FOREIGN INVESTMENT IN VIETNAM

SITUATION, CAUSES AND PROMOTIONAL MEASURES

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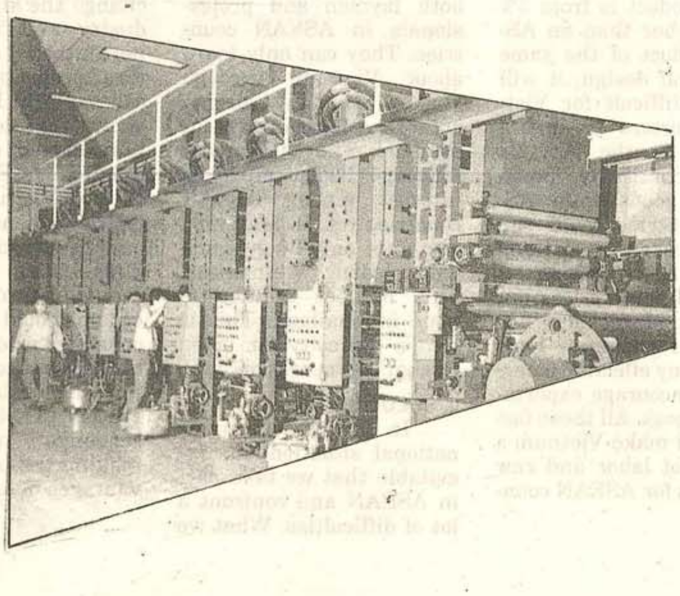

The foreign capital Vietnam has attracted since 1988 is rather considerable on the whole, but it cannot yet meet the requirement of economic growth. There were new changes in the first six months of 1995. According to SCCI's estimation, Vietnam should gain US$18-20 billion from foreign direct investment by 2000. This capital will be preferentially funded to the following sectors:

- Making ground for the oil and gas industry needs an investment capital of US$8 billion.
- Building 10 industrial zones with about 900 firms needs US$5 billion.
- Developing some projects outside the above industrial estates requires around US$2 billion.
- Building 5-6 cement plants with total output of 7-8 million tonnes needs US$1.5 billion.
- Developing some enterprises in heavy industry requires US$1.2 billion.
- Improving production and processing in agro-forestry-fishery needs US$0.8 billion.
- Building and developing transports, telecommunications and infrastructure requires US$1 billion.
- Developing tourism services, hotels needs US$1.5 billion.

I. SITUATION

After more than 7 years of implementing the Law on Foreign Investment in Vietnam, the following can be seen:

1. In spite of American trade embargo against Vietnam in this period, but the amount of registered investment capital increased remarkably.

According to SCCI, the registered capital totalled US$11,545 million from 1988 to 1994. The figures were recorded in each year as follows (US$ million): 1988: 366; 1989:539; 1990: 596; 1991: 1,288; 1992: 1,938; 1993: 2,777; 1994: 4,041.

2. The capital registered in licences was great but its realization was still too low and did not yet satisfy Vietnam's development. The realized capital from 1988 to 1994 reached only US$3,878 million and accounted for 33.6% of registered capital which were detailed in each year as follows: 1988: 60 and 16.4%; 1989: 100 and 18.6%; 1990: 206 and 33.6%; 1991: 260 and 20.2%; 1992: 535 and 27.6%; 1993: 1,001 and 36%; 1994: 1,722 and 42.6%.

3. The major foreign investors in Vietnam from 1988 to 1994 were such Asian countries as: Taiwan with 164 projects capitalized US$1,901,214,529; Hong Kong: 165

and US$1,573,805,879; Singapore: 77 and US$1,057,847,989; South Korea: 92 and US$860,293,236. The followers are Japan, Australia, Malaysia, Switzerland, the Netherlands, etc.

4. The four sectors attracting largest foreign investment are: Hotel and tourism: 116 projects with US$1,950,802,440; light industry: 230 with US$1,477,299,491; oil and gas industry: 25 with US$1,281,078,500; heavy industry: 129 with US$1,267,632,514. The followers are transport, post, construction, service, agro-forestry...

5. The leading localities in attracting foreign investment from 1988 to 1994 are: HCMC with 339 projects and US$3,033,657,506; Hà Nội: 154 and US$1,678,309,160; Đồng Nai: 84 and US$887,132,735; Hải Phòng: 25 and US$625,708,350. The followers are Bà Rịa-Vũng Tàu, Quảng Nam-Đà Nẵng, Kiên Giang, Sông Bé, Hà Tây, Quảng Ninh...

