Foreign Direct Investment in Vietnam

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1 Abstract

This paper will explore the key factor bringing the success of economic development in Viet Nam, that is Foreign Direct Investment (FDI). Vietnam has been highly successful in mobilizing huge investment to support its rapid growth. During the past two decades, its economy has grown at an annual average rate of around 7.5 percent, making Vietnam one of the fastest growing countries in the world. The increase of FDI is due to Vietnam’s policy of open up to the world since the beginning of government's reform.

Key words: Foreign Direct Investment (FDI), economic development, government's reform, policy, human resource, education.

2 Theoretical Background

FDI can be defined as "cross-border expenditures to acquire or expand corporate control of productive assets" (Froot, 1993). The distinction between FDI and international portfolio investment is that with FDI an investor is directly involved in the management of the firms. It is sufficient if a foreign investor holds 10% of an enterprise to be called foreign direct investment (IMF 1997, IFC - International Finance Corporation).

As a part of "globalization" the importance of foreign investment has accelerated rapidly during the last decades. The reasons for this increase may be changes in transportation and communications technologies and different government policies in most countries of the world. One very important aspect of these changes is that production can be split up into different stages. Together with decreasing transportation costs this allows firms to locate different stages of production in different countries. Very important for developing countries are the so called "special trade relationships" (Chen, 1996): intermediates are imported and assembled in developing countries in order to be exported as final products. The important question in this respect is how FDI and economic growth are related.

A different question relates to the determinants of FDI. While FDI has been growing at a rate of 30% during 1989-1993 in nominal terms (UNCTC, 1989) the bulk of FDI is within the developed world. From 1989-1993 on the average only 19.7% of FDI went to LDCs. This share has increased to 35% in 1994 but a lot of the increase can be attributed to FDI in China alone. In addition, FDI to developing countries seems to be concentrated to only few countries, mostly China, Indonesia, Malaysia and Thailand (Dutt, 1997). There is a large literature (see e.g. Dutt, 1997, Froot, 1993, Sapsford, 1994) on the two above mentioned questions - the relation between FDI and overall growth and determinants of FDI. In the next two sections we give short overviews of the major points raised in this respect with a special focus on the situation of developing countries.

2.1 FDI and Development

The main connections between FDI and development are the effects on capital accumulation and the balance of payments, the possibility of technology transfer and the effect on competition.
Capital Accumulation and Balance of Payments

Developing countries usually lack capital and domestic saving capacities are often weak. FDI is often claimed to be an important source of capital necessary for industrialization, which is not as "footloose" and thus more stable than other forms of capital inflows. The arguments against are that multinational companies often raise resources within the host countries and that FDI capital is as volatile as other forms of capital inflows. Also, if profits are repatriated capital outflows may become larger than new FDI inflows. In addition, the effect on domestic investment is not clear, as it may be difficult for domestic entrepreneurs to compete with the multinational companies. The evidence on this point is not yet conclusive as FDI and investment are difficult to measure. It appears, however, that for the newly industrialized countries in Asia the contribution of FDI to capital accumulation - measured by FDI as a ratio to gross capital formation - appears to be small (Dutt, 1997).

With respect to capital accumulation, the effect of FDI on the balance of payments is not clear. The balance of payments is improved directly by capital inflows and thought to be further improved by consequential higher exports and lower imports. These effects would, of course, be valuable for the development of foreign-exchange constrained countries. On the other hand the "special trade relationships" means that intermediate products and capital goods are imported which increases imports. Moreover, not each type of FDI is oriented towards exports (see next section) and, as noted above, FDI may lead to net outflows of foreign capital in the long run.

Competition

The effect of FDI on competition and industrial structure is also ambiguous. FDI is often undertaken by large multinational companies. This may reduce the degree of competition in host countries and thus have bad effects on efficiency, technological change and industry dynamics. Another problem is that FDI often takes place in targeted industries which receive heavy subsidies and support from the government. Such policies are justified by infant industry type arguments which are still debated heavily (Krueger, 1997). However, it is also often argued that FDI projects break up domestic monopolies and thus lead to more competition. Also, because of the superior quality of foreign products, there is pressure for domestic producers to increase efficiency and quality in order to compete. Especially if sectors reserved for state enterprises are opened for FDI this may be the first step towards liberalization and privatization, e.g. because of demonstration effects.

Technology Transfer

Among the most important arguments for FDI is the technology transfer possible through FDI projects. The basic argument is that multinational companies are in possession of superior know-how which is brought to the country. Domestic firms competing with them adopt the new technology leading to an increased domestic capability of adapting and developing new technology. It is often pointed out that countries open to FDI (e.g.
the Asian Tigers) have been able to benefit from technology transfer more than countries with restrictive policies. On the other hand, it is also argued that multinational companies either bring old technology or that the technology introduced is not adequate to the conditions of developing countries. In both cases technology transfer does not take place. True or not, this argument points to the fact that technology transfer cannot be expected to take place automatically but also depends on other factors like the quality of the labor force, the set-up of the project or the type of technology introduced. This determines the capacity of the LDCs to absorb and thus benefit from FDI and, on the other hand, the type of technology introduced by the multinationals. Another important point is that "technology" should be taken in a wider sense including also organizational and international marketing know-how (Chen, 1996).

Although theoretical and empirical evidence is not clear cut most economist and politicians have taken a positive attitude towards FDI (in contrast to more sceptical opinions twenty years earlier). Like Vietnam most countries have opened up for FDI and tried to attract it. In any case - as with foreign trade - the question of causality between FDI and growth remains a problem.

2.2 Determinants of FDI

FDI is usually undertaken by firms aiming to maximize their profits. There are three major types of FDI (Dutt, 1997) for the manufacturing sector: From the different types one may derive determinants of FDI where we focus on factors pulling FDI into countries (as we investigate the case of Vietnam).

