SOME OPINIONS ABOUT MEASURES TO ATTRACT MORE FOREIGN INVESTMENT

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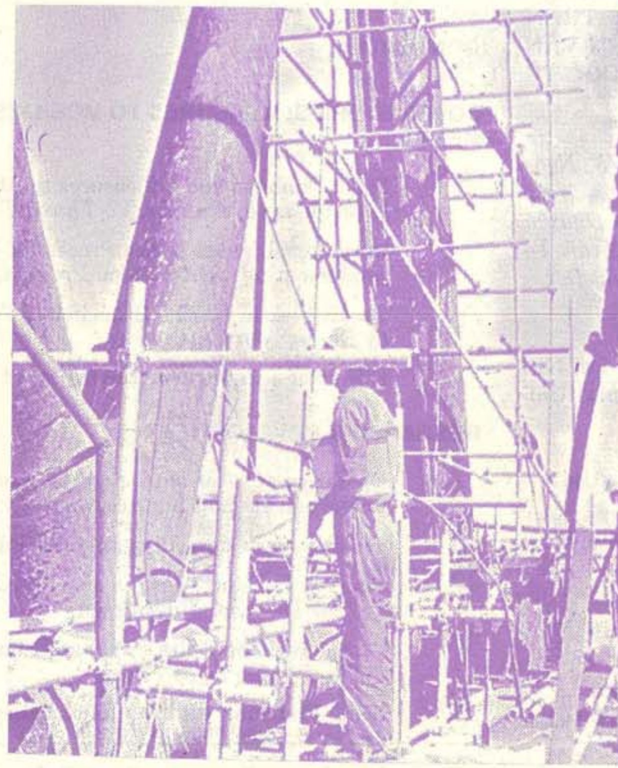


I. FOREIGN INVESTMENT IN VIETNAM AFTER THE FOREIGN INVESTMENT LAW

According to the Ministry of Planning and Investment (MPI), up to August 1997, 2,137 foreign investment projects (not including the Vietsovpetro joint venture) with a total registered capital of US$32.34 billion, were licensed. Of these projects, 358 have expired or have been revoked. So at present, 1,779 projects with total capital of US$29.214 billion are operational.

Studying the realization of foreign investment in Vietnam in recent years, we remarked the following.

1. Achievements

As compared with neighboring countries, the realization of licensed foreign investment projects is of medium speed. Up to August 1997, US$11.25 billion (or 38% of total registered capital) of investment has been realized. After realization, the capital of many projects was allowed to increase. In the first eight months of 1997, US$805 million was allowed to be added to 108 projects. This shows that Vietnam market is attractive in the eyes of foreign investors.

-Foreign investment plays an important role in changes in Vietnam's structure of industry and industrialization. Some 80% of foreign capital have been put in manufacturing and service industries (telecommunications, oil exploration and exploitation, production of electrical appliances and electronic equipment, chemicals, car and motorbike assembling, applied biology, etc.)

- Foreign investment has helped to realize the export-oriented strategy. In the first eight months of 1997, foreign-invested companies (not including the Vietsovpetro) exported US$1,050 worth of goods. It's estimated that their export earnings would reach US$1.4 billion by the end of 1997 and these companies would represent 20-25% of Vietnam's export earnings in the coming years.

- Foreign-invested projects have also helped to increase the budget income: their contributions (as taxes and fees) to the budget was US$2,400 in 1996 and US$2.3 billion in the first eight months of 1997. In the GDP, their produce represented 7.5% in 1994, 8.3% in 1995 and 10% in 1996.

- In addition, FDI projects employed 220,000 workers and supplied jobs to thousands of laborers, Particularly; their presence also helped to improve labor efficiency and product quality.

2. Shortcomings

Studying the situation of foreign investment ten years after the Foreign Investment Law, and especially in the first eight months of 1997, we remarked the following problems:

- In the first eight months of 1997, the flow of foreign investment coming into Vietnam slowed down a little (see Table 1 next page).

+ Number of licensed projects increased from 186 in the corresponding period last year to 210, but the total investment decreased by 20% (US$2,711 million in the first eight months of 1997 compared with US$3,386million in the same period last year)

+The amount of new projects submitted also decreased: In the first eight months last year, 250 projects with total investment of US$7,086 million were submitted to the Government, but in the same period this year only 172 projects with total capital US$2,268 million were submitted for approval.

