

Introduction

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We held the workshop entitled "Vietnamese Economic Development and Its Problems" at our university, Tokyo Joho University in Chiba pref., Japan, on August 23, 2006.

In the morning session, Prof. Dr. Nguyen Van Trinh and Dr. Nguyen Tien Dung, Vietnam National University, Hochiminh, Faculty of Economics, made the presentation about 'On the Foreign Investment in Vietnam'.

And in the afternoon session, Professor Hitokoto, Tokyo Joho University, performed the research report about conditions regarding 'Acceptance of Japanese Management System in Vietnam'.

In these days, Japanese, especially economic stakeholders and interests, continue to pay big attention to cheap Vietnamese labor costs and economic development. Additionally, Vietnamese interests hold a lot of expectation concerning about FDI (Foreign Direct Investment) and ODA etc. from Japan in order to take off underdeveloped stage.

Since Doi Moi in 1986, The Socialist Republic of Vietnam chose the route to design economic development by adopting market economy. Afterwards, Vietnamese Government has positively tried to get economic assistances, FDI and ODA, and non governmental assistances (including goods and service). As a result, Vietnam has achieved high rate of economic development among four countries, CLMV.

After 2000, Growth rate of Vietnamese GDP were 6.78% (2000), 6.89% (2001), 7.08% (2002), 7.34% (2003), 7.69% (2004), So Vietnam had showed good performance.

And yet, Vietnamese Government has got many problems to be solved at the same time.

These problems will be researched by our future collaborated study. And we will make clear the point with much effort.

Finally, Hitokoto's research paper will be published on the next Journal of Tokyo University of Information Sciences.

On the Foreign Investment in Vietnam

Nguyen Van Trinh* Nguyen Tien Dnng*

After 20 years of the economic reform, the foreign sector has become an organic component of Vietnam's economy and contributed a lot to the economic growth.

In comparison with other countries and regions, Vietnam has achieved a positive growth.

In the agricultural sector, the manufacturing sector, service sector, Each sector has achieved the economic growth.

Especially the manufacturing sector's growth is characteristic of Vietnam's progress.

Keyword : Vietnamese economy, economic growth, industrial production, economic sector

ベトナムへの海外からの投資に関して

Nguyen Van Trinh and Nguyen Tien Dnng

ドイモイ以降の20年間に、外資部門はベトナム経済の有機的な構成要素となり、経済成長にも貢献してきた。

他地域・国と比べてもベトナムは高い経済成長を維持してきている。農業、製造業、サービス部門はそれぞれ成長を続けているが、特に、製造業の成長が特徴的である。

キーワード : ベトナム経済, 経済成長, 工業生産, 経済セクター

After 20 years of the economic reform, the foreign sector has become an organic component of Vietnam's economy and contributed a lot to the economic growth. In present years, the Vietnamese economy maintained a growth rate higher than previous years and in comparison with other countries in region and the world. Over the last 5 years from 2001 to 2005 Vietnam's GDP has always achieved a positive growth with an average of 7.51% per year, including agriculture – forestry – fishery up 5.4% per year, manufacturing – construction up 10.2% per year, trading – service up 7.6% per year.

In 2005, the growth rate was 8.44% higher than the 2004 rate of 7.79%. The growth rate was 4.1% in the agricultural sector, 10.72% in the manufacturing and construction and some 8.41% in the service sector. The industrial production was stable and gained high growth rate. Its output rose by 17.2% (in 2004: 16.6%), including 10.1% in the state – owned industrial sector (in 2004 : 12.2%); 25.1% in the private sector (in 2004 : 23.5%) and 18.7% in the foreign sector (in 2004 : 16.2%). {Table 1 & 2 }.

Until July 20, 2006, the whole country had licensed more than 6,427 foreign direct investment projects with total registered capital

**Table 1 : Vietnam's GDP by economic sectors from 2001 to 2005
(At constant 1994 prices)**

Year	GDP		Economic sector					
	Total (VND bil)	Growth rate (%)	Agriculture		Manufacturing		service	
			Total (VND bil)	Growth rate (%)	Total (VND bil)	Growth rate (%)	Total (VND bil)	Growth rate (%)
2001	292,535	6.89	65,618	2.98	106,986	10.39	119,931	6.10
2002	313,135	7.04	68,283	4.06	117,082	9.44	127,770	6.54
2003	336,242	7.38	70,827	3.73	129,399	10.52	136,016	6.45
2004	362,435	7.79	73,917	4.36	142,621	10.22	145,897	7.26
2005	393,025	8.44	76,945	4.10	157,907	10.72	158,173	8.41

Source : 2005 Statistic Yearbook.

