

# Foreign Direct Investment in Đồng Nai

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Up till now, Đồng Nai is among provinces and cities leading the way in attracting the FDI and results from the foreign sector here is impressive. One of worrying facts, however, is the shortage of skilled labor demanded by this sector, especially by such labor-intensive companies as Taekwang, Chang Shin, Pouchen and Việt Vinh. In addition, the stock of land for FDI projects is contracting, the average size of FDI projects is very small, solid waste from the industrial sector – including some 5,000 factories- is on the increase while there are only four effluent treatment plants and no plant for solid waste in all 17 industrial estates in Đồng Nai. These facts require a new approach to the development of the foreign sector in this province in the coming years.

## 1. The share of the foreign sector in the provincial economy in recent years

In 2004, despite overall recession of the regional and international markets, the provincial economy has kept developing at a steady rate.

- The gross products in Đồng Nai reached VND16,804 billion (by 1994 price) increasing by 13.56% - higher than the planned target. This was the highest growth rate since 2001 (2001: 11.13%; 2002: 12.19% and 2003: 13.33%).

- Per capita gross products (at current price) was estimated at VND11,136,000 a year increasing by 17.58%. This was also the highest growth rate since 2001 (this figure

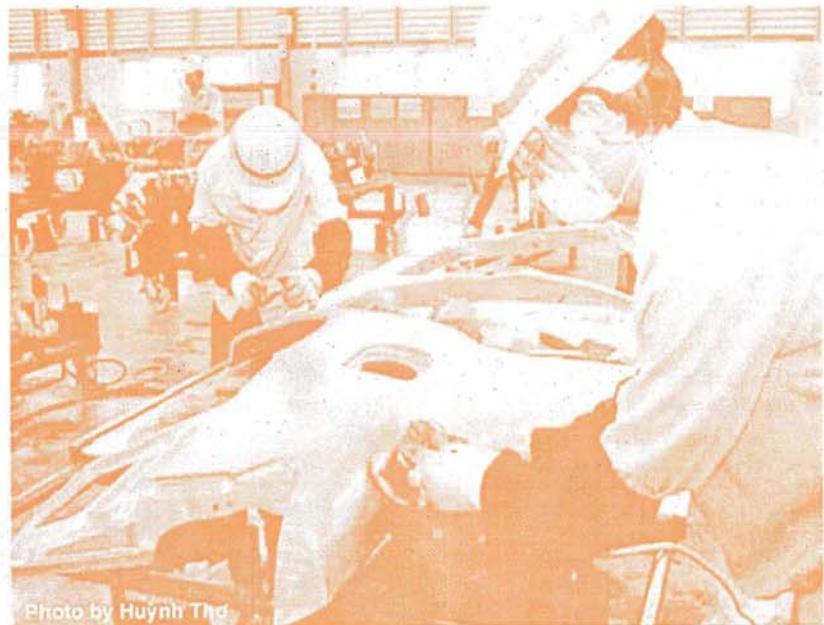
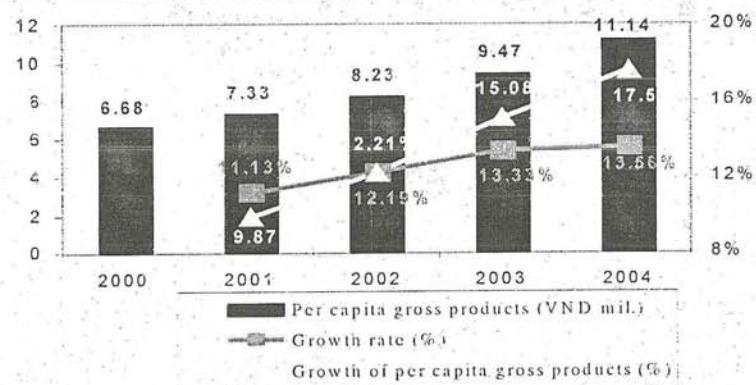


Photo by Huynh Tho

Figure 1: Increases in Đồng Nai gross products and per capita gross products over years



was 9.87% in 2001; 12.21% in 2002 and 15.08% in 2003).

- The industrial output was worth VND34,469 billion (by 1994 price) equaling 105.3% of the planned target and increasing by 20% compared with 2003. The share of the foreign sector in this output was worth VND21,443 billion increasing by 23.17%.

- Changes in the structure of industry were more favorable: the manufacturing sector represented 57% of the gross products; the service sector 27% and the agricultural one 16% (Their shares in 2000 were 52.22%; 25.56% and 22.22% respectively).

- Export value in 2004 reached US\$2,453 million equaling 117% of the planned target and increasing by 29.38%. The share of the foreign sec-

tor was US\$2,222 million rising by 29.78%.

- Import value in 2004 reached US\$3,270 million equaling 145.9% of the planned target and increasing by 24.76%. The share of the foreign sector was US\$3,119 million rising by 24.96%.

- The provincial budget income reached VND6,644 billion, 10% higher than the planned target. Contribution to the budget from the foreign sector was VND1,252 billion increasing by 64% and payment for customs duties by this sector rose to VND2,293 billion increasing by 20.88%.

- The 2004 gross investment was VND11,099 billion increasing by 12.21% while the total investment by the foreign sector in the year equaled VND5,970 billion increasing by 11.59%.

