FOREIGN INVESTMENT IN VIETNAM IN 1998 AND MEASURES TO PROMOTE FOREIGN INVESTMENT

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I. AN OVERVIEW OF THE ECONOMIC DEVELOPMENT

The economic development and foreign investment in Vietnam should be seen against a background of the regional economic slump: the Asian financial crisis broke out in July 1997 and kept on causing damage to local economies in 1998. Most Asian countries experienced negative growth rates last year: South Korea -6%; Hong Kong -4.7%; Singapore -0.2%; Indonesia -15%; Thailand -8%; Malaysia -5% and the Philippines -0.2%.

Facing such an economic slump, the Vietnam's National Assembly, for the first time in its history, was forced to reduce the growth rate planned for 1998 from 8.8% to 6.5%, and by the year's end what it got was a growth rate of 5.83% (industrial output increased by 12.1% and agricultural output by some 3%). The export value in 1998, in spite of many difficulties, reached US$9,356 million making a small year-on-year increase of 0.9% while the import value decreased by 3% (see Table 1). Generally, the situation wasn't as bright as in 1997 but these achievements were encouraging in comparison with neighboring economies.

Table 1: Basic data about Vietnam's economic growth in 1995-1998 (%)

Indicator	1995	1996	1997	1998	Average for 1995-98
1. Growth rate	9.5	9.3	8.2	5.83	8.2
+ Public sector	9.4	11.3	9.7	5.7	9.0
+ Private sector	8.9	6.6	5.2	3.9	6.1
+ Foreign sector	14.9	19.4	20.8	18.2	18.3
2. Industrial output	14.0	14.1	13.8	12.1	13.5
3. Agricultural output	4.5	4.4	4.5	3.0	–
4. Total sales revenue	29.6	18.9	9.7	14.2	17.9
5. Export value	34.4	33.2	27.8	0.9	23.3
6. Import value	39.9	36.7	5.4	3	18.2

Source: HCMC Statistics Department

II. FOREIGN INVESTMENT IN 1998

Foreign investment in Vietnam was also affected by the crisis. In 1998, 280 projects with total registered capital of some US$4 billion were licensed, some US$ 769 million was allowed to be added to 133 projects, thus the total capital allowed to be invested in Vietnam in 1998 was US$4.8 billion. This was the lowest amount in the past five years (see Table 2).

Table 2: Foreign investment in 1994-98

	1994	1995	1996	1997	1998	1988-98
Project	367	408	367	336	260	2,580
Registered capital (US$ mil)	4,071	6,616	8,528	4,453	4,058	35,290
Projects allowed to increase capital invested	73	122	134	143	133	
Realized capital (US$ mil.)	1,952	2,652	2,371	3,250	1,900	11,795

Source: MPI

1. Positive effects of FDI in 1998

In spite of decreases in FDI attracted, operation of realized projects contributed a lot to the Vietnam's economic development:

+ Export value realized by foreign-invested companies (not including joint ventures in oil business) in 1998 reached US$2 billion, increasing by 11.7% as compared with 1997 while the export value of Vietnam increased by 0.8% only.

+ Total sales revenue made by FDI projects in 1998 reached US$3 billion, increasing by 27.7% in comparison with 1997, their contribution to the national budget income was US$320 million, increasing by 1.6% although they were given preferential treatment in terms of tax and land rental in 1998.

+ Job created by FDI projects increased by 8% as compared with 1997. (see Table 3)

Structure of projects licensed in 1998 was favorable for the industrialization program: The manufacturing industry attracted 118 new projects with total registered capital of US$ 2,118.4 million, equaling 55% of the grand registered capital. The agriculture (including mariculture) attracted 35 projects with registered capital of US$102 million invested in production of seeds and processed food for export, flowers

Table 3: Development of FDI projects in 1994-98

	1994	1995	1996	1997	1998
1.Sales revenue (US$ mil.)	951	1,397	1,814	2,350	3,000
2. Growth rate of FDI contribution to GDP (%)	6.1	6.9	7.7	8.6	
3. Export value (US$ mil.)	352	440	786	1,500	2,000
4. Import value (US$ mil.)	600	1,486	2,042	2,700	2,655
5. Contribution to budget income (US$ mil.)	128	195	263	315	320
6. Job created				250,000	269,500

and animal feed or on afforestation. Licences were also granted to 63 service supplying projects worth US$1,225 million, equaling 30.2% of the grand registered capital. The number of projects in hotel decreased but there were more projects to develop recreation grounds.

