

CHAPTER 3

FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN VIETNAM

3.1 Overview of Vietnam economy 1986-2006

The Socialist Republic of Viet Nam is located in the Southeast Asia with the area of over 330,000km². The country is rich in natural resources, including the fertile river deltas of the Red river in the North and of the Mekong River in the South. In Vietnam, there are 54 minorities. The Kinh is the majority, accounting for about 86.8%. At present, in Viet Nam, there are 64 cities/ provinces with 673 districts and 10,095 communes/wards/towns¹.

Over the past years, Viet Nam has been continuing to pursue its “Doi Moi” (renovation) policy and the Economic and Social Development Strategy for the period 2001-2010, aiming at “prosperous people, a strong nation and a just and progressive society” and “escaping from underdevelopment situation, creating foundations for Vietnam to become a basically modern industrial country by the year 2020”. Vietnam has recorded continued significant achievements in all aspects: political stability enhancing economic growth, extensive democracy in all aspects of life, poverty reduction in parallel with social equity, and ensured public security.

Vietnam’s economy has experienced relatively rapid and sustainable growth with an increased GDP from 7.08 % in 2002 to 8.48 % in 2007. The average annual GDP growth in the period 2002 - 2006 was about 7.7 %. The annual per capital income has increased from US\$440 in 2002 to US\$730 in 2007².

¹ General statistics office (GSO), 2007

² General statistics office (GSO), 2007

With the average GDP growth rate at over 7 percent per year over the past decade, the living standard has improved substantially. The poverty rate fell from 58.1 percent in 1993 to 22.0 percent in 2005 (ADB 2006). Total gross domestic product increased from US\$ 15 billion to over US\$ 53 billion in 2005. Annual inflation fell from 774 percent in 1986 to 67.5 per cent in 1990, 12.7 percent in 1995, and 8.8 percent in 2005 and around 7.5 percent in 2006³.

Vietnam has witnessed during its transition to the market oriented economy two important developments. Vietnam's international trade has increased substantially and Vietnam has managed to attract a large inflow of inward foreign direct investment (FDI) during the last two decades. These two developments have been considered as important source of economic growth of Vietnam (Le Dang Doanh 2002). According to official statistics released from the Ministry of Planning and Investment (MPI), by March 2007, Vietnam has received a total of 7067 foreign direct investment projects with the total investment capital of US\$ 63.5 billion (of which the legal capital is US\$ 27.7 billion and the implemented capital is US\$ 30.7 billion).

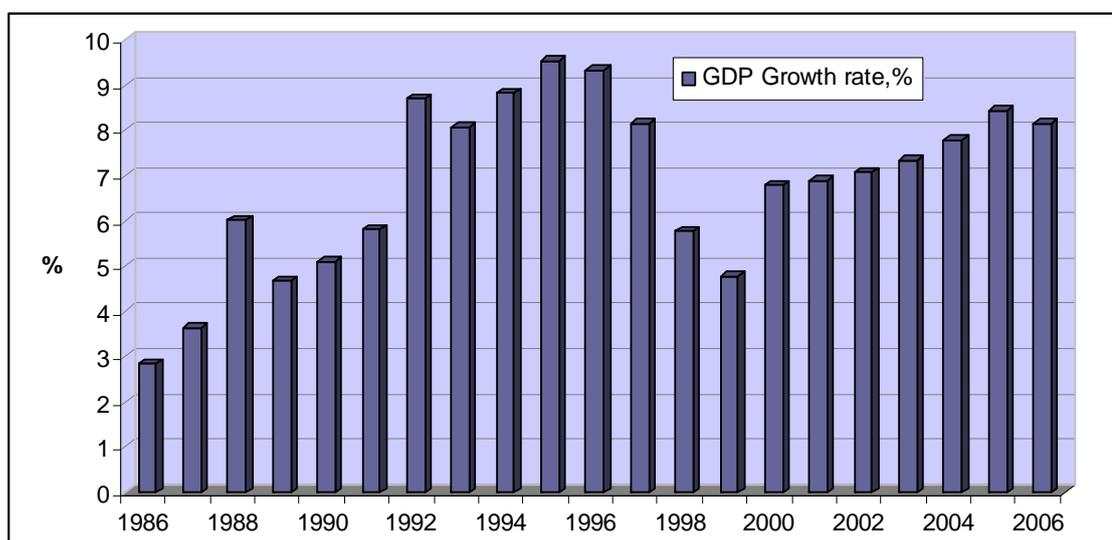
According to recent research, the achievement of Vietnam to attract FDI inflow is spectacular. Vietnam has become an attractive host country, overtaking Philippines and Indonesia to become the third largest recipient of FDI inflows in the ASEAN behind Singapore and Malaysia (Mirza and Giroud 2004).

