Foreign Direct Investment and Measures to Promote It

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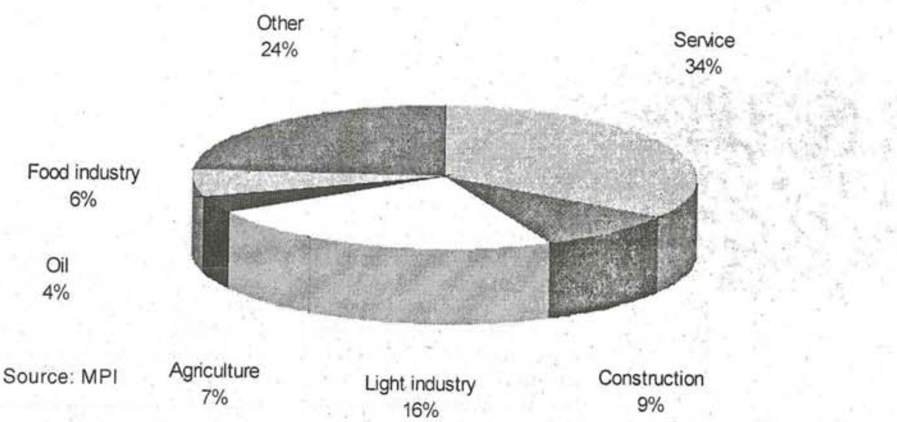
1. Situation

Figure 1: FDI projects by sector



Source: MPI

Up to the end of 2003, there were 5,236 FDI projects in Vietnam, 4,324 of them that were worth US$40.8 billion have come into operation and US$24.6 billion of this registered capital have been realized. In 2004, the FDI flow into Vietnam rose to US$4.2 billion increasing by 35% compared with 2003. This has been the highest level since the 1997 Asian financial crisis. Up to the end of 2004, the registered capital of FDI projects was US$45 billion and their realized capital was US$27.42 billion.

At present, FDI projects have made their appearance in most provinces, but they tend to concentrate in provinces or cities with good infrastructure, such as HCMC (25%), Hà Nội (18%), Đồng Nai (16%), and Bình Dương (9%), while the rest (59 provinces and cities) account for only 27% of FDI projects. The manufacturing and service sectors attract most FDI projects. The primary sector is much less successful in this aspect in spite of many preferential treatments are offered. Some one third of FDI projects are in the two abovementioned sectors but only a small part of FDI is put in modern services because markets for banking, financial, and advisory services are less developed.

As for form of investment, the joint venture accounts for 51% of registered capital and 30% of number of projects, the foreign-owned enterprise 36% of capital and 66% of projects, and others 13% and 4% respectively.

In the past years, the FDI accounted for 36.4% of the industrial output (12.1% in light industries; 9.7% in building materials, ceramics and glass; 22.5% in food and drink; etc.) and played a leading role in production of electronic appliances, computer, automobile and motorbike. Up to the first quarter of 2005, some 3,300 FDI companies have come into operation and supplied jobs to 793,000 laborers.

In 2004, the industrial output from the foreign sector rose by 18.3%, higher than the national average. Its export value reached US$8.81 billion, increased by 39% and accounted for 33.3% of the national export value. Its payment to the budget was US$915.8 million increasing by 13.9%. This sector also accounted for 14.8% of the GDP.

This sector has encouraged development of other sectors by entering into contracts supply raw materials, spare parts and semi-finished goods.

Reasons for these achievements by the foreign sector are as follows:

- Political stability: The Vietnamese socio-political environment is considered as stable and healthy. Security for FDI projects is ensured. The Hong Kong-based PERC ranked Vietnam the most safety coun-

Table 1: Removal of price discrimination (Differences in prices offered to nationals and foreigners)

Goods and services	1998	1999	2000	2001	2002	2003	2004
Water supply (%)	117	0	0	0	0	0	0
Installation of telephone (%)	6	0	0	0	0	0	0
110V power supply (%)	31	31	19	19	6	6	6
Air ticket (HCMC- Hà Nội) (%)	90	90	58	50	50	0	0
TV ads on VTV channel (%)	100	100	100	100	100	33	0

Source: JETRO

try in the region in terms of political and economic risk degree after September 11.

