

EFFORTS TO ATTRACT FOREIGN DIRECT INVESTMENT TO HCMC

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HCMC is considered as the Vietnam's biggest economic center. With this advantage, it has been among the list of top destinations for foreign investment since the early 1990s when Vietnam was open to foreign investors. According to the HCMC Service of Planning and Investment, however, the FDI in HCMC has decreased in recent years and showed signs of promising recovery in mid 2007. There are many causes of the fall in the FDI flow, but the main ones are the global economic recession, saturation of strategic investment flows, keen competition between developing countries for the FDI, changes in investment strategies of investors in different provinces, and financial health of investors. This paper wants to discuss two aspects of the investment promotion in HCMC: (1) efforts to promote the FDI in HCMC in the past few years, and (2) strategy to attract the FDI to HCMC.

Based on numerical data and secondary information gathered from statistical offices, the paper analyses and explains factors affecting marketing effort to promote the FDI, thereby suggesting measures to enhance performance of these efforts in the near future. To support arguments and explanations in the paper, I also interviewed experts to get their opinions about these measures. Many authors have analyzed methods and strategies to promote the FDI in HCMC, so I decided to apply marketing principles to the efforts. The stress is put on actual causes of success or failure for the efforts to promote the FDI in HCMC shared by many foreign investors. And I hope my suggested measures are feasible.

1. Marketing effort for foreign investment opportunities in HCMC

a. FDI in Vietnam

According to the MPI Foreign Investment Of-

fice, total foreign investment, including new investments and additional capital, in Vietnam up to the end of December 2008 amounted to US\$60.27 billion (some 59 billion were in new projects). In November alone, the registered FDI was US\$781 million. The manufacturing and construction sector, especially the heavy industry and oil business, was the most attractive where US\$32.5 billion were invested. The service sector came second with total investment of US\$26.2 million while the agriculture attracted the least investment, only US\$250 million.

Foreign investors in Vietnam come from over 40 countries and territories and there were 10 groups, according to their nationalities, that put at least US\$1 billion in Vietnam. Regarding number of projects, Malaysia came first with 37 projects (capitalized at US\$14.8 billion) followed by Taiwan with 116 projects (US\$8.6 billion), and Japan with 84 projects (US\$7.2 billion). It's worth noting that the FDI flow tended to shift from the service sector to the manufacturing one due to presence of mega-projects capitalized at US\$14.097 billion.

**Table 1: FDI in 1988 – 2008 by forms
(up to Oct. 22, 2008, valid projects only)**

Form	Project	Investment (US\$)	Chartered capital (US\$)
Foreign-owned business	7,507	83,116,282,190	30,477,328,476
Joint venture	1,782	51,155,650,831	14,990,698,967
Contracted cooperation	225	4,582,781,702	4,131,962,583
Joint stock companies	150	3,756,452,718	1,140,922,840
BOT, BT, and BTO contract	8	1,710,925,000	456,185,000
Corporation and subsidiaries	1	98,008,000	82,958,000
Total	9,673	144,420,100,441	51,280,055,866

Source: MPI Foreign Investment Office

b. FDI in HCMC:

According to the HCMC Statistic Office in 2008, over 500 FDI projects with a total investment of US\$8,252.2 million were licensed. Compared with the same period of 2007, the licensed project rose by 9.8% (+45 projects) and the investment by 3.6 times. Foreign-owned businesses accounted for 71% of the projects. The most attractive fields were real estate (92.5% of the total investment); manufacturing sector (59 projects and US\$69.5 million); construction (89 projects and US\$66.7 million); transportation (37 projects and US\$19 million); and health care (three projects and some US\$400 million). The average investment in a project was US\$9.12 million (see Table 2). In addition, 110 projects were allowed to increase their capital and US\$197 million were added to their investment. This proves that the business climate in HCMC was still attractive to foreign investors, especially its realty and service sectors.

