Measures to Improve Foreign Investment in Vietnam

by Ass. Prof. Dr. ĐOÀN THỊ HỒNG VÂN

The resolution of the ninth plenum of the Party Central Committee, Term IX, affirmed: "To improve foreign investment, especially from multinational companies, seeing it as an extremely important measure to enhance competitiveness of the economy and international integration...". To implement the Party's resolution, I want to suggest the following measures. First, let's take a look at some facts of Vietnam's FDI

I. ACHIEVEMENTS

According to the Ministry of Planning and Investment (MPI), after 16 years of implementing the Law on Foreign Investment in Vietnam, until December 31, 2003, the whole country had licensed more than 5,400 investment projects, of which 4,380 projects remain operational with total investment capital of US$41,707,553,019 including US$18,817,969,260 in legal capital and US$24,992,422,858 in realized capital. Some 2,000 projects expanded their scale with an additional investment of US$8.6 billion. In 2003 alone, Vietnam attracted 752 projects (reaching 93.8% of the figure in 2002) with total investment capital of US$1.914 billion, but if including expanded projects, the figure amounted to US$3.064 billion. Noteworthy is the appearance of several huge projects, for example, the Saigon Sport City in HCMC with registered capital of US$105 million, the BHP steel production project in Bà Rịa-Vũng Tàu with total capital of US$105 million. In the first quarter of 2004, Vietnam's FDI attraction still shows promising signs. In this span, there were 120 new projects and 29 projects increasing investment, bringing the total FDI capital to US$714.6 million, a year-on-year increase of 25%. Moreover, the FDI attraction indicated positive changes in quality with large projects including housing development project of Thủ Đức Daewon costing US$20.54 million; mineral processing in Thái Nguyên Province US$147 million; five-star hotel building in Lạng Sơn Province US$38 million...In addition, several projects increased their investment, for example, the Sun Steel Company (Bình Dương Province) poured an additional sum of US$132.5 million; the Saigon Max Company US$100 million...In the first quarter of this year, the existing projects realized US$550 million, up 15% over the same period last year. The FDI flows tend to go north and focus on the service sector.

The following is analysis of FDI in the past years:

1. FDI attraction by sector

The foreign investment by sector is indicated in Figure 1 and Table 1:

Table 1: FDI from 1988 to December 31, 2003 (mentioning only operational projects).

(unit: US$)

Sector	Number of projects	Registered capital	Legal capital	Realized capital
Industry	2,932	23,896,504,436	10,756,305,061	17,010,076,382
Agriculture-forestry	597	2,953,508,148	1,325,516,078	1,589,947,906
Service	851	14,857,540,435	6,736,148,121	6,329,398,580
Total	4,380	41,707,553,019	18,817,969,260	24,992,422,868

Source: Foreign Investment Department – MPI

Figure 1: FDI (registered capital) by sector.

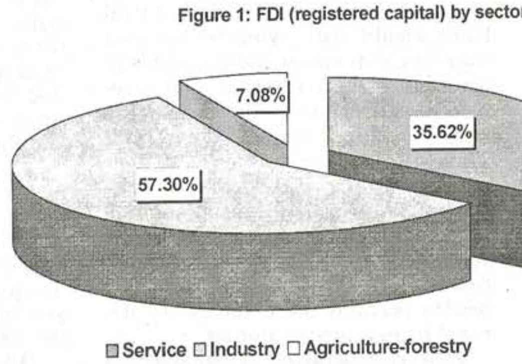


Figure 1: FDI (registered capital) by sector
Service
Industry
Agriculture-forestry

Table 1 and Figure 1 indicate that in the past 16 years, FDI has been focused mainly on manufacturing and construction with 2,932 projects and total registered capital of US$24 billion, accounting for 57.3% of the country's total FDI; service (transport, telecommunications, tourism, finance - banking, health – education, infrastructure of industrial parks and export processing zones) having 851 projects and total registered capital of US$15 billion, or 35.62% of the country's attraction. In the meantime, the preferred agriculture-forestry-fishery attracted only 597 projects, most of which were of small size, so their registered capital reached only US$3 billion, accounting for 7.08% of the country's FDI. In the first months of 1994, this situation saw good signs: many large projects involved in services, such as Daewon Thủ Đức housing development (US$20.54 million); five-star hotel construction in Lạng Sơn Province (US$38 million); Monier Bình Tây project building tourist site in Quảng Nam Province (US$36.8 million); Bình An international sports and entertainment site in Bình Dương Province (US$90 million); international tourist site in Đà Nẵng (US$45 million); Atlantic tourist and casino site in Vũng Tàu (US$90 million)...In addition, there will be huge projects in agriculture, for example, the Taichi Biotech project will invest US$45 million in growing flowers for export in Bình Phước Province.

