

FOREIGN DIRECT INVESTMENT

AN ORGANIC PART OF THE VIETNAMESE ECONOMY

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I. FOREIGN DIRECT INVESTMENT IN VIETNAM IN THE PAST TEN YEARS

1. Projects and investment capital

Up to Dec.31, 1997, 2,320 investment projects with total registered capital of US\$35,042 million (including the additional capital of US\$3,810 million allowed lately) were licensed, 366 of them were revoked and 23 were completed. Thus, 1,931 projects with total capital of US\$32,102 million invested by companies from 60 countries and territories are in operation in Vietnam.

From 1986 to 1996, the amount of investment projects and capital increased remarkably, but both the size of an average project and capital started to decrease in 1997 as shown in the following table:

Table 1: Realization of FDI Projects (1988-1997)

| Year | Size of average project (US\$ mil.) | Registered capital (US\$ mil.) | Realized capital (US\$ mil.) |
|------|-------------------------------------|--------------------------------|------------------------------|
| 1988 | 7.2 | 366 | 30 |
| 1989 | - | 539 | 100 |
| 1990 | - | 596 | 180 |
| 1991 | 8.1 | 1,294 | 221 |
| 1992 | 10.3 | 2,036 | 398 |
| 1993 | 9.6 | 2,652 | 1,106 |
| 1994 | 11.1 | 4,071 | 1,952 |
| 1995 | 16.2 | 6,616 | 2,652 |
| 1996 | 23.2 | 8,528 | 2,311 |
| 1997 | 13.3 | 4,453 | 2,950 |

2. Foreign investment by industry

Foreign investment has been put in all kinds of industries, but most of it was attracted to manufacturing industry (60% of total projects and 50% of total registered capital), office block building and advisory service (7.8% of projects and 19% of capital), hotel-restaurant (7% of projects and 10.4% of capital), transport and communications (4.4% of projects and 4.2% of capital).

3. Distribution of investment projects

FDI projects are present in all 54 provinces and cities but 70% of them are concentrated in eight ones.

Table 2: Foreign investment by industry

| Industry | Project | Invested capital (US\$ mil.) |
|--|---------|------------------------------|
| Agriculture-Forestry | 54 | 316 |
| Mariculture | 47 | 206 |
| Mining | 79 | 2,184 |
| Manufacturing | 1,291 | 13,008 |
| Communications | 102 | 1,465 |
| Hotel-restaurant | 161 | 3,650 |
| Office block building-advisory service | 181 | 6,668 |
| Electricity, water and gas | 15 | 565 |
| Construction | 78 | 1,560 |
| Education | 6 | 8.3 |
| Health care | 11 | 164 |
| Culture-Sports | 26 | 1,055 |

Table 3: Distribution of investment projects

| Locality | Project | | Invested capital (US\$ mil.) | |
|------------|---------|-------|------------------------------|-------|
| | Amount | % | Amount | % |
| HCMC | 650 | 28.02 | 8,368 | 24.00 |
| Hà Nội | 347 | 14.96 | 6,680 | 19.06 |
| Đồng Nai | 231 | 10.00 | 3,682 | 10.50 |
| Vũng Tàu | 81 | 3.50 | 2,197 | 6.27 |
| Hải Phòng | 80 | 3.48 | 1,407 | 4.01 |
| Bình Dương | 139 | 6.00 | 1,099 | 3.14 |
| Quảng Ninh | 33 | 1.40 | 776 | 2.21 |
| Đà Nẵng | 53 | 2.24 | 754 | 2.15 |
| Total | 1,613 | 69.52 | 24,963 | 71.24 |

4. Foreign investors

Up to now, there are some 800 companies from 60 countries and territories are in operation in Vietnam, some 61% of capital invested came from Asian countries, and 28% from Western countries.

Table 4: Topten Investors

| Investor | Project | Capital (US\$ mil.) |
|------------------------|---------|---------------------|
| Singapore | 187 | 5,686 |
| Taiwan | 352 | 4,302 |
| Japan | 255 | 3,296 |
| South Korea | 207 | 3,194 |
| British Virgin Islands | 66 | 2,681 |
| Hong Kong | 184 | 2,411 |
| Malaysia | 63 | 1,343 |
| France | 89 | 1,332 |
| Thailand | 78 | 1,058 |
| USA | 63 | 1,030 |

5. Forms of investment

According to the Foreign Investment Law, investors can choose one from the following forms of investment: joint venture with local partners, foreign-owned company, contractual cooperation business and BOT project. Up to Dec. 31, 1997, foreign investment was classified according to the form as follows:

- Joint venture: representing 64% of projects, 72.6% of total capital with the size of an average joint venture of US\$17 million.

- Foreign-owned company: representing 28.8% of projects, 17.6% of total capital with the size of an average foreign-owned company of US\$8.7 million.

- Contractual cooperation business: 7.17% of projects, 8.17% of total capital and the size of US\$17.3 million for an average contractual cooperation business.

- BOT project: representing 0.03% of projects, 1.63% of total capital with a size of US\$262.4 million for an average BOT project.

6. Estimates

- Foreign direct investment in Vietnam increased rather fast: in the years 1988-1996, the amount of projects increased by 31.5% a year, and registered capital by 45%. But in 1997, everything tended to slow down although most developed countries have been present in Vietnam.

- The percentage of realized capital reached 37% and it takes a project some six or seven years to realize all capital registered. This rate is common in all developing countries for the first ten years attracting foreign investment.

