

# Foreign Direct Investment Into Vietnam With Special Reference To Japan And Thailand

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In order to broaden its economic cooperation with foreign countries, strengthen the capabilities in techniques, technologies and management, and develop the national economy on the basic of effective employment of the national resources, available manpower and other potentials, the Vietnamese government has since long paid attention to attracting of direct foreign investment.

In 1977, right after fulfilling the cause of national unification, the Vietnamese government issued a regulation on foreign investment in Vietnam. The regulation was not enacted indeed due to the then unfavorable political, economic and social situation within and without the country. However, its promulgation alone testified to a new trait in the economic thinking in Vietnam that early on.

In 1987, after a decade of constant learning from other advanced countries in the field of attracting foreign investment and perfecting itself by breaking down part by part of its old sclerotic economic regime, creating one element after another for the formation and development of an open and flexible economy, Vietnam issued the Law on Foreign Investment in Vietnam which is viewed as "open" and more favorable than those of other countries. And since early 1988, thousands of delegations from tens of countries and regions in the world, have come to Vietnam to inquire into conditions of business and investment. As a result, hundreds of projects with a total capital of billions of US dollars have been licensed and started.

The following information generally reflects the real situation of direct foreign investment in Vietnam in the past four years as well as a number of problems arisen in the process of implementing the law.

## 1. Statistic data

By the end of October 1992, the Vietnamese government had licensed 453 foreign-invested projects with a total registered capital of 3.445 billion US dollars. This was trivial compared with the 200 billion US dollars of foreign investment annually registered in the world economy. However, it was rather high if compared with the early years of direct foreign investment in a number

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of countries. For instance, in the first four years of its attraction of foreign investment (1967-1970) Indonesia could draw in only 770 million US dollars; South Korea drew in 500 million US dollars in five years (1972-1977) and China had 37.8 billion US dollars registered in a decade.

The increase in the project quantity is remarkable. Whereas in 1988, the first year of the Law on Foreign Investment when it was still too early for Vietnam and its partners to know each other, there were only 37 projects with a total registered capital of 359 million US\$ of which half went to 3 projects in oil industry, in 1989 the number doubled to 69 projects with a registered capital of 513.6 million US dollars. In 1990, 108 projects were licensed with a registered capital of 589.2 US\$. In 1991, 150 projects were licensed with a total registered capital of 1.185 billion US\$, accounting for 70 percent of the total projects licensed in 1988, 1989 and 1990, and 81 percent of the total registered capital. The number of projects licensed in 1991 was 40 percent higher than 1990, but the registered capital was 209 percent. In other words, the average size of the projects increased substantially. In industry, an average project was 1.8 million US\$ in 1990 and 7.5 million US\$ in 1991. An average project in hotel service in 1991 was to 9.03 million US\$, up from 4.5 million US\$ in 1990. Also in 1991, aside from contracts in oil industry, there were large projects such as the Vedan foodstuff complex capitalized at 184 million US\$, the Vung Tau tourist area at 97 million US\$, the Tan Thuan export processing zone at 89 million US\$, the Tan Son Nhat Airport Hotel at 20 million US\$, the Da Lat Tourist area at 40 million US\$, the Mekong Car at 36 million US\$, the Hoa Binh Car at 33 million US\$, the Dong Vong-Uong Thuong coal mine at 27 million US\$ and the Heineken Brewery at 40.5 million US\$.

In terms of industries in the national economy, the close-up picture of the foreign investment in the past four years is as follows :

- In consumer-goods industries (electronic appliances, chemical engineering and mining) : 118 projects (32.4%) with 324.3 million registered capital (12.8%)

	projects	(%)	million US\$	(%)
- Oil and gas	13	3.6	587.9	22.2
- Forestry, fishery and foodstuff industry	110	30.2	777.6	29.4
- Post and Telecommunications	34	9.3	283.3	10.7
- Hotel, housing and services	87	23.9	662.0	25.0
- Banking and credit card	2	0.5	10.4	0.4

The classification above shows that foreign capital is mainly invested in the fields of oil and gas prospection and exploitation, consumer goods and foodstuff processing, and hotels, housing and services.

