

FOREIGN INVESTMENT IN HCMC

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I. SITUATION OF FOREIGN INVESTMENT IN HCMC

1. Facts of foreign investment in HCMC

According to the report of the HCMC People's Committee at the sixth session of the HCMC People's Council, in the first half of 2001, the city attracted 88 foreign direct investment (FDI) projects with a total capital of US\$403 million. This is a bright figure, double that in the same period last year (up 108% in terms of projects and 93% in investment capital).

The operational projects are also promising. The HCMC-based foreign-invested enterprises' export value reached US\$618 million in the first six months, a year-on-year increase of 18.8%.

In 2001 Asian investors (especially East Asian investors) also top the list, leading by Taiwan, Japan, South Korea...

Regarding investment form: the number of 100% foreign-owned projects is increasing (accounting for 81% of projects and 96% of capital), and joint ventures declining. The projects with US\$1 million make up a large proportion (63%) and with US\$1-5 million projects 31%. The industry attracts highest percentage of investment capital (76%), followed by the culture-education-health sector (17%) and other sectors.

There are 61 domestic and foreign investment projects with a combined capital of US\$33.23 million and VND727 billion invested in the city industrial parks (IPs) and export processing zones (EPZs) and a total leased area of 52.8 hectares, up 15% in terms of projects and 83% in capital year-on-year.

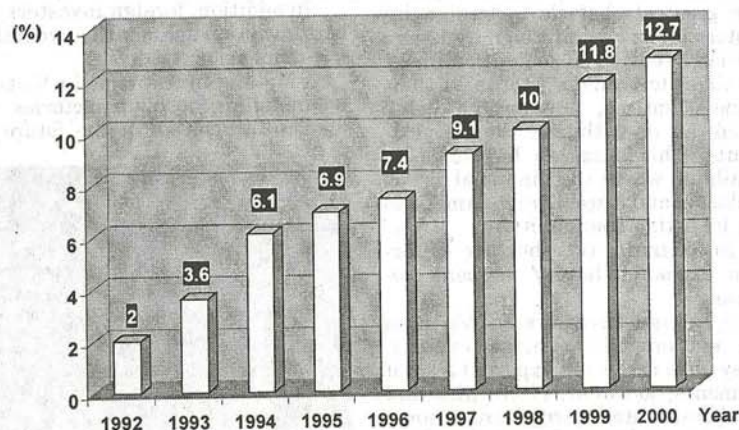
Since its establishment, the IPs and EPZs have so far attracted 520 projects with a total capital of US\$1.122 billion and VND3,637 billion and a leased area of 387 ha against their capacity of 1,240 ha (not mentioning extended area). There are 6 IPs leasing 50% of their area, including Tân Thuận, Linh Trung, Tân Tao, Bình Chiểu, Tân Bình and Lê Minh Xuân.

2. Investment prospect in the whole 2001

Some projects are realized in the form of BOT (build-transfer-operation). They include Metro Cash & Carry (US\$120 million) processing

the other hand, it helps partly offset the current balance deficit and improve the balance of international payment.

• The foreign-investor sector's contribution to GDP rose yearly (see the chart below)



Source: Vietnam Economic Times, Ministry of Planning and Investment

agroproducts, Phú Mỹ Power Plant (US\$2.2 million), Saigon Postel (US\$450 million) manufacturing mobile telephones, Taiwan Pou Yen investing more US\$142 million to build a factory producing materials for footwear industry. If these projects are developed, the total registered capital will increase sharply.

It is estimated that the HCMC FDI attraction in 2001 is higher than that in 2000 and the events show an upward trend.

Along with foreign investment, air carriers, tourist companies and hotels are acquiring hopeful results. The number of foreign visitors is increasing. Many foreign investors come to investigate Vietnamese market in the hope that the Vietnam-U.S. trade pact will be soon adopted. This is just the time that Vietnam continues enhancing its investment environment to attract more foreign investment.

II. ACHIEVEMENTS, LIMITATIONS AND CAUSES

1. Achievements:

• Foreign investment capital has made significant contributions to the country's economic development. On

• The national budget income, export earnings and industrial growth rate also increase accordingly.

• Foreign investment has established some new important industries for economic development such as oil and gas exploitation and processing, assembly of autos, electronic appliances and motorcycles, thus restructured the economy in terms of industrialization and modernization.

• Foreign investment significantly helps upgrade the country's infrastructure, especially transport, post, telecommunications, and power. At the same time, it has resulted in establishment of 67 IPs, EPZs and hi-tech parks, urbanization, construction of new residential areas and generation of hundreds of thousands of new jobs.

• Foreign investment has brought good results in settling unemployment, promoting human resource, restructuring industries, careers and labor, training skilled workers and working style.