2. FDI attraction by investor

In the past 16 years, as many as 64 nations and territories have poured their money in Vietnam. Among them, Asian investors account for 76% of total projects and 70% of total registered capital. European investors implement some 16% of total projects and 24% of total registered capital; the US takes 4% of total projects and 2.7% total registered capital. There are 12 nations and territories having registered investment capital of more than one billion dollars each. (see Table 2).

From figures of Table 2, wee see there are 12 major investors representing 82.9% of total projects, 88% of total registered capital; 85.4% of total legal capital and 83.9% of total realized capital. It is noteworthy that among 12 investors with projects capitalized more than US$1 billion, Seven come from Asian countries, 4 from Europe (France, British Virgin Islands, Netherlands and the UK), the US ranks eleventh – a relatively low position!

Out of 4,380 investment projects, there are 63 coming from overseas Vietnamese living in 15 different countries mostly in Germany, Russia, and France with total capital of US$208.67 million, accounting only 0.5% of total registered capital.

3. FDI attraction by province

So far, 62 provinces and cities have attracted foreign investment, however, investment capital has been distributed unevenly, but concentrated mainly on large cities and provinces having favorable

Table 2: Investors with registered capital of more than US$1 billion (Until December 31, 2003 – Only operational projects – unit: US$ mil.)

Nation	Number of projects	Registered capital	Legal capital	Realized capital
1. Singapore	289	7,814.4	2,590.0	3,034.1
2. Taiwan	1,096	6,217.8	2,760.1	2,640.7
3. Japan	426	4,595.2	2,331.3	3,968.7
4.South Korea	671	4,252.2	1,717.9	2,722.6
5. HongKong	290	2,985.0	1,322.0	1,805.5
6. France	135	2,117.7	1,325.5	1,045.2
7. British Virgin Islands	187	2,063.7	793.3	1,076.8
8. Netherlands	51	1,763.3	1,140.0	1,934.8
9. Thailand	117	1,392.7	496.6	645.3
10. The UK	53	1,185.1	423.7	595.6
11. The US	181	1,163.6	625.0	709.1
12. Malaysia	135	1,134.6	548.5	778.2
Subtotal	3,631	36,690.3	16,073.9	20,956.6
National total	4,380	41,707.6	18,818.0	24,992.4
%	82.9	88.0	85.4	83.9

Source: MPI

infrastructures, especially on the southern vital economic region consisting of HCMC, Đồng Nai, Bà Rịa-Vũng Tàu and Bình Dương making up 56% of the country's total FDI capital; the northern vital economic region including Hà Nội, Hải Phòng, Hải Dương, Vĩnh Phúc and Quảng Ninh accounting for 26.3% of total FDI. Table 3 indicates FDI attraction of Vietnam's topten cities and provinces.

In addition to these cities an provinces, there are also industrial parks (IPs) and export processing zones (EPZs) attracting 1,738 FDI projects (not including projects building IP infrastructures) which remain operational with total registered capital of US$11.15 billion, accounting for 26.7% of the country's total registered capital.

There is a special event in FDI flow in the first months: FDI began moving to southern provinces. Thái Nguyên, Hà Nội, Quảng Ninh and Vĩnh

Table 3: Topten cities and provinces in FDI attraction (Until December 31, 2003 – mentioning only operational projects – unit: US$ mil.)

Province	Number of projects	Registered capital	Legal capital	Realized capital
1. HCMC	1,367	10,855.5	5,314.3	5,685.3
2. Hà Nội	484	7,637.1	3,328.0	3,540.2
3. Đồng Nai	515	6,798.7	2,733.3	3,065.7
4. Bình Dương	789	3,584.5	1,544.8	1,696.6
5. Bà Rịa-Vũng Tàu	96	2,067.8	765.7	1,380.7
6. Hải Phòng	150	1,515.1	696.1	1,151.6
7. Lâm Đồng	59	871.1	123.7	118.7
8. Hải Dương	57	559.9	235.8	246.4
9. Long An	79	539.2	259.9	281.4
10. Vĩnh Phúc	51	455.0	186.9	356.6

Phúc alone have allured 60% of the country's total registered capital in the first quarter of 2004. The northern IPs and EPZs is becoming magnetic sites for foreign investment.

