Prospect of the FDI Flow to Vietnam in 2006-2010

by NGUYỄN KHÁNH DUY

1. FDI in Vietnam in 1988-2005

Changes in the FDI flow could be divided into four periods:

- 1988-1990: The FDI flow started to come into Vietnam with the registered capital of US$1.6 billion but the realized capital was small because most investors had to fulfill necessary procedures after getting their investment licenses.
- 1991- 1997: The FDI increased quickly and contributed a lot to the economic growth. In the years 1996-97, the registered FDI rose to UD$15.8 billion and the realized one was some US$6 billion.
- 1998-2000: The flow slowed down because of the Asian financial crisis. It reached the lowest point in 1999. The realized capital was around US$2.3 billion a year.
- 2001-2005: The FDI flow increased again. It amounted to US$4.2 billion in 2004 and 6.34 billion in 2005, the highest level since 1998. The registered capital in the years 2001-05 rose by 18.8% a year, the realized one by 6.4% a year. In this period, many projects in high-tech industries with modern equipment made their appearance. Vietnam was ranked by the UNCTAD among countries achieving high FDI performance and FDI potential index, along with China, Hong Kong and Singapore.

Table 1: Licensed FDI projects in 1988 – 2005

Year	Newly licensed projects	Registered capital (US$ bil.)	Realized capital (US$ bil.)
1988	38	322	0
1989	68	526	0
1990	108	735	0
1991	151	1,292	329
1992	197	2,209	575
1993	274	3,347	1,018
1994	367	4,535	2,041
1995	408	7,696	2,556
1996	387	9,735	2,714
1997	358	6,055	3,115
1998	285	4,877	2,367
1999	311	2,264	2,335
2000	389	2,696	2,414
2001	550	3,230	2,451
2002	802	2,963	2,591
2003	784	3,146	2,650
2004	723	4,222	2,852
2005	922	6,339	3,289
Total	7,086	66,237	33,295

Sources: *Niên giám thống kê 2004* (Vietnam Statistical Yearbook 2004) and MPI report, March 2006.

Increases in the FDI in recent years came from the following four causes:

Firstly, the policy to diversify and multi-lateralize foreign trade and integrate into the world economy produced good effects on foreign investors. The Vietnam-US BTA and other agreements with other countries have helped increase the FDI flow in recent years. High growth rate of Vietnam also attracted investors, especially its potential for expanded domestic market.

Secondly, the investment climate has been improved remarkably. Legal infrastructure and policies in the FDI are perfected with a view to providing better environment. Japanese companies in a conference estimating results of the first phase of the Vietnam – Japan Joint Initiative on March 22,

Figure 1: Registered FDI in 1988-2005

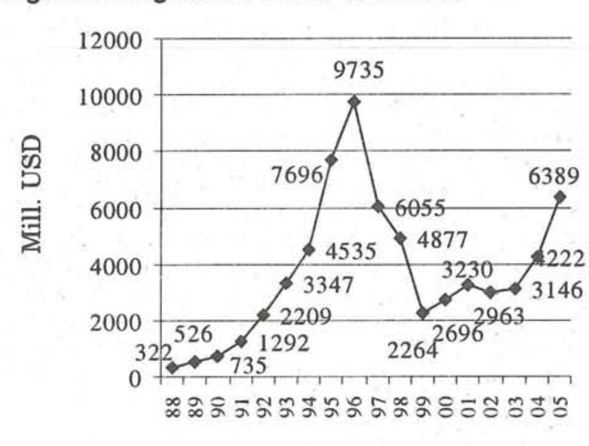
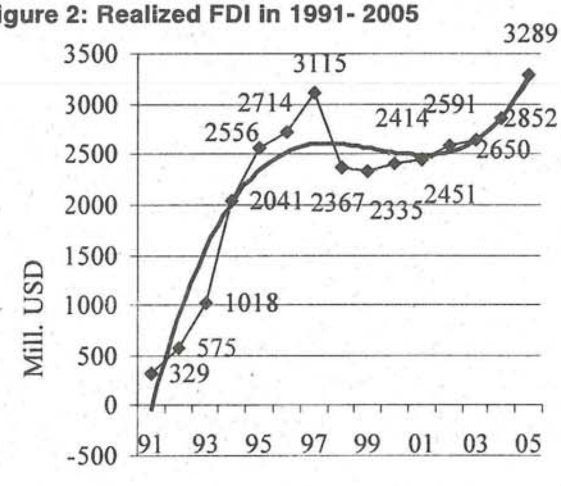


