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Multinational Corporations and Spillovers in Vietnam

- Adding Corporate Social Responsibility

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Abstract

Vietnam carried out its economic reform Doi Moi in the mid-1980s. Market-based economic policies and legal frameworks have contributed to open up the country, trade barriers have been removed and Foreign Direct Investment (FDI) is now a fundamental part of the economy. In this paper, the presence of multinational corporations (MNCs) and how they have influenced the Vietnamese economy are examined. Specifically, MNCs spillover effects on domestic enterprises are discussed. Corporate Social Responsibility (CSR) is central and challenges and obstacles to implementation and development of CSR policies will be discussed. Globalization and the integration of the world economy have amplified the role of CSR. This paper shows that there is potential for positive spillover effects, such as production methods and information spread, from MNCs to domestic suppliers. However, the company must be large enough to be contracted and there is a risk that the gap will widen between the few large strong suppliers and the huge number of small- and medium-sized companies (SMEs) that operate in Vietnam. The paper also shows that MNCs can work as catalysts by transferring CSR guidelines and a long-term way of thinking to domestic companies. The dilemma is however that Vietnamese companies often lack interest and have problems referring to CSR.

Keywords: Vietnam, Multinational Corporations, Foreign Direct Investment, Spillover effects, Corporate Social Responsibility

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List of abbreviations

ADB	Asian Development Bank
BBC	Business Cooperation Contract
CSR	Corporate Social Responsibility
EU	European Union
FDI	Foreign Direct Investment
GM Workwear	Guston Molinel Workwear
MNC	Multinational Corporation
SMEs	Small and Medium-sized companies
VCCI	Vietnam's Chamber of Commerce and Industry
VGCL	General Confederation of Labor
WBCSD	World Business Council on Sustainable Development
WTO	World Trade Organization

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1 Introduction

1.1 Today’s Vietnam

Vietnam carried out its economic reforms, *Doi Moi* (renovation), in the mid-1980s. Since then, the country’s economy has integrated well into the world economy and the increased openness is mainly a result of the policies that were introduced to liberalize trade, by removing trade barriers and promoting Foreign Direct Investment (FDI). Vietnam’s economic growth rate has in the last two years exceeded 8 % per annum and the country is aiming for middle-income country status by 2010 (ITPC, 2007). Hence, the following years will be critical when Vietnam will try to become a full market economy. Vietnam’s economic development is highly dependent on policy decisions, investments in infrastructure and the creation of new firms and growth of small and medium firms into larger ones. It is especially important to focus on small- and medium-sized enterprises (SMEs), since these represent approximately 95 % of all companies in the country (Outlook, 2007).

Many of the world’s largest multinational corporations (MNCs) are increasingly focusing on Vietnam as the next emerging economy in the Asia Pacific region. Foreign investment can play a considerable role for a country’s economic development through capital formation, the transfer of technology and management skills, the sharing of information and ideas and market access. In the case of Vietnam, foreign-owned firms contribute considerably to the country’s GDP and the total export turnover of the country. It is likely that FDI has had substantial spillover effects on domestic companies.

Vietnam is suffering from a shortage of skilled labor and an inconsistent legal system and there is a need for increased competitiveness and investments in infrastructure. As Corporate Social Responsibility (CSR) is getting more attention throughout the world, Vietnam has a great deal left to learn considering that many SMEs in Vietnam do not really see the importance of CSR. To be able to compete in today’s global arena, companies must be able to ensure human rights, labor conditions and safety requirements, not just provide fast and high quality products. Even though the objective is that the initiatives to incorporate such policies should come from Vietnamese companies themselves, MNCs in Vietnam can play a crucial role in increasing the awareness of CSR and also in being a catalyst for SMEs.

1.2 Purpose of the study

The purpose of this study is to examine if and how the presence of MNCs have influenced the Vietnamese economy as a whole, and more specifically to discern any spillover effects on domestic firms, using two case companies. A further aim is to discuss the current situation and views of CSR in Vietnam and to discuss challenges and obstacles to implementation and development of CSR policies in the country, considering that Vietnam is still a non-democratic state where the government controls the media and where trade unions are controlled by the single political party, the Communist Party of Vietnam.

The case companies used in the study are found in the furniture and the garment industries; namely IKEA and Guston Molinel Workwear (GM Workwear). Swedish IKEA operates from its two representative offices in Vietnam. It is a 100 % foreign-owned company and has no own production in the country but an extensive supple chain and several sub-contractors that produce for them and for export. The French-Swedish company GM Workwear on the other hand is an independent garment manufacturer and has one factory in Vietnam where all production takes place. The company is a business cooperation contract (BBC) but is working towards being a joint-venture. The choice of two different types of FDI is expected to give the thesis a broader approach.

1.3 Delimitations

The empirical material has mainly been gathered through interviews and speeches. The results should therefore be handled with some caution before being applied to the whole manufacturing sector or before referring to all companies operating in Vietnam. However, the potential spillover effects give a reasonable indication of how the presence of large MNCs can affect domestic firms and also provide some insight into the current view and situation of CSR in Vietnam.

1.4 Outline

The research is structured as follows: section two contains a theoretical framework of MNCs and spillovers. In section three, an overlook of Vietnam’s economic reforms of Doi Moi and the country’s integration with the world economy is presented. Section four describes the development of FDI in Vietnam. Section five empirically describes supply chain management and CSR in Vietnam. Section six presents evidence of spillover effects from the presence of MNCs in the Vietnamese manufacturing sector. Finally, section seven contains a summary and some policy implications.

2 MNCs and spillover effects – theoretical considerations

Before discussing different spillovers, it is important to emphasize that spillover effects occur in different ways and to a different extent due to several factors. The affiliates' market orientation, the MNCs' nationalities and the host country characteristics such as market size, local content regulations, size and technological capability of local firms all matter for the development. Moreover, it is difficult to know whether a MNC's entry and presence explain industry or market structure or whether industry or market structure determines if the MNC will enter or not. Another question is if the high degrees of concentration in the industries where foreign affiliates have been present are caused by MNCs or if MNCs have been attracted to these industries due to benefit opportunities. It is also difficult to separate effects that are endemic to MNCs and those only speeded up by the MNC presence (Kokko, 1992). However, what matters is the *impact* made by the MNC and this will be discussed below.

2.1 Economic effects of FDI – the role of Multinational Corporations

FDI plays a significant role in a country's economic development. The capital formation, the transfer of technology and management skills, the sharing of information and ideas and market access are all extremely valuable for all countries in general and for developing countries in particular. It is thus fundamental for a country to create favorable conditions in order to attract foreign investments. Technology and productivity spillovers may occur in host countries as a result of entries and continued presence of MNCs. Multinationals could be seen as agents that can increase the host country's competitiveness; their presence can result in technology transfers to domestic firms and also help in achieving a more efficient resource allocation. Moreover, it is argued that MNCs move forward the process of industrial development by creating spillovers to the rest of the economy (Liu and Lin, 2004, p.2f). The term "spillover" is described as situations where the presence and activities of foreign firms spread their technological and productive knowledge to the benefit for domestic companies (Kokko, 1992, chap. 2). Kokko (1992) emphasizes the importance of technology for mainly two reasons. Firstly, technology is essential for the foreign company's ability to establish affiliates in foreign markets and secondly, technology is a major determinant of the host country's ability to benefit from the foreign investment. Moreover, there seems to be a positive correlation between the growth rates of MNCs and the growth rates of local companies. This pattern can be interpreted in two different ways. Either the correlation occurs when both the foreign and local firm's growth rates are influenced by various host country characteristics, such as education level, local demand, infrastructure, trade polices etc; or foreign and local firms may influence each other more directly through customers-, market shares- and profits-competition, implying that the potential for spillovers from FDI differs between host countries (Kokko, 1992, chap.2).

