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Investment Liberalization in the ASEAN Economic Community Vietnam's Participation, Opportunities and Challenges

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Abstract: Investment liberalization plays an important role in building a single market and production base in the ASEAN Economic Community (AEC). The paper examines Vietnam's participation in the AEC from the perspective of investment liberalization through analysis of: (i) Vietnam's commitments and her implementation of commitments under the ASEAN Comprehensive Investment Agreement (ACIA); (ii) the current situation of foreign direct investment (FDI) in ASEAN and Vietnam; and (iii) opportunities and challenges for Vietnam from AEC's liberalization of investment.

Keywords: AEC, ACIA, FDI, Vietnam.

1. Introduction

In 2003, the ASEAN leaders adopted ASEAN Vision 2020 with three pillars, namely the ASEAN Economic Community (AEC), the ASEAN Political - Security Community (APSC), and the ASEAN Socio - Cultural Community (ASCC). At the 13th ASEAN Summit on 20 November 2007 in Singapore, ASEAN leaders reaffirmed this commitment and decided to accelerate the establishment of the AEC in 2015. A coherent master plan on ASEAN Economic Community (AEC Blueprint) was also adopted, in which investment liberalization has been identified as one of the important factors to achieve the overall objectives of the Community.

Currently, investment activities in the ASEAN region are regulated by the ASEAN Comprehensive Investment Agreement (ACIA), which entered into force on 29 March 2012. ACIA is the successor and adjustment of the ASEAN Investment Guarantee Agreement (AIGA) in 1987, and the Framework Agreement on the ASEAN Investment Area (AIA Framework Agreement) in 1998, to accommodate the new context of regional integration under the ASEAN Vision 2020.

The goal of the ACIA is to create a free and open investment regime in ASEAN through progressive liberalization of investment; provision of enhanced protection for investors and their investments; improvement of transparency and predictability of the rules, regulations and investment procedures, and joint promotion and cooperation to create an

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integrated and favorable investment environment. Accordingly, the ACIA's guiding principles include [1, 2]:

- Promoting liberalization, protection, promotion and facilitation of investment;
- Providing benefits to both ASEAN and ASEAN-based foreign investors;
- Maintaining the rule of MFN and according preferential treatment among members;
- No back - tracking of commitments made under the AIA and AIGA;
- Granting special and differential treatment to new members (CLMV);
- Accepting flexibility on sensitive issues;
- Reciprocity treatment in the enjoyment of concessions among Member States;
- Allowing the expansion of the scope of the Agreement to cover other sectors in the future.

This Agreement is being applied to the manufacture, agriculture, fishery, forestry, mining and quarrying sectors, and related services. It is clear that ACIA is more progressive than the two previous agreements, particularly in its extended scope. ACIA immediately grants the same preferential treatment for ASEAN and ASEAN-based foreign investors; whereas AIA granted preferential treatment to ASEAN investors first, then to foreign investors in ASEAN in 2020. Services that may arise in the future are also under the scope of the Agreement. ASEAN's efforts in creating a more favorable investment environment are expected to attract more flows of intra- and extra- regional investment.

2. Vietnam's commitments and its implementation of commitments under the ASEAN Comprehensive Investment Agreement (ACIA)

2.1. Vietnam's commitments on investment liberalization and its adjustments of legal framework

Vietnam shares common views with other ASEAN members in creating a liberal, transparent, facilitative and competitive investment regime in order to promote intra-regional investment as well as attract investment from foreign investors outside ASEAN. The Law on Investment passed by Legislature XI of the National Assembly of the Socialist Republic of Vietnam at its 8th Session on 29 November 2005, replacing the Law on Foreign Investment in 1987 and the Law on Promotion of Domestic Investment in 1998, is a milestone toward freer and more open investment regime in Vietnam. Some highlights of the Law on Investment 2005 are as follows [3]:

- Investment guarantees: The State shall recognize and protect the ownership of assets, invested capital and revenue and other lawful rights and interests of investors. Investors' lawful assets and invested capital shall not be nationalized or confiscated by administrative measures. In case of changes in law or policies, investors shall be guaranteed to enjoy the higher benefits and incentives between the old and the newly promulgated law or policy. If an international treaty of which Vietnam is a member contains provisions different from the provisions in domestic investment law, the provisions of such international treaty shall prevail.

- Investment procedures: The procedures relating to investment registration, business licensing and projects amendment are adjusted in the direction of being more open and favorable for investors. For example, investors holding investment certificates are not required to acquire a business registration certificate anymore (formerly there were two different procedures). Investors shall make their own decisions on investment projects; and they shall be responsible for the accuracy and truthfulness of the contents of their registered investment, for their investment project application files and for implementing their investment undertaking as registered, etc. In addition, the investment procedures specified in the law help investors shorten the time to acquire an investment license.

