SOME MEASURES TO ATTRACT FOREIGN INVESTMENT

by MEcon. PHẠM THỊ HÀ

The Foreign Investment Law which was promulgated some ten years ago and amended four times has offered increasingly favorable conditions to foreign companies. The foreign investment has helped develop the economy and change the structure of industry. However, situation of the foreign sector should be studied regularly to find out effective measures to attract and employ the foreign capital more successfully.

I. FOREIGN INVESTMENT IN VIETNAM

- From Jan.1, 1988 to Oct. 31,2000, licenses were granted to 3,216 FDI projects with a total registered capital of US$37,138,311,000 (legal capital was US$17,444,521,000). The capital of operational projects was US$35,558 million while realized capital was US$19,082 million, equaling 51.4% of the registered capital. Foreign partners control some 70% of capital invested in these projects.

- Companies from 65 nations and territories are doing business in Vietnam. The following table shows a list of 10 leading foreign investors.

Table 1: Top-ten investors (US$1,000)

Nation/Territory	Project	Registered capital	Legal capital
Singapore	251	5,331,304	1,820,679
Taiwan	646	4,889,125	2,199,799
Japan	332	3,551,815	1,863,846
Hong Kong	325	3,257,953	1,471,364
South Korea	298	3,138,304	1,287,439
France	157	2,176,807	1,254,026
Virgin Islands	94	1,779,596	718,135
Russia	62	1,319,661	912,726
U.S.	121	1,341,442	629,853
U.K	41	1,133,716	768,228

Source: MPI

These data allow us to work out the average capital of a project by country: The U.K. US$27.63 million; Russia 21.27 million; Singapore 21.24 million; Virgin Islands 18.93 million; France 13.86 million; the U.S. 11.08 million, Japan 10.69 million; South Korea 10.53 million; Hong Kong 10.02 million and Taiwan 7.57 million. Foreign investors are interested in various industries, so their investments are distributed rather widely.

Table 2: Foreign investment by industry (US$1,000)

Industry	Project	Registered capital	Legal capital
Heavy industry	581	6,210,350	2,535,239
Light industry	859	4,029,200	2,013,763
Construction	274	3,574,021	1,337,647
Town building	3	3,344,237	924,452
Transport and Post	136	3,204,428	2,276,918
Hotel and tourism	199	3,096,000	2,185,534
Oil	63	3,086,443	2,283,113
Office building	105	3,000,225	1,072,107
Food processing	194	2,151,306	946,005
Agriculture and forestry	272	1,029,213	497,489
Service	172	845,021	473,825
Education and health care	93	526,259	243,535
Fisheries	95	343,819	185,141
IP and EPZ building	5	302,078	102,460
Finance and banking	35	243,332	215,752
Others	4	27,359	11,540
Total	3,216	37,138,311	17,444,520

These data allow a view on the foreign sector in the past 10 years.

1. Achievements

- Foreign capital comes as a great source of finance for development that helps tap internal resources, especially in oil, power, agriculture and manufacturing industries. In addition, the foreign investment also helped improve the balances of payments and of trade.

- The share of foreign sector in the GDP increased over years, from 2% in 1992 to 3.6% in 1993; 7.4% in 1996; 9.1% in 1997 and 10.3% in 1999. Its payments to the national budget also rose; from US$128 million in 1994 to 195 million in 1995 to 317 million in 1998 but it fell to 271 million in 1999 and 260 million in 2000. This fall may be an outcome of the Asian financial crisis or poor control of governmental bodies or skills of foreign companies in exploiting loopholes in the rules to avoid tax and other financial obligations.

Industrial output by this sector rose by 21.7% in 1996; 23.2% in 1997; 23.3% in 1998 and 20% in 2000.

Export earnings by this sector were US$112 million in 1992; 336 million in 1995; 788 million in 2,577 million in 1999 and 3,300 million in 2000.

- Foreign investment helped Vietnam achieve high growth rates and limit inflation in recent years.

- Foreign companies introduced many new industries that are important to the economic development: oil exploitation, auto; motorbike and electronic equipment assembling, etc.

- The foreign sector created a lot of new jobs and helped with the technical training. Up to now, it employs some 300,000 workers and provides jobs for laborers in construction and service industries. Technical and managerial skills have been also transferred to local laborers and many of them could take the place of

foreign experts.

- The structure of industry started to change after flows of foreign investments came into Vietnam. At present, most foreign investments are in the manufacturing sector and they account for some 35% of the industrial output. The average growth rate of 20% of the foreign sector has made the Vietnamese industrial output rise by some 10% a year.

- The presence of foreign sector led to improvements in infrastructure facilities (transport, communications, power and water supply, etc.) and formation of 67 industrial parks (IPs) and export processing zones (EPZs) which in their turn accelerated the development of new residential areas. In big cities, the industrial parks allowed relocation of factories, waste treatment and improvements in the environment.

2. Shortcomings

- The foreign investment is directed towards industries with high profitability with the result that the agriculture, fisheries and forestry received almost no foreign investment. Certain projects in these fields didn't produced intended results because of natural disasters and lack of middle management that act as intermediaries between foreign investors and local farmers.

