ON FOREIGN DIRECT INVESTMENT IN VIETNAM

by Prof.Dr.NGUYỄN THÀNH XƯƠNG

(Continued by the last issue)

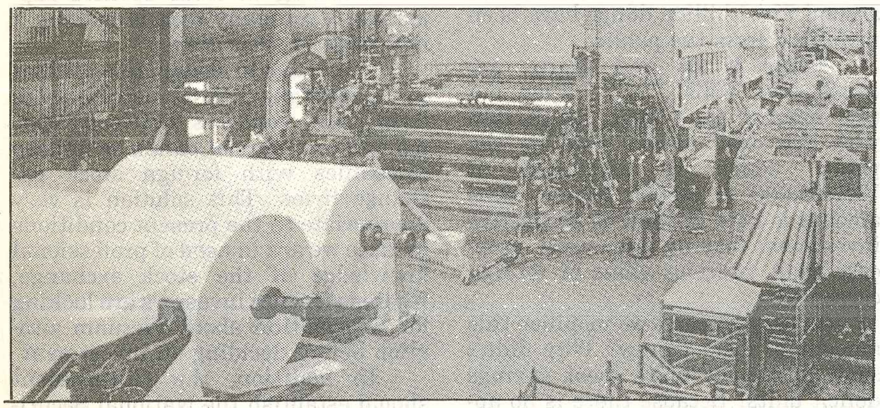
VIII. INVESTMENT ENVIRONMENT: ADVANTAGES AND RESTRICTIONS

A. ADVANTAGES:

The more favorable factors the investment environment contains, the more foreign investors it attracts. Basic favorable conditions can be mentioned as follows:

1. Vietnam politics is stable: on the base of the political stability and unification, Vietnam is carrying out an effective renovation line in order to create favorable conditions for investment and as a result makes investors trust and feel assured.

Over 10 years of renewal, so far radical factors of the market mechanism has been initially formed, liberated production forces, aroused the people's creativeness, brought the country out of big challenges, especially dangerous ones in 1990-1991, gained important achievements forcing the economy to develop stably and quickly.



In 1991-1994 Vietnam GDP increased by 8% yearly on average, agricultural products rose by 4.2%, industry 12.6%, service 8.6%, export 20%.

The economic structure initially changed in the orientation of step by step raising the ratios of industrial and service sectors.

The national finance was gradually stabilized, inflation was curbed and driven back and its rate was reduced from 800% in 1986 to around 10% over the past three years.

2. Vietnam is increasingly expanding the policy of foreign affairs with a view to diversification, multilateralization with the motto "Vietnam wants to make friend with every country". Therefore, more and more countries make relations with Vietnam and promote its external economic relations on many sides. Vietnam has established commercial relations with 100 countries and territories. The open policy of foreign relations has given a firm position to Vietnam in international politics, consequently attracted many countries' supports.

3. As regards population, labor source and natural resources, Vietnam is an untapped market; has potentiality of a population of 70-80 million people, a great labor force (40 million laborers) with literate percentage of over 85% which quickly adapts to modern technology, is diligent, clever and fond of learning; Vietnam also has potentiality of natural resources on land surface, under ground, in waters which are abundant and fully suitable for long lasting and sustainable development.

The above advantage of potentiality together with low labor price create great attraction for foreign investors.

4. In the transition to the market economy, Vietnam has urgently formed a system of law. Although this system needs perfecting and supplementing with more laws, but the initially issued laws has built a legal corridor and ground for investment activities, especially Law on Foreign Investment which was amended and supplemented two times since its promulgation (December 1987) with the aim to adapt to reality and to raise attraction for foreign investors.

In comparison with laws on foreign investment of other countries, Vietnam law is more flexible.

B. RESTRICTIONS

1. Vietnam infrastructure is poor and backward, making obstacles to the process of transporting technical facilities, products.

2. The system of economic information, communication is not really developed, defective and weak; has not met the investors' demand for information yet.

3. Vietnam system of law has not been perfected, not uniform, highly deficient. Laws and sublaws are not unified, not strict and are often changed.

Laws are not strictly executed, the Central Government's rules has sometimes given way to local ones.

Administrative procedures are still complicated and cumbersome. The bureaucracy and harassment for bribes are still common, cause numerous losses of the investors' energy, discouraging them and as a result they tend to transfer their capital to other countries.

4. Vietnamese party in the joint-venture has small share, lacks capability of management.

Vietnamese staff in JVs are inadequate, deficient in skill of production and business, foreign language, international custom.

IX. VIETNAM'S PRINCIPAL MEASURES TO ATTRACT FOREIGN INVESTMENT IN THE COMING YEARS

Vietnam is facing fierce competition with other countries, especially regional ones in the field of calling for investment capital.

In the other words, according to the plan of socio-economic development in the period 1996-2000, GDP is expected to increase by 10%-12% on average per year, export 24%, import 22%; total investment capital is planned to reach US$50-55 billion, a threefold increase over the past five years, over 50% of which comes from domestic capital sources and the remain from foreign ones (including ODA, FDI).

