

# ESTIMATES OF FOREIGN DIRECT INVESTMENT IN VIETNAM

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As from December 1987 when the Foreign Investment Law came into effect up to August 1996, 1,813 investment projects with total capital of US\$22,494 million were licensed, 263 of them (or 14.5%) with total capital of US\$1,424 million were revoked, and 17 projects with total capital of US\$310 million were completed. During this period, an increase of US\$ 2,595 million in capital for 293 projects was approved. Thus, up to August 1996, 1,533 projects with total capital of US\$23,283 million (10,207 million of which are legal capital) are in operation. Some 700 companies from 58 nations and territories have made investment in Vietnam.

The following are our estimates of foreign investment in Vietnam in the said period:

1. Foreign investment in Vietnam has increased well, from US\$366 million in 1988 to 6,516 million in 1995, that is, an increase of 50% was made annually.



(Not including capital increased)



2. The size of an average project became larger. The average capital for a project increased from US\$3.5 million in the first three years (1988-1990) to 7.5 million in 1991; 7.6 million in 1992; 9.9 million in 1993; 10.3 million in 1994; and 16.38 million in 1995.

Small size projects with capital of under US\$5 million represented a large percentage of licensed projects (70%)

but accounted for a small percentage of capital invested (12%).

Number of medium projects (with capital of US\$30-40 million) was on the increase. Many projects have investments of hundreds of million dollars such as Thăng Long International Village (185 million), DACHA center (135 million), Hạnh Phúc Square (468 million), etc.

3. Foreign investment has been put in all kinds of business and helped to industrialize and modernize the economy.

There were more and more projects in manufacturing industry. In the first three years, foreign investment was attracted to oil business (32.2%) and hotel (20.6%), but from 1991 on, 64.6% of foreign capital was put in manufacturing industry.

**Foreign investment by business**  
(from Jan.1,1988 to Aug.30, 1996)

Business	Project	Registered capital (US\$ mil)	% of capital
Heavy industry	268	3,668	16.8
Oil industry	26	1,254	5.7
Light Industry	284	2,403	11.0
Agro-industry	94	1,693	7.7
Agriculture	160	838	3.8
Tourism-Hotel	147	3,875	17.7
Service	38	195	0.9
Building office block	105	3,389	15.5
Communications Construction	81	1,261	5.8
Cultural-Health-Education	131	2,111	9.6
Services	43	255	1.1
Mariculture	40	129	0.6
Finance and banking	23	189	0.9
Building infrastructure	9	612	2.8
	1,533	23,283	

4. As for the distribution of investment, most projects were realized in Eastern South Vietnam (including HCMC, Đồng Nai, Sông Bé, Vũng Tàu): 782 projects (51.0%) with total capital of US\$11.251 billion (48.32% of total investment in Vietnam); and in Northern vital economic zone (including Hà Nội and Hải Phòng): 292 projects with total capital of 5.54 billion. Provinces in Central Vietnam (from Nghệ An to Lâm Đồng) attracted 108 projects (7%) with total capital of US\$1,165 million (5%).

These data show that provinces with good infrastructure and reliable supply of labor have attracted foreign investment well.

5. Most projects are realized by pooling capital.

Up to August 1996, of 1,533 projects, 940 require a pooling fund of US\$7,235 million (32% of total registered capital). Of this fund, 5,909 million (57.8% of registered legal capital) have been put in. Vietnamese parties put 1,223 million, or 20.6%, mainly by the land use right; and foreign parties contributed 4,682 million, or 79.4% of realized legal capital.



Up to now, 593 haven't been realized because licences have just been granted recently.

Thus, in my opinion, foreign parties were slow to realize their investment. The following table shows the realization of foreign investment projects:

**Realization of foreign investment projects in Vietnam**  
(up to May, 1996)

Kinds	Number	%
1. Projects with realized capital and in operation	291	18.91
2. Projects generating revenue but need more capital	335	21.77
3. Projects with realized capital generate no revenue	35	2.27
4. Projects need more capital and generate no revenue	314	20.40
5. Projects haven't been realized	564	36.65
	1,539	100

As for joint ventures, Vietnamese parties agreed to contribute 33.84% of legal capital, and foreign parties 66.16%.

As for forms of pooling, up to 1995, the share contributed by Vietnamese parties in the legal capital of joint ventures and business cooperation contracts amounted to US\$1.8 billion. Of this amount, 80% was in the form of land use right (9,170 hectares); 8% in the form of plants and equipment and 2% in the form of cash and other contributions.

