnam, Thailand and China in attracting FDI also needs to be done. The key success factors (KSFs) in attracting FDI of the past, current and future ought to be clarified. The comparison of business costs should also be added. These analyses directly support the next two steps of positioning and strategic policy alternatives. Again, investors are at the core of these analyses.

Figure 3. Situation Analysis



For illustration, let us examine the analysis of Japanese investors which contain some of these points. Among Japanese manufacturing enterprises, 60% say that they want to invest in China. In fact, 30,000 Japanese enterprises have already invested in China (JETRO 2004). How can Vietnam offer an attractive investment environment that can compete with China? On the one hand, it is inevitable that Vietnam must compete with China and other ASEAN countries in attracting FDI. On the other hand, however, Vietnam must regard China and other ASEAN countries as partners in regional production and build complementary relations with them as a new comer.

Japanese companies are attracted to China for the following reasons: (i) the financial crisis of 1997 which worsened the business climate in ASEAN; (ii) market size; (iii) low manufacturing cost; (iv) ample supply of labor force; (v) existence of supporting industries; (vi) good infrastructure; and (vii) smooth transportation and distribution system (JBICI 2003). On the other hand, the Vietnam-Japan Joint Initiative (2003) states that Japanese investors assess South East Asian countries from two angles: (i) the development of supporting industries, basic industries and high-tech industries; and (ii) regional and country policies.

Japanese investors often consult with other Japanese companies to learn the country situation and especially the success and the failure of predecessors before making an investment decision[4]. Vietnam is clearly not a high-end player in the FDI attraction game. Japanese investors believe that Vietnam is less experienced than other ASEAN countries (especially Thailand, Indonesia and Malaysia) in FDI policy and supporting industries.

Foreign investors also compare the cost of doing business in Vietnam with other countries. Vietnam's business costs are not the highest in East Asia but often higher than many countries that compete with Vietnam in FDI attraction.

Table 2. Cost comparison in selected Asian countries

Unit: USD

	Hanoi	**Bangkok**	**Shanghai**	**Kuala Lumpur**
Worker's monthly wages (general industry)	79-119	184	109-218	202
Mid-level engineer's monthly salary	171-353	327	269-601	684
Mid-level manager's salary (section chief or department chief)	504-580	790	567-1574	1892
Office rent (per square meter/month)	24	11.03	37.5	9.92-17.68
Broadband internet (monthly basic charge)	76.89	82.75	73.7	162.63
Electricity tariff for business (per kwh)	0.05-0.07	0.04	0.03-0.1	0.05
Container transport (40-foot container, from nearest port to Yokohama)	1300	1200	700	575
Passenger car purchase price (1500cc sedan)	26500	12563	10849-13991	13965

Source: compiled from JETRO (2004).

[4] This point was made by a number of Japanese participants at the VDF workshop on FDI and the electronics industry in August 2004.

Another problem that irks foreign investors is the dual price system in which domestic and FDI companies are charged differently for the same service. Although Vietnam is trying to narrow this price gap and making a substantial progress, this effort is not yet conveyed effectively to potential investors who continue to believe that foreigners are grossly overcharged in Vietnam. Vietnam does not have to be the cheapest place to do business because it takes time to reduce costs and also because investors are willing to pay for improved business climate. The most serious problem is that the cost of doing business in Vietnam is not as high as potential investors think but they do not know it. This clearly points to the necessity for Vietnam to advertise effectively that its costs are being reduced significantly and the dual price system is being phased out (Ohno 2004).