- The total retail sales reached VND12,970 billion increasing by 19.46%. The share of the foreign sector was VND1,180 billion increasing by 25.61%.

## 2. The foreign sector in Đồng Nai up to September 2005

### a. Achievements:

From January to September 2005, 86 new licenses were granted equaling 122.86% of the target planned for the whole year. The total registered capital of the newly licensed projects was US\$424 million equaling 121.14% of the planned target. An additional capital of US\$769 million, or 307% of the planned target, was also added to other 89 existing projects. Thus, development of the Đồng Nai foreign sector was beyond expectation, and this came from various reasons: efforts by provincial authorities to market its business opportunities to potential investors in Taiwan, South Korea, Japan and the U.S., etc.), the improved position of Vietnam in the international arena and more favorable conditions offered to foreign investors by Đồng Nai government. In the first three quarters of the years, two projects capitalized at US29.2 million were also revoked.

Up to September 2005, there were 684 valid FDI projects invested with US\$7,904 million by investors from some 30 countries and territories. Comprising 462 ones in operation, 61 ones under construction and 197 ones waiting for a start because of various reasons. The total realized capital was US\$4,380 million equaling 55.41% of the registered capital.

In the first three quarters of the year, the total sales of this sector was some US\$4,000 million; and its industrial output reached VND20,000 billion (by 1994 price) increasing by 25%. Its export value was US\$2,330 million increasing by 25% and import value US\$3,120 million increasing by 56%. Its contribution to the provincial budget (not including payment in customs duties) was VND468 billion equaling 71.24% of the planned target. This sector also recruited more 18,000 laborers, thus becoming an important source of job supply.

To provide investors with necessary areas for their factory building, 17 industrial parks with a total area of 5,124 hectares were developed in Đồng Nai with approval from the central government. The provincial government also zones land for 15 local industrial estates and six of them have come into operation. In addition,

many industrial clusters whose area varies from 10 to 50 hectares are also included in the development plan for the years 2005-2010. With such an effort, Đồng Nai now leads the way to the development of industrial parks.

### b. Shortcomings:

- Shortage of manual labor: Many labor-intensive companies are so badly in need of labor that they have to recruit new workers from many provinces in Central and North Vietnam or in the Mekong Delta. This shortage is more serious in projects that are to come into operation and they tend to offer more favorable terms and conditions in order to attract workers from other companies, which cause unnecessary movement of labor and competition.

- The increasingly small size of FDI projects: The average size falls from US\$27.22 million in 1995 to 5.45 million in 2000 and only 3 million in September 2005. The provincial authorities must make plan to attract major multinationals with a view to carrying out big projects, such as the Long Thành International Airport that is estimated at some US\$6.6 billion.

- Lack of high-tech projects: Most foreign-invested companies in Đồng

Nai are labor-intensive ones because most of them operate in light industries, such as farm product processing, textile, leather, clothing, and construction.

## 3. Some measures to promote foreign investment in the coming years

- Investment promotion: There must be at least one investment promotion office in such important markets as the U.S., Japan and the EU (China has succeeded in attracting investment from Japan with this model). The provincial government and industrial park infrastructure companies could cooperate in covering expenditures on these offices.

- Development of supporting industries: These industries are needed for the smooth realization of foreign investment projects. District governments should work out lists of favored projects and submit them to the provincial authorities in order to facilitate the task of promoting foreign investment.

- ISO for industrial parks: These

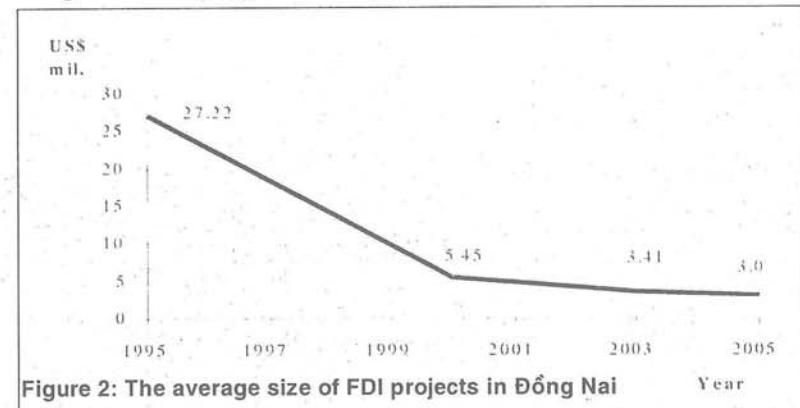


Figure 2: The average size of FDI projects in Đồng Nai

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- Absence of investors from super powers: Most investors are from Asian tigers, such as South Korea, Taiwan, Singapore, etc. and companies from Japan, the EU and the U.S. are still absent, which leads to high degrees of risk for local economy.

- Poor planning of industrial parks: The provincial authorities haven't identified the key industries in Đồng Nai in the future, therefore they fail to select and attract major investors.

parks must be developed according to the ISO standards in order to become more competitive in attracting the FDI. This effort involves reforms in administrative machinery, development of infrastructure, protection for the environment and good service sector for industrial parks.

- Redistribution of FDI projects: Various incentives could be offered to projects in northern districts.

- Better human resource: More technical schools of secondary and tertiary levels are much needed for developing the human resource for industrial parks. Local governments could include education in the list of favored projects. ■