- Foreign investments tend to concentrate in big cities and industrial centers: for example, HCMC received 33.6% of FDI projects and 28.8% of investment; the corresponding figures in Hà Nội are 13.8% and 20%; and in Đồng Nai are 9.3% and 8.7% respectively, while other provinces received only small investment from foreign companies.

The formation of many IPs originates from provincialism of local governments instead of from needs of local or foreign investors. Many provincial governments try to establish IPs without studying possibility of industrial development in their province or without knowing how to market their IPs to both local and foreign investors. That is why only 30% of total area of IPs was leased although the land rental offered is lower than the rental in IPs whose infrastructure was built by foreign companies.

- Some 70% of foreign investment in Vietnam comes from Asian countries, and as a result, the Vietnamese economy suffered a lot when the Asian financial crisis caused the flow of foreign investment to slowdown in the years 1997-2000.

- The Government took many measures to encourage joint ventures between local and foreign partners and this form of investment accounted for 50% of projects and 66% of registered capital, but losses and dissolution are most common among these joint ventures and many partners parted company in bitter disappointment.

- The system of laws and regulations isn't stable. Subordinate legislation isn't issued on time. Some guidelines issued by ministries and local governments tend to be stricter than laws or regulations made by the central government.

- Besides effects of the Asian financial crisis, the lack of a level playing field is also a factor that discourages foreign investors. This may be the main cause of falls in realized capital (by 40% in 1998 and 25% in 1999) and in registered capital (49% in 1997 and 16% in 1998). Many investors have decided to delay their projects or contract their business.

- The government's control over foreign-invested companies isn't consistent enough: it is strict when assessing proposed projects and deciding on granting license and becomes slack after licenses are granted. Cooperation between governmental bodies controlling the foreign sector is poor. The enforcement of laws isn't strict. Administrative procedures are complicated and contain many loopholes that could be exploited by officials to milk bribes from investors. These factors make the investment climate less attractive.

- Officials working in joint ventures with foreign companies lack knowledge of market economics, law and foreign languages. Some of them fail to play their role as representatives of the state in the joint venture, and support foreign sides instead of protecting interests of local laborers. As for the local labor force, many workers can not perform as required by foreign investors so the cheap labor cost, as a comparative advantage, becomes meaningless.

II. FOREIGN INVESTMENT BY ZONE

1. Situation

The foreign investment by zone up to February 2000 is as follows.

Table 3: Foreign investment by zone (US$ mil.)

Indicator	Northern mountainous zone	Northern Vital Economic Zone	Central Vital Economic Zone	Central Highlands	Southern Vital Economic Zone	Mekong Delta
1. As registered						
- Projects	60	628	95	60	1,686	158
- Capital	331	11,819	2,643	937	21,264	1,171
2. As valid						
- Projects	42	499	74	50	1,400	114
- Capital	264	10,888	1,984	898	17,305	1,006
3. Realized capital	156	3,999	426	119	7,313	714

Source: MPI

Thus, foreign investments concentrated in Vital Economic Zones in the North and South where the infrastructure and local markets are rather developed. Over 83% of valid capital was put in three vital economic zones (47% in the Southern one). The northern mountainous areas and Central Highlands seem less attractive to foreign investors.

capital and 37% of the number of projects realized in the Southern one.

- Twelve provinces in the northern mountainous zone receives only US$264 million of foreign investment while three provinces in the Central Highlands attracts US$898 million. This means that comparative advantages of each zone aren't fully exploited.

Vital Economic Zone, have been leased. High percentage of land leased is found in HCMC (27.5%); Đồng Nai (21%) and Bình Dương (11.4%). Most IPs in other provinces are still empty. According to estimates, it needs some 6,000 companies with a total capital of US$20 billion to fill all IPs in Vietnam, but up to now there are only 400 companies, with a total capital of US$1.6 billion, in the IPs or EPZs.

Table 4: Foreign investment by industry and zone (%)

Industry	Northern mountainous zone	Northern Vital Economic Zone	Central Vital Economic Zone	Central Highlands	Southern Vital Economic Zone	Mekong Delta
Heavy industry	12.2	24.2	4.6	0	8	0
Light industry	63.8	0	0	9.9	19.4	13.6
Food processing	9.3		23.3			10.9
Agriculture and forestry	6.5		16.5	54.6		10.2
Construction	5	9.4	22.8			57.6
Hotel and tourism		19.7	17.3	35.4		
Transport and Post		13.5				
Office building		9.4			15.4	
Average valid capital of a zone (US$ mil.)	22	1,912.95	495.88	299.38	4,326.28	3.82

Source: MPI

In vital economic zones, foreign investment is distributed among different industries but it is concentrated in the most important industries in other zones although this concentration isn't helpful to local economic development (except for Central Highlands where 54.6% of foreign investment is put in agriculture and forestry). In the Mekong Delta for example, 60% of foreign investment was put in construction while only 10% was in the agriculture, the strongest advantage of this zone. The average realized capital per province also shows that the foreign investment tends to concentrate in southern and northern provinces.

