Overseas Investment from Vietnam under the Trend of International Integration

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Overseas direct investment is a new approach recently adopted by Vietnamese companies as to enter into new markets. Foreign experience shows that countries with strong overseas investment have more opportunities to expand their export markets, create more jobs and accelerate the economic growth. But it takes a long time to turn this possibility into reality.

Even small investment in foreign markets by local companies, as shown by reports, has produced good results. In the trend of international integration, the number of Vietnamese – invested projects in foreign countries won't remain at a three-digit figure. Business opportunities in foreign markets seem attractive and favorable to local companies. Let's have a closer look at this new field.

1. Vietnam's overseas investment

According to statistics gathered by the MPI Department of Overseas Investment, the first overseas investment project was the GEMASA Joint Venture in Japan to supply shipping services with a total capital of US$563,380 licensed on Aug. 25, 1989. From then on, the overseas investment from Vietnam experienced two phases of development: (1) from 1989 to 1998; and (2) 1999 till now.

In the first phase, there were only 18 projects capitalized at US$13,697,073, accounting for 1.51% of total investment up to July 2006. The average investment per project was modest (US$760,948). There were three projects a year on average and total investment per year was under one million dollars.

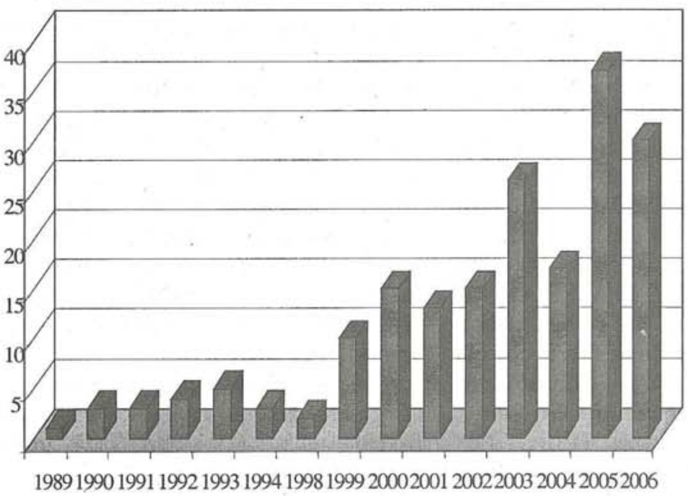


Figure 1: Licensed overseas investment projects in 1989- 2006

The second phase was the period in which Vietnam tried to accelerate its international integration and joined more and more international organizations. Overseas investment by local companies started to increase and its market expanded. A milestone in its development was the Decree 22/1999/NĐ-CP dated April 14, 1999 on the overseas investment by Vietnamese companies.

In this period, some 10 licenses were granted every year to projects whose total registered capital amounted to millions of dollars. The lowest sum was found in 2000 (some US$6.8 million) and the highest one was in

Figure 2: Total overseas investment in 1989- 2006 (US$ million)

