

# FOREIGN INVESTMENT IN VIETNAM REALITY AND PROSPECT

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To keep on renovation in the direction of developing multi-sector economy in the market mechanism, as well as to expand economic cooperation with other countries is confirmed in Vietnam.

To create investment opportunity with the aim to receive foreign direct investment is a decisive solution to performing the above-mentioned renovation.

## I. INVESTMENT OPPORTUNITY - ADVANTAGES AND DIFFICULTIES

### A. ADVANTAGES

1. From the end of the war to now, even while there were many difficulties in the national economy, the sudden socio-economic changes arose in former USSR and Western Europe, Vietnam could remain the socio-political stability, make favourable conditions for economic stability and development, foreign investment in Vietnam as well.

2. Vietnam has abundant and diverse natural resources (land, forest, sea, mineral products...plus temperate climate) which have not been untapped.

With this advantage, Vietnam obtains diversified economic structure. Foreign investors find it favorable to search for appropriate investment sectors.

3. Vietnam's rather large population both opens a considerable consuming market and creates ample and cheap human resources. Vietnamese has brave tradition in the struggle for building and protecting the country, is diligent and intelligent in toiling. The human resources originating from such a community are certainly factors to secure the success of investment if they are provided with good measures of education, training, technology transfer.

4. The Law on Foreign Investment in Vietnam issued in December 1987 and amended two times, has been considered progressive and open in comparison with other countries' investment laws.

In addition to the Law on Foreign Investment, nearly 70 legal documents to concretize the Investment Law such as: decrees and ordinances on land tax, hiring workers, company and private enterprise, taxation, nationality, banking...were promulgated to form legal base for investment.

The organizations for managing and promoting foreign investment in Vietnam have been established and put into operation up to international practice:

- The State Committee for Cooperation and Investment (SCCI) is the only agency which has authority in considering and granting foreign investment licences in Vietnam. Its headquarter is located in Hà Nội and its branch office in Hồ Chí Minh City. This committee is now merged in the Ministry of Planning and Investment.

- At provincial and municipal levels, departments of external economic relation and agencies of evaluating investment projects help SCCI with the consideration of licences and management of realization.

- In Vietnam there are some organizations for study, consultancy, service of foreign investment as follows:

- Foreign Investment Service Company (FISC), under the Ministry of Trade.
- Industrial Foreign Investment Service Company (INFISCO)- Ministry of Light Industry.
- Investment Service and Management Consultancy Company (IMC).
- Invest Consult - Vietnam Science Institute.
- Investment Service and Industrial Property Company (INVESTIP) - The State Science Committee.
- Investment Service Company - Province of Vũng Tàu-Côn Đảo.

The HCMC University of Economics has the Centre



for Investment Service and Economic Application specialized in studying markets, consumers' taste, investment consultancy and formulating investment projects, planning for foreign and domestic enterprises in Vietnam.

The system supporting finance for foreign investment activities in Vietnam composes the Central Bank, finance companies, State commercial banks, jointstock commercial banks, banks for investment and development, banks for agriculture. Doing business in compliance with the Ordinance on Banking No 37/CT dated May 24, 1990 by the State Council, they are step by step compatible with international practice.

Besides, there are 17 finance companies, foreign banks opening branches or forming joint ventures in Vietnam, including: BNP, BFCE, Banque Indosuez, Credit Lyonnais (France), Bangkok Bank (Thailand), ANZ (Australia) and some representative offices of foreign banks such as: The Thai Military Bank, British Standard Chartered, Dutch ING.

#### B. DEFICIENCIES STILL CAUSING OBSTACLES TO FOREIGN INVESTMENT IN VIETNAM.

1. The law system is still incomplete and not detailed, legal documents are overlapped and not fit for one another. It's hard to catch up with the change of law and policy. The procedure to apply for licence is still complicated and time-consuming.