Several country-specific advantages have been pointed out as the main factors allowing Vietnam to attract such a large amount of FDI. They include (i) Vietnam's strategic location in a rapid growing region, allowing Vietnam to be part of the growth process; (ii) Vietnam's stable economic and political environment; (iii) Vietnam's large natural mineral resources; (iv) Vietnam's abundant, young and relatively well-educated labor force; (v) Vietnam's large and growing domestic market; (vi) Vietnam's potential to be an export platform for EU and US market; and (vii) Vietnam's liberal investment and government's commitment to economic reform

³ Source: http://www.vvg-vietnam.com/economics_cvr.htm and <http://www.imf.org/external/pubs/ft/scr/2006/cr06422.pdf>

Figure 3.1

GDP growth rate 1986-2006



Source: ADB Key Indicators 2007

3.2 Overview of FDI inflow into Vietnam 1986 – 2006

In the 1980s and early 1990s, FDI flow into Vietnam was considerable with the total FDI capital of only US\$ 213 million in 1991. However, the number of registered FDI has soared up since 1992, reaching a peak in 1996 with the total registered capital as high as US\$ 8.6 billion. This robust increase was backed by a number of reasons. Foreign investors were attracted by the potentiality of a transitional economy with a great market remaining untapped. They were also attracted by a series of other positive factors such as the abundant labor force, cheap labor cost and high literacy rate.

In addition to such internal factors, there were external ones contributing to the increase of FDI inflow. The first was the capital flow into the emerging markets in the 1980s and early 1990s, of which the South East Asia was a key FDI recipient. In 1990, South East Asian countries attracted 36% the total FDI invested in developing countries. The second was the foreign capital flow into the transitional economies of

former socialist sector where new business opportunities and great profit were expected. Thirdly, such regional countries with stronger economies as Malaysia, Singapore, Thailand, etc have begun to export capital. Being a transitional economy in the South East Asia, Viet Nam has been benefited from these factors.

From 1991-1996, FDI played an important part in financing Vietnam's current account deficit and contributed significantly to the nation's balance of international payments.

From 1997-1999, Viet Nam experienced a downfall of registered FDI, particularly 49% in 1997, 16% in 1998 and 59% in 1999, partly due to the Asian financial crisis. The five major investors into Vietnam were all from Asia and they themselves had to face difficulties in their own countries. To maintain the business operations in their local countries, these investors had to postpone or cancel overseas expansion plans. The crisis also made investors lower their expansion criteria into Asian markets and led to the devaluation of the currencies of South East Asian countries. Vietnam, therefore, became less attractive to export-oriented projects. Moreover, foreign investors also realized the exaggeration in the market demand projections as well as the barriers to business which then turned apparent.

From 2000-2002: The value of registered FDI increased again with 25.8% in 2000, with 22.6% in 2001, but that was still less than two thirds of 1996. Such an increase resulted from the South Con Son pipeline project (2000) with total investment capital of US\$ 2.43 billion, and Phu My BOT project (2001) with total investment capital of US\$ 0.8 billion. In 2002, the value of registered FDI fell to about US\$ 1.4 billion, as low as 54.5% of 2001.

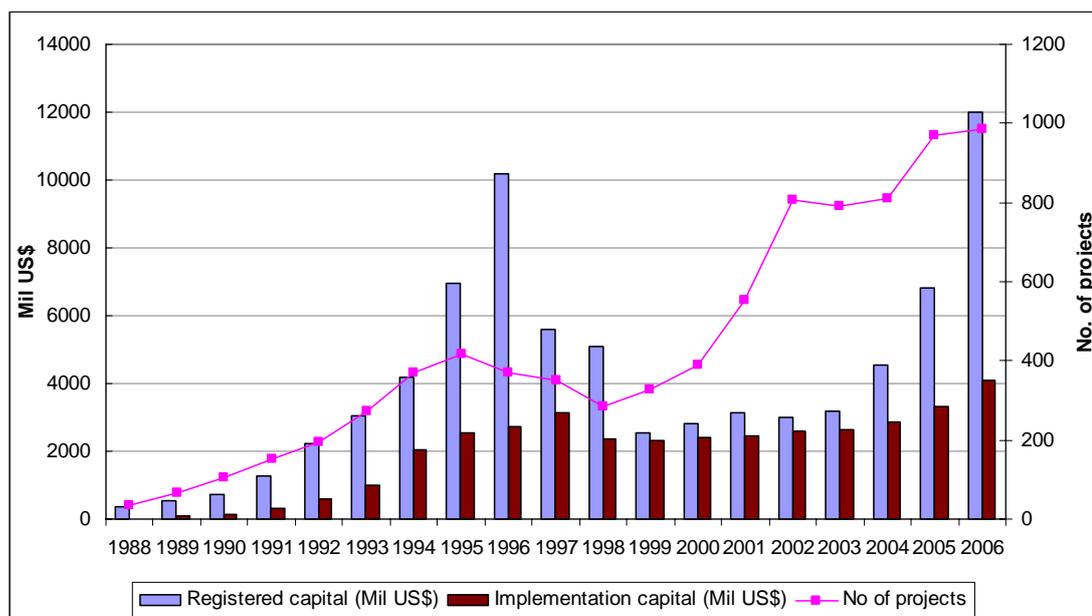
There were many reasons leading to the reduction of FDI with the first being the downfall of the global economy after the break-up of the high-tech bubble in the USA together with the prolonged crisis in Japan which seriously affected Asian countries.

From 2002- 2007: registered FDI increase dramatically, especially in 2006 when Vietnam joined into WTO. In this period, Vietnam started to attract the

attention of the world market. However, the amount of implemented FDI was still modest due to some obstacle involving the unimproved of procedure in Vietnam.

Figure 3.2

FDI to Vietnam 1988-2006.



