

FOREIGN INVESTORS' PERCEPTION OF BENEFITS OF COOPERATION AMONG LOCAL GOVERNMENTS IN FDI ATTRACTION: A STUDY AT THE KEY ECONOMIC ZONE OF CENTRAL VIETNAM

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Abstract - Based on the data from a survey among foreign investors having investment interest in the Key Economic Zone of Central Vietnam, this study examines perceived benefits to investors brought forth by cooperation in FDI attraction among local governments in the context of FDI competition. Findings imply that the cooperation is perceived to be more beneficial to investors than competition. Enhanced overall competitiveness, improved factor conditions and boosted market conditions can be seen as the changes in benefits that are accrued to the cooperation. This study hints that cooperative activities taking into consideration long-term interests and investment motives of investors and merits of scale and scope should be prioritized in cooperation agenda if the governments want to attract more FDI via cooperation channel.

Key words - KEZCV; FDI attraction; local governments; cooperation; perceived benefits.

1. Introduction

The Key Economic Zone of Central Vietnam (KEZCV) is one of the four special sub-regions in Vietnam of the type. It comprises 5 coastal provinces in the central part of Vietnam, including Thua Thien - Hue, Danang, Quang Nam, Quang Ngai and Binh Dinh. In the recent uprising trend of economic development, the region has shown to be one of the most dynamic economic partners. For the sake of growth, each province in the region has reportedly utilized various policy instruments to be the forerunner in competition for resources, especially capital from overseas. The competition has at some point in time become so seriously fierce that there appears concern about the prevalence of "the race to the bottom" phenomenon. Many initiatives have been made to coordinate activities of the local governments to mitigate negative effects of this competition. At the central government level, KEZCV network is initiated aiming at setting a common and official platform for cooperation among the localities in the region. It is believed that with this framework, governments in this region can choose the most appropriate ways to race to the top together. It is observed that there are a significant number of joint efforts that the governments of these provinces have made in jointly attracting capital from foreign investors, especially in investment promotion activities.

It is commonly acceptable that competition and cooperation among governments both benefit investors. However, associated with the term "race to the bottom", competition among jurisdictions may increase the rents the investors can get from each geographical area. When working together, local governments may coordinate their offers to investors. On the one hand, that may result in the perception by investors that the benefits they can gain may become less. This in turn turns down investment interest of foreign investors. On the other hand, cooperation may also

bring forth various benefits to investors. Via a wide range of activities in the cooperation agenda, local governments can leverage locational advantages of their own area as well as of the whole region to foreign investors. This may positively affect the decision of investors in choosing their investment location. Because the ultimate goal of the cooperation among the jurisdictions is to boost inward foreign investment, how investors perceive the benefits offered by the cooperation in the context of competition among governments must be an important factor for the success of cooperative efforts.

Although there are some studies on the benefits of regional cooperation, they are concerned about the benefits accrued to the cooperating governments. Besides, when discussing the cooperation agenda, member governments usually raise the voice of getting together for the sake of investor's benefits. However, there have not been any research taking into account perception of investors in Vietnam. This research aims at exploring the perception of foreign investors about the level of benefits they can get from common efforts of KEZCV local governments in FDI attraction. Benefits under consideration are determined based on theoretical background of location choice decision of investors. The perception is measured using data from a survey among investors interested in investing in KEZCV. Implications for improvement of investment attraction policies are expected from the findings of this study.

2. Theoretical background

Cooperation is defined as the action or process of working together to the same goal. Cooperation among local governments in investment attraction is the action or process in which local governments work together to promote investment opportunities of their locations with a common goal of attracting potential investors to come and invest or existing investors to increase their investment. Cooperation between local authorities can be an effective way of managing some of the gaps arising in a regulatory system of multi-level governments (NZPC, 2013), including information, capacity, fiscal, administrative and policy gaps (OECD, 2009). Uetake (2012) identifies that employing scale merits, sharing knowledge, increasing capacity and tackling local issues are the activities that benefit member local governments. In making decision on the choice of investment location, foreign investors are interested in whether there are many opportunities available for the best profits with the lowest costs and the least risks of investment projects. Cooperative activities in FDI attraction may create more favorable conditions for foreign investment. For example, cooperating to exploit

merits of geographical and ecological scale and economy of scale and scope may give more good investment opportunities. Cooperation makes it possible for members to collect and share knowledge and information, and then makes them available to investors. Working together helps draw different stakeholders together and utilizes their knowledge, skills and institutions. It helps also increase the credibility and legitimacy of the process of decision-making. These activities increase the capacity of all the local governments in serving foreign investors better. Collaboration among local authorities may give better possibility in tackling local issues efficiently. This would bring forth less risks and costs to investment projects.