2. The infrastructure such as roads, electric, water, transportation means is deficient and poor.

3. The information about economic activities on the whole, and markets alone is inadequate and not highly trustworthy.

4. The capital and managerial skill of Vietnamese party in jointventures are limited.

#### II. THE RESULTS OF FOREIGN INVESTMENT IN VIETNAM

1. The number of licensed projects and invested capital has increased sharply since 1988.

##### LICENSED INVESTMENT PROJECTS

	Number of Projects	Total investment capital (US\$ million)	Total legal capital (US\$ mil.)
Total up to 1994	1,170	12,220.430	6,376.442
From 1988 to 1990	213	1,794.214	1,007.980
1991	151	1,323.253	664.154
1992	197	2,168.176	1,417.629
1993	267	3,169.618	1,557.129
1994 (a)	342	3,765.169	1,729.549

Source: 1994 Statistics Directory

(a) Not mentioning projects licensed in export processing zones.

The registered capital in foreign investment projects is estimated at US\$ 7.5 billion in 1995.

2. There are 20 countries having directly invested in Vietnam. Many large projects came from major corporations such as Coca Cola, Toyota, Nissan, Peugeot, Ford, General Motor...

After the lift of trade embargo against Vietnam and normalization of US-VN relations, the amount of projects and capital invested by American companies in Vietnam has risen quite sharply. Up to 1994, the capital from American licensed projects accounted for 6% of total foreign capital invested in Vietnam.

3. The investment ratio of various sectors is rather suitable to the direction of Vietnam economic development in the 1990s and the early century XXI. Of total capital of licensed projects, 65% is of manufacturing sector and socio-economic infrastructure, 35% is of service sector. The average scale of a project increases from US\$10 million to nearly US\$20 million in 1995.

#### INVESTMENT SECTORS

	Until late 1993			1994		
	Number of projects	Total investment capital (US\$ mil.)	Legal capital (US\$ mil.)	Number of projects	Total investment capital (US\$ mil.)	Legal capital (US\$ mil.)
Total	828	8,455.261	4,646.893	342 (a)	3,765.169	1,729.549
Agro-forestry	107	459.329	183.703	29	143.723	74.014
Aqua-product	48	218.789	111.716	9	51.991	24.458
Oil industry	26	1,331.078	1,276.650	2	72.500	17.500
Heavy industry	128	1,067.541	486.432	60	416.439	209.305
Light industry	201	1,284.086	640.195	104	687.102	370.397
Construction (including export processing zones-EPZ)	60	713.595	294.412	31	600.884	267.525
Building EPZ	4	276.917	98.000	3	196.523	64.817
Hotel, tourism	113	1,726.113	899.706	30	623.519	320.060
Service	56	708.700	330.384	44	1,045.458	377.525
Transportation-post	59	770.385	259.596	21	102.390	53.088
Finance, banking	15	151.720	150.920	2	1,600	0.480
Culture, health care, education	15	18.821	12.430	10	19.562	15.197

Source: 1994 Statistics Directory

(a) not mentioning 20 licensed projects of 7 EPZs

4. The number of projects is distributed more and more suitably to each area. The ratio of projects realized in the southern Vietnam rose to 45% in 1994 from 25% in the earlier stage.

5. Investment is performed in every form applied by the world, including jointventure enterprise, 100% foreign invested enterprise and business cooperation contract.

#### INVESTMENT FORM UNTIL 1994

Investment form	Ratio (%)	
	Project	Capital
- Jointventure enterprise	64.6	65.3
- 100% foreign invested enterprise	27.1	17.8
- Business cooperation contract	8.3	16.9

In jointventure enterprises, Vietnamese party's stake is rather small, about 30%, mainly land use value, factory building, old equipment, pooling by money is not noteworthy.

The form of business cooperation contract is applied mainly in the oil sector.



6. The realized projects and investment capital have boosted in the recent years. By the late 1995, the realized capital may reach over 35% of the total investment capital of licensed projects.

The production and business of foreign invested enterprises also made good progress.