2.2 Corporate Social Responsibility

CSR is used to describe the positive ways in which the private sector may affect the society it operates in. The World Bank and the World Business Council on Sustainable Development (WBCSD) define CSR as "*the commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve their quality of life, in ways that are both good for business and good for development*" (SIDA, 2005). Although the term has been subject to many different meanings, CSR includes (ibid.):

- ensuring that the private sector does not contribute to violations of human rights and promotes the respect of these rights
- the respect of core labor standards
- ensuring that local communities benefit from large companies' operations in developing countries
- responsible management of environmental impacts of a company's operations, including emissions, waste and use of sustainable resources
- avoidance of corruption and the increase in transparency in business practice
- incorporation of social and environmental criteria in procurement decisions

CSR has become increasingly important because of (UNIDO, 2002, p.1):

- globalization and the growth in competition
- increased size and influence of companies
- retrenchment or repositioning of government and its roles
- war for talent; companies competing for expertise
- growth of global civil society activism
- increased importance of intangible assets

During the past decades, there has been a fundamental change in the relationship between business and society and CSR has become an important part of the business environment. So far, CSR has mainly been a response to pressure from consumers, civil society, large enterprises and governments which has forced companies to become more environmentally and socially responsible due to environmental pollution, human rights abuses and exploitation of labor in supply chains. Meanwhile, companies have recognized the strategic significance of being further responsible (ibid., p. 2f). A major problem is that the CSR debate has so far tended to mainly refer to the large MNCs behavior and impact on developing countries and emerging markets. Important attempts are increasingly being made to widen the focus to include SMEs and to give domestic companies in developing countries incentives to incorporate CSR in their strategies. This is fundamental since many SMEs lack access to technology, environmentally friendly inputs, credit, information and training which often become obstacles to social and environmental progresses. For most developing countries, SMEs are crucial for development and often work as the "path out of poverty" (ibid.). It is also important to emphasize that CSR policies are not rules, just recommendations. It is up to each company to create its own set of values, to implement them and to make them operative. However, companies can get assistance from trade unions, MNCs, governments etc to incorporate CSR in their strategies.[1]

[1] For OECD Guidelines for Multinational Enterprises, see www.oecd.org

2.3 Productivity and Market access spillovers

2.3.1 Productivity spillovers

There is a broad economic literature discussing how a MNC entry or presence may lead to productivity or efficiency benefits in the host countries' local companies. The entry of an MNC affiliate is expected to enhance competition in the host economy so that local firms must use existing technology and resources more efficiently. It may also force local firms to search for more efficient technology, thus the enforced competition may create incentives for new investments (Blomström and Kokko, 1998, p. 5ff). In many developing countries, the only way for the local firm to access new technologies or skills introduced by the MNC affiliate may lie in reverse engineering or hiring of former MNC employees with certain skills. Direct contact with users of the particular technology or production process also seems to be an essential factor when explaining technology diffusion. This means that potential adopters get in contact with existing users and thus the information about the technology becomes diffused. In addition, the entry of an MNC may produce more active rivalry and improvements in market performance in the host country. Industry and firm-specific factors such as high capital requirements, intensive adverting or advanced technology in combination with the host country characteristics play an important role for productivity spillovers.

2.3.2 Market access spillovers

Market access spillovers can take the form of direct or indirect effects. Examples of direct effects are when local firms are employed as suppliers or sub-contractors to MNCs or when export-oriented MNCs share their knowledge about product and process technologies and foreign market conditions, such as foreign preferences regarding design, packaging and product quality, with the local suppliers. If the local firms have the capacity to adopt this information and use it in other operations, there will be potential for spillovers. Market access spillover may also occur if the MNCs suppliers have gained knowledge that have helped the company establish their own direct exports to foreign markets (Blomström and Kokko, 1998, p. 7f). By imitating the MNC, the local firm may gain knowledge about how to succeed in foreign markets, different market characteristics and what markets are the most advantageous. These are examples of indirect effects.

2.4 How to measure the significance and scope of spillovers

Much has been written about the potential benefits of economic spillovers. However, to empirically be able to measure productivity and market access spillovers, extreme information collection is required. To be able to draw reliable and significant conclusions on how domestic companies' development in productivity and technology is related to the presence of a large foreign MNC, the study should involve detailed micro data, both quantitative and qualitative, over a long period and comprise many industries and companies. Since this study is limited in terms of time and size, empirical evidence of spillover effects from a MNC to the host country must thus be drawn from other sources. Evidence and sources of spillovers can as an alternative be found in the linkages between MNCs and their local suppliers and sub-contractors. Learning or technology transfers might work as a basis for productivity spillovers or market access spillovers, although there is seldom any clear proof of such. However, one can assume that spillovers are positively related to the *extent of linkages* (ibid., p. 8ff). Evidence of spillovers may also be found by looking at demonstration effects, competition effects and labor training.

Put in another perspective, the empirical evidence of technology spillover concerning foreign companies' incentives and the character of the markets they enter, has shown to be weak at best. This can be explained by the fact that multinationals often try to minimize technology leakage to competitors by for example restraining labor mobility and imitation, both instruments through which spillover may occur. Besides, multinationals without protected technology might choose not to enter overseas markets at all. Although local firms may be able to access new technology brought by the MNC, they may not have the required capacity to adopt it due to an often extensive gap in human capital and product development capabilities between MNCs and domestic companies (Blalock, 2001).

Besides the fact that positive spillover effects might be absent, there is a risk of negative spillovers. The MNC may out-compete local firms and establish monopolies if it replaces local production and forces local firms out of business rather than create competition that forces the local firms to be more efficient. There is also a risk that MNCs repatriate profits and avoid taxation through transfer pricing. If the MNC is a representation office, which is rather common, they do not pay tax in the host country. Moreover, since the MNC in general focuses on the more value-added aspects of the production like R&D, branding and marketing, it might shift the risk down the supply chain. Local suppliers might be forced to become price takers since the price levels decrease due to a "negative competition". If the local companies compete for a MNC supplier contract, this could lead to negative effects such as extreme working conditions for the domestic producers.

In addition to what has been described above, MNCs can choose not to invest in or import from developing countries if the domestic companies in the host country have bad labor conditions, poor safety requirements and other conditions that in the long-run may negatively affect the foreign country. There is also an ethical aspect; if the foreign country believes that basic human rights are not followed in the host country, this could be incentive enough not to invest.

