

FOREIGN INVESTMENT IN VIETNAM IN 1988-99 AND ITS EFFECTS

by MEcon. LÊ TRUNG CANG

I. FOREIGN INVESTMENT IN VIETNAM

1. Increases in foreign investment

After the Foreign Investment Law was promulgated in 1988, the foreign direct investment (FDI) in Vietnam, in terms of both registered and realized ones, has increased rather fast, but not steadily. Up to 1999, the realized investment reached US\$17,048.1 million, equaling 45.9% of the registered investment (US\$37,088.4 million). Thus, the realization of FDI projects in Vietnam isn't faster than the rates found in neighboring countries. The rate of realizing these projects reached an average of 20% a year and experienced sea change (the realized capital rose by only 8% in 1989 and 113.6% in 1992, and fell drastically during the Asian financial crisis). This fact reflects ineffectiveness of the mechanism for attracting and in employing foreign investment.

Thus, the development of FDI in Vietnam could be divided into three periods:

- From 1988 to 1990: In the first three years after the Foreign Investment Law, the flow of FDI was small,

the realized capital equaled only 3.9% of the registered one. However, the presence of foreign investment was important to the transition from the centrally planned mechanism to market economy and created preconditions for attracting more foreign investors.

- From 1991 to 1994: The flow of FDI started to increase, especially in 1991 and 1992. The capital registered in this period equaled 27.9% of the total foreign capital registered in Vietnam in the past 10 years.

- From 1995 to 1999: The increase in the FDI reached its peak in 1996, equaling 68.2% of the gross investment. In the years 1997 and 1998, the FDI fell because of many internal and external causes, includ-

ing the Asian financial crisis.

2. Size and amount of FDI projects

Table 2: Size and amount of FDI projects

Year	Registered capital (US\$ mil.)	Amount of projects (*)	Average size of projects (US\$ mil.)
1988	371.8	37	10.027
1989	582.5	68	8.566
1990	839.0	108	7.768
1991	1,322.3	151	8.757
1992	2,165.0	197	10.990
1993	2,900.0	269	10.780
1994	3,765.6	343	10.978
1995	6,530.8	370	17.650
1996	8,497.3	325	26.145
1997	4,649.1	345	13.476
1998	3,897.0	275	14.170
1999	1,568.3	312	5.027
Total	37,088.4	2,800	13.245

(*) including finished and revoked projects

Source: Niên giám thống kê Việt Nam 1999 (Vietnam's Statistics Yearbook 1999)

Table 1: FDI in 1988-99 (US\$ mil.)

Year	Registered capital	Change (%)	Realized capital	Change (%)	Realized capital as % of registered capital
1988	371.8		288.4		77.6
1989	582.5	56.6	311.5	8.0	53.5
1990	839.0	44.0	407.5	30.8	48.6
1991	1,322.3	57.6	663.6	62.8	50.2
1992	2,165.0	63.7	1,418.0	113.6	65.5
1993	2,900.0	33.9	1,468.5	3.5	50.6
1994	3,765.6	29.8	1,729.9	17.8	46.0
1995	6,530.8	73.4	2,986.6	72.6	45.7
1996	8,497.3	82.0	2,940.8	-2.0	34.6
1997	4,649.1	-45.3	2,334.4	-20.6	50.2
1998	3,897.0	-16.1	1,805.6	-22.6	46.3
1999	1,568.3	-59.7	693.3	-61.6	44.2
Total	37,088.4		17,048.1		

Source: Niên giám thống kê Việt Nam 1999 (Vietnam's Statistics Yearbook 1999)

The project average size was small at first because of increases in the amount of projects and then became bigger as the flow of FDI grew. Many big projects with registered capital of hundreds of millions of dollars have been licensed.

3. FDI by industry

The Table 3 shows that the manufacturing industry has been the most attractive sector to foreign investors and this is also suitable to Vietnam's economic policies. Some other attractive ones are transport, communications, post and hotel. The agriculture and sea farming which has developed slowly failed to attract foreign capital. Particularly, industrial parks attracted many large-scale FDI projects, some of them have very big starting capital (some hundreds of millions of dollars).

