Chapter II :

FOREIGN INVESTMENT AND ECONOMIC GROWTH IN VIETNAM.

A detailed and quantitative evaluation of influence and effect of foreign investment on economic growth in Vietnam at the present is very difficult task, and in some cases, is impossible because :

a) foreign investment capital, actually , has been invested in Vietnam since late eighties (The Law on Foreign Investment in Vietnam was issued only in December, 1987). Because of short time, the statistical data are not sufficient for the above purpose.

b) For five years (from issuing the Law on Foreign Investment in Vietnam), almost investment projects are focused in agriculture, industry and infrastructure. These areas require a big investment capital and their effect can be determined only after a long period of time.

However, considering the relationship between foreign direct investment and economic growth in recent time is a necessary thing to withdraw experience for the investment planning.

2.1. Conditions to attract foreign direct investment:

The renewal policy worked out in 1986 really promoted the usefulness in 1988-1989. From 1988 to the end of 1994, according to the State Committee for Co-operation and Investment (SCCI)- The highest Investment

Administration Management Organization in Vietnam, the foreign capital invested in Vietnam has increased by around two times (the concrete data are shown in the section 3 below). There are many macro conditions that helped create an attractive environment for foreign investors in Vietnam, in which there are the following

a) *Social stability has been maintained*, creating premises to economic development : The "open-door" policy of the State of Vietnam and the shifting of confrontation to dialogue have created an atmosphere of co-operation and mutual understanding in the region. This policy has also made an impact on the attitude taken by some big countries in their relations with Vietnam, including the lifting of US embargo against Vietnam by the US administration,

b) *Vietnam's Government encourages foreign investors.* Vietnamese government pays much attention to make suitable conditions for attracting foreign investment. Only for few years, the Government has reviewed the Law on foreign investment in Vietnam twice to make more favourable conditions for investors.(In Vietnam, for this period, there is not any Law reviewed by the Government, except the Law on foreign investment in Vietnam).

c) *The economic management mechanism has been soon reformed*, creating conditions for business to adapt themselves with the market mechanism and stabilize production. The economy with unstable growth rate in the later years of 1980's has been shifted to the fast in the early years of the 1990's.(concerned results are shown in the next part),

d) In the development context of the region, in Vietnam there have emerged particularly *favourable* *opportunities to attract FDI*, for example ,

- While cost is increasingly raised in developing countries, labour cost in Vietnam is still very low in comparison with other countries in the region,
- Natural resources in Vietnam are not much exploited while developed countries are short of these sources,
- In the near future Vietnam will become a great consumer country of product from countries in the region.

2.2. Vietnamese capital investment need.

According to the *"Report on development of human resources in 1994"* [5] of the United Nations Development Programme, per capita GDP level in neighbouring countries is two to four times higher than that in Vietnam. Moreover, in the past decades it shows that the Asia-Pacific region has become and is becoming the most dynamic development region in the world. So, the challenge in development gap is very acute and becoming ever more acute for Vietnam.

For this reason, to "catch up with" in the 15-20 years Vietnam needs a growth rate of 5 to 7 percent higher than other countries. Therefore, large investment capital is needed.

In the previous years, due to the impact of the war, the economy did not have internal accumulation all through from 1966 to 1990. According to the macro balance calculation, one/third of foreign aids was used

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5. See tab.A-1, appendix.

for consumption, the remaining two/thirds were used for accumulation [6]. These investments helped make an active contribution to creating important industrial and infrastructure establishments of the economy, and to the national construction and defence. Such important projects as the Hoa Binh Hydroelectric Power Plant, the Oil and Gas exploitation, Cement Production projects as well as the road and bridge, airport and seaport projects, etc have made an important contribution to the social and economic development in recent years.

However, "the policy to push one step ahead the industrialization, modernization of the country" [7] requires to rely on the important leading viewpoint on promotion of the strength of the nation , develop the multi-sectoral economy and open its door to the outside world.

