TO BUILD A ROAD MAP FOR FDI ATTRACTION IN 2002-2010

by Dr. NGUYỄN THỊ LIÊN HOA

The resolution of the Party's ninth congress has affirmed to facilitate the foreign-invested sector and improve the economic and legal environment for strong foreign investment attraction. To implement the orientation, in the forecast of large balances in the five years from 2001 to 2005, the planned target is to attract US$9 to 10 billion in foreign direct investment (FDI). The figure is not higher than that realized in the 1996-2000 period, but the FDI flow shows signs to go away to non-Asian countries and other developing ones. In addition, the recession of leading economies has further decreased the global investment capital. As a result, the accomplishment of the above target is really a tough problem if the Vietnamese investment climate is not improved comprehensively and uniformly. Especially in the integration in the world economy, the competition in alluring world capital flows will become fiercer. In the meanwhile, Vietnamese advantages in FDI attraction seem dimmer in comparison with other countries in the world and the region. On the other hand, because the Vietnam's trade competitiveness remains low, its deficit in the current account is obvious and the FDI attraction will thus help strengthen its international balance of payments at present and in future.

From the above analysis, the building of a road map for FDI attraction in Vietnam is an urgent requirement.

To examine the Vietnam's FDI attraction and utilization, we may draw 4 key characteristics as follows:

- First, the Vietnam's registered investment capital has been on the drop since 1997, this can be indicated in the following table:

There are many reasons for the decline. They include difficulties of Asian investors due to the financial crisis in the region; Vietnam's investment climate with falling comparative advantages; and international investment flows tending to shift to non-Asian economies (e.g. Latin America, Eastern Europe)...

However, the Vietnam's FDI showed positive and promising signs in 2000 and 2001. The registered investment capital rose and realized one was kept stable. They are indispensable outcomes from the efforts to improve the investment climate in Vietnam. Nevertheless, the rise in investment capital was still slow, the orientations proper but the implementation of practical measures and the management mechanism in the foreign-invested sector restrained, so the investment environment did not satisfy investors' requirements.

- Second, the FDI flows into Vietnam saw a robust growth in localities which have more advantages in the investment environment and give more incentives to foreign investors. The provinces including HCMC, Hà Nội, Bình Dương, Đồng Nai, and Hải Phòng topped the list of FDI attraction. In addition to their superior geographic location, they offer the best incentives to foreign investors, for example, Bình Dương Province has laid the red carpet to invite foreign investors with many preferential policies.

- Third, the trends of FDI in Vietnam are spontaneous. In the first stage from 1989 to 1995, the FDI in Vietnam was focused on the non-manufacturing sector including hotels, services...The sector was able to recover capital fast in order to reduce risks in the market or due to volatility in the legal system. From 1997 until now, the FDI has seen a sharp decline but still been concentrated on the industries of oil, tourism, real estate, service...The projects for industrial development accounted for only 30% of total FDI capital. This is certainly not appropriate to the Vietnam's industrialization strategy and it is resulted from that we have not yet made a comprehensive master plan on investment promotion and orientation in Vietnam. Therefore, there should be an intensive change in terms of quality and quantity in FDI attraction into Vietnam.

Table 1: Vietnam's FDI capital in 1996-2002 (US$mil.)

	1996	1997	1998	1999	2000	2001
Registered capital	8,528	4,453	3,897	1,612	1,970	2,436
Incremental capital	684	1,095	770	584.5	430	397.4
Realized capital	3,028	4,057	1,956	2,470	2,228	2,300

- Fourth, there is a change in FDI forms in Vietnam with the trend where joint venture enterprises have steadily turned into wholly foreign-owned companies.

The change in investment forms is attributed to many reasons. First, in the early stage to enter foreign markets, the investors usually choose the joint venture form with a view to sharing risks with local partners as well as incentives which the Vietnamese government give to its local enterprises. At the same time they can exploit local partners' knowledge and experience on the host country's legality and investment climate or current market shares of their local partner, etc. Nevertheless, when foreign investors have already set a firm foothold on the local market, the joint venture form reveals certain shortcomings for foreign investors. The contradictions in benefits lead to conflicts in financial decision of joint ventures as well as the foreign party's price transferring encounters local partners' oppositions...These facts have made foreign investors feel that they are wearing a "tight shirt" and want to break it for their own development. This is an indispensable of FDI trend in the entire world but not only in Vietnam.

