

ON FOREIGN DIRECT INVESTMENT IN VIETNAM



The following is the speech delivered by Prof. Dr. Nguyễn Thành Xương at workshop organized by Australian National University in Hà Nội from May 8 to 10, 1995

by Prof. Dr. NGUYỄN THÀNH XƯƠNG

I. THE NUMBER OF PROJECTS AND INVESTMENT CAPITAL

By reason of pressing requirement of the people's living and the aim to bring the country out of the socio-economic crisis and to put it into stability and development in the ever-changing world and region, Vietnam has carried out the renovation line for ten years now. This renewal line targets at changing into the market economy in the orientation of expanding, multilateralizing, diversifying the external economic relations in line with perfecting the state of law with a view to building prosperous people, powerful country and equitable and civilized society.

In order to perform the strategy of accelerating the economic development, Vietnam pays great attention to mobilizing domestic capital as well as attracting every capital source from abroad, especially that from foreign direct investment.

In December 1987, Vietnam issued the Law on Foreign Investment. In comparison with countries in the region, Vietnam is a newcomer in FDI activities. However Vietnam has made hopeful progress for six years now. To date over 700 companies from 50 countries and territories invested in Vietnam.

From six years' implementation of the Law on Foreign Investment, some basic remarks can be drawn as follows:

1. The total investment capital has soared considerably since 1988. There were barely 37 projects with a registered capital of US\$366 million in 1988, most of which were poured into oil exploration. The number of projects and capital as well though went up but not sharply in two next years (70 projects with a registered capital of US\$539 million in 1989, 111 projects with US\$590 million

in 1990). Until now the situation has changed radically: 155 projects with US\$1,388 million in 1991; 193 projects with US\$2,117 million in 1992; 272 projects with US\$2,887 million in 1993; 362 projects with US\$4,071 million in 1994.

In the first quarter of 1995 there were nearly 100 projects with a registered capital of above US\$2,018 million, equal to 50% of the total in 1994.

The realized capital has also boomed for three years now. Only above US\$ one billion were in use between 1988 and 1992 but this figure reached US\$1.1 billion in 1993 alone and US\$1.5 billion in 1994.

2. The number and scale of projects, registered capital were on the increase, particularly some big projects in the field of cement, steel, car, electronics, high technique began to take shape. Some big companies and international groups started their businesses in Vietnam such as Coca Cola, Toyota, Nissan, Peugeot, Ford, General Motor... This shows the attraction power of Vietnam's market for them since they believe in the socio-political stability and the improvement of investment environment of Vietnam.

3. The investment projects are distributed more and more reasonably throughout Vietnam. The Northern Vietnam represented 45% of the total projects, the South 55% in 1994 (the North occupied only 25% in previous years).

4. After the lifting of American trade embargo, the US companies had 29 licenced projects with a capital of US\$233.45 million (accounting for 6% of the total investment capital in Vietnam). Although America does not yet make much investment but the presence of the US is an incentive for many countries.

5. The new mode of investment began to appear: industrial zones. By late December 1994, two industrial zones had come into being: Hải Phòng (in the North) and Long Bình (in the South).

II. INVESTMENT MODE

The foreign direct investment in Vietnam is made in every mode of investment applied in the world: joint-venture, 100% foreign invested capital, business cooperation contract. Until 1994 these modes were performed as follows:

- Joint-venture: 64.6% of the total projects, accounting for 65.3% of the total investment capital
- 100% foreign invested capital: 27.1% and 17.8%
- Business cooperation contract: 8.3% and 16.9%

In the joint-venture, Vietnamese party on the whole has minority stake (30% on average) which is mainly land-use right, old factory building and equipment. Vietnamese share in currency is trivial.

The mode of 100% foreign invested capital shows upward trend, from 6% of the total projects in 1988-1991 to 17% in 1992-1994. This resulted from the fact that after a period of investigation, seeing the improvement of Vietnam's legal system, the restricted ability of Vietnamese party's pooling and arising disputes in the management board, foreign investors are in favor of 100% foreign invested capital mode so as to regulate, manage on their own.

The mode of cooperation contract is primarily realized in the field of oil exploration and exploitation. This is also an appropriate mode in this field once Vietnam does not yet have enough capital and technical levels. Vietnam should apply this mode to some projects of exploring and exploiting mines in the geological condition of many difficulties and risks.

III. INVESTED FIELDS

Invested fields	% of	
	Total projects	Total registered capital
- Industry (heavy, light, mining)	54.3	40.7
- Hotel, tourism	12.5	20.6
- Oil and gas	12.5	16.6
- Agro-forestry-mariculture	11.3	7.7
- Transportation, post office	2.6	6.0
- Service	12.0	5.5
- Finance, bank	1.6	2.1
- Others	2.6	0.8

The investment structure has seen great alteration for years, it is more and more suitable to the alteration process of economic structure in Vietnam. In the initial years investment capital centered on projects of hotel and tourism, but since 1992 and especially in 1993 and 1994, investment in industry sharply increased, accounted for 54.3% of the total projects and 40.7% of the gross registered capital.