Source: GSO, *Statistical Yearbook of Vietnam 2007*

Table 3.1

The modes of FDI in the period 1988-2007 (including only existence projects)

Modes of FDI	No of projects	Registered capital (US\$ mil)	Charter capital (US\$ mil)	Implementati on capital (US\$ mil)
100% foreign capital	6743	52,437	21,476	11,324
Joint-venture	1640	24,574	9,292	11,144
Business Corporation Contracts	226	4,578	4,127	5,661
BOT, BTO, BT ⁴	8	1,710	456	727
Stock companies	66	1,657	451	362

Source: Foreign Investment Authorities- Ministry of Planning and Investment 2008

3.2.1 Sectoral distribution of FDI

A large proportion of FDI into Vietnam have been flowed into the industries and construction of office and apartment while the foreign investments into the agriculture and other services are quite limited. These sectors can be seen less profitable along with the growth of the economy although a lot of incentives have

⁴ BOT (Building-Operate-Transfer Contract), BTO (Building-Transfer-Operate) and BT (Building-Transfer Contract)

been given for the investments into the agriculture sector and some other unfavorable sectors.

The share of FDI into the agriculture sector tends to decrease overtime. In the first half of the 1990s, the share of FDI into agriculture sector is more than 8%. However, this share has gone down since then. Since 2001, this share is often less than 3% except for 2004. The similar situation happens to the service sector. In the last decade, this sector takes account for about 40% of total FDI. However, this share has dramatically decreased in the first half of this decade. During the period 2001-2005, this share is only about 26.4%. This reduction is not only in terms of relative value but also in term of absolute value. The amount of newly FDI into agriculture sector has decreased from US\$ 993 million to US\$ 897 million between two periods 1996-2000 and 2001-2005.

Within the industry and construction sector, the heavy and light industries have received most of the capital. In period 2001-2005, these two industries take account for respectively 55% and 36% of the total capital. These shares tend to increase over time. In the first half of last decade, the corresponding shares are only 9% and 11%. Heavy industries in the whole period reach over US\$ 7 billion, accounting for nearly 24% of total implemented capital in the same period. The oil and gas industry ranks as the second largest with more than US\$ 5 billion of implemented capital despite of small number of projects (only 40 projects). It means that most of projects in this industry require a huge amount of capital. Next is the light industry with more than US\$ 3.6 billion. Some other fields which receive a quite large amount of capital are hotels, tourism, construction together with office- apartment building, and food-stuff industry. This trend keeps unchanged in recent years.

As can be seen in the Table 3.2, the major of FDI inflows in Vietnam are into manufacturing in terms of the number of project, register capital and implemented capital as well.

Table 3.2
FDI Distribution by sector 1988-2007

No	Sector	Number of project	Registered capital (US\$)	Executed capital (US\$)
1	<i>Industry and construction</i>	<i>5,819</i>	<i>21,118,126,226</i>	<i>20,045,968,689</i>
	Oil and gas	40	2,345,961,815	5,148,473,303
	Light industry	2572	5,943,809,944	3,639,419,314
	Heavy industry	2434	9,293,803,365	7,049,865,865
	Food processing industry	312	1,617,923,717	2,058,406,260
	Construction	461	1,916,627,385	2,149,803,947
2	<i>Agriculture, forestry, fish-breeding</i>	<i>929</i>	<i>2,115,319,681</i>	<i>2,021,028,587</i>
	Agriculture, forestry	800	1,867,539,550	1,852,506,455
	Fish-breeding	129	247,780,131	168,522,132

Table 3.2 (continued)

FDI Distribution by sector 1988-2007

3	<i>Service</i>	<i>1,936</i>	<i>12,653,163,964</i>	<i>7,167,440,030</i>
	Service	966	947,877,283	383,082,159
	Transport, Post	211	2,781,446,590	721,767,814
	Hotel, Tourism	227	2,569,935,362	2,401,036,832
	Finance, Banking	67	850,404,447	714,870,077
	Culture, Healthcare, Education	272	573,586,594	367,037,058
	New Urban Area construction	9	944,920,500	111,294,598
	Office, apartment building	154	3,468,469,591	1,892,234,162
	IZ, EPZ infrastructure development	30	516,523,597	576,117,330

Source: Foreign Investment Agency- Ministry of Planning and Investment

3.2.2 Regional distribution of FDI

A substantial amount of capital has been flowed into some big cities in the North and South while many other areas, especially the distance and mountainous areas, receive only a limited amount. With some certain advantages such as better infrastructure, size of population, the availability of skilled labors, these provinces have received 70% of the total charter capital and number of projects in the whole country. Despite of many incentives to motivate foreign companies to invest into disadvantage areas such as tax exemption for longer duration of time, lower corporate income tax rates, credit favor but foreign investors are still hesitant to set up business in these areas. The weaknesses of infrastructure and labor force in these areas as well as the doubt of the certainty of these preferential policies in long-term lead to the small amount of foreign investments invest in these areas.

According to official statistics by the Government Statistical Office (GSO) and the Ministry of Planning and Investment (MPI), all sixty four provinces in Vietnam have received FDI. However, the distribution of FDI across provinces is very much uneven. As shown in Table 3.3, the South East region (covering Ho Chi Minh city and its surrounding provinces account for the largest share of FDI. In the North, Hanoi and neighboring provinces account for the second largest share of FDI, leaving a very small proportion for other regions. This pattern is due to the fact that Hanoi and Ho Chi Minh city are the two main economic hubs of the country. The concentration of FDI in Hanoi and Ho Chi Minh has been attributed to the increased cost of living and doing business in the two cities. This has led to a tendency that foreign investors are looking elsewhere for the investment location. In addition, the local governments in these provinces have now realized the importance of FDI and are actively attracting inward FDI in their respective regions/provinces.

