

Better Infrastructure

A Measure to Attract More Foreign Investment

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Although many efforts have been made to improve both technical and legal infrastructure, the Vietnamese business climate isn't attractive enough in the eyes of foreign investors, especially its technical infrastructure. The following table will show differences in prices charged local and foreign customers in Vietnam.

Although the Govern-

Vietnam and other countries.

a. Land rent: The Ministry of Planning and Investment has cut the land tax applied to foreign-invested projects by 20% and reduced the land rent for projects given top priority, and at the same time applied no retroactive effect on preferential treatment allowed by the investment licenses when the project enjoy better

Table 1: Differences in prices of goods and services paid by local and foreign customers

Goods and services	Unit	Local customer	Foreign customer	Difference (%)
Power				
+ For lighting	VND per kWh	840	1,045	124
+ For business	VND per kWh	500-1,397	1,320-1,617	264-115
Water				
+ In HCMC	VND per cubic meter	3,100	3,500 - 5,500	203
+ In Hà Nội and Hải Phòng	VND per cubic meter	2,700	5,500	203
+ In Hải Dương	VND per cubic meter	3,000	6,000	200
TV ads (VTV3, 17:00 - 19:00)	VND million	3.2	17	530
Fee for tallymen and ship inspectors service	VND million a time	1.9	10	525
Hà Nội - HCMC train ticket (lower berth)	VND 1,000	732	1,093	149
Hà Nội- HCMC plane ticket	VND million	1.2	1.9	190

ment has taken measures to reduce the difference, Vietnam is much slower than regional countries to remove the price discrimination against foreigners.

Next, we will compare the service quality and business performance in

treatment compared with what offered by regional countries.

The table shows that the land rent in Vietnam isn't competitive and it needs more reform.

b. Prices of services: Some supply services in Vietnam are dearer than

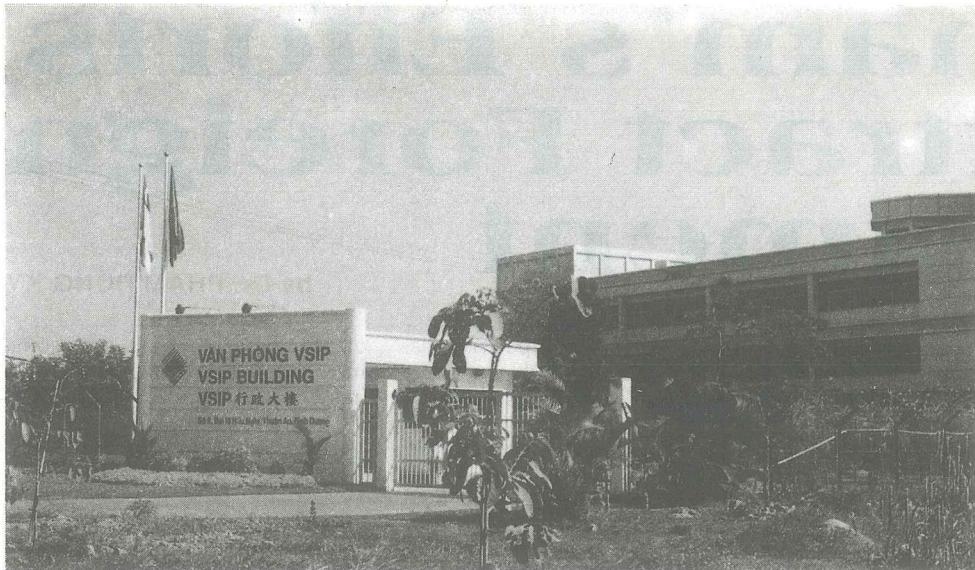
Table 2: Land rent in Vietnam's urban areas according Decision 189/2000/QĐ-BTC (USD/ sq m/ year)

City grade	Lowest rent	Highest rent	Compared with Chinese average land rent
1	1	12	4
2	0.8	9.6	2.5
3	0.6	7.2	1.6
4	0.35	4.2	0.4
5	0.18	2.16	

nearly zero while an international call from Vietnam costs some US\$3 per minute. On the other hand, the price of water supply is set at half the production cost.

Generally, high prices of supply services in comparison with neighboring countries have become obstacles to the flow of foreign investment to Vietnam. Many foreign investors, especially Japanese ones, have warned that they were considering investing in other Southeast Asian countries and China because of these unreasonable costs.

c. Service quality and business performance: According to a survey conducted by the Central Institute of Economic Management in 2000, 56% of customers weren't informed in advance about blackout; 25% suffered more than 10 blackouts a year; and 50% had to stop their production lines and activity. Moreover, blackouts caused damage to electric equipment. Such incidents are nearly never



seen in Thailand and South Korea.

In telecommunications services, 90% of users experienced at least three call drops within three months before the survey was conducted and 45% of customers had to wait 10 days to have a telephone installed. To control 1,000 lines of telephone, Vietnam needs 50 workers while Thailand employs only 7.3. Electric wastage in transit in Vietnam was 15.3% while this figure in Thailand varied between 6% and 6.9%.

Other services and infrastructure facilities are also very poor.

- Roads and railroads are obsolete and there is no overall plan to upgrade them, except for minor repair and maintenance. We hope that by 2005 when the Hồ Chí Minh Highway is completed, the road networks will be improved.

- The aviation industry is still a monopoly and its performance is poor.

- The Government has taken various measures to increase the power supply but the national grid is so obsolete that the market demand in the near future is hard to meet.

- The Internet service is slow and dear.

In my opinion, the following measures could be taken to improve the infra-

structure with a view to attracting more foreign investment.

+ Cutting prices of supply services and getting rid of price discrimination.

+ Using road toll to upgrade the road network and removing the monopoly in the aviation business.

+ Allowing fair competition in the telecommunications service by encouraging private investment.

+ Improving the national grid and increasing investment in hydropower industry.

+ Increasing investment in the Internet service with a view to making it faster and cheaper.

Carrying out these measures requires large investments. The Government had better pay full attention to the following problems to secure sources of finance needed for improvements in the infrastructure:

(1) Possible sources of finance: The main one is from the national budget because there is hardly an investor who is ready to put money in low-profit infrastructure projects. However, the Government must adopt policies to attract private investment and make the best use of foreign aid by:

- Working out detailed and feasible infrastructure

development plans needed for securing the ODA sources,

- Issuing government bonds on both domestic and foreign markets,

- Allowing foreign-invested and private companies specialized in infrastructure projects, and exchanging land for construction works.

- Giving tax and other financial incentives to infrastructure projects.

In fact, the policy to allow private investment in the infrastructure projects has produced good results. In Bình Dương province, the policy has helped develop its road network within a few years. In HCMC, BOT and BT construction contracts have led to many new highways in recent years. This policy also helped reduce the public expenditure and relieve the burden on the national budget.

(2) Better use of sources of finance: To make the best use of available sources of finance, stress must be put on efficiency and performance. I suggest the following measures.

- Concentrating investment (especially public one) in major projects, that is, accepting uneven development among provinces, instead of distributing limited sources of capital among too many small projects.

- Allowing foreign and private companies to engage in the supply services in order to remove the monopoly of state-owned companies in telecommunications, power supply, railroad, air transport, etc.

- Applying strict evaluation and inspections of projects financed by the national budget in order to reduce corruption and waste.

- Making regulations on the use of ODA sources with a view to beefing up the state control at provincial level and accelerating the construction rate.■

