FOREIGN DIRECT INVESTMENT IN VIETNAM AND THE SOUTHEAST ASIAN FINANCIAL CRISIS

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The financial crisis started in Thailand in July 1997, spread rapidly through the region and became a dramatic event in the late twentieth century. Many efforts have been made to get to the bottom of it with a view to preventing its disastrous effects. Many causes have been mentioned and some of them have been considered as the most important, such as:

- Total dependence on foreign investment.
- Dependency of domestic currency on the dollar.
- Huge balance of payments deficit.
- Inefficient banking system.
- Huge foreign debts, especially short-term ones.
- Bad effects caused by financial speculation.

In such a situation, Vietnamese economists started finding answers to the question of how this crisis affects the Vietnamese economy. Different viewpoints have been presented.

1. The first one argued that Vietnam wouldn't be affected because:

+ There was no stock exchange in Vietnam when the crisis broke out, therefore foreign investors couldn't withdraw capital as they did in Thailand.

+ Most foreign investment in Vietnam was direct investment so it's difficult for investors to withdraw fixed assets.

+ The exchange control in Vietnam is strict and financial speculation is banned.

2. The second opinion is that the crisis affects the Vietnamese economy both directly and indirectly because:

+ All the above-mentioned causes of a crisis could be found in Vietnam. And effects caused by the foreign sector to local economy is remarkable.

According to the MPI, up to the end of 1997, there were 1,400 investment projects financed by Asian countries or territories with total capital of US$22 billion, representing some 70% of projects and 68% of foreign capital invested in Vietnam. And most of top investors in Vietnam are suffering consequences of the crisis.

Table 1: Ten Top Investors in Vietnam (from Jan.1, 1988 to Dec.31, 1997)

Country	Projects	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	1,058
Thailand	78	1,332
The U.S.	63	1,030

Facing the danger of bankruptcy or the shortage of fund, many investors from Asian countries had to stop realizing their projects even if licenses had been granted. Some of major projects being delayed are:

- A South Korea-financed polyester factory in Đồng Nai.
- The Hanaro-Cotimex town in Đà Nẵng undertaken by a Vietnamese- South Korean joint venture.
- The Indochina Hotel by a joint venture with Malaysian partner.
- A project to make steel frame for construction undertaken by the Thais JFT Extrution.

Many other projects under construction have been stopped because of a lack of fund causing difficulties to local construction companies. Certain large-scale projects in industrial parks, after getting approval from the Government, have had no prospect of being realized for want of capital.

In addition, the relative stability of the VNĐ in contrast with the devaluation of other Asian currencies has made the đồng dearer, Vietnam's international competitiveness weaker, and Vietnam's market less attractive because cheap labor and raw materials are no longer its comparative advantage any more. That is why the foreign investment tended to slow down as of mid-1997. Since the beginning of 1998, foreign investment has been on the decrease (amount of projects decreased by 24%, capital by 22% compared with the same period last year). Realized capital this year reached only US$70 million.

+ In the modern world, the concept of "absolute economic independence" has become too obsolete and each nation exists as part of the world economy and as an independent partner in international economic relations. After joining the ASEAN, trading relations between Vietnam and other member countries developed fast in recent years. When the financial crisis broke out, the market for Vietnam's exports came to a slump and prices of Vietnam's exports fell remarkably because of its poorer international competitiveness.

+ According to Keynes, in the short run when full employment hasn't been achieved and general level of prices is relatively stable, the investment multiplier will produce its effects. Thus, when the financial crisis affects Vietnam's foreign sector, the multiplier effect will bring about changes in economic activities.

3. The third opinion maintains that the financial crisis affects certainly, but not seriously, the Vietnamese economy, mainly its export and foreign investment, because:

+ Singapore, as an entrepôt port handling some 70% of Vietnam's export value, wasn't affected by the financial crisis, while the Vietnamese Government controls strictly imports from ASEAN countries and smuggling operation, therefore the trade with ASEAN countries is still advantageous to Vietnam.

Table 2: Vietnam's Foreign Trade in the First Half of 1998

	Value (US$ bil.)	Year-on-year Comparison
Export	4.76	+10.6%
Import	6.1	+4.7%

+ Although statistics show that foreign investment in Vietnam tended to decrease in 1998, but this slump can affect only slightly the Vietnamese economy because of the following reasons:

• According to the UNCTAD, 500 top multinationals still estimated that Asia would keep on developing as expected so they would go on with their investment in this region, 26% of them even thought of increases in their investment there. With the financial crisis that requires from three to five years to overcome, Vietnam could gain an advantage over neighboring countries. If a strategy to encourage foreign investment is introduced and socio-political stability is maintained, Vietnam will become more attractive in the eyes of foreign investors.

• Many economists have affirmed that in the modern economy there is no investment multiplier effect because the role of government has become more and more important. If appropriate measures are taken on time, governments will be able to prevent the multiplier from producing bad effects.

The financial crisis also provides local companies with an opportunity to replace their production lines and technology because of a fall in prices of capital goods.

Of the said three opinions, the third one seems the most scientific and reasonable. And in fact, this opinion has helped accelerate the economic reform in Vietnam. Facing the financial crisis, the Vietnamese government introduced a series of policies to encourage both foreign and domestic investment, carry out administrative reform, allow all companies to export their products, control smuggling activity, look for new markets for Vietnam's exports, adopt the floating exchange rate system and beef up exchange control.

From above-mentioned analyses, the following lessons of the role of government could be drawn:

Firstly, it's inevitable that all developing countries will try to attract foreign direct investment, however, in doing so, full attention must be paid to effects caused by multinationals. It's agreed that in the globalization, no economy avoids dependence. But the extent of this dependence is the problem to be interested in. When multinationals carry out direct investment projects, they will bring about new technology, managerial skills, markets along with relations with holding companies. This relationship will lead to a new economic structure appropriate to international specialization and dependence of investment recipient countries on the capitalist production system. It is the dependence that brought about the financial crisis in Asian countries last year. To developing countries that want to attract and employ effectively foreign direct investment, they should work out suitable strategies on economic development: they should cooperate with multinationals that can offer new technology, capital and market, and at the same time, make the best use of local potentials, develop local companies that are strong enough to operate effectively in key industries, enter and develop in foreign markets. This is the best way to limit the economic dependence.

Secondly, when a company makes overseas investment, it always aims at gaining profit and super-profit by exploiting cheap labor and raw materials, and controlling domestic market. Therefore, to make the best use of foreign investment, governments of developing countries must use taxation as a means of encouraging investment. In addition, they must develop the infrastructure, diversify forms of investment, create more jobs and perfect the salary scale in order to encourage production, raise personal income and spending power of the local market, that is, all necessary measures to develop the local market.

Thirdly, the exchange rate is a matter of great importance and all investors are sensitive to it, therefore the policy on exchange rate must be suitable to the development strategy and orientation. The Government had better not fix the domestic currency to a certain hard currency. It should control such matters as foreign debts; budget deficit; and balance of payments, and improve the banking system. These problems are particularly important when Vietnam is making preparations for its first stock exchange.

Generally, the regional financial crisis has provided us with valuable lessons and helped economists learn more about the modern capitalism and about the value of the Marxist economic theory■