- High growth rate: Vietnam gained high growth rates in several consecutive years. Realization of the American- Vietnamese BTA and other multi- and bilateral trade agreements allowed foreign-invested companies to expand their market shares.

- Improved business climate: Investment legislation has been amended regularly in an effort to create better conditions for all companies. Major infrastructure projects are carried out every year. Fees of services needed for the business circle, such as telecommunications, water and power, air transport, etc., are cut according to a reasonable track. The uniform pricing mechanism has been introduced in order to help investors reduce cost and improve their competitiveness.

Although the FDI flow has witnessed improvements in recent years, it still shows worrying signs:

- The sum of US$4.2 billion worth of FDI registered in 2004 marks its recovery from years of stagnation, but this figure is equal to the sum attracted in 1994 and half the sum of 1996. According to experts, it doesn't match the Vietnam's potentials and is much lower than the regional average and the demand for foreign capital in Vietnam.

- Number of projects being delayed and dissolved tends to increase in the past few years, which discourages many potential investors and those who are doing business in Vietnam.

- Proportion of technology-intensive projects by multinationals is still small, which limit effects of technology transfer on the local economy.

- Vietnam has tried its best to improve the quality of human resource in recent years but it fails to meet requirements posed by foreign investors. Officials working in joint ventures with foreign partners lack knowledge of both legal and business issues.

- In the past few years, big sums of money were put in infrastructure and urbanization but the quality of public utility services is very poor. At present, only 25% of the road network is blacktopped; airports are small and routes offered by airlines are limited. In addition, sea ports in Vietnam are very small in comparison with regional countries. Blackouts are frequent and become a great obstacle to technology-intensive projects. In the eyes of foreign investors, Vietnam is still less attractive because of its poor infrastructure.

- The counterbalance capital by local partners is small and most of it is in form of the land use right.

- High mark-up made by foreign investors in joint ventures to imported machinery and use of obsolete technologies are also obstacles to the development of the foreign sector.

- Violations of laws, especially the Labor Code, are also a worrying problem although they are not widespread.

2. Measures to attract the FDI

- Perfecting the legal infrastructure: Policies on foreign investment must be adjusted with a view to providing a level playing field for both local and foreign investors and ensuring transparency according to international practices.

For the time being, relevant authorities must handle complaints about the corporate income tax and conditions for tax exemption. The Decree 105/2003/NĐ – CP dated Sep. 17. 2003 must be revised in order to allow more foreign laborers to work for companies in health care and education services and high- tech industries. New policies introduced by Decrees 27/2001/NĐ-CP and 38/2003/ NĐ-CP must be carried out as soon as possible.

- Application of merger and acquisition practices: These practices could be applied in Vietnam in order to open new channels for foreign investment.

- Computerizing customs procedures: Customs authorities must pay more attention to this task to facilitate operations of foreign-invested companies.

- Relevant ministries must take measures to help exporters deal with lawsuits against them by EU and Canadian authorities.

- Trade promotion activities in important markets must be beefed up along with conferences and workshops aiming at introducing business opportunities to multinationals. A foreign investment promotion fund could be formed using part of tax payments from foreign-invested companies.

- Improving the infrastructure: Of this aspect, the supply of power, water and internet services is of the greatest importance. Moreover, the telecommunication sector must be open to foreign competition with a view to integrating it into the world market.

- Developing the human resource: The human resource must meet requirements by foreign investors in terms of skills, discipline and price. In the long run, the Government should adopt policies to train the human resource in technical and business knowledge.■

Photo by Huỳnh Thơ