Figure 2: Realized FDI in 1991- 2005



2006 in HCMC remarked that the Vietnamese investment climate had been improved considerably in the previous two years, and Vietnam had been a model of improvements in the business climate. In addition, the socio- political stability in Vietnam was also a factor that encouraged favorable decisions by foreign investors.

Thirdly, both central and local governments have become more active in attracting the FDI by carrying out many progressive policies, such as administrative reform, uniformed pricing mechanism, and active handling of complaints from investors, etc.

Fourthly, investment promotion was carried out actively for major projects and vital zones. Various measures have been taken to promote foreign investment by many ministries and local governments in both Vietnam and foreign countries. Regular meeting between authorities and the business circle since 2005 has been appreciated by foreign investors. The biannual Vietnam Business Forum held along with conferences of advisory groups of donors, and conferences on foreign investment held by the MPI have produced encouraging results.

From 1988 when the Foreign Investment Law was promulgated to Dec. 31, 2005, 7.086 projects with total registered capital of US$66.2 billion were licensed. Up to Dec. 31, 2005, there are 6,030 valid projects with total registered capital of US$51 billion and realized capital of 28 billion. The manufacturing and construction sector accounts for 67.21% of projects; 60.84% of registered capital and 69.49% of realized capital. These figures are 19.70%; 31.76% and 24.02% in the above order in the service sector and 13.08%; 7.4% and 6.49% in the primary sector.

Table 2: Valid FDI projects by sectors and industries in 1988-2005

Sector	Projects	Registered capital (US$ mil.)	Realized capital (US$ mil.)
Manufacturing- Construction	**4,053**	**31,041**	**19,448**
Oil industry	27	1,891	5,542
Light industry	1,693	8,471	3,143
Heavy industry	1,754	13,528	6,543
Food processing	263	3,139	1,895
Construction	316	4,011	2,326
Primary	**789**	**3,775**	**1,816**
Agriculture – Forestry	675	3,466	1,661
Sea farming	114	309	155
Service	**1,188**	**16,202**	**6,722**
Transport – Post	166	2,924	741
Hotel – Tourism	164	2,864	2,342
Finance- Banking	60	788	643
Health – Education – Cultural service	205	908	284
New town development	4	2,552	51
Office buildings - Apartment houses	112	3,937	1,780
Infrastructure in IPs	21	1,026	527
Others	456	1,203	354
Total	**6,030**	**51,018**	**27,986**

Provinces leading the way in attracting the FDI are HCMC, Hà Nội, Đồng Nai, Bình Dương, Bà Rịa- Vũng Tàu, Hải Phòng, Vĩnh Phúc, Long An, Hải Dương and Thanh Hóa.

Up to the end of 2005, investors from 75 countries and territories, including many multinationals, have put their money in Vietnam. Leading investing countries in order of their shares in the foreign sector in Vietnam are: Taiwan (15.23%), Singapore (14.92%), Japan (12.33%), South Korea (14.46%), Hong Kong (7.31%), British Virgin Islands (5.28%), France (4.26%), The Netherlands (3.91%), Malaysia (3.08%), Thailand (2.85%) and the U.S. (2.85%). These countries accounts for 80% of the FDI projects and capital. In addition, a lot of overseas Vietnamese have returned home as investors in recent years.

2. Qualitative prediction of the FDI flow

Many studies, 60% of multinationals and economists, and over 80% of investment promotion agencies, agree that the FDI flow is promising in both short and long terms. A GIPA survey conducted recently shows that overseas investment will rise in the future. According to their estimates, the investment will flow to emerging economies; Asia, and East and South Europe will be the most promising markets. The UNCTAD predicts that the FDI flow to Southeast Asia will increase in the next three years. As for Vietnam, many authors believe that the FDI flow will rise in the coming years; and Vietnam, after years of research and survey, has gained sufficient conditions for major and long-term projects by multinationals.