In a new condition, investment capital through the budget with domestic taxation source and foreign loans and aids will be mainly used to create favourable economic environment for production and business of the people of all groups [8], particularly investment in social and economic infrastructure and some limitations in large-scale production and business operation. The other important part should rely on investment of the people of all groups and foreign countries.

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6. General Department of Statistics, Vol.2 p.61, Hanoi, 1994.
7. The Truth Publishers, P.14-15, Hanoi 1994.
8. In Vietnam there are 54 minorities.

So, development investment not only relies on the concentrated capital source of the State as the main. Previously about 80% of the total investment capital was provided by the State budget. In fact, in 1993, in a total of about USD 3 billion for investment, capital accrued from the State budget was only one/third. In the remaining USD 2 billion, about 60% is from domestic resources and 40% is the foreign capital (of about USD 800 million).

To implement the policy by taking one step further to accelerate industrialization, modernization, it needs an investment of USD 48 to 50 billion from now to the year 2000. in which 12% will be invested into agriculture and forestry, 38% in industry and about 50% in infrastructure and services development [9]. According to this investment programme, economic growth rate of 7 to 7.5% in recent years will be raised to average of 9 to 10% creating premises necessary for faster development in the early years of the 21-st century.

In order to meet the goal and performance of the strategy of the socio-economic development, by the year 2000 the source of the foreign direct investment to Vietnam requires USD 18 billion to USD 20 billion to be implemented. This foreign direct investment allocation proposed as follows :

1. One step to be taken for the establishment of oil and gas with objectives to the year 2000.

- Mining 20 million MT of crude oil.

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9. State Planning Committee, Vol.2, p.22, Hanoi, 1994.

- Construction of an oil refinery prior to the year 2000 and another one for the next century.
- Gas pipeline transportation on-shore for electric power production and gas utilization for fertilizer production.

The investment required will be USD 8 billion to meet the target.

2. Set up about 10 industrial zones in which there will be 900 enterprises involving in commodities production with total investment of USD 5 billion

3. Develop the scattering industrial facilities for the in-depth investment in the existing facilities and establishment of new facilities besides the industrial zones. The investment amount is nearly USD 2 billion.

Most of the above has been signed.

4. Construction of 5-6 cement plants with capacity of 7-8 million tons, the investment is roughly USD 1.5 billion in Ha Tien, Song Be, South of Thanh Hoa, North of Nghe An, Hai Hung, Hai Phong, Quang Ninh.

5. Develop heavy industrial factories in metallurgy, engineering, electronics, chemicals, the investment required is approximately USD 1.2 billion

6. Investment in the sectors of agriculture , forestry, fishery, focusing in the processing industry, the investment required is USD 800 million.

7. Investment in the field of transportation and

telecommunication, infrastructures of USD 1 billion.

8. Setting up facilities for recreation and tourism with USD 1.5 billion.

2.3. Effect of Foreign Direct Investment

Although FDI has begun for Vietnam and many projects are only on their beginning or operating period, thank to FDI the Vietnam's economy has its initial results. We consider some of them .

2.3.1. The rate of industrial growth is as follows (Tab 2.1)

Tab.2.1: Speed of industrial development (1986-1993)

Year	*rate of growth, %*
1986	6.1
1987	10.0
1988	14.3
1989	3.3
1990	3.1
1991	10.4
1992	14.6
1993	12.1

Source : Scientific report.Hanoi, July 1994 Le Anh Son

From table 2.1, the rate of industrial growth of 14.6% is highest in 1992. This can be explained by the fact that foreign capital has helped public enterprises and factories in the North of Vietnam to increase their capacity.

