

Technical infrastructure (power lines, roads, ports, warehouses, telecommunications, etc.) plays an important role in promoting the economic growth. It is also a precondition for increases in the foreign investment, especially when the globalization is taking place. Chinese success in attracting the foreign investment in recent years proves this point. In 2002-03, China led the way in attracting the FDI, better than even the U.S., due to its well-developed infrastructure.

In the past few years, the infrastructure in Vietnam has been improved remarkably when a series of power plants, including many hydro-power ones (Trị An, Hòa Bình, Thác Mơ, Phú Mỹ, etc.); highways and bridges (National Routes 1A; 5; 51; and Hồ Chí Minh, Hải Vân Tunnel, Mỹ Thuận Bridge, etc.), and many

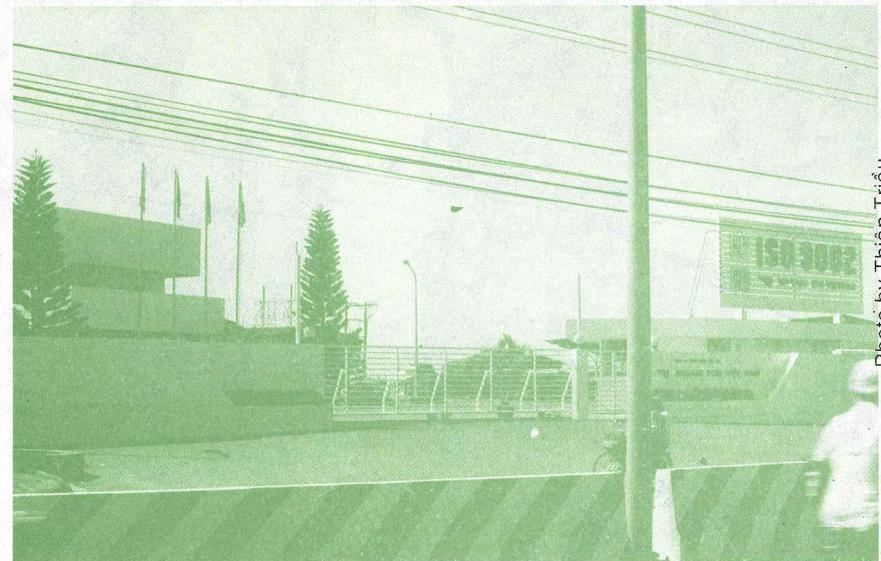


Photo by Thiên Triều

Financial Solutions to Infrastructure Projects in an Effort to Attract More Foreign Investment

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airports (Nội Bài, Tân Sơn Nhất, etc.) were built or upgraded. However, the quality of these infrastructure works is not high enough to keep pace with the economic growth (some 7% a year) and serve the international integration. That is why the infrastructure development is given the top priority by the Economic Strategy up to 2015. These projects require very big investments. According to a rough estimate, Vietnam needs from US\$10 to 20 billion for the infrastructure in the next 10 years.

The sources of finance for the technical infrastructure is an urgent and insuperable problem now when the Government seems to lack measures to mobilize and employ effectively both domestic and foreign sources of capital, especially the idle money held by the public. In the past decade, various measures were taken to attract capital for these projects and most of it was of external origin. The main ones are as follows:

- Foreign aid and soft loans used for infrastructure development ensured by bilateral or multilateral agreements between the Vietnamese

and foreign governments: With an active foreign policy, the Vietnamese Government has been able to secure this source of finance. Since 1993, IMF, WB and ADB have agreed to lend US\$8 billion, and only 4 billion were actually sent to Vietnam. Until recently, the Japanese government has adopted plans to develop the road network in the North (increasing the percentage of the blacktop from the current 20% to 40% or 50% in the coming years), enhance the railroad service, dredge inland waterways, build the Hải Vân Tunnel and recover navigation services for ship, etc.

Reality shows that the use of ODA and soft loans is usually ineffective because of many causes. The following are some leading ones:

- The first one is perhaps the slow disbursement of loans and aid because Vietnam failed to make preparations and carry out the projects according to international practices and standards;

- The land clearance is very slow due to obstacles caused by the badly-defined land law, which usually

slowed down the speed of construction and made the works costlier.

