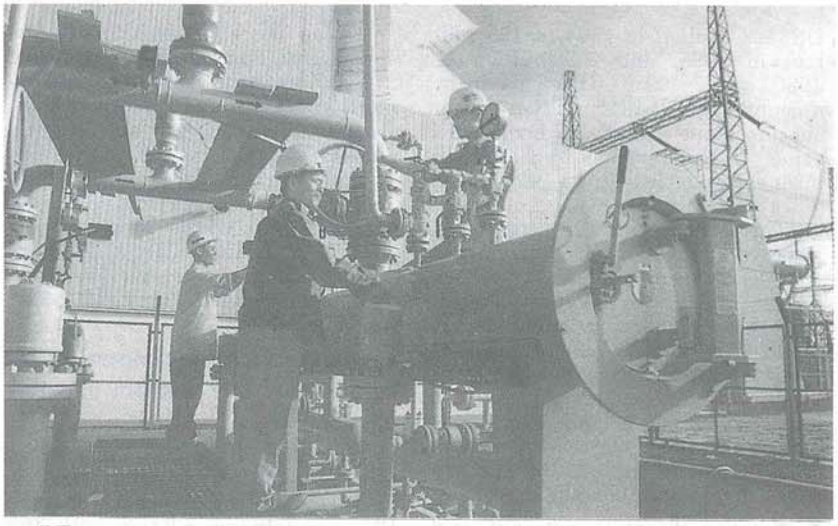

MEASURES TO PROMOTE FOREIGN INVESTMENT IN VIETNAM IN THE COMING YEARS

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Ten years after the Foreign Investment Law, nobody could deny the importance of foreign sector to the economic reform and development in Vietnam, however, the contribution of this sector is limited because of many reasons.

To facilitate the industrialization and modernization and realize Resolution 4 of the VCP 8th Conference, the MPI has reviewed recent achievements and possibility of mobilizing all available sources of finance to increase gross investment in remainding years of the plan for 1996-2000 with a view to making the best use of both domestic and foreign investment for economic development and formation of new structure of industry.

The VCP Central Economic Commission has held a conference on foreign investment in Vietnam in order to estimate the foreign sector, draw necessary lessons and work out measures to improve environment for foreign investment. Facing the task of achieving targets set for the year 2000, and the period 2001-2005 as well, and the regional financial crisis that has started to affect the Vietnam's foreign sector, we saw that to make a general estimate of foreign direct investment in recent years is a piece of work of great importance and meaning.

I. FOREIGN DIRECT INVESTMENT AND ITS IMPORTANCE TO THE ECONOMY

According to reports by the MPI, from the day the Foreign Investment Law was promulgated to April 1998, licenses have been granted to 2,379 projects with total capital of US$32.3 billion and US$3.83 billion have been added to increase the total investment to US$36.13 billion.

Of these licensed projects, 1,979 ones with total capital of US$33.3 billion are still valid. Up to April 1998, the realized capital was US$12.935 billion (or 40% of registered capital). If the Vietsovpetro is included, the realized capital will amount to US$14.435 billion. The amount of revoked projects is 374 (with a capital of US$2.869 million, equalling 9% of registered capital), or 15.8% of projects.

Generally, the foreign investment in Vietnam increased well up to mid-1997, and structure of investment was appropriate to the plan to change the structure of industry. At first, most foreign investment was put in oil business and building of hotels and office blocks, and then it was concentrated on production of manufactured goods (76.5% of projects and 53.5% of capital), production of exports, seafood processing and infrastructure building.

Foreign investment is distributed among 60 out of 61 cities and provinces of Vietnam. Foreign investors come from 62 countries and territories. The amount of multinationals with great financial and technological power is on the increase.

Main local partners in joint ventures with foreign parties are state-run companies. These state-run companies are present in 92% of investment projects which account for 98.2% of registered capital. Non-state companies could be found in 140 joint ventures with foreign parties, representing 7.8% of projects and 1.8% of registered capital (equalling US$562 million). Joint ventures between local companies and Vietnamese expatriates represent only 2% of registered capital.

+ Joint venture between local and foreign parties is the main form of investment, representing 70% of registered capital.

+ Foreign-owned companies represent 20% of registered capital.

+ Contractual cooperation businesses represent some 10% of registered capital.

+ There are only 4 BOT projects with total registered capital of US$900 million.

The ratio of realized capital to registered capital is 40%, equal to ratios found in neighboring countries.

- The total stake from state-run companies is US$1.78 billion, equalling 13.76% of realized capital and 22.6% of registered capital, but this value is mainly of land use right.