1. "Market seeking" projects: These are projects which attempt to get access to host country markets and possibly neighboring markets. Obviously, the size of a market and its growth potential is very important for such projects. Therefore major determinants are GDP, GDP per capita and GDP growth rates determining present and future purchasing power and the size of countries. It is therefore, not surprising that large countries like China receive major parts of FDI. In addition, market competition and market access will be important. Both the lack of efficient domestic producers and high import tariffs have a positive effect on market seeking FDI.

2. "Efficiency seeking" projects: This type of project tries to profit from opportunities to lower production costs in the increasingly globalized world (Chen, Hule, 1998). Labor intensive stages of the production (e.g. assembling) are switched to low wage countries while the goods are exported to the world market. While low wages are important for the decision of firms to reallocate production, several other factors like the education and the skills of the labor force, or infrastructure, efficient transport and communication systems are important. Because of the export of the product, exchange rates are also important. Overvalued currencies are bad for FDI since they make sales in host countries and exports less profitable.

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1 The chapter focus on the manufacturing sector because of its importance for industrialization and therefore development.
3. "Resource seeking" projects: These projects try to exploit natural resources by bringing projects close to raw materials which are expensive to transport. Naturally, this type of FDI depends on raw material endowments and on world commodity prices. Although the determinants are of different importance for different types of investments there are also factors common to all FDI projects. Very important are the level of infrastructure available and the political and legal environment. The political environment stability, both from the government and of macroeconomic indicators, is often considered to be a major factor by managers in surveys. There is also an obvious connection to policies directly concerning FDI projects. Foreign investment policy encompasses e.g. preferential tax treatments, export and domestic content requirements, restrictions on sectors and licenses or other bureaucratic procedures connected to FDI. In any case, the effects of these different measures may be different for different projects. To evaluate the efficiency of such policies to attract FDI it is also necessary to compare measures of "competitors", i.e. of countries in a similar position.

3 Foreign Investment Policy

One of the objectives of the Doi Moi reform was a move towards openness. Thus, already in 1987 a new Foreign Investment Law was promulgated by the Vietnamese government. Since then various measures have been taken to increase the attractiveness of Vietnam for FDI. Since 1990 the private sector is allowed to participate in FDI projects. An important change to the law was made in December 1992 which simplified access to licenses for FDI and reduced restrictions on FDI. Apart from the legal steps taken the macroeconomic and political development was probably also very important to stimulate FDI. Notable are first of all the successful stabilization policy and the settling of conflict by the end of 1991. The increasing liberalization e.g. of foreign trade certainly has contributed to the confidence of foreign investors, as has the gradual privatization.

Until now, FDI projects have needed to get approved by several authorities. The license specifies, among other things, planned investment capital, business activity and location. While this process has been increasingly improved by reducing the number of authorities and simplifying procedures, the bureaucracy is still considered as a hindrance and cause for failure of projects. In reacting to these criticisms Vietnam has established a "one-stop agency" i.e. a single agency acting as intermediary between investors and authorities. The key points Vietnam is open for FDI in all economic sectors. At present there are no restrictions on minimal capital investment requirement and no restriction on the share of ownership for foreigners. There are also no restrictions on repatriation of profits or dividends and the Vietnamese government guarantees not to nationalize foreign assets or place restrictions on the control and management of enterprises.

Also, various investment incentives are granted. Vietnam offers tax holidays for two years which can be followed by another two years of half of the regular tax rate. In priority sectors the corporate income tax is lowered to 10-15% for FDI. In order to encourage reinvestment of profits, enterprises are refunded the profit taxes for reinvested funds. Likewise, companies with foreign capital do not have to pay import duties on raw materials and other inputs or components used for the manufacturing of exports. The
same is true for machinery and equipment imports. License requirements for FDI projects were eased which is a considerable advantage because of the long delays often caused by the rather restrictive policy on imports.

The major constraints on FDI projects are concerning labor markets and land use. Recruitment of labor must be made through local government labour offices or labor supply companies. The investors have to pay comparatively high fees for the intermediaries. There is also some pressure to use domestic labor if the necessary skills are available. Additionally, there are minimum wages which were about $30 per month in 1996, and from May 2012, the figure reached $50 per month.

Land rights have been restricted for foreign investors. While getting the right to use land, it is not possible for foreigners to buy the land. Only state-owned companies are allowed to use land rights as part of their capital contribution to foreign joint ventures. This explains the high number of joint ventures formed between foreign firms and SOEs. Usually the SOE has brought in land or other rights subject to bureaucratic restrictions while the foreigners participated with capital and management know-how.

In order to attract foreign investors and to avoid some of the above mentioned restrictions, Vietnam established the Tan Thuan Export Processing Zone (EPZ) with the total area of 300 ha in 1991. It has attracted 139 foreign investors, primarily Taiwan and Japan enterprises, in 6 years of operation. More than 100 licences have been issued in this zone with a total capital of US $482 Million. After Tan Thuan EPZ’s good results, Vietnam has set up other 25 industrial parks.

Dung (1996) compares the investment environment in Vietnam with other Asian countries, especially Indonesia. He concludes that Vietnam's investment incentives are similar to those of other countries like Indonesia, Malaysia, Philippines, Singapore or Thailand while some differences in detail (i.e. tax holidays, corporate tax rates, reduced taxes for R&D expenditure or import duties) exist. Lei (1994) compares reforms in Vietnam with China and finds no significant differences with respect towards FDI. Summarizing, Vietnam is trying to promote FDI as a means of development since the beginning of the reforms. Nevertheless foreign investment policy - like trade policy - can be characterized by a gradualist approach. The Vietnamese government has tried to learn from experiences in order to improve mistakes, while at the same time trying to keep the control.