HCMC kept leading the way in mobilization of FDI in 2008. Licenses were granted to many major projects such as the ones to build the international campus Berjaya (US\$3.5 billion), Thủ Thiêm Software Park (US\$1.2 billion); District 10 Financial Center (US\$930 million), Real Estate and Software Development Project by Việt- Nhật Company (US\$610.3 million); and high-tech health care center (US\$400.5 million). The said five projects had a total investment of US\$6,640.8 million.

Table 2: Ten leading destinations for FDI in 1998 – 2008 (up to Oct. 22, 2008, valid projects only)

Ranking	Destination	Project	Investment (US\$)	Chartered capital (US\$)
1	HCMC	2,713	25,297,241,514	9,117,558,029
2	Bà Rịa – Vũng Tàu	161	15,556,779,896	5,244,663,861
3	Hà Nội	1,275	17,067,521,855	6,979,833,740
4	Đồng Nai	959	13,527,649,779	6,400,687,017
5	Ninh Thuận	16	9,947,716,566	831,467,678
6	Bình Dương	1,700	9,451,965,339	3,791,984,207
7	Hà Tĩnh	11	7,920,755,000	2,718,460,000
8	Thanh Hoá	34	6,961,712,144	448,221,987
9	Phú Yên	39	6,291,446,438	1,419,858,655
10	Hải Phòng	298	2,893,294,305	1,218,048,520

Source: MPI Foreign Investment Office

c. Marketing efforts in HCMC:

The best part of the FDI in HCMC in recent years has flowed to real estate, restaurants and hotels while the HCMC government tried to turn the city into a real financial and education center and an international port. At present, there are many investment promotion centers, corporate relation services, investment consultancies and fund management companies in all sectors. In the public sector there are two important organizations under the HCMC People's Committee that operate in this field:

- Investment and Trade Promotion Center (ITCP) acts as an agency that facilitates and orients flows of investment from both foreign and local sources, holds trade fairs at home and abroad, and organizes workshops and conference on business opportunities in HCMC. In recent years, it has contributed a lot to increases in the FDI flow to various industries in HCMC. In addition, it has established relations with such partners as EuroCham, AmCham, Jetro, IE Singapore, UN-ESCAP, CBI, Swiss Contact, CanCham, BelCham, KOTRA, Austrade and over 30 trade and investment promotion centers from all over the country.

- Vietnam Chamber of Commerce and Industry (VCCI) – HCMC Office has carried out various activities to publicize and enhance public images of Vietnam's companies, businesspersons and goods and services, offer services needed for business development, help local companies develop their business at home and abroad by introducing them to foreign partners and providing them with information and advices, carry out market researches, hold workshops and conferences; exhibitions and trade fairs; launch advertising campaigns and other business promoting operations.

Close cooperation between investment consultancies and investment funds in HCMC and investors has developed through direct and indirect relations. HCMC, however, still suffers inadequacies that affect badly the flow of FDI, such as poor infrastructure, red tape, and slow land clearance, and in 2008 particularly, transport and traffic, and badly-run ports.

Foreign investors usually consider long-term advantages, instead of short-term ones, and HCMC is not an exception. Many surveys among

foreign investors show that they are determined to do business in Vietnam and believe their licensed projects are highly feasible and productive. They think that present difficulties (deflation, poor infrastructure, badly-trained labor, and red tape) are temporary. They put their trust in possibility of development in long and medium term and will make more investment in Vietnam.

2. An analysis of HCMC business climate

a. Strengths:

- As an economic and scientific center with close relations with the Southern Key Economic Zone and potentials for better communications, development of the HCMC can lead to growth of the whole Zone.

- HCMC authorities are active and have long-term vision and ability to adjust to changing business climate.

- Infrastructure in HCMC is still better than in other provinces.

- Labor force in HCMC has ability to absorb new knowledge and technical advances, part of them has acceptable expertise and productivity.

- Many experts and managers can run effectively major foreign-invested projects.

- Foreign investors usually choose HCMC as destination for their investments and consider it as the most remarkable economic and cultural center in Vietnam.

