ATTRACTING FOREIGN INVESTMENT TO SPEED UP VIETNAM'S INDUSTRIALIZATION AND MODERNIZATION

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The country's aim of industrialization, modernization is to build material and technical base for the modern mass production. Therefore, a gigantic amount of capital is needed. The problem is how to attract and use most effectively capital sources in this process. In this article, we mention only attraction of foreign capital sources in the coming years to enhance the country's industrialization, modernization.

According to calculation of the State Planning Committee (SPC), the investment capital needed for the process of industrialization, modernization from now until 2000 amounts to over US$40 billion (2.6 times more than the figure of US$ 15billion realized in the period 1991-1995, according to estimation of the SPC).

In this demand, the domestic capital source is estimated at US$20-21 billion and foreign one, US$20 billion. But in the present condition, our country's economy still encounters many difficulties, accumulation in the economy itself is not high, as a result, foreign investment capital plays an important role in the early economic development stage of the country's industrialization, modernization. But if we want to allure foreign capital successfully, we should know the two-sided feature of this process.

Currently, the foreign investment capital flows to Vietnam in two major forms: Official development aid (ODA) estimated at US$7-8 billion (realized) and foreign direct invesment (FDI), US$13 billion (realized).

Annual total investment capital (US$ mil.)

Capital	1995	1996	1997	1998	1999	2000
ODA	533	696	904	900	900	900
FDI	1,650	1,980	2,376	2,851	3,421	4,106

This amount of capital is initially divided by the Ministry of Planning and Investment (MPI) as follows (based on the practice and prospect of using capital):

Regarding Vietnam, these two sources in general will permit the streamlining of fundamental resources: natural and human, to make the first ground for the country's strategy of economic development by the year 2000.

As for each kind of capital, we see:

1. ODA: Although so far there is not a perfect definition yet, but the difference of definitions is not large. ODA is an irretrievable aid or preferential loan (interest, term of payment) offered by international organizations and non-governmental organizations (NGOs).

The scale, structure and utilization rate of ODA are very different in each nation of the world. In three international conferences (held in 1993, 1994, 1995), the donors' commitments to Vietnam amounted to US$6 billion of ODA. Most of their commitments were legalized by agreements or legal documents agreed up on by two sides. By the end of 1995, about US$1.7 billion were disbursed, representing above 28% of the ODA source committed, they were granted mainly for projects of adjustment of economic structure and technical assistance. The level of disbursement for projects on capital construction (communications, electricity, irrigation...) was lower. But we should know the characteristic of each kind of ODA.

1.1. Regarding irretrievable aids, they are used for technical assistance, mainly transfer of technology, knowledge, experience through international experts' activities. Sometimes they are humanity aids such as food, pharmaceuticals, fabric...Consequently, they can hardly be mobilized for development investment (even materials free of charge have high prices). Moreover, irretrievable aids are often donated with some conditions on receiption, price...If the receiver can afford these items, they will not accept them due to prices 2-3 times higher than usual. So when using irretrievable aids, we should take careful consideration.

1.2. Regarding soft loans: they can be used for development targets. The preferential feature of these sources shows in the following fields:

- Low interest rate: the Japanese

ODA, for example, by commodities, lent to Vietnam in 1992, worth 45.5 billion yen had interest rate of 1%, the World Bank (WB) loan for the project on upgrading the 1A National Route was free of interest, had only charge of 0.75%.

- Long term of repayment: 30 years for Japanese loans; 40 years for WB.

- Extended duration since the time of repaying principal: 10 years for Japan

Commonly countries receive ODA to invest in projects on socio-economic infrastructure, making favorable conditions for production and living, and building infrastructure to continue to attract investment capital.

However, in our country all forms of ODA will be capital support to invest for economic development, especially in case domestic capital is not sufficient. But loaning in any forms leads to high pressure of repayment of principal and interest. If the size and utilization rate of loans are not controlled, we will run into debt. Moreover, foreign loans have certain terms, the borrower has to accept the creditor's intervention in financial issues, even political ones. In addition, the borrowing country should know how to streamline human and material resources, if not, loans will be wasted, leading to insolvency or heaps of debt...