The above situation requires Vietnam to keep on improving the investment environment, to make conditions more favorable for attracting foreign capital.

In our opinion, the following major measures should be centered on in the years to come:

1. Perfecting the system of law, policy:

As for investors, a complete system of law which forms a strict legal corridor in business, as well as stability of policy, consistency of advocation is a prior concern.

These are mainly problems Vietnamese State shows special interest in and also poses in its plans. In the recent years, the National Assembly has spent most of time on legislating. But the perfecting, supplementing, promulgating with a view to building an uniform, complete and effective system of law should be continued urgently.

First of all, Vietnam should review and perfect the Law on Foreign Investment; make and pass laws of real estate business, exploitation of mineral products...

The State should issue regulations on mortgage, liquidation of businesses...; continue to perfect tax policy, land rent, policies on encouraging investment in mountainous areas, highland, afforestation, growing industrial perennial...; publicize the policy on compensation, clearance.

Moreover, the State should also consider the policy which permits foreigners to buy shares of Vietnamese equitized enterprises, foreign invested companies to be equitized as Vietnamese ones.

2. The State should urgently reform administrative procedures, including foreign investment procedures as well as push up the fight against red tape, harassment for bribes, the fact that the Central Government rules has to give way to local ones.

Complicated administrative procedures together with harassment for bribes from evaluating the project, considering land allotment and construction design to realizing the project is commonly the investor's complaint due to big loss of time and energy whereas for him/her "time is money". Therefore it is a pressing must to clarify and simplify investment procedures.

In 1994 the Government instructed branches, levels to reform administrative procedure including foreign investment procedure. The decree No 191 signed by the Prime Minister on Dec 28, 1994 initially implemented this basic reform in the orientation: every affair must have concrete content, be completed in fixed time and be assigned to a responsible agency.

The radical concept of this reform is State bodies concentrate on making laws, stipulating standards, guiding and inspecting the implementation, reducing at least the applying for and the granting of licences except that licences of investment, land-use right and construction are issued by way of registeration, not by application.

3. Enforcing the planning to call for investment:

With increasingly improved investment environment, the number of projects will be larger and larger. Thus it is necessary to build master plans as well as concrete plans in accordance with every territory, production field with the aim of orientating the calling for investment, avoiding the situation of spontaneousness, dispersal and perplexity, passiveness, even dispute when calling for investment. The target of each project should be combined with the requirement of altering the economic structure throughout the country as well as in each area.

At first, the State should finish the plans of investment zones concentrated on three national vital areas such as Hà Nội-Hải Phòng-Quảng Ninh; HCMC-Đồng Nai-Vũng Tàu Bà Rịa. Concentrated investment zones will create conditions for attracting more capital with higher results, securing more favorable management.

Besides export processing zones, industrial estates should be urgently planned in order to center investment in accordance with every region.

4. Urgently training staff to raise the level and capability of Vietnamese party in joint-ventures:

There are now around 3,500 officials taking part in foreign cooperation and investment. They are working in State agencies for foreign cooperation and investment, foreign invested enterprises (members of Board of Management, Board of directors, chief accountant, managers, translators,..). These officials have not been trained systematically, they should be retrained or given refresher courses.

In addition, the country should open training courses so as to prepare for receiving increasing projects in the next years, at the same time for filling the vacancy due to retirement.

In principle the training must go first. Therefore this is an extremely urgent problem. Branches and localities should decide to send their officers to training courses as soon as they plan to call for foreign investment.

Along with reinforcing training, establishments should apply the mechanism of recruitment, especially for important projects. The competent officials (not mentioning branch or locality) will work for the joint-venture if they pass the examination.

Besides, the State should form the regime of planning, strictly inspecting staff working for foreign invested enterprises. In case of necessity, unqualified officials should be definitely dismissed.

IV. VIETNAM FIELDS PRIORLY CALLING FOR FOREIGN INVESTMENT

From now to the year 2000, Vietnam needs foreign investment in eight following fields:

1. Building grounds for Vietnam oil industry, with such targets as:

- Exploiting over 20 million tonnes of crude oil.
- Finishing the first oil refinery before 2000 and then starting construction of the second one.
- Bringing gas onshore to generate electricity and produce fertilizer and liquidified gas.

The above projects need US$8 billion, of which two-thirds is signed.

2. Forming 10 industrial zones with about 900 enterprises and an investment capital of US$5 billion.

3. Developing some projects beyond these above industrial estates with a needed capital of US$2 billion.

4. Constructing 5-6 cement plants with total capacity of 7-8 million tonnes of cement, needing US$1.5 billion.

5. Developing some enterprises of heavy industry such as metallurgy, mechanics, electronics, chemicals, with a needed capital of US$1.2 billion.

6. Producing and processing in agro-forestry-fishing, needing US$0.8 billion.

7. Investing around US$1 billion in transport, telecommunication, infrastructure.

8. Improving services, tourism, hotels with a capital of US$1.5 billion■

(Speech delivered at the workshop held by the Australian National University in Hà Nội from May 8 to 10, 1995■