4 The development of FDI in Vietnam

4.1 Reasons for FDI in Vietnam

Since the change of policy in 1987, there was a surge of FDI in Vietnam. Before analysing in detail the data available on FDI in Vietnam we want to investigate the reasons for FDI in Vietnam, according to the classification in 2.2. Basically all three types of FDI are feasible in Vietnam (Kokko, Zejan, 1996, p.37-50). There are possibilities for resource development especially oil and gas exploration and oil refining.
Because of the cheap and comparatively well educated labor force available in Vietnam, export-oriented "efficiency-type" FDI also seems to offer opportunities. This is especially true for the former South Vietnam where also some experience with market-oriented behavior and knowledge of foreign languages can be expected. Last but not least, Vietnam is a rapidly growing market which was closed to U.S. firms until the end of the U.S. embargo in 1995. In addition, the strategic position of Vietnam, e.g. access to Chinese market, is sometimes mentioned, an argument which probably is not very strong. In a survey from Australian enterprises undertaking FDI in Vietnam, Maitland (1996) also asks for the reasons to choose Vietnam as a location for FDI (Table 4.1). The dominating reasons resulting from a score between 1 and 5 were establishing a long-term presence, the strong growth prospects and the size of the economy. Not so important were (in descending order): absence of US corporations, access to other Asian countries (at the least to China), access to raw materials and low wage costs. The behavior of Australian firms thus points to a strategy to establish FDI projects as base for operating in the local markets.

These strategies may not be representative as it is well known that FDI projects from the NICs e.g. from Taiwan, are often of the efficiency seeking type as businesses from these countries move labor-intensive production out because of increased wages in the home countries.

4.2 The increase in FDI

The increase of FDI in Vietnam since the opening at the end 1987 has been impressive. In 1996, Vietnam was one of the top Developing-Country recipients of FDI in the world. During that time, despite the effect of Asian crisis, interest in developing Industrial Zone (IZs) and Export Processing Zones (EPs) continued to be strong. By September 1997 there were 31 IZs and 3 EPs in operation covering 5,700 ha. The largest is the Nomura-Hai Phong IZ which is expected to cost US$ 163 million to develop. The Industrial Zones Management Board drew up a list of additional IZs which would be permitted, bringing the total of IZs to 51 by 2000. It was difficult for foreign investors to set up 100% foreign-owned industrial firms outside the IZs. In 1997, Tan Thuan EPZ’s export turnover was US $210 million, and it created jobs for 16,000 employees. In the government’s evaluation, this was the most successful EPZ in Vietnam. This success is probably mainly due to the foreign partner’s management ability, prestige and experience (Central Trading Company of Taiwan).

Tan Thuan Processing and Export Zone, which is considered to be the first modern IP in Vietnam, following which more IPs were built, though the pace of expansion was interrupted by the East Asian Crisis in the late 1990s. As figure 4.1 shows, the rate of approval and construction of IPs increased in 2002 and went into overdrive after the approval of the Law on Investment in 2005. In 2008 alone, the amount of land approved for IPs exceeded the cumulative land allocated for IPs between 1991 and 2003 (World bank 2012). Even at the height of the global economic crisis in 2009, 30 new IPs were approved. The deluge of foreign investment, signing of various trade agreements, and
incentives provided by the government created a feeling that if you build an IP, the investors are sure to come.

After having described and pointed out the most important features of FDI in Vietnam, we try to give preliminary answers to the most important questions with respect to FDI. Political stability, a young and educated labor force, the relatively low cost of doing business, and strategic location are some of the factors that have made Vietnam a magnet for foreign direct investment. Many of these foreign investors, and a large number of domestic investors, have found a home in the ubiquitous IPs that dot the length and breadth of the country. At the end of 2010, Vietnam’s 261 IPs (Table 4.2) occupied 71,394 ha in 57 of its 62 provinces. Of these, 173 IPs are fully operational and 88 are at various stages of construction. In recent years, these IPs have attracted nearly 8,350 projects with a registered capital of US$74 billion, of which US$24 billion has been disbursed. In 2010, the enterprises operating in the IPs produced nearly US$34 billion worth of products, of which US$19 billion was exported (40 percent of total manufacturing exports from Vietnam) (World bank, 2012). There are more than 1.6 million workers employed in these IPs. By most criteria, the IPs in Vietnam should be considered a huge success.

4.3 Problems for FDI in Vietnam

From the previous sections one may conclude that FDI has been successful and an increasingly important factor in the Vietnamese economy. Nevertheless, there are several complaints also on the experience in Vietnam e.g. "Vietnam is developing a reputation as the biggest investment tease in Asia, as red tape and other impediments deter investor" (Dapice, 1994). Apart from the lack of infrastructure, which is due to the low development level of Vietnam and which will take some time to change, the lack of an administration and laws adequate for competitive markets pose one of the most serious problems. Basically this is due to the heritage of socialism and sometimes wrong expectations and views towards markets from the Vietnamese authorities. We present two case studies to show the problems.

The first example is from the chemical beauty product industry with 5 FDI joint ventures: Colgate Palmolive (USA), Kao (Japan), Leve-Haso, Live Viso (joint-venture with Unilever, UK-Hollands) and P&G Vietnam (joint-venture with Procter Gamble, USA). Unilever made a loss of US $13 Million in the first years of operation, and Colgate suffered a loss of about US $3 Million in 1997. P&G Vietnam, a joint-venture with Phuong Dong company, made the biggest losses. The total losses for 3 years of operation of P&G went up to US $35 Million. According to the opinion of the Ministry of Planning and Investment, this has occurred because the company did not perform as agreed in the initial economic study approved in the investment licence. According to the investment license, the joint-venture should pay 5% of sales for advertising and promoting but P&G spent up to 31% of sales for these activities. Instead of 5 or 6 there are now 16 foreigners working with too high wages. The expenses for counsellors went up to US $850,000. The meeting and business trip expenses in the past two years were estimated at over US $1 Million. The Board of Management agreed a loan of US $29 Million at a high interest
rate for investment capital that led to P&G joint venture’s loss. The mother company P&G suggested increasing capital by US $60 Million. As a result, the Vietnam side, Phuong Dong Company would have had to contribute US $18 Million (holding 30% of initial ratio of capital contribution in the form of the right to use the land). Phuong Dong Company itself was not able to contribute additional investment capital and could not persuade the government to continue guaranteeing Phuong Dong Company’s loans for additional investment capital in order to maintain the joint-venture. Finally, the Vietnam partner had to transfer its shares of 30% to P&G, to transform the joint-venture into a company with 100% foreign capital.