• Foreign investment has also contributed to perfecting Vietnam's legal system step by step in line with the international common practice

and facilitating the process of integration.

2. Limitations

- The structure of foreign investment remains inappropriate, thus giving not high results as follows:

- Investment is only focused on some industries producing profits fast; other industries are not really attractive to foreign investors (agriculture, forestry, fishery, etc.)

- Foreign investment is only concentrated on favorable localities such as big cities, and industrial centers.

- Asian investment capital accounts for 70% while funds coming from West Europe, North America, G7 (excluding Japan) are very modest. This is a problem requiring more attention from the city leadership and executives.

- The state management for foreign investment reveals a lot of shortcomings; for example, tight management of investment licensing but loose management after licensing. The coordination between state management agencies is not close. The law execution is not strict. The administrative procedures are cumbersome and the obstacles to investors have not yet been removed. All of these have distorted investment policy and environment, if they are not overcome soon, they will be adverse to economic development.

- The business performance of some foreign-invested enterprises remains low. The number of firms declaring losses is increasing. The state management over foreign-invested companies shows inadequacies.

- There are many deficiencies in technological transfer and some machinery and equipment, which have been just transferred, are obsolete and ineffective. Transferred technology is not uniform and improperly assessed, etc. As a result, the products are not competitive and even polluting the environment.

3. Causes of limitations:

- Is the Vietnam investment environment less attractive than that of regional countries and FDI flows are thus declining?

- The investment legal system is still not perfect and suitable.

- The planning of FDI attraction remains defective.

- The state management over foreign investment is inefficient.

- The qualified executives and skilled workers are inadequate in this sector.

III. SOME MEASURES TO ATTRACT FDI IN THE TIME TO COME

1. In the immediate future:

- To speed up foreign investment devolution to local governments. To make favorable conditions for them to take their initiative in activities concerning foreign investment.

In HCMC, the authorization of the city Service of Planning and Investment to license projects capitalized at below US\$5 million has been effective. This requires stronger devolution.

- To accelerate investment preparation, realization, disbursement of the city major projects, especially projects on transport and projects whose capital has been earmarked in 2001. To continue construction of infrastructure leading to IP border with a view to creating dynamic for investment.

- To prepare and publicize investment lists to call for domestic and foreign investment in the city infrastructure (expanding and upgrading roads, water supply and sewage, and etc.) in BOT form.

- To equitize some foreign-invested enterprises, change them into joint stock companies and make favorable conditions for them to be listed on the stock market.

- To enhance the investment promotion: to set up departments specialized in foreign investment promotion.

- To push forward the reform of investment procedures. To implement one-door policy to keep investors from wasting time and money. To shorten the time of licensing to 7 days. To petition the central government to cancel inappropriate procedures. To propose that the Government Office II, ministries' representative in the South are authorized to settle relevant problems so that investors need not fly to Hà Nội to get answers for all problems, thus reducing their investment costs.

- To accelerate reform of customs procedures to facilitate reception of investors' goods.

- To implement government investment preferences and avoid cumbersome procedures (for example, preferences in import of new equipment and machinery).

- To upgrade infrastructure such as electricity, water, roads, information network, etc.

- To heighten the quality of FDI planning. The planning shall be scientific and appropriate to full utilization of local resources and in accordance with the integration process.

The authorities of each industry, region, and locality should announce their development plans soon.

- To improve state management over foreign investment. To build regulations on close coordination between ministries and provinces in administrative reform including clear and transparent regulations; process, responsibility and deadline of settling administrative procedures; and to regularly meet and make conversations with foreign investors.

2. In the long run

- To continue improving the business environment and increasing attractiveness of Vietnam's investment environment. In particular, provinces of the focal economic region with many comparative advantages, including HCMC need more liberal statute to vigorously allure foreign investment.

- To amend some provisions in legal documents concerning foreign investment with a view to removing enterprises' difficulties.

- To allow foreign investors to mortgage their assets attached to land use right at Vietnamese banks.

- To modify tax imposed on high-income earners in foreign-invested enterprises to encourage Vietnamese to undertake higher professional position.

- To issue tighter regulations on signing employment contracts with foreign-invested enterprises with the aim to secure customs Vietnamese workers' benefits.

- To work out policies improving the investment environment:

- To apply the same prices of some goods and services to local and foreign-invested enterprises.

- To stimulate enterprises to produce exports and use local materials.

- To diversify investment forms and allow establishment of capital management companies.

- To create favorable conditions for equitization of non-state and joint ventures with foreign partners. Foreign-owned enterprises are to mobilize various capital sources for production expansion.

- • Step by step to expand the real estate market to attract overseas Vietnamese and foreigners' investment.

- To improve workers' quality: to give more attention to the training of staff's competence in profession and foreign language, as well as skilled workers for the foreign-invested sector. ■