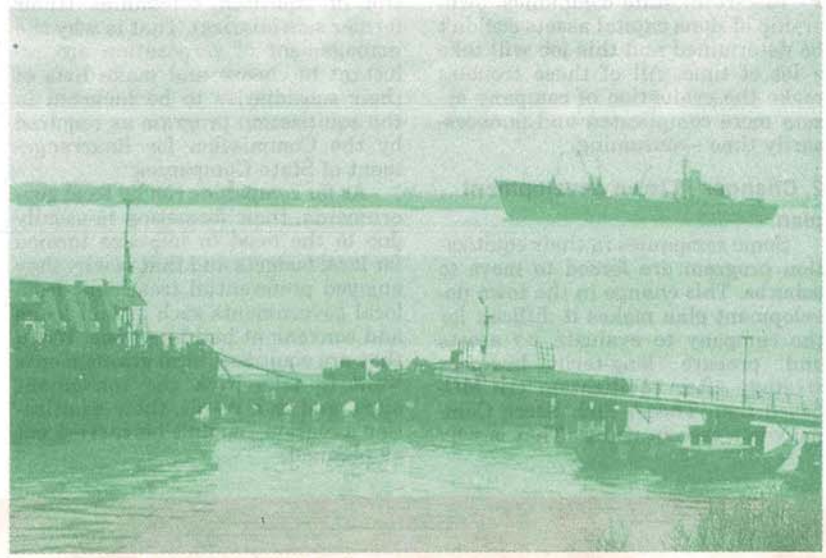
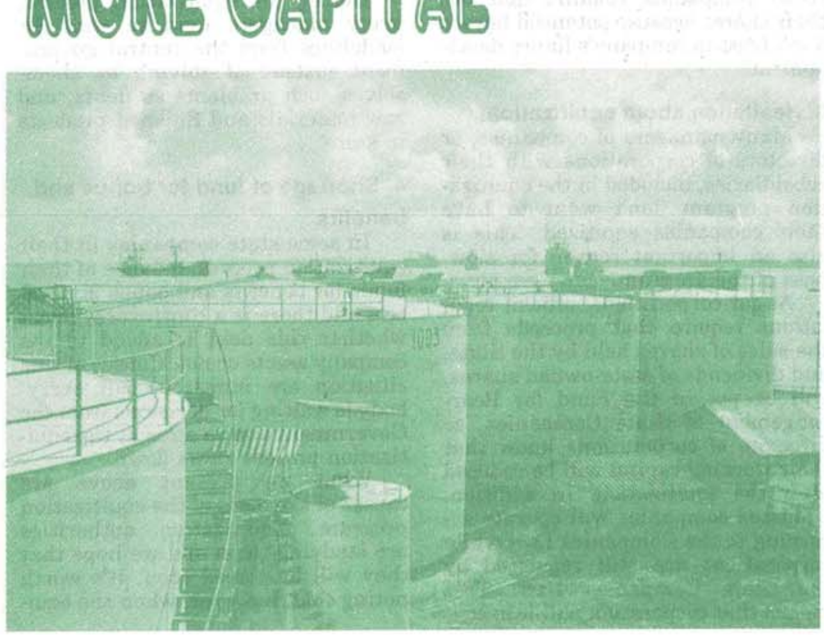


EQUITIZING FOREIGN INVESTED COMPANIES A MEASURE TO MOBILIZE MORE CAPITAL

by HOÀNG TÚ ANH



Contribution and importance of foreign investment, especially direct one, to the Vietnamese economy is undeniable. In the past ten years, foreign direct investment has been considered as one of important factors that helped with increasing capital for development, achieving socioeconomic targets and accelerating economic growth. In the future, the FDI will keep playing an important role in the economy. Being in Asia -Pacific region which is considered as the world's most active region, Vietnam enjoys many advantages and also faces a lot of challenges because all developing countries are trying their best to attract more and more foreign investment along with new technology, know-how and development opportunities.