Table 3.3
FDI Distribution by provinces/cities 1988-2007

No	Provinces/ cities	Number of project	Investment capital (US\$)	Registered capital (US\$)	Executed capital (US\$)
1	Ho Chi Minh	2399	17,013,524,750	7,100,900,289	6,347,487,062
2	Ha Noi	1011	12,664,570,044	5,661,169,078	3,589,621,920
3	Dong Nai	917	11,665,711,568	4,655,087,285	4,152,591,894
4	Binh Duong	1581	8,516,393,283	3,452,028,952	2,078,979,706
5	Ba Ria - Vung Tau	159	6,111,349,896	2,397,533,861	1,267,669,334
6	Hai Phong	270	2,729,564,057	1,148,295,920	1,273,511,670
7	Dac Lac	36	2,142,461,815	1,785,461,815	5,148,473,303
8	Vinh Phuc	151	2,034,201,656	647,926,192	438,759,582
9	Phu yen	38	1,945,576,438	619,858,655	122,827,280
10	Long An	188	1,865,839,159	681,249,868	423,043,982

Source: Foreign Investment Agency- Ministry of Planning and Investment

3.2.3 Country of origin

A major proportion of foreign investments into Vietnam come from East Asian countries, particularly Taiwan, Korea, Japan and other ASEAN countries. Nearly 70% of the total registered FDI is from Asia, in which Korea and Taiwan contribute more than 25% of the total value. Over 10% comes from EU and nearly 4% from North America (including US and Canada). However, there is one point we should mention here. Even though the direct source of foreign investment into Vietnam mainly comes from companies located in Asia, the origination of the companies is mostly from Western countries such as US and other European countries. For example, Intel has invested nearly US\$ 1 billion to Vietnam last year through its subsidiary in Hong Kong. Therefore, we still consider this amount of capital coming from Hong Kong despite of the fact that its origin is US companies. It is estimated that there are over 100 transnational companies among the top 500 of Fortune list investing in Vietnam.

In recent years, especially in 2007 and the first half year of 2008, the foreign investment directly originating from the most developed countries tends to relatively increase. It may be a good signal for the Vietnamese economy because we can get the better technology in broad term, the wider network to access into the world economy, thereby enjoying the higher value added from production than before. After accession into World Trade Organization (WTO) as well as succeeds of some important international events organized in Vietnam, the imagination and reputation of Vietnam has significantly increased in the eyes of foreign investors.

One of the most important succeed is to develop the relationship between Vietnam and US in trade and investment activities. After the Bilateral Trade Agreement with US in 2000, the two-way direction trade and foreign investment from US has increased dramatically. In the nearly first half year of 2008, the total of foreign investments from US licensed is US\$ 1.3 billion, ranking as the second largest country after British Virgin Islands in terms of registered capital into Vietnam. If including the subsidiaries in the third countries originating from US parent companies, the total value of foreign investment from US in last 20 years is more than US\$ 3 billion, ranking as the fifth largest investing country into Vietnam

Table 3.4
FDI Distribution by country 1988-2007

No.	Country, Territory	Number of Project	Investment capital (US\$)	Registered capital (US\$)	Executed capital (US\$)
1	Korea	1857	14,398,138,655	5,168,461,054	2,738,114,393
2	Singapore	549	11,058,802,313	3,894,467,177	3,858,078,376
3	Taiwan	1801	10,763,147,783	4,598,733,632	3,079,209,610
4	Japan	934	9,179,715,704	3,963,292,649	4,987,063,346
5	British Virgin Islands	342	7,794,876,348	2,612,088,725	1,375,722,679
6	Hong Kong	457	5,933,188,334	2,166,936,512	2,161,176,270
7	Malaysia	245	2,823,171,518	1,797,165,234	1,083,158,348
8	The USA	376	2,788,623,488	1,449,742,606	746,009,069
9	Netherlands	86	2,598,537,747	1,482,216,843	2,031,314,551
10	France	196	2,376,366,335	1,441,010,694	1,085,203,846

Source: Foreign Investment Agency- Ministry of Planning and Investment

Table 3.4 documents the distribution of FDI by top investors in Vietnam. The top ten foreign investors account for around 80 percent of the total investment in terms of the number of projects, the total investment capital and the registered capital.

As can be seen in the Table, the inward FDI in Vietnam was and still is dominated by regional investors.

3.3 Factors contributing to FDI flows to Vietnam

The large FDI inflows in Vietnam has been facilitated by a number of enabling developments - both host country specific (“pull”) and international (“push”) factors. Domestic or pull factors that have contributed to the increased capital inflows include:

Progress in macroeconomic stabilization: sustained economic growth and liberalized investment regime attract strong FDI inflows. Vietnam has enjoyed robust economic growth rates. Cross-country experiences and empirical evidences suggest that the GDP growth rate in host economies is the most significant determinant of FDI inflows.

Improve investment regime: investment framework has undergone progressive changes, which included new investment laws, liberal arrangements for entry, incentive structures, and more bilateral treaties. Vietnam’s regulatory regime for FDI provides a number of incentives, generally comparable to those actively seeking foreign investment, tariff exemptions for certain imports; and lower profit taxes for priority sectors.