#### SOME RESULTS IN BUSINESS PERFORMANCE OF FOREIGN INVESTED ENTERPRISES UNTIL DECEMBER 31, 1993

	No. of enter- prises in op- eration	Turnover in 1993 (US\$ mil.)	Profits in 1993 (US\$ mil.)	Payment to the Treasury (US\$ mil.)
THE COUNTRY	481	1,225.8	293	447.6
Agro-forestry	13	0.99	0.04	0.04
Aqua-product	15	5.2	0	0.1
Industry	294	1,102	281.3	435.6
Construction	24	2.8	0.16	0.09
Trade, service, hotel	99	79.9	9.2	9.9
Transportation, warehousing, communication	16	24.7	2.8	1.5
Finance, credit	9	5.8	- 0.3	0.4
Science and technology	1	0.92	0.082	-
Culture, sport	3	0.1	-	0
LOCALITY				
Hà Nội	64	37.00	3.900	8.600
HCMC	234	240.40	11.100	46.600
Bà Rịa-Vũng Tàu	22	867.00	276.8	382.200
Đồng Nai	29	21.80	- 0.700	1.600
Khánh Hòa	7	0.94	0.016	0.035
Quảng Nam- Đà Nẵng	21	1.80	0.015	0.011
Sông Bé	14	3.20	- 0.060	0.350
Hải Phòng	14	16.40	0.610	0.180
Quảng Ninh	3	0.60	0.029	0.015
An Giang	6	3.30	- 0.036	0
Long An	3	0.47	0.120	0.08
Thừa Thiên-Huế	2	0.90	0.023	0.076
Hà Tĩnh	1	2.60	-	0.048

Source: 1994 Statistics Directory

The above investment scale and structure are though small but also contribute to the common striving for the stability and development of Vietnam economy on many sides such as: increasing capital; technique; managerial method; increase in GDP, revenues of national budget, export turnover, income of the people; creating jobs.

The result of attracting investment capital of over 1,000 licensed projects, of which one-third is operational and effective, confirmed favourable conditions stemming from politic stability, natural and human resources together with progress in Vietnam's management of foreign investment. However, shortcomings in infrastructure, legal frame, administrative procedures revealed themselves obviously; the risk originating from markets, inflation is still high; the smuggling and corruption is still considerable.

### III. THE PROSPECT OF FOREIGN INVESTMENT IN VIETNAM

#### 1. Forecast

Vietnam is enjoying new favourable conditions in external relationship in comparison with previous years. That is Vietnam's joining ASEAN, normalization of VN-

US relations and expanded relations with many countries, international organizations.

Regarding Vietnam, the socio-politic environment is stabilized, the economy has got rid of crisis, entered development period with high growth. The legal base, managerial capability of the Government and enterprises are increasingly improved.

From such international and domestic background, energetic courses of foreign investment in Vietnam in the recent years, it is forecast that the pace and scale of foreign investment in Vietnam will be higher and bigger.

#### 2. The direction and target of attracting foreign investment in the coming years

The common direction is both in-depth investment to exploit, upgrade existing economic establishments and concentrated construction of new economic ones (infrastructure, manufacturing and service).

To make the economy successively increase by 9-10% annually, the factor of investment is decisive, in which foreign capital should have not small contribution, approximately one-third of the country's total investment capital. It is forecast the country has to attract US\$18 billion of investment capital in the period 1996-2000, three times in comparison with the period 1991-1995.

To achieve the above target, Vietnam should both strengthen and improve the results of operational projects and encourage, make conditions for bringing projects which have been licensed into operation soon in 1996, 1997, 1998 (the capital of these projects amounts to over US\$10 billion).

In the meantime, Vietnam should continue to call for investment in major sectors as follows:

- Exploring, exploiting crude oil and developing oil industry.
- Exploiting and processing mineral products (coal, iron, copper, apatite...).
- Producing cement and building materials.
- Industries of mechanics, electronics, chemicals.
- Producing and processing agro-forestry-marine products.
- Building infrastructure.
- Service, tourism.

In industrial sector, the attraction of investment capital to building 10 industrial estates with about 900 enterprises is encouraged and given favourable conditions for realization■