Compared with the Vietnamese government's priorities, which are :

- To put intensive investment in existing production establishments to make the best use of their production capabilities, upgrade their technologies and promote their quality;
- To exploit and process locally available materials and natural resources, using labour-intensive processes;
- To develop the infrastructure and banking and fiscal services,

those projects are relatively conformable to Vietnam's wishes. It is only "relatively" since the highest priority-- to develop the key sectors of the infrastructure-- has not been equally invested by foreign investors. However, this is an inevitable happening in cooperation and investment. Any investment-seeker will want to use the foreign investors' capital as a lever to speed up its economy, wishing the investment to be put in the infrastructure or the key industries of the economy. Meanwhile, foreign investors only care for high profits. That is why they always wish to invest their capital in businesses which are highly lucrative and quickly return the capital.

In terms of geography, the investment projects are distributed very unevenly among regions. Most of the projects are in the southern provinces (76 percent of the total projects and 80 percent of the total capital). Ho Chi Minh City leads with 46 percent of the total projects and 48 percent of registered capital, followed by Hanoi. Least invested are provinces in the middle and northern mountainous parts of the country.

For example, 150 projects of 1991 with a total capital of 1.185 billion US\$ were distributed as follow :

- HCM City : 72 projects with 440 million US\$
- Hanoi : 22 projects with 123 million US\$
- Dong Nai province : 10 projects with 200.8 million US\$

The provinces which have from 2 to 5 projects are Nien Giang, Ba Ria-Vung Tau, Song Be, An Giang, Quang Nam-Dauang, Khanh Hoa and Haiphong. The provinces of Darlac, Phu Yen, Minh Hai, Ha Nam Ninh and Nghe An each have one project.

The most general reason of this state of geographically uneven distribution is the difference in the infrastructure and business environment of each region.

While Ho Chi Minh City, the southern provinces and Hanoi have the advantages in geography and in material and technical basis such as roads, ports, communication systems, hotels, commercial and service systems, skillful labourers and good scientists and technicians, the central and mountain provinces lack these conditions and fall far below the foreign investors' standards for profitable businesses.

Besides, although the Law on Foreign Investment does provide incentives for joint ventures with foreign investors in central and mountainous provinces, the incentives are not attractive enough.

Experiences of the countries which are ahead of us in the field show that to settle the problem of geographically uneven distribution of foreign investment, they have set up special zones and given the special conditions to attract foreign investors. In 1992, the Vietnamese government decided to build three export processing zones in Ho Chi Minh City, Haiphong and Danang and provide them with special conditions. Besides, to adjust the structure of investment in localities, since 1992 the State has issued preferential policies on tax, land tax and service prices, to especially encourage foreigners to invest in Hanoi to modernize the capital city.

As regards the investors themselves, by the end of 1991, more than 300 big and small companies from 34 foreign countries had invested in Vietnam. In order of total investment, the line-up is as follow :

- Tai wan : 46 projects with 602.7 million US\$
- Hongkong : 90 projects with 393.9 million US\$
- Australia : 18 projects with 280.1 million US\$
- France : 27 projects with 276.4 million US\$
- Holland : 4 projects with 173.5 million US\$
- Britain : 10 projects with 148.8 million US\$
- Soviet Union : 32 projects with 147.0 million US\$
- Canada : 11 projects with 112.0 million US\$
- Japan : 22 projects with 104.0 million US\$
- Others : 103 projects with 453.0 million US\$  
(25 countries)

East Asian-Pacific countries are big investors in Vietnam, with Hongkong and Taiwan the biggest. In number of projects, the Soviet Union, an important investor, is ranked third behind Hongkong and Taiwan.