Outward orientation: Vietnam’s open door policy and strategy of integration into the world economy has contributed significantly to create a favorable environment for foreign investment in the country. Most noteworthy are the rapid improvement of the international and regional diplomatic relationships including the recent diplomatic normalization of relations with the United States, the new agreement with the European Union, and especially the admission into the Association of Southeast Asian Nations (ASEAN).

Large market and labor force: many of FDI flows directed to construction and domestic consumption (e.g., beverages), and many import substitution projects

have been induced by the potentially large market that Vietnam offers with a population of 75 million. Moreover, the big pool of hard-working and cheap labor forces—with an average monthly low salary for many joint ventures—also made Vietnam a favored destination for direct investment by multinational corporations (MNCs).

In addition to the host country-specific developments, global “push” factors have provided a powerful impetus for active cross-border direct investment flows, which include:

Globalization of corporate production underpins the acceleration of FDI flows. Patterns of global production are shaped by cost consideration that takes into account worldwide productivity differences and the skilled and cost-efficient labor forces in many developing countries such as Vietnam.

Trade liberalization, technological advances, and declining transport and communications costs have also allowed firms to divide production processes into discrete activities that can be transferred to locations that offer the greatest cost and efficiency gains.

3.4 The role of Foreign Direct Investment in Vietnam economy

FDI has been an important supplementary source of funds for gross national investment and improved the balance of payment for the past years. According to recent studies, such as Freeman (2000), MPI (2003), FDI sector is having an increasing share in GDP. This sector also helps to strengthen production capacity and technological innovation in a number of industries, international market penetration (in particular, increasing export turnover), raising revenues for the States budget and generating employment, etc. In addition, FDI enterprises enable technology transfer and their pressures require domestic firms to renovate their technologies and to raise production efficiency. Managerial and working skills in FDI projects are also improved, which is a positive and effective channel for spillover effects.

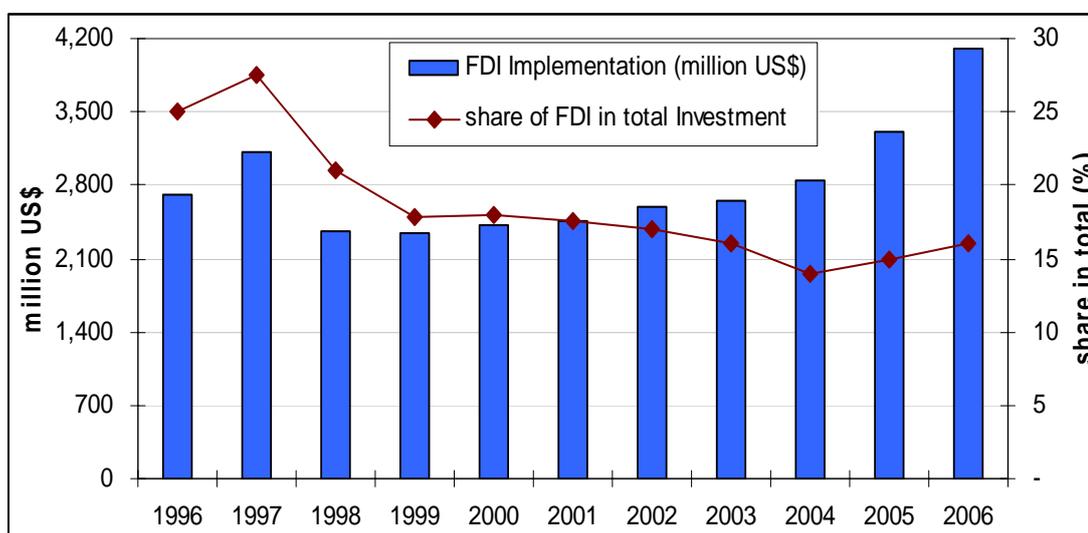
The role of FDI in national investment and economic growth

Contribution of FDI to investment has changed significantly from 13.1% in 1990 to 32.3% in 1995. This ratio has decreased in the period 1996-2000 by the impact of financial crisis in the South East Asia (in 2000, account for 18.6%) and from the period 2001-2005, the average contribution of FDI in total investment about 16%, 2006-2007 is about 16%.

FDI is one of the main factors contributed in the Vietnam economic growth. From 1991-2000, GDP increases continuously with the average of 7.56% each year, in which the period 1991-1995 with growth rate of 8.18% , 1996-2000 with growth rate of 6,94%. By the year 2000, GDP growth rate has increased double the year 1990. In 2001-2005, GDP growth rate reached 7,5%, the year 2006 is 8,17% and 2007 is about 8,48% .