4. FDI attraction by investment form

The forms of foreign investment have seen drastic changes over the past 16 years. In early years of renovation, joint venture was the most attractive form, so far, the wholly foreign-invested form becomes common, accounting for 70.02% of total projects, 43.8% of total registered capital, 42.84% of legal capital and 34.41% of realized capital (see Table 4).

GDP; and its export value US$6.225 billion; or 31.3% of the country's total export earnings. In particular, the value of industrial production of the FDI sector (not including oil sector) made up more than 28% of the country's value. Furthermore, this sector has generated jobs for 665,000 workers and income source for over 1 million people.

It is obvious that beside internal sources, FDI plays an extremely important role in Vietnam's economy. It is really an engine to spur the country's economic growth in consecutive years, reaching 7.24% and ranking second among Asian countries' growth in 2003.

and critically review limitations and inadequacies caused by both government policies and officials' execution. The Government and businesses are required to learn valuable lessons from neighboring countries to find how to catch up with their progress. As a result, we see the country's FDI attraction discloses not a few restrictions and inadequacies as follows:

1. FDI in Vietnam shows a decline in recent years.

According to the MPI, in 2003, Vietnam attracted total investment capital of US$3,064 million in newly-licensed and expanded projects, equivalent to only 36% of total

Table 4: FDI attraction by forms from 1998 to 2003

(Only operational projects – unit: US$)

Form of investment	Number of project	Registered capital	Legal capital	Realized capital
100% foreign-invested	3,067	18,266,799,690	8,062,382,660	8,598,964,570
Joint venture	1,147	18,190,457,968	7,048,073,242	10,219,872,506
Business cooperation contract	160	3,880,170,361	3,296,128,358	5,260,688,673
BOT	6	1,370,125,000	411,385,000	912,897,119
Total	4,380	41,707,553,019	18,817,969,260	24,992,422,868

Source: MPI

5. Facts of realizing investment projects

According to the MPI, if including also expiring or revoked projects, until December 31, 2003, more than US$28 billion of FDI projects was realized, including US$25 billion from foreign partners, or 89.3%. If mentioning separate periods, it was US$7.15 billion in 1991-1995; US$13.4 billion in 1996-2000; and US$7.7 billion in 2001-2003.

Over the past 16 years, FDI projects (not including oil projects) have gained total sales of US$70 billion; and total export value of US$26 billion. In 2003 alone, total sales of the FDI sector (not including oil sector) reached some US$13 billion, contributing 14.5% of the national

II. LIMITATIONS AND SHORTCOMINGS

Nobody can deny significant achievements made by the FDI sector over the past years. However, it also revealed some signs of stagnation. Therefore, it's time to analyze

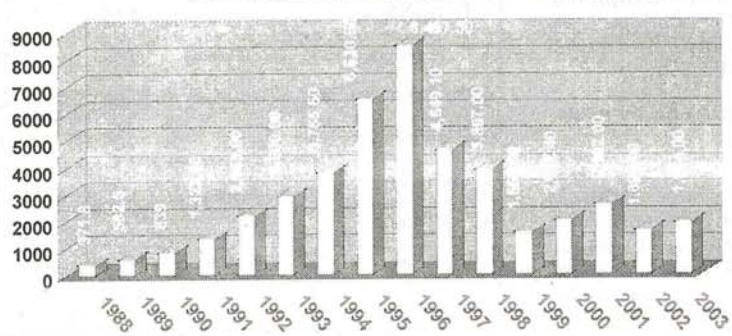
amount registered in 1996 – the peak year of Vietnam's FDI attraction so far. The capital from new projects was US$1,149 million, or 73.8% of the figure in 2001 – the first year of the five-year plan (see Figure 2).