4. FDI by province

Table 3: FDI by industry in 1988-99

Industry	Investment (US\$ mil.)	As % total	Amount of projects	As % of total
Agriculture	1,329.0	3.6	286	10.2
Sea farming	347.1	0.9	92	3.2
Manufacturing	14,273.1	38.5	1,426	50.9
Construction	4,592.5	12.4	270	9.6
Hotel- tourism	4,812.0	12.9	200	7.1
Transport	3,416.9	9.2	138	4.9
Finance- banking	233.1	0.6	33	1.2
Health -education	456.5	1.2	89	3.2
Other services	7,628.2	20.6	266	9.5
Total	37,088.4	100.0	2,800	100.0

Source: Niên giám thống kê Việt Nam 1999 (Vietnam's Statistics Yearbook 1999)

The FDI projects aren't distributed evenly over the country. They tend to concentrate in provinces or cities with good infrastructure and reliable supply of labor. Nine leading provinces and cities have attracted 79% of FDI capital.

5. FDI by investor

At present, Vietnam receives investment from some 60 countries and territories, but the best part of it comes from Asian nations. The top 10 among investing countries control some 75% of the FDI capital.

II. Effects of FDI on Vietnamese economy

1. The FDI helps deal with the shortage of capital in Vietnam. After the economic reform was introduced, the saving rate was still low and failed to meet the demand for capital.

2. The FDI source contributes a lot to the economic development and changes in the structure of industry making the service and industrial sectors larger than the primary one.

According to the General Department of Statistics, Vietnam, in the past few years, could have gained a growth rate of 6% at most without the foreign sector. For example, the growth rate

Moreover, Vietnam, like other developing countries, suffers great trade deficit because it sell farm products and raw materials of low prices while buying expensive machines and high-quality consumer goods, and as a result, its capital accumulation is poor.

achieved by local industries in the years 1995, 1996 and 1997 were 12.6%, 11.6% and 10.5% respectively. With the foreign sector being taken into account, the actual growth rates in those years were 14.5%, 14.1% and 13.2%.

In certain industries with highest growth rates, such as transport, telecommunications, hotel, real estate and advisory service, the FDI plays a decisive role:

- The increase of 14.1% in the industrial output in 1996 resulted from an increase of 12% in local industries and a rise of 21.4% in the foreign sector.

- The FDI helped the real estate and advisory services gain the sales of US\$60 million in 1996, increasing

Table 4: FDI by province up to 1999

Province	Projects	Registered capital (US\$ mil.)	%	Average size (US\$ mil.)
HCMC	891	9,991.3	26.9	11.213
Hà Nội	427	7,763.5	20.9	18.181
Đà Nẵng	71	1,013.7	2.7	14.277
Bà Rịa-Vũng Tàu	96	2,515.9	6.8	26.207
Hải Phòng	108	1,507.7	4.1	13.960
Bình Dương	274	1,677.9	4.5	6.124
Quảng Ninh	51	872.8	2.4	17.114
Hà Tây	32	465.3	1.2	14.541
Đồng Nai	286	3,459.0	9.3	12.094
Others	564	7,821.3	21.0	13.867
Total	2,800	37,088.4	100.0	13.245

Source: Niên giám thống kê Việt Nam 1999 (Vietnam's Statistics Yearbook 1999)

Table 5: FDI by investor up to 1999

Country	Projects	Capital (US\$ mil.)	%	Average size (US\$ mil.)
Singapore	181	5,867.4	15.8	32.416
Taiwan	298	4,592.2	12.3	15.415
South Korea	191	3,149.3	8.5	16.488
Japan	202	3,360.6	9.1	16.636
British Virgin Islands	67	1,737.8	4.6	25.937
Hong Kong	175	3,612.5	9.7	20.642
Malaysia	62	1,121.0	3.0	11.677
France	96	2,136.2	5.7	22.252
Thailand	76	1,071.7	2.8	14.101
The U.S.	57	1,308.9	3.5	22.963
Others	925	9,130.8	24.6	9.871
Total	2,320	37,088.4	100.0	13.245