- Investment sectors: The Law on Investment 2005 specifies three groups of investment sectors including incentive investment sectors, sectors in which investment is conditional and sectors in which investment is prohibited. Investors are free to invest in all sectors and in all industries and trades that are not conditional or prohibited.

It can be said that the provisions of the Law on Investment 2005 extended investors' autonomy in investment and business activities and removed barriers inconsistent with market-economy rules and Vietnam's integration commitments. Along with the Law on Enterprise [4] adopted and entered into force in 2006, marking a 20-year journey of implementing the reform policy, Vietnam has built a legal framework for equal treatment of investors from all economic sectors, and as between domestic and foreign investors. For some specific sectors in which foreign investment was previously limited, such as banking, education and training, etc. Vietnam enacted new legislation to regulate in accordance with her commitments, such as the Law on Credit Institutions 2010 [5], Decree No. 57/2012/ND-CP on the Financial regime for credit institutions and branches of foreign banks [6], Decree No. 73/2012/ND-CP on the Cooperation and foreign investment in the education sector [7]... In the retail sector, Vietnam has loosened regulations on the economic needs test (ENT) for the establishment of retail stores by foreign enterprises. In short, the legal framework has been adjusted towards improvement of the business environment to provide equal competition among investors and compatibility with Vietnam's commitments in ACIA.

2.2. Vietnam's reservation list under ACIA

However, like other ASEAN state members, Vietnam has a reservation list to the provisions of ACIA. The specific schedule is as follows [8]:

- National Treatment and Senior Management and Board of Directors shall not or may not apply to measures in relation to:

(1) Employment of expatriates [9] [10]. For example: At least 20% of the total number of managers, executives and specialist shall be Vietnamese nationals. However, a foreign enterprise may employ at least 03 non-Vietnamese managers, executives and specialists.

(2) Portfolio investment [3, 11].

(3) The establishment, acquisition, organization and operation of foreign invested enterprises or foreign investment projects, including but not limited to the issuance of licenses/permits, legal forms, equity participation, organization, management and duration of investment [3, 4, 12, 13]. For example, a foreign investor must have an investment project and perform the procedures for investment registration or evaluation of investment at the State administrative body for investment in order to be issued with an investment certificate. On legal form, foreign investors cannot establish cooperatives. On management, the financial reporting by foreign and local investors is different. On duration of investment, maximum duration of a foreign investment projects is 50 years.

(4) State owned enterprises and monitoring and management of investment by State funds, including but not limited to privatization,

equitization or divestment of assets through transfer or disposal of equity interests or assets of SOEs [3, 4].

(5) Investment sectors which are conditional [3, 12].

(6) Preferential treatments granted to small and medium-sized enterprises [3, 4, 14, 15].

(7) Maintaining food security [16]. For example: Foreign-owned enterprises were only allowed to export rice and paddy from 01/01/2011.

(8) Conditions imposed in investment licenses permits/certificates that were issued before the entry into force of ACIA [17].

(9) In the case where activities restricted to the designated enterprises are liberalized to those other than the designated enterprises, or in the case such designated enterprises no longer operate on a non-commercial basis [3].

(10) Measures affecting land, property and natural resources associated with the land, including but not limited to acquisition, ownership, leasing, policy on the usage of land, land planning, term of land use and rights and obligations of land users [18] [19]. For example, foreign organizations and individuals cannot own land. They can only lease land in line with the duration of their investment project (subject to approval of a competent State body), which shall not exceed 50 years.

- Besides, Vietnam shall not issue investment licenses for foreign investors in a number of sectors and sub-sectors under the scope of ACIA.

(1) Manufacturing: Foreign investors are not allowed to produce firecrackers, sky-lanterns, fishing-nets, publishing, printing, cigarettes and cigars, alcoholic beverages and soft drink, tobacco production, lubrication oil, grease, NPK fertilizer, construction glasses, clay bricks, vertical shaft cement production equipment and baked earth bricks and tiles, D6-D32mm construction steel rods, D15-D114mm seam steel pipe, zinc galvanized and color sheets, fluorescent tubes and bulbs, under 10000DWT cargo ships, under 800TEU container ships, lighter and under 500 seats passenger ships, oil-well cement, barite and bentonite for drilling fluids and cane sugar. Foreign investors are not allowed to either produce or supply explosive materials, including industrial explosive materials using in oil and gas activities. No investment licenses are issued to foreign investors in services related to the production of industrial gas (oxy, nitro, CO_2), caustic soda (NaOH), common used insecticides, common used paints, dairy processing, cane sugar production and sugar processing industry, processing of beer and beverage, processing of tobacco products, processing of manufactured tobacco for production of cigarette based on contract or a fee, distribution of acid-sulfuric used in producing other products, production of fluorescent tubes and incandescent bulbs.

