

The economic development history teaches us that an investment equal to 20%-25% of GDP is needed for gaining an annual growth rate of 7-8%, but to gain a growth rate of 10-12%, one needs an investment of 30% of GDP. When source of capital is scarce, the control of the relationship between supply and demand of capital will be, to some extent, a decisive factor in the development strategy. The source of capital needed for development can only be found in domestic savings and foreign investment. In the long run, the domestic source of capital is of the greatest importance, because it secures a stable growth rate and keeps one nation away from dependence on foreign countries. The Japanese are proud of the economic development on the strength of their own. However, in



1,402 licenced projects with total capital of US\$16,200 million. The foreign investment in Vietnam increased by 50% a year on average. Many changes have taken place in the structure of investment. In the first years after the Foreign Investment Law, the better part of foreign investment were put in oil, hotel and restaurant businesses, but since 1992, the number of projects in manufacturing industry increased gradually. Projects to build infrastructure, industrial estates, export processing zones, high-tech industries and introduce advanced techniques to agriculture have contributed remarkably to the alteration of Vietnam structure of industry.

By the end of July 1995, realized investment in Vietnam amounted to US\$4,980 million (30.7% of total capital registered). Foreign invested pro-

MEASURES TO ATTRACT AND EMPLOY MORE EFFECTIVELY FOREIGN DIRECT INVESTMENT

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the first stage of economic development, no developing country refuses foreign capital. Foreign investment is considered as a way of escaping from the vicious circle facing developing country.

The foreign investment includes direct and indirect investment.

The indirect investment consists of capital supplied by governments, NGOs and international organizations as aid; loans of preferential rate of interest and long maturities supplied by international financial institutions; commercial loans from foreign banks; money raised by issuing bonds and bills in foreign markets. The foreign indirect investment usually brings in large sums of money so it can produce substantial effects on the economic development, but it usually forces recipients to suffer political ties, or to run into debt after debt if they don't know how to employ foreign loans effectively.

The foreign direct investment

includes capital invested by private persons or companies who usually control businesses they set up in recipient nations and try their best to make some profits from their investment. The foreign direct investment is usually of smaller scales compared with indirect investment, but it is always accompanied by business ability, therefore it can introduce modern managerial skills and new technology which help developing new industries and new army of managers and businesspersons.

The Vietnam's Foreign Investment Law was adopted by the National Assembly in December, 1987, adjusted for the first time in June, 1990 and in December 1992 for the second time. Along with the Law, many decrees and ordinances relating to foreign investment management were issued with a view to creating legal infrastructure for foreign direct investment in Vietnam.

Up to July 1995, there were

projects have supplied 70,000 new jobs directly and 100,000 new jobs in construction business. In 1993, foreign invested companies exported US\$169 million worth of goods (excluding crude oil); in 1994, export earnings of the companies reached US\$300 million, representing 8.3% of Vietnam export turnover and 20% of exported manufactured goods. Their exportation has helped with increasing the source of foreign exchange, stabilizing the exchange rate and controlling the inflation rate.

In 1994, foreign invested companies produced 34,000 tonnes of steel and steel products, 25 million meters of cloth, 135 million liters of beer; assembled 7,000 automobiles and 70,000 motorbikes; built 2,500 hotel rooms and planted 13,500 hectares of forest. Moreover, through foreign direct investment, many advanced technologies and techniques were introduced to different industries such as telecommunications, oil explora-

tion; automobile and motorbike assembling and making; chemical; biotechnological techniques used in growing banana, maize, mushroom, vegetable; hotel construction, etc.

Foreign investment has also helped increasing the budget income. Foreign companies brought the public treasury in US\$120 million (including commission on oil business) in 1993, and US\$128 million in 1994 (not including commission on oil business and import duties).

The foreign direct investment in Vietnam has helped Vietnam stabilize the economy, adjust the economic structure, develop new industries, create new jobs, increase export turnover, control the inflation rate, and accustom itself to advanced technology and modern managerial skills.

In short, the foreign direct investment in Vietnam has contributed

province was disproportionate because of lack of incentive scheme. Many provinces received no, or only a little of, foreign investment (in the North, the Central Vietnam or Western Highlands).

- There were many defects in the mechanism for managing foreign investment projects, from signing contract to realizing projects.

- The percentage of capital put by Vietnamese partners in joint ventures with foreign companies was low (around 20% to 30%) with the result that Vietnamese partners were put at a disadvantage.

- Officials undertaking the task of receiving foreign capital or working in partnership with foreign managers lacked both managing experience and professional knowledge.

- Many procedures were complicated, the infrastructure was poor and

vestment is five to one, and three to one in some other countries. According to experts, this ratio in Vietnam could be two to one. In the past years, this source of capital wasn't developed properly so the foreign investment attracted was limited. In fact, we haven't had enough capital on the first days of our economic renovation to improve the infrastructure or develop local sources supplying raw materials, therefore Vietnam became unattractive in the eyes of foreign investors. Furthermore, lack of domestic source of capital put us at a disadvantage in cooperating with foreign partners and sharing profits.

3. To improve the investment environment in order to make our country as attractive as other nations in the region.

4. To reform administrative procedures and the mechanism for man-



to the development of Vietnam's multi-sector economy, of the fair competition between foreign and local companies, thereby forcing local companies to reduce their production costs and enhance product quality. On this basis, Vietnam could integrate into the world economy.

Moreover, the foreign direct investment in Vietnam has accelerated the improvement of Vietnam's legal infrastructure in the direction of integration into the world community.

However, there are many problems needed to be solved in order to develop the foreign investment in Vietnam.

- Although the investment rate is on the increase, but there were many shortcomings in the realization of projects to the detriment of both foreign investors and local partners.

- The allocation of investment by

the service industry underdeveloped. These are main disadvantages in attracting foreign capital.

In order to attract and employ more effectively the foreign direct investment in Vietnam in the coming years with a view to meeting the need for capital from now until 2000, the Government had better take the following measures:

1. To make the best use of both direct and indirect foreign investment and to use indirect investment for attracting direct investment.

2. To develop domestic source of capital with a view to gaining enough economic strength to absorb foreign investment.

Experience shows that it's necessary to have an abundant domestic source of capital if we want to attract foreign effectively. In China, the ratio of domestic investment to foreign in-

aging sources of foreign investment.

5. To develop the capital market and attract more foreign capital by issuing government bonds and shares in foreign markets: the absence of a capital market has put foreign investors in a difficult position because they can't find out information needed for their decision-making process, diversification of assets, distribution of risk, etc.

6. To train and retrain officials managing foreign investment: They could be trained at home or abroad or go on short-or long-term courses. For the time being, we are badly in need of planners, lawyers, managers and experts in examining and evaluating investment projects. Training human resources is a permanent task but it has become a matter of great urgency in Vietnam now ■