Overseas Vietnamese invest in 27 projects with a total registered capital of 49 million US\$. Their investments are chiefly put in hotels, tourism, and the production of electric appliances and consumer goods. Considering the ratio between the already invested and registered capitals, the biggest investors are

Britain, Holland and France, which are all in oil and gas. Japan ranks ninth in registered capital, but third in the already invested, after Britain and Holland. Beside the Saigon floating hotel (70 million US\$), almost all Japan-invested projects are of small size and so carefully prepared that they are fast to start production. Taiwan has the biggest registered investment capital but so far only 12 percent of this amount have actually been invested, ranking fifth. Hong Kong and Thailand have the lowest rates of actual investment and the highest rates of abandoned or inexcusable projects.

Former Soviet Union has 41 million US\$ already invested, accounting for 6.6 percent of the total invested capital. Despite their many difficulties caused by their political and social instabilities, the Commonwealth of Independent States is always an important partner that Vietnam particularly cares about.

## 2. Economic effects

The implementation of the Law on Foreign Investment in Vietnam has gone on for only a short time. A big number of projects have been licensed only recently. Others have barely started construction or still stayed short of operation. Also some have been canceled. Therefore, it is not possible to pass a full and precise judgment of the economic efficiency of the entire process of implementation of the Law on Foreign Investment as well as its actual influence on the development of the national economy. Besides, it is very difficult to do so. The work is huge, requiring the efforts of many. So, in this paper, we only try to go as far as pointing out some results drawn from reports of the managerial offices and the project owners. This researcher has no conditions to double-check.

By the end of September 1991, the total invested capital had reached almost 620 million US dollars, or 24 percent of the total registered. This included 540 million US\$ from foreign investors. The Vietnamese partners contributed 80 million US dollars, or 13 percent, chiefly in the forms of land rent, workshops and a number of equipment.

The foreign investment had helped create jobs for 100,000 labourers, working at foreign-invested enterprises. This figure would be higher if the number of labourers working in capital construction and support fields was taken into account. An example is the Hau Giang joint-venture enterprise producing mushroom. Beside the workhands involved directly, the enterprise has attracted 20,000 households with 100,000 workhands to plant mushroom. The foreign investment thus has created conditions for the rearrangement of social labour, which is of special importance for Vietnam at this point.

Another example is in 1991, with an invested capital of 260 million US\$, the enterprises produced an output value of 94 million US\$ (about 940 billion dong), accounting for one percent of the GNP and earned an export value of 73 million US\$, 3.8 percent of the country's total export.

In the four years of implementing the Law on Foreign Investment, on the average, every one million US dollars invested will create 1.15 million US\$ of output value and jobs for 60 labourers (not including jobs in the support businesses).

Thanks to foreign cooperation and investment, we have fundamentally rebuilt and upgraded our international and domestic telecommunications system, thus furthering the development of our international cooperation. The invested projects have started producing products and earning export revenue, and creating jobs for labourers. Worthy of special note is that the 13 oil and gas contracts with a total registered capital of 587.9 million US\$ have had nearly 400 million US\$ actually invested in four years. On the Vietnamese continental shelf, foreign companies have been doing seismological surveys of thousands of kilometers and made tens of prospecting drills for oil, many of which have hit oil and gas deposits. The amount crude oil annually exploited is constantly on the rise :

In 1986	41,100	tons
In 1988	680,000	tons
In 1989	1,510,000	tons
In 1990	2,721,000	tons
In 1991	3,950,000	tons

With such a development, we can pin hope on an ever developed oil industry in Vietnam.

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After four years of actively attracting foreign investment, Vietnam has achieved initial results, modest yet very significant considering the present difficult juncture in its development. However, in order to have 50-52 billion US\$ in investment by the end of this century, an amount estimatedly needed to get it out of the property, Vietnam has to solve many big and complicated problems, both at the macro and micro levels, of the economy.

