

# OVERSEAS DIRECT INVESTMENT

## BY VIETNAMESE COMPANIES

by Prof., Dr. VÕ THANH THU & Dr. NGÔ THỊ NGỌC HUYỀN

### 1. Role of overseas investment

The law on overseas investment has come into effect for 10 years but Vietnamese companies had had dozens of projects in various countries. This proved the attraction of this form of investment before the government legalized it. Up till now, there are some 400 projects realized by local companies in 44 countries. In spite of the global financial crisis, the overseas investment keeps increasing. According to the MPI, some US\$500 million from Vietnam will be put in projects in foreign countries every year from 2009 on.

The overseas investment, however, has been realized by local companies in an unruly manner, therefore it doesn't match the potentials: quantity and size of Vietnamese - invested projects are smaller than the ones realized by investors from other developing countries; and they get no support from Vietnamese authorities when facing difficulties.

The situation comes from many causes. Besides the companies' poor financial strength (this is not the main one because the company can rely on loan capital or develop into a joint stock company), there are many external causes. The most remarkable one is the fact that the Government fails to realize the importance of the overseas investment to the economic growth during a period Vietnam has to somehow depend on foreign investment. This failure leads to unfavorable policies and administrative formalities on the overseas investment. Some economic experts, however, support this viewpoint and argue that the making of a policy to support the overseas investment is not urgent and necessary because overseas investors only pursue their profit rather than national interest.

In our opinion, such an attitude is not reasonable and it may hinder the making of a policy on the overseas investment. Our researches show

that many countries, including the developing ones, have encouraged the overseas investment because of its importance to capital-exporting countries and overseas investors. The following are some aspects of its importance:

#### a. To the country:

- Helping enhance Vietnam's economic and political position in the world and the region as well.

- Helping the Vietnamese economy integrate more fully into the world economy.

- Securing sources of raw materials or fuel needed for the national economic development: For example, investment by Vietnam Petro in various countries generates sources of oil for Dung Quất Oil Refinery when the oil output in Vietnam shows a downward tendency.

- Creating preconditions for diversification of foreign trade and diplomatic relations.

- Successful investments in foreign countries may encourage the economic reform, especially in tax policy, administrative formalities, supply of information about foreign affairs, and macroeconomic management policies.

- Creating an army of businesspersons with experience in foreign trade, thereby enhancing the national competitiveness.

- Stabilizing and improving the Vietnam's foreign trade by exporting Vietnam's labor, goods and services, and even know-how and techniques.

#### b. To local companies:

- Overseas investment helps local companies enter into foreign markets for better opportunities, thereby enhancing efficiency of the use of capital. For example, some Vietnamese companies produce instant noodle in Russia and Ukraine based on local wheat flour thereby reducing the production cost.

- Overseas investment provides local companies opportunities to gather experience, know-how and managerial skills, and enhance ability to

employ foreign technicians and managers, and then, apply such achievements to operation of holding companies at home.

- Overseas investment allows local companies to carry out transfer pricing with a view to reducing taxable profits earned in foreign countries. At present, some Vietnamese companies have opened their subsidiaries in Singapore for this purpose because the Singaporean business climate is good with low tax rates.

- Overseas investment helps local companies develop the intangible assets (trade mark, brand name, know-how, or technology). Good examples are Trung Nguyên Coffee and Phở 24.

- Overseas investment allows local companies to distribute risks. This is very important to companies in a world full of political and economic changes.

In short, the overseas investment can bring about benefits for both the country and companies, so that the Government should take measures to encourage and develop this field effectively, and at the same time, control the following negative effects of this activity:

+ Overseas investment divides financial and human resources and thereby reducing the job creation at home country.

+ To a certain extent, the overseas investment makes foreign trade costlier and more complicated.

+ Overseas investment is a risky operation for local companies because it requires full knowledge of foreign law, culture, language, politics and customs, etc.

Despite of such negative effects, a survey carried out by UNCTAD shows that the overseas investment involves more benefits than risks because both investing and host countries can benefit from this activity. That is why this operation keeps developing and essential to the economic globalization. Vietnam should not stay away from this trend.