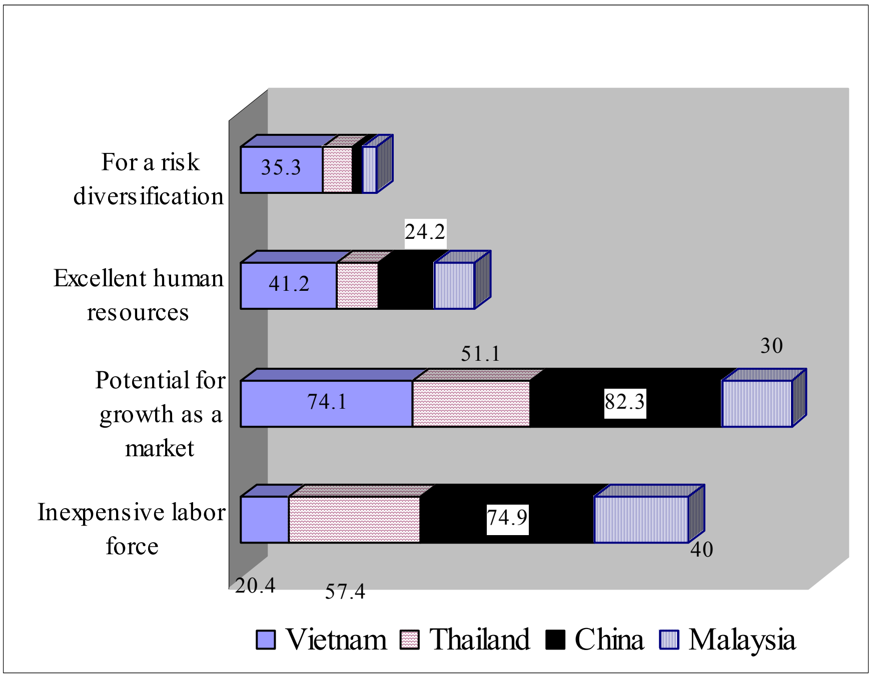
There are other things that the government should know which apply to not only Japanese but all investors. To impress concrete benefits in investing in Vietnam, the authorities should speak the modern and practical language of profit-driven international business. Another common advice is to utilize relations among potential investors from the same country. For example, the vice chairman of the Korean Chamber of Commerce and Industry has been very helpful to Vinh Phuc Province through his personal relation with the governor of a Korean province and the provision of a list of potential investors from that province (Dam 2004). Another lesson is that well-planned seminars and workshops are generally more effective than sending brochures and other materials (Nguyen 2004b).

2. Second step: positioning

This is a game of mind. As noted in section 2, Vietnam does not have a clear positioning statement for FDI attraction. Positioning should clearly announce the intention of Vietnam as to what image Vietnam wants to be associated with in the minds of foreign investors. The decision on positioning must be made as soon as possible. For this, it is necessary to understand the internal capability of Vietnam and external situations including the policies of other countries, FDI trends, investors' behavior and determinants of FDI flows.

According to JBICI (2003), the reasons Japanese investors are attracted to Vietnam include: (i) inexpensive labor force; (ii) potential of a large domestic market in the future; (iii) excellent human resources; and (iii) risk diversification.

Figure 4. Determinants of FDI in Selected East Asian Countries



Source: Compiled from JBICI (2003).

Note: The sum of answers in each country add up to more than 100% due to multiple answers. The number of surveyed Japanese companies are as follows: Vietnam (85), Thailand (141), China (447) and Malaysia (30).

Figure 4 suggests that potential market size and inexpensive labor are the two most important reasons for Japanese FDI in East Asia rather than risk diversification. However, this data can be interpreted differently. If examined within each reason of investment, Vietnam is the most popular destination for Japanese companies wishing to diversify country risks while China is the most attractive country for the top two reasons mentioned above. This clearly points to the possibility of further enhancing Vietnam's attractiveness as an additional production site for risk diversification. Obviously, China itself cannot be a host country for this purpose when MNCs are becoming nervous about too much investment in China.

As a positioning statement that Vietnam may make, we suggest the following three[5].

- *Vietnam aims to be the preferred risk diversification destination in relation to China and the rest of ASEAN.* In the electronic industry, for example, Matsushita may

[5] I would like to thank Junichi Mori for the input to this part and fruitful discussions in July and August 2004.

consider Vietnam a destination in ASEAN network even it has already put huge amount of investment in Malaysia. Canon has chosen Vietnam to be its risk diversification destination in South East Asia while it has already invested in China.

- *Vietnam shall provide the most skillful and the most disciplined labor force in the region.*
- *Vietnam shall become the ideal bridge between Southern China and the rest of ASEAN and provide easy access to both markets*. Within this framework, several positioning sub-options are possible. For instance, Northern Vietnam may link with the production network of Southern China while Southern Vietnam may join the ASEAN network. Another possibility is for the North, with many universities and research institutions, to attract R&D-intensive FDI and join global networks while the South can join the networks spanned by both ASEAN and China because of its geographic advantage as well as the fact that about 10% of HCMC's population is ethnically Chinese.

These are only examples. Other positioning statements like shortest delivery time and lowest labor cost relative to productivity ("unit labor cost") should also be considered. Furthermore, two or three statements can be combined into one.