- Technology-intensive and hi-tech industries of high competitiveness in HCMC show an upward tendency while labor-intensive industries factories depending on local raw materials move to surrounding provinces.

b. Weaknesses:

- According to many economic experts, change in HCMC structure of industry in recent years has been slow, economic growth hasn't been stable, competitiveness poor, and employment of existing resources less effective. In addition, managerial skills of high-ranking officials in HCMC are not effective enough to cope with changes in the business climate and requirements posed by investors.

- Traffic congestion has gone from bad to worse, which may discourage foreign investors who look for business opportunities.

- Technical infrastructure is overloaded, and frequent black out causes difficulties for producers.

Road accidents, social evils and crimes tend to increase. Pollution gets more and more serious.

- Administrative reform is carried out slowly, and the red tape is still a nightmare for both foreign and local investors.

c. Opportunities:

- HCMC growth rate in 2008 was 12.6%, higher than the target of 12% set for the period from 2006 to 2010. According to the VCCI, HCMC ranked 13th in terms of PCI in 2008, that is, among provinces with good competitiveness. This may be one of factors that persuade foreign investors to select HCMC as destination for their investment.

- HCMC business climate is favorable. Competition is keen and market develops well, which may make foreign investors feel confident in its potentials for further developments.

- According to the development strategy adopted by the HCMC government, HCMC will be developed into a city of Asian standard by 2020 and offer better opportunities in foreign trade, building of ports, and supporting services. Present promotion activities can tap future potentials.

- The FDI is considered as central to long-term development strategy and the HCMC government tries to ensure equal opportunities for all investors without discrimination.

d. Disadvantages:

- Vietnam is facing certain difficulties (high inflation rate, wide trade gap, increasing budget deficit, failure to work out a stable monetary policy; with affects badly the HCMC development program.

- According to an annual JETRO report, rental of houses for high-ranking officials and offices in HCMC is of the highest level in Asia (equal to Singaporean average rental and twice as high as the one in Seoul), and labor cost is higher than the one in surrounding provinces. Such costs may hinder the FDI flow.

- Programs to attract the FDI and carry out long-term investment promotion by both official agencies and investment consultancies are not specific enough and measures they take are not consistent.

- Readiness of companies to launch marketing campaigns and receive the FDI is still lacking. Most companies have no strategy to integrate into

the world economy and take opportunities brought about by the FDI.

- There is no staple and unique product, especially manufactured ones, from HCMC.

3. Strategy to market HCMC investment opportunities

a. Objectives:

- Contributing to successful implementation of the development strategy set for HCMC from now to 2020.

- Suggesting strategies and orientations for future development based on the above analysis.

- Encouraging increases in quantity and quality of future FDI projects in HCMC.

- Helping improve the PCI of HCMC in the coming years.

b. Criteria for suggestion of marketing strategies on investment opportunities in HCMC:

- Appropriate to principles of marketing- mix operations.

- Able to link HCMC comparative advantages with long-term positive effects in order to create higher added values compared with the present ones.

- Based on opinions from foreign investors and experts about realistic strategies.

- Appropriate to criteria for estimating the PCI 2008 offered by the VCCI with a view to working out a strategy based on HCMC conditions.

- Able to link present investment promoting activities with strategic marketing activities to work out a marketing program to attract the FDI.

c. Suggested core strategies:

- Paying full attention to investors' needs: Investors should be considered as central to all marketing efforts when they are conceived and implemented as well. In the overall development strategy, the HCMC government should pay full attention to the task of attracting the FDI. Regular and specific operations could be direct meetings, discusses of, and researches on difficulties suffered by investors and business circles as well with a view to solving them basically. In addition, the HCMC government should create favorable conditions for investors and their families' stay in HCMC. The HCMC Service of Planning and Investment has started providing them with special cards that allow them to complete customs formal-

ities more quickly. This can be considered as a useful effort to facilitate investors in their operations. Vietnamese expatriates can be considered as potential investors and appropriate programs must be worked out to persuade them to start their businesses in Vietnam and HCMC in particular.