2.5 Spillovers from linkages

Spillovers from FDI can operate through linkages between MNC affiliates and its local suppliers and customers. A spillover can occur if local companies benefit from knowledge of product or process technologies and markets but without causing any cost that would decrease the improvements. Backward linkages derive from the MNC affiliate's relationship with its suppliers. According to Lall (1980), productivity and efficiency spillovers from MNCs to domestic firms may occur if the affiliates:

- help prospective suppliers (domestic and foreign) to introduce production facilities
- provide technical assistance to improve the quality of suppliers' products or facilitate their innovations
- provide or assist in purchasing of raw materials and intermediaries
- provide training and help in management and organization
- assist suppliers to diversify by finding additional customers

The development of backward linkages depends on different factors. When the manufacturing sector is growing due to an overall economic boom, the production processing stages increase and thus new suppliers are needed. This demand- and supply-effect contributes to the development of new linkages. MNCs may take active action in attracting and developing local suppliers with substantial benefits both for the foreign and the domestic companies. So called “forced linkage effects” may also occur when local suppliers are forced to meet higher standards of quality, reliability and speed of delivery (Blomström, 1991).

Forward linkages may occur from MNCs contacts with customers. This kind of spillover effects might be harder to discover but can be very beneficial. MNCs can to a higher extent manufacture modern products that become available on the domestic market and can also afford the necessary R&D to develop more technically advanced products. Meanwhile, some industrial application may require certain expertise from the manufacturers, which in turn can strengthen the relationship between MNCs and their customers (ibid.).

2.6 Spillovers from training

The transfer of technology from MNCs to local employees can occur through different forms of training. Training can affect employees at all levels from “on-the-floor” workers to supervisors, technically advanced professionals and top-level managers. It can take the form of on-the-job training, seminars or schooling and overseas education or R&D efforts in local firms. The MNC affiliates can moreover train their local staff in export management, skills that can spill over to local companies if the MNC employee starts working in a domestic company or starts an own business (Blomström and Kokko, 1998, p. 13ff). In addition, the MNC may also require or advise its suppliers to join trade associations or industry organizations, of which MNCs often are members, which can work as forums for information sharing.

2.7 Spillovers from demonstration and competition

Multinationals may not only diffuse country/firm- specific knowledge and technology to local companies but can also strengthen the international communication channels which can facilitate demonstration across international borders. Local firms can also imitate and adopt products and production techniques of the MNC. Private copies are however a severe problem for multinationals in many developing countries, and are also illegal. How important the spillover benefits are depends on the initial conditions on the market and the impact of the MNC affiliate on concentration and competition (Blomström and Kokko, 1998, p. 15ff).

This theoretical chapter has described the economic effects of FDI and more specifically the role of and impact made by MNCs when establishing in a developing country. Different kind of spillover effects from foreign companies to domestic ones and also the important role of CSR for worker's security and for companies' comparative advantages have been discussed. The following chapter gives an introduction to Vietnam's economy and its integration with the global market.

3 Vietnam's economy

3.1 Economic reforms of Doi Moi

In 1986, the Vietnamese government initiated an economic reform process called Doi Moi. Prior to this time, the centrally planned economy followed a Soviet model where a central bureaucracy decided the allocation of resources according to national priority (ILO, 2004). International trade was managed through agreements with foreign governments, the overall level of trade was low and Vietnam was closed to foreign investors. The reforms consisted of six major economic policy changes (Thompson and Prater, 2004):

1. The decentralization of state economic management, which allowed state industries some local autonomy
2. The replacement of administrative measures by economic ones, including a market orientated monetary policy, which helped to control inflation
3. Adoption of an outward orientated policy in external economic relations; exchange rates and interest rates were allowed to respond to the market
4. Agricultural policies that allowed for long term land use rights and greater freedom to buy inputs and market products
5. Reliance on the private sector as an engine of economic growth
6. Letting state and privately owned industries deal directly with the foreign market for both import and export purposes

Doi Moi became a milestone for Vietnam's political and economical development. The government decided to implement an export-led, market-based economy and to turn away from the existing Stalinist economic system, with its strong focus on development of heavy industry and total collectivization of agriculture (Binh, 2005). Having China's successful market-oriented reforms from 1978 in mind, Vietnam quickly inaugurated its own structure for a market economy, of which the Foreign

Direct Investment Law of 9 December 1987.2 was the primary cornerstone of the legal framework towards this development. The FDI legislation turned out to be highly progressive and served to attract new investments and provide international market access for Vietnam's export-led development (ADB, 2007, p.7).

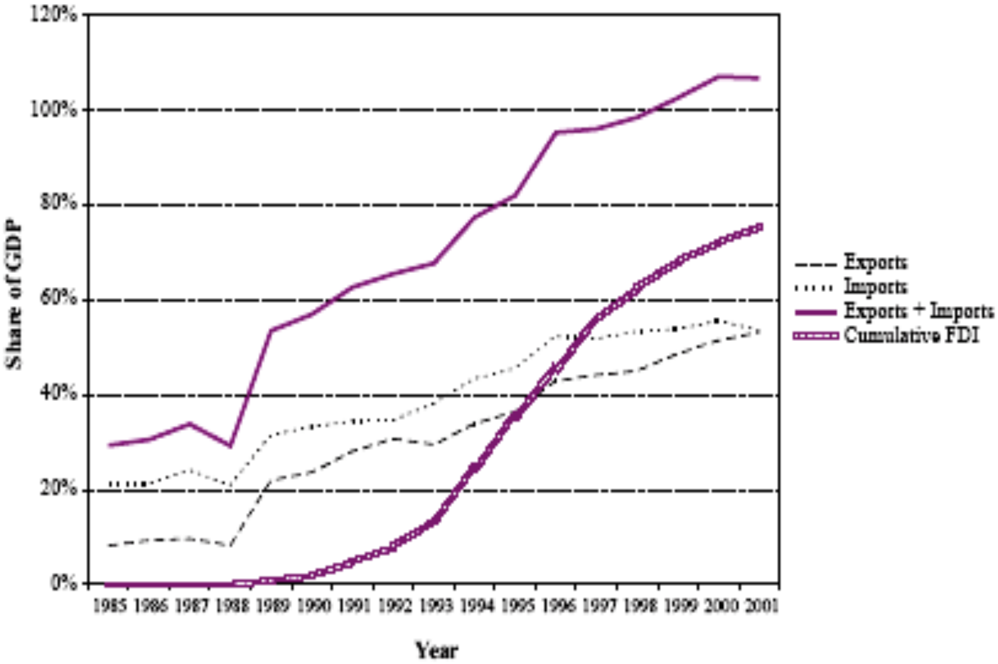
Vietnam has succeeded in integrating with the global economy. Many of its market-based economic policies and supporting legal frameworks are in place, and Vietnam became a member of the World Trade Organization (WTO) in January 2007. The pace of the political transformation process has however been limited as the country's political power still remains in the hands of a single political party, the Communist Party of Vietnam.

3.2 Vietnam's integration with the world economy

Before Doi Moi, Vietnam's international trade was restricted to commodity exchange programs with other Socialist countries. In the economic reform, international trade was fundamental for Vietnam's economy and the country implemented trade liberalizing measures including tariff reductions in order to reduce import and export restrictions.

