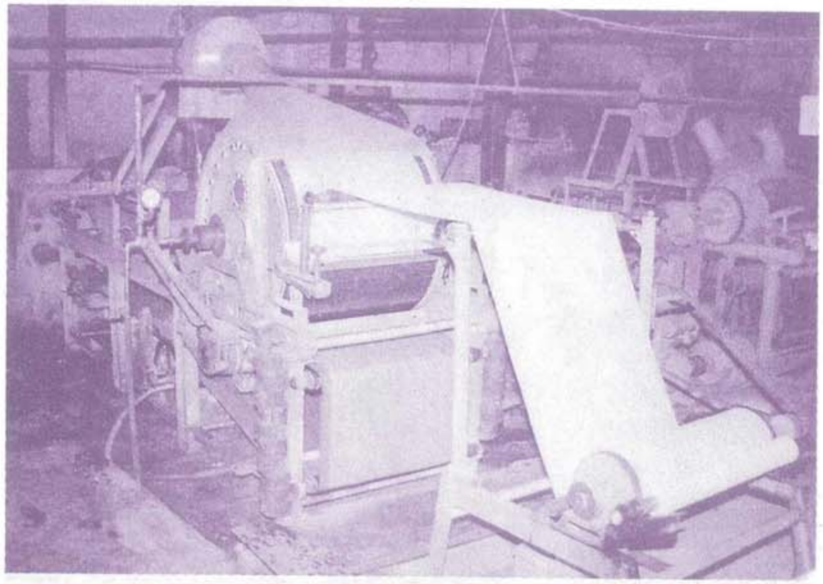

FOREIGN INVESTMENT IN ĐÀ NẴNG

by MEcon. LÊ CÔNG TOÀN

After the promulgation of the Foreign Investment Law, Đà Nẵng authorities with their own efforts and help from the central government, have encouraged and facilitated FDI projects to change the structure of industry in the direction of modernization and industrialization. Up to now, there are 42 operational foreign-invested companies and 26 branches or rep offices of foreign economic concerns in Đà Nẵng. The 42 foreign-invested companies have a total registered capital of US$395,275,666 while their legal capital is US$174,433,462 and realized investment US$166,767,688 (equaling 42.6% of the registered capital).

FDI companies has helped maintaining a high growth rate for local economy, at 9.6% a year, and changing the structure of industry (the share of industrial sector in local gross output rose from 35.8% in 1997 to 43.4% in 2000). Export earnings from these companies increase by 14.8% a year and amounted to US$52.2 million in 1999, equaling 35% of Đà Nẵng export. These companies employ some 5,000 workers, provide jobs for thousands of indirect laborers and pay some US$8 million a year in taxes.

Many problems, however, have arisen from the development of this sector in Đà Nẵng: foreign investment is low (equaling only 1.1% of the FDI in Vietnam); 85% of machines and equipment transferred to Đà Nẵng were obsolete; tasks of planning and promoting the FDI were poorly performed; administrative procedures are complicated, etc. Generally, foreign investors are of the opinion that the investment climate in Đà Nẵng isn't favorable enough (high costs, limited market demand, poor infrastructure) with the result that the business performance and competitiveness of FDI companies are poor and the degree of risk is high.

When the globalization is spreading fast, Đà Nẵng FDI authorities should pay attention to the following issues:

- All regions and countries are competing keenly against one another for foreign investment by adopting appropriate strategies and policies and offering many incentives and favors.
- Đà Nẵng is also facing increasingly fierce competition from other cities in Southeast Asia and in Vietnam as well.
- Asian countries are trying to recover from the financial crisis with the result that they have to limit overseas investment. That is why Đà Nẵng authorities should work out new policies to attract investment from other regions, such as North America and Western Europe.

To attract some US$1 billion of foreign investment needed for implementing the socioeconomic development strategy set for the years 2001-2010, Đà Nẵng FDI authorities had better consider the following measures:

(1) Working out the investment plan:

The provincial government should make a blueprint for foreign investment in every sector and industry based on the socioeconomic development plan approved by the central government as well as development plans for each industry or sector. Top priority (in order of importance) could be given to investment in the manufacturing sector (especially the food processing and export-oriented industries), tourism business and agriculture.

From this blueprint, the government can identify projects that need foreign investment and put them in a list of priorities with detailed information about time and site. After publicizing the blueprint, forms of investment and incentives could be defined. Necessary information about land rent, taxes, sources of raw materials and labor, etc. should be made available for potential investors. In making this blueprint and studying investment projects, FDI authorities should estimate the need for foreign investment of each project and possible counterpart fund by local parties with the aim of making the best use of existing factory buildings and equipment. Local private investors could be encouraged to take part in joint ventures with foreign partners in order to develop internal strength.

(2) Beefing up FDI promotion and selection of investing partners:

Based on policies to diversify foreign economic relations, make use of external resources and integrate into the world economy, Đà Nẵng

authorities should look for investing partners for planned projects. They could find appropriate and reliable partners by introducing projects in need of investment to potential investors through investment forum, international conferences, foreign relations with provincial government, Vietnamese embassy officials, ministries and international organizations. In looking for partners, it's necessary to gather information about potential partners (their legal entity, financial standing, scope of operation, public image, goodwill, etc.) in order to avoid mistakes. This is a factor that determines success in realizing the projects.

(3) Improving the investment climate:

The infrastructure has been upgraded but it still falls short of investors' expectations. To develop the infrastructure when the source of public fund is limited, the provincial government should mobilize contributions and efforts from all sectors, especially from the central government, foreign and local companies, and from the ODA programs. Services needed for foreign investors, such as telecommunications, banking, insurance, legal advice, recreation, health care, tourism, etc. should be developed in parallel with the road network and public utility services.

The "one-door" principle should be applied to the management of foreign investment. All administrative procedures and regulations must be publicized in order to help companies fulfil them quicker. To carry out such an administrative reform, the provincial government could form a Municipal Investment Commission that meets once a week to study new projects and handle complaints made by companies. The foreign sector should be considered as important part of the local economy and difficulties met by foreign-invested companies as obstacles to the economic development.

(4) Incentives for foreign investment:

The Đà Nẵng government has been delegated to grant investment licenses to projects with invested capital of US$5 million and companies with capital of US$40 million if they are established in export processing zones. The time limit for considering the project and granting license is 15 days.

Land rent set by the municipal authorities is US$ 0.18 to 2.16 per sq.m. a year except for Hải Châu district where the land rent bracket is higher (from US$0.6 to 7.2 per sq.m. a year). The rent charged on FDI projects will be calculated and determined on a case-by- case basis and may be lower than the rent bracket. In the next decade, foreign investors could enjoy a 50% cut in, or an exemption from, the land rent.

In present difficult conditions, public investment could be put in the infrastructure in industrial parks, especially the Hòa Khánh IP, and land rent cuts and exemptions could be used for encouraging investment in IPs.

(5) Training officials working in joint ventures:

Most government officials have poor knowledge and experience of working in joint ventures with foreign partners. There must be plans to train officials who will be sent to work in joint ventures in foreign languages, law and managerial skills. For the time being, the training plan could be as follows:

- Giving refresher courses to officials working in joint ventures and governmental services at provincial level.

- Sending young officials, who are selected from provincial services according to the development plan for the province, to make studies at universities before assigning them to joint ventures.

Reality of management of the foreign sector shows that most foreign investors want to have local managers in their staff. Universities should train students in subjects relating to foreign investment business in order to meet this demand.■