(2) Agriculture and forestry: Foreign investors are not allowed to cultivate, produce and process rare or precious plants, or engage in the breeding or husbandry of precious or rare wild animals and are not allowed to process those plants or animals (including both living animals and processed matter taken from animals). No investment license will be issued for foreign investors in services relating to investigation, evaluation and exploitation of natural forests. Foreign investments in other services incidental to agriculture, hunting and forestry are restricted to certain geographical areas as may be approved on a case-by-case basis.

(3) Fisheries: Fresh water fishing, marine fishing, coral and natural pearl exploitation are not to be conducted by foreign investors.

Foreign investors cannot supply services related to the production of fishing nets and twine for the fishery sector, or the repairing and maintaining of fishing boats, the exploitation of fresh-water fisheries, and cannot supply services involving the quarantine, quality control of aquaculture and processing products, the processing and preservation of aquatic products or services relating to the canning of aquatic products.

(4) Services incidental to mining and quarrying in which foreign investment is not accepted include services related to the application of science and technology in the production, testing, adjusting, repairing and maintaining of industrial measure and control equipment for the oil and gas sector, oil and gas warehouse services, oil and gas supply base services, catering and allied services including food and foodstuffs, clean-water and vegetables to off-shore construction facilities, manpower supply services, gas processing, leasing services relating to other machines and equipment, databases for oil and gas study, databases for geological study and seismic surveys for oil and gas industry, geological and exploration drilling, risk assessment, and services relating to environment protection and management. Investment in oil and gas activities shall be subject to approval by Vietnam's government.

- Last but not least, local investors may be given preferences in some sub-sectors, including the production of industrial explosive devices, cement, ready-mixed concrete and stone crushing and automobile and motorcycle assembly and manufacture. Foreign investors are restricted in some areas such as services related to manufacturing plastic packaging, PP, water pumps for agriculture, hunting, mining and quarrying, etc. For example, foreign investment is restricted and subject to a foreign equity requirement of a maximum of 30% for services related to the manufacturing of water pumps used in agriculture; 49% for services related to mining and quarrying (51% from 11/01/2010, 100% foreign invested enterprises from 11/01/2012); 30% for services related to sending vessels for buying sea-products and hiring of fishing boats and employees; 40% for services related to processing fish on board, exploitation of sea-products; 49% for air-plane manufacture; 49% for manufacture of railway rolling stock, spare parts, wagons and coaches, etc.

To summarize, Vietnam has seriously implemented its commitments under ACIA to create a liberal and competitive investment regime. However, the reservation list of Vietnam indicates that there is still much work to do to truly build an investment environment of freedom and equality. In the vision of AEC beyond 2015, gradual elimination of items from the reservation list therefore would be one of the important issues continuing to be negotiated. According to information from Vietnam's Ministry of Industry and Trade, we are discussing the probability of a 3-stage plan to gradually eliminate the reservation list under ACIA.

3. Current situation of FDI in ASEAN and Vietnam

3.1. FDI in ASEAN

ASEAN is an increasingly attractive destination for foreign investors. In the Asia-Pacific region, ASEAN is the largest FDI receiver in relation to its economic size (GDP). Net FDI inflows into ASEAN followed an upward trend, from about 42.5 billion USD in 2005 to more than 84 billion USD in 2007. The value of net FDI declined in the two following years back to the equivalent level of 2005, due to the global economic crisis. However, since 2010 FDI inflows have rebounded strongly and exceeded 100 billion USD in 2011 [20] [21]. In 2013, net FDI reached more than 122 billion USD. During the period 2005-2013, intra-regional investment accounted for only about 15% of the total net FDI in ASEAN; the remaining (85%) was invested by foreigners from outside the region.

The EU, Japan and the United States continue to be leaders in providing FDI flows into ASEAN. For the period 2005-2013, the EU contributed 21.9% to the total FDI into ASEAN, followed by Japan with 14.3% and the US with 8%. It is noteworthy that FDI from the United States declined in relative terms, while intra-ASEAN FDI increased rapidly and Singapore plays a key role in providing this intra-regional FDI. After the crisis, FDI flows from Japan and China into ASEAN tended to rise quickly as the two nations became increasingly important partners in the region. The EU remains the largest foreign direct investor in ASEAN; however the gap between EU and Japan tends to be narrowed. In 2012, for the first time FDI from Japan surpassed FDI from the EU. FDI from the US fluctuated strongly and in 2013 plummeted to an even lower level than FDI from China into ASEAN.