Competition among local governments for foot-loose investments offer benefits that may be bigger than the non-competitive situation. Oman (2000) specifies two types of policy competition among geographical areas for FDI based on the competitive tools. They are incentives-based and rules-based competition. Incentives-based forms refer to fiscal and financial incentives. Fiscal incentives include reduction in tax rate, tax holidays, exemptions from import duties or duty drawbacks, accelerated depreciation allowances, investment and re-investment allowances, specific deductions from gross earnings for income-tax purposes, and deductions from social security contributions. Financial incentives are grants, subsidised loans or loan guarantees. The more intense the competition is, the more incentives and grants local governments may offer, sometimes more than they should be. Rules-based forms of competition are changes in the rules or enforcement of the rules as means of competition. Local governments can lessen the effectiveness of rules in workers' rights or in protection of the environment, put more efforts on protection of intellectual property rights, strengthen the rules of law and judicial systems, establish export-processing zones or special economic zones with distinct legislation from the rest of the country, or enforce more intensively market deregulation or trade and investment policy liberalization. When competition gets fiercer, the rules and their enforcement are more likely to be more favorable to investors. There is therefore the possibility that they are much more favorable than they should be. The race for foreign capital may lead to the race to the bottom and cooperation is one of the resorts to mitigate that, if cooperation agenda could be reached. If cooperation gets more intense in the context of current competition, investors may perceive that cooperation would neutralize or reduce the benefits they can enjoy when choosing to invest in the region. Measuring the level of the benefits investors perceive to be able to get from the cooperation among local governments is therefore plausible and should be based on these theoretical backgrounds.

As for the aspect of perceived benefits of cooperation to investors we are going to measure, we base ourselves on the theory of investment location choice decision. When choosing to invest into an industry in an area, investors measure the profitability of the project as well as the costs and risks in making the investment. This comes from the favorability offered by the location. In the eclectic theory of investment (Dunning, 1999), this consideration is about locational advantages, among other advantages of ownership and internalization. In the term used in Porter

(2011), it should be considered as the geographical area's competitive advantage. Therefore, we choose to measure the perception of the investors on the effect of the cooperation on the competitiveness of the location. The competitiveness in this sense is measured by four components as suggested in Porter's Diamond Model (Porter, 1990, 2011) but in regional scope. These components are factors conditions, demand conditions, related and supporting industries and strategy, structure and rivalry. The role of local governments and hence the cooperation among them are to foster these conditions to improve the area's competitiveness in the eyes of foreign investors.

We are also interested in which areas of cooperation in FDI attraction that give the most benefits to foreign investors. We follow Loewendahl (2001) to categorize the FDI attraction activities into four main areas with 10 subgroups: strategy and organization (setting the policy context, setting objectives, structure of investment promotion, competitive positioning, and sector targeting strategy); lead generation (marketing and company targeting); facilitation (project handling); and investment services (after-care and product improvement, monitoring and evaluation). Cooperation activities in these main areas will be regrouped for the purpose of this study. Besides, it is well recognized that the level of benefits in the aspect of competitiveness as locational advantages are perceived differently subject to the motives of investors in making the investment. We follow Dunning and Lundan (2008) to specify four motives of investment in the context of a developing country: national resource seeking, market seeking, efficiency seeking and strategic asset seeking. This approach is based on the theory of multinational enterprises in making investment worldwide.

3. Research design and methods

Research questions in this study are as follows. Given the availability of information to and the current motives of foreign investors, we want to know the perception of foreign investors about: (i) the unification of KEZCV as a common measure of cooperation performance; (ii) the level of favorability that the cooperation among local governments in KEZCV offers as compared with that from competition among them; (iii) the level of this favorability demonstrated in various aspect of cooperation activities, including: coordinated objectives in FDI attraction, coordinated strategic direction in FDI attraction, cooperation in facilitating and improving investment climates, cooperation in the use of FDI incentive tools, cooperation in FDI promotion activities, cooperation in FDI project handling, cooperation in post-investment service provision, and cooperation in monitoring competition in FDI attraction; (iv) the effect of the cooperation on the overall level of competitiveness of the zone; and (v) the effect of the cooperation on 4 dimensions of the competitiveness in the Diamond model: factor conditions, demand conditions, related and supporting industries and strategy, structure and rivalry. We operationalize our interests into specific scales in the form of survey questions. We choose 5-point Likert-type statements of agreement for this purpose. In order to control the motives of investors, we survey the priority of the

investment purposes by asking their ranking among the following 4 motives: national resource seeking, market seeking, efficiency seeking and strategic asset seeking.