Table 4: Structure of FDI projects in Vietnam in 1998

Industry	Project	Invested capital (US$1,000)	Legal capital
Heavy industries	40	551,322	180,996
Oil	4	1,358,166	842,606
Light industries	54	202,408	89,825
Food processing	20	76,837	35,395
Agriculture	31	96,929	48,532
Hotel- Tourism	6	810,473	39,800
Office block	5	115,274	29,896
Other services	36	270,409	204,963
Transport and Post	12	366,229	261,109
Construction	32	176,862	60,894
Health care and education	14	18,668	8,920
Mariculture	4	4,750	2,165
Finance and banking	2	10,300	3,250
Total	260	4,058,626	1,807,852

As for the distribution of projects over provinces, the number of projects concentrated in vital economic zones reduced to 203 representing 34% of projects licensed in 1998 and 45% of total registered capital (in previous years, this figure was somewhere between 70 and 75 percent) while the number of projects carried out in depressed areas increased.

(see table 5 next page)

Regarding investors, some new leading ones made their appearance in 1998: investment from Asian countries affected by the financial crisis, except for Singapore, tended to decrease. Capital invested by ASEAN members barely reached US$32 million, and South Korea investors had only 13 projects worth US$149 million while investment from American and European countries represented 55% of total registered capital (European investors accounted for 51.8% of total registered capital). Russia became the biggest investor in Vietnam: its project to build an oil refinery in Dung Quất was worth US$1.3 billion.

New developments in foreign investment last year were due to new measures taken by the Government to improve conditions for foreign investment: procedures for getting investment licenses and realizing projects were simplified; local governments were delegated to grant investment licenses; land rental was reduced; more tax incentives were offered; investors were encouraged to prolong their operation and submit complaints directly to the Government if need be, etc. In addition, the Government also allowed the formation of associations of foreign companies that would assist the Government in handling complaints made by their members.

2. Difficulties to foreign investment

As was stated above, the foreign investment in 1998 showed signs of decrease. Moreover, 95 projects worth US$2,432 million (equaling 58% of total registered capital approved in 1998) were cancelled last year. The cancellation of some important projects would cause bad effects on FDI operation in the coming years. Besides external causes, there are many internal ones that affected badly the mobilization of foreign investment last year.

+ Many regulations are unreasonable and makes investment in Vietnam less profitable. For example, in certain cities, such as Vinh and Huế, where infrastructure is poor and skilled workers are scarce, local governments have settled the minimum wage at US$40 a month while there is no such regulation in many neighboring countries (China and Thailand for example). That is why those cities attracted no FDI project in 1998. The regulation that settles the minimum wage in the dollar also leads to poor competitiveness of goods made in Vietnam. The Federation of Trade Unions, in its official letter 862/TLĐ, required foreign-invested companies to contribute 2% of their total labor cost to trade union fund in spite of the fact that these companies had to pay 15% of their labor cost for social security, and contribute to various funds according to agreement with trade unions in their companies.

+ Certain taxes didn't encourage foreign investment. For example, foreign-invested companies assembling or producing car in Vietnam have to pay both excise duty and VAT for each unit produced.

+ Procedures for buying or selling foreign exchange are complicated: a company that wants to keep back foreign exchange it earned instead of selling it to state-run bank as required, it is forced to complete ten different forms.

+ Procedures for carrying out investment projects are also complicated and sometimes go against laws and cause trouble for foreign investors.