Foreign parties usually pool their technology and machines. However, they usually transfer common technology, some of them even transfer old and eco-harmful one.

In some 30% of projects, foreign parties have increased the price of their pooled assets by 10 or 20 per cent, or even by 40 per cent. They also increased the cost of construction to the detriment of Vietnam Government revenue.

#### 6. Parties in investment projects

- Vietnamese parties taking part in investment projects include both state-run companies (in 96% of projects and 99% of capital put in by Vietnamese parties) and non-state companies (in 64 joint ventures with total capital of US\$100 million).

- Foreign parties: Leading investors in Vietnam come from East Asia and Southeast Asia (Taiwan, Singapore, South Korea, Japan, Hong Kong). Many big groups from Japan, South Korea, the US, Taiwan have invested in production of plastic, optical instrument, plate glass, camera, refrigerator... in Vietnam. The flow of capital from Japan is on the increase and it's estimated that Japan will take the place of Taiwan as the leading investor in Vietnam.

7. Foreign investment has helped to develop the Vietnam economy and solve many socio-economic problems (shortage of capital, high unemployment rate, shortage of information, bad communications network, etc.). Up to August 1996, foreign investment projects have created 160,000 new jobs. The cooperation between Vietnam Post and Telecommunications Corporation and foreign groups (Australian OTC, German Siemens, French Alcatel, South Korean Daiwoo) has improved the postal service and telecommunications network. In the past five years, projects that came into operation have produced one million tonnes of crude oil, 600,000 tonnes of steel, 50,000 tonnes of lubricant, 7,000 cars and 100,000 motorbikes, 35 million meters of cloth, 180 million liters of beer, 526 million pills of all kinds; had 13,500 hectares afforested and built

2,500 hotel rooms.

8. As for the task of controlling foreign investment, a system of government bodies specialized in this task has been formed and improved with a view to encouraging foreign investment. Investment strategy, policies and legal infrastructure favorable for foreign investment have been made and improved step by step. Foreign Investment Law underwent two major changes in June 1990 and December 1992. It will be amended again in October 1996. In addition, a bulk of subordinate legislation of over 120 documents has been issued. In other words, Vietnam has had a system of legal instruments for controlling foreign investment.

9. The government revenue from foreign investment increased year after year, but the increase wasn't high because most projects were under construction, made no profit or enjoyed tax exemption and deduction.

From January 1988 to August 1996, the gross sales made by foreign investment projects amounted to US\$3,906 million, their export turnover was 1,329 million and they paid US\$684 million for taxes.

10. Labor recruitment: Foreign investment projects have recruited 160,000 laborers, but only 30% of foreign projects made contracts with laborers, the rest didn't make proper contracts with laborers as required by law. Trade union existed in only one-third of companies but industrial action has taken place in certain companies.

From these estimates we saw that foreign investment has contributed considerably to the economic development in Vietnam but many problems have arisen from this.

In short, besides achievements in the past eight years, there are many defects in the task of attracting foreign investment:

- The administrative machinery for controlling foreign investment is cumbersome. The procedures are complex. Many provinces set up new procedures of their own for estimating projects, allocating public land or approving projects. These problems discouraged foreign investors.

- The infrastructure is bad. The telecommunications network is improved but users have to pay higher charges in comparison with other countries in the region. Its monopolistic practices also made it difficult for both foreign and local customers.

- The system of laws is imperfect and changeable. It made foreign investors feel reluctant to do business in Vietnam.

- The administrative machinery sometimes intervenes carelessly in the operation of foreign invested companies, and at the same time, fails to force these companies to fulfil their obligations.

- Civil-servants and managers of state-run companies aren't well-trained. The bribery is widespread.

In order to attract more foreign investment, in my opinion, we have to pay attention to the following issues:

+ Make plan and strategy to attract foreign investment; give preferential treatment to projects in agriculture, infrastructure, or in remote areas.

+ Make procedures for approving foreign investment project more consistent and publicize these procedures along with standards of approved project.

+ Perfect the system of laws by making necessary laws such as Commerce Law, Bankruptcy Law, Anti-trust Law, etc.

+ Improve the infrastructure because foreign experience shows that the host country has to spend one dollar on infrastructure in order to attract one dollar of foreign investment, and put one more dollar in the pool.

+ Train civil servants and managers in managerial skills and knowledge of market economy in order to enhance their ability to cooperate with foreign parties ■