- The counterpart fund from the Vietnamese side isn't available before carrying out the works because the Government failed to persuade local investors into taking part in foreign-financed projects.

- The ODA and foreign aid are usually wasted and embezzled by corrupt officials at all levels.

In future, the foreign aid and loan capital from foreign governments and international financial institutions are expected to increase fast due to active foreign policy adopted by Vietnam and its healthy growth and stability. The problem to the Government is how to use these sources of finance effectively and avoid waste and embezzlement. In addition, it's worth noting that even soft loans requires interest and principal payments when due. If Vietnam could repay debts on time, its prestige and public image could be enhanced and bigger loans in the future will be possible. Otherwise ineffective use of huge foreign loans will lead to deficit balance of payments,

which will become burdens to next generations.

To overcome the loss and waste of money used for infrastructure projects (which has amounted to somewhere between 30% and 40% of the total investment), the Government had better first of all has banks for investment manage the foreign aid and loans and use them for projects agreed upon by the Government and foreign partners. These banks act as independent managers and the Government could ask them to achieve specific targets without being hindered by any mechanisms or limits on the public expenditure.

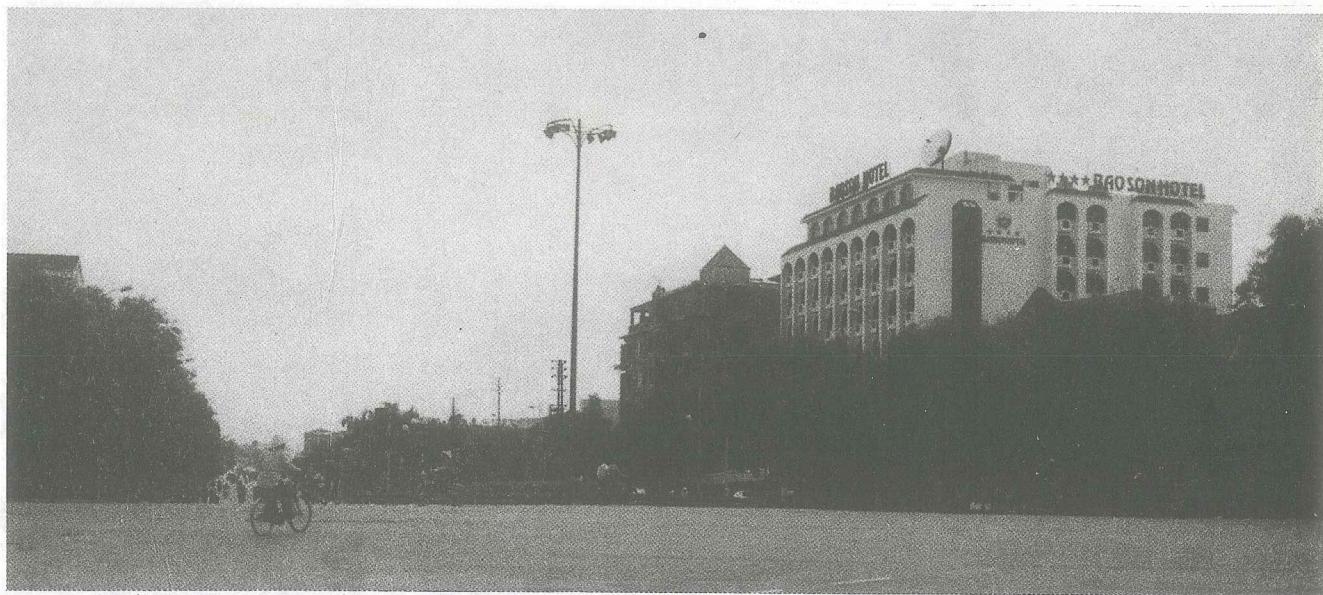
Secondly, the Government should estimate exactly each project with a view to avoid investing too much in projects that produce no significant

very small although foreign companies have more than enough resources to undertake major projects (the Mỹ Thuận Bridge for example.) The foreign investment in the technical infrastructure will increase if the business climate is improved positively. Foreign-invested projects to build the infrastructure provide us with various benefits: the Government has no worry about loss or waste of money, or burden of debts to the national budget because foreign companies will manage their investment, carry out the project, operate the works after completion and only transfer them to the Government after all investment and profit are collected.

