

# Foreign Direct Investment in Tourism REVIEW AND PERSPECTIVE

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In the conference reviewing Vietnam tourism performance held in January 2005, Mr. Nguyễn Đức Phúc, Deputy Head of Vietnam National Administration of Tourism said one of major tasks of the industry in 2005 is to attract foreign direct investment (FDI) to Vietnam's key tourism resorts, then build a national tourism program in the 2006-2010 period, turning tourism into the leading industry as expected by the Vietnam Communist Party's ninth national congress. This is really a great task of the industry in FDI attraction. Given the situation, we like to take a look at the industry's past performance and its perspective.

## 1. Tourism performance over the past years

Today in many countries over the world, tourism has become a leading industry, helping improve the national economy. Vietnam also has soon recognized this advantage and mapped out a strategy to develop its tourism in specific periods, and step by step integrated it in the international tourism development.

The above table shows that Vietnam tourism has progressed and recorded a lot of significant achievements. The number of foreign visitors to Vietnam is growing firmly over year. It has risen from 300,000 in 1991 to 2,923 in 2004. Domestic visitors also show an upward trend from 1.5 million in 1991 to 15.4 million in 2004. The tourist revenues soared fast from VND2,180 billion in 1991 to VND26,000 bil-

lion in 2004. In respect of travel purposes, Vietnam is an attractive destination for international visitors' refreshment because Vietnam tourism has taken the advantage of natural conditions, ecology, cultural and historical tradition and unique features. This is why Vietnam tourism has attracted many travelers from Asian countries.

On the other hand, the year 2004 is a highly successful one for Vietnam tourism, helping the country affirm its position in the international market as a safe destination. In 2004, the industry received 2.93 million foreign visitors, up 20.5% on 2003; 15.4 million domestic visitors, up 11.5% year-on-year; and its revenues reached VND26,000 billion. Its successful performance may be attrib-

uted to the following factors:

- The tourist sector has boosted promotion via many events including the ASEAN European Meeting - ASEM 5, Điện Biên Festival, Huế Festival, Đà Lạt Flower Festival...

- The Government has realized proper projects to upgrade tourism infrastructures. In 2004, it invested VND1,500 billion in transport and tourist renovation.

- The Government has renewed policies in tourism such as bilateral visa exemption to ASEAN countries and especially unilateral visa exemption for Japanese and Korean visitors.

- The sector's FDI shows a sharp increase: from 13 projects with US\$64.7 million in 2003 to 21 and US\$209 million re-

spectively in 2004. Most of projects have been concentrated to building high-ranking hotels and resorts to tempt international visitors.

As a matter of fact, FDI plays an extremely significant role in the country's tourism development. Nevertheless, the sector's past performance has not caught up with that of regional countries, especially Malaysia, Thailand and Indonesia. According statistics, Malaysia receives 14 million foreign visitors annually, Thailand 10 million and Indonesia 5 while Vietnam's figure has not surpassed 3 million in spite of its great efforts. This is truly a problem to be soon solved with the FDI support to exploit the country's advantages.

## 2. FDI in tourism over the past years

Table 1: Tourism performance from 1991 to 2004

Unit: 1,000 persons

Indicator	Year							
	1991	1998	1999	2000	2001	2002	2003	2004
1. Total foreign visitors	300	1,520	1,782	2,140	2,330	2,628	2,429	2,923
2. By main purposes	300	1,520	1,782	2,140	2,330	2,628	2,429	2,923
- Relaxing	215	599	838	1,138	1,225	1,461	1,239	1,584
- Working	32	292	266	491	284	446	468	522
- Visiting relatives	25	301	337	400	751	431	392	467
- Others	28	328	341	111	70	290	330	350
3. By countries	300	1,520	1,782	2,140	2,330	2,628	2,429	2,923
- ASEAN countries	22	25	167	265	241	269	327	392
- Other Asian countries	196	655	824	1,067	1,101	1,320	1,241	1,536
- Europe	35	123	234	262	302	449	395	465
- American	12	177	309	313	266	304	259	272
- Others	35	540	248	233	420	286	207	258

Source: Vietnam National Administration of Tourism



Since the Party and Government implemented open-door policies, Vietnam has attracted capital flows from 68 countries and territories with 5,021 projects and total investment of US\$45.3 billion. In 2004 alone, the FDI in Vietnam registered US\$4 billion. So it ranked third in foreign capital recipients of ASEAN, only behind Singapore and Malaysia and equivalent to Thailand.

said Vietnam destinations are less charming than regional countries due to the following obstacles:

- Costs of electricity and water as well as office rents are so high. The site clearance for construction remains very slow and exorbitant.