IPs and EPZs were built mainly in three vital economic zones. There are 33 IPs with a total area of 7,110 hectares in the Southern one, 10 IPs totaling 1,307 hectares in the Northern one and eight IPs totaling 14,682 hectares in the Central one.

2. Remarks on the distribution of foreign investment among zones

- The foreign investment isn't distributed evenly between zones. The Northern and Southern Vital Economic Zones provide investors with better infrastructure, larger markets and better trained laborers, therefore they attract more projects than other zones do. However, the Northern one attracts only 55% of

- In the North, Hà Nội has 345 projects worth US$8,102 million while Hưng Yên, only 20 km from Hà Nội gets only nine projects worth US$75 million, Phú Thọ has six projects (US$119 million) and no project is realized in Cao Bằng and Bắc Cạn.

In the South, HCMC is the most attractive locality: it attracts 815 projects (9,763 million), followed by Bà Rịa- Vũng Tàu (60 projects worth US$1,100 million). Governments of other provinces, such as Đồng Nai and Bình Dương, are trying to improve their infrastructure and supply of labor to attract more foreign-invested projects.

- The distribution of foreign investment by industry is also uneven. Most investors are interested in short-term investment in industries with high profitability and pay no attention to local comparative advantages or local development.

- The Government has approved the formation of 67 IPs and plans to build infrastructure for them, but these plans have been carried out in 60 IPs. Most IPs have just finished only 30% of their workload, and only a few of them have completed basically their infrastructure building. That is why most IPs meet with difficulties in attracting investors. Up to the end of 2000, only 2,600 hectares of land in IPs, mainly in the Southern

III. MEASURES TO ATTRACT FOREIGN INVESTMENT IN THE COMING YEARS

The main direction is to work out measures that could deal with all problems arising before and after the investment licenses are granted. If investors aren't sure that all problems could be solved according to laws and regulations, they will be reluctant to make decisions on their investment and the flow of foreign capital to Vietnam will slow down.

1. New policies to improve the investment climate

- Charging the same prices for certain goods and services supplied to both local and foreign- invested companies.
- Developing a mechanism for controlling financial activities of foreign-invested companies and setting accounting norms appropriate to international practices in order to facilitate operation of companies and ensure the state supervision over company finance.
- Giving preferential treatment to projects realized in agriculture and forestry or in depressed areas.
- Encouraging companies to make exports from local raw materials and limiting the number of licenses to export raw materials or semi-finished goods.

- Allowing joint ventures to change into totally foreign-owned or locally - owned companies if the new form proves more effective.

- Creating conditions for private companies to cooperate with foreign partners and allowing foreign-invested companies to go public in order to help them mobilize more capital.

- Besides industrial estates needed for relocation of factories from big cities, the Government should examine closely the formation of new IPs and EPZs.

- Reviewing licensed IPs in order to stop their development if they have no feasibility and only granting licenses to form new IPs after examining their conditions and feasibility.

- Granting the land use certificates to companies and IPs to facilitate the infrastructure building projects and giving the best treatment to projects to build infrastructure in IPs.

2. Perfecting the foreign investment regulations

For the time being, some amendments to the Foreign Investment Law are needed for making Vietnam's investment climate more attractive and competitive, for example:

- Observing international laws and practices to ensure a level playing field for both local and foreign companies.

- Stabilizing the system of laws and policies on foreign investment in order to make foreign investors have more confidence in Vietnam.

- Amending unreasonable regulations dealing with foreign investment in order to overcome difficulties facing companies.

- Allowing foreign-invested companies to mortgage assets connected with the land use rights to both local and foreign banks with a view to helping them deal with financial difficulties.

- Setting a high tax threshold for laborers working in foreign-invested companies in order to encourage local laborers to take higher positions and undertake more difficult tasks was a way to improve skills of the labor force.

- Requiring foreign-invested companies to enter labor contracts with local laborers in order to protect legitimate interests of both two sides and avoid unnecessary industrial disputes.

3. Promoting foreign investment

The Government should open investment promotion offices in foreign countries to look for and make contact with potential investors, especially those from West Europe and North America; offer the best treatment to investment projects employing modern technologies and discourage projects that compete against local companies.

4. Improving efficiency of state management of foreign investment

The cooperation between ministries and local governments in keeping a close watch on foreign investment should be beefed up. All governmental bodies should complete their tasks in this field according to their assigned duties and authorities. All forms of duplication of functions when carrying out policies relating to foreign investment in various zones and industries should be avoided. Local governments and IP management boards should observe plans, policies and mechanisms for controlling foreign investment set by the central government. Ministries should give timely guidelines and carry out regular inspections in order to maintain discipline and ensure creativity of local governments.

Proper inspections by governmental bodies should aim at avoiding the use of criminal law (instead of using commercial or companies laws) to treat business relations between companies, and at the same time ensuring a close watch on operations of companies and punishment for violations of laws.

Improving the investment climate is a difficult and time-consuming task. The Government had better make plan to realize necessary improvements with a view to increasing the source of capital and helping local companies reach their full potentials ■