## 2. Recent overseas investment from local companies

Before the legal infrastructure for overseas investment was built in 1999, there had been some 20 projects realized by local companies in foreign countries. Number of these projects increased quickly after the decree on the activity was issued.

Table 1: Overseas investment up to Dec. 19, 2008

Year	Project	Investment (US\$)
1989	1	563,318
1990	1	-
1991	3	4,000,000
1992	3	5,282,051
1993	5	690,831
1994	3	1,306,811
1998	2	1,850,000
1999	10	12,337,793
2000	15	7,165,370
2001	13	7,696,452
2002	15	191,459,576
2003	24	62,390,970
2004	17	12,463,114
2005	37	437,905,179
2006	36	349,106,156
2007	80	911,819,885
2008	103	2,386,201,934
Total	368	4,391,676,122

Source: MPI Office of Overseas Investment

Table 2: Vietnam's overseas investment by host countries (up to Dec. 19, 2008 – valid projects only)

Country	Project	Investment (US\$)
Laos	147	1,531,259,492
Russian Federation	17	945,347,407
Malaysia	7	812,472,740
Algeria	1	243,000,000
Cambodia	39	211,259,268
Madagascar	1	117,360,000
Iraq	1	100,000,000
Iran	1	82,070,000
The U.S.	40	80,114,754
Indonesia	3	46,180,000
34 others	129	178,655,841
<b>Total</b>	<b>368</b>	<b>4,392,239,502</b>

Source: MPI Office of Overseas Investment

**Table 2: Vietnam's overseas investment by industry**  
(up to Dec. 19, 2008 – valid projects only)

Industry	Project	%	Investment (US\$)	%
<b>Manufacturing</b>	<b>155</b>	<b>42.12</b>	<b>3,146,005,631</b>	<b>77.77</b>
Oil business	17	4.62	2,247,986,125	51.18
Heavy industry	80	21.74	1,056,174,890	24.05
Light industry	20	5.43	26,214,810	0.6
Food processing	16	4.35	31,011,080	0.71
Construction	22	5.98	54,618,726	1.24
<b>Agriculture</b>	<b>70</b>	<b>19.02</b>	<b>557,472,764</b>	<b>12.69</b>
Farming – Forestry	62	16.85	545,272,764	12.41
Aquatic products	8	2.17	12,200,000	0.28
<b>Service</b>	<b>143</b>	<b>38.86</b>	<b>418,761,107</b>	<b>9.53</b>
Services	78	21.19	103,315,076	2.35
Transportation – post	29	7.88	70,925,832	1.61
Hotel – Tourism	8	2.17	18,383,589	0.42
Financial – banking service	6	1.63	26,792,500	0.61
Health care – education-culture	9	2.44	21,807,239	0.5
Apartment – office buildings	13	3.53	177,536,871	4
<b>Total</b>	<b>368</b>	<b>100</b>	<b>4,392,239,502</b>	<b>100</b>

Source: MPI Office of Overseas Investment

a. On success of the overseas investment:

- The legal infrastructure for overseas investment has been perfected and beefed up: Ten years after the Decree on the overseas investment (1999 – 2009), it was amended twice some new amendments are under consideration now.

- The overseas investment is diversified:

+ Vietnamese investment is found in 44 countries in all five continents, including both developing and developed economies.

+ Vietnamese investment is found in all sectors (manufacturing, agriculture and service).

+ Size of Vietnamese-invested projects varies from small (some hundred thousands of dollars) to medium (some hundred millions of dollars) and large ones (an over-one-billion project has been licensed by Laotian government).

+ Vietnamese investment takes various forms: joint venture, contracted cooperation businesses, franchising, Vietnamese-owned company, and production sharing contract (in oil business).

+ Vietnamese investment is made by all sectors (public, private, foreign-invested companies), and individuals as well.

+ Various kinds of companies engage in this activity: corporations, small and medium enterprises, and small businesses.

- Some overseas projects have gained success, such as the ones in post and telecommunications, brought about sources of foreign exchange and enhanced the Vietnam's image in the international arena.

