FOR MORE FOREIGN INVESTMENT DURING THE INTERNATIONAL INTEGRATION PROCESS

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1. Achievements

From December 1989 when the Foreign Investment Law was promulgated to late 2002, Vietnam has attracted 3,669 FDI projects, and over 2,000 of which have come into operation with a total realized capital of US$20.7 billion equaling 53.2% of the registered capital. Thus, Vietnam attracts some US$1,112 million a year on average equaling 26.5% of its gross investment.

FDI projects, however, were distributed evenly. Most of them concentrated in industrial and construction sector: 2,554 projects capitalized at US$22 billion (equaling 69% of the number of projects and 56% of the total registered capital) followed by the agriculture sector (408 projects with the registered capital of US$2,187.1 million or 11% of projects and 5.6% of registered capital) and the service sector (778 projects with the registered capital of US$15,052 million (or 21.2% of projects and 38.6% of the registered capital).

Most provinces and cities have FDI projects now but the most favorite to foreign investors are still big cities and provinces with favorable conditions, such as Hà Nội (454 projects capitalized at US$7,930.5 million); HCMC (1,245 projects, US$10,458.6 million); Đồng Nai (433 projects, US$5,309.4 million); Bình Dương (619 projects, US$2,794.4 million); and Bà Rịa- Vũng Tàu (82 projects, US$2,912 million). In short, those provinces attracted 90% of projects and some 75% of the registered capital..

Up till now, foreign investors doing business in Vietnam are from 62 countries and territories but most of them are from Asian countries, such as Taiwan (897 projects; US$5,357 million), South Korea (443 projects, US$3,471 million), Hong Kong (271 projects, 2,961 million), Japan (369 projects, US$4,146 million) and Singapore (244 projects, US$6,881 million).

In 2002, Vietnam attracted some 700 projects capitalized at US$1.395 billion increasing by 32.7% regarding the number of projects but decreasing by 45.6% regarding the total registered capital. The foreign sector accounted for 13.4% of the GDP; 35% of the industrial output; 27.2% of the export value (some US$4.5 billion) and 33.7% of the import value (US$6.5 billion), employed 450,000 laborers (1.2% of the working population), contributed US$460 million to the State Treasury (equaling 7% of the national budget income) from its total sales of US$8.4 billion). In addition, some 300 projects asked to add US$918 million to their working capital making the total FDI in 2002 rise to US$2.3 billion.

Causes of these achievements are as follows:

- In recent years, the Government has introduced many solutions to remove obstacles and provide the foreign sector with preferential treatment: reducing the company income tax on foreign-invested companies to 25% (as compared with 32% on local ones); removing the import tax on machines, equipment, materials and transportation means that couldn't be acquired from the domestic market; reducing the tax on profits transferred overseas from the 7-10% bracket to 3-7% one, etc. In addition, foreign-invested companies also enjoy preferential land rental, fast land clearance, permission to transfer losses to the next five years, cheap labor, political stability and various help from local governments.

The Vietnamese Government has adopted the open foreign policy. Up to now, Vietnam has diplomatic relations with 176 countries and territories, enters trade agreements with 76 countries, exchanges MFN status with 68 ones and becomes a member of many international organizations. This policy has helped create an open business climate for foreign-invested companies.

In the past 15 years, the foreign sector has helped accelerate the growth rate, create more jobs for laborers (statistics show that one job in the foreign sector creates 1.6 jobs in other sectors), tape local resources, expand the domestic market, introduce more technologies and managerial methods and enhance the labor productivity (statistics show that the productivity in the foreign sector is 9.25 times higher than that in other sectors.) Most foreign-invested companies make profits, observe laws and keep books according to international standards. Their finance is well audited and transparent.

2. Shortcomings

- Most FDI projects are of small size and the number of projects is on the decrease. The per capita foreign investment is only US$17 as compared with 26 in the Philippines or 55 in Thailand. This situation limits the possibility of attracting high technologies and changing the structure of industry.

- Structure of foreign investment isn't proportional. Foreign investment in the agricultural sector equals only 10% of what put in the manufacturing sector. Moreover, it isn't evenly distributed among provinces.

- Some provinces give too much preferential treatment to foreign investment in fields that didn't produce intended results. The best part of FDI projects concentrates in import substitution and capital-intensive industries instead of export-oriented and labor-intensive ones.

- Input costs are still high. Prices of power supply, coal and gas for example, are from 30% to 40% higher than prices offered in China and other ASEAN countries. Transport cost is 1.5 times higher. Internet fee, after many cuts, is six times higher than that in Singapore, five times higher than the Philippines and three times higher than Indonesia.

- The ability to attract high technologies is limited and doesn't come up to expectations. Many machines transferred to Vietnam are dear and obsolete. Certain FDI projects have poor performance.

- Some 40% of the work force in the foreign sector isn't well trained. Most FDI projects are badly in need of skilled laborers and managers while the education service fails to meet this demand.

