

FOREIGN INVESTMENT IN VIETNAM

7 STRONG AND 7 WEAK POINTS

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I. OBSERVATION ABOUT FOREIGN INVESTMENT IN VIETNAM

After seven years of opening Vietnam's door to foreign investment, up to Dec 31, 1994, 1,200 projects worth US\$12 billion have been licenced by SCCI. The following are some observations about the situation:

- The rate of investment is on the increase, both in number of licenced projects and invested capital. This rate increased by 46 per cent in the period between 1991 and 1994.

- Large-scale projects (of US\$5 million and up) represented 27 per cent of total number of projects but 88 per cent of total investment. The most attractive industries are oil, manufacturing and tourism businesses (80 per cent of total investment), whereas agriculture, forestry and fishing, Vietnam's most important potentials, seem less attractive.

- The investment was distributed more evenly among provinces: before 1993, excluding oil business, 75 per cent of projects concentrated in southern provinces, especially in HCMC (217 projects worth US\$1,371 million). At present, many large projects have been realized in Hà Nội, Đà Nẵng, Cần Thơ.

- Over 700 companies from 50 countries and territories have invested in Vietnam. The leading investors are Taiwan, Hong Kong, Singapore, South Korea, Japan, Australia, Malaysia, France, Sweden and the UK. The public sector attracted 98 per cent of total number of projects, the private sector attracted 2 per cent of total number of projects and 0.4 per cent of total capital.

- The number of quasi-investors was on the decrease in 1994 but we couldn't discover all of them.

- Violations of agreement and the Vietnam's law occurred frequently, such as being tardy in bringing in capital; charging an exorbitant price for too old equipment; selling equipment for VND and using it as capital invested in joint venture, etc.

- Environment for investment was remarkably improved, but it's far from satisfying investors' requirements. In fact, however, in the past seven years, the Government has tried its best to improve Vietnam's investment conditions.

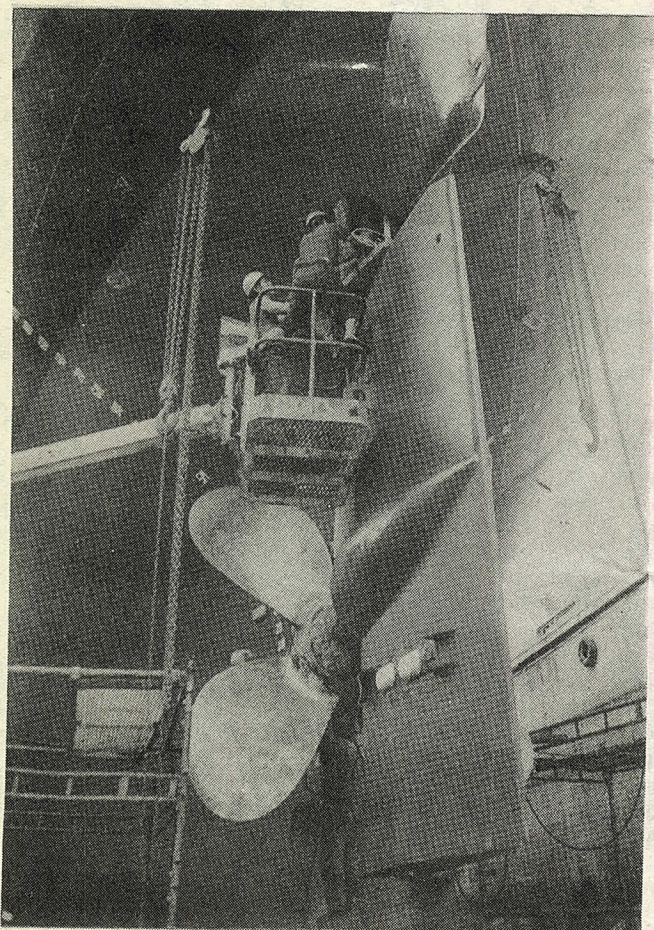
II. STRONG AND WEAK POINTS IN INVESTMENT IN VIETNAM

Although Vietnam faced a lot of difficulties, it has attracted remarkable investment from foreign investors. The following are seven strong and seven weak points in attracting foreign investment:

A. Seven strong points

1. Political stability is one of favorable conditions for attracting foreign investment. After wartime, in spite of domestic difficulties and socio-political unrest in the socialist bloc, especially in the Soviet Union and Eastern European countries, the socio-political situation in Vietnam has always been kept stable. Many foreign investors have transmitted their investment from Thailand, Hongkong or the Philippines to Vietnam.

2. Vietnam has got abundant and untapped natural resources (land, mineral, forest, territorial waters, etc.), so



the investors could easily find out a profitable business.

3. Vietnam's population is big (over 70 million people). It constitutes a big domestic market and an abundant and low-price labor force. The Vietnamese people are studious and industrious.

Such a population can form a good labor force if there is a good educational and training system, and modern technology is systematically introduced.

4. Vietnam's Foreign Investment Law is considered as the most attractive and open-minded one in Asia (foreign investors can open a wholly owned foreign enterprise or take up 99 per cent at most of the initial capital in a joint venture).