Figure 3.3

Contribution of FDI to total investment



Source: Foreign Investment Agency and General Statistics Office of Vietnam

The role of FDI in industrial production and export capacity

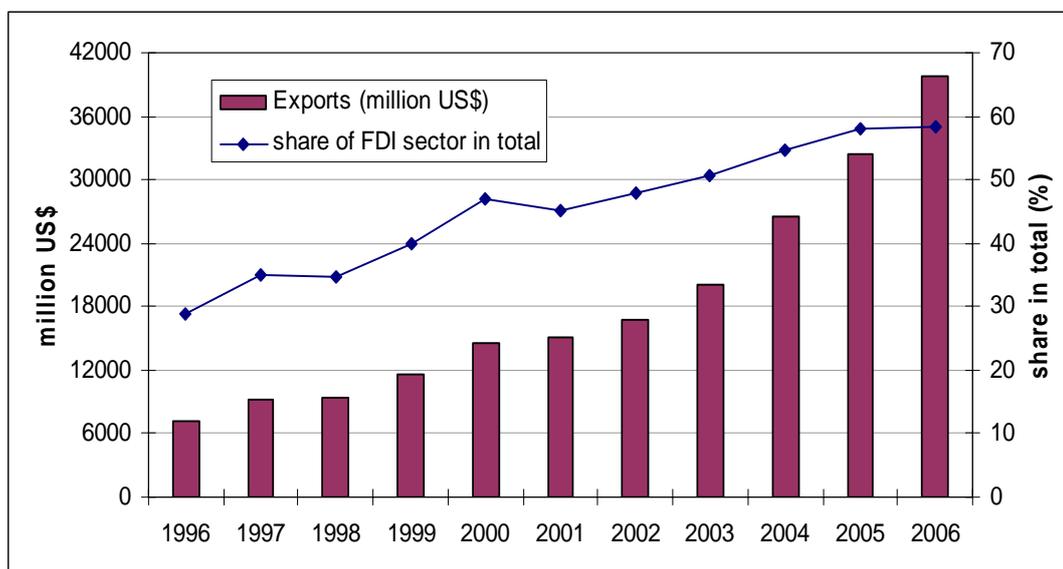
FDI projects to Vietnam are mainly implemented in industrial sector. Hence, for the past decade, number industries such as oil and gas exploitation, telecommunication, electronics...have been established. In 2004, share of FDI sector in the total industrial output, at 1994 price, was 35.68 percent, showing a rise from that of 25.1 percent in 1995. This sector currently accounts for 100 percent output of some products such as oil and gas, automobiles, washing machines, air conditioners..., 60 percent of steel, 28 percent of cement...

Before 1986, Vietnam's foreign trade was mainly with Easter European countries and especially the former Soviet Union: Vietnam maintained large trade deficits that were covered by Official Development Assistance (ODA) from those countries.

Since the reforms, Vietnam's exports and imports have increased rapidly at an annual growth rate of 20%, while the trade deficit has been kept under control thanks to the government's moves towards a market oriented economy. However, Vietnam's exports have been dominated by unprocessed or semi-processed agricultural products, or labor-intensive manufacturing products with low added value (Than and Tan 1993). Foreign direct investment has contributed to the increases in Vietnam's exports by providing necessary investment capital, know-how and modern technology, as well as access to international markets through foreign invested enterprises.

Figure 3.4

Contribution of FDI to Exports



Source: General Statistics Office of Vietnam

The role of FDI in State budget revenues

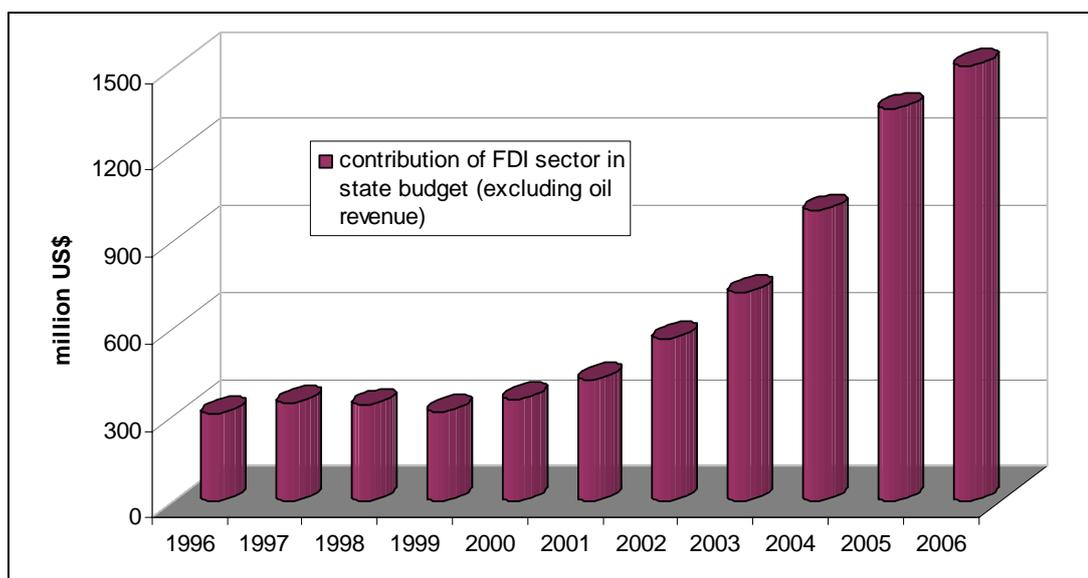
Another macroeconomic impact of FDI flows is their contribution to the government budget and therefore to the reduction of the fiscal gap. Before 1986, the government of Vietnam always faced a fiscal deficit. While government expenditure program were very ambitious, covering large capital intensive projects and subsidies for state owned enterprises, government income was very limited and financed by ODA from Eastern European countries. The government had to use high inflation as a means to cover its large fiscal gap and finance its ambitious expenditure (Than and Tan 1993).