To be a risk diversification destination, Vietnam should look at risk factors in China and other ASEAN countries in order to find a "niche," then offer features that minimize them. Investors are more than happy to pay extra for such an added-value. Once Vietnam discovers relevant business risk factors in East Asia, it should avoid to be grouped into countries that have those factors. If Vietnam is already in that group, it must show willingness and a concrete plan to eliminate the business risks. Table 3 presents the business risks identified by the JBIC Institute (2003).

Table 3. Top Three Problems for Japanese Investors in Each Country

China	(i) Opaque operation of the local legal system (frequent changes); (ii) insufficient protection of intellectual property rights; and (iii) difficulty in collecting receivables.
Thailand	(i) Intense competition with other firms in domestic market; (ii) difficulty in securing local personnel; and (iii) increase in local labor cost.
Malaysia	(i) Intense competition with other firms in domestic market; (ii) increase in labor cost; and (iii) restriction on foreign capital (restriction on controlling shares and business types, frequent changes).
Vietnam	(i) Infrastructure; (ii) opaque operation of the local legal system (frequent changes); and (iii) difficulty in securing local personnel

Source: Compiled from JBICI (2003)

We suggest that Vietnam should offer better protection of intellectual property rights which is the second largest problem of China's investment environment and continue its efforts on improving the legal system and infrastructure. This determination must be conveyed clearly to current as well as potential investors and delivered directly to targeted investors in Tokyo and Osaka for Japanese investors or in Seoul for Korean investors.

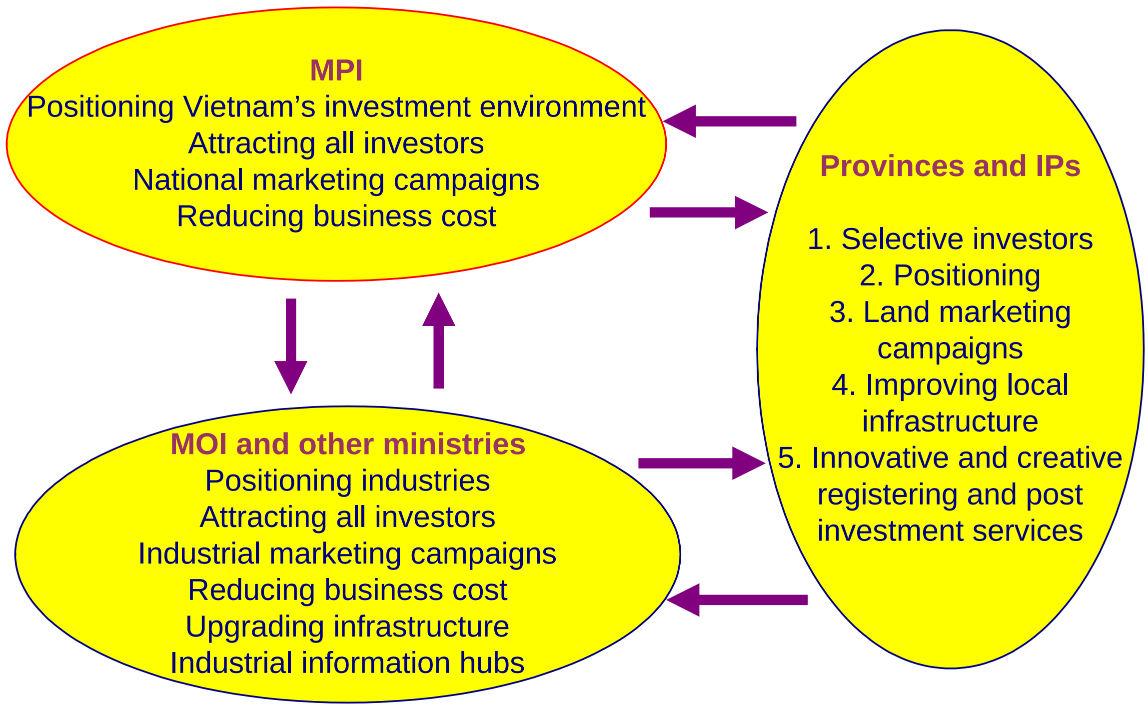
3. Third step: strategic policy alternatives

A strategic policy alternative is a program integrating the five key strategic variables mentioned above. Several such alternatives must be constructed for consideration. MPI and provinces need to choose one strategic policy alternative among them before deciding on concrete action programs. The expected benefits of investment environment and communication programs must match the positioning statement targeted to certain potential investors.