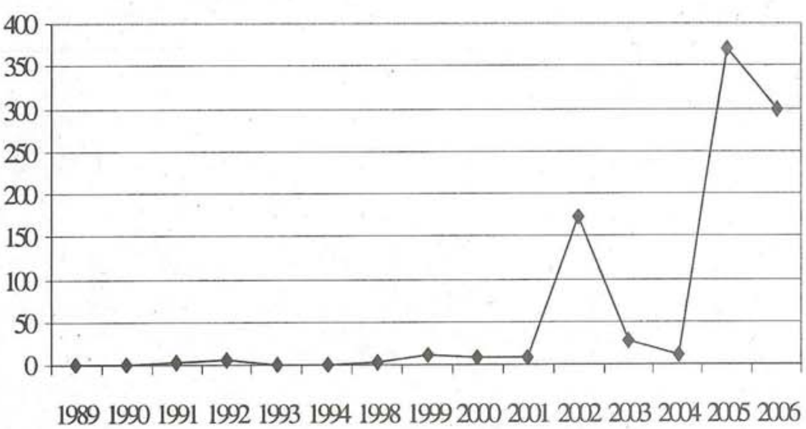
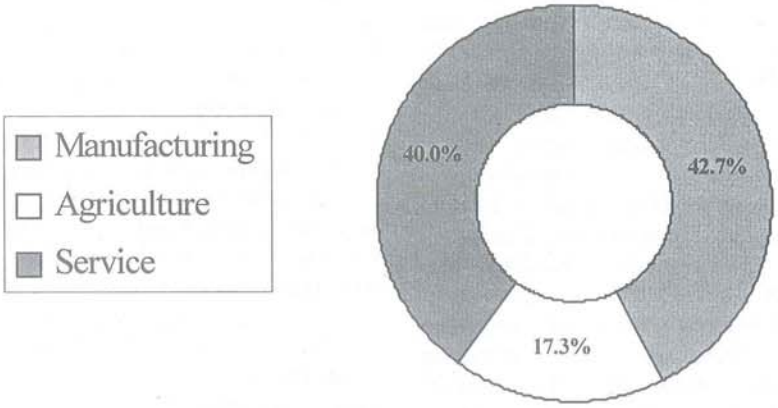


Figure 3: Overseas investment by industry (up to Dec. 31, 2005)



2005 (over US$368 million). In eight years, from 1999 to July 2006, licenses were granted to over 150 projects capitalized at US$894,884,388 equaling 98.49% of the total overseas investment in the past 18 years. The average investment per project was US$4,599,146 making a six-fold increase over the first phase.

The better part of overseas investment projects was in the manufacturing sector. Of the number of valid projects up to Dec. 31, 2005, 64 (42.7%) were in the manufacturing sector; 60 (40%) in the service sector and 26 (17.3%) in the agriculture. Investment in the manufacturing sector amounted to US$483,039,185 (77.7% of the total); in the agriculture US$81,931,188 (13.2%); and in the service sector US$56,307,088 (9.1%).

Regarding the market for overseas investment, the MPI has granted licenses to make investment in 31 nations and territories. This figure shows that Vietnamese companies have integrated quickly into the world economy within 18 years. However, their projects have been carried out in 13 countries. Up to the end of 2005, Laos was the biggest market for Vietnamese overseas investment with 51 projects capitalized at US$363,771,536 equaling 58.5% of the total investment. The realized capital in Laos amounted to US$4,488,472, or 29.4% of the realized investment. These projects were in mines, hydropower plants, wood processing, road and bridge building and consumer's goods.

The second biggest market was the U.S. with 17 projects capitalized at US$7,862,754. Most of them were in the service sector (agent for Vietnamese exporters of farm products and clothing; investment consultant for American investors; advisory service for Vietnam exporters; or writing software for American companies). That is why most Vietnamese overseas investment project in this market was small, around US$0.5 million per project.

Investment in the U.S. became easy because it could be supported by communities of Vietnamese expatriates. Other markets included Singapore (11 projects), Russia (10), and Cambodia (10).

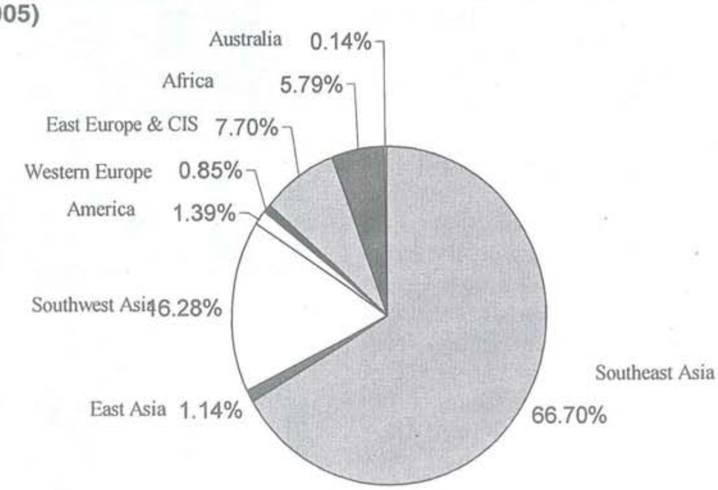
According to the MPI Department of Overseas Investment, there were 162 valid overseas investment projects capitalized at US$676.4 million up to July 2006. Major projects in 2007 included projects to build a Chợ Rẫy Hospital in Phnom Penh (US$10.5 million), prospect and drill oil in Singapore (US$21.94 million), and form Joint Venture Nhà Việt in Berlin (5 million euro) by Vietnam Airlines' Sasco with German HMSKY GmbH. The total overseas investment by Vietnamese companies in 2006 was estimated at over US$100 million.