After six years' implementation of the Law on Foreign Investment in Vietnam, above 70% of the total projects were involved in the manufacturing field, above 60% in tapping and upgrading current Vietnam's production power.

Above 12% of the total projects with 20.6% of registered capital in hotels, tourism are essential grounds for expanding and developing tourist industry in the condition of realizing the open economy.

Nevertheless, it is noteworthy such fields as agro-products processing, afforestation, fishing and marine products processing have few projects with too low ratio of registered capital in comparison with Vietnam's potentiality.

IV. INVESTMENT SCALE:

Scale	% of the total projects	% of registered capital
- Small (under US\$5 million)	70	11
- Medium (US\$5-20 million)	16	18.1
- Large (above US\$20 million)	14	70.9

The scale per project (except oil projects) on average went up gradually: from US\$3.5 million in 1988-1990 to US\$7.5 million in 1991; US\$7.6 million in 1992; US\$9.8 million in 1993 and US\$10 million in 1994.

The number of small-scale projects (under US\$5 million) represents big ratio (70%) but their registered capital accounts for small ratio (11%). Besides construction of large-scale projects, development of medium- and small-size enterprises is a suitable way in the first stage since it makes best use of available establishments, employs many laborers, fits management ability, easily renews equipment and plan of production, has compatibility with the market change.

V. INVESTED LOCALITIES

Forty-eight out of 53 provinces and cities all over the country have foreign investment projects.

Hồ Chí Minh City has biggest number of projects and investment capital (occupying one third of the total throughout the country). But the average scale per project is lower than that of the whole country (average US\$8.5 million of the whole country) but the city's realized capital is higher (the country: 32%, the city: 41%)

Hà Nội ranks second in the number of projects and investment capital; has some high quality projects, hi-tech technology. Its biggest difficulty is slow clearance of land surface.

Hải Phòng has not many projects (37), but its project

quality is highest, its average investment capital per project reached US\$26 million, 2.5 times as many as that of the whole country.

Đồng Nai has 107 projects so far, only one of which is golf course project. The rest is of industrial manufacture, none of which is engaged in hotels and tourism. But the ratio of 100% foreign invested projects is rather high.

Sông Bé had project booming in 1994, an increase of 600% over 1993.

VI. TOPTEN INVESTORS (MENTIONED UNTIL SEPTEMBER 1994)

Rank	Country	Projects	Investment capital (\$US billion)
1	Taiwan	148	1.639
2	Hong Kong	204	1.399
3	South Korea	83	0.767
4	Australia	47	0.717
5	France	57	0.636
6	Singapore	70	0.607
7	Japan	63	0.416
8	The Netherlands	11	0.266
9	The UK	14	0.202
10	The countries of formerly Soviet Union	32	0.147

Topten countries can be divided into Asian and Western European groups. While Western European investors entered Vietnam with their concentration on the oil field, Asian ones although came later but had increasingly speedy pace, large scale, got involved in many fields, from oil exploitation, electronics, building infrastructure and hotels to producing consumer goods, processing food-stuff. To date the Asian investors represented above 50% of the total projects with about 60% of registered capital.

VII. SOME MAJOR RESULTS

- Employment: 65,000 Vietnamese are working for foreign invested enterprises; about 100,000 workers take part in building projects, in addition there are ten thousands of people engaged in relevant services.

- Export: Foreign invested enterprises exported products worth US\$169 million (not to mention crude oil) in 1993, around US\$300 million in 1994, accounting for 8.3% of the total export turnover of the whole country and 20% of industrial exports.

- Payment to the State budget: This figure reached US\$120 million in 1993, US\$128 million in 1994 including commissions from oil contracts. This amount is low because large projects (accounting for 70% of registered capital) are in the course of realization or capital construction and obviously have not yet products and revenues as well. On the other hand, the projects brought into operation in initial years have not yet profits in general, furthermore they enjoy exemption, reduction from income tax in from one to two first years.

- An important result is Vietnam has received advanced technique, technology in many fields such as information, telecommunication, oil exploration, electronics, automobile assembly, chemicals, agriculture (planting vegetables, bananas, mushrooms by advanced biological technology, growing shrimp by industrial method...)

Vietnamese party has received some methods of advanced management, good experiences in business organization in the course of cooperating with foreign partner.

- Through foreign cooperation and investment, Vietnam has quickly expanded its external economic activities, step by step made its economy integrate into the world economy

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