

Foreign Direct Investment in Vietnam Encouraging Signs

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One of economic achievements in 2007 is the rise in the foreign direct investment up to US\$20.3 billion – a record level – equaling some 25% of the total FDI in Vietnam in the past 20 years, increasing by 70% over 2006 and 53% higher than the target set for the year. It helps Vietnam to be ranked sixth among the best destinations for foreign investment. This article tends to discuss causes of this rise, features of the FDI flow in 2007, problems arising from the rise and solutions.

1. Causes of the rise in the FDI

One of the most apparent causes is the Vietnam's accession to the WTO. Its implementation of commitment to liberate trade made the business climate in Vietnam more open to foreign investors. The reform in the public sector has been carried out with a view to eliminating monopolies and creating a level playing ground for all. Introduction of many laws, such as Companies Law and Investment Law, also offers business opportunities to investors. To help investors make up their mind, the central government issued in 2007 a list of 163 major

projects open to foreign investors. The FDI flow kept increasing in the last quarter of 2007 when Vietnam was elected non-permanent member of the UN Security Council. And as usual, political stability and social order is a decisive factor that makes foreign investors consider Vietnam as a promising destination for long-term investments, especially when some surrounding countries are suffering political and social unrest. These subjective factors made the FDI flow increase remarkably in 2007.

In addition, objective factors also have their own effects on the rise in the FDI in Vietnam. To avoid or distribute risks cause by putting too much money in the Chinese market, international groups have adjusted their portfolio included in their strategies to establish footholds in East Asia, that is, to move part of their investments to surrounding countries, including Vietnam – an attractive and emerging market.

The increased oil price on the world market in 2007 made oil exporters' income skyrocket and they became potential investors to

many countries and Vietnam has been included in their list of promising destinations.

2. Features of the FDI in Vietnam in 2007

(1) The number of projects and volume of capital increased strongly in the second half of the year. In the first seven months, Vietnam received US\$6.37 billion – about one third of the volume of the whole year – and in the last five months this figure rose to some US\$13 billion, twice as much as the sum registered in the first seven months. The situation came from the fact that toward the end of the year many sociopolitical events took place turning Vietnam a promising destination for foreign investment. In addition, the project E-Regulations Vietnam that aims at facilitating procedures for making investment run by the Ministry of Planning and Investment in cooperation with the UNCTAD came into operation and became an encouragement to foreign investors.

(2) The presence of many large-scale projects makes the average size of FDI projects bigger in comparison with ones in previous years. Some of these

large-scale projects are: the US\$41.7-billion oil refinery in Vũng Rô invested by Technostar Management (UK) and Telloit (Russia); the one-billion project to build a multi-function town in Hà Nội by Kengnam (South Korea); and the 500-million project to produce computers in Vĩnh Phúc by Compal Electronics (Taiwan). Many others that are worth some hundreds of million dollars were submitted for approval. Total capital of projects of the size of US\$40 million or more accounted for 72% of total registered capital, therefore the average size of a project in 2007 rose US\$14 million increasing by 64.7% over 2006.

(3) The structure of investment project changed positively and got more appropriate to the industrialization and modernization in Vietnam. The proportion of investments in the Manufacturing-construction sector is smaller in comparison with previous years but still the biggest one in the total investment. Particularly, investment in technology-intensive industries increased remarkably with projects run by such international

groups as Intel, Nidec and Foxconn. Some important projects are: the 100-million plant to assemble circuit boards in HCMC run by Jabil Circuit (the U.S.) and two hi-tech plants that are worth some US\$80 million in Bắc Ninh and run by Foxconn (Taiwan).

Investment in the service sector, especially in the tourism, also rose. In 2007, there were 47 projects in the tourism industry with a total capital of US\$1.86 billion (increasing by 19.6% over 2006) in HCMC, Hà Nội and many coastal provinces in the Central Vietnam. In Hà Nội alone, there were five projects to build high-class hotels comprising 2,200 rooms with a total capital of US\$1.242 billion.

(4) New investors, from India for example, made their appearance in 2007 beside the ones from familiar countries (South Korea, Singapore, Taiwan, Japan, Hong Kong, and British Virgin Island, etc.). With a total capital of US\$527 million put by ESSAR in a steel mill in Bà Rịa - Vũng Tàu and by TATA in a steel complex in Hà Tĩnh, India is included in the top-ten list of investors in Vietnam, and Vietnam became the first destination for Indian investment in Southeast Asia.

