CHAPTER FIVE

DISCUSSION

This chapter discusses the survey finding in relations to the hypotheses of this study.

5.1 ANALYSIS OF INVESTMENT COMMITMENT OF MALAYSIAN COMPANIES

From the research finding it can be concluded that the majority of companies (57.1%) involved in Vietnam are public listed companies. From the Malaysian companies surveyed it also concludes that 61.9% of Malaysian companies are there for projects lasting more than 3 years.

This clearly shows that most Malaysian companies are there for the long haul than short term. Based on the survey most Malaysian companies also agree that Vietnam has vast potential . But utmost concern for these companies are to prove its sincerity to the host country.

The survey also indicated that Vietnamese government is very supportive to long term investors rather than short term investors. This statement also concurs with

Freeman[11] that Vietnamese government is looking for long term business partners to rebuild the country.

Vietnam is still a poor country, with an official per capita GDP of about US$250 and more than 80% of ites population living in rural areas, engaged in agriculture. The country has however a rural population that continues to benefit from economic reforms as well as a growing urban population and developing western style market for goods and servicec.

Partly because of the various wars over the past 50 years which took a portion of the population off the land, and partly because of the bourgeoning economies in the cities, urban areas growing in wealth and population density. The urban population which has readily embraced free enterprise is an emerging force that will help drive much of the economy. Middle classes and even upper classes are forming. These trends suggest that domestic economic successes can be nowcombined with foreign investment to facilitate more rapid growth. For example Ho Chi Minh city is expected to grow at about 11% and attract more than $1 billion in investment capital. Within a few years this will be a market with considerable wealth and capital.

Vietnam is seen as a setting for diffusion consumer culture, where it may take some consumers a longer time to assimilate into a typical consumer culture and there are others who embrace it immediately.

An increased interest in marketing and consumer behaviour has led the government to compile database to track consumer spending and foreign companies to employ market research firms to measure purchase patterns.

Vietnam is now at the point when the really serious business begins. Just as the nation has spent the past 2000 years holding off the colonising brandishment, it is now embroiled in a fierce battle to keep from being colonised by corporations.

In 10 years Vietnam has achived an economic and social miracle. The introduction of "doi moi" in 1986 has slowly began to dismantle the economy's central command. Foreign investors moved in, but it wasn't when multilateral aid was restored, that business started to boom.

The Malaysian companies successfully operating business in Vietnam agree tthat the blame for hard luck stories belongs to the absurd expectations held by some people coming to Vietnam for its business opportunities.

According to the comments from respondents , for an investor, it is ideal to find the right joint venture partner, for any of size business in Vietnam, for all the obvius reason, chemistry, honesty and effectiveness.

For now though, Vietnam remains a "long term play", for shorthand no ones really makes money. Companies should be willing to invest now to avoid being shut out of the market.
It is very apparent that potential investors should have patience when dealing with the Vietnamese as Vietnam grows with the changes it has been making.

Most importantly there is a need to build a network of relationships.Based on the analysis of the situation, taking into considerationall factors presented, Vietnam is definateley poised to be the 5th Tiger of Asia. Therefore it is a potential investment focus.

But investors should be aware and understand the realities of the trading environment before they set foot in Vietnam.Basically it is essential to take note at five ground rules that is paramount to the success of any business venture in Vietnam.

Firstly it is important for an investor to have a first hand knowledge and understanding of the business they enter into. They must also be prepared for "hands on" exposure.

Secondly it is essential that the person who represents the investor must be a person with integrity and high moral values. The person should not be one who easily becomes prey to social evils. In Vietnam this is easily noticed and will be detrimental for business.

Thirdly it is vital for investors to appreciate Vietnamese culture, bacause Vietnamese people have strong sense of culture, which if not appreciated, would affect staff - management relationship.

Fourthly, it is important to establish a good relationship with at least one Vietnamese which would be helpful in dealing with other Vietnamese, either employees or other components of the micro environment.

Fifthly it is important to know that one should enter the Vietnamese market with long term intentions rather than for a quick "buck".

With this in mind it can be concluded that Malaysisn companies are on the right track to establish business relations in Vietnam.

5.2 ANALYSIS OF BARRIERS TO INVESTMENT IN VIETNAM

The findings of the survey indicated that the greatest barrier faced by Malaysian investors is the Investment Laws in Vietnam which is often complicated and contradictory. This is again reiterated in item 1e and 1f where generally the respondents agree that investment procedures for foreign companies are complex and ununiformed as well the fact thatmost of the respondents agree that Vietnamese laws are very conflicting. In item 1k and 1q this particular fact was further enhanced where most of the respondents agree that it is very important for potential investors to clarify all legal matters before investing as well as agree that Vietnamese laws are very complicated and contradictory.

From the comment gathered it is quite apparent that Vietnamese leaders want more investment but not at the expense of loosing too much of control over the state economy.

The phenomena is rather transparent in the recent revision of the countries eight year old foreign investment law.

The draft law names sectors in which the government would like to see more foreign investment, such as in agriculture and forestry but it also specifies a host of areas where 100% foreign owned investments are not welcomed.

Another change that restricts the amount of profit tax that would be returned to foreign investors who reinvest in the country; under the existing law they would be entitled to a full reimbursement.