To explain the FDI downward trend in Figure 2, it is attributed to the regional financial crisis. but the crisis was over long time ago, so the demonstration is not persuasive. In particular, the Chinese FDI picture will arouse a lot of concerns to Vietnamese policy-makers. In 2003, the country has made great efforts to promote foreign investment and thus attracted more than US$3 billion (both new registration and expansion) while China reached US$60 billion and kept on ranking first in the world's FDI. But is is a limping comparison if depending on total FDI value because China is a superpower and Vietnam is a small country. However, even in per capita FDI flow, Vietnam is lagging behind China. For example, it was US$36 for China and 29 for Vietnam in 1997; and US$41 and US$17 respectively in 2002. In 2003, it was even worse when Vietnam's figure was only 40% of that of China. This indicates Vietnam's inadequacies and limitations in FDI attraction. According to the UN report on FDI flows, Vietnam stays at the 75th rank among 140 FDI receiving countries. In the meantime, experts from the Ernst&Young Company argued that Vietnam was no longer attractive to foreign investors as 10 years ago!

2. The structure of FDI disclosed a lot of irra-

Figure 2: Total registered FDI in the 1998-2003 period

(Including both expiring and revoked projects)



tionalities, thus curbing efficiency of foreign investment in Vietnam

If examining FDI flows by sector, we see foreign investment in the agriculture, forestry and fishery remains too low. As a farming country, Vietnam is badly in need of capital and modern technologies invested in this field. The country wants to develop biological technology, best varieties of plants and animals and advanced techniques in order to modernize the agriculture and boost export. But the country's agriculture, forestry and fishery remains ailing and much dependent on the nature and lacks a firm development strategy, scientific plan and long-term incentive policies. Therefore, the sector reveals a lot of risks and disappointed foreign investors. Over the past 16 years, they only poured a modest sum of US$3 billion, accounting for 7.08% of the country's registered capital. In 2003, the situation was brighter with the investment representing 9% of new registered capital.

Regarding investors, there are two shortcomings: investment from developed countries which have advantages of source technologies including the US, Japan, Europe, remains a modest share and slow rise and see no promising signs in recent years. Over the two years since the Vietnam-US Trade agreement began effective, there are more 77 projects owned by American investors with total registered capital of US$260 million. The second wave of Japanese investment is not really back to Vietnam while as many as 30,000 Japanese investors got involved in China. From 2001 until now, only 156 Japanese-invested projects have been built in Vietnam with total registered capital of US$501 million. FDI flows from Europe are still not compatible with potentials of this region.

In respect of investment by region, many irrationalities remain: FDI flows are focused only on vital economic regions, especially in the south while the northern mountainous areas, central coastal provinces and the Central Highlands and the Mekong Delta attract less projects.

3. Causes

The above-mentioned inadequacies and restrictions are attributed to the fact that the Vietnam's investment climate has been slowly improved and less attractive than several ASEAN countries and China, as follows:

- Several competent authorities did not attach importance to FDI and see it as an important factor of the national economy;
- The Government has not yet devised scientific and firm strategies for FDI attraction;
- There is no master plan for FDI attraction.
- Legal system for foreign investment and management tasks show a lot of inadequacies;
- Investment promotion is not professional and ineffective; and
- The staff is lacking and not highly skilled.

III. SOLUTIONS

- Importance should be attached to the tasks of FDI attraction. The country's investment climate should be enhanced in fierce competition between regional countries. The Government should give appropriate incentives to allure foreign investors to Vietnam.
- The Government is required to build a scientific and firm strategy for FDI attraction. When solving the problem of FDI attraction, relevant authorities must respect national interests rather than that of sector, region and individual. The FDI strategy must be built on the analysis of strong and weak points, opportunities and risks.
- The Government should avoid assigning corporations to study and submit the plan to the ruling ministry for approval. They will make only proposals which are only beneficial to them and restrict development of the foreign-invested sector. The Government must build the master plan for the national economy. This plan is used as a ground for planning industries, regions, networks of IPs and EPZs and provinces. National interests must be first respected in planning.
- The investment climate must be more attractive than that of neighboring countries, especially China. To do this, relevant agencies should review and amend regulations and laws which are obstacles to FDI attraction; simplify investment procedures; develop infrastructures including roads, bridges, sewage works, electricity and water, information and communication, waste treatment...
- In 2003 the Government has made great efforts to promote investment. However, this task is still implemented in a dispersive manner. So it wasted time, energy and money. Investment promotion should be understood as the task for everyone from leadership, diplomat, officials, and workers to people on streets. The activities of FDI promotion (forming delegations for marketing overseas, seminars, fairs and exhibitions...) should be professionally organized.
- Finally, the staff for FDI promotion should be trained and retrained. They must be professionally skilled and competent in foreign language. Their adaptability should be also enhanced to persuade foreign partners to invest in the country.■