(5) Foreign investment moved from labor-intensive to capital-intensive industries.

With 403 projects worth US\$4.2 billion, South Korea remained the biggest investor in Vietnam, and structure of its investments also changed. Bigger investments were put in real estate and key industries, such as energy, chemicals, petrochemicals and steel instead of clothing and footwear as seen before.

(6) The number of provinces that attracted the FDI in large quantity increased in 2007. Fifty-six out of 65 provinces and cities in Vietnam have had major FDI projects. Many provinces had never seen any FDI projects for decades strated attracting some of them in 2007, such as Cao Bằng, Hà Giang, Ninh Bình, Thái Bình, Hà Nam, Ninh Thuận, Tây Ninh, Trà Vinh, Đồng Tháp, Sóc Trăng, Hậu Giang, Thừa Thiên-Huế, Hưng Yên, Thái Nguyên and Bắc Ninh, especially provinces in the Central Vietnam and Western Highlands. With a total foreign investment of US\$1.7 billion, Phú Yên ranked third in the list of the best attractive provinces to foreign investors in 2007.

(7) Provincial governments have become more aware of real efficiency of FDI projects instead of paying as much attention to quantities or achievements on paper as they did before. Some provincial governments have known how to connect FDI projects with their

socioeconomic development strategies and say no to inappropriate projects. For example, Đà Nẵng has refused to grant license to two projects to build steel mills and encouraged technology-intensive projects because authorities there wanted to make the best use of highly-skilled labor force and develop the supply of services to the foreign sector. Quảng Nam government also adopted the same approach when selecting projects appropriate to the long-term development plans.

(8) To give more autonomy to provincial governments, thereby encouraging them to work out measures to make the best use of foreign investment and local comparative advantages, the central government delegated more rights and duties in 2007. At present, some 60 provinces can directly grant investment licenses to foreign investors as allowed by law.

(9) Although the realized capital reached a record level (US\$4.6 billion) increasing by 12.2% compared with 2006 achievement, the proportion of the realized FDI to the total registered capital is at its lowest, around 23%, because the best part of the FDI volume came to Vietnam in the last quarter of 2007, therefore the rate of disbursement was low while the average size of FDI pro-

ject has become bigger. This fact warns us that the rate of disbursement may keep reducing in the coming years.

3. Arising problems

Although the FDI in Vietnam in 2007 rose remarkably, it may stop abruptly if defects in the coming years if defects in the business climate are not dealt with properly and timely. Many people are of the opinion that Vietnam is flooded with the FDI, like a field without a good irrigation system. And what will happen to the field? At many conferences between authorities and foreign investors, there are four problems that caught their attention: infrastructure, human resource, administrative procedures and corruption.

As for the infrastructure, although many efforts have been made to upgrade and build roads, bridges and ports in recent years, the speed of construction is very slow. Many public works couldn't complete before a decade or two passed. Others were built carelessly and they were damaged right after coming into use. Some others, after being completed, are not used by the public because of various inconveniences or lack of supporting works (For example, a bridge was completed but nobody can use it because there is no road leading to the bridge), or the work is wrongly situated (residents have

to go a long beltway to get to the bridge). As for water ways, congestion around ports is still an unsolvable problem to HCMC – a center that attracts a lot of foreign investment.

The supply of funds to communication works is very slow. In 2007, only 30% of the planned sum was disbursed. In addition, shortage of electricity and unreasonable regulations about consumption of this commodity have caused a lot of troubles for foreign investor.

Regarding the human resource, there is a shortage of skilled and well-trained labor. Most workers are manual laborers and lack necessary training or education. Demand for skilled labor in industrial parks, especially hi-tech ones, is on the increase and it seems to take years to meet this demand. The hi-tech industrial park run by the Intel Group alone is in need of some 30,000 experts and well-trained laborers. If they demand is not satisfied on time, they may stop investing in Vietnam and move their projects to surrounding countries where the human resource is of a better quality.

The demand is surpassing the supply on the labor market. According to statistics gathered by the website Vietnamworks.com, while the demand for skilled labor in the third quarter of 2007

rose by 152%, the supply could rise only by 119%. The shortage of skilled labor has become one of the biggest obstacle to foreign-invested projects. Even local companies are meeting with great difficulties in recruiting and retaining skilled and well-trained employees.

Regarding the administrative procedures, the administrative reform, after many years, have been the principal target of complaints from foreign investors. The red tape causes worries for even local companies; and many local managers said that they didn't worry about difficulties caused by foreign competition after Vietnam's accession to the WTO but they were afraid of administrative procedures.