However, it's worth affirming that the foreign investment in the in-

issued by the central or local governments. For the time being, such bonds with reasonable interest rates could mobilize very large sums of money from the public. Besides the government bonds, local authorities could be allowed to issue municipal bonds in order to secure funds for local infrastructure projects. Moreover, these bonds can help increase the volume of commodities traded on the stock exchange and mobilize large sums of idle money from the expatriates. However, this source of finance must be used carefully and effectively because it is also loan capital.

b. Direct investment: At present, there is no private direct investment in the infrastructure because the Government gives no green light, which could be considered as a loss to



effects on the economy.

Thirdly, another measure is to encourage foreign and private investment in infrastructure projects in forms of BOT, BTO or BT contracts by ensuring legitimate interests of foreign investors. These forms of investment from the private and foreign sectors can help avoid the above-mentioned shortcomings. In recent years, these contracts accounted for only a small percentage of projects invested by foreign partners. Up to Aug. 20, 2003, Vietnam attracted 4,089 FDI projects worth US\$39.69 billion. Of this sector, the oil business accounted for 0.7% of the number of projects and 4.9% of the total investment, transport, telecommunication and post 2.8% and 6.5%; construction of infrastructure in EPZs and IPs 1.1% and 2.3% respectively. These data show that the foreign investment in this business is

rastructure projects makes Vietnam dependent on foreign investors, so it could play an important or supporting role, not a decisive one. The leading role is played by the domestic investment, from the public or private sectors. This source of capital, especially from the private one, is very great and usually underestimated. The traditionally official viewpoint often stresses the source of investment from the public sector or the Government. Realities show that in future, the sources of finance from the public sector and the Government will be increasingly limited. The private sector will assume a more important role if the Government adopts a right policy. The private investment in the infrastructure could be either direct or indirect.

a. Indirect investment: Private persons makes this investment by buying government or project bonds

the private sector while many foreign companies were awarded many major and profitable projects. Many analysts said that the private sector had no financial strength and equipment to undertake such projects. Moreover, infrastructure projects aren't profitable enough to attract investors from this sector and as a result, only the public sector could engage in these projects. However, many infrastructure projects done by state-owned companies have brought in big profits in recent years, such as Trường Sơn Road to the Tân Sơn Nhất Airport or Nguyễn Tất Thành Street in the District 4, HCMC. In my opinion, the authorities had better give up the obsolete and unreasonable way of treating the private sector and adopt a new way of thinking because this sector developed well and earned big profits in the past decade and its resources seem

big enough to compete against foreign rivals and undertake infrastructure projects. It's worth noting that governments of many developing countries are also encouraging the private sector to engage in this business.

Vietnam has had enough preconditions for a policy to encourage private investment in the technical infrastructure as a basis for a better business climate when Vietnam integrates into the AFTA. These preconditions are:

- The idle money held by the public is very enormous. According to my calculation, some 20% of this source could be enough to cover major infrastructure projects.

- The private sector has close relations with foreign companies and

+ Helping reduce the unemployment rate.

Based on the above-mentioned analyses, the Government had better encourage the private sector to enter this industry. Some measures to achieve this aim are as follows:

a. Tax incentives:

- Exempting import duties and company income tax on machinery and raw materials used for the projects on the condition that these goods couldn't be made locally.

- Exempting the company income tax for at least five years after the works produce profits.

- Cutting the company income tax by 50% - 70% for the next three years after the above 5-year period of tax exemption for investors.