- The average size of investment projects became bigger and bigger until 1997. At present, the average size is of US\$16.6 million.

- Foreign investment is present in all industries. This means that the business environment is favorable, therefore it requires a matter plan to direct flows of

FDI, because certain industries should be saved for local companies and domestic investment.

II. AN ESTIMATE OF FOREIGN DIRECT INVESTMENT IN THE PAST TEN YEARS

1. Achievements

- FDI has helped to increase the gross investment and at present, according to the General Department of Statistics, it represents 31-33% of the gross investment. Most of it is put in oil, equipment for telecommunications and infrastructure building businesses.

- FDI helped to change the structure of industry by enhancing the relative importance of manufacturing and service industries.

- Value of fixed assets of foreign-invested sector reached US\$5,938 million (1996), 79% of this sum was in manufacturing industry, 6.5% in hotel-restaurant and 5.5% in transport and communications businesses. The working capital of foreign-invested sector was US\$2,103 million (1996), 62.2% was in manufacturing industry.

- Contribution from this sector to the GDP also increased year after year.

- Statistics also showed that industries with big foreign investment (such as manufacturing, transport, communications, real estate, hotel and advisory service) had gained high growth rates. For example in 1996, the

Table 5: Growth rate and contribution from foreign-invested sector (%)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---------------------------------------|------|------|------|------|------|------|------|------|
| Growth rate | 5.1 | 6.0 | 8.6 | 8.1 | 8.8 | 9.5 | 9.34 | 9.0 |
| % of GDP from foreign-invested sector | - | - | 2.0 | 3.6 | 6.1 | 6.9 | 7.7 | 8.6 |

manufacturing industry increased by 14.1%, in which local industrial output increased by 12% while foreign-invested output increased by 21.4%.

- FDI is predominant in many industries: 100% in oil industry, 63% in car and motorbike assembling business and 40% in leather and electronics industries.

- Foreign-invested sector also helped to increase the export value: its exports (including crude oil) were worth US\$1,100 (or 27.1% of the national export value) in 1994; 1,350 million (24.7%) in 1995; 1,740 million (24.5%) in 1996.

- FDI projects, up to the end of 1997, have employed 250,000 workers (97% of them are Vietnamese). This sector created from 36,000 to 40,000 new jobs every year. The average income of a worker in this sector increased from US\$84 a month in 1994-95 to US\$94 in 1996.

- Foreign-invested sector also helped to train laborers and managers. Its contribution to the budget income increased year after year, from US\$621 million in 1994 to 738 million in 1995 and 980 million in 1996, by 25.6% a year on average. The presence of this sector also forced local companies to improve their product quality and managerial skills with a view to integrating into the world market.

2. Shortcomings

- FDI in Vietnam has shown a downward tendency.

- The stake in joint ventures held by Vietnamese parties is usually small (under 30%), and in form of land use right or natural resources.

- Foreign investment is distributed unreasonably among industries: Foreign investment had become strong competition against local companies in such in-

dustries as soft drink, detergent and textile, or made the supply exceed the market demand for such goods as beer, whisky, hotel room and restaurants.

-Foreign investment was also distributed unevenly among provinces and regions.

-Business performance of foreign-invested projects wasn't high. Many projects have suffered losses (most of these projects were joint ventures or foreign-owned com-

subordinate legislation) dealing with FDI must be made clear, consistent and strict. These documents must be translated correctly into foreign languages with a view to facilitating their implementation and enforcement.

+ The economic development requires a law (instead of two separate laws as we have now) dealing with both foreign and domestic investment.

+ The Government, consulting long-range develop-



panies).

-Ratio of export value to total sales tended to decrease, although absolute value of both sales and exports increased.

-Ratio of import value to total sales increased because imported components represented from 70% to 95% of production output made by companies in electronics, motorbike assembling and precise measuring equipment industries.

-Machines and equipment brought in Vietnam by foreign parties were usually second-hand ones and were marked up excessively.

-Violations of laws, especially the Labor Code, and tax evasions started to make their appearance.

III.SOME MEASURES TO OBTAIN MORE FDI

Although many problems have arisen from it, FDI has contributed considerably to the economic development and become an organic part of the Vietnamese economy, therefore, attracting and employing FDI effectively has stimulated a lot of interest, especially among policy-makers. When FDI showed downward tendency in 1997-1998, the Government had to take measures to save the situation:

-The PM has had many meeting with representatives from foreign-invested companies with a view to listening to their opinions.

-Issuing law documents that encourage both domestic and foreign investment, especially in hi-tech and export-oriented industries; allowing them to export goods and services directly; and accelerating the administrative reform by realizing "one-door" schemes.

However, in the coming years, many other measures and policies are needed to attract and employ FDI more effectively.

+ The system of law documents (that is, the bulk of

ment programs and targets, had better build plans to attract and distribute reasonably foreign investment to industries and regions and at the same time, publicize these plans. Another task is to help local companies invest in overseas markets.

+ Techno-economic infrastructure, as a precondition for economic growth, must be developed as quickly as possible, that is, more money must be put in infrastructure building projects.

Above all, Vietnam should invest adequately in education and training because human resources are the most precious and of the greatest importance to absorption of technical knowledge. Without good managers, outstanding scientists, experienced engineers and skilled workers, foreign investment can't be employed effectively.

In short, the process of economic development always poses new problems and all necessary measures must be realized properly, consistently and simultaneously so as to increase and employ foreign direct investment effectively.

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