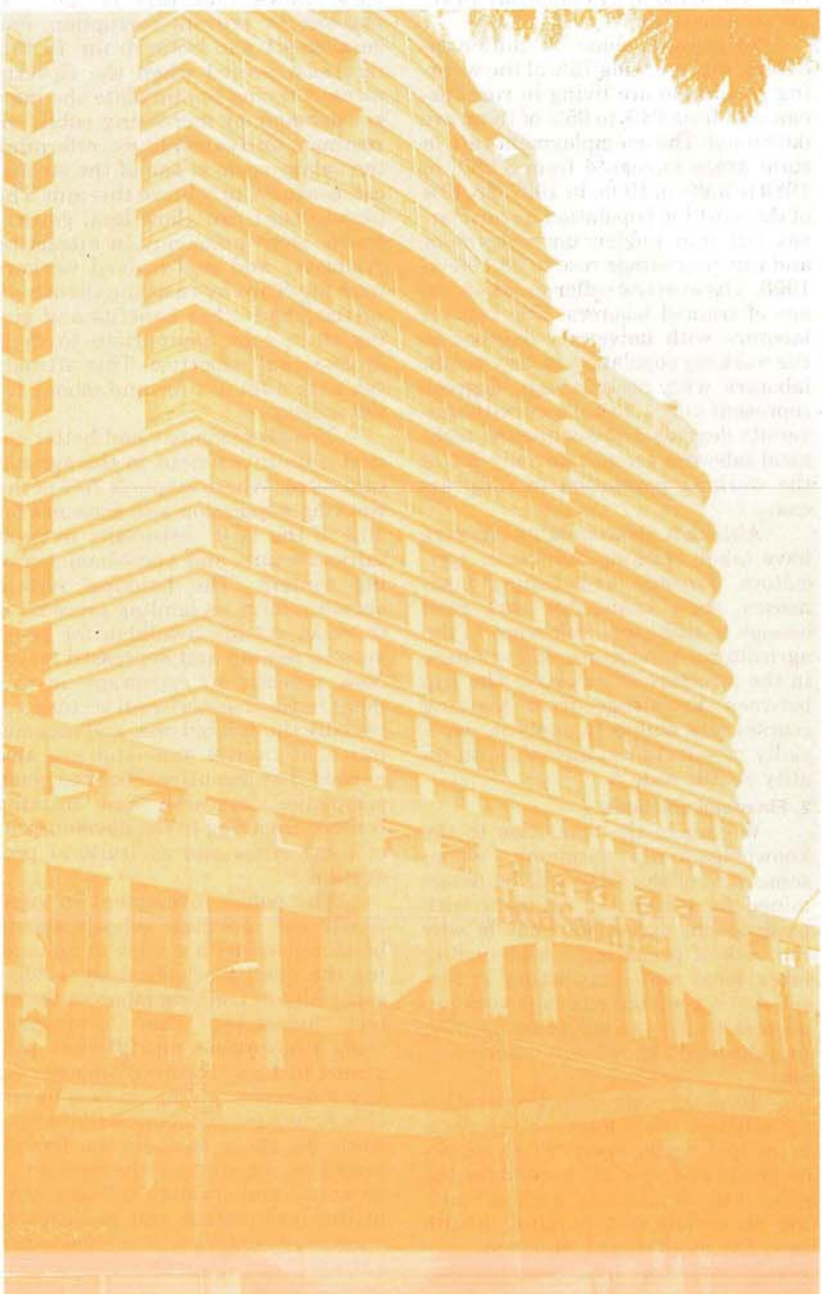
FOREIGN INVESTMENT IN HCMC AND CHALLENGES IN THE COMING YEARS

by MEcon. NGUYỄN TẤN THẮNG



Ten years after the economic reform, HCMC has kept playing the leading role in the national economic development. The share of HCMC in the GDP rose from 13.6% in 1990 to 16.2% in 1995 and 19.2% in 2000. Of the annual growth rate of 7% in the period 1996-2000, the Southern Vital Economic Zone (SVEZ) represented 3.4% and HCMC 1.9%. The HCMC economic development originated from various factors and one of which was the contribution of the foreign sector although its size was relatively small as compared with domestic sectors. In the period 1996-99, the foreign sector represented 3.4% in the HCMC annual growth rate of 10.4%. The share of foreign sector in the HCMC gross product rose from 13.34% in 1996 to 18.13% in 1999. This shows that the foreign sector, or foreign direct investment (FDI) to be precise, is important not only to the first stage of industrialization and modernization but also to the future development of HCMC. Since the promulgation of the 1998 Foreign Investment Law, HCMC has attracted the FDI at high speed and benefited a lot from this flow of capital. HCMC is also the city that had attracted the FDI earlier than other provinces and enjoyed relatively good infrastructure. According to the Ministry of Planning and Investment, HCMC is the city most crowded with FDI projects. Regarding valid projects from 1999 to May 22, 2001, HCMC housed 41 projects (37.3% of FDI projects in Vietnam) with a total capital of US$924,098,755 million (some 50% of FDI capital in Vietnam).