Table 2 : Gross output of industry in Vietnam by economic sectors 2001-2005 (At constant 1994 prices)

Year	Gross out		Economic sector					
	Total (VND Trill)	Growth rate (%)	State		Non-state		Foreign	
			Total (VND bil)	Growth rate (%)	Total (VND Trill)	Growth rate (%)	Total (VND Trill)	Growth rate (%)
2001	227.3	14.6	93.4	12.7	53.6	21.5	80.3	12.6
2002	261.1	14.9	105.1	12.5	63.5	18.5	92.5	15.2
2003	305.1	16.9	117.6	11.9	78.3	23.3	109.2	18.1
2004	355.6	16.6	132.0	12.2	96.7	23.5	126.9	16.2
2005	416.9	17.2	145.3	10.1	121.0	25.1	150.6	18.7

Source : 2005 Statistic Yearbook.

Table 3 : Vietnam's FDI from 1987 to Jul 20, 2006 by sector

Sector	Number of projects	Registered capital (\$ billion)	Disbursed capital (\$ billion)
1. Industry	4,344	33.280	17.807
Oil & Gas	31	1.993	4.458
Light industry	1,815	8.946	3.152
Heavy industry	1,880	15.011	6.157
Food industry	274	3.233	1.869
Construction	344	4.096	2.169
2. Agriculture	803	3.863	1.796
Agriculture & forestry	690	3.553	1.637
Aquaculture	113	0.309	0.158
3. Service	1,280	17.490	6.362
Transport, post & telecom	178	3.191	0.711
Hotel & tourism	164	3.258	2.140
Banking & finance	63	0.810	0.621
Culture, health & education	219	0.938	0.307
New urban area	5	2.865	0.51
Office building & apartment	117	4.056	1.662
IZ & EPZ infrastructure construction	20	1.020	0.518
Others	514	1.348	0.349
Total	6,427	54.634	25.966

Source : Vietnam Investment Review, Aug 14-20, 2006, p.20.

54.634 billion USD including 25.966 billion USD in realized capital. In the 6 months of 2006, Vietnam's foreign direct investment attraction still shows promising signs. In this span, there were 367 new projects, bringing the total FDI capital to 2,772 billion USD. Table 3 indicate that foreign direct investment has been focused mainly on manufacturing and construction with 4,344 projects and total registered capital of US\$ 33.28 billion, accounting for 60.91% of the country's total FDI capital; service having 1,280 projects and total registered capital of US\$ 17.47 billion, or 32% of the country's total FDI capital attraction. At present, the preferred agriculture – forestry – fishery attracted only 803 projects, most of which were of small size, so their registered capital only estimated US\$ 3.8 billion, accounting for

6.95% of country's FDI capital.

After eighteen years of implementing the Law on Foreign Investment in Vietnam (since 1987), as many as 64 countries and territories has poured their capital in Vietnam. Among them, Asian investors account for 76.3% (4,909 projects) of total projects and 69% of total registered capital (US\$ 37 billion). EU investors implement some 8.8% of total projects (566 projects) and 14.6% of registered capital (\$US 8 billion); the United State of American takes 4.5% of projects (289 projects) and 3.6% of total registered capital (\$US 1.99 billion). There are 12 countries and territories having registered investment capital of more than one billion USD each. Seven come from Asian countries, 4 from the Europe. {See table 4 }

At present, 64 provinces and cities have attracted foreign investment. However, investment capital has been distributed unevenly, but concentrated mainly on large cities and provinces having favorable infrastructures, especially on the southern vital economic region consisting of Ho Chi Minh city, Dong Nai, Ba Ria-Vung Tau, Binh Duong, Long An, Binh Phuoc, Tay Ninh and Tien Giang, making up 66.4% of the country's FDI projects (4,269 projects) and 59% of country's total FDI capital (US\$ 32.3 billion); the northern vital eco-

nomie zone, including Ha Noi, Hai Phong, Hai Duong, Vinh Phuc and Quang Ninh making up 18.28% of the country's FDI projects (1,175 projects) and accounting for 26.12% of total FDI capital (US\$ 14.27 billion). Table 5 indicates foreign direct investment of Vietnam's top ten cities and provinces.

The forms of foreign investment have seen drastic changes over the past 18 years. In early years of economic renovation, joint venture was the most attractive form, but in present years, the wholly foreign-invested form

Table 4 : Countries with registered capital of more than US\$1 billion as of Jun 20, 2006.

Countries & territories	Number of projects	Registered capital (\$ billion)	Disbursed capital (\$ billion)
Taiwan	1,484	8.027	2.830
Singapore	424	7.732	3.474
Japan	673	6.825	4.255
South Korea	1,166	5.865	2.407
Hong Kong	367	4.392	1.904
British Virgin Islands	268	3.091	1.279
France	171	2.183	1.045
Netherlands	69	2.100	1.748
US	289	1.994	0.730
Malaysia	194	1.610	0.843
Thailand	132	1.469	0.682
UK	74	1.307	0.639

Source : Vietnam Investment Review, Aug 14-20, 2006, p.20.

