A LOOK AT A CHANGE IN FORM OF FOREIGN INVESTMENT

by MEcon. NGÔ CÔNG THÀNH

Up to the end of 2000, according to the MPI, 116 foreign-invested concerns with a total capital of US$1.3 billion have changed their form of investment, including 13 concerns worth 39 million changing in 1991-95 and 103 ones worth 1.3 billion changing in 1996-2000.

This change took place to all forms of foreign-invested concerns, but it's mainly a change from joint ventures to totally foreign-owned companies. In the years 1991-95, eight concerns worth US$25 million changed their form representing 61% of changed concerns and 64% of capital of changed concerns. In the years 1996-2000, the change took place to 77 concerns worth US$1.2 billion, representing 74% of changed concerns and 92% of their capital.

1. Causes of changes in forms of investment

This change happened to loss making joint ventures. In 1996-97, great losses that happened to joint ventures with powerful multinationals, such as Coca Cola, BGI, P&G, etc., have aroused a lot of public discussion and interest of governmental bodies.

In these joint ventures, local parties usually hold some 30% of legal capital and therefore they couldn't influence operations of joint ventures. When doing business, each party pursued its own objectives: the local one wants to make profit as quick as possible because its main aim is to preserve the capital allocated by the state, while the foreign one aims at increasing its market shares by launching costly marketing and advertising campaigns. Foreign parties are ready to suffer losses in the first years of operation in order to defeat rivals, especially in markets for beer, soft drink and cosmetics. Local parties couldn't afford such a strategy.

Success of a joint venture depends a lot on skills of the management. Generally, most Vietnamese officials assigned to joint ventures to work with foreign partners haven't been trained in business management, commercial law and foreign languages. And as a result, they have no experience of dealing with foreign partners, fail to gather full information about operations of joint ventures, lack determination and have to rely on their superiors. When facing foreign partners, Vietnamese officials can't play the role as protectors of interests of local laborers and the country as well. They have two alternatives to take: either to agree with foreign partners on all decisions and accept losses in the first few years, or to take some forms of non-cooperation. In such cases, the demand for consensus in the board of directors becomes an obstacle to the decision making process that makes foreign partners want to finish their cooperation with local parties. In other words, foreign partners want rights to make decision to be based on capital each party puts into common fund.

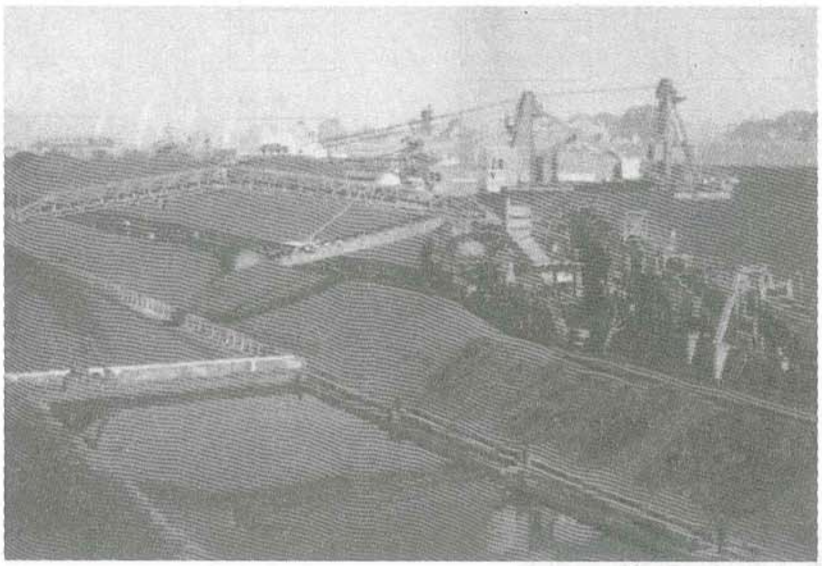
Another cause of losses suffered by joint ventures is wrong predictions and shortage of information. Vietnam lacks detailed and exact plans for development of industries or zones and when joint ventures were formed and came into operation, they couldn't come up to expectations of both foreign and local partners. Good examples of this situation are: joint ventures assembling autos used only 10% of installed capacity; foreign invested hotels enjoyed 40% occupancy at most in 2000; and projects to produce mixed concrete had to stop operating because the supply had exceeded the demand. Moreover, production of fake products and flows of contraband goods are out of control causing a lot of troubles for producers.

In addition, joint ventures have had to cover many unreasonable expenses. Investors spent a lot of money before getting their projects started: compensation for land clearance, expenses on getting licenses granted; on training and retraining or on hired experts, etc. Time-consuming procedures for getting construction licenses or renting land mean a lot of costs to investors because their projects couldn't come into operation according to plan. Extra expenditures make the project fail to perform effectively, especially if the market is saturated with certain goods.

In certain joint ventures where foreign partner is a subsidiary of a multinational that supplies raw materials and buys up the output, there have been signs of transfer pricing practices. This is also a cause of loss.

2. Foreign-invested concerns after taking new forms

Most foreign-invested concerns, after changing into foreign-owned companies, keep realizing their projects, stabilizing their operations and ensuring employment for laborers.



Some of them still suffer losses but their sales have started to increase. This situation seems good enough: thousands of laborers have their jobs and the state can collect some tax payment and land rental. The Coca Cola - Chương Dương Joint Venture in HCMC for example, after being changed into a totally foreign-owned company in October 1998, made a growth of 30% and paid some US$3 million to the state in 1999; Foster Beer Company in Đà Nẵng (former Đà Nẵng BGI Beer Company) grew by 69% a year and controlled the market in the Vietnam Central.

Realities show that only foreign-owned companies whose parent companies are multinationals with financial strength and good management could pursue their business strategies and ensure interests of the state and local laborers. If they are small companies with poor financial resources, they hardly make any progress after changing into foreign-owned concerns.

The Daly Glass Joint Venture (with a Latvian partner) with an investment of US$1.1 million, still faced difficulties in expanding its market share and making profits after changing its form and had to go out of business. A Russian - Vietnamese joint venture producing champagne with an investment of US$10 million, after changing into a Russian-owned company and building its factory, its financial situation wasn't improved and forced to sell 20% of their shares to local partners and come back to the form of a joint venture. The same thing also happened to Belatex (a US$37-million joint venture with a Belorussian partner) that have sold out its shares to a Vietnamese company.

3. Some suggestions

The need to change into foreign-owned companies has increased in recent years when some amendments were made to the Foreign Investment Law in 2000 that facilitated changes in forms of investment for foreign companies. However, procedures for this change are still too complex because they require a consensus in the board of directors and approval from license granting bodies. In joint ventures where local partners are state-owned companies, a seal of approval from the ministry controlling these companies is needed. And as a result, the change into foreign -owned companies takes a lot of time and energy of foreign investors.

One of feasible solution is to privatize (or "equitize" as called by Vietnamese government) these foreign-invested companies, especially loss making ones; that is, to allow them to change from limited companies into joint stock companies. In this case, the foreign-invested company will have many solutions to their financial difficulties without confronting complex procedures: selling shares held by local partners to foreign ones to become a foreign-owned company or selling shares to local investors to become a public limited companies, etc. Moreover, if the Government wants to encourage joint ventures in certain industries, the privatization will be a good measure to increase the amount of shares held by local partners ■