Re-establishment of extra-, or sub-, licenses recently has discouraged all investors. Changes in the flow of FDI show that provinces that are most attractive to foreign investors are the ones that succeeded in reforming their administrative machineries.

As for the corruption, Vietnam ranks 123 among 180 countries and territories estimated by the TI in 2007, that is the corruption in Vietnam is considered high by the international community. This problem has been discussed many times in the NA and the Cabinet

but it is still widespread and seems to become uncontrollable. This situation has discouraged a lot of investors.

Many other problems also cause worries for investors and they want the Government to take bold measures to deal with them, such as protection for intellectual property, taxation and tax control, and legal infrastructure. Particularly, high prices of land and rental are also a big obstacle to foreign companies. The rental of office in Hà Nội that varies from US\$40 to 46 a square meter per month makes Hà Nội one of the world most expensive city in Asia in this regard.

4. Solutions to the said problems

a. Programs to develop the infrastructure must be accelerated by inspecting all public works that have been completed or in progress. Works of poor quality should be destroyed and rebuilt. A long-term strategy to develop the infrastructure must be adopted. Major public works must be well devised and included reasonably in the master plan on development. The Government should create favorable conditions for both foreign and local companies to take part in infrastructure projects, especially in the ones with high payback.

b. Development of the human resource should be beefed up and

considered as the most important measure to absorb the foreign investment and integrate into the world market because, thinking through, the human resource, in any times, is the decisive factor in solving all problems. To achieve this aim, it's necessary to reform the education service, and improve the training of technical workers quantitatively and qualitatively in vocational schools in order to provide companies with armies of skilled laborers. For the time being, it's necessary to make the best use of existing resources:

- Employment for graduates: The Ministry of Labor, War Invalids and Social Affairs gathers information about employment of graduates from universities and colleges in order to provide the unemployed with short-term training courses, thereby helping them get employed by companies at home and abroad. This project can form an army of trained laborers who can undertake certain jobs for companies and save the training cost. These laborers are useful for the time being because they have got some education from universities or colleges, therefore they can adjust themselves to new tasks easily. This is, however, only a shotgun solution that helps deal with consequences of wide difference between the market demand and

education service in the past few decades.

- Employment for Vietnamese guest workers in foreign countries: Thousands of laborers are sent to foreign countries as guest workers every year. They have chance to work in modern production lines and technologies and adjust themselves to the industrialized economies. After finishing contracts and returning home, they couldn't find jobs in companies in Vietnam. This is a huge waste of resource. The Government should adopt new policies to encourage and help them to get jobs from local and foreign-invested companies.

- New policies on Vietnamese expatriates: This army includes a lot of workers and technicians in hi-tech industries, lecturers in universities, and researchers in scientific institutes. It's regrettable to have no policy or

incentive scheme to persuade them to return to their motherland and contribute to the economic growth.

- Import of laborers: This can be considered as a short-term solution to the shortage of skilled laborers. It's worth noting that in trends of globalization and integration, movement of labor is considered as trade in a special commodity that produces mutual benefits. The Government should review the policy to limit the number of foreign laborers in Vietnam-based companies. For the time being, the limit of 3% on employment of foreign laborers in companies in Vietnam should be made higher.

c. The administrative reform should aim at simplifying procedures. All unnecessary licenses should be revoked. More rights and duties should be delegated to local authori-

ties in order to reduce the middle management levels. Procedures for carrying out investment projects should be appropriate to international practices and agreements. Vietnam has signed. There must be harmony and consistency in relations between local and central governments when dealing with requests by investors with a view to offering equal opportunities to all companies.

Finally, stronger measures and bolder policies must be adopted to deal with the corruption in order to ensure a transparent business climate for investors. Declaration of personal property or income is only a formality. The better way is to force all personal incomes to go through banks. All financial mechanisms should be reviewed in order to remove loopholes that allow illegal ways of getting rich. An

Anti-Corruption Law should be passed soon in order to mobilize the public support to this effort.

In short, Vietnam, one year after joining the WTO, succeeded in attracting the FDI in 2007. To make the best use of this source of finance, Vietnam must deal with many serious problems. I personally think that it's better to take measures to make the best use of existing investments instead of absorbing flows of capital without necessary preparation. Without a well-prepared business climate, investors will sooner or later withdraw their investments. I hope that the Government will take bold measures in 2008 to ensure both quantity of investment projects and their quality. ■

Reference:

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