- The total stake from foreign parties is US$6.1 billion along with total guaranteed loan of US$5.05 billion.

These data show that the foreign sector is playing an important role in the economic development in Vietnam. The following section includes analyses of this role.

1. Foreign direct investment as a source of finance

In the first years of economic reform when the source of foreign aid was cut abruptly and domestic source of capital was limited, the introduction of Foreign Investment Law helped Vietnam secure new sources of finance. In the years 1991-98, the foreign direct investment represented some 28% of gross investment (25.7% in 1991-95 and some 30% in 1995-98).

Contribution of the foreign sector to GDP increased year after year; from 2.0% in 1992 to 3.6% in 1993 and 8.6% in 1997. If the value generated by foreign sector in construction and services industries is added, this percentage could reach some 10%.

Although many foreign-invested companies are enjoying tax incentives for the first years of their operation, total tax payment made by this sector kept on increasing; from US$128 million in 1994 to 195 million in 1995, and 263 million in 1996. In 1997, this payment amounted to US$315 million representing some 7% of the budget income. If the revenue from the oil business is included, the percentage will top 20%.

The foreign sector has helped to improve balances: Tax payments from this sector helped to reduce budget deficit. In the first stages, this sector suffered a trade deficit because it had to import capital goods and technology but the situation will be improved when it starts to produce and export its products, and moreover, export value made by this sector will improve the balance of trade.

2. Foreign direct investment and changes in the structure of industry

Most of foreign investment was put in the industrial sector (representing 48.5% of value made by construction industry and 47.5% of service industry) therefore it enhanced the relative importance of manufacturing and service sectors. New industries have made their appearance based on foreign investment: oil exploration and exploitation, cement, assembling cars and motorbikes, international communications, etc.. At present, the foreign sector controls 100% of the oil business, 53.8% of steel rolling, 20% of cement production and 100% of production of electronic equipment . In electronics industry -which accounts for 25% of the total industrial output- 50% of capital comes from foreign parties.

Export value made by the foreign sector has increased fast over time, from US$52 million in 1991 to 440 million in 1995 and 786 million in 1996. In 1997, this value reached US$1.5 billion equalling 17% of non-oil export value. The development of the foreign sector also helped develop the tourism industry.

This sector also helped to develop productive forces, encourage both cooperation and competition between companies of different sectors, supply a large quantity of goods -especially import substitutions- and stablize the general level of prices.

The foreign sector has introduced new technologies, therefore Vietnam can produce many products of international standards.

3. Foreign sector and the development of labor force

Up to the end of 1997, the foreign sector employed directly some 270,000 laborers. If indirect employment in service and construction industries is taken into account, the number of laborers working for the foreign sector will amount to 350,000. The average income of a laborer in this sector at present is US$70 a month. These laborers have got chances to improve their skill, knowledge, experience and working habits.

4. Foreign sector in cooperative relations between Vietnam and foreign countries

Progress made by Vietnam in foreign relations (joining the ASEAN, signing agreements with the EU, normalizing relation with the U.S, etc.) has improved Vietnam's position in the world community and allowed development of its foreign sector. However, many shortcomings still exist and limit possibility of attracting and employing foreign capital. These shortcomings are:

+ There are too many different opinions and views about foreign investment with the result that policy making and project evaluating processes consume a lot of time.

+ The investment planning is carried out slowly and badly and as a result, investment authorities failed to handle exactly certain projects and develop a reasonable structure of investment: in certain industries, supply exceeds demand because too many companies have got licences to produce the same products; building of industrial parks met with too many difficulties; there are only a few projects in agriculture-fishery-forestry sector and mountainous areas; some 70% of foreign capital came from Asian countries (25% from ASEAN members), source of finance from Western powers was limited.

+ The Government's control on foreign investment not only lacked rigor, especially in financial aspect, but also caused a lot of troubles to operation of foreign-invested companies.

+ The system of laws is inconsistent and lacked exactness and predictability.

+ Most officials in investment management agencies didn't reach required standards: they lack training, knowledge of law; foreign trade and economic management, and usually caused legal loopholes.

+ Trade Unions have been formed in 40% of foreign-invested companies but their operation is poor and most local workers didn't meet requirements posed by modern industrial production.

II. MEASURES TO ATTRACT AND EMPLOY FOREIGN INVESTMENT IN THE COMING YEARS

By analyzing the importance of the foreign sector to the economy in a 10-year period after the promulgation of the Foreign Investment Law, we could affirm that the foreign sector has brought a lot of capital, technology and managerial skills to Vietnam and contributed greatly to the economic development. For the years 2001-2005, it's necessary to work out the demand for capital and measures to attract and employ it more effectively.