During the 1990s, the East Asian economies became Vietnam's major trading partners. The OECD countries (including Japan and the Republic of Korea) also became gradually more important markets for Vietnamese exports and trade flows increased rapidly throughout the 1990s (Jenkins, 2006, p. 120) (figure 1). The increased openness of Vietnam's economy was mainly a result of the policies that were introduced in the mid 1980s to liberalize trade and promote FDI.

Figure 1: Trade and cumulative FDI as % of GDP



(Source: Jenkins, 2006, p. 120)

Vietnam has achieved a rapid growth since the adoption of the Doi Moi. The annual growth rate increased from 4 % in 1987 to around 8 % annually during most of the 90s. The annual GDP was as high as 9 % between 1994 and 1996. However, the Asian financial crisis caused a decline in GDP growth rate to around 6 % per year (ILO, 2004). From 2000, the growth rate has regained its upward trend even though the average growth rate is still lower than that during 1992 to 1997.

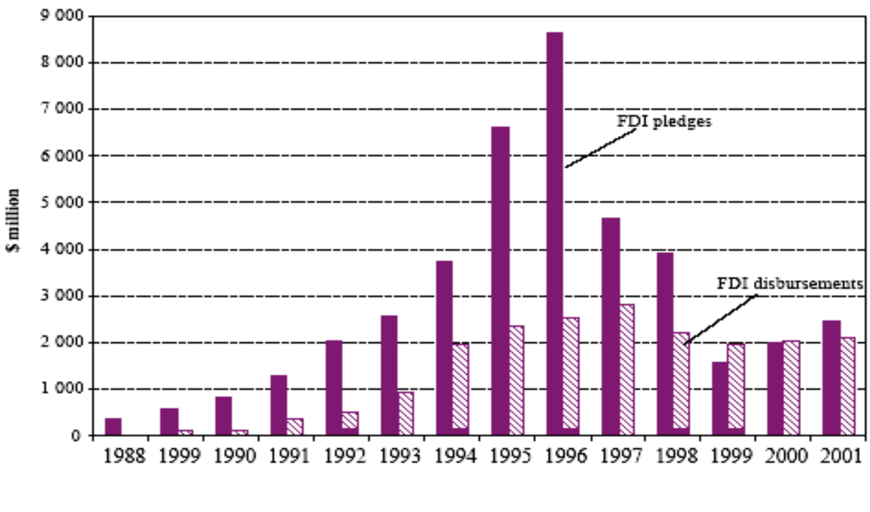
This chapter has given an introduction to Vietnam's economy and to the country's economic reforms Doi Moi in the mid-80s which aimed at implementing an export-led, market based economy. Vietnam's openness towards the world market was also briefly described. Chapter 4 contains a discussion about FDI; the different kinds of FDI in Vietnam and how FDI is assumed to lead to positive spillovers to domestic companies in the country.

4 FDI in Vietnam

4.1 Introduction to FDI in Vietnam

Vietnam's National Assembly passed the first Law of Foreign Investment in Vietnam on 29 December 1987 and has since then amended it several times. The law includes general regulations for establishing and operating a foreign invested company in Vietnam (Thanh Nguyen et al., 2003). Since the 1987 law, FDI inflow to Vietnam has increased considerably and accounted for a large part of total capital inflows. However, the FDI growth was rapidly interrupted after 1996 and new investments fell by almost 50 % the following year (Jenkins, 2006, p. 123) (figure 2).[2] There have been different explanations for the downturn in FDI inflows to Vietnam during this time. One is that the East Asian crises played a part since a major proportion of FDI in the beginning of the 1990s came from East Asian countries. Another is that the beginning of the downward trend in FDI was already apparent before the East Asian crises hit the country, which according to some was because of a slow-down in the economic reform process in Vietnam in the mid-1990s.

Figure 2: FDI in Vietnam, 1988-2001



(Source: Jenkins, 2006)

[2] Official Vietnamese sources give data on *FDI commitments*, which reflects planned investments, and *FDI disbursements*, which reflects actual investments carried out (Jenkins, 2006, p. 122)

In 2005, Vietnam's National Assembly adopted 14 laws, including the General Investment Law and the Unified Enterprise Law. According to the Ministry of Foreign Affairs in Vietnam, foreign investment flows to Vietnam have recovered from the downtrend in FDI inflows that began in the mid-1990s. Vietnam has over the past five years succeeded in attracting over USD 18 billion of newly-registered FDI and USD 13,6 billion of realized FDI which have led to increased investment capital, production capacity and export value of the economy (Ministry of Foreign Affairs, 2005).[3] It is estimated that the foreign-invested economic sector constitutes 14 % of GDP, about 20 % of the total social investment capital and more than a third of the total export turnover of the country (excluding crude oil) (ibid.). Since the beginning of the new millennium, the sector has contributed about USD 1 billion annually to the state budget, directly generated about 800,000 new jobs and indirectly about another 2 million others (ibid.).

4.2 Different types of FDI

Four different types of FDI are recognized by the law in Vietnam. 100 % foreign-owned firms, joint ventures, business cooperation contracts (BCC) and build-operate-transfer (BOT), of which the first two account for the greater share of FDI in Vietnam (Jenkins, 2006, p. 125f) (figure 3).

Figure 3: FDI in Vietnam, by type of investment, as of 31 December 2001
(US dollars)

Form of investment	Number of projects	Disbursement
BOT	6	39962500
BCC	139	3274371386
100 % foreign-owned	1858	5663310743
Joint Venture	1043	9716048731
Total	*3046*	*18693693360*

(Source: Jenkins, 2006, p. 126)

During the past two decades, there have been major shifts in the destination of FDI by sector. Between 1988 and 1992, oil, gas and real estate accounted for more than 50 % of FDI inflows to Vietnam while the inflows from the manufacturing sector were relatively low, about 15 %. However, the share of manufacturing has increased

[3] See Appendix 1 for the 10 largest foreign investors to Vietnam (as of October 2005).

considerably over time. From the mid-1990s and onwards, more than 40 % of FDI inflows has gone to manufacturing industries, construction of infrastructure and sectors that produce for export while the share of oil, gas and real estate has fallen to approximately a quarter of total FDI inflows.[4] Agriculture, the sector in which the majority of the Vietnamese people is employed, has not attracted many FDI and accounted in 2001 for only 6 % of total investment (Jenkins, 2006, p. 127).

4.3 Geographic location of FDI

FDI are not located geographically evenly throughout Vietnam. FDI is concentrated to some key industrial areas in the south and north of Vietnam. Such areas are for example Ho Chi Minh City, Dong nai and Ba Ria Vung tau in the south and Hanoi, Hai Duong and Hai phong in the north.[5] The explanation for the concentration of projects to these particular areas is mainly the greater existence of developed infrastructure and skilled labor (Quynh et al., 2002). Over half of all FDI registered in Vietnam is located in Ho Chi Minh City and approximately 20 % is located in Hanoi. The costs of investing and operating in these cities have however risen in the past years and consequently, there has been a tendency for new FDI to locate in neighbouring areas instead of in the two largest cities. The poorest six provinces in Vietnam, in contrast, received only 1 % of total FDI between 1988 and 2000 (Jenkins, 2006, p. 127).