A similar pattern appears in the beverage industry. Two beer joint-ventures BGI Tien Giang and BGI Da Nang have made some billion dong of losses. The joint-ventures Donna (Power) also made a loss and Vietnam bought the foreign partner’s share at a price of US $360,000. The Joint-Venture between Pepsico Finance (UK) Ltd. and Macondray Company and Company Inc. with 40% of legal capital hold by the Vietnam side (also being in the Board of Directors) and 60% by foreign investors, made a profit of US $1.5 Million in 1997 but suffered losses in 2 months of the first three months of 1998 due to price reductions for the purpose of competing with Coca-Cola Company. The biggest joint-venture company in beverage industry is Coca Cola (US) with two Vietnam companies, Ngoc Ha (Ha Tay province) and Chuong Duong (Ho Chi Minh City). According to the Decision of Establishment of Investment Licence No 1384/ GP, on September 27, 1995, the total legal capital was US $20.7 Million, the Vietnam partners contributed 40% of the legal capital in the form of the right to use 6 ha land for 30 years valued US $8.3 Million, and Coca Cola Company contributes 60% of the legal capital or its equivalent in house, factory, equipment valued US $12.5 Million. Both parties took a loan of US $25.9 Million as working capital. After over 2 years of operation, up to March 1998, the company estimates a loss of US $12.4 Million. Particularly, in March 1998, the company makes a loss of US $2.7 Million.

According to The Ministry of Planning and Investment, the reasons for these losses are as follows:

a) Advertising, promotion, product distribution and administrative management expenses hold 41.77% of sales, instead of 20.1% in the initial feasibility study.
b) An increase in the equipment expenses of the agencies and debts which total 25.6% of capital investment.
c) Rise in the interest rates.

To solve the liquidity problems, the Vietnam partners suggested an additional contribution of US $3 Million in the form of the right to use the land for additional 13 years (i.e. an extension of the the joint-venture from 30 to 43 years) while the foreign party should contribute US $11 Million. The legal capital ratio will be changed to 35% to the Vietnam party (instead of 40% now). Coca Cola Company rejected this proposal and it suggested cash contribution, or in case of lack of money from the Vietnamese partners, a reduction of the capital ratio to 12% additional capital of US $42 Million by Coca Cola Company. In case of disagreement on the additional capital contributions, the joint-
venture should become a company with 100% foreign capital. Coca Cola pays land rents and employs the Vietnam partners to cork up Coca Cola products within 10 years. On May 25, 1998, Minister of Planning and Investment announced that the government is examining the transfer of 100% capital to Coca Cola.

The competition of large companies has caused much difficulty to Vietnam beverage companies. In the Seminar on "Orientate development of beverage production and business", held in April 1998 in Ho Chi Minh City, a decrease in production of the home beer companies was observed because of the price competition. For example, in 1996 Danang Beer Company produced 14 Million litres and delivered VND 58 billion to the budget. In 1997 it produced only 10 Million litres and in the first quarter of 1998 1.7 Million litres. One explanation is that the selling price of BGI Joint-Venture beer is VND 3000/liter and the promoting rate of 10% for agencies, while the average cost price of Vietnam produced beer is not less than VND 5000/liter which resulted in heavy losses of market shares for domestic companies.

The two case studies can be analysed from the side of foreign investors, their Vietnamese partners (state-owned companies) and from the government. Obviously both sides have different attitudes, expectations and strategies: Vietnamese partners in the joint ventures expect immediate short-run profits and (as is implied by the comments of the Ministry) do not see the necessity of high expenditures for advertising or price wars. This may be partly due to the lack of capital of Vietnamese companies. Another argument to understand this behavior, is the interdependence with the state either because some of the competitors are state-owned companies with a behavior different from profit-maximizing and expected contributions to the budget and to employment. Additionally there are obviously (maybe justified) fears that the multinational companies will benefit from transfer pricing (this is especially relevant for brands like Coca Cola or Pepsi) diverting profits to the mother company. Finally there are concerns that the multinationals use their advantageous bargaining situation and the lack of liquidity from Vietnamese firms to establish their market power using the joint ventures and then pushing out the local partners.

On the other hand, big international companies like Procter&Gamble or Coca Cola are used to operating in oligopolistic markets with fierce competition and using different promotion or price strategies. "Procter and Gamble, the largest advertiser in the world, wanted to spend more on building up brand recognition" (EIU 2nd 1998). They are probably less concerned about short-run losses if future returns are promising. They are not ready to accept too high prices or too high valuation for land rights contributed by Vietnamese partners nor can they be expected to tolerate inefficient procedures or political interventions. An analysis of the losses like the one from the Ministry of Planning and Investment presented above will be likely to be interpreted by the managers of the multinational companies as lack of managerial and economic know-how and as a style of thinking stemming from the planned economy system. Dominating drinks market in Vietnam, with vertical increase of sales, but since investing in Vietnam market, Coca Cola has never paid for a penny of income tax due to continuous loss declared.
Ho Chi Minh City Tax Department said since its incorporation (February 1994) so far not in any year that Vietnam Coca Cola Company declared profit despite revenue increases continuously year after year. In 2004, 728 billion VND of sales, loss of 110 billion VND; 2006’s sales soared to 1,026 billion VND, then its loss declared was up to 253 billion VND.