Section 1 argued the necessity for ministries, provinces and central government to coordinate their policies in attracting FDI. The approaches of provinces and industrial parks may be different from the approaches of MPI, MOI and other related ministries. However, all must share a general objective, namely, attracting a critical mass of FDI. We suggest that MPI and MOI start with formulating a positioning statement for the entire country followed by decisions on other key variables. MPI should focus on positioning Vietnam as a favored FDI destination. It must run integrated national marketing campaigns and make sure that potential investors are receiving a united message from Vietnam. MOI and other ministries must position Vietnam's industries with clear master plans so that potential investors can rely on this information to make their investment decisions. Each ministry should become an information hub for the industries and investment opportunities under their jurisdiction.

Provinces and industrial parks may adopt the same approach as the central authorities or conduct their own analyses of targeted investors and create different strategies containing the key variables since they understand more deeply about the kinds of investors attracted to their particular location. Provinces and industrial parks still can compete fiercely with one another through targeting different investor groups, improving marketing campaigns, upgrading local infrastructure and offering innovative pre- and post-investment services. Needless to say, all this must be done consistently with the national framework set by MPI, MOI and other ministries.

Figure 5. Coordination in an Integrated Campaign for FDI attraction



At each level, the pros-and-cons analysis of strategic alternatives must be done before deciding on the final strategy. Any strategic policy alternative should refer to the five key variables and may be stated in the general format as shown below.

> The investment environment of ……….. (country or province) is positioned as ……… (statement of positioning decision) targeted to ……… (type of investors), communicated by ……… (communication programs). Investors can register their investments at ……… (place and process) with following support from the government ……… (post investment services enhancing positioning decision and features of investment environment).

As an illustration, a strategic policy alternative at the national level may be stated as follows.

> The investment environment of Vietnam is positioned as the most ideal destination in East Asia for risk diversification, targeted to Japanese investors who are already in China or ASEAN, communicated in Japanese by workshops and seminars in Tokyo and Osaka, Singapore, Kuala Lumpur, and Shanghai; advertisements in *Nihon Keizai Shimbun* (Japan Economic Journal), Financial Times, TV commercials and reportage on CNN and NHK (Japan Broadcasting Association); industrial websites linked to

websites of Japanese institutions including JETRO, JBIC and other Japanese central and local authorities; and brochures distributed through current Japanese investors in Vietnam. Japanese investors can register investment online or at the Vietnamese embassies in Tokyo, Singapore and Kuala Lumpur, or at the investment representative offices of Vietnam in these cities. The Vietnamese government ensures that investors can start doing business in Vietnam within 45 days of the date of receiving approval. The Vietnamese government guarantees to effectively protect intellectual property rights of investors and continues to improve the legal system and its infrastructure.

4. Fourth step: action programs

Action programs must consist of actual steps, policies, activities and implementing agenda that MPI, MOI, other ministries, provinces or industrial parks need to implement to attract a critical mass of FDI. Figure 5 already illustrated the needed coordination among these parties. These steps, policies and activities must be clear, concrete, proactive and detailed throughout from planning to implementation. A good action program must specify tasks and responsible organizations and be implementable. Table 4 presents the necessary content of investment promotion action programs.

One of the reasons for the inability to implement an effective promotion strategy in Vietnam is the budget constraint. Vietnam has no budget for FDI promotion programs at the national level. Most field trips to foreign countries rely on financial support from foreign counterparts. The budget allocated for investment promotion at the provincial level is also limited. Some cities and provinces like Hanoi, Ho Chi Minh City, Danang and Binh Duong set aside funds for this purpose (MPI-JICA 2003).

Table 4. The Content of Investment Promotion Action Programs

Part 1. Objectives of Investment Promotion Programs	
1. Qualitative objectives	--Creating image on investment environment --Building relationship among enterprises, organizations and governments
2. Quantitative objectives	--Number of newly invested projects --Amount of registered capital --Amount of capital increased --Number of contacts among businesses
Part 2. Implementation	
3. Image building measures	Techniques 1-5 in Table 1: Budget allocation, implementing organizations, collaborative organizations, deadlines, evaluation criteria