6. The countries whose great sources of capital, high technique can influence the world development did not yet show interest in investment in Vietnam from 1988 to 1994. Just in early 1995 Japan started great investment in Vietnam and the US investment became more active.

7. In the first six months of this year, there were 206 licensed FDI projects with registered capital of US$3,593,000,000. As compared with the same period last year, the number of projects increased by 35% and registered capital up by 225%.

8. The total investment capital of Japan alone reached over US$1 billion in the first half of this year, accounting for 75% of the amount in the whole 1994 and Japan topped the list of foreign investors in Vietnam. It is expected Japan keeps on ranking first in the future. American investment capital amounted to US$295.8 million, equivalent to 112% of the total US registered capital in the whole 1994.

II. CAUSES

The causes of attained results and remaining deficiencies in foreign investment can be seen as follows:

1. Since our economy is in the course of transformation from centrally-planned mechanism to market one with open policy, the legal system hasn't been perfected yet, policies always change on the way to perfection.

2. The US embargo against Vietnam before 1994 had a certain effect on foreign investment in Vietnam.

3. Vietnam did not yet have enough conditions and capability to receive great investment. This can be seen in its poor infrastructure, management level, technique, unskilled labor and many factors not attractive to foreign investors.

4. Vietnam economic structure is still in the stage of underdevelopment. It did not yet have a sector attracting investment with high efficiency (not mentioning oil industry).

5. Administrative procedures for an investment project are still cumbersome. In spite of many improvements in recent years, they did not yet meet the requirement.

6. There is not yet a policy attracting investment in accordance with each area, so foreign investors concentrate their investment only on the most favorable localities such as HCMC, Hà Nội, Hải Phòng, Đồng Nai and show less concern in other provinces.

7. The distribution and supervision of foreign investment with the aim to carry out planned target and balance economic development have not been realized yet.

8. Foreign investment in Vietnam has recently boomed and Japan topped the list in the first half of this year since the US lifted its embargo, then normalized relations with Vietnam and Vietnam joined ASEAN.

III. PROMOTIONAL MEASURES

The US-Vietnam relations has been normalized and Vietnam became a full member of ASEAN and joined AFTA. These events show Vietnam is entering a new period and taking a new opportunity in order to develop its economy rapidly and integrate into the region and developed countries. But Vietnam is also encounter many new challenges at the same time. This requires clear-sighted leadership of central government as well as local ones with the whole people's unity in order to develop our country.

In order to win in the competition with other countries in the region and attract strongly foreign investment with highest efficiency, Vietnam should carry out the following measures:

1. Initially an army of techno-scientific cadres and economic managers should be trained. They should have enough qualifications to realize foreign investment in Vietnam and act as partners in joint-ventures, especially in multinational companies with the aim to balance the two parties' mutual interests.

This training should be implemented along with two generations for economic deelopment:

- The first generation includes senior officials from central to local authorities who were trained and have a lot of experiences in management. These officials should be given refresher courses appropriate to their tasks.

- The second generation includes students in colleges and universities. They should be trained in the orientation of integrating into other countries in the region and developed countries in the world. Especially their virtues and knowledge of national history, culture and tradition should be promoted.

The first generation makes ground for the second one to build the country.

2. The State should soon perfect the legal system and documents such as Law on Foreign Investment, Law on Domestic Investment, Labor Code, Law on Exploiting Natural Resources and other economic laws.

3. The Government should make and issue perfect and stable policies with a view to assuring foreign investors. This problem is very important and one of key factors provoking many investors' interests.

4. Vietnam's economic structure should be perfected to attract great foreign investment and the sectors having high efficiency in foreign investment should be formed.

5. Administrative reform should be soon implemented and procedures for licensing investment projects should be simplified.

6. Policies on attracting investment capital in accordance with each area should be made with a view to developing areas in the country proportionally, creating pre-condition for the national development.

7. The system of banks and its activities should be compatible with other countries in the region and developed countries.

8. The employment of officials should be standardized by levels of technique and science and economic management. Those who lack qualifications for their tasks should be retrained or assigned other suitable jobs and those who have skill should be streamlined and promoted in order to foster their capability for the country's development ■