### 3. Questions to tackle

The practical activities of attracting foreign investment over the past five years in Vietnam as well as the experience of neighbouring countries in the field show that the possibilities for this work depend on the two following fundamental factors :

- First, the perfection level of the invested country's investment environment, including its political and socio-economic stability, the consistency of its government policies the perfection level of its system of economic laws, the ability of its government in management and supervision of foreign investment operations, etc., and

- Second, the international situation, especially the relations between the invested and investor countries.

As regards the first factor, it can immediately be said that Vietnam's implementation of the Law on Foreign Investment over the past five years has taken place in an atmosphere of political and social stability. The political platform and socio-economic strategy adopted by the Communist Party of Vietnam at its 7th Congress affirmed Vietnam's policies for renovation and expansion of its external relations. This move, on the one hand, created favourable conditions for the various economic sectors to develop, and, on the other, enhanced the confidence of foreigners in Vietnam's persistent policy. The past years have also seen the multi-sector commodity economy continue its positive changes despite the numerous difficulties and hardships. Many State and private enterprises have succeeded in overcoming the initial trials of the market mechanism, not only strengthening their foothold but also making considerable development, proving themselves trustworthy local partners of foreign investors.

Despite the US embargo against Vietnam, many foreign corporations and companies have come to inquire into its investment environment and signed with it deals on big and long-term investment projects.

However, a close and analytical look at the inner factor of the process would betray many problems yet to be solved :

a) First of all, it is the problem of making and enforcing laws and other legal instruments relating to foreign investment. Over the past years, the government has issued over 70 sub-laws and regulations which institutionalize its major policies toward foreign investment operations. However, a number of decrees and directives of great necessity are yet to be issued. Some others, though already effected, contain articles not rational nor adequate and appropriate to the market mechanism. They includes, for instance, the regulations on joint-venture managerial council, land rent, the hiring of labourers, the procedures for application of visas and traveling passes, etc.,

Also there are regulations in several laws such as the on stock company and law on private businesses which are not entirely in conformity with other laws concerning foreign investment.

Apparently the perfection of policies and legal instruments is an imperative task, especially in a context that Vietnam is located in a region where a number of near by countries are vying to attract foreign investment and in fact have a better investment environment than it. Besides, along with the establishment of a legal / system, of no less urgency is a strict and consistent observance of the already enacted laws. Regrettably, over the past years certain localities have passed regulations which are only for their own interests and not conformable to national laws.

b) A subsequent important issue relating to the inner factor is the perfection of the national financial and banking system.

As we already know, banking and financial operations are closely associated with investment activities. Nevertheless, Vietnam's banking and financial activities remain very inefficient. Therefore, they have become a major hindrance to investment operations. Many foreign investors appear to have doubts about Vietnamese banks' capabilities in payment and insurance. They complain about their troubles in opening bank accounts, in payments and transactions through banks, in seeking credits and other services. They also complain about the charges they have to pay in cashing cheques, depositing and withdrawing their money, which are against international practices.

It can be said that these are complicated problems whose solution will take time and require conditions. In any market economy, banking and financial institutions are part of the infrastructure. Any belatedness in the banking and financial system hampers not only investment operations but also the development of the economy itself. Therefore it is necessary to successfully and immediately solve the existing problems in banking and financial activities. In order to build an appropriate banking and financial structure which meets requirements of the market economy, it is a must, on the one hand, to change the mode of banking and financial operations, retrain and upgrade the professional staff of these two services and provide them with modern technical facilities appropriate for international banking operations.

On the other hand, efforts should be made to encourage foreign banks to open branches in Vietnam. Several foreign banks which have been licensed to establish their branches in Hanoi and Ho Chi Minh City have contributed to giving foreign investors more confidence in their investments in the country. Their presence also pushes Vietnamese banks into competition.