4. Investment generating measures	Techniques 6-9 in Table 1: Budget allocation, implementing organizations, collaborative organizations, deadlines, evaluation criteria
5. Investment service measures	Techniques 10-12 in Table 1: Focusing on investors who are already in Vietnam, policy dialogue between policy makers and businesses
Part 3. Coordination and Cooperation	
6. Representative offices of other countries and international organizations in Vietnam	Names, functions, head of office, person directly involved in FDI promotion, current cooperation, direction for future coordination
7. Overseas offices of Vietnamese organizations and bodies	Names, functions, head of office, person directly involved in FDI promotion, current cooperation, direction for future coordination
Part 4. Measurement and Adjustment	
8. Measurement and adjustment by implementing measure	Techniques 1 – 12 in Table 1: Criteria, results, causes of success and failure, newly emerging factors, and conditions and supportive tools to be continued
9. Measurement and adjustment by implementing organization	MPI, MOI, other related ministries, industrial parks, Department of Planning and Investment, consulting organizations: Criteria, results, causes of success and failure, newly emerging factors, and conditions and supportive tools to be continued

Source: NEU (2005).

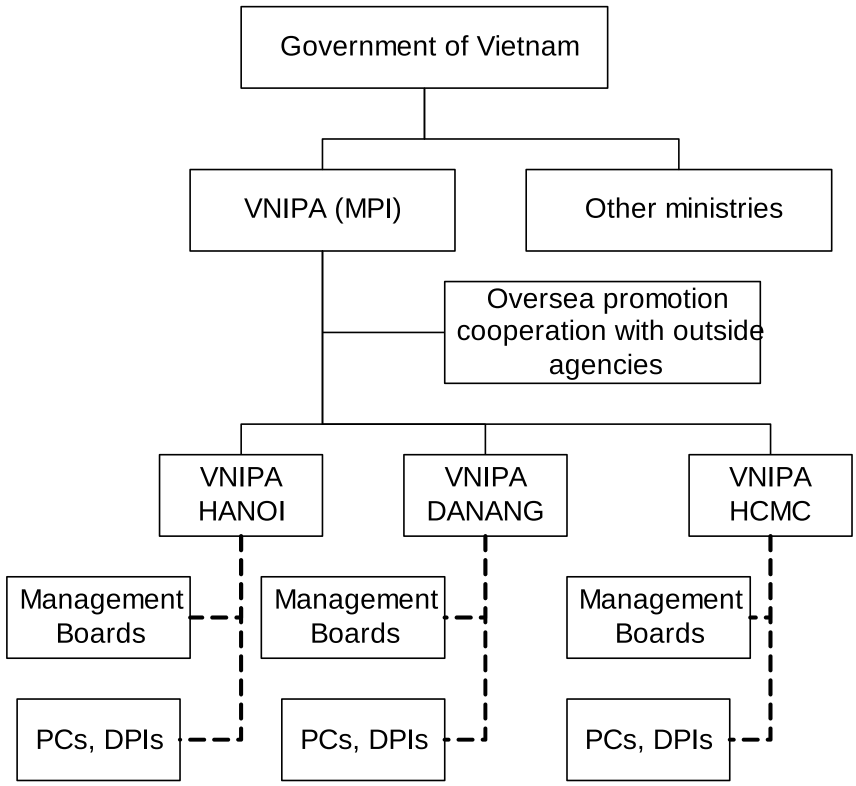
It is suggested that to attract USD 5 million of FDI, a country may have to spend USD 1 million for promotion (Nguyen 2004a). However, even a large fund for FDI promotion (by Vietnamese standards) will be empty after three or four overseas promotion trips. In 2001, Hanoi had a total budget for FDI promotion of VND 3.5 billion (USD 230,000), which increased to VND 5.5 billion (USD 350,000) in 2003. About one-third of this had to be spent on promotion trips to foreign countries (MPI-JICA 2003, Nguyen 2004b). The situation is worse at the provincial level. Even in a relatively successful provinces in attracting FDI like Vinh Phuc, the budget allocated for FDI promotion is just enough for one trip per year (Dam 2004).

Item 4 of the Vietnam-Japan Joint Initiative (2003) advises the Vietnamese government to provide budgetary measures for FDI promotion to relevant ministries and people's committees while the Japanese government would (i) organize regular investment missions to Vietnam; (ii) assist the Vietnamese side in organizing FDI seminars in Japan; (iii) build capacity for the FDI agency and three investment promotion centers; and (iv) assist Vietnam to establish an investment office in Japan under a JETRO program. Everything is ready. What Vietnam needs to do is to propose concrete implementing programs.

Another issue related to the budget is administrative procedure. In most provinces, to receive the FDI promotion budget, the management board of an industrial park must first propose its spending plan to the people's committee. The people's committee in turn requests the department of finance for budget allocation. We suggest that the FDI promotion budget be allocated directly to the investment promotion section of DPI. It is even better if the budget cycle for FDI promotion is extended to three to five years. This period is necessary to run effective FDI attraction campaigns.