The method of descriptive statistics is used as the main tool for the analysis in this study. Mean values and frequencies are calculated and used for the interpretation. A questionnaire is designed for the data needed in the format of convenience sampling. The targets of the sample are representatives of foreign companies who are interested in investing at least in one province in KEZCV. For eligibility of the responses, the questionnaire copies are circulated only to those targets who are inquiring information for investment purpose. Foreign investors having direct contacts with Danang Investment Promotion Agency and the Investment Promotion Center of Quang Ngai Province from July to December 2015 are approached for the survey. Among 150 copies sent out, we have 85 feedbacks of which 58 are eligible for further analysis.

4. Findings and discussion

Before we describe the perception of the investors on the benefits of regional cooperation, we explore the motives of investment of these companies. It is observed in Table 1 that most of the companies surveyed are interested in investing in the region for the purpose of market expansion and of operational efficiency. Efficiency seeking motive accounts for nearly 45% as the first priority and 29% as the second. Over 41% of the respondents choose market seeking as the first priority and nearly 28% as the second. Seeking global strategic assets ranks second in the list by 10 out of 58 respondents while the first by 6. Natural resources seem not to be an attractive factor to these investors. With this information, we can see the regionally integrated markets or large size of input resources for efficiency enhancement would be of greater concern of the investors in choosing investment location in KEZCV.

Table 1. Investment motives of foreign companies interested in investing in KEZCV

Investment motives	Mean	1 st priority		2 nd priority		3 rd priority		4 th priority	
		N	%	N	%	N	%	N	%
1 Natural resource seeking	3.12	1	1.7	15	25.9	18	31.0	24	41.4
2 Market seeking	1.95	24	41.4	16	27.6	15	25.9	3	5.2
3 Efficiency seeking	1.88	26	44.8	17	29.3	11	19.0	4	6.9
4 Global strategic asset seeking	3.12	6	10.3	10	17.2	13	22.4	29	50.0

N: Number of responses. Total number of observations: 58. Source: Author's calculation from survey data.

We move to the findings in measuring the perceived level of benefits possibly brought forth by cooperation among local governments in KEZCV in attracting inward FDI. When being asked whether investment climates of all the areas in KEZCV can be viewed as a unified business environment given their investment purposes, about 90% choose the extents from 3 to 5 in the scale of 5 as complete agreement. 34 out of 58 choose the extent of 4. This may imply that KEZCV in the eyes of foreign investors, especially market or efficiency seekers, is a highly integrated market, or to some extent a region without being isolated by borders. We inquire into whether the benefits of cooperation to investors are greater than those of competition via asking opinion about the statement "Regional cooperation in FDI attraction in KERCVC would offer more favorable conditions to your company than competition among them does", the

mean value of the agreement extent is 4.63 out of the highest level of 5 (Table 2). Respondents must obviously see that cooperation among jurisdictions in KEZCV makes the investment conditions more favorable than what the competition does. Cooperation therefore is still a plausible process in the perception of foreign investors.

As far as competitiveness of the region is concerned, 97% of the respondents choose the extent level 3 and higher when being asked their agreement about the statement that the cooperation enhances the overall level of competitiveness of the region as compared to other regions. The majority choose levels 4 and 5 (76%, Table 2). It seems from this finding that cooperation does not work in the way that neutralizes the benefits the investors think the competition among the governments offers. It may also be interpreted that cooperation give direct benefits.

Table 2. Perceived overall level of benefits of cooperation among KEZCV governments in the context of competition for FDI

With your current investment purposes, to what extent would you agree with the following statements	Mean	Extent of agreement									
		1		2		3		4		5	
		N	%	N	%	N	%	N	%	N	%
Investment climates of all the city/provinces in the region can be viewed as a unified business environment.	3.78	1	1.7	5	8.6	9	15.5	34	58.6	9	15.5
Regional cooperation in FDI attraction in KERCVC would offer more favorable conditions to your company than competition among them does.	4.63	0	0.0	0	0.0	3	5.2	31	53.4	24	41.4
Regional cooperation in FDI attraction would enhance the overall level of competitiveness as compared to other competitive regions.	3.93	1	1.7	1	1.7	12	20.7	31	53.4	13	22.4

Table 3. Perceived levels of specific benefits of cooperation among KEZCV governments in the context of competition for FDI

<i>With your current investment purposes, regional cooperation in FDI attraction would enhance the region's competitiveness as compared to other competitive regions in the following dimensions:</i>			Extent of agreement									
			1		2		3		4		5	
			Mean	N	%	N	%	N	%	N	%	N
1	Favorable productive factor conditions	4.12	0	0.0	3	5.2	9	15.5	24	41.4	22	37.9
2	Favorable market demand conditions	4.16	0	0.0	2	3.4	9	15.5	25	43.1	22	37.9
3	Favorable conditions of related and supporting industries	3.9	1	1.7	4	6.9	11	19.0	26	44.8	16	27.6
4	Favorable conditions of firm strategy, structure and rivalry	3.93	1	1.7	1	1.7	12	20.7	31	53.4	13	22.4

Note: N: Number of responses. Number of observations: 58. Extent of agreement: 1: completely disagree → 5: completely agree.
Source: Author's calculation from survey data.