4.4 Positive impacts of FDI in Vietnam

FDI inflows have helped to modernize management and corporate governance in Vietnam and to train a new young workforce. About 300 000 workers have been trained or retrained, and 25 000 technicians and 6 000 managers have been trained, partly abroad. Furthermore, various studies show that FDI has an important role in raising living standards of workers through higher average wages than in domestic sectors (Leproux and Brooks, 2004). The FDI inflows in Vietnam have had an important impact on the Vietnamese economy, especially in providing important financial resources that have represented a fundamental share of total investment,

[4] See Appendix 2 for FDI in different sectors in Vietnam (as of October 2005)
[5] See Appendix 3 for top 10 localities in attracting FDI in Vietnam (as of October 2005)

financing the fast economic growth that Vietnam has experienced the past 15 years, and providing market access for the country's increasing exports. FDI has contributed to the development of the domestic sector indirectly through increased incomes, expenditures, thus increased demand for domestic goods, and directly thorough increased competition, giving domestic firms incentives to invest more and produce more efficiently and introducing new technologies and skills (ibid). FDI is hence assumed to lead to positive spillovers to Vietnam's domestic production.

This chapter has given a description of the FDI inflow to Vietnam since the country initiated the Law of Foreign Investment in 1987. Different types of FDI have been discussed, as well as how the FDI inflows in Vietnam have an important impact on the Vietnamese economy. FDI is supposed to lead to positive spillover effects on domestic companies in developing countries in terms of increased competition, new technology, more efficient production methods etc. Meanwhile, both the foreign and the domestic companies must be able to ensure human rights, labor conditions and safety requirements and have a responsibility to incorporate CSR policies in their production strategies. The current situation and view of CSR will be discussed in the following chapter.

5 Corporate Social Responsibility in Vietnam

5.1 A world in transformation

The ongoing globalization has made people, goods and capital move quickly around the world and facilitated access to information and communication. A gradually larger part of the world's trade and investments comes from developing countries and a third of the world's trade is internal company transfers (Dahlin, 2007-05-16). This transformed international arena has created many new opportunities and possibilities but also many new challenges, to which different countries respond differently. Recognizing a worldwide growing consumer interest in production methods, working conditions and the environmental impact, there is an increased need to incorporate CSR in companies' production strategies. In this light, supply chain management plays a crucial role and has made the whole supply chain including suppliers and sub-contractors extremely important, not only the big business companies. Meanwhile, there is an increased demand from consumers and investors that even small and medium-sized companies should incorporate CSR policies in their strategies (ibid.).

Trade unions in Vietnam are controlled by the Party and have only nominal independence. However, union leaders influence some key decisions, such as on health and safety issues and on minimum wage standards. Vietnamese workers are not free to join or form unions as they like; such action requires approval from the local office of the Party-controlled Vietnam General Confederation of Labor (VGCL) (US-Vietnam Trade Council, 2000). According to Vietnam's Labor Law, the workers have the right to strike under certain circumstances. The law requires that management and labor solve labor-related conflicts through the company's own labor conciliation council. However, ILO shows in a recent report that many labor organizations in Vietnam have failed to establish such conciliation councils (ibid.).

5.2 Making Vietnam thinking globally

A weak competitiveness and lack of investments in infrastructure are two of the biggest challenges that Vietnamese companies are currently facing. Shortage of skilled labor, an inadequate infrastructure and an inconsistent legal system are all major obstacles to global integration in Vietnam and there is also need for increased cooperation between MNCs and domestic companies. 95 % of the domestic private sector in Vietnam contains SMEs, many of which are financially weak, have a limited technological capacity and a shortage of skilled labor (Outlook, 2007). Many of those will not be competitive enough in an open-market economy and risk not surviving when Vietnam further integrates with the world economy.

In order to compete in today's global arena, companies must be able to ensure human rights, labor conditions and safety requirements, not just providing fast and high quality products. The focus on CSR is increasing and according to business companies around the globe the core benefits from CSR are (Dahlin, 2007-05-16):[6]

- long term survival strategy
- attract, motivate and keep staff
- stronger client and business relations
- more efficient use of resources
- license to operate which can make the firm economically stronger
- contributes to increased shareholder value

Vietnam plays an increasingly important role in the world economy and its recent membership in the WTO has opened up new doors for the country as an operator on the global market. However, it has been recognized that major Swedish companies have hesitated to invest in Vietnam and that major players in Sweden have decided not to import from the country. The reason is that companies are not able to follow the whole supply and thus do not know where the products come from. In the case of Vietnam, it is not a matter of quality or basic skills but rather that Vietnamese companies' lack a comprehensive policy for CSR and that Swedish companies are not willing to expose themselves (ibid.). Another obstacle to development is that Vietnamese management personnel in MNCs often hesitate to participate in the

[6] Compare with chapter 2.2 "Corporate Social Responsibility"

decision-making process. The reason for this is that they are not used to doing so and they prefer to push the decision up to the hierarchy. Management skills in Vietnam are therefore relatively weak and as long as Vietnamese managements are reluctant to take decisions, substantial difficulties in improving these skills will remain (Åberg, 2007-05-16). Despite general skepticism towards CSR in domestic companies, CSR has nonetheless been on the agenda in Vietnam during the past ten years. However, as mentioned before, the policies have mainly been demanded and initiated by consumers, NGOs and MNCs; the initiatives to incorporate CSR policies rarely come form Vietnamese companies themselves. Chinh (2007-05-16) has pointed out some benefits from CSR policies that have been recognized specifically in Vietnamese firms:

- increased efficiency and competition since more products are accepted by more importers
- it complies with National Labor Legislation and has led to reduction of overtime and better overall working conditions
- environment outside and inside company has been improved
- company workers' dignity has been respected
- job and income of the employee have been insured
- guarantee of social security such as meals, promotions possibilities and training opportunities

Apart from the lack of initiatives by Vietnamese companies themselves, a further problem is that once CSR certifications have been granted, many companies in Vietnam have fallen back to their starting point with bad labor conditions and insecurity at work. This short time response and lack of accountability may be a major threat to the development of Vietnamese companies. Meanwhile, many SMEs do not really see the importance and meaning of CSR policies and believe that the costs will be too high to implement (ibid). This can be exemplified through a program that Vietnam's Chamber of Commerce and Industry (VCCI) and International Business Leaders Forum (IBIF) started together with Pentland, Adidas and Nike in Vietnam in 1990, called the Business Links Initiative. The purpose was to involve MNCs in assisting domestic companies to incorporate CSR by providing training and research about safety requirements and labour conditions in domestic firms (Hang, 2007-05-21). In the first phase, the initiative was carried out in the footwear industry but in 2004 was extended to even include the garment industry in Vietnam. The aim is to extend the program even further and soon also incorporate the sea food and wood processing industry. According to Hang (2007-05-21), the initiative has so far resulted in an increased awareness about CSR in participating domestic companies but the interest is still consumer- and MNC-driven. Besides, many SMEs can not really refer to the importance of CSR for their firms and there is an overall view that the implementation procedure will be very costly. How to make Vietnamese employers and employees think in a more sustainable and long-term way seems to be a major challenge. Another reason for the low incentives and small interest for CSR in domestic companies can be explained by a shortage of information and lack of good examples to follow. TV and media have just briefly mentioned successful cases where companies have benefited from CSR polices in Vietnam (Chinh, 2007-05-16). It is also important to emphasize that even though success stories from other countries can spur domestic companies, what is valid in other countries does not necessarily valid in Vietnam.