Most recently, in 2010, sales of Vietnam Coca Cola was up to 2,529 billion VND, but the cost was up to 2,717 billion VND, resulting in a loss of 188 billion VND. Until now the company has total loss of 3,768 billion VND, surpassing its initial capital investment of 2,950 billion VND.

Mr. Le Duy Minh, head of No. 1 tax inspection division, HCMC Tax Department said the "secret" for this business can continually declare loss is found in the costs of raw materials, which are mainly aromatic spices directly imported from parent company at very high price.

By average, raw material costs account for over 70% of prime cost, especially in 2006-2007, raw material cost was up to 80-85% of capital. As in 2010, the costs of raw materials imported from the parent company was 1,671 billion VND over 2,329 billion VND of revenue. This cost was 1,065 billion VND in 2009.

For many times, the HCMC Tax Department has also worked with this company, but the representative of Vietnam Coca Cola company still answers having fully declared in compliance with Vietnam laws, and the loss and revenue were insufficient to cover expenditures. The company could not sell at higher price as expects to expand the market. This company also explains considerably high price of materials is due to long standing patent, including cost of gray matter.

"It has been 6-7 years Ho Chi Minh City Tax Department lists Vietnam Coca Cola company at No. 1 in the list of businesses doubted of having sign of price transfer. The financial statements of this company are scrutinized very carefully, but evidencing this company has committed price transfer is much more complex than other companies for without basis to compare price of raw material to other companies in the same industry because materials are exclusively supplied by the parent company of Vietnam Coca Cola. We just can not use the price of raw materials from other companies in the same industry for comparison because it is a typical enterprise" - Mr. Minh said. (Le Anh, 2012)

In the discussion of tax evasion, Mr Steven Rattner commented on the New York Times: “Much of this occurs under the guise of “transfer pricing,” the terms under which one subsidiary of a multinational sells products to another subsidiary. The goal is to generate as high a share of profit as possible in the lowest-taxed jurisdictions.” (Steven Rattner, 2013)
4.4 Effects of FDI in Vietnam

According to the data of Foreign Investment Department (Ministry of Planning and Investment), first 4 months of 2013, the country attracted 8.2 billion US$ of foreign direct investment increased by 17% and nearly 65% of total FDI attracted in 2012. However, if the investment environment discontinues to improve, it is unlikely there’s no future long-term commitment.

Typical project is Samsung Electronics Vietnam Thai Nguyen of Korean Sam Sung Group with a total investment of 2 billion US$ for manufacturing and assembling electronic products; Bus Industrial Center Co., Ltd. Project of Russian investor with a total investment of 1 billion US$ to build the factory for manufacturing and assembling parts of bus and other support services in Binh Dinh; Nghi Son Oil Refinery Project (Thanh Hoa) of Japanese investor increases further 2.8 billion US$ to 9 billion US$ in total. In addition, there are several billion projects under survey phase.

Although FDI has achieved important results, but the attraction of FDI over last time has not achieved some goals as expected. It is the ratio of projects using high-tech remains low, does not yet attracted source technology, new employment rate is not high. The issuance of investment certificate is not suitable to the planning, there’s not yet attention paid to the efficient use of land resources, mineral … taking place in many localities.

We should continue to improve the investment environment in Vietnam to be really attractive to foreign investors being confident, satisfied in order to attract investment into Vietnam.

Because macroeconomic instability, low quality of labor, outdated infrastructure, administrative procedures have been slowly improved, slow clearance, … still considered by international investors as a "culprit" that adversely affects the investment environment in Vietnam. Experts are constantly giving warnings, if these issues are not overcome soon, Vietnam will be difficult to attract FDI.

One of difficulties in attracting FDI in Vietnam is slow clearance. There have been many FDI projects signed, but issues arise at the stage of clearance made projects disbursement disabled. Typical project is Tata steel project in Ha Tinh of Indian investor with capital of up to 5 billion US$, but 6 years passed (since 2007) to present, local government and investor have not reached an agreement on the cost of clearance and resettlement.

The most recent project of Sam Sung Group investing in Thai Nguyen province with a capital of over 2 billion US$ with investment certificate granted since March 2013 but in early May, information from Thai Nguyen Province, in nearly 160 ha under clearance, it remains over 8 hectares that can not be declared because some households do not accept the price of clearance.

At the 25th Conference on summarizing the attraction of foreign direct investment in Vietnam held by the Ministry of Planning and Investment on 27 March, Deputy Minister of Planning and Investment, Dao Quang Thu said the foreign investment (FDI)
sector has positive contribution to the achievement of growth, socio-economic development of the country.

1. Foreign investment contributes to economic growth, improving the efficiency of using domestic investment resources.

By the end of May 2013, Vietnam has attracted 14,918 foreign investment projects in effect, the total registered capital is nearly 217 billion U.S. $, of which the capital realized is nearly 100 billion US$.(Table 4. 3 )(nguyen Hoang, Nhat Bac,2012)

Foreign investment is dynamically developing area with higher GDP growth rate than national growth: in 1995, GDP of foreign investment increased by 14.98% while national GDP increased by 9.54 %, this corresponding rate is was 11.44% and 6.79% (2000), 13.22% and 8.44% (2005), 8.12% and 6.78% (2010). Contribution of foreign investment sector in GDP gradually increased from 2% of GDP (1992), up to 12.7% (2000), 16.98% (2006) and 18.97% (2011). The impact of foreign investment on economic growth is more evident through. It is also one of the highest recipients of foreign direct investment, which averaged over 7 percent of gross domestic product (GDP) during 2005–10 ( Figure 4.2)

Addition to total social investment: Foreign investment capital was fast increased over time, from about 20.67 billion U.S. dollars, accounting for 24.32% of total social capital (1991-2000) up to 69.47 billion U.S. dollars, accounting for 22.75% of total social capital (2001-2011). The proportion of foreign investment sector in the economic structure of 2000 - 2011 period increased by 5.4%.