Among ASEAN state members, Singapore receives the most FDI, followed by Thailand, Indonesia, Malaysia and Vietnam. The other members receive an insignificant proportion of total FDI inflows (0-3%). In particular, the structure of FDI into ASEAN in recent years (2008-2013) has some notable features. First, the share of FDI into Singapore tended to decrease (mainly due to a sudden drop in 2008) but Singapore remains the leader, accounting for about half of the total FDI into ASEAN. Second, Indonesia surpassed Thailand to rank 2nd in the FDI receivers' ranking. For the period 2000-2013, FDI into Thailand accounted for 12.3%, while Indonesia, 11.4%. However, for the period 2008-2013, Indonesia accounted for 15.6% of the total ASEAN's FDI inflows while Thailand accounted for only 10.2%. Third, although Vietnam still ranks 5th in both mentioned periods, the proportion of FDI inflows into Vietnam has increased significantly, from 7.8% during 2000-2013 to 9.2% during 2008-2013. The trend of net FDI into ASEAN by host country is shown in Figure 3 and Figure 4.

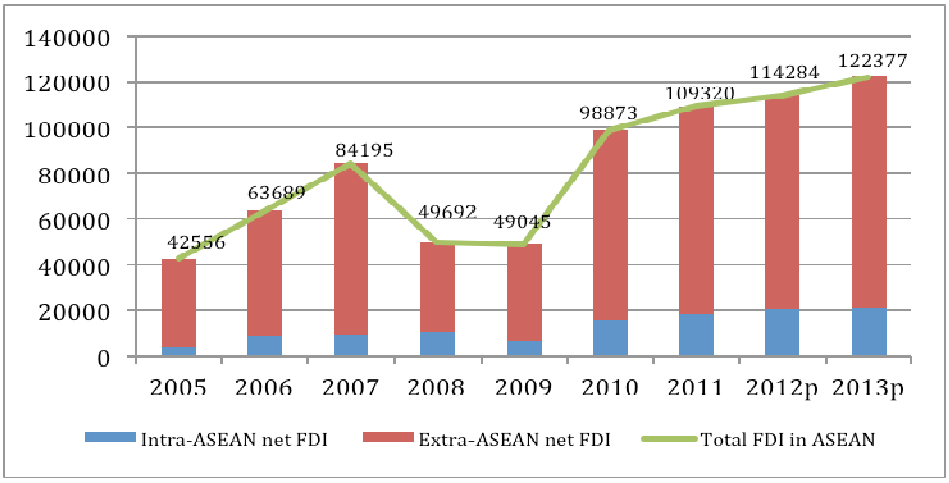

Figure 1: Net FDI into ASEAN (million USD).
Source: ASEAN FDI Database

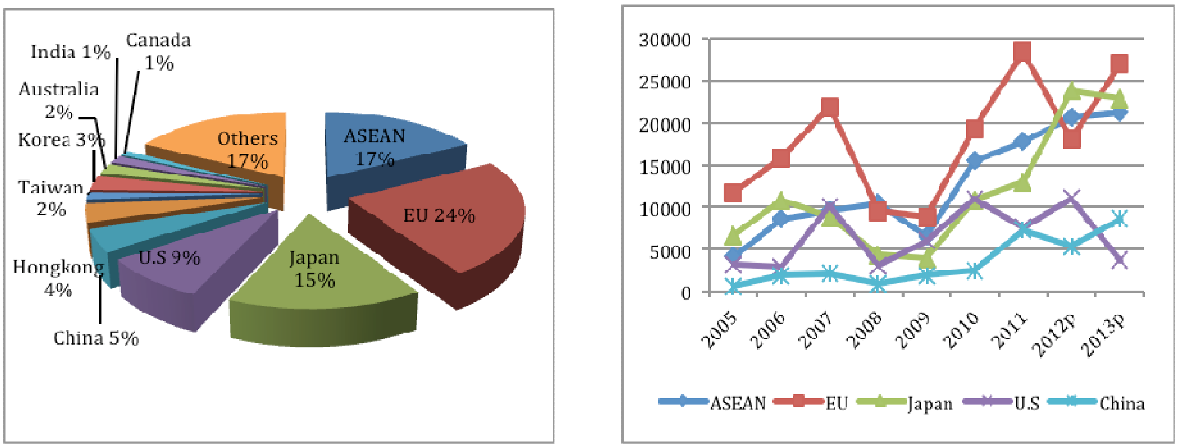

Figure 2: Net FDI in ASEAN by home country.
Source: ASEAN FDI Database

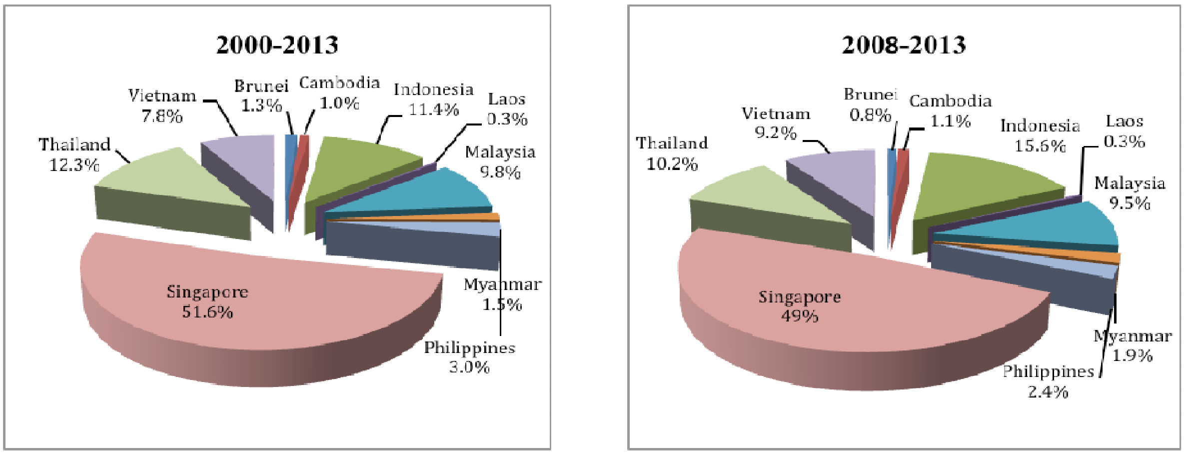