- Vietnam's dual price system for foreign and local investors also produces adverse effects on foreign investors' feeling.

- The infrastructure is

search of investment opportunities in Vietnam.

- Vietnamese employees in tourism have not yet acquired adequate knowledge and skill for their jobs and the sector's development. The number of unskilled or less-skilled labor remains large while that of well-educated workers very modest.

- Domestic tourist businesses are carrying out unfair competition: They are seeking every way to lower

growth is partly due to foreign investment.

### 3. Development trends of tourism in the near future

According to the World Tourism Organization (WTO), the tourism perspective is so bright in the next years. The WTO forecasts international visitors may reach 1 billion people and the revenues US\$900 billion by 2010. The industry may also offer more 150 million direct jobs, mainly focused on the Asia-Pacific, in which the Southeastern region accounts for an important share, 34% of tourists and 38% of sales. In such favorable conditions, Vietnam has soon established a long-term strategy to develop its tourism until 2010 with detailed goals as follows:

- In 2005: Foreign arrivals range from 3 to 3.5 million, and domestic visitors 15-16 million and tourism revenues reach over US\$2 billion.

- In 2010: Foreign arrivals range from 5.4 to 6.0 million, and domestic visitors 25-36 million and tourism revenues reach US\$4-4.5 billion.

To attain the above targets, the sector is required to implement a lot of important strategies, in which the following ones should be given priority:

- Tourism development: Tourism development must make the best use of the state budget along with domestic and foreign investments. Attention should be given to building national tourism resorts and tourism theme parks. Tour destinations must be upgraded and expanded. The sector shall improve its human resource and promotion programs to generate attractive products, which symbolize each region's features and the whole country.

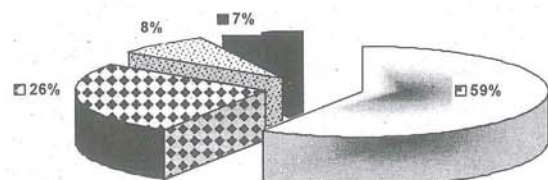
- Integration and international cooperation: the sector shall enhance and enlarge bilateral and multilateral cooperations with

Table 2: Foreign direct investment by industry until 2004

Industry	Number of projects	Total capital (US\$)	Legal capital (US\$)	Realized capital (US\$)
Manufacturing	3,361	26,365,981,557	11,544,702,162	17,801,958,310
Farm and forestry	688	3,400,463,297	1,501,415,570	1,661,155,186
Service	972	15,601,934,687	7,044,636,254	6,495,977,981
Including tourism	165	3,604,889,648	1,252,434,053	2,198,068,809
<b>Total</b>	<b>5,021</b>	<b>45,368,379,541</b>	<b>20,090,753,986</b>	<b>25,959,091,477</b>

Source: Foreign Investment Department - Ministry of Planning and Investment

FDI BY INDUSTRY



■ Manufacturing ■ Service ■ Tourism ■ Farm and Forestry

Out of 5,021 FDI projects in Vietnam, there are only 165 engaged in tourism with combined capital of US\$3.6 billion, representing 7.9% of the total. So far, as many as 20 countries and territories poured their money in this sector, the top investor is Singapore with 50 projects and US\$2.5 billion, followed by Taiwan, Hong Kong and South Korea. A series of large hotels and resorts have been built in HCMC, Hà Nội, Bà Rịa - Vũng Tàu and Quảng Ninh.

Nevertheless, foreign investors have not yet indicated their keen interest in Vietnam tourism. They

poor: Most of local areas, which are endowed with tourist potentials, especially eco-tourist, are encountering poor infrastructures not meeting standards of green, clean and beautiful tourism. Although Vietnam's infrastructure networks have been upgraded and constructed over the past years, they still do not meet mounting requirements of the sector's development; in addition they are focused on large cities like Hà Nội and HCMC.

- Administrative procedures are so complicated, placing a lot of barriers to foreign investors in their

product prices and service quality, causing low revenues and profit rate to the sector. This also leads to foreign investors' misunderstanding about investment return in Vietnam

tourism.