- As for joint stock companies,

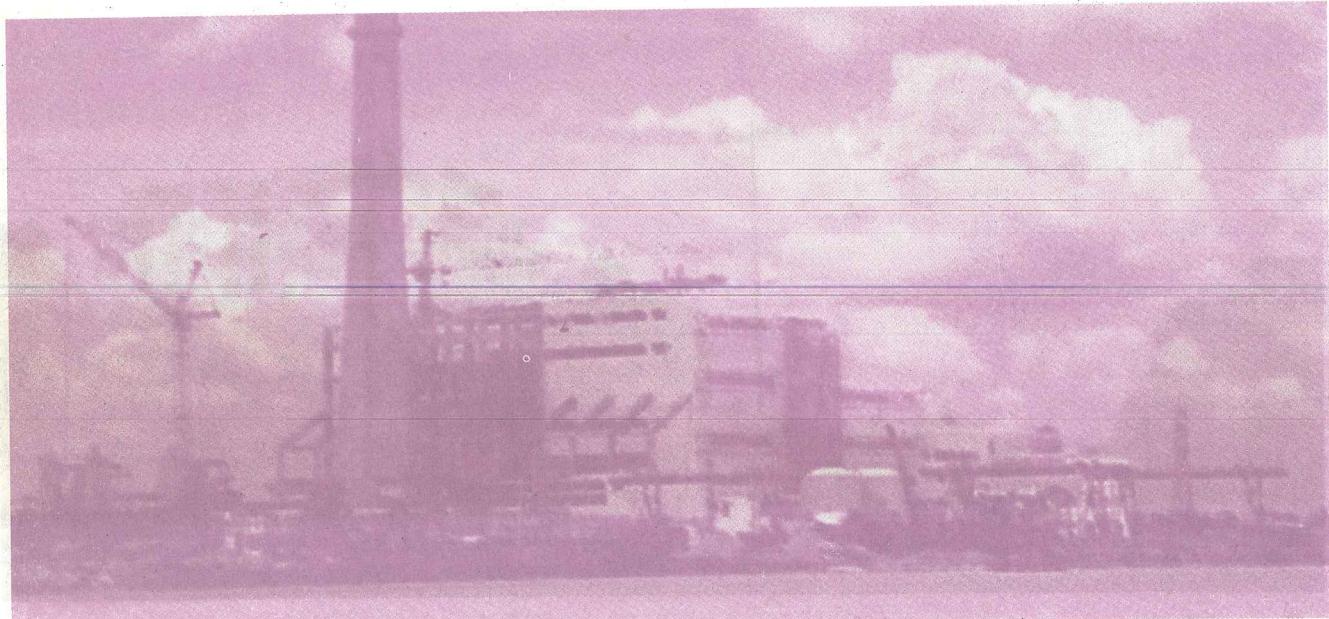
tions if these inventions aren't under the State control (proceeds from the sale of the invention is exempted from income tax for at least five years),

- mobilize capital from the public by issuing bonds if need be (the interest rate mustn't exceed the market rate at time of issuing),

- enjoy tax exemption for interest paid to the bonds,

- have rights to enter into joint ventures with foreign partners if they could control from 70% to 80% of the share capital (This requirement aims at limiting transfer of profits to foreign countries).

- cooperate with other local partners, including state-owned companies, to undertake large-scale



Vietnamese expatriates, therefore it could easily attract foreign capital and technology.

- Investment in the infrastructure proves to be profitable enough.

Encouragement to private investment in the infrastructure brings about many benefits:

+ Accelerating the infrastructure development to meet the market demand.

+ Increasing the source of finance for these projects when the public investment is limited and the flow of FDI is slowing down.

+ Profits for local companies will stay in Vietnam or used for new investment while profits for foreign companies will be transferred to their home countries.

+ Making the finance market more stable when the idle money is put into use.

dividend paid to shareholders is exempt from the personal income tax for the same period.

- Land granted to the project is exempted from the land use tax and other fees according to the principle of 'exchanging land for the infrastructure works.'

b. Employment and capital mobilization:

Private companies undertaking infrastructure projects could be allowed to:

- hire employees according to the Labor Code like all other companies,

- hire foreign experts and laborers when local laborers fail to meet the demand posed by the works (foreign laborers working in Vietnam are subject to Vietnamese laws),

- buy inventions developed by experts working in state-run institu-

projects,

c. Preferential treatment: The Government could save the most profitable projects for local investors.

There are many measures to attract investment from non-public sectors as a financial solution to the infrastructure development, the Government has to adopt active and bold approach to this problem when the day Vietnam joins the AFTA is round the corner. I hope that analyses and suggestions in this article are useful. ■

Reference

- *Thời báo kinh tế Việt Nam* ("Vietnam Economic Times") No 172, Oct. 27, 2003, p. 6.

- *Vietnam Investment Review*, No. 263, Sep. 22-28, 2003, p. 20.