In our country's condition, the effective utilization of foreign loans is not easy because:

Firstly, we have to settle our foreign debt in foreign currency, so if we want to be able to clear our debt, we should boost up operations earning foreign currency, mainly export-import. But our exports have to be competitive against other countries' goods on the international market, and foreign currency exchange should be strictly controlled.

Secondly, in current condition, economic growth rate and Vietnamese currency is not really stable, risks from change in foreign exchange rate are worrying problems. Although we can be granted soft loans in foreign currency, but if the home currency has large devaluation, then interest in home currency will skyrocket and finally the borrower has to suffer losses.

Thirdly, The US dollar used in our country is a kind of hard currency, can be directly exchanged, while Vietnamese currency is inconvertible, if the US dollars are plentiful forcing the State Bank to issue an equivalent amount of money, so the inflation may happen and produce bad effects on the process of economic development.

Fourthly, Most of loans are realized through reception of materials, raw materials, machinery, equipment...for projects. We cannot bring an end to importing excess, outdated, expensive goods when our staff's level is still low and we cannot keep out of corruption. We can borrow loans with low interest rate nominally, but practically we have to pay high interests.

2. FDI capital: this should be paid attention to. By economic sectors, by Jan 7, 1997 Vietnam granted licences to 1934 projects with total investment capital of US$29,200, 864,716. 1630 of which are operating and capitalized at US$26,080, 360,524 as follows:

	Sector	N° of projects	Total investment capital (US$)
1	Industry	996	11,746,701,551
2	Oil and gas	23	1,187,450,000
3	Agriculture forestry	51	388,158,032
4	Fishery	22	61,845,140
5	Transportation communications and post	53	1,143,565,131
6	Hotel, office, housing,tourism	260	6,961,826,856
7	Service	77	138,947,724
8	Finance, banking	19	265,250,000
9	Construction	33	104,640,420
10	Education, training, health care, culture, sports	24	146,672,318
11	Export processing enterprise	60	202,682,736
12	Building infrastructure of industrial parks	12	3,732,620,616

Source: Ministry of Planning and Investment - January 1997

As compared with foreign capital sources, FDI capital has more advantages as follows:

Firstly, the host country does not worry about repaying principal and interest, but can still ensure economic growth, increase in financial income and create more jobs for the unemployed.

Secondly, since investors' benefits depend upon their business performance, along with investment capital, the host country also receives transfer of technology, knowledge, management experience and opportunity to access new export markets.

Thirdly, the host country can avoid heavy dependence on ODA and limit the concentration of foreign debts.

Just because of this, FDI is considered as an important instrument to make an initial lever of the development, preparing for the take-off stage. One of FDI significant effects is to help alter the economic structure. The countries receiving investment are commonly underdeveloped ones, their economies are backward: agriculture taking lion share of GDP, not large ratios of industry and service, disproportional production forces between territories.

Experience from neighboring countries in the region shows us in the early stage, FDI will change the economic structure in the progressive direction. The labor-intensive industries of exploitation, processing, forestry-fishery, export orientation, tourism, hotel service have achievement quicker than others. Their growth has altered economic structure of the investment recipients.

But the FDI targets are in fact weak points of the host country's economy, but strong points of foreign investors. There is difference in targets of the two sides. Investors are usually concerned about financial efficiency, so they pay attention to only such practical issues as: tax, land rent, other costs of production...The host country pays much interest in socio-economic efficiency, general development of the national economy. As a result, there is contradiction arising in the process of FDI attraction. That is, FDI is usually brought into areas producing higher profits and having more preferential terms. But the host country wishes investment in focal areas, to secure proportional development across the country. Therefore, if we wish to attract more investment capital, we should settle this contradiction.

Otherwise, in current condition, underdeveloped countries are numerous and investing nations are few, so there is a fierce competition between countries attracting investment. The competition takes shape in many aspects: making preferential conditions on finance, infrastructures modern and favourable for investment, administrative procedures convenient and easy...Even their advantages of low labor costs, untapped natural resource and agriculture...are used as instruments to compete against other partners. Keeping labour price low, for example, is also an instrument to allure investors. Besides, in the using and managing foreign investment many emerging problems require our careful consideration.