Vietnam is conducting negotiations with

WTO members in order to get admission to this organization by the end of 2006. Implementation of bilateral agreements will help open domestic markets to foreign competition in the coming years. An article on *Dau Tu* (January issue, 2006) says that when Vietnam becomes a WTO member, it has to reform policies on foreign investment in the direction of reducing and lifting trade barriers as required by the WTO and refrain from all forms of discrimination. When policies and regulations are transparent and predictable, and potential for better spending power is clear enough, foreign investors will feel sure about their investment projects in Vietnam. In addition, Vietnam receives aid, soft and unrefundable loans from many governments and international organizations. The UNCTAD also predicts that the overseas investment will flow strongly into the service sectors in Asian countries, therefore Vietnam can attract more FDI if it carries out the commitment to open its service market. In the coming five years, laws on the foreign investment will be perfected, which will affect favorably the foreign sector in Vietnam.

Of nine countries that joined the WTO in 2006 (China, Lithuania, Jordan, Oman, Taiwan, Albania, Croatia, Macedonia and Moldova), China has conditions similar to Vietnam's. Data from the UNCTAD show that the FDI flow into China rose by 10.46% a year in 2001-04 compared with 1.64% a year in 1996-2000. The FDI in China reached US$37.5 billion in 1995; 40.7 billion in 2000; and 60.6 billion in 2004. That is why foreign investors are very interested in possible accession to the WTO of Vietnam. In 2005, *Thời Báo Kinh Tế Sàigòn* conducted a survey of 202 South Korean companies doing business in Vietnam, and 95.2% of them said they were content with their business here; 65.3% expressed their interest in the Vietnam membership of the WTO; 61.5% believed the business climate would be better after Vietnam became a WTO member.

Trần Văn Thọ, in his *Biến Động Kinh Tế ở Đông Á và Con Đường Công Nghiệp Hóa Việt Nam* (2005; "Economic Crisis in East Asia and the Path to Industrialization of Vietnam") says, "an opportunity is coming now, if Vietnam knows how to take it, Vietnam can overcome recent shortcomings and cause a boom in the foreign sector, thereby accelerating the industrialization by improving its international competitiveness. Foreign investors, especially Japanese ones, are paying attention to Vietnam. After years of investing in large quantities in China, they tend to distribute their money among many countries in order to avoid risks. (...) Japanese experts believed that four industrial centers in the future were China, Thailand, India and Vietnam."

According to an MPI report on American investment in Vietnam issued on February 20, 2006, the U.S. is becoming the biggest investor in Vietnam. *Thời Báo Kinh Tế Việt Nam*, on its March 28, 2006 issue, also says that in the eyes of Singaporean investors, Vietnam ranks third, after China and India, in their interest.

Many people think that the Growth Competitiveness Index, Business Competitiveness Index and Inward FDI Potential Index of Vietnam tended to fall in the past few years. In fact, these indexes don't reflect all of what investors are interested in, such as quality of human resource and labor cost. The Japanese business circle believed that Vietnam had made good progress in improving its human resource by carrying out projects to supply vocational training to residents in rural areas.

Regarding the CPIA Index by the World Bank, strengths of Vietnam in comparison with other Southeast Asian countries is macroeconomic management, fiscal policy and public finance management. According to data gathered by the UNCTAD, however, Vietnam fell from the 79th in 2001 to the 92nd place among 119 countries in terms of the HDI in 2005.

Supporting industries have started to develop in Vietnam and Taiwan has invested strongly in these industries while many investors can rely on supply from such industries in Thailand, Malaysia, China and Singapore. This is also a factor that makes investors decide to do business in newly

Table 3: Prediction of registered and realized FDI in 2006-2010 (US$ mil.)