c) Another aspect of the inner factor is the state's managerial role in the training of managers in the field of investment. The content of the state's managerial work toward investment activities includes elaborating investment attraction policies, issuing investment laws and regulations, creating a favourable environment for foreign-invested enterprises and foreign investors to operate,

and assigning specific tasks to government offices in charge of managing foreign-invested enterprises. The main constraints of the present managerial work are the failure to unify the existing system of laws and the other legal instruments relating to foreign direct investments (as mentioned above) ; The delegation of responsibility in managing investment projects, so as to enact the principle of "one door only" and the time-consuming and complicated red-tapes. Besides, the professional skills of officials involved in investment attraction work are yet to meet the present requirements. There is a shortage of qualified cadres from the central level to the grassroots to study more thoroughly the external economic strategy of each foreign partner, especially his intentions in direct investment, and the same time, probe intensively each foreign company or business group to have a firm grasp of their intentions, business behaviours and financial resources, etc., in order for us to take the initiative in every move, both to broaden our business contacts and avert cheating.

On the national scale as well as in each province with foreign-invested enterprises, the training of a sufficient number of cadres working in cooperation and investment is an imperative requirement.

Other factors directly relating to the state management include adjustments of the objective of investment attraction and the flows of investment into various industries and territorial areas .....

A multiple objective of drawing foreign direct investment is to take advantage of the investors' capital, their technologies, managerial experience and markets, take up positions in international labour division, create jobs, etc. All these are aimed at maximizing the utilization of the national resources, natural and human, to increase internal capital accumulation for national industrialization. However, for each stage, the government should make necessary readjustments to the afore said objectives. Take the present initial stage of investment attraction for instance. Given the many internal economic difficulties and international conditions which are not entirely in our favour, it is advisable to give priorities to attracting capital as much as possible and creating more jobs for the working people since they are the most urgent issues. The other objectives, such as modern technologies, advanced managerial experience and access to markets should be lesser priorities. Moreover, direct investment is an operation characterized by voluntariness and mutual high benefits. It cannot be determined by the objectives of one side alone but the other sides' capabilities, interests and concerns must also be taken into account.

Proceeding from that approach, we see that at the present juncture, the government should adopt a policy to encourage investments in labour-intensive projects so as to create more jobs. High technologies should be attracted only

for use in processes and projects essential for products of high competitive edge on overseas markets or for substitutes for crucial imports.

As we already know, each territorial area in the country has its own difficulties and attraction for foreign investors. However, in order for us to have a relatively rational distribution of foreign investment projects on the national scale, conforming to the national redistribution of the workforce, we should not depend entirely on the attractiveness of each locality. Here, the government's role in regulating the investment inflows is very important. With its tax-based regulations, such as natural resource utility tax, profit tax, import-export taxes, income tax and profit repatriation tax, the government could divert investment to hardly accessible areas such as midland, mountainous and remote rural areas. As shown by experience of Thailand and China in attracting foreign investment, it is wise to set up special zones where foreign investors are given preferential treatments. The current construction of export processing zones in Ho Chi Minh City, the port cities of Haiphong, Danang and Hanoi is in that direction.

As regards the second factor-- relations between the invested and investor countries, one thing is down-right clear that Vietnam, for its part, is ready to receive investments from all countries, organizations and individuals wishing to invest and do business in Vietnam on the basis of mutual respect and mutual benefits.

Vietnam began to attract foreign investments when its neighbouring countries had already covered a long distance in the course. They had created a favour investment environment and accumulated rich experience. That alone is enough to put Vietnam in a fierce competition for the investment resources, themselves very little compared with other parts of the world. In this competition, Vietnam has relative advantages in its untapped natural resources, labour and market. However, it has the disadvantages of the US embargo and the outsiders' lack of understanding and sympathy for its present political system. These disadvantages are causes of the caution and reluctance of not a few foreign investors who want to invest in Vietnam.

## Appendix

### Japan's Investment Into Vietnam

Up to 1 October 1992, Japan has 27 Investment Projects in Vietnam with the total capital 231,970,000 US\$.

It is a very modest data in comparison with the total capital that Japan has invested in the world every year : 1989 - 44 billion US\$.

If we put in order following the number of investment projects Japan takes 5<sup>th</sup> place after Hongkong (94 projects), Taiwan ( 44 projects), CIS (33 projects) and France (27 projects).