In the light of what has been described above, the objective is that Vietnamese companies themselves will understand the importance of CSR and realize that they can not afford not to implement CSR policies in their strategies. However, one can see that MNCs in developing countries can play a crucial role to *increase awareness* about CSR and also work as a *catalyst*.

The importance of CSR has been discussed in this chapter; that companies world wide need to incorporate CSR in their production strategies and take into account working conditions and the impact on the environment, not just providing fast and high quality products. However, many SMEs in Vietnam do not really see the importance and meaning of CSR policies and believe that the costs will be too high to implement. MNCs in Vietnam can play an important role in enhancing the knowledge about CSR, and also work as good examples to follow. In the following chapter, CSR and other spillover effects from foreign to domestic companies will be discussed by using two case companies from the furniture and the garment industries; IKEA and GM Workwear.

6 MNCs and Spillovers – evidence from the Vietnamese Manufacturing Sector

6.1 Host country characteristics – reasons for establishing in Vietnam

In the case of Vietnam, several characteristics that affect the investment climate can be identified. Some of the characteristics constitute advantages while others are rather disadvantages for companies:

Advantages	**Disadvantages**
positive attitude towards investment	banking system
geographical location	infrastructure
politically stable country	corruption
new member of the WTO	status on the world trade market
investments in infrastructure, IT and electronics	cost development
low prices of raw materials	low management skills
information about suppliers in local governments easy to access	
low labor costs and labor availability	
stable currency	
high economic growth	
basic education	

6.2 The furniture industry in Vietnam – an overview

During the past decade, the Vietnamese furniture sector has undergone a fast development and a substantial market expansion has resulted in gained grounds on both Asian and overseas markets. The Vietnamese furniture industry is characterized by an increasing inflow of foreign investment and capital which has led to a rapid expansion of existing companies; this is a development that is expected to continue. The most significant inputs used in Vietnam's furniture industry are log, timber, and other wood-based materials. The Government has decided to utilize 300 000 m^3 of timber per year to satisfy domestic needs and for manufacturing of wooden handicraft for export (Service of Trade, 2005). Vietnam's sources of wood material are however scarce in relation to its demand and consequently, the majority of wood materials for export furniture have to be imported. The total import of logs, timber and industrial wood amounted to USD 246 million in 2002 and almost USD 250 million the following year. In addition, Vietnam has in recent years begun to import wood materials from countries outside Asia, such as New Zealand, South Africa, Sweden, USA and Canada (ibid.).

Vietnamese furniture is exported to over 120 countries all over the world of which Japan (7,3 % of the country's total furniture import), the EU (0,2 % of the union's total furniture import) and USA (0,3 % of the country's total furniture import) are among the major importers (Service of Trade, 2005). There are approximately 2000 furniture manufacturers in Vietnam and approximately 15 % of these companies are export-focused. The main export manufacturers are concentrated in and around Ho Chi Minh City and the Central Plato region. Vietnam has a long tradition of furniture making, although not on such a large scale as during the past decade. Low labor costs have enabled low prices for customers and the geographically advantageous country is politically stable compared to many others in the region; the Vietnamese market is thus an attractive target for foreign investments (ibid.). However, Vietnam's furniture industry is also facing many challenges; its material shortage is getting worse, its share of global furniture market remains modest and the country has little design expertise. More importantly, many businesses are relatively small in size and relatively weak financially. The lack of capital for investments severely affects domestic companies' capacity to grow, as well as their actual rate of growth (Cuong, 2007-05-15).

6.3 IKEA in Vietnam

Company-specific information

IKEA was established in Vietnam in 1996 and currently operates from its two representative offices in the country. The company is 100 % foreign-owned and has no production in Vietnam but has several suppliers and sub-contractors that produce for them and for export. Out of the approximately 110 persons that work at the offices, about 15 are Europeans while the others are Vietnamese employees. As IKEA does not have any production or stores in Vietnam, it is relatively unknown on the

Vietnamese market. Still, it is not difficult to find suppliers in Vietnam since one can easily get access to lists from local governments about supplier companies' structure and other general information (Demiz-Helin, 2007-04-19).

Corporate Social Responsibility

Before IKEA chooses its suppliers, the responsible purchaser for each commodity makes a careful evaluation of the supplier by regular visits to the company. All IKEA's suppliers must follow the Code of Conduct even though IKEA themselves are aware that it might be a long process for the locals to live up to these requirements.[7] According to Cuong (2007-05-15), before his company was contracted as a supplier to IKEA, it had to be able to both show certifications about social welfare and safety in the firm and be able to commit to the Code of Conduct requirements, something that IKEA regularly visited to supervise.

MNCs require in general that their suppliers can deliver large quantities. This means that mainly financially stable and relatively large suppliers will be contracted while small and financially weak companies have limited possibilities. Most companies in Vietnam are SMEs and this category is facing many difficulties and disadvantages. Besides the problem with low skills, especially in management, many financially weak firms are currently facing difficulties receiving credits, which severely reduces the companies' economic possibilities (Cuong, 2007-05-15).

Every MNC has its own company structure and wants its employees to stay there. It is important to make efforts to give them incentives not to change work, that recruitment and long-term employment should be based on shared values and a sense of belonging to the company (Demitz-Helin, 2007-04-19). In terms of CSR this can be essential for Vietnamese firms; that shared values should lie in everyone's interest and will in the long-term contribute to the whole company's well-being. As described before, a major problem in Vietnam is that interest in the CSR guidelines is still demand-driven from customers and MNCs. Nevertheless, IKEA encourages its suppliers to use IKEA as a reference for other customers and when expanding to other markets since it has an extensive Code of Conduct (ibid.). Even though it is hard to measure the extent,

[7] For IKEA's Code of Conduct, see http://www.ikea-group.ikea.com/corporate/responsible/conduct.html

there is potential for transferring the CSR guidelines and a sustainable way of thinking to other firms.

Spillovers through linkages

IKEA helps its supplier by showing what they need and want and that safety and quality requirements are followed. If the production does not live up to those requirements, the products are returned and IKEA provides feed-back on how to improve the production methods. Random quality checks and reference products are also common. Since IKEA's supply chain is relatively extensive regarding the purchase of raw materials, IKEA has a limited capability to assist all suppliers and their sub-suppliers. IKEA claims that it only uses Vietnamese wood in their production. However, according to Cuong (2007-05-15), since Vietnam is facing a shortage of wood materials, wood has to be imported and IKEA has advised its suppliers to import wood-material from Indonesia and Malaysia where it is cheapest.

IKEA does not directly make any efforts to help its suppliers to find additional customers; they are all selected by competition. When demanded, IKEA however provides information and advice about where to find good and reliable sub-suppliers. It is important to say that when Vietnamese enterprises become suppliers for a MNC, they have a great chance of developing and getting new customers. However, the company must still be large enough to have a chance to be contracted (Cuong, 2007-05-15). There is a risk that the gap will widen between the country's huge amount of SMEs and the few strong suppliers that actually exist in Vietnam. Being a Vietnamese worker and employed in a MNC does in general imply a high market value and a higher salary compared to workers in domestic companies in the same branch. It is thus common that Vietnamese workers in a MNC go directly to another MNC when changing job; once given the chance many Vietnamese workers stay in the MNC system.

