MEASURES TO ENCOURAGE FOREIGN INVESTMENT IN VIETNAM

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1. What could Vietnam offer to foreign investors?

- Hospitality: Vietnam always wants to have good relations with foreign countries, including its former enemies, on principles of mutual benefit and respect.

- Political and social stability: The government has tried its best to ensure stability for its people. Social evils are kept under control and violations of laws are punished properly.

- Encouragement to foreign and private sectors: The government is determined to build the mixed economy in which the foreign and private sectors are allowed to exist and develop. They and the public sector are treated equally. Foreign investment is protected against nationalization and social unrest.

- Competitive environment: Vietnam is in the Southeast Asia, one of the most active regions of the world where foreign investors could find the best offers from all countries. It's estimated that the highest growth rate and personal income of the world will be found here in 20 or 30 years.

- Convenient position: Vietnam is near shipping routes from the Pacific to Indian Oceans and has many seaports (Vũng Tàu, Cam Ranh, Dung Quất and Chân Mây) accessible to ships of 200,000 dwt.

- Natural resources: The area of unused land in Vietnam is very large, especially around seaports. Vietnam also has potentials for power industry (crude oil and natural gas from the continental shelf, big rivers that could be used for hydropower plants) and farm product processing industry (tropical fruits, aquatic products, etc.). Labor is cheap and most workers are industrious and content with low pay (around US$70 – 100 per month). The infrastructure is upgraded steadily all over the country. Public utility companies are trying to offer the same fees for their services to both nationals and foreigners.

From these data, we can come to the conclusion that investors who come early could avoid sudden rises in land prices. In the next decades, Vietnam will become an industrialized and export-oriented economy that brings about great profits.

Foreign investors with modern technology, managerial skills and capital can tap existing potentials in Vietnam effectively and make their investments great successes.

2. Measures to promote foreign investment in Vietnam

a. One of measures taken by the government now is to encourage foreign investors to produce exports. The greatest obstacle to foreign investors is the small foreign exchange reserves that could make it difficult for them to transfer profits to their home countries, pay foreign debts when due or withdraw their investments. This situation happened in Thailand when the financial crisis broke out and caused great damage to the investing community.

In Vietnam, the shortage of foreign exchange hardly happens because:

- Foreign investors in Vietnam are encouraged to make exports. They have made and exported a lot of garments, footwear, electronics and handicrafts, and earned great sums of foreign exchange. The source of export earnings allows them to transfer profits or withdraw money as they wish.

- The trade balance of Vietnam is becoming more favorable (in the 1990s, the trade gap reached US$3 billion at times). Vietnam's main imports are machinery and high-class consumer goods. Under the strict control by the Government, Vietnam could stop importing certain consumer goods easily when there is a shortage of foreign exchange, thereby satisfying the demand for foreign exchange by investors. Moreover, Vietnam also receives other sources of foreign exchange (tourism receipts, immigrant remittances, foreign aid, loans and investments). That is why the Asian financial crisis could only reduce the Vietnamese growth rate from 9% to 5% while it had disastrous impacts on Thailand and many Asian countries. It's estimated that the Vietnamese growth rate would reach somewhere between 7.2% and 7.5%. This is one of considerations foreign investors should take into account when deciding on their investment in Asia.

b. Foreign investors are encouraged to engage in export-oriented industries. I think that in the coming years, foreign investors had better invest in capital- and technology-intensive industries, instead of labor-intensive ones as they do now because such goods as computers, refrigerators, electronics and electric appliances from these industries are saleable in both foreign and domestic markets when export of labor-intensive goods meets keener competition on the world market. Moreover, foreign investment in these industries could help earn more foreign exchange and help Vietnam industrialize and modernize its economy. This is suitable to the principle of mutual benefit.

In addition, foreign investors had better caution against the two following tendencies:

- Making investment in Vietnam by installing obsolete factories will lead to difficulties in the future because goods from such factories would become less competitive in Southeast Asia, one of the most active region of the world.

- Investment in car or motorbike assembling factories doesn't seem profitable, because the domestic market for these goods isn't large enough and there are many factories of this kind have come into operation in Vietnam and some of them have suffered losses. For Vietnamese, foreign cars and motorbikes, even they are assembled in Vietnam, are still luxuries and foreign exchange spent on them could be seen as a waste.

c. Regarding investment in technology-intensive industries producing high-quality goods for export, there has been a time when investors could make a success with millions of dollars invested in small factories and old equipment. At present, I think they should start bigger projects (from US$300 to 400 million each) that employ high technologies to produce high-class goods for foreign markets. In the past, the number of projects was large but the total capital was small. The government had better limit the number of projects now and take measures to encourage large-scale ones. Such projects could help foreign investors become more competitive in foreign markets and earn bigger profits. Exports from Vietnam will rise quickly, more modern technologies are transferred and Vietnam can ensure more foreign exchange for investors.

d. Vietnamese investment authorities have given top priority to the development of the Dung Quất seaport and decided against the building of an oil refinery in the South. After that, French Total Company decided to withdraw its project on the grounds that Dung Quất was far from oilfields and local markets in the South. Today, the building of Dung Quất oil refinery is under way and in the near future, the domestic market demand for petrol will, according to many estimates, reach 12 million tonnes. If the amount of petrol exported after refining is included, the market demand will be 18 – 20 million tonnes. This demand allows us to think of one more oil refinery or two in the South. If the Government agrees with this idea, it's easy to attract some US$2 billion more of foreign investment in 2001 because this project is apparently profitable.

Foreign investment in Vietnam will bring benefits for both Vietnam and foreign businesspersons when the two parties cooperate in deciding what could be done and where to put their money and efforts in.■