2.3.2 The achievements recorded in economic development in the 1991-1993 period have been beyond the anticipation in the strategy of social and economic development worked out in 1991. The average GDP increase in the past three years stands at 7.5% (Tab.2.2) and with this trend, by the year 2000, GDP of Vietnam will be two times higher than that in 1994

Tab.2.2 : GDP growth rate (1991-1993)

Year	*GDP growth rate %*
1991	6.00
1992	8.65
1993	9.07

Source:Scientific Report, Hanoi,July 1994.Le Anh Son

2.3.3 If before 1988 the State budget has its deficit (Tab.2.3), so since 1991 Vietnam has begun to have savings at home, and source of capital to be used for development and debt payment (Tab.2.4).

Tab.2.3 : State revenue and expenditure (1981-1988)
Million VND.

	1981	1983	1985	1986	1987	1988
Total revenue	22787	75044	196500	83648	379279	1 617000
Total expenditure	26915	77990	271500	120800	514967	2 440000
Deficit (%)	*-4128*	*-2946*	*-75000*	*-37152*	*-135688*	*-823800*
atio of deficit to total expenditure(%)	15.3	3.8	27.6	30.8	26.3	33.7

Source : Tran Ngoc Vinh " Financial and monetary policies". Page 87,95.

Tab.2.4 : Domestic savings (1991-1993)
Million VND

	1991	*1992*	*1993*
Total revenue	4,891,000	6,996,000	8,075,000
Total expenditure	3,880,000	4,893,000	5,012,000
Saving	*1,011,000*	*2,103,000*	*3,063,000*

Source: Scientific Report, Hanoi, July,1994.Le Anh Son

2.3.4 If in the past Vietnam was an excessive importing country and unable to export to balance the foreign trade balance, in recent years, the situation has been markedly improved. Since 1991 the export value is greater than import value (Tab.2.5-It's divided into two parts : the above deals with the data before FDI take place, and the below- after FDI takes place).This is because of Vietnam's policy encouraging foreign investors to concentrate their capital for production of export and substituting import goods.

2.3.5 Inflation has been curbed and pushed back (from 95.8 percent in 1988 to 5.2 percent in 1993), the value of Vietnam's currency has stabilised.

2.3.6 Production infrastructure has been gradually built and perfected, creating material premises to attract FDI.

2.4 Conclusion:

Even though there are still a lot of difficulties and avoidable obstacles of a beginning, FDI projects have made an important contribution to creating new production capabilities with relatively modern technology, able to be competitive in the market. Together with these projects, more labour, managing officials have been attracted, and training and technological transfer have been strengthened.

Tab.2.5 : Export and Import value

Million USD

Year	*Export*	*Import*	*Export/Import*
1975	222.7	1,024.1	21.75
1980	336.0	1,312.0	25.61
1985	705.0	1,645.0	42.86
1988	1,007.0	2,866.7	36.30
1989	1,946.0	2,566.2	75.80
1990	2,189.2	2,595.0	84.30
1991	2,034.0	2,000.0	102.00
1992	2,400.0	2,300.0	104.00

Source : The Trade Journal, May 1991 and March 1993

At the same time, around the areas where enterprises with foreign invested capital are based in accordance with the FIL, Vietnam´s businesses may develop, in the joint efforts so as to form the diversified economic network, bringing into full play the comparative advantages in human resources, supply of materials and services in place and expanding domestic markets.

In Vietnam many enterprises were not fully used (about 40%-45% of their capacity) or used with low efficiency for a long time. Thank to FDI capital many of them have been exploited and upgraded. Moreover, Vietnam´s enterprises, through investment co-operation and joint venture with foreign countries can learn new managerial method and commercial experiences (such as technic in gas and oil exploration, electronic industry, assembling of automobiles and motorbikes, chemical production, blackish shrimp rearing with industrial method etc.

Also thanks to the co-operation and investment, many new jobs are created and many people have their jobs. The labourers have chance to improve their working skill, communication ability.

Of course, along with foreign investment, many social weaknesses are arisen, new lifestyle comes, especially for young people, some of the traditional customs are broken.