In recent years, due to the implementation of our open policy and the enhancement of international cooperation and foreign investment, we have conditions to expand production, innovate technology, create more jobs for laborers, raise the productivity and improve the people's living. But the process of receiving foreign investment in the past years cause many worrying problems as follows:

Firstly, Vietnamese workers in foreign-invested enterprises suffer many losses. They are maltreated by foreign managers, fired without justifiable reasons (workers in the Tây Hồ Construction Company, for example, were seriously injured).

Meanwhile, the inspection in foreign-invested enterprises showed the highest salary of a worker in inspected enterprises is US$140, and most of the workers are paid the minimum salary ruled by the Government (US$35). Even the highest rate reaches only US$0.7 per hour. In addition, some foreign-invested enterprises have not paid social insurance for workers yet, other did not know to whom they should pay.

Through the above-mentioned situation, we see:

- Vietnamese laborers are treated very unequally, especially those work right in the workshop.
- Workers' labor power is abused and overworked.
- Working in foreign-invested enterprises is strenuous but the salary is too low.

Secondly, taking advantage in our loose management and preferential treatment, some investors caused our loss of tax and other revenues, such as:

- Making use of the name of joint venture to avoid import duty.
- 100% foreign-owned enterprises through the exchange of prices between parent and daughter companies in Vietnam evaded profits tax by raising input prices and lowering output prices or increasing prices of technology transfer and management cost between parent and daughter companies.

Thirdly, one of the targets of foreign investment is to create conditions for Vietnamese managers to have chances to learn technical experience, management, legality...But to date most of inspected enterprises' owners have not planned this program yet.

Fourthly, one of requirements of foreign investment attraction is to receive advanced technique, and avoid backward technique. But due to many reasons (objective and subjective), Vietnam has still committed such mistakes as importing outdated equipment which is not uniform and its prices are higher than the market, particularly, some imported equipment is out of amortization, or manufactured in 1910s.

Fifthly, foreign investors make use of cooperation relation to carry out large trade both to earn high profits and cause losses to the Vietnam economy.

From the country's practice of foreign investment and the world's experience, some conclusions and proposals are as follows:

Foreign investment leads to good results only when the host country take the initiative in receiving investment. That is, we should make minute plans on area, location...when specifying what projects call for investment, what level of technique can be acceptable, what relations they have with domestic investment...

The policy on investment attraction is closely attached with the strategy of the country's industrialization and modernization and especially foreign trade . A country's investment expansion is always combined with its enlargement of overseas markets.

Our country is realizing industrialization, modernization, so if we consider the foreign investment attraction important, then we recognize lack in capital and technique for development, deficiency of management and domestic investors.

Therefore, if we want home investors not to suffer losses in the early stage of industrialization, the State should make conditions for them to have good opportunities, advantages of areas, low investment costs so that they can step by step hold the decisive position in the country's industrialization and modernization.

To receive and use foreign investment capital effectively is not only to attract a lot of capital, but importantly, staff to manage and use that capital. That is, we should make an army of managers in foreign investment projects and officials in charge of foreign investment meet two standards: always protecting the country's benefits and being capable of doing this.

Otherwise, to attract foreign investment for industrialization, at the same time, to make grounds for transferring capital overseas in the next stage means to cause interaction between our process with foreign one (taking advantage of the position of equal negotiation with foreign partners).

Based on above mentioned remarks, some suggestions are made to improve the attraction and utilization of foreign capital as follows:

We should take the initiative in planning and building projects to call for foreign capital, have preferential policies to encourage investment in important economic areas: agriculture, forestry, fishery and infrastructure, and investment for development of localities.

Policies on building, evaluating and approving foreign investment projects and detailed norms for investment appraisal as well should be unified across the country and in each locality.

We propose the Government to soon issue laws as Commerce Law, Anti-trust Law...with the aim to make the legal system perfect, uniform and stable. Meanwhile, the State should have a budget to invest and develop infrastructure, building facilities for foreign investment and convenient business environment and soon train an army of qualified officials appropriate to the market mechanism with a view to raising the efficiency of receiving foreign investment and cooperating with foreign partners■

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