Spillovers through training

IKEA provides recommendations about selling techniques and new production technologies but no formal training for its suppliers. Nor does IKEA help domestic companies with export management or foreign relations. In Cuong's company it is more common that consultants from other Vietnamese firms are hired as part-time employees and that Vietnamese companies have to rely on personal contacts (ibid.). Foreigners in Vietnam can work on a short time basis as private consultants and business networks and personal contacts might be more important than MNCs in this aspect.

Spillovers through demonstration and competition

Imitating and copying products is very common in developing countries and many suppliers in Vietnam are selling the same products through different channels. So-called “private copies” are forbidden but difficult to control. MNCs have in general a superior knowledge about selling techniques, labeling, design and other competences that Vietnamese companies often lack. When MNCs demand new modern products from their suppliers, domestic companies get access to new design and new techniques (Erntell, 2007-04-19). Hence, there is scope for spillover effects.

It is difficult for domestic suppliers to get away from being price takers since MNCs have superior financial and management skills and knowledge of human capital. In the case of IKEA, the company chooses suppliers on the basis of price but claims that other factors are important as well, e.g. following the code of conduct. Since the gap between MNCs and domestic companies in general is rather substantial, the relationship between them is unequal. Many foreign firms do not take into account for example increases in raw material prices which result in financial losses for the domestic suppliers. IKEA, as an example, is a powerful and attractive customer for suppliers in Vietnam and many producers can not afford to lose their contract with such big customers (Cuong, 2007-05-15). More and more domestic companies in Vietnam are trying to expand and export directly to the EU and North America instead of exporting through a foreign enterprise. The main goal for many is to become less dependent on multinational enterprises and to find potential importers on their own (ibid.). The overall impression is that MNCs can be a good facilitator and help domestic enterprises to develop to a certain extent but after a time of collaboration with large foreign enterprises, it is natural for domestic companies to want to become independent.

6.4 The Vietnamese Textile and Garment industry – an overview

The development of the textile and garment industry has been an important "first step" of many countries' industrialization process. Over time, the relative costs of labor and capital have shifted; textile and garment manufacturing has moved from the U.S., Great Britain and Japan which dominated the international trade of textile and garment in the first half of the 1900s, to less developed countries, in order to reduce the production costs. The textile and garment industry is a main contributor to Vietnam's economic development. The industry is labor-intensive, employing two million people in Vietnam and comprising a mixture of state owned and private enterprises (VCCI, 2007). However, the sector has several weak points. The industry suffers from a shortage of local materials, most input materials and accessories must consequently be imported from other countries, and there is also a need for R&D, quality control and eco-friendly certifications to be able to compete on the world market. Bureaucracy, corruption, and discrimination as well as the country's complicated mixture of capitalism and state control are still barriers for modernization and upgrading of the sector and serious hindrances to development in Vietnam (Textiles Intelligence, 2003). The government is currently trying to increase the efficiency in the sector by implementing new orientations, for example measures for restructuring the production mode and outsourcing production of low-value items to rural areas in order to use the huge number of potential workers living there (VCCI, 2007).

Moreover, the Vietnamese textile and garment industry lacks competence and knowledge about production, design and branding and management. Cooperation with foreign partners has become essential for the industry to improve its technology, management capacity and competitiveness. In addition, foreign investment capital is also a way to reducing the burden of investment for infrastructure on the garment and textile sector (VCCI, 2007).

6.5 Guston Molinel Workwear in Vietnam

Company-specific information

GM Workwear is a French-Swedish company that has been operating in Vietnam since 1991 as an independent garment manufacturer. The company is specialized in production of work wear, uniforms, outdoor clothing and leisure wear and it manufactures and exports over two million garments annually, mostly to Europe and the US. GM Workwear is a business cooperation contract (BBC) but works towards being a joint-venture. The company employs about 1000 people; 700 women and 300 men out of which two are foreigners.

Corporate Social Responsibility

In order to be employed in the factory, there are weight and height requirements due to some heavy work. First and foremost people from the textile school are employed and have to conduct a work test upon arrival. When the company was established, it consulted external test organizations to obtain labeling for security and quality and received it after one year. The company is now certified according to the ISO 9001 that guarantees quality in the chain of production, ISO14001 that ensures responsibility for the environment and SA8000 that follows international standards regarding social standards in the factory. Safety and social rules have been adopted in the factory, such as an eight-hour work day, working clothes, free health care and maternity leave for four months. The company distributes its "Code of Conduct" to its suppliers to give information about their commitments and for the suppliers to sign, but they are rarely returned to the company (Kling, 2007-04-26).

Spillovers through linkages

The employees in the factory work in production lines and have the possibility to change their task upon request and if the work leader agrees. Thereby, the employees get a chance to diversify and broaden their skills and also avoid being stuck in static work. There is a constant demand in the factory for new innovations that facilitate work and make it more efficient. When the management or workers in the factory want a new or modified component, the employees in the factory either create their own innovation or the company helps its suppliers to create the new product or modify the old one. The suppliers can then in turn sell the new product to other customers which creates potential for spillovers to other firms.

Spillovers through training

When introducing or establishing new machines, GM Workwear provides internal training to its employees. It also provides school training in the factory where the work leader continually teaches new workers or introduces new products or methods. According to Kling (2007-04-26), when the workers in his factory change jobs, they generally start working in another local garment industry. Since the employees at the GM Workwear continually gain firm-specific knowledge about production methods and innovations, they can easily transfer this knowledge to other companies.

Spillovers through demonstration and competition

GM Workwear frequently advices existing suppliers on where to find sub-suppliers by giving them details about products in terms of quality specialty and technical specialty. It is necessary for the supplier to be competitive and it is more up to the supplier to have comparative advantages than for large MNCs to help their suppliers find additional customers (ibid.). Moreover, almost all components used in the factory are copies but since the company is innovating new components and production-facilitating items, there is scope for innovations and for the workers to gain firm-specific knowledge. It is then possible that workers take this specific knowledge with them if they change work. According to Kling (2007-04-26), there is a possibility that MNCs' presence results in an out-competing of small and/or inefficient local companies rather than creates enough competition so that local firms are forced to be more efficient. It is therefore crucial that the domestic companies create comparative advantages, such as being certified for quality and security that will enable them to compete among domestic suppliers.

In this chapter, two case companies from the furniture and the garment industries have been used in order to illustrate that MNCs that invest in a developing country can play a crucial role for capital formation, the transfer of technology and management skills, the sharing of information and ideas and market access. Evidence has shown that there is potential for such spillovers in Vietnam. Several characteristics that affect the investment climate have also been identified, of which some are advantages while others are rather disadvantages for companies. The last chapter contains a summary and some policy implications.

7 Summary and policy implications

The aim of this study is to examine if and how the presence of foreign companies has influenced Vietnam's economy and more specifically, try to distinguish any spillover effects on domestic firms. The purpose is also to discuss the recent development in terms of CSR and discuss challenges and obstacles to implementation of CSR policies in the country.