Since 1986, the fiscal balance has improved thanks to the abolition of the subsidy system, tax reforms and the contribution of foreign invested enterprises to government revenue through turnover tax, profit tax, income tax, import-export tax and remittance tax.

FDI is becoming increasingly significance in raising revenues for the state budget. According to General Department of Tax, the State revenue from FDI sector in 2002 was approximately US\$ 480 million, which was 4.2 times larger than that in 1994. In the period 1996-2002, the share of revenues from this sector in State budget was approximately 6 percent on average. This relatively small share resulted from Government policy to encourage investment via deduction of corporate income tax in early years. Nevertheless, the share would be around 20 percent if the tax revenue from crude oil is included.

Figure 3.5

Contribution of FDI to State Budget



Source: Vietnam's General Department on Taxation

FDI and economic growth

FDI flows have contributed to covering, to varying extents, the savings-investment, foreign exchange and fiscal gaps and hence promoted economic growth. From 1986 award, the Doi Moi reform policy inaugurated a new period marked by high economic growth. The adoption of market-oriented institutions and an open door policy opened the Vietnamese economy to the international economy, resulting in an important recovery in the economy. The recovery has been characterized by a rapid

economic growth, a substantial growth of both exports and imports, and very strong inflows of FDI since 1990.

FDI has played a major role in providing the capital for meeting the economic growth targets. FDI has not only filled investment gaps, but has also contributed to Vietnam's economic growth in many other ways, more particularly after the enactment of the Law on Foreign Investment in December 1987. The total number of licensed projects invested in by foreigners under this scheme has increased from 151 in 1988 to 6030 in 2005, worth a total of US\$ 51.02 billion over the period 1988-2005 (MPI 2006).

3.5 FDI in Vietnam in comparison with some South East Asian countries

FDI to Vietnam is quite small in the amount in comparing with other ASEAN⁵ countries such as Singapore, Malaysia and Thailand. However, recently, FDI inflows to Vietnam start to increase rapidly from 1,972 US\$ million in 2005 to 4,100 US\$ million in 2006.

In recently, Vietnam is becoming ASEAN's main draw for labor-intensive industries. Moreover, Vietnam also attracts foreign investors because of the annual economic growth rate of over seven percent, abundance of natural resources, cheap labor and is one of the most stable countries in the area.

Just over one year after joining the World Trade Organisation (WTO) (12/2006), Vietnam ranks sixth in the list of countries attracting foreign investment. Figures released at the 2008 Leap Forward Vietnam Business Leadership Forum held in HCM City by the European Chamber of Commerce (EuroCham) showed Vietnam to be only behind China, India, Russia, the US and Brazil.

Vietnam has also abolished government subsidies inappropriate under WTO provisions and made important commitments to open up some services like telecoms, distribution and finance to foreign competition as well as reduce tariff barriers and

⁵Association of Southeast Asian Nations

create new opportunities for foreign investors. To maintain its high and stable growth rate, Vietnam will continue to develop local resources and take initiatives to integrate into the global economy, especially focusing on improving international trade and investment co-operation on the basis of fulfilling our WTO commitments. In addition to promoting production of new materials, high-technology products, bio-technology and machinery, it will also boost FDI in infrastructure and related areas like energy, traffic, telecoms, urban infrastructure, farm produce processing, education and health services.

Table 3.5

ASEAN's Peace Index Rankings 2008

	GPI ⁶ 2008 rank
Indonesia	68
Malaysia	38
Philippines	113
Singapore	29
Thailand	118
Vietnam	37

Source: <http://www.visionofhumanity.org>

⁶ The Global Peace Index (GPI) Rankings which started in 2007 are computed yearly based on a range of conflict and security factors. These include such factors as number of violent crimes, homicide levels, incarceration rates, levels of military spending and weapons access, to levels of disrespect for human rights. Each country is categorized according to its findings. Countries most at peace are ranked first. A lower score indicates a more peaceful country.

Table 3.6
ASEAN Countries FDI (US\$ million)

Countries	2002	2003	2004	2005	2006
Indonesia	145	-597	1896	8336	7514
Malaysia	3203	2473	4624	3967	5147
Philippines	1542	491	688	1132	1600
Singapore	7338	11664	19827	15002	24208
Thailand	3164	4614	5786	8405	8837
Vietnam	2023	1894	1878	1972	4100

Source: ADB Key Indicators 2007

Table 3.7
ASEAN Countries' GDP Growth Rate (% per year)

Countries	2002	2003	2004	2005	2006
Indonesia	4.5	4.8	5.0	5.7	5.5
Malaysia	4.4	5.5	7.2	5.2	5.9
Philippines	4.4	4.9	6.2	5.0	5.4
Singapore	4.2	3.1	8.8	6.6	7.9
Thailand	5.3	7.1	6.3	4.5	5.0
Vietnam	7.1	7.3	7.8	8.4	8.2

Source: ADB Key Indicators 2007

3.6 The obstacles to foreign investment in Vietnam

Despite of many alterations in the law towards creating more conveniences and incentives for foreign investments, there still exist several obstacles to their performance in reality. Firstly, it is the discrimination between foreign investments and domestic investments at the Ministry and the Provincial level. In most of the disputes, the jurisdictions tend to be in more favor for domestic party. The uncertainty of the law and other regulations with respect to foreign investment is a popular concern during the last years. According to the evaluation of Foreign Investment Agency, the foreign partners are often encouraged to invest in some certain areas when Vietnam party has difficulties or no capacity to undertake these projects. However, after a while when these projects tend to be fruitful, the law tends to be adjusted in order to put domestic enterprises, especially State owned enterprises taking over these areas. These uncertainties can be the barriers to the entry of foreign investors in some areas. The inconsistency of regulations among ministries is another problem that foreign enterprises have to face in last years. Some regulations are adjusted to be in favor of the foreign enterprises, however, other regulations under the authority of other ministries have not been adjusted in time and compatibly which make foreign enterprises not be able to enjoy the preference of these adjustments in reality.