At the national level, the MPI-JICA study (2003) recommends the establishment of the Vietnam Investment Promotion Agency (VNIPA). For effective cooperation among related parties, a special agency that takes a leading and coordinating role in FDI attraction is deemed necessary. The study also presents some details on VNIPA including (i) its internal structure and staffing; (ii) the plan for training and development; and (iii) the budget and funding sources.

Figure 6. Proposed Organization of VNIPA



Source: Compiled from MPI and JICA (2003).

Note: PC and DPI mean the People's Committee and the Department for Planning and Investment, respectively. Solid lines indicate direct control while dotted lines show coordination and an assisting role.

5. Final step: measurement and adjustment

Since December 2003, Vietnam's Foreign Investment Agency is following the advice of the MPI-JICA study mentioned above. It has not measured the degree of success in their programs due to the short period of implementation. So far, the following activities are conducted: (i) changing the layout, appearance and content of printed materials including pamphlets and guidebooks; (ii) advertising Vietnam in international magazines; and (iii) using PowerPoint software and other tools at seminars to deliver a message to investors (Nguyen 2004a).

Wells and Wint (1991) argue that measuring performance in FDI attraction is important since it would guide budget allocation. Different criteria should be applied to measure different promotion techniques. FDI promotion agencies can evaluate FDI promotion campaigns by themselves or hire outside organizations to evaluate. For example, BOI in Thailand hired UNICO & OPMAC, a Japanese consulting firm, to evaluate their programs. In general, the evaluation of image building and investment service measures are carried out by outside organizations.

The common set of evaluation criteria includes expenses incurred for promotion, shifting nationalities among investors, the number of new projects, registered capital, implemented capital, and the number of seminars and promotion trips. Adjustment should be made if necessary even before formal evaluation is completed. In measuring the success of a promotion campaign, authorities can also look at the number of potential investors who actually visit the country to get more information and the number of potential investors who have received brochures and other information materials.

As shown in Table 4, measurement and adjustment must be carried out separately for each implementing measure and each implementing organization. The government should decide the criteria to be used for this purpose, monitor the results of implementation, analyze the causes of success and failure, respond to newly emerging factors, and specify conditions and supportive tools to be continued in the FDI attraction programs. Both the positive and negative views of current investors in Vietnam should be carefully examined in order to improve the business environment as well as to use in future FDI promotion materials.

Some provinces like Hanoi and Vinh Phuc have already invited outside organizations like law firms, consulting firms and individuals to participate in the process of FDI attraction including seminars and field trips. MPI, MOI, other provinces and industrial parks should also consider outsourcing some of the specialized promotion activities. Promotion and communication programs will be more effective if advertising agencies, travel agents, investment consulting firms, law firms, research institutions, universities and the like get involved. Techniques 1, 3, 4, 6, 7, 8, and 9 in Table 1 can be effectively conducted by outside organizations with expertise in given fields. For example, advertising agencies can provide promotion in mass media or other media, and travel agents can help organize trips to foreign countries and promotion seminars. Research Institutions, universities, consulting firms and law firms can be mobilized in the analysis of targeted MNCs.

Some additional comments are in order. In this section, five marketing steps to FDI attraction have been explained. Among them, situation analysis must be conducted frequently. We also proposed solutions to the two problems mentioned in section 2, namely the lack of positioning and effective communication methodology. It is suggested that Vietnam should project itself primarily as a risk diversification destination of FDI in East Asia. The protection of intellectual property rights is a necessity for Vietnam to support its positioning statement. Improvement in FDI promotion and communications programs can be achieved by better coordination and cooperation among MPI, MOI, related ministries, provinces, industrial parks and outside organizations. The problem related to budget allocation has also been discussed.

IV. Conclusion

This paper has examined FDI attraction activities in Vietnam. Five key strategic marketing variables and five marketing steps have been introduced for the purpose of leveling up FDI attraction. Vietnam has made a significant progress in simplifying administrative procedure and narrowing the cost gap between domestic and foreign firms. However, investors wish to see even more aggressive official actions beyond removing current obstacles. After receiving investment approval, they expect to be assisted in starting and running business and overcoming any hindrance by responsive post-investment services. They are also waiting for realistic and informative industrial master plans and development strategy for supporting industries to guide their business operation. If the government succeeds in providing them, current investors will surely expand their business and invite other investors to Vietnam.

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