- The proportion of foreign investment to the gross investment is still low. It is hard for Vietnam to acquire a gross investment of US$12 billion as planned for the years 2001-05.

- Although the investment climate has been improved remarkably, it is still highly risky. The market for factor inputs hasn't well developed. The law system is imperfect and inconsistent. Changes in some policies produce unfavorable effects on the foreign sector. The infrastructure is poorly developed.

- The control over the foreign sector is inadequate and not strict enough. Sometimes authorities intervene too much in business- running process of foreign-invested companies. Many projects are slow to deploy because of slow land clearance.

- In most joint ventures with foreign partners, the domestic one holds only a stake of 20% or 30% with the result that it couldn't play any important role in the decision making and profit sharing process.

3. Problems with the foreign sector

- The Vietnamese growth rate still depends too much on the performance of the foreign sector and it will suffer when this sector experiences sudden fluctuations.

- The trade gap of the foreign sector leads to Vietnam's trade gap. In 2002 for example, the trade gap of this sector was US$2 billion while the Vietnam's trade gap was US$2.77 billion.

- China, after getting admission to WTO, has competed fiercely against Vietnam in attracting FDI sources. The world economic recession, especially in the U.S., Japan and the EU, has also reduced the flow of FDI to Vietnam. The world FDI fell from US$1,200 billion in 2000 to US$503 billion in 2001. The FDI to developing countries also fell from US$238 billion to 205 billion in the same two years and this tendency seems long -lasting.

- Asian countries are trying their best to attract the FDI. China, for example, allows foreign investors to enjoy exemption for the income tax in the first two years of operation and a 50% cut in the nest three years. Other ASEAN countries are also offer tax incentives of various kinds.

4. Solutions

- Vietnam must reform the administrative machinery, perfect the market mechanism and handle actively complaints from foreign investors.

- The dual-priced mechanism must be removed. Input costs must be cut.

- The tax system must be reformed radically in accordance with international practices.

- An export supporting policy could be adopted to give more help to exporters. Foreign-invested companies could be allowed to buy foreign exchange at will. Necessary efforts must be made to make the domestic currency convertible.

- Discrimination against foreign companies must be removed. The legal infrastructure must be perfected based on international law and practices.

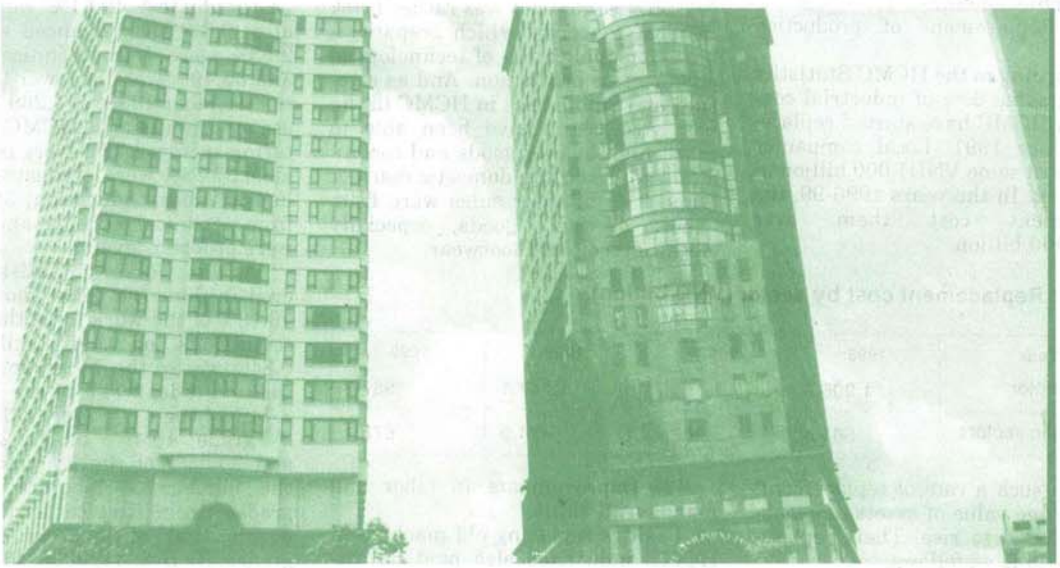

Photo by Nguyễn Ngọc Đạo

- Vietnam has to try its best to carry out commitments required by trade agreements and negotiate patiently for admission to the WTO.

- Both infrastructure and quality of human resource must be enhanced. Foreign investors could be allowed to take part in the Vietnamese stock market because this will help attract more foreign investment.

- Besides cutting taxes on foreign-invested companies, the task of managing this sector must be beefed up.

- The Government must ensure that information about business opportunities in Vietnam is available for foreign investment communities and pay more attention to the trade promotion activities in such major markets as the U.S., Japan and the EU.■