Figure 3: Net FDI into ASEAN by host country (%).
Source: ASEAN FDI Database

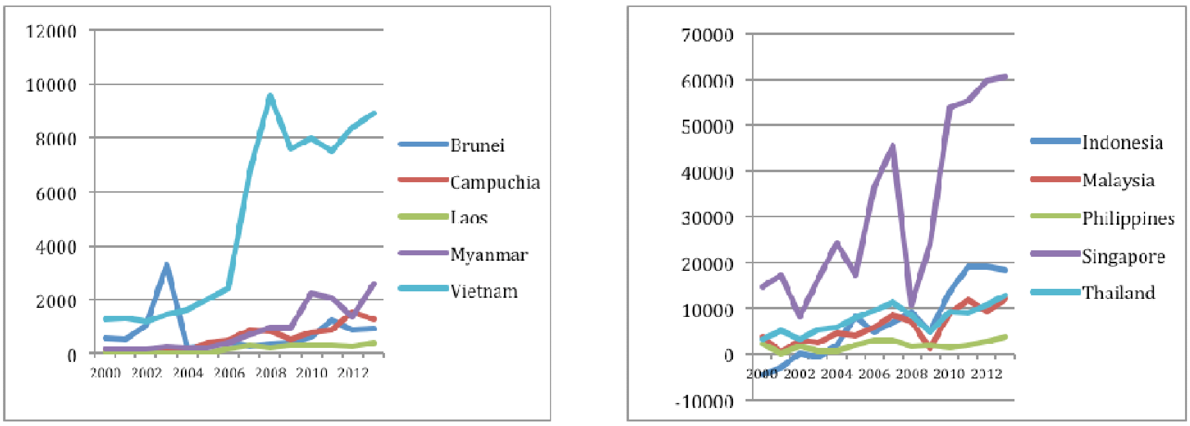

Figure 4: Net FDI into ASEAN by host country (million USD).
Source: ASEAN FDI Database

In general, manufacture and finance are the two most attractive sectors to foreign investors when investing in ASEAN. However, the distribution of FDI by sector varies among ASEAN state members. For example, foreign investment into Malaysia, Thailand and Vietnam concentrates on manufacturing; meanwhile FDI into Singapore, Indonesia and Philippines are mainly in the service sectors [22].

3.2. FDI in Vietnam

The period 2005-2012 witnessed a substantial rise in FDI into Vietnam. In 2005 and 2006, the total FDI was only about 2 billion USD. However, it soared to nearly10 billion USD in 2008. This sharp increase was mainly due to investors' expectations for Vietnam's accession to the World Trade Organization (WTO) in 2007. In 2009 FDI inflows into Vietnam was negatively affected by the global economic crisis, but not as much as ASEAN. After the crisis, FDI in Vietnam remained relatively stable at 7.5 to 8.4 billion per year. Like FDI into ASEAN, FDI into Vietnam is mainly from non-ASEAN partners with a proportion up to 84.5%, while intra-regional investment accounted for only15.5%.