- Developing industries with comparative advantages: The general future direction taken by the HCMC government is to concentrate on four services with high growth rate. They are financial- banking service, tourism, post and telecommunications, and transportation – warehousing because they are considered as services of better competitive advantages in comparison with surrounding provinces. In the coming years, new policies should be adopted to attract the FDI to the service sector and hi-tech industries with a view to create higher added value. Key fields are IT applications, bio- technology, electronics, new materials, telecommunication, and socioeconomic infrastructure. These fields, with their competitive advantages, can create a lot of new jobs and help change the HCMC structure of industry more effectively. In addition, the HCMC government had better limit licenses granted to labor-intensive projects because they employ obsolete technology and produce low added values, and pay more attention to protection for the environment. Certain handicrafts with long traditions should be supported properly and financial incentives may be offered to investors who are interested in such businesses.

- Differentiating comparative advantages over other countries and provinces: Competitiveness of HCMC exports must be enhanced, which is a way of attracting the FDI. Developing systematically HCMC into a service center (according to four principal directions) is necessary. One of preconditions is to carry out measures to improve the investment climate with a view to enhancing strengths of HCMC. In addition, new policies to encourage production of exports by existing FDI companies, especially the ones employing high technologies.

With its own advantages and efforts to differentiate itself from other provinces as destination for the FDI, the HCMC government should try to attract investors with financial strength, give priority to projects employing modern technologies,

and above all, consider their long-term commitment.

- Internal cooperation for development: Experience of promoting the FDI from ASEAN countries is worth learning. Singapore and Thailand are good examples of close cooperation between tourism and investment authorities in promoting both tours and investment opportunities. In HCMC, this experience may be useful when the HCMC Service of Planning and Investment undertakes the task of promoting tours and opportunities to invest in various industries, including culture and education. Foreign investors can get information, find partners, and need only submit their documents to the Service of Planning and Investment. This Service will handle the document, submit them to the HCMC People's Committee for approval if need be, and send written answer to the investors instead of forcing them to work with too many municipal agencies and offices.

To achieve such a one-stop service, the HCMC government should require its subordinate departments and services to cooperate with one another effectively and actively. What most foreign investors expect now is a new mechanism adopted by the HCMC government that can help them fulfill administrative formalities and carry out land clearance quickly, and find necessary resources (labor force, business partners, or sources of finance), so that their projects can come into operation as soon as possible.

- Developing the human resource: The human resource and its quality is an important concern for investors. HCMC authorities should work out long-term plans to develop an army of officials specializing in promoting the foreign investment, and a high-quality human resource, including managers and technicians who can work in modern facilities and factories. Universities, technical high schools and vocational centers had better take part in training laborers needed for key industries in HCMC, such as electronics, software, automation, included in the HCMC development strategy. Beside expertise and skills, the new generation of laborers must be also trained in work ethics because it was what foreign investors complained most in the past when they carried out major projects, and many of them have withdrawn their investments because of this problem.

- Developing satellites: HCMC, in the middle

of the Southern Key Economic Zone, is a hub of important resources and a gate to foreign markets. These advantages allow HCMC to establish close relations and cooperation with other provinces by estimating exactly advantages of each province, making the best use of these advantages, and acting as a middleperson between foreign investors and other provinces. By gathering and analyzing information, attracting various resources, and developing the infrastructure, HCMC can develop a system of industrial centers as satellites around it for a sustainable development for the whole zone.

4. Conclusion

HCMC has long been considered as a locomotive of the Vietnam's economic train. In recent years it has succeeded in maintaining a high growth rate and playing the leading role in FDI attraction. Realities show that the FDI not only acts as a dynamic of the HCMC economy but also affects all aspects of the HCMC life (the environment, education, culture, arts, and social affairs, etc.). The problem with HCMC marketing efforts is how to maintain the annual growth of this source of capital, and differentiate itself from other provinces in order to attract foreign investors and achieve targets set by the HCMC development plan■

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