Important contribution to export

The policy on encouraging foreign investment in export has facilitated Vietnam in raising export capacity, which helps us to participate and improve gradually position in the global value chain. Before 2001, export of foreign invested sector only accounts for 45.2% of total turnover, including crude oil. Since 2003, export of this sector began to exceed domestic sector and gradually became a major factor boosting export, accounting for about 64% of total export in 2012. Besides, foreign investment has contributed to change export structure towards reducing the proportion of mineral products, primary products, gradually increasing the proportion of manufactured goods. Foreign investment has positively impacted on the expansion of export market especially to U.S., EU, significantly altered the structure of exports, making the United States the largest export market of Vietnam. In addition, foreign investment has also contributed to stabilize domestic market, restricting trade gap through providing the domestic market with high-quality products manufactured by domestic enterprises instead of importing as previously.

Contribution to budget revenue

The contribution of foreign investment to the state budget increased from 1.8 billion US$ (1994-2000) to 14.2 billion US$ (2001-2010). In 2012, contributing to the budget of the
foreign investment sector (excluding crude oil) was 3.7 billion US$, accounting for 11.9% of total revenue (18.7% of total domestic revenue, excluding crude oil).

2. **Foreign Investment promotes economic restructuring towards industrialization - modernization**

Currently, 58.4% of foreign investment capital has focused on industrial sector - construction with has higher technological level than the country level. Growth in industry – construction area of foreign investment reached nearly 18%/year, higher than the industry growth rate. Until now, the foreign investment sector has created nearly 45% of industrial production, contributing to the formation of a number of key industries of the economy such as telecommunication, mining, oil and gas processing, electronics, information technology, steel, cement ... Foreign investment has contributed to the restructuring of agriculture, diversification of products, improving the value of exported agricultural goods and acquiring a number of advanced technologies, varieties and animal breeds of high productivity, high quality of international standards, creating some new, highly effective methods especially for projects of investment in developing resources, contributing to improve farming practices and poor and outdated infrastructure conditions in some localities. Foreign investment sector has created a new face in the field of high-quality services such as hotel, office apartment for lease, banking, insurance, audit, legal consulting, shipping, logistic, supermarket ... These services also contributed to create new methods in distribution of goods, consumers, stimulate local business activity and contribute to increase exports of goods.

3. **Foreign investment creates jobs, improves the quality of human resources and change in labor structure**

Businesses in this sector have created jobs for around 35 thousand direct workers, and about 1 million indirect workers. Currently, foreign investment sector created over 2 million direct jobs and about 3-4 million indirect jobs, having strong impact on labor restructuring towards industrialization - modernization. Foreign investment enterprises are considered pioneers in in-house training and external training, raising the level of workers, technicians, managers, in which a part has management capacity, science, and technology degree enough to replace foreign experts. In addition, foreign investment plays an important role in improving the quality of labor through pervasive effect of labor, updating skills for suppliers and buyers.

4. **Foreign investment is an important technology transfer channel, contributing to improve technological level of the economy**

Foreign investment sector uses higher technology or advanced technology has existed in domestic market and has been universal in the region. Since 1993, the country had 951 contracts of technology transfer approved / registered, including 605 contracts of foreign-invested enterprises, accounting for 63.6%. Through technology transfer contracts, foreign investment sector has contributed to promote the transfer of advanced technology to Vietnam, improve technology capacity in many areas. Considering the level of technology transfer, processing technology, manufacturing at highest efficiency. According to the Ministry of Science and Technology, some industries have well done
some technology transfer, such as oil and gas, electronics, telecommunications, information technology, mechanical engineering, automotive technology, and motorcycle apparel, footwear, in including telecommunications, oil and gas are the most effective as evaluated. Pervasive effect of technology in foreign investment sector is done through production linkage between foreign-invested enterprises and domestic enterprises, thereby creating conditions for domestic enterprises to access to technology transfer activities. In general, foreign investment has indirect pervasive effect to domestic manufacturing sector in the same industry and domestic manufacturing services in other industry. In addition, through relationship with foreign investment businesses, domestic enterprises apply similar producing technologies to produce alternative products / services to avoid competition. At the same time, it has the effect of creating manufacturing industries, other domestic services to support activities of foreign investors.

5. Foreign investment has impact on improving competitiveness in country, business and product levels

Many Vietnam export products are competitive and have solid foothold in U.S. market, EU and Japan market. The results from analysis of indicators of capital, technology, managerial skills, access to markets (input and consumption) and the ability to participate the global production network showing the competitiveness of foreign investment sector is higher than domestic sector. At the same time, foreign investment sector had and has been promoting the competition of domestic sector in particular and the economy in general by promoting productivity, growing export, improving balance of international payments, raising technology level, labor skills and labor restructuring.

6. Foreign investment contributes to enhance capacity of economic management, corporate governance, creates more pressure on improving business environment.

Practice of foreign investment has many lessons, useful experience in economic and corporate management, contributing to change management thinking, accelerating the process of perfecting laws and policies towards equality, openness and transparency in line with international practices; training management staff in accordance with integration trend. Especially foreign invested enterprises have created many industries, new products, contributing to increase of Vietnam industry capacity. The foreign-invested enterprises accounted for 100% of oil, automobile, 250-1000 KVA transformers, washing machines, refrigerators, air conditioners, tape recorders, video recorders, resins, Pe and Pet fiber, accounting for 50% of fabric; 45% of garment and 35% of footwear.