Since Vietnam initiated its economic reform *Doi Moi* in the mid-1980s, it has become one of the fastest-growing economies in the world and an important actor in the world arena. The country has succeeded in reducing poverty levels and has achieved a strong economic growth which has made Vietnam a magnet for FDI. According to the economic literature, MNCs in developing countries can move forward the process of industrial development by creating spillovers to the rest of the economy. Furthermore, globalization, increased competition and a greater concern for the environment both within and outside the company have amplified the role of CSR, a term used to describe the positive ways in which the private sector may affect society. This has forced companies to recognize the strategic significance of being increasingly responsible.

CSR has been on the agenda in Vietnam during the past ten years but the policies have mainly been demand-driven and initiated by consumers, NGOs and MNCs: many SMEs in Vietnam do not really see the importance and usefulness of CSR policies and believe that its implementation costs will be higher than its rewards. MNCs operating in Vietnam can play a crucial role to increase awareness about CSR and also work as good examples to follow. The lack of interest in implementing the CSR policies constitutes a major barrier to development in Vietnam. Even if some companies receive a CSR-certification, there is a need for appropriate control measures to follow up the CSR activities in these companies. Despite all obstacles, there is potential for transferring CSR guidelines and a sustainable way of thinking from MNCs to domestic workers and companies. Other spillover effects in terms of information spread, new design and techniques, production methods and different firm-specific knowledge from MNCs to domestic companies have been registered in

Vietnam, even though it is highly difficult to measure their extent. This has been exemplified through two case companies. Vietnamese enterprises that become contracted as suppliers by the Swedish company IKEA have a great chance of developing and creating a network of customers and contacts. However, the company must be large enough to have a chance to be contracted and there is thus a risk that the gap will widen between Vietnam's vast amount of SMEs and the country's few strong suppliers. There is also potential for spillover effects when IKEA demands new modern products from its suppliers since domestic companies get access to new design and new techniques.

Safety and social rules have been adopted in the French-Swedish company GM Workwear's factory, such as an eight-hour work day, working clothes, free health care and maternity leave for four months. It is likely that the employees take their experiences and knowledge about corporate responsibility with them when changing job, hence there is scope for spillovers. When the management or workers in the GM Workwear factory want a new or modified component, the employees in the factory either create a new product or the company demands a new product from its suppliers. The suppliers can then in turn sell the new product to other customers, which creates potential for spillovers to other firms. In the same way, firm-specific knowledge about production methods and techniques can be transferred to other companies. Vietnamese companies that are suppliers to a MNC have a great possibility of developing and creating a network of customers.

MNCs are exporting not only their products and services but also their operating standards, values and principles, i.e. their codes of conduct, all over the world. There seems to be potential for these practices to be adopted by domestic companies but there is a need for such incentives to come from Vietnamese companies themselves. The government can work as a catalyst and play a crucial role by viewing CSR and codes of conduct as cost-effective ways to enhance sustainable development strategies and as measures to compete on the world arena. This requires a transparent and accountable government that is a good example to follow by being socially responsible. CSR boards that include government, civil society and businesses at national and regional levels can work as intermediaries and spread information and sustainable ways of thinking. The non-democratic one-party system in Vietnam that controls both trade unions and the media hinders these possibilities as it is neither transparent nor democratic. Vietnam's membership in international institutions such as the WTO will hopefully shed new light on such problems and thus force the government to review its procedures and legal framework.

According to the literature, MNCs that invest in a developing country can play a crucial role for capital formation, the transfer of technology and management skills, the sharing of information and ideas and market access. As is discussed in this thesis, CSR should be added and considered a spillover effect. This however requires that MNCs put more pressure on their suppliers to follow their Codes of Conduct along *all* steps of the supply chain and not just being satisfied with delivering the guidelines. Trade unions in Vietnam must make efforts to approach more SMEs and spread information and understanding about the meanings and advantages of being a member. VCCI can continue to work together with large MNCs, Vietnamese companies and trade unions and carry out projects and seminaries about CSR.

It is fundamental that the media in Vietnam to a higher extent highlights the importance CSR plays for the long-term survival of Vietnamese companies and how CSR can increase their competitiveness on international markets. MNCs that provide good examples to follow in Vietnam and abroad highlight these aspects but more spreading of information about CSR is needed. This is crucial in order to enable large as well as small companies to better refer to CSR and thus make it more valuable to implement CSR-related actions.

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Speakers:

Ambassador Elisabeth Dahlin from the Swedish Ministry of Foreign Affairs

Mai Duc Chinh, Director of Social Economic Policy Department (VGCL)

Eddie Åberg, General Manager Ericsson Vietnam

Appendix 1

10 largest foreign investors to Vietnam (as of October 2005)

No	Countries/Territories	Number of projects	Registered capital (million US dollars)	Realized capital (million US dollars)
1.	Taiwan	1,384	7,739.90	2,961.44
2.	Singapore	383	7,508.93	4,180.78
3.	South Korea	1,004	5,391.92	2,504.74
4.	Hong Kong	351	3,683.71	1,940.50
5.	B.V.Islands	243	2,623.56	1,267.26
6.	France	162	2,136.86	1,165.36
7.	Netherlands	60	1,886.33	1,784.53
8.	Thailand	125	1,474.08	716.82
9.	Malaysia	175	1,471.38	843.51
10.	US	245	1,398.48	739.23

(Source: Ministry of Foreign Affairs, 2005)

Appendix 2

FDI in economic sectors (as of October 2005)

No	Sector	Number of projects	Investment capital (million US dollars)	Realized capital (million US dollars)
1.	Heavy industry	1,161	12,210.08	6,326.31
2.	Light industry	1,633	8,206.71	3,189.37
3.	Construction	304	3,942.21	2,157.90
4.	Food industry	257	3,083.78	1,882.98
5.	Oil industry	27	1,891.19	4,555.11
6.	Agro-Forestry	649	3,367.28	1,678.27
7.	Fishery	110	303.47	152.22
8.	Office and apartment construction	110	3,884.11	1,692.61
9.	Transportation-Post	158	2,907.51	716.68
10.	Hotel-Tourism	171	2,849.07	2,121.81
11.	Municipal construction	4	2,551.67	51.29
12.	Other services	416	1,112.82	350.99
13.	Culture-Health-Education	201	1,103.26	273.05
14.	Processing and Industrial zone infrastructure construction	20	986.10	521.37
15.	Finance-Banking	53	702.55	611.93

(Source: Ministry of Foreign Affairs, 2005)

Appendix 3

Top 10 localities in attracting foreign direct investment (as of October 2005)

No	Locality	Number of projects	Investment capital (million US dollars)	Realized capital (million US dollars)
1.	Ho Chi Minh city	1,772	11,937.64	5,963.94
2.	Ha Noi	636	9,236.43	3,154.63
3.	Dong Nai	688	8,408.88	3,731.94
4.	Ba Ria-Vung Tau	119	2,177.35	1,224.52
5.	Hai Phong	178	1,948.88	1,203.92
6.	Off-shore oil exploitation activities	27	1,891.19	4,555.11
7.	Vinh Phuc	87	726.42	413.67
8.	Thanh Hoa	16	701.96	410.35
9.	Long An	94	690.23	292.58
10.	Hai Duong	72	627.50	376.01

(Source: Ministry of Foreign Affairs, 2005)