As of the end of 2013, Japan, Singapore, South Korea and Taiwan are the four largest investors in Vietnam with the percentage of the total FDI 15%, 12.8%, 12.7% and 12%, respectively. In ASEAN, after Singapore, Malaysia and Thailand are the two next largest investment partners with a proportion of 4.4% and 2.7% respectively. With a comparative advantage of abundant and inexpensive labor, Vietnam attracts FDI mainly in the sector of manufacturing and processing, which accounts for nearly 54% of the total FDI. Real estate business accounted for 21%. Accommodation & Food services, Construction, Production and distribution of electricity, gas, water and air conditioning, each accounted for about 4%.

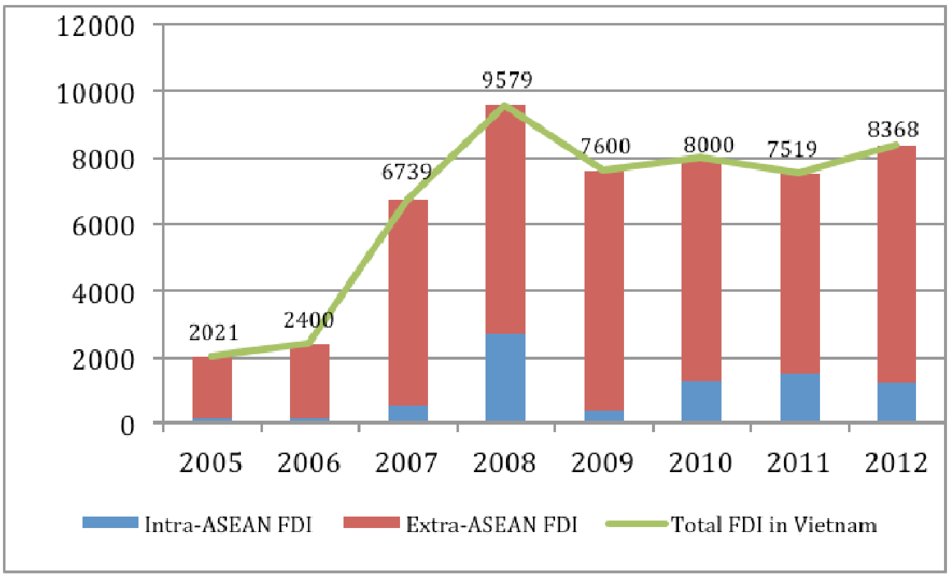

Figure 5: Net FDI into Vietnam (million USD).
Source: ASEAN FDI Database

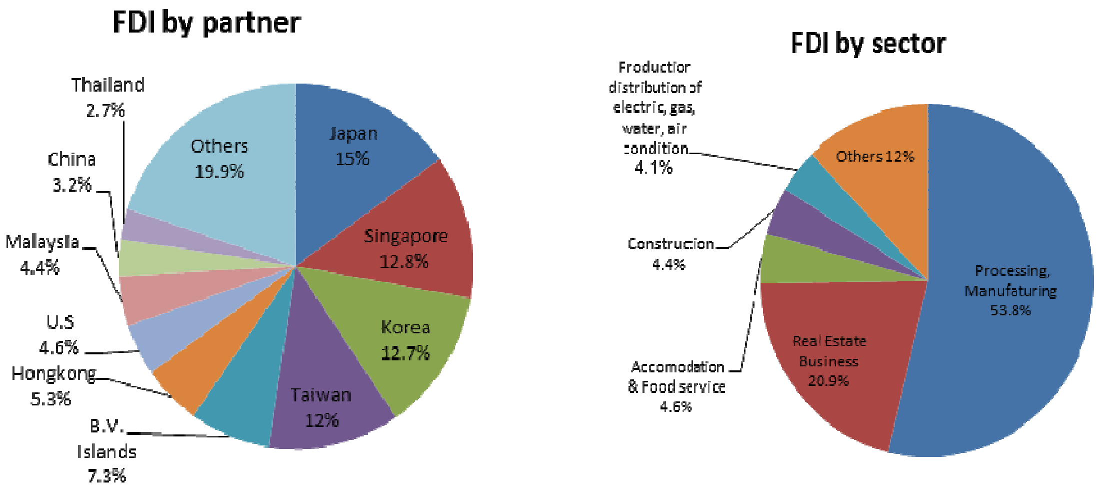

Figure 6: FDI into Vietnam by partner and by sector, accumulated by 31/12/2013.
Source: Vietnam Foreign Investment Agency

4. Opportunities and challenges that AEC's investment liberalization brings to Vietnam

4.1. Opportunities for Vietnam

- The liberalization and facilitation of investment, as well as equal treatment between ASEAN and ASEAN-based foreign investors, will bring opportunities for ASEAN members in general and Vietnam in particular to attract more and more FDI from both intra- and extra-regional countries.