Table 5 : Top ten cities and provinces in FDI attraction as of July 20, 2006

Cities & provinces	Number of projects	Registered capital (\$ billion)	Disbursed capital (\$ billion)
Ho Chi Minh City	2,006	13.136	6.173
Ha Noi	708	9.903	3.485
Dong Nai	733	8.792	4.016
Binh Duong	1,146	5.271	1.904
Ba Ria - Vung Tau	125	3.210	1.255
Hai Phong	201	2.094	1.233
Long An	113	0.883	0.336
Hai Duong	88	0.865	0.387
Vinh Phuc	101	0.800	0.413
Thanh Hoa	21	0.721	0.410

Source : Vietnam Investment Review, Aug 14-20, 2006, p.20.

becomes common, accounting for 70% of total projects, 44% of registered capital and 35% of realized capital.

Reasons for these achievements by the foreign sector are as follows :

– The Vietnam's socio-political environment is considered as stable and healthy. Security for FDI projects is ensured.

– Vietnam gained high growth rates in several consecutive years.

– Investment legislation has been amended regularly in an effort to create better conditions for all companies. Major infrastructure projects are carried out every year. Fees of services needs for the business circle, such as telecommunications, water and power, air transport, etc., are cut according to a reasonable track to help investors reduce cost and improve their competitiveness.

In the other hand, foreign sector also revealed some signs of stagnations, limitations and shortcomings as follows :

– The sum of US\$ 5.72 billion worth of FDI registered in 2005 marks its recovery from years of stagnation (in 2004 : US\$ 4.2 billion, in 2003 : US\$ 3.14 billion, in 2002 : US\$ 2.96 billion and in 2001 : US\$ 3.2 billion), but this figure is equal to the sum attracted in 1994 and half the sum of 1996 (US\$ 9.73 billion).

– The structure of foreign investment disclosed much irrationality. If examining FDI flows by sector, foreign investment capital flows are focused only on the industry and service, while foreign investment in the agriculture, forestry and fishery attract fewer projects.

– Regarding investors, there are two shortcomings : investment from developed coun-

tries, which have advantages of source technologies including the US, Japan, EU remains a modest share and slow rise. Proportion of technology-intensive projects by multinational companies is still small, which limit effects of technology transfer on the local economy.

– In respect of investment by region, FDI are focused only on vital economic zones, especially in the south while the northern mountainous areas, central coastal provinces, the Central Highland and the Mekong Delta lure fewer projects.

– Vietnam has tried its best to improve the quality of human resource in recent years but it fails to meet requirement posed by foreign investors.

– The quality of public services in Vietnam is very poor. At present, only 25% of the road network is blacktopped; airports are small and routes offered by airlines are limited. In addition, seaports in Vietnam are very small in comparison with regional countries.

CONCLUSION

These facts show that the Vietnamese business environment for foreign-invested companies contains many shortcomings and problems that require overall and consistent solutions, as follows :

The First, about tax policy : Removing limits on expenses involved in the calculation of taxable income. At present, the Company Income Tax Law (2003) allowed local ones to enjoy tax reduction to a certain extent and forced the foreign-invested ones to pay more in this tax. For example, the income tax rate on foreign companies whose 50% of their output is for export increases from 10% to 20% and from 10% to 28% on developers of industrial parks and export processing zones. In

addition, the tax reduction that is available for companies for the whole duration of their investment projects was limited to 10 to 15 years based on the nature and location of the projects. The Decree 164/2003 reduces the tax exemption time to four years and allows a tax reduction of 50% for the next nine years. This makes many investors unhappy and many of them have decided to transfer their projects to neighboring countries, such as China, Thailand.

The Second, about production cost. At present, increases in prices of many services, such as water and power supply, transport, fuel, etc, have made market prices rise and companies face with more difficulties. One of that cause increases in prices is the monopoly of state-owned companies. For example : At recent survey of rent of office buildings shows that the rent for offices in Ho Chi Minh City ranks fifth in the world (US\$ 28.05 per sp.m. on average). Regarding the living standard that is based on the per capita GDP, the Vietnam's personal income is 15 lower than the Japanese one. So, the rent of office in Ho Chi Minh city based on the living standard will be $US\$ 28.05 \times 15 = US\$ 420.75$ while the office rent in Tokyo where the office area is considered as most expensive on the world is only US\$ 102.38 per square meter.

Thus, privatization of state-owned companies is a good measure to remove the monopoly, especially in services and good needed for production. The Government had better accelerate this program at any cost. A part from, encouragements must be offered to private companies that in infrastructure building, transportation and good distribution.

The Third, about administrative machinery. At present, Vietnam's customs service is still

the most worrying problem to companies. The next is land clearance and compensation payment before realizing any project. In addition, the lack of agreement among governmental bodies and public services also cause many troubles for foreign-invested companies. Administrative reform must aim at facilitating operation and business of citizens and companies instead of consolidating the power of public organization or protecting stakes.

The Fourth, about developing human resource. The human resource must meet requirements by foreign investors in terms of skills, discipline and price. In the long-run, the Government should adopt policies to train the human resource in technical and business knowledge.

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