If we put in order following the total capital, Japan takes only the 9<sup>th</sup> place after Taiwan, Hongkong, Australia, France, England, CIS, Netherlands and Canada.

In the total of 24 projects of Japan, we find 20 projects as Joint-Venture, 3 projects as 100% Foreign capital and 1 project as cooperation contract.

If we analyze projects following the size of capital per project, we can see that one average Japanese project has 6.6 million US\$. This size is smaller than average size of all investment project in Vietnam that has 7.5 million US\$.

If we analyze projects following the economical branches, we have the following picture :

- Oil exploitation ..... 1 project
- Hotel, Tourism Activities ..... 3 projects
- Processing of Agricultural Forestry Products ..... 9 projects
- Import from Japan some secondhand cars, Motorcycles, Motors, then remodernized and sold them in Vietnamese market ..... 4 projects

This is a special kind of investment projects that only the Japanese companies are undertaking.

- Project carried on business, on handicraft and products of Vietnam ..... 2 projects
- Project carried on scientific service, economic advice ..... 2 projects
- Projects carried on cultural service ..... 2 projects
- Projects carried on repairing transport equipment ..... 2 projects

This above classification shows that investments project of Japan mainly concentrates on exploitation and processing of agricultural-forestry; fishing

products and makes them to be export product. The second place has been taken by Project carrying on import, repair, assemble the second-hand Japanese machine and equipment and sell them in Vietnamese market.

Both kinds of Projects aimed to exploiting natural resources and labor force and forming a big market in Vietnam.

Ranking third are Projects on Tourism, Hotel and other services.

It we can see there is not any Project invested for building and upgrading the infrastructure of economy and none project with the last new technologies of Japan.

At the beginning of 1991 the Kyodel Company of steel production - one of the biggest companies has been coming in Vietnam to investigate ability to build a factory of steel processing in Vietnam with a capacity about 200,000 ton per year.

Also in the near past time, with the changes in political life on the world and regions, with is confidence on the Vietnam renovation policy, Japan has not fully followed USA to make embargo to Vietnam, Japan has presented more and more Delegations to Vietnam to investigate Vietnamese conditions for Trading and Investment. Many companies of Japan are interested in Investment for heavy industries, exploitation of mineral resources and oil, cement production, car assemble, etc. ....

The issue that Japanese Government has declared to succeed ODA for Vietnam, making opportunities for big companies to come to Vietnam and undertaking business with and investment in with Vietnam.

We do hope that it is the time more and more big Investment Project, more and more Modern Technologies and Techniques of Japan would be realized into Vietnam.

## Thailand's Investment Into Vietnam

Up to April 6, 1993 Thailand has invested into Vietnam 27 Projects with 101,113,000 US\$.

Following the number of Project Thailand takes 5<sup>th</sup> place. Following the total capital Thailand takes 12<sup>th</sup> place among the countries-investors in Vietnam.

From the total 27 Projects of Thailand there are 20 Joint-Ventures, 6 Projects as Projects of 100% Foreign capital and 1 Project as Business cooperation contract.

Average size of capital per Project is 3.74 Mill. US\$. This size is smaller than average size of all investment Projects in Vietnam which is 7.5 million US\$.

If we analyze the Projects following the economical branches, we have the following picture :

- Production and Processing of agricultural, fishery products .....	6 projects
- Processing of forestry products .....	3 projects
- Hotel and Tourism activities .....	3 projects
- Finding out and Processing of Precious Stones .....	3 projects
- Banks .....	2 projects
- Others .....	10 projects

As we see, about 35% of Projects are belonging to exploitation and processing of agricultural, fishing products.

Thailand is a nearest neighbour country, we have intended to cooperate with Thailand in political as well as in economic fields.

First and foremost Vietnam has to learn experiences of Thailand in areas of attraction of Foreign Direct Investment, of broadening external economic relations.

We do hope to have opportunities to go back in Thailand for a longer time to do it.

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