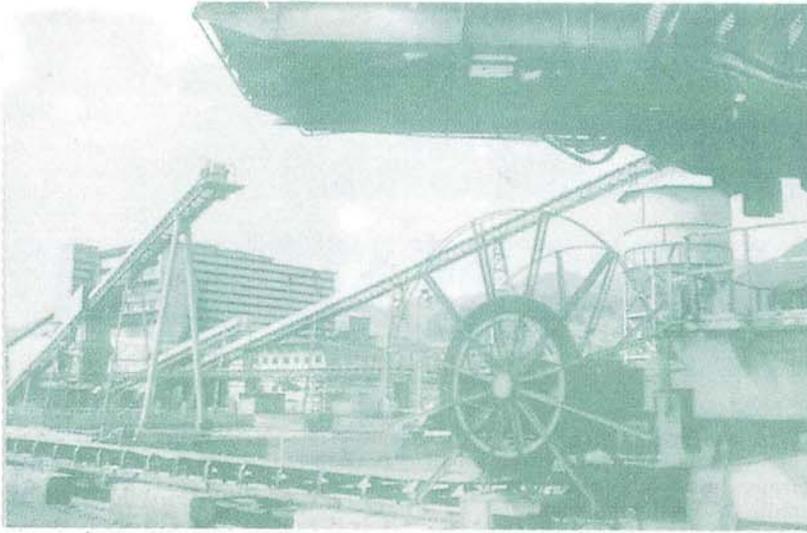
Source: Niên giám thống kê Việt Nam 1999 (Vietnam's Statistics Yearbook 1999)

by 58% as compared with the previous year.

- The FDI helps develop many new industries and products and it has total control of some industries. For example, the foreign sector produces 100% of oil and auto output; 60% of steel output in 1997 and 32% of beer output in 1997.

3. The FDI helps increase export earnings and payments to the treasury: Export earnings gained by the foreign sector rose from US\$325 million in 1994 to 786 million in 1996 while its import rose from US\$600 million to 2,042 million in the same period. In 1997, the foreign sectors accounted for 17% of the Vietnam's export earnings (US\$1,500 out of US\$8,900) and 24% of the import value (US\$2,700 million out of 13,000 million).

Payments to the treasury (in taxes, fees, land rental, etc.) from the



foreign sector are also increased year after year by an average rate of 35%, from US\$128 million in 1994 to 315 million in 1997 for example. However, the total payment is still small because most FDI projects are enjoying tax incentives in their first years of operation.

4. Up to 1997, the foreign sector employed 130,000 workers, including 4,000 technicians and officials, and supplied jobs to some 100,000 indirect laborers. This sector attracts some 40,000 workers every year. Many technicians and officials, by working for foreign-invested concerns, have improved their skills remarkably and been promoted to important positions. This result is important to the local economy where there is a shortage of skilled labor and surplus of manual labor.

5. The FDI helps transfer new technologies and skills, thereby improving the labor productivity, production capacity and managerial skills. Vietnam with its low starting point, could only produce goods of poor competitiveness and its obsolete technology causes a lot of pollution. The FDI has helped solve these problems. Many industries and service are modernized (telecommunications, oil, electronics, auto and motorbike assembling, chemicals, canned food and drink, etc.). Many local companies are stimulated to better competitiveness and production of goods of higher quality, thereby integrating into the world economy.

III. PROBLEMS TO SOLVE

1. High mark-up on machines and materials imported by foreign investors when entering joint ventures with local partners and transfer of

sion or making dishonest tax forms. Many of them have been put on trial for these crimes.

3. The structure of foreign investment by industry is still unreasonable and not suitable to Vietnam's policies on foreign investment. Some local companies that were able to meet the domestic market demand have been running down or gone bankrupt because of fierce competition from foreign invested companies, especially in such industries as processed food, detergent, textile and beverage.

Foreign investment is very big in certain sectors (hotel, office building, alcoholic beverage, etc.) and very small in agriculture and sea farming (only 3.6% of FDI capital in Vietnam).

4. The FDI isn't distributed



obsolete technology and machines are the most worrying problems with the foreign investment in Vietnam.

A 1993 survey of 42 foreign-invested companies showed that 76% of machines imported are made in the 1950s and 1960s; 70% of imported machines have been amortized and 50% of them refurbished.

2. Many foreign-invested companies have violated the Vietnam's Labor Code. To maximize the profit, foreign investors try their best to make the best use of cheap labor, one of Vietnamese comparative advantages, by forcing laborers to work with greater intensity, refusing to improve working conditions, offending against local laborers, etc. with the result that industrial disputes have broken out in many foreign-invested companies.

Some foreign-invested companies also engage in smuggling, tax eva-

evenly among provinces. 79% of it is put in some nine provinces and cities. This structure will widen the gap between zones and provinces.

5. The paid-in capital contributed by local parties to joint ventures is usually small, representing only 30% of the registered capital at most, and the best part of it is in kind (land use right, factory building or machines. And as a result, the profit they get is very small and they lose control of the joint venture.

6. Although the foreign sector gains big export earnings, its import value also rises remarkably over years because many products from this sector are made of imported components (such as electronic equipment, autos and motorbike). Thus, its increasing export earnings give us a false impression of the economic development. ■