In order to understand in more detail the incidence, we also inquire into their perception in this aspect in four dimensions as guided by Diamond Model framework. The findings are depicted in Table 3. Cooperation among the local authorities in KEZCV is perceived to pave a favorable path for all the conditions that help the region to be more competitive as compared with other regions competing for the same targeted investors. Specifically, factor and market conditions are perceived to be improved the most by the cooperation, with the mean values of 4.12 and 4.16 over maximum level of 5, respectively. Around

80% of respondents choose the extent levels of 4 and 5 for these dimensions. The other two dimensions are of slightly lower but still very high values. These findings, in combining with the motives of investment we observe, imply that KEZCV regional cooperation helps align the motives of investment with more favorable conditions of output and input markets. For further analysis, we ask for the responses on 8 areas of FDI attraction activities frequently put into cooperation agenda to know which areas of the cooperation generate the most benefits to investors. The findings are summarized in Table 4.

Table 4. Perceived benefit levels of different types of cooperation among KEZCV governments in the context of competition for FDI

Regional cooperation in FDI attraction in the following areas would offer more favorable conditions than competition among them:			Extent of agreement									
			1		2		3		4		5	
			Mean	N	%	N	%	N	%	N	%	N
1	Coordinated objectives in FDI attraction	3.83	1	1.7	1	1.7	15	25.9	31	53.4	10	17.2
2	Coordinated strategic direction in FDI attraction	4.09	0	0.0	4	6.9	5	8.6	31	53.4	18	31.0
3	Cooperation in facilitating and improving investment climates	4.38	1	1.7	0	0.0	4	6.9	24	41.4	29	50.0
4	Cooperation in the use of FDI incentive tools	3.88	1	1.7	3	5.2	15	25.9	22	37.9	17	29.3
5	Cooperation in FDI promotion activities	4.28	0	0.0	0	0.0	5	8.6	32	55.2	21	36.2
6	Cooperation in FDI project handling	3.97	0	0.0	4	6.9	10	17.2	28	48.3	16	27.6
7	Cooperation in post-investment service provision	3.98	1	1.7	5	8.6	8	13.8	24	41.4	20	34.5
8	Cooperation in monitoring competition in FDI attraction	3.95	0	0.0	4	6.9	11	19.0	27	46.6	16	27.6

Note: N: Number of responses. Number of observations: 58. Extent of agreement: 1: completely disagree → 5: completely agree.
Source: Author's calculation from survey data.

We can see from the findings in this table that cooperation activities in setting strategic direction in FDI attraction and facilitating and improving investment climates are perceived to be those of the most beneficial to investors. This goes into the essence of investment when long-term interests of the investors are taken into care via cooperative efforts. Perception on the benefits of

cooperation in FDI promotion shows the sign that collective marketing in FDI is also assessed as the area of the most favorable to investors. This may be thanks to scale effect of promotional activities, or to the fact that via coordinated promotion activities targeted investors can have a good view of investment potential of the whole region. Investment services and project handling come

next in the list, implying that the arbitrary service framework of each jurisdiction may not be appreciated. Coordinated objectives and cooperation in the use of investment incentives seem to be perceived less beneficial, though the mean values of responses are high. These dimensions are usually considered subject much to competition activities and therefore collaboration among local governments in these areas are not so dominant, probably leading to less benefits perceived by investors.

5. Conclusion and implication

We can conclude from our analysis that cooperation among local governments in FDI attraction is a practice that is beneficial to investors. Furthermore, if attracting investment is considered as a group of services offered by local governments to special customers/ investors, cooperation in serving these customers in this area of economic activities in the context of KEZCV proves to be more favorable to them than competition. The cooperation in the research context favors the perceived overall competitiveness of the whole region, in which the factor conditions and market conditions are enhanced the most. If the majority of potential investors are market and efficiency seekers like in the sample of this study, cooperation among the local jurisdictions so far seems to go in the right direction. Cooperative activities that attract investors the most are those that take into consideration long-term interest of investors and merits of scale and scope. Areas that are more exposed to competition are perceived less beneficial in the dimension of regional

attractiveness. Although the inference of the findings to the population should be done with caution due to the problem of small sample size, this study may, to some extent, hint that intensifying cooperation further is a reasonable move and more attention should be paid to the parts of cooperation agenda that take into account the motives and long-run interests of investors.

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