5. On May 27, 1993, the Government signed an ordinance on measures to encourage Vietnamese expatriates to invest in Vietnam. By doing so, we can attract both capital and new technology. There are over 2 million Vietnamese expatriates all over the world. This community could be seen as a remarkable potential for Vietnam.

6. Telecommunications in Vietnam have been recently improved. One can make a phone call to numerous countries, including the US, China, Australia, etc.

7. The aviation business in Vietnam has been developed. Many new routes to Asian and European cities have been opened by airline companies. Many institutions assisting foreign investment have been formed and have operated according to international practice: SCCI, investment promotion departments in cities or provinces, various investment service and consultant service organizations, etc. Banking system in Vietnam has been expanded and developed. Financial services are offered by the State Bank of Vietnam, many commercial banks and credit organizations along with branches of foreign banks (BFCE, BNF, Banque Indosuez, Credit Lyonnaise, Bangkok Bank, ANZ, etc.).

B. Seven weak points

1. Infrastructure (water and power supply, road) is poor. Telecommunications are improved but the price of this service in Vietnam is higher than that in Asian countries. Telecommunications are state monopolies, so the customers can get service from them but with some difficulty.

2. The legal infrastructure is unstable, imperfect and defective. This made investors feel unsure and reluctant to do business in Vietnam.

3. The administrative machinery is cumbersome, the procedures are complicated. Many localities have set up their own ways of evaluating and approving projects or granting land-use right, etc. which made difficulties to investors.

4. Some governmental bodies functioned unreasonably: sometimes they intervened too much in business of joint ventures, sometimes they were too lenient in enforcing the law or collecting taxes.

5. Civil servants aren't well-trained, some of them are very venal.

6. Plans for development of each industry and locality are made too slowly. Up to now, there is no approved list of works calling for foreign investment, especially main works having great effect on the structure of industry. This made usage of foreign investment less effective.

7. Vietnam's investment environment hasn't met investors' requirements yet:

- It takes a long time to approve a project.
- Foreign investors can only get services from banking system, the customs, telecommunication companies with difficulty.
- Other investment services: low quality, unstable price, complex paperwork.
- Procedures for contracting with laborers and regulation of minimum wage are unreasonable and need to be

revised.

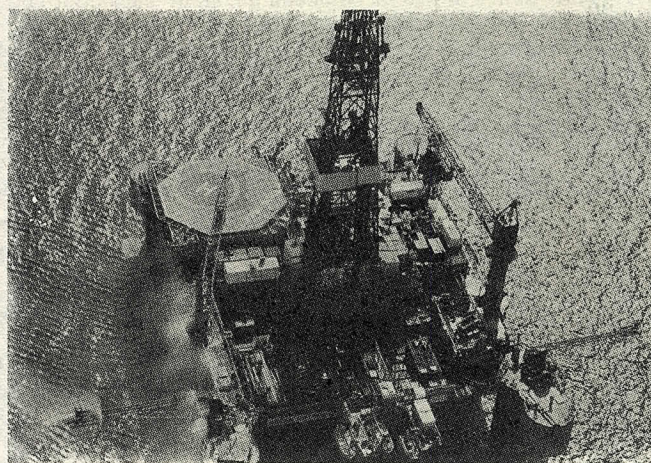
- Vietnam's job centers can't supply skilled workers to foreign companies. The job center should be a service which can find employment for laborers, supply skilled workers to employers and arrange training in those trades in which there is a shortage of skilled workers. We have no such a center now.

III. SOME SOLUTIONS

Foreign investment has developed many industries, encouraged fair competition between foreign and local enterprises. Many foreign companies and joint ventures can produce substitutes for imports. Export turnover could increase gradually. In order to attract more investment, a lot of measures should be taken:

- Successes and failures in realizing Foreign Investment Law in the past seven years (1987-1994) should be estimated objectively and seriously in order to outline main directions for the next five-year plan.

- Procedures for opening new foreign business should be reformed in order to make them simpler but stricter and to fight against tax avoidance and evasion more effectively. Small scale projects could be evaluated and licenced by People's Committees in cities or provinces in order to encourage them to attract foreign investment.



- The Government can take an incentive scheme to attract investment to key industries (building infrastructure, communications, etc) and help these investors make a reasonable profit, as do those who invest in tourism and hotel businesses.

- In order to attract foreign investment to the North and Central Vietnam, some measures could be taken such as fixing a lower minimum wage and land rent in comparison with the South.

- The Government should take measure to stabilize the monetary system for a long time. Foreign investors need a stable and predictable situation. Wide fluctuations of exchange rate force them to change their plans and pre-feasibility studies.

- The legal infrastructure should be improved and perfected. Civil servants should be trained in law and have capability to enforce the law correctly. International ways of settling disagreement or dispute should be applied in Vietnam.

- Education and training should be seen as the most urgent matter. We need a lot of qualified scientists, experts, managers, arbitrators, civil servants, judges and skilled workers.

- The Government should take strong measures to struggle against bribery and corruption more radically and effectively ♣