As the evaluation by ADB, WB and UNDP⁷, the transparency, accountability and corruption are one of the most serious problems in Vietnam. This is not only the barrier to the development of enterprise but also the development of the whole society in terms of other aspects. According to “Doing Business 2008” of World Bank, Vietnam still ranks at 91 among 178 countries evaluated in term of the ease of doing business. The number of days to start a business is 50 with more than 11 procedures. The cost for a business start up is about of 20% income per capita. The government now put more efforts to implement the one-line business start-up in order

⁷ ADB (Asian Development Bank); WB (World Bank) and UNDP (United Nations Development Program)

to shorten the time for investors, however, this action is still underway. The ability to protect investors in Vietnam is very low, ranking at 165. These aspects used to evaluate the ability to protect investors are: (i) transparency of transactions, (ii) the responsibility of individuals, (iii) the ability of share holders to sue the board of directors and managers when making mistakes in management.

Another problem arising in foreign enterprises in recent years is the increasing rate of strike. This fact derives from the conflict between workers and managers of foreign enterprise about salary, working hours, meal, working conditions.

The cost of some fundamental infrastructure serving for business such as electricity, telephones are still relatively high in comparison with other regional countries despite of the decrease recently. The rent of an office or apartment which meets the international standard in two big cities as Ho Chi Minh and Hanoi is very high. This is not only a constraint to the entry of foreign investors but also a cause of disturbances in the economy as a whole.

3.7 Foreign Direct Investment and Technology Transfer

As well as investment fund, new technology transfer is also one of the main reasons that urges Vietnam attract more FDI inflows. Foreign experience shows that the technology transfer through FDI is more effective than other forms, such as importing machinery or buying industrial property, especially when high technologies and exclusive know-how are involved.

The evaluation of technology transfer into a country is difficult. According to Singer et al (1991), the technology transfer is successful when (a) it is employed effectively in new environment, even if the whole factory is operated by foreign experts; (b) workers in the host country obtain enough skills to operate the transferred machinery and managers can work out plans for operation and marketing (this is usually the case of joint ventures); (c) it produces good effects on other economic concerns; and (d) techniques originated from the transferred technologies could be developed and improved in order to suit the local economic activities. Thus, benefits

of the technology transfer to the recipient country depend on its suitability and effects on the local economy.

Investment from developed countries (the U.S., Japan, the U.K., France, Germany, Canada and Italy) represented some 22.44% of the total FDI in Vietnam. The better part of this source of investment was used for introducing modern equipment and production lines to such industries as oil, post and telecommunications, electronics, electricity, car and motorbike assembling and cement. American companies took the lead in the technology transfer, especially in transport, telecommunications, computer and electronics. Their investment, however, is still small, equaling US\$1,127.34 million up to December 1998, ranking tenth in the leading ten investing nations in Vietnam.

Investment from Asian countries accounted for a high percentage of the total FDI in Vietnam. Their technologies transferred by these countries (except for Japan and Singapore) aren't the most modern ones because they have just finished the first stage of industrialization. In fact, they are trying to attract modern technologies through FDI projects in their home countries. That is why most equipment and machinery imported in recent years by these FDI projects from their home countries was two or three generations old and these projects are usually in businesses that don't need high tech, such as hotels, tourism, assembling or processing. These countries can hardly invest in such technology-intensive as electronics, chemicals and engineering. Even investors from Singapore, a developed country, also put the better part of their investment in hotels and tourism business.

However, technologies transferred from developing countries are appropriate to conditions in Vietnam because they mainly are labor-intensive and allow low production cost. Another reason for their suitability is the fact that the installed capacity of projects run by Asian investors is lower than that of projects by investors from developed countries. Comparing FDI projects run by investors from developing and developed countries, we see that the average capital of the latter is about two times bigger than that of the former. In most industries, except the food processing one, the capital-labor ratio in joint ventures with companies from developing countries is also low in comparison with those with companies from

developed ones. In addition, some transferred technologies, although not modern, are much better than what have been in use in local factories, so they have helped making products of better quality.

Thus, modern technologies, to a certain extent aren't the only solution to all problems. In many cases, technologies, not the most modern ones, from South Korea or Hong Kong, prove new and appropriate to the cheap labor force in Vietnam. Moreover, technologies through FDI projects are usually transferred according to a package deal: they go with training courses and cooperation between foreign and local technicians. Vietnamese managers and laborers working for foreign-invested companies receive necessary training and gain knowledge of modern managerial skills.

In short, it doesn't matter whether these technologies are new or old. The problem is whether they suit conditions in Vietnam or not. In the long run, however, the transfer of old technologies couldn't help us catch up with neighboring countries and the danger of lagging behind them is inevitable.