In the meantime, the sector's development shows significant contributions of FDI. Sales of foreign-invested tourist businesses indicate a robust growth. It soared from US\$12.7 million in 1990 to 155.1 million in 1996 and 141.5 million in 1997 accounting for 18.2% of the sector's total. Their contribution to the Treasury climbed from US\$2.15 million in 1990 to US\$19.35 million in 1997, US\$25.73 million in 2000 and US\$240 million in 2004. It is thus obvious that the tourist sector's steady



international institutions; and prepare necessary conditions to integrate in the international tourism when Vietnam becomes a member of WTO. On the other hand, Vietnam also encourages and facilitates foreign investments in building tourism facilities and producing high-ranking products. In addition, official development assistance should be also used for developing the human resource, technologies and environmental protection in tourism.

#### 4. Tourism capital demand in the near future

In the 2005-2010 period, the FDI demand in tourism is extremely huge, regarding only projects, which the Government calls for FDI, the capital need has amounted to US\$2 billion. According to Ms. Võ Thị Thắng, Head of Vietnam National Administration of Tourism, in 2005 alone, the Government will earmark VND550 billion to build tourism infrastructures. This amount will be focused on four national tourism resorts and 17 tourism theme parks in order to make connections across the country in tourism development. In addition, the administration also, in cooperation with local governments, organizes conferences attracting FDI to Hà Nội, Hạ Long - Cát Bà, Hà Tây, Huế, Đà Nẵng, Quảng Nam, Khánh Hoà, Phú Quốc with total capital of US\$110 million for 18 projects.

In the meantime, local authorities have also planned their FDI attracting programs from 2005-2010, especially potential cities and provinces. The plan is indicated in the table below:

Therefore, as compared to the 1998-2004 period, the capital requirement for the years from 2005 to 2010 increases 150%. To allure these funds, the sector should devise its own strategies to allure foreign

investors in addition to natural resources and the Government's incentive policies.

#### 5. FDI attraction in tourism

As mentioned above, FDI attraction is one of important strategies of Vietnam tourism. I would like to introduce some suggestions as follows:

First, to promote investment: At present, provinces and cities have not yet earmarked budget for FDI promotion. Recently, the Prime Minister has instructed the Ministry of Finance to establish a fund for investment promotion. Nevertheless, this is also an encouraging sign for local tourism authorities to orientate their paths. As a result, besides their liberalization of investment climate by reforming administrative procedures, they must boost investment promotion and make persistent contacts with foreign investors as soon as they show their intention of investment in Vietnam and tell them our interest in their plans.

The Ministry of Finance should earmark budget for the promotion fund as instructed by the Prime Minister, and consider the proposal of Mr. Phan Hữu Thắng, Director of the Foreign Investment Department, that the ministry shall deduct 1% of FDI businesses' payment to the Treasury for the fund. By doing so, in 2004 alone, an amount of US\$2.4 million will be pumped into the fund. This amount is more or less useful to local budget for tourism development.

Second, to upgrade tourism infrastructures: Infrastructure is one of decisive factors to tourism development and FDI appealing because when determining their investment in this field, foreign investors will deliberate their sales in Vietnam tourism. Therefore, in ad-

Table 3: FDI demand for local tourist development

Province	Total expected projects	Total needed capital (US\$ mil.)
Ninh Thuận	12	1,500
Quảng Ninh	14	1,000
HCMC	10	600
Hà Nội	5	500
Đà Nẵng	14	500
Hải Phòng	8	500
Northeastern provinces	24	130
Hồng River Delta	23	116
North central provinces	29	260
South central provinces	20	70
Southeastern provinces	7	100
Central Highlands	8	27
Mekong Delta	18	100
<b>Total</b>	<b>192</b>	<b>5,403</b>

Source: Provincial lists of FDI appealing projects)

dition to investment incentives, the Government shall take effective measures to upgrade infrastructures, especially for transport and communications. The money for these projects may come from the Treasury, public sources, FDI, ODA or NGO.

Third, implementing syndicate projects: Syndicate projects are commonly applied in many countries over the world. They will help build tourism complexes meeting high requirements of tourists. At present, Bình Thuận has appealed a syndicate project from well-known investors including Disneyland Paris, Tokyo Disney, Disney's California Adventure, MGM, Warner Bros and Hong Kong Disney with total capital of US\$1 billion. It has been agreed in principle by the Prime Minister and waiting for final approval. If the project is developed, it is really a model of FDI attraction, which provinces and cities should learn.

Fourth, to train the human resource for tourism: The sector should give heed to training its human resource through interna-

tional cooperations. It has to devise incentive policies to attract talents, experts, and artists to its development programs.

#### 6. Conclusion

Vietnam's tourism potentialities are alluring foreign investors over the world. Vietnam is always an attracting and charming destination to international visitors. If obstacles are removed, foreign investors will rush into Vietnam to help bring Vietnam tourism to higher position in the world. ■

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