Other regulation that may impede foreign investment is the requirement for boards of joint venture firms to unanimously agree on important decisions, effectively giving minority shareholders - usually Vietnamese partner - veto power over major corporate decisions. The draft, words this clause differently from existing law, but the effect remain the same.

There are also new laws added with existing contradictory rules not cleared. The draft implies that foreign companies can hire local staff directly but the Labour Ministry circular reiterates government policy that such personnel should be engaged through a state service company.

Conflict also exist on the newly proposed corporate, personal and value added tax. Where the new version sets corporate tax at 33%, but the draft foreign Investment Law stipulates that the standard tax for foreign invested projects is at 25%. But it is unclear how the difference would be resolved.

To reduce all these conflicts and confusion another law was proposed to be passed intended to better coordinate the profusion of sometime contradictory decrees, circulars and other legal instruments that ministries are fond of issuing. But the effectiveness of the new law is yet to be tested.

Ranked at number two is the Vietnamese political instability, where many investors are sceptical about the future of Vietnam's political scenario. Most respondents agree that they are always cautious about the situation.

The foreign capital that has helped the countries growth is viewed as depleting if certain reforms dont get of the ground. Unfortunately there is an air of complacency not only amongst government officials but also with the lagislators.

Although the pro reformation Prime Minister, Vo Van Kiet realizes the importance of continued foreign investment, and has urged legislators to push up investores confidence by easing complicated licencing procedures and addressing other issues pertaining to conflicting laws and corruption, but the Communist Party Central Committee seen to be rather non committal.

Confusing bureaucratic procedures are the order of the day.

It was the departure from status quo five years ago that gave Vietnam "doi moi" and a certain level of prosperity, reflected in average growth rates of 8.2% over the last five years. But the next wave of reforms has been blocked by CP officials determined to relinquish any more of their power over the economy and ultimately the country. The other big bulwarks against change are the state sponsored business that would be exposed to greater competition in a truly open economy.

Administrative reform is turning the spotlight on the most glaring weaknesses of the states apparatus. They are bureaucracy, dispersed power, corruption and waste, a cumbersome and malfunctioning apparatus .

Therefore it is very apparent there is no political clarity towards foreign invesment which is always treated cautiously by Malaysian investors.

Ranked at the third position is lack of infrastructure facility in Vietnam. According to comments given by respondents they believe that Vietnam badly needs new roads, power plants, ports, transmission lines and other investment in infrastructure. Owing to these weaknesses often it causes delays in projects which eventually escalates project cost.

Further discussion on this issue is provided in sub section 5.3 which deals with the subject of infrastructural development.

5.3 ANALYSIS ON THE TYPE OF INDUSTRY VENTURED

Based on the research findings it indicates that the majority of companies involved in Vietnam are into infrastructural development which includes construction of processing zones, construction of offices, transportation, telecommunications and building of highways.

The research findings also indicated that the Vietnamese government encourages infrastructural development projects.

Due to severe constraints imposed by poor infrastructure, the physical aspects of distribution in Vietnam have never been easy. Regional distribution structures have dominated, with national distribution being almost impossible. Economic growth is of course severely compounding the problem.

As foreign-invested manufacturers are becoming bigger players in the economy, they are placing an even greater strain on the distribution system as they seek wide access to the domestic market. Foreign-invested manufacturers have also been drivers of Vietnam's rapid export growth. This, in turn, has placed further strain on the infrastructure, particularly on port facilities.

Another source of pressure on the system is generated by the demands of local manufacturers who, driven by profit motives, are breaking out of their traditional regional markets and seeking to distribute to wider markets. As a result, Vietnam has a badly clogged transportation system, and it is not unreasonable to suggest that physical distribution will be a key issue for foreign businesses to wrestle with for at least the next twenty years.

More than $2 billion is slated for investment in one project alone to build a major North-South highway. 10 American companies have already registered intentions to bid for 2 sections of this contract and American companies that have established some sort of operation in Vietnam clearly have an opportunity to capitalize on the goodwill fostered by the recent warming of relations between the US and

Vietnamese governments. General contracting and heavy equipment companiees for example are natural suppliers.

One of Vietnam's priorities is the development of export processing zones (EPZ) and industrial zones (IZ). Todate, 14 EPZs and IZSs are being developed. Tan Thuan EPZ in Ho Chi Minh City has licensed 81 companies with total investment US$322 million. The companies have already turned out 25,000 tonnes of goods, earning US$65.56 million from exports.

Besides this the development of Greater Mekong Subregion (GMS), a region in the making offers investment opportunities ranging from tourism, energy and infrastructural development.

The GMS comprises 6 countries - Vietnam, Cambodia, Thailand, Laos, Myanmar and the Yunnan province of China. The economies in the GMS which has about 220 million people are undergoing rapid change to an open-market oriented system from a centrally planned system.

According to the latest Public Bank Economic Review, the Mekong Work Programme lists 97 projects and activities for implementation, of which 74 projects costing US$217.17 million will be taken on a regional basis.

With these opportunities and development potential it is no wonder that most Malaysian companies who have the know how have embarked on the infrastructural development industry.