7. Foreign investment has contributed significantly to the international integration

Attraction of foreign investment has contributed to breaking the embargo, expanding foreign economic relations, to facilitate Vietnam joining ASEAN, Framework Agreement signed with EU, Trade Agreement with the U.S., the investment protection and encouragement agreement with 62 countries / territories and Economic Partnership Agreement (EPA) with Japan and other countries.
The goal with new position of Vietnam and the needs of international investors met, created waves of foreign investment. Vietnam has been considered as one of attractive places to foreign investment. But besides impressive number of foreign investment, it remains many problems to be solved. One of noticeable foreign investment in Vietnam is ODA. This investment management has been managed and used effectively and properly of a new form of loan with non-refundable norm, and what solution for existing inadequacies.

4.5 FDI and lesson learned for Vietnam, Laos, Cambodia, Thailand, Burma

Looking at FDI realized in Vietnam to recognize objective reality in the development. If there’s no FDI investor, Vietnam's economy still surely faces much more difficulties. With more than 237 million people of five countries, it will be a very attractive market. (Table 4.4). While Thailand's growth experiences "remarkable" recovery at 5.5% after decline, but Vietnam experiences steepest drop of growth in the group, only country of reduced growth rate for three consecutive years from 2010 to the present (Figure 4.3). Although economic growth and world trade decline, Laos continues to maintain high growth at 8.3% and becomes a fastest growing economy in Southeast Asia. Burma is a country with impressive performances thanks to opening, changing the country. Long-term prospect of a country is highly considered by the international community in terms of ethnic reconciliation, determination, union of all resources from population for development and integration with other nations in the region.

Conclusion

To summarize this paper, one may conclude that foreign direct investment has made an important positive contribution to the transition of Vietnam both from a socialist to a market economy and from an agricultural to an industrial economy. Obviously most FDI projects are in industry thus contributing to the shift of resources from the (traditional) agriculture sector to the (modern) industry sector. Because many FDI projects are joint ventures with SOE there is an important channel for learning market-oriented behavior. As managers of state companies have to negotiate and cooperate with multinationals they are forced to adapt to their rules. Similarly, authorities being part of the administration responsible for licenses catch up with market needs.

From the case studies presented in this paper it is that there are also several problems which need to be solved by Vietnam in order to benefit from FDI. Apart from concerns for the environment or treatment of workers the major problems are the lack of infrastructure, the legal environment and the interdependence of foreign investments and foreign investment policy with the large state sector.

Due to its low level of income, the infrastructure of Vietnam still has many bottlenecks and is very unevenly distributed. Although there are already efforts to promote the
development of infrastructure, there should be priority given to basic infrastructure such as roads, electricity and water supply, and also to new communication technologies. It is not feasible to reverse the process i.e. to promote industries in locations lacking infrastructure. This only creates inefficiencies and unnecessary costs.

Apart from the infrastructure problems of property rights, enforcement of contracts, long and in transparent bureaucratic procedures and red tapism are often criticized as major impediments to FDI in Vietnam. Solving these problems are very important for staying competitive in the increasingly tough competition for foreign capital. While the Vietnam authorities have tried to react to the experience with these problems and several important laws have been passed it will need some effort to proceed along these lines. This is worsened due to the heritage from socialism. There are still many officials educated and used to planning methods from the former socialist system. They may also have interests in many of the SOEs still existing which will influence their behavior towards FDI projects depending on Vietnamese partners in joint ventures or as possible competitors to such SOEs.

Through DFI, countries can learn from each other to build the momentum to bring prosperity. These FDI have brought knowledge or technology, however, one of important momentum is value of trust and freedom in business. Countries could promote the growth of country thanks to trade with each other rather than exploiting other countries. In fact, over last time, the region has experienced many dispute, conflict. Theory of seizing economic interests by the way of "big fish swallow little fish" is the error ladding to devastating war. In the meantime, the objective fact that we need to find out today is the rise and fall of countries depend largely on domestic policies of each country, the reality of Vietnam and Laos, Cambodia is a very plausible evidence. Countries should focus on training of human resources, sharing factors that make up the power of development: national culture, national values and national policy. We need to renovate our mindset for the process of country industrialization based on the consolidation, cooperation and mutual support.
Table 4.1 Firms' motives for investment in Vietnam*

<table>
<thead>
<tr>
<th>Motive</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing a long-term presence</td>
<td>4.6</td>
</tr>
<tr>
<td>Strong growth prospects</td>
<td>4.2</td>
</tr>
<tr>
<td>Size of Vietnamese market</td>
<td>3.5</td>
</tr>
<tr>
<td>Absence of competition from US companies</td>
<td>3.1</td>
</tr>
<tr>
<td>Establishment of an export base to Asian countries</td>
<td>2.6</td>
</tr>
<tr>
<td>Forestall entry by competitor</td>
<td>2.4</td>
</tr>
<tr>
<td>Low wage costs</td>
<td>2.3</td>
</tr>
<tr>
<td>Access to raw material</td>
<td>2.3</td>
</tr>
<tr>
<td>Establishment of an export base to China</td>
<td>1.4</td>
</tr>
</tbody>
</table>

*Score are calculated using a scale of 1 to 5, where 1 represents low importance and 5 high importance.