+ Tasks of auditing and supervising operation of foreign-invested joint ventures with local partners weren't carried out properly with the result that many of them, after

Table 5: Distribution of licensed projects among provinces in 1998

Unit :(US$1,000)

Province	Project	Invested capital	Legal capital
Quảng Ngãi	1	1,300,000	800,000
Lâm Đồng	12	732,720	24,470
HCMC	82	703,894	301,235
Hà Nội	46	651,977	383,371
Bình Dương	33	193,538	73,907
Đồng Nai	21	123,635	48,998
Quảng Ninh	7	88,512	40,904
Long An	6	39,017	12,345
Đà Nẵng	3	32,300	16,450
Bà Rịa – Vũng Tàu	8	23,000	12,550
Quảng Bình	1	15,300	5,100
Thái Nguyên	2	15,245	6,028
Phú Tho	1	15,100	15,100
Cần Thơ	4	13,916	6,106
Hà Tây	2	13,000	4,500
Khánh Hòa	6	11,546	7,520
Hải Dương	2	11,200	3,500
Hoà Bình	1	11,100	3,300
Hải Phòng	3	7,675	4,155
Daklak	1	7,500	2,250
Tây Ninh	3	6,600	2,225
Phú Yên	1	3,500	1,050
Lạng Sơn	3	2,138	1,463
Bình Thuận	1	1,500	500
Kiên Giang	1	1,500	500
Hưng Yên	1	1,427	430
Thái Bình	1	800	0
Quảng Ngãi	1	673	400
Bạc Liêu	1	550	165
Trà Vinh	1	484	484
Vĩnh Long	1	400	150
Vĩnh Phúc	1	200	70
Tiền Giang	1	180	126
Total	259	4,030,127	1,779,377
Deep-sea oil field	1	28,500	28,500

some length of time, suffered great losses (because of large spending on advertisement) and were forced to change into foreign-owned companies and left local partners with damage to repair.

+ Certain local authorities have set up new regulations of their own and caused trouble for foreign investors.

III. MEASURES TO PROMOTE FOREIGN INVESTMENT

1. Aims of suggested measures

+ The measures should be stable and long-lasting enough to provide foreign investors with legal infrastructure needed for their businesses in Vietnam.

+ The measures should ensure equal opportinities for companies of all sectors with a view to helping them make the best use of invested capital.

+ When all countries in the region are competing fiercely against one another for foreign investment and Vietnam has the same comparative advantages as other countries have, better investment conditions will ensure bigger investment from foreign parties.

+ Foreign-invested companies should be considered as part of the community of companies in Vietnam.

+ The mechanism for controlling FDI projects should be oriented towards international integration.

2. Suggested measures

a. Immediate measures

- Re-examining fees applicable to FDI projects with a view to removing unreasonable ones that cause the production cost to rise: For the time being, the Government had better release FDI projects from the obligation to contribute 2% of their labor cost to trade unions.

- Re-examining taxes imposed on FDI projects with a view to avoiding multiple taxation, especially on cars and motorbikes assembled in Vietnam, and building of recreation grounds.

- Standardizing all procedures for getting investment licenses from central to local levels and publicizing those procedures at home and abroad.

- The Government should ban local governments from setting forth regulations that do not conform to Decree 10/1998/NĐ-CP on measures to encourage FDI projects issued on Jan. 23, 1998. This Decree was welcomed by foreign investors but they are disappointed to see it isn't carried out properly.

- The Government should keep on finding ways to lower the land rental and minimum wage set for depressed areas with a view to attracting more foreign investment which is badly needed by these provinces.

- Building education centers in each zone in order to train skilled workers and good managers.

b. Long-term measures

- Making a common investment law applicable to both foreign and domestic investment projects.

- Charging the same prices for all services (transport, water and power supply, hotel, etc.) supplied to both local and foreign investors in Vietnam in order to ensure equal opportunity for everybody.

- Making procedures for granting license and controlling FDI projects conform to international practices to improve the competitiveness of Vietnam's investment conditions■