Table 2: The percentage of wholly foreign-owned projects in Vietnam

1998	1999	2000	2001
12%	38%	64%	77%

- Fifth, the FDI flow has generated great effects on the Vietnam's economic development. It has been added to important sources for the country's development investment and helped tap the national resources.

The FDI flow has contributed to improvement of the Vietnam's international balance of payments and created favorable conditions for speeding up the country's integration in the world and regional economies.

In addition to the above achievements, the FDI attraction and utilization have still faced the following defects:

Table 3: FDI effects on Vietnamese economy

Indicator	%
FDI share in the total industrial production value	35
FDI share in the national GDP	10
FDI contribution to the total export earnings	23

- Although the country has made great efforts to improve the investment climate, it has not yet become a magnet to foreign investors, especially deficiencies in the investment management system, financial inspection and lack of consistency in FDI management.
- There remain large differences in investment attraction policies among various sectors, causing inconsistency in the implementation of FDI incentive policies.
- Prices of using infrastructures in Vietnam are rather higher than those in regional countries. This has blunted Vietnamese competitive edges in FDI attraction.
- Resources of skilled labor and managers have not yet met foreign investors' requirements in terms of qualifications and skills, etc.

Table 4: FDI share in the national GDP

1995	1996	1997	1998	1999	2000
8.8%	7.4%	9.1%	10%	12.2%	13.3%

From the above analysis, to attract more FDI capital into Vietnam, we would like to suggest a road map of FDI attraction in Vietnam from 2002 to 2010 as follows:

· From 2002 to 2005: To concentrate on making the investment climate increasingly liberal; at the same time; to establish an integrated and stable legal foundation for promoting FDI attraction; and solve some macro problems:

- To set up an only investment law for both local and foreign investors; issue the anti-dumping law and the anti-trust law and perfect current laws; review and revise regulations related to FDI management.
- To equitize foreign-invested enterprises in Vietnam with a view to boosting FDI attraction and the country's international integration.
- To simplify administrative procedures and publish the plan on economic development of specific industries and localities.
- To build the information system to understand on time requirements of foreign investors.

From 2005 to 2008: To orientate the FDI flow toward the Vietnam's economic development strategy by specific measures as follows:

- To build and perfect the concentrated economic zones and open economic zones for FDI attraction in focal localities and areas of Vietnam.
- To orientate the FDI flow toward the Vietnam's spearhead industries.
- To enhance the efficiency of using FDI capital.

From 2008 to 2010: To make Vietnam become an FDI magnet; sharpen the national competitive edge in FDI alluring; and at the same time stabilize the FDI amount at a high rate.

- To create the Vietnam's advantages such as: convenient infrastructure, stable investment climate, consistent economic policies; and avoid "sudden shocks" in economic management.
- To continue to maintain and develop preferential policies for reinvestment in Vietnam.
- To plan positive policies to make access to the international capital markets.

To realize the above roadmap, Vietnam is required to undertake a set of solutions from macro to micro level in various fields as follows:

- To design an orientation of FDI attraction to Vietnam in accordance with the country's process of international integration.
- To perfect the national financial policies on foreign exchange rate, interest rate, and so on for FDI attraction.
- To continue to rectify the financial inspection system to foreign-invested enterprises in Vietnam.
- To train the high-quality human resources to secure foreign investors' requirements.
- To liberalize the capital market for attraction of FDI flows into Vietnam.

The current FDI flows in the world show a sharp change and account for only 30% of the amount invested in developing countries. Vietnam is encountering a severe race in FDI attraction for its economic development and international integration. As a result, to build a road map and realize it for FDI attraction is an urgent demand to catch up with other rivals in the fierce competition.■