ASEAN offers high returns on investment and therefore is very attractive to investors. For the period 2005-2011, the annual average rate of return of FDI was 11% for ASEAN while average rates for the world and developing countries were only 6.9% and 9.4%, respectively. In 2011 alone, ASEAN posted a return on FDI at a rate of 9.8% compared to 9.0% in developing countries and 7.1% in the world [23]. The 2012 survey of Am Cham - Singapore and US Chamber of Commerce - showed that 85% out of 356 U.S companies with operation interests in ASEAN believed that their profits would increase in 2013 [24]. The liberalization and facilitation of investment in ASEAN help reduce the cost, increase the profit, and thus boost investment to invest more. The data on FDI volumes into ASEAN also proves an increasing trend for FDI from both internal and external sources.

Among ASEAN countries, Vietnam is a relatively attractive destination for foreign investors. The ratio of FDI into Vietnam to the total FDI into the region has increased quickly in recent years and has followed closely Malaysia and Thailand (For the period 2008-2013, FDI into Vietnam accounted for 9.2%, Malaysia 9.5% and Thailand 10.2%, see Figure 3). Analyzing the Inward FDI Performance Index, when the size of the economy is taken into account, Vietnam has a relatively high attractiveness for FDI (3.7), just lower than Singapore (7.9) and higher than the ASEAN average (1.7). Therefore, Vietnam has opportunities to receive more FDI when FDI inflows into ASEAN tend to increase.

Table 1: Inward FDI performance index*, 2004-2010

	2004	2005	2006	2007	2008	2009	2010
Brunei	1.5	1.4	1.3	0.6	0.6	1.7	2.5
Cambodia	1.4	2.8	2.2	2.8	2.6	2.5	3.5
Indonesia	0.4	1.4	0.5	0.5	0.6	0.4	0.9
Laos	0.4	0.4	1.8	2.2	1.5	2.8	2.5
Malaysia	2.1	1.4	1.3	1.3	1.1	0.3	1.9
Myanmar	1.4	1.0	1.1	1.1	1.3	1.5	0.5
Philippines	0.4	0.9	0.8	0.6	0.3	0.6	0.5
Singapore	10.6	5.7	6.8	5.9	1.6	4.1	7.9
Thailand	2.1	2.1	1.5	1.3	1.1	0.9	1.0
Vietnam	2.0	1.8	1.3	2.7	3.7	3.9	3.7
ASEAN	2.3	1.9	1.5	1.4	0.9	1.1	1.7

Source: ASEAN FDI Database.

* Inward FDI performance index with a value of 1 means the country has average attractiveness for FDI; a value of less than 1 means the country receives less FDI and a value of greater than 1 means the country receives more FDI than the average, when the size of the economy is taken into account.

Surveys conducted by international organizations also show the attractiveness of Vietnam as an investment destination in foreign investors' eyes. BIC conducted an annual survey of the most attractive countries to Japanese companies operating abroad within the next three years. Vietnam (with Thailand and Indonesia) has often been present on the list of top 5 investment destinations. A UNCTAD survey in 2013 also pointed out that there were 05 ASEAN countries including Indonesia, Thailand, Vietnam, Malaysia and Philippines on the list of top 20 destinations worldwide for multinational companies during the period of 2013-2015.

- Liberalization of investment is an important step to transform ASEAN into a unified production base. This helps establish integrated supply chains in the region, in which Vietnam can participate and gain benefits.

A number of multinational companies in various industries are present in ASEAN, many of which are expanding and looking for opportunities from the deeper regional integration [23]. The world's leading brands have made their way to ASEAN. More than 80% of the world's global Fortune 500 companies are operating in the region. The top 10 global automotive companies and top 10 global auto parts manufacturers are now in ASEAN. TNCs tend to invest more in ASEAN because the varying levels of economic development in ASEAN and each country's comparative advantages, allow greater complementation among local and multinational companies as well as regional complementation between member countries. While the newer members are often involved in the low stages in the value chain due to the advantage of resource and labor costs, the more developed countries in the region are likely to perform at the higher stages thanks to their advantages of more advanced technology and high-quality workforce.

For example, P&G is the world's largest consumer goods company employing more than 4,500 employees across six countries in the ASEAN. It has eight manufacturing sites, eight mega distribution centers, and a business service center in ASEAN. Singapore is the regional headquarters for P&G in the Asia-Pacific, hosting regional business units as well as global business units. In October 2013, Singapore became home to P&G's Innovation Centre. The Philippines, meanwhile, hosts the company's business service center while Thailand serves as the marketing hub for beauty and fabric and homecare products. P&G has manufacturing operations in Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Its diversified manufacturing footprint in ASEAN covers the full spectrum of the company's value chain. For instance, P&G's US$50 million oleo-chemicals plant in Malaysia processes feedstock from Indonesia and Malaysia into chemicals that go to other P&G plants in ASEAN and other parts of the world as raw materials. In Thailand, P&G's hair-care manufacturing plant is the company's largest hair-care export plant in the world, while P&G's Cabuyao plant in the Philippines is P&G's largest multi-category manufacturing unit in Asia.