However, we are now facing a fact that the flow of FDI is showing signs of decline. It is thought that the cause of this situation was the impact of the Asian financial crisis but we must accept that unstable investment climate in Vietnam has discouraged foreign investors. In ten years after the Foreign Investment Law (FIL) was promulgated (1987), we should recognize the Government's efforts and good will in the race against surrounding countries for foreign investment. The Foreign Investment Law was amended three times by the National Assembly in 1990, 1992 and 1996. Amendments made the FIL more open and transparent, and more opportunities were offered to foreign investors. Besides cooperation contracts, joint ventures and foreign-owned companies; foreign investors could engage in BOT and BT projects, or build their factories in industrial parks and export processing zones. At present, in our opinion, one of measures to smooth the flow of FDI and increase the supply of commodities to the stock market is to equitize foreign-invested companies, that is, to allow and encourage these companies to go public. We think that this will be an active amendment to the FIL.

1. The need and practical grounds for equitization of foreign-invested companies

- When the foreign sector develops and the international integration becomes an urgent problem, then to create more favorable conditions for foreign investment is a must. One of practical reason for the equitization of foreign-invested companies is the fact that this measure could diversify forms of foreign investment and encourage the flow of FDI to Vietnam. When going public, foreign investors in Vietnam could attract savings and capital from both their home countries and Vietnam.

- In reality, foreign-invested companies are classified as limited companies under the FIL, and limited companies aren't allowed to offer their shares to the public, and a limited company will have to fulfil complicated procedures when it wants to go public. The equitization will allow them to do it easier, thereby solving this problem.

- Being equitized, foreign-invested companies could have not only Vietnamese companies but also Vietnamese citizens as their partners. This equitizaion offers the public an opportunity to take part in the stock market and management of equitized companies.

- When foreign-invested companies are turned into joint stock companies, the stake held by Vietnamese parties will increase and provide a basis for controlling interests of local parties and laborers of the company.

- The equitization of foreign-invested companies will be easier than the equitization of state-owned companies because:

+ Industrial authorities have gained some experience from the equitization od state companies.

+ Evaluation of assets and debt settlement will meet no difficulties because account books of FDI companies are kept according to international standards and foreign investors can always control their financial situation.

+ Shares issued by these companies will be saleable because of their better performance and public image in comparison with state companies.

In Vietnam, the market economy has just come into being, its components are inconsistent. Competition, one of its main strengths, isn't completely fair while its bad effects (monopoly, pollution, social division, etc.) are increasingly serious and necessary measures to prevent them haven't been taken. The Government's macroeconomic management isn't good enough to deal with problems posed by the economic development, especially its shortcomings in financial management policy. Development of joint stock companies in which ownership and management are separated allows professionals to take part in business management. This separation also encourages companies to obey laws because managers are only employees who have no motive to violate laws for more profit.

The equitization, when carried out successfully, could ensure fair competition between foreign-invested and local companies, create a level playing field for all sectors and more importantly, stimulate activities in the stock market and operation of joint stock companies, and finally stimulate the economic growth.

Thus, the equitization of foreign-invested companies is necessary. The problem is to prepare policies and technical standards needed for diversifying foreign-invested companies and this preparation requires time and expertise.

2. Some opinions about the equitization of foreign-invested companies

a. As for joint ventures between local and foreign partners: negotiations with foreign partners about equitization should be conducted. This approach is suitable to current situation because the formation of joint venture isn't attractive to most investors. At present, many joint ventures are suffering losses and foreign parties want to increase the working capital but their proposal was refused by local parties. The foreign party usually had to buy the stake held by the local party and turned the joint venture into a foreign-owned company. The equitization will offer a new solution to this problem.

According to the FIL, a joint venture between local and foreign partners is a limited company, a change in the form of company should be agreed on by all partners. In negotiating this change, the partners could choose from the following alternatives:

- To transfer the stake held by local partner to another company (another state-run one for example if this company isn't included in the equitization program).

- To turn the stake held by the local partner into shares and sell them to form a new joint stock company that will act as a new partner in the joint venture.

An amendment could be made to the FIL in which a foreign-owned company could be a limited company or a joint stock company of its choice. In other words, the foreign-owned company is allowed to go public at will when the investors feel sure about Vietnam's laws and investment climate.

At this point, we want to discuss another problem: could the equitization be applied to companies of other sectors? When all companies are allowed to go public as they wish, idle money held by the public will be turned into investment, commodities offered for sale in the stock market will be more abundant and of higher quality, and the stock market will develop better.■

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