1. Demand for capital for the years 1996-2000

According to official calculation, Vietnam needs a total capital of some US$41 billion for the years 1996-2000 in order to gain a growth rate of 9%-10% and double the GDP as compared with 1990. Of this amount, the foreign sector is expected to supply 13 billion, or 31.4%.

In three years, from 1996 to 1998, all efforts have been made to gain a gross investment of US$24 billion equaling 58.2% of the planned target, and 7.145 billion came from the foreign sector, or 55% of the planned target.

Thus, in the years 1999-2000, Vietnam must mobilize over US$17.33 billion and the plan is as follows:

+ Domestic investment: at least US$7.8 billion.

+ ODA: over US$3 billion (0.5 billion less than the planned target)

+ FDI: US$5.9 billion (a decrease of 1.5 billion is expected)

Of these sources of finance, we see that the domestic one is limited and there is no hope of increasing the ODA source. Short-term loans are scarce and interest rate is high, so most companies are reluctant to borrow from foreign lenders. That is why we must make the best use of the FDI source.

To overcome shortage of funds, we must take strong and effective measures to carry out licensed projects with a view to generating new ones.

2. Estimate of realized FDI in the years 2001-2005

According to a rough estimate, the gross investment for the years 2001-2005 will be twice the investment realized in the years 1996-2000 if we want to maintain the same growth rate.

According to the plan, if the realized FDI represents some 30% of the gross investment as in the period 1996-2000, Vietnam will need over US$20 billion worth of realized FDI out of 60 or 70 billion of registered capital. To achieve this, a large amount of projects must be licensed in 1999 and 2000. This is both a target and a challenge especially in this period when the financial crisis is discouraging overseas investment projects. Thus, besides tapping the domestic source of finance, various efforts must be made to persuade foreign financiers and investors with a view to securing enough capital for economic development in the first years of the twentieth-first century.

3. Measure to encourage foreign investment in the coming years

- Foreign investment in Vietnam in the past few years enjoyed the following advantages:

+ Despite the regional financial crisis, Vietnam gained the same growth rate as previous years because the Government had taken measures to reform customs and banking services along with trading and investment managing machinery.

+ Some countries in the region has shown signs of recovery and many Western multinationals decided to go on with investment in this region.

+ Vietnam has made the first success in attracting investment from Western countries, especially after the Francophone Summit in Hà Nội and improvements in diplomatic relations with the U.S, the EU and the ASEAN.

- There are, however, many difficulties besides these advantages:

+ Vietnam's investment environment is unattractive and risky. Banking service is poor. Customs procedures and tariff are troublesome. After-license procedures are complicated.

+ Success of an investment project depends on too many unpredictable factors, so not many foreign-invested companies retrieved capital and made profit after a planned length of time. That is why only investors with abundant source of finance are ready to venture in Vietnam.

+ Because of the regional financial crisis, the flow of foreign investment to Vietnam has tended to decrease since mid-1997. Many projects are realized at a slower rate, so the value of realized investment in 1998 and the next years will be smaller.

+ Competition for FDI among developing countries is keener and keener and improvement in the investment environment becomes a matter of great importance, so Vietnam will have a tougher time in the near future.

With these difficulties and advantages, we think that the following measures could be taken to ensure a reliable source of foreign capital in the coming years:

a. Quality of development plan for each industry and zone must be improved. The list of projects offered to foreign investors along with their sizes, time limit and other requirements must be defined. In other words, all investment projects must be aimed at changing the structure of industry and developing industrial parks.

b. Necessary laws needed for improving the investment environment must be made: tariff act, anti-trust laws, etc. Prices of public services must be under control. Administrative procedures must be reformed.

c. The Government had better diversify forms of investment in such fields as insurance and entertainment, and take part in international bond market by allowing issue of shares of foreign-invested companies with a view to preparing for a stock exchange in Vietnam.

d. New approaches could be taken to promote foreign investment: paying full attention to powerful investors (Japan, the U.S, Western Europe, Russia, etc.), encouraging both technology- and labor-intensive investment projects.

e. Performance of the administrative machinery must be improved and concentrated on the task of assisting operational investment projects.

f. Policy on officials must be reformed. There must be plans to train officials working in FDI management agencies and help workers improve their skills.

FDI plays an important role in the economic development. To attract and employ it effectively is an urgent task. Various measures must be taken and carried out consistently if we want to make some success■