Prediction	Model	2006	2007	2008	2009	2010	2006-10	Theil's U
Registered FDI predicted	Holt	6,746	7,103	7,460	7,817	8,174	37,299	0.18
	Cubic	5,792	7,076	8,771	10,926	13,588	46,154	0.21
	ARIMA (1,3,0)	9,533	13,720	18,912	25,130	32,362	99,658	0.24
	ES_exponential	9,668	14,629	22,137	33,497	50,688	130,619	0.19
	equation4	12,559	20,995	33,066	49,536	71,234	187,390	0.14
Combination of results of prediction of registered FDI	Arithmetic mean	8,860	12,705	18,069	25,381	35,209	100,224	
	Regression	11,054	18,777	30,154	46,433	69,315	175,734	
Realized FDI predicted	Cubic	3,819	4,596	5,618	6,915	8,521	29,469	0.05

built industrial parks in HCMC, Bình Dương, Hà Nội and Hải Dương.

3. Results of quantitative prediction

Various methods have been used for predicting the volume of FDI to Vietnam in 2006-2010. Five models with high accuracy are selected because their Theil's U coefficient is smaller than 0.55 and satisfies statistical tests.

Prediction of the realized FDI according to the Cubic model has very high accuracy. Its Theil's U coefficient is 0.053 (much smaller than 0.55). This model estimates the realized FDI in 2006-2010 at US$29.47 billion.

Many good models could be used for predicting the registered FDI. In my opinion, results selected must be based on qualitative remarks when analyzing future conditions instead of choosing the model that produces the smallest error. After selecting a suitable model, the results could be changed slightly based on opinions from experts or remarks of the researcher. Another way is to combine results from various models in order to reduce possible mistakes. The table 3 presents these results for readers' reference.

The Foreign Investment Department has estimated the registered FDI in this period at US$22 billion and its planned target was 25 billion (48% in the Southern Vital Zone, 25% in the Northern Vital Zone and 7% in the Central Vietnam Vital Zone (*Kinh Tế Việt Nam* Magazine, Dec. 27, 2005). This estimate is much lower than what the above model produces. Above-mentioned analyses, in my opinion, allow us a more optimistic view, that is, the registered FDI could reach US$46.1 billion and the realized FDI could equal 63% of this figure.

In the first quarter of 2006, the registered FDI reached US$2 billion, which made the foreign sector much busier. In last March 21 American major groups (including General Electric, Time Warner, Boeing, Ford, Citigroup, etc.) visited Vietnam to look for business opportunities; and some 700 foreign investors attended a forum on Investment and business opportunities in Hà Nội, which allow us to expect remarkable increases in the FDI this year. Many CEOs and expert have expressed their trust in business opportunities in Vietnam.

Many economists agree that the foreign sector will act as a driving force to the Vietnamese economy in the future. From now to 2010, Vietnam will integrate more fully into the world economy, which will facilitate the FDI flow. However, Vietnam has to compete against neighboring countries for the FDI and it has a long way to go before it could turn opportunities into reality.■

References

- *Vietnam Development Report 2006*
- *World Development Report 2005* (Vietnamese version)
- UNCTAD, *World Investment Report 2005 – Transnational Corporation and the Internationalization of R&D*, UN, 2005.
- UNCTAD, *UNCTAD Handbook of Statistics 2005*, UN, 2005.
- Nguyễn Trọng Hoài, *Mô Hình Hóa và Dự Báo Chuỗi Thời Gian trong Kinh Doanh và Kinh Tế* ("Modelization and Time Chain Prediction in Business and Economy"), HCMC, 2001.
- Loan Lê, *Hệ Thống Dự Báo – Điều Khiển Kế Hoạch – Ra Quyết Định* (System of Forecast – Plan Control – Decision Making"), Hà Nội, 2000.
- Đỗ Hoài Nam & Võ Đại Lược, *Một Số Vấn Đề Phát Triển Kinh Tế của Việt Nam Hiện Nay* ("Some Problems of Vietnam's Present Economic Growth") Hà Nội, 2005.
- Trần Văn Thắng et all, *Lý Thuyết Thống Kê* ("Theories of Statistics"), Hà Nội, 2002.
- Nguyễn Thống, *Phân Tích Dữ Liệu và Áp Dụng vào Dự Báo* ("Data Analyses and Application to Forecast"), Hà Nội, 1999.

Trần Văn Thọ, *Biến Động Kinh Tế ở Đông Á và Con Đường Công Nghiệp Hóa Việt Nam* ("Economic Crisis in East Asia and the Path to Industrialization of Vietnam"), Hà Nội, 2005.


Photo by Huỳnh Thơ