

# Unfriendliness to Foreign Investment After 20 Years of Economic Reform

by NGUYỄN TRUNG

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The Vietnamese Government appreciates the role of FDI in the modernization and industrialization of the economy, gives it all possibly preferential treatment and tries its best to perfect the legal infrastructure and business climate in order to attract it. This is a great effort recognized by the world community. Some provincial governments even offer incentives and treatment that go beyond rules and regulations set by the central government. Competition for FDI between provinces puts local parties at a disadvantage when negotiating with foreign investors and leads to

unnecessary losses. Fortunately, it is not very common.

In spite of such efforts and the fact that the FDI has contributed a lot to the socioeconomic development and improvements in the business climate, Vietnam, 20 years after its economic reform, is still considered as unfriendly to the FDI. Its ability to attract the FDI is poor in comparison with its advantages. Vietnam has missed waves of FDI in 1995 and 1998, and failed to make remarkable progress in order to attract a new wave that is flooding Southeast Asia. Results of efforts to make the best use of technology transfer, enhance

local managerial skills and enter new markets fell short of expectations.

It's worth noting that increases in the FDI flow into Vietnam before 1995 and in the past few years were accompanied with improvements in the business climate and administrative reform, especially simplification of procedures and formalities.

## **1. Short-sightedness and take-and-run attitude**

Then what are main shortcomings in attracting the FDI?

Above all, the predictability of the business climate is very poor, which causes a lot

of obstacles to foreign investment and becomes one of the biggest obstacles to foreign investors.

As we know, nobody wants to start long-term projects and make big investments when risks can't be estimated. Such a business climate can only encourage a take-and-run attitude, speculations, and short-term and small-scale projects, which are harmful to host countries and never helps them enter long-term cooperative projects and new markets. And as a result, the host countries themselves also suffer more disadvantages caused by this unpredictability than foreign investors do and fall into a passive position.

The unpredictability of the Vietnamese business climate comes from the following causes:

- Inconsistency of policies and administrative procedures: Policies on planning, economic development and legal infrastructure are changeable and are usually distorted and changed unreasonably by local authorities when being implemented.

- Poor ethics and ability of civil servants: Corruption and regional conflicts are widespread. Many cases of

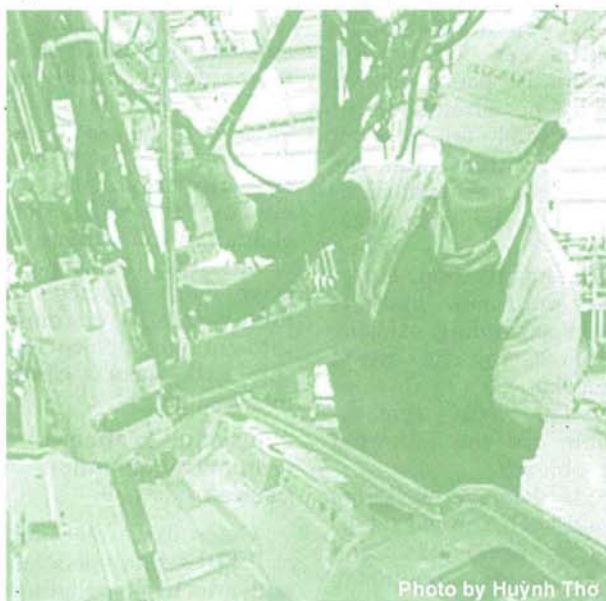


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corruption have been discovered recently, which shows that the situation seems to go from bad to worse. In addition, the administrative machinery is not effective and competent enough to deal with domestic changes or events (natural disasters, fluctuations in the market, complaints about ownership of land, etc.) and external impacts (financial crisis, increasing prices of fuel and other goods, or wars in other regions, etc.). It's hard to expect such a machinery to support foreign investment projects.

## 2. After 20 years, changing the thinking way is still a novelty

The old thinking way is still prevalent among officials of high ranking. Tendency towards protectionism and conservatism keeps coming into play when making policies to attract foreign investment. For example, policy makers tend to pay too much attention to the domestic market, protect similar goods made by state-owned companies and various kinds of privileges and interests that existed under the centrally planned economy, and thus violating the principle of national treatment. The discrimination against foreign parties could be found especially in policies on capital, land use and limits on investment in certain industries (such as power supply, telecommunications, air transport, etc.)

As for the above mentioned limits, they could be found in the following practices: any

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foreign-invested company is also prevented from entering into too many industries; their shares in the domestic market are limited (this situation has been improved recently); foreign-invested companies are not welcome to banking and some other services, etc. Moreover, the price of land and intermediary expenditures are too high, which make doing business in Vietnam become very costly. Apparently, policy makers and the administrative as a whole fail to adopt a policy that treats the FDI as a means of accelerating the modernization and industrialization, entering into new markets and expanding existing shares in the world market.

The most remarkable are the following problems:

- Shortage of skilled and well-trained laborers, technicians and competent managers

needed for foreign-invested companies to produce technology-intensive goods.

- Incompetence of officials responsible for FDI issues: Particularly, they couldn't supply necessary information to both local and foreign businesspersons in order to help them choose out right opportunities and make timely decisions.

- The infrastructure is developed too slowly, satellite factories supplying factor inputs to FDI projects are still lacking. The Government fails to work out effective strategies to employ the FDI for changing the structure of industry. The cooperative mentality needed for turning Vietnam into an ideal place for the FDI hasn't come into being.

## 3. A policy to ensure mutual trust is much needed

Generally, Vietnam still lacks many policies and efforts - including

ones from diplomatic machinery- to ensure a mutual trust in order to encourage foreign investors to engage in a long-term cooperation in finding and entering into new markets and developing new products.

At present, major partners from foreign countries are demanding for diversification of the market for investments when Vietnam is enjoying a better political and economic position, high growth rates and political stability. This situation provides Vietnam with great opportunities to attract a new wave of foreign investment and there are signs of a boom in the FDI flow. It requires more reforms in all fields in order to accelerate implementation of commitments within the WTO framework and other bilateral agreements and make the best use of this opportunity.

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