2. Opportunities and challenges

a. Opportunities

Vietnam's accession to the WTO leads to many investment opportunities for local companies. They will enjoy national

Figure 4: Vietnamese overseas investment by region (up to Dec. 31, 2005)



treatment and many barriers to their exports will be lifted. Many local companies have seen this opportunity and they have forced the Government to take a different view on the overseas investment. Business opportunities open to them is very great, especially in untapped markets, such as Africa, Cambodia and Laos.

On Aug. 9, 2006, the Government issued Decree 78/2006/NŇ-CP as a replacement for Decree 22/1999/NĐ-CP on the overseas investment. This could be seen as an effort to perfect the legal infrastructure for the overseas investment because the new Decree offers more progressive and open regulations and rules relating to fields where limits, encouragements, and prohibitions are applied to overseas investment; the role and control of the State; rights and duties of relevant ministries and local governments; and financial support from the State. The waiting time from a license is reduced from 30 to 15 days. The size of investment that needs approval from the Prime Minister is bigger. For example, only projects in such fields as banking, insurance, finance, publication, broadcasting, and telecommunications that employ VND150 billion or more from the public sector, or VND300 billion from private sector; and projects in other field that employ VND300 billion from the public sector or 600 billion from the private one must secure the PM approval.

On Aug. 26, 2005, the SBV issued Circular 04 to adjust the Circular 01 dated Jan. 9, 2001 on the exchange control on the overseas investment. The new Circular allows local companies to buy or borrow foreign exchange from state-owned banks to invest in foreign countries, instead of using only foreign exchange they have earned and deposited with state-owned banks as stipulated by the old Circular.

Companies in banking, insurance, health care, education, scientific research, sports, and cultural businesses are allowed to invest in foreign markets without limit. The liberation of the banking and insurance sector is very important to their development because of their close relations with such companies. The presence of Vietnamese banks in foreign markets will be a great help to local companies because these companies need many banking services when doing business in foreign countries and mobilizing resources from the domestic market.

In the ASEAN region, Vietnam can invest in countries with medium level of technology because they are trying their best to attract foreign investment. The formation of the ASEAN Investment Area in the coming years will also offer new opportunities for local companies to enter into the market populated by 500 million people. Cooperation in the Mekong sub-region that comprises Vietnam, Laos, Cambodia, Thailand, Myanmar and China also provides opportunities to invest transport, energy and tourism.

b. Challenges

Besides opportunities, Vietnamese companies also face great challenges. If they couldn't enhance their level of technology, Vietnam could hardly leave the group of four new members of the ASEAN. This means that their market share will be small and less profitable be cause they can only invest in labor-intensive industries where the profitability ratio is low. Overseas investment from other leading countries in the ASEAN bloc will become a great competition against Vietnamese companies. Unlike investors from developed countries who tend to select carefully the markets for their investments, investors from developing countries tend to be content with some market niches for the time being as a preparation for future expansion into bigger markets.

In the coming years, Vietnamese companies will certainly meet with a keen competition from other developing countries, such as the Philippines, Indonesia, Thailand and Malaysia; instead of from more developed ones such as South Korea, Japan or Singapore, because companies from these developing countries usually have the same competitive advantages and staple products.■


Photo by Huynh Tho