Table 1: Foreign Investment in the First Eight Months of 1996 and 1997

Indicators	First 8 months of 1996	First 8 months of 1997	Comparison
1.Licenced			
-Project	270	318	118%
-Total Investment (US$ mil.)	3,722	3,516	94%
a. New			
License	186	210	113%
Total Investment (US$ mil.)	3,386	2,711	80%
b. Permission to Increase			
Capital	84	108	129%
Total Investment (US$ mil.)	336	805	140%
2.Newly Submitted			
Project	250	172	69%
Total Investment (US$ mil.)	7,086	2,268	32%
3. Realized Capital (US$ mil.)	1,450	2,100	145%
4. Total Sales (US$ mil.)	1,080	1,450	134%
5. Export (US$ mil.)	740	1,050	142%
6. Import (US$ mil.)	1,360	1,850	136%
7. Paid taxes and fees (not including customs duties)	1,940	2,350	121%
8. Workers Employed	200,000	225,000	112%

Source: The MPI (data about the Vietsovpetro wasn't included here).

- Many investors have met with great difficulties in realizing their licensed projects (such as US$900 million project to build An Phú noble town or the US$1 billion project to build Nam Thăng Long town) and revocation of these projects seemed to be a matter of time.

- The average size of projects licensed in 1997 was smaller (US$12.9 million in comparison with the average of US$18.2 million for a project licensed last year).

- Investment from developed countries with abundant sources of capital and know-how (such as Japan or EU members) showed signs of decrease. In 1996, Japan was the second biggest investor in Vietnam, but in August 1997, it took the sixth place.

- Many projects failed to work at full capacity (see Table 2).

Table 2: Total Utilized Capacity of FDI Projects by Industry (up to Aug.25, 1997)

Industry	Designed Capacity	Utilized Capacity	Capacity Factor
Building Steel	1,197mil. tonnes/year	600,000	50%
Automobile of Under 12 Seats	65,600 items/year	6,600	10%
Truck	94,700 items/year	2,850	3%
Motorbike	1.28 mil. items/year	100,000	8%
Black Cement	10.5 mil. tonnes/year	1.9mil.	18%
Fridge	300,000 items/year	60,000	20%
Fiber	133,200 tonnes/year	20,000	15%
Cloth	325 mil. m./year	65 mil	20%
Detergent	138,000 tonnes/year	100,000	35%
NPK Fertilizer	660,000 tonnes/year	30,000	5%
Hotel	24,000 rooms	5,000	21%

Source: The MPI

- Foreign-invested companies, with big investment and experience of marketing their products, have quickly found firm footholds in the Vietnam market and caused a lot of difficulties to local rivals. Many local companies that once had reputation for their products are running down or facing bankruptcy now. Foreign-invested companies are controlling 80% of the market for animal feeds, 90% of soft drink and 70% of cosmetic supply.

3. Causes of the situation

An exact estimate of causes of the decrease in foreign investment in the first eight months of 1997 and causes of shortcomings in the realization of foreign-invested projects can help us find out measures to attract more foreign investment and orient it towards desirable aims.

a. *External causes*

- When Western economies started to grow again after a period of depression, international investors put 70% of the FDI source in these economies while developing countries, especially China, India and Southeast Asian nations, competed with one another to attract foreign investment. Vietnam's investment environment isn't much favorable in comparison with neighboring countries so it meets with difficulties in attracting foreign investment.

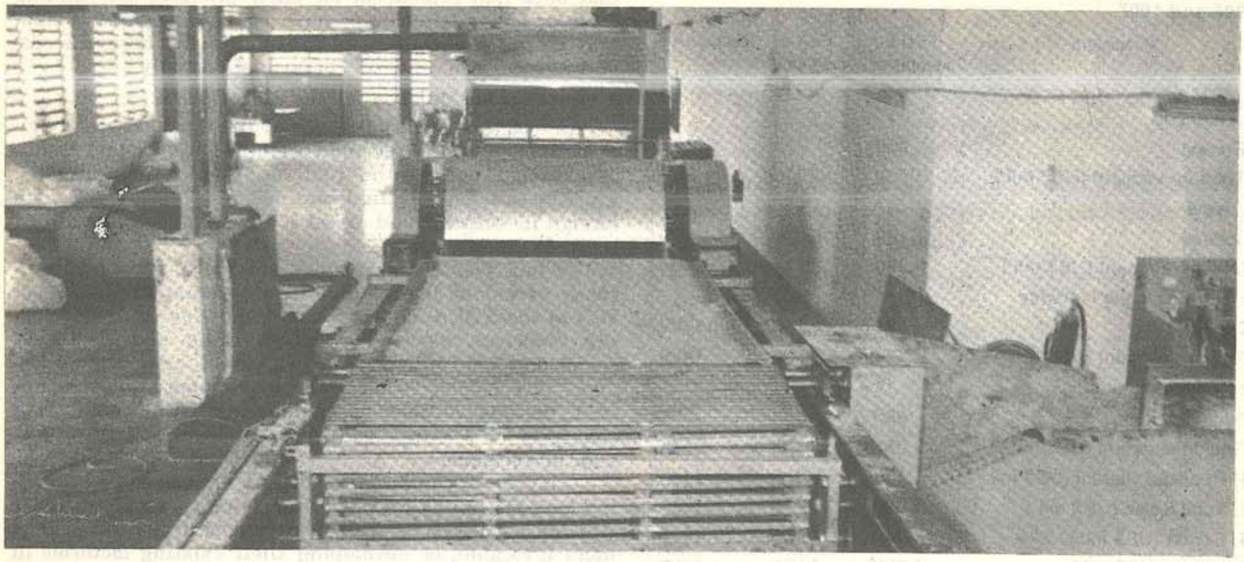
- In view of the fact that the AFTA will come into being by 2006, many investors decide on investing in other ASEAN countries where the investment environment is more favorable, or developing their existing factories in the ASEAN, instead of making new investments in Vietnam.