From January to September 20, 2001, Vietnam attracted 336 FDI projects capitalized at US$1.94 billion. Most of them are in Eastern South Vietnam: HCMC 125 projects, US$485.5 million; Bình Dương 78 projects, US$13.3 million; Đồng Nai 27 projects, US$129 million; and Bà Rịa- Vũng Tàu 4 projects, US$834.8 million. Most of projects licensed in those nine months are in the manufacturing sector: 263 projects worth US$1.594 billion representing 78.3% of FDI projects and 82.8% of FDI registered capital. These data reflect encouraging changes in foreign investment in HCMC. The city, however, is facing many challenges originated from the following causes:

- In recent years, although the foreign sector accounted for some 25% of the gross investment, 34% of the industrial output and 13% of the GDP, the FDI flow showed signs of decline. In Bình Dương in the first nine months of 2001 for example, the foreign investment was much lower as compared with the same period last year. In Đồng Nai, many foreign-invested companies decided to make more workers redundant. These signs of decline could discourage foreign investors and thus affecting the foreign investment in HCMC.

- Although the HCMC government has tried its best to create a healthy investment climate, many problems remain unsolved: administrative procedures, fees and charges, customs formalities and banking services, etc. The HCMC authorities received many complaints and petitions about different matters: allowing a longer visa period for foreigners working in Vietnam, reducing visa fees for tourists, removing price discrimination, allowing pay in the domestic currency for employees of representative offices, allowing lax regulations on recruitment by foreign-invested companies, reforming procedures for getting tax refund and customs procedures, encouraging foreign investment by offering lower customs duties, etc. Companies also required reforms in the banking payments system and permission for foreign banks to receive deposits in the domestic currency. In addition, foreign investors suggested developing markets for labor, securities and real estates.

- HCMC met with competition for foreign investment from surrounding provinces (Đồng Nai and Bình Dương for example). Governments of these provinces have adopted progressive policies to attract foreign investment more strongly. Experience of attracting the foreign investment from Bình Dương authorities is worth studying.

- Although the American Trade and Development Agency has predicted an increase of 22% in the world foreign investment for the years 2001-05, the flow of FDI to developing countries will be oriented towards China where some US$57.6 billion, equaling 54% of the world FDI in developing countries are invested. The Chinese economy is estimated to keep growing at high and stable rates. Its GDP in 2001-05 will rise by 7.5% - 8.5% a year. Its admission to the WTO in November 2001 has created more favorable conditions for foreign investment and offered more opportunities, especially in once strictly-controlled industries, to foreign companies. This is also a great challenge to HCMC and Vietnam as a whole when its competition for foreign investment is weaker than surrounding countries'. Its poor competitiveness shows itself in high fees for many services (water and power supply, telecommunications, office and land rental, etc.).

- The growth of Asian economy has slowed down since early 2001 and its electronic and high-tech industries even came to a crisis. The terrorist attacks on September 11 also made thing go from bad to worse. In Asia, the indirect impacts are so great. These attacks obviously made consumers and business circle lose confidence. In addition, other tumultuous events worsened the situation: changes in oil price and short-term loans, American trade gap, rises of the dollar and its future falls, etc. Decreases in American import will produce bad effects on Asian exporters, especially Japanese, and cause inflation in the EU. The IMF has informed the overall impact couldn't be quantified because the war on terrorism broke out and led to unpredictable changes. All long-term plans become infeasible. The situation seems gloomy not only to HCMC but also every country.

Facing such advantages and difficulties, the HCMC government should work out a strategy to attract more foreign investment. The most important task is to restore the confidence for the business circle and the HCMC government can achieve this by (1) improving the business climate to reduce production cost and services fees, and (2) reforming economic policies to create a level playing field for companies from all sectors. The following are two groups of measures to achieve those two targets.

1. Improvement in the business climate

- The price discrimination should be removed as required by Decision 53/1999/QĐ-TT because prices of many goods and services in Vietnam are still high as compared with neighboring countries'. The said Decision plans to remove totally the price discrimination by 2003 but in our opinion, Vietnam should accelerate this process because the situation seems unfavorable for Vietnam.

- To encourage the foreign sector as well as domestic investment, the tax base, including the taxable income, could be raised to a higher level. Income taxes on Vietnamese employees of foreign-invested companies and foreigners working in Vietnam could be lowered.

- The Government had better allow foreign-invested companies to mortgage the land use right and property on the rented land to banking institutions operating outside Vietnam.

- We petition the Government to remove restrictions that prevent private companies from using the land use right as part of capital put in joint ventures with foreign partners, and allow foreign-invested companies to rent land from private persons.

- Allowing foreign-invested companies to go public is also a measure to encourage competition between companies, create a level playing field for all sectors, develop a securities market needed for mobilizing idle money and stimulate the economic development in HCMC and Vietnam as well.

2. Reform in economic policies

- Accelerating the process of diversifying the ownership of state-owned companies with a view to ensuring a level playing field for all.

- Liberating the banking system and exchange control, removing restrictions on mobilization of deposits in the domestic currency by foreign banks, and revoking regulations on the obligation to sell foreign exchange to the State Bank of Vietnam.

- Reforming the trade policy: Trade liberation will force foreign-invested companies to be more competitive in the world market thereby orienting them towards export.

- Creating favorable conditions for the private sector, especially the small and medium enterprises, because this sector can generate long lasting and inner resources for the HCMC economy ■