- An army of businesspersons who can engage in international negotiations has made its appearance. In short, the overseas investment has opened a second economic front that aims at making the best use of foreign markets and comparative advantages to support the national economic growth and improve the public image of the Vietnamese economy.

b. Limits on the overseas investment:

- Policy problem: Policies and mechanism for the overseas investment are not perfect, fail to orient and develop the overseas investment, or sometimes hinder it.

- State control over overseas investment is not strict and rational:

In Vietnam, foreign investors can get certificates of investment from one of four agencies (the PM, the MPI, provincial government and board of industrial park) while Vietnamese investors, when doing business abroad, can get such certificate only from the MPI. This regulation costs companies from South and Central Vietnam a lot of time and money.

Formalities relating to certificate of overseas investment, opening bank accounts and transferring money abroad are not reasonable enough. For example, Vietnamese investors must produce evidence of approval for investment from the host country to get certificates of overseas investment, while such countries as Cambodia, Laos and China

require certificates of overseas investment before granting their certificates of investment. (It's worth noting that Vietnam, like many other countries, requires no certificates from the home country of foreign investors). In addition, procedures for transferring money abroad are time consuming and complicated, which causes difficulties for investors or makes them miss investment opportunities.

At present, no governmental agency is assigned to control implementation of overseas investment projects and keep a close watch on their operation. However, the state control meets with a lot of difficulties because Vietnamese investors have no responsibility for sending regular reports to governmental agencies and no sanction against such failure is stated clearly.

Information about policies on investment in foreign countries is still lacking with the result that only a few local companies engaged in this activity. Operations, failures and successes of overseas investing companies are not summarized and disseminated in order to beef up the state control and encourage more local companies to go abroad.

- Representatives of the Vietnamese Government (embassy, consulate and trade representative) haven't engaged in the control over and support for overseas investment projects. Vietnamese diplomatic corps in many countries know nothing about Vietnamese investment projects in these countries and Vietnamese overseas investors send no information to, or look for help from, such representatives. And as a result, many Vietnamese investors do whatever they want and cause harm for the local business climate; or meet with great difficulties in carrying out their investment projects.

- Vietnam has no strategy to promote the overseas investment. Except for the plan carried out by the oil industry, both central and local governments have had no plan to make overseas investments. And such activities are still unruly efforts by private companies because there is no help from authorities of all levels.

- Information about foreign business climate is not appreciated. Many governments, the Chinese one for example, usually require their diplomatic corps to carry out researches on local business climate and such information is available for all officials and companies from central to local levels.

In Vietnam, however, the website of investment promotion office supplies only some regulations on foreign investment in Laos, and no governmental agency is assigned to gather and disseminate information about foreign business climate. This situation makes local companies waste both time and money on ordinary information and implement their investment projects in foreign countries without a master plan and official protection.

- Overseas investment promotion is not prioritized. In Vietnam, both private and public sectors only pay attention to plans to attract foreign investment to their provinces or industries, and no plan is made to help and encourage local companies to make overseas investment.

### c. Weaknesses of overseas investors

- Poor competitiveness: Except for some subsidiaries of Oil, and Electricity Corporations, most Vietnamese companies investing in foreign markets have poor competitiveness (small capital, poor ability to access sources of finance, limited experience and skills of doing business in foreign markets, and unknown trade marks and brand names, etc.) with the result that they are usually unable to compete against foreign investors for contracts and business opportunities in foreign countries.

- Slow implementation of project: Besides obstacles from administrative procedures, slow implementation of project is also due to shortage of capital and lack of necessary information about the business climate. And as a result, investors usually meet with difficulties in implementing their projects after getting the licenses.

- Only a few Vietnamese banks have branches in foreign countries, which prevent overseas investors from securing sources of loan needed for their projects. This situation also makes international payments by overseas investors more difficult.

- Lack of cooperation between overseas investors: Foreign investors, when doing business in Vietnam, usually form their associations and there are over 30 associations of this kind in Vietnam now. Vietnamese investors in foreign countries, on the other hand, tend to compete against, instead of cooperating with, one another and cause a lot of troubles for local authorities. That is why Chinese, Laotian and Cambodian governments require certificates of overseas investment when

Vietnamese investors want to do business in their countries.