Clearly ASEAN provides an effective platform for investors to utilize and maximize its value chain. A freer and more favorable investment environment in ASEAN will further promote multinational companies to invest and perform multiple stages of the value chain in the region, especially in the industries of consumer goods, garments, automobile and electronic industries. Besides, a shift in the value chain will also take place. Previously, FDI inflows into China and ASEAN are considered mutually complementary: FDI in China focused on assembly while FDI in ASEAN on producing parts. However, in recent years China seems to lose its advantage of low labor cost and thus a part of FDI flowing into China has shifted to ASEAN. This brings opportunities for ASEAN countries, especially the newer ones, including Vietnam, to gradually move up along the value chain. The shift in the value chain also occurs within the ASEAN members. Recently, Cambodia, Indonesia and Vietnam have benefitted from receiving FDI from Thailand and Malaysian textile and garment companies. The shift leads to an increase in FDI inflows into Vietnam (albeit at lower stages of the value chain only).

4.2. Challenges to Vietnam

However, besides opportunities, Vietnam may also face many challenges. FDI in Vietnam is now concentrated in processing and manufacturing and stuffs at the lowest stage in the regional value chain. At this time, Vietnam is relatively attractive to foreign investors thanks to cheap and abundant labor. However, over time this advantage will gradually diminish and Vietnam will have to face more and more aggressive competition from Cambodia, Laos and particularly Myanmar. When Vietnam loses its competitiveness at lower stages of the value chain, the question to be answered is whether it can compete with more developed ASEAN countries like Thailand, Malaysia, and Indonesia in attracting FDI at higher stages of the value chain.

According to the International Labor Organization (ILO) [25], Vietnam's labor productivity belongs to the lowest group in Asia with less than 20% of the workforce trained and having the skills to meet the market's requirements. Vietnam's labor productivity is equal to 1/5 of Malaysia, 2/5 of Thailand and 1/15 of Singapore.

According to the Global Competitiveness Report of the World Economy Forum (WEF) [26], Vietnam's competitiveness ranked 75/133 in 2009, 59/139 in 2010, 65/142 in 2011, 75/144 in 2012 and 70/148 in 2013. Despite an improvement in competitiveness ranking, Vietnam's ranking was still low and its rankings in all sub-categories, except for market size (where it ranked 36th), were not better than 56th. The weaknesses of Vietnam were exposed in some indicators, including institutions (ranked 98th), infrastructure (82nd), macroeconomic environment (87th), higher education and training (95th), financial market development (93rd), technological readiness (102nd) and business sophistication (96th).

According to World Bank's Doing Business Report 2012 [27], Vietnam ranked 99th out of 183 countries, dropping 9 places from 2011. Vietnam's rankings stand at number 6 in Southeast Asia, after Singapore, Malaysia, Thailand, Indonesia and the Philippines. Compared to neighboring countries such as Thailand (ranked 18th), Malaysia (12th), Singapore (1st in terms of favorable legal environment for business for 7 years in a row), Brunei (79th), as Victoria Kwakwa, Director of the World Bank in Vietnam commented, a lot more efforts need to be made for Vietnam to be on par with the more developed economies in the region.

We can see that although FDI inflows have increased recently, Vietnam's ability in absorbing those capital flows is moderate. FDI flows have not been taken advantage of as opportunities to improve the competitiveness of the economy. The competitiveness of the country is limited in comparison with more developed ASEAN countries. This creates difficulties for Vietnam to compete with those countries in attracting high quality FDI. Much greater efforts on improving the investment and business environment are needed to help Vietnam avoid the risk of falling behind other ASEAN members.

5. Conclusion

In conclusion, investment liberalization is an important condition to create a single market and production base in the ASEAN Economic Community. The ASEAN Comprehensive Investment Agreement (ACIA) marks a significant progress, which immediately grants equal treatment to investors from within and outside ASEAN. With a large proportion of FDI from outside ASEAN in the total attracted FDI, this policy helps facilitate both intra- and extra-ASEAN FDI into the region. The cohesion of ASEAN will increase FDI volumes into ASEAN as well as promote the formation and development of regional integrated value chains. This gives more opportunities for Vietnam to participate in the value chain as well as boost economic development through FDI. However, competition between ASEAN countries in attracting FDI inflows will become increasingly aggressive. Vietnam should clearly identify its standpoint in the value chain and make efforts to achieve such an objective. In addition, ASEAN countries should continue discussions and negotiations towards the gradual elimination of the reservation list after AEC's realization in 2015.

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