Source: Elizabeth Maitland, Foreign investor in Vietnam: An Australian case study, 1996

Figure 4.1 Approval of New Industrial Parks in Vietnam (1991–2010)

Sources: Department for Economic Zones Management, MPI
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Foreign Invested</th>
<th>Domestic Invested</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of IPs</td>
<td>40</td>
<td>221</td>
<td>261</td>
</tr>
<tr>
<td>IPs currently operational</td>
<td>23</td>
<td>150</td>
<td>173</td>
</tr>
<tr>
<td>Number of projects (enterprises)</td>
<td>3,962</td>
<td>4,377</td>
<td>8,339</td>
</tr>
<tr>
<td>Amount of registered capital</td>
<td>US$53.6 billion</td>
<td>VND 336,078 billion</td>
<td>US$74 billion</td>
</tr>
<tr>
<td>Amount of disbursed capital</td>
<td>US$17.1 billion</td>
<td>VND 135,950 billion</td>
<td>US$24 billion</td>
</tr>
<tr>
<td>Production turnover</td>
<td>US$30.5 billion</td>
<td>VND 57,251 billion</td>
<td>US$34 billion</td>
</tr>
<tr>
<td>Exports</td>
<td>n.a.</td>
<td>n.a.</td>
<td>US$19 billion</td>
</tr>
<tr>
<td>Imports</td>
<td>n.a.</td>
<td>n.a.</td>
<td>US$18.5 billion</td>
</tr>
<tr>
<td>Number of employees</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1.6 million</td>
</tr>
</tbody>
</table>

Sources: Department for Economic Zones Management, MPI.
Note: n.a. = not applicable.
Table 4.3  FOREIGN DIRECT INVESTMENT BY SECTOR IN VIETNAM  
(Cumulative valid project until 20/05/2013)

<table>
<thead>
<tr>
<th>No.</th>
<th>Sector</th>
<th>Number of projects</th>
<th>Total registered investment (Million USD)</th>
<th>Chartered capital (Million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Processing, manufacturing industry</td>
<td>8263</td>
<td>113,514.56</td>
<td>42,181.96</td>
</tr>
<tr>
<td>2</td>
<td>Estate business</td>
<td>398</td>
<td>48,065.87</td>
<td>12,352.35</td>
</tr>
<tr>
<td>3</td>
<td>Stay and food-drink service</td>
<td>337</td>
<td>10,653.08</td>
<td>2,797.33</td>
</tr>
<tr>
<td>4</td>
<td>Construction</td>
<td>959</td>
<td>10,109.04</td>
<td>3,654.96</td>
</tr>
<tr>
<td>5</td>
<td>Production and distribution of electricity, gas,</td>
<td>88</td>
<td>7,500.88</td>
<td>1,688.15</td>
</tr>
<tr>
<td></td>
<td>water, air-conditioning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Information and communication</td>
<td>861</td>
<td>3,961.59</td>
<td>2,215.93</td>
</tr>
<tr>
<td>7</td>
<td>Arts and entertainment</td>
<td>140</td>
<td>3,631.51</td>
<td>1,075.34</td>
</tr>
<tr>
<td>8</td>
<td>Transportation and storage</td>
<td>357</td>
<td>3,514.18</td>
<td>1,072.37</td>
</tr>
<tr>
<td>9</td>
<td>Agriculture, forestry, fisheries</td>
<td>496</td>
<td>3,266.75</td>
<td>1,708.25</td>
</tr>
<tr>
<td>10</td>
<td>Mining</td>
<td>79</td>
<td>3,197.03</td>
<td>2,590.61</td>
</tr>
<tr>
<td>11</td>
<td>Wholesale, retail, repair</td>
<td>959</td>
<td>3,036.63</td>
<td>1,638.38</td>
</tr>
<tr>
<td>12</td>
<td>Finance, banking, insurance</td>
<td>77</td>
<td>1,322.45</td>
<td>1,172.51</td>
</tr>
<tr>
<td>13</td>
<td>Health and social assistance</td>
<td>84</td>
<td>1,304.21</td>
<td>320.98</td>
</tr>
<tr>
<td>14</td>
<td>Water supply; waste disposal</td>
<td>30</td>
<td>1,285.13</td>
<td>315.51</td>
</tr>
<tr>
<td>15</td>
<td>Contract of specialty, Science and Technology</td>
<td>1385</td>
<td>1,135.57</td>
<td>564.04</td>
</tr>
<tr>
<td>16</td>
<td>Other Services</td>
<td>124</td>
<td>740.63</td>
<td>155.66</td>
</tr>
<tr>
<td>17</td>
<td>Education and training</td>
<td>163</td>
<td>495.13</td>
<td>142.65</td>
</tr>
<tr>
<td>18</td>
<td>Administrative and support service</td>
<td>118</td>
<td>193.75</td>
<td>100.81</td>
</tr>
<tr>
<td></td>
<td><strong>Total:</strong></td>
<td><strong>14,918</strong></td>
<td><strong>216,928.00</strong></td>
<td><strong>75,747.78</strong></td>
</tr>
</tbody>
</table>

Source: MPI
Figure 4.2 Vietnam’s Success in Mobilizing Investment from Various Sources (2005-2010)

Table 4.4. Comparation GDP, Thailand, Vietnam, Laos, Cambodia and Myanmar

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (purchasing power parity):</th>
<th>GDP - per capita (PPP)</th>
<th>GDP - real growth rate</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laos</td>
<td>$19.16 billion</td>
<td>$3,000</td>
<td>8.3%</td>
<td>6,690,000</td>
</tr>
<tr>
<td>Cambodia</td>
<td>$36.64 billion</td>
<td>$2,400</td>
<td>6.6%</td>
<td>15,200,000</td>
</tr>
<tr>
<td>Burma</td>
<td>$89.23 billion</td>
<td>$1,400</td>
<td>6.2%</td>
<td>55,160,000</td>
</tr>
<tr>
<td>Vietnam</td>
<td>$320.1 billion</td>
<td>$3,500</td>
<td>5%</td>
<td>92,470,000</td>
</tr>
<tr>
<td>Thailand</td>
<td>$645.7 billion</td>
<td>$10,000</td>
<td>5.5%</td>
<td>67,440,000</td>
</tr>
</tbody>
</table>

Source: World Development Indicators, World Bank (2011)
Figure 4.3 Inflation in Vietnam

Source: GSO, World Bank
References:


Economist Intelligence Unit 2nd quarter 1998