- Foreign investors have entered into and controlled the most profitable markets: hotel, office block, animal feeds, car and motorbike assembling, electronic equipment assembling, textile and garment, detergent...

- Vietnam, like Myanmar, weren't granted the US MNF status because they aren't members of the WTO, so foreign investors consider these nations as less favorable than other ASEAN members if these investors want to produce goods in Vietnam and export them to the US.

b. *Internal causes*

After its promulgation in 1987, the Vietnam's Foreign Investment Law has been amended two times and guidelines on its realization have been altered four times. Particularly, certain policies adopted by the Government recently (such as orienting foreign-invested projects towards export promotion, increasing the capital controlled by Vietnamese partners, controlling foreign exchange market, etc.) have caused foreign investors to consider



the Vietnam's investment law as inconsistent and unstable, and many regulations on foreign investment as contrary to international practice.

- In comparison with neighboring countries, Vietnam's income tax and labor cost are lower, but laborers' skills and efficiency are poor, house and office rental, telecommunications bill and expenses on land clearing are high. In addition, foreign investors have to pay too many fees and charges: it's estimated that there are some 200 kinds of fee and charge. In certain cases, payments for fees are bigger than taxes.

- There are too many tax brackets and rates, especially customs duties, and as a result, foreign investors find it difficult to make long-term business plans.

- Procedures for realizing investment projects are too complicated and time-consuming, especially procedures for getting building and business licenses, land use right and customs clearance.

- Policies and guidelines set forth by the central government are understood and carried out differently by local governments. Bribery is widespread. That is why many investors failed to estimate difficulty in realizing their projects.

- There is a lack of a master plan to direct and distribute foreign investment projects, therefore many investors, after getting business licenses, found themselves in a saturated market, so they were reluctant to realize their projects or were forced to let them run down.

- Price discrimination against foreigners (they are charged higher prices for the same commodities or services supplied to natives) has annoyed foreign investors a lot.

- Many provinces have great potentials for economic development but their infrastructure is very poor, therefore foreign investment tended to concentrate in big cities.

- Vietnam's law system is imperfect and many laws (such as banking law, insurance law, competition law, etc.) needed for reducing risk in investment haven't been made.

This situation has caused foreign investors and analysts to rank Vietnam among risky economies for foreign investment.

II. MEASURES TO ATTRACT MORE FOREIGN INVESTMENT

1. Short-range measures

- To continue reforming procedures dealing with foreign investment and publicize fees and charges for each administrative service.

- All provinces, cities or export processing zones authorized by the decision 386/TTg issued on June 7, 1997 to grant investment licenses have to promulgate regulations and guidelines on making investment in locality. These regulations and guidelines mustn't go against the master plan and directives set forth by the Government and the MPI.

- The Government had better publicize the master plan for foreign investment for the period from now to 2000 and to 2010.

- Projects to develop less profitable industries (infrastructure for example), or poor regions could be exempt from income tax, land rental or charges for profit remittance.

2. Long-range measures

- To make a consistent policy, especially the tax policy, on investment to ensure foreign investors their legal interests.

- To publicize tariffs applied to the period from now till 2006 when Vietnam has to carry out the CEPT in order to help investors prepare their import and export plan.

- To improve infrastructure in poorly developed provinces with a view to attracting foreign investment (experience shows that the host country must spend two dollars on infrastructure in order to attract one dollar of investment)

- To make an investment law applied to both foreign and local investors with a view to ensuring them equal treatment.

- To perfect the law system and make it appropriate to international practice in order to create reasonable legal infrastructure for foreign investment projects.

- To perfect customs formalities and make them suitable to international and regional practices in order to facilitate export and import business.

- To carry out structural adjustment with a view to acquiring the membership of the WTO and APEC.

- To invest more intensively in education with a view to developing human resources for the future■