- Periodical report: Most Vietnamese investors fail to send regular reports to governmental agencies responsible for the overseas investment, and they didn't send any report when they changed their operations or form of investment and even went out of business. This is one of reason why representatives of the Government knew nothing about Vietnamese overseas investment and couldn't suggest any measures to develop this activity.

### 3. Measures to enhance the role and efficiency of the overseas investment

#### a. Grounds for suggested measures:

- The overseas investment must be considered as part of the national economy: The overseas investment generates new sources of goods, foreign exchange and natural resources for the domestic production and facilitate the international integration. That is why the Government should work out a strategy to develop the overseas investment and perfect the state control to help companies to deal with difficulties and take opportunities offered by foreign markets.

- Equal treatment to all investors: When the control over foreign investment in Vietnam is delegated to provincial governments and boards of industrial park, the control over overseas investment is still in the hand of the PM and MPI, which causes a lot of troubles for investors who don't do business in Hà Nội. To ensure equal treatment to all investors, the Government had better delegate the control over investment projects of small and medium size to provincial governments. In addition, the principle of equal opportunity forces the Government to spend part of budget on

promoting and supporting the overseas investment considering it as a special form of export.

- Each investor as a representative of the Vietnamese economy: With this attitude in mind, the Government has to establish a mechanism that forces diplomatic corps and trade representatives to keep a close watch on the Vietnamese investment projects in foreign countries with a view to helping Vietnamese investors deal with difficulties if any. And moreover, a new mechanism should be established to force overseas investors to make periodical reports to Vietnamese embassies and trade representatives in foreign countries.

#### b. Suggested measures:

- A strategy to develop the overseas investment: The MPI, on behalf of the Government, has to build such a strategy that includes the following aspects: (1) Objectives and directions for the overseas investment for each year and a 5-year period; (2) Prioritized industries for the overseas investment; (3) Key markets for overseas investment; and (4) Encouragement and incentive offered by the Government to the overseas investment.

Authorities of each industry, such as oil, construction, and agriculture, must include a program to develop and support the overseas investment in their development plans.

- Mechanism for encouraging the overseas investment: The mechanism may include various incentives, such as:

+ Exemption from all taxes, including the one on transfer of profit to the home country within five years after the project comes into operation.

+ A supporting fund for the overseas investment.

+ Low-interest loans: Such loans can be available for projects that produce major effects on the



local economy, or generate new sources of raw materials for the Vietnamese economy.

+ Double taxation relief agreements should be signed to support this activity and protect interest of Vietnamese investors.

+ Rewards and prizes for successful investors who have contributions to both Vietnamese and foreign economy must be established.

- Promotion of the overseas investment: The Government should allocate some budget to this task because this activity must be considered as part of the national economy.

- A national center of investment and trade information: This center may provide companies with free information. The web site of this center may be included in the MPI one ([www.mpi.gov.vn](http://www.mpi.gov.vn)) and linked with the website of the Ministry of Industry and Commerce ([www.moit.gov.vn](http://www.moit.gov.vn)) and foreign business websites. The Government should build a mechanism for exchanging information between ministries and the center.

- Support for the overseas investment by diplomatic corps is much needed because it helps facilitate the implementation of investment projects and protect legitimate interest of Vietnamese investors.

- The mechanism and machinery for controlling the overseas investment should be beefed up and perfected in order to reduce obstacles caused by the red tape and encourage this activity.

- An association of overseas investors could be established to act as a representative of investors in negotiations with local authorities and as a middlepersons in disputes between Vietnamese investors themselves, or between Vietnamese and local businesspersons.

The overseas investment has taken place for

20 years, and gained many achievements and suffered a lot of challenges. One of the greatest challenges it faces is the lack of recognition of its role and importance to the national economy from authorities. This paper wants to raise this problem and attract the public attention, and we hope that our suggestions are useful to the effort to develop the overseas investment in the trend of international integration■

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