Chapter 4: PROSPECTS FOR VIETNAM'S INDUSTRIALIZATION IN THE LIGHT OF EANIE ECONOMIC EXPERIENCES

In order to catch up and with neighbouring economies in the next 15-20 years, the Socio-Economic Strategy for Vietnam Up To 2000 (SES) and Strategy To Push Ahead A Step To Industrialization, Modernization And Long Term Investment Requirement (SPASIMLTIR) defined some important targets such as: the GDP growth rate must be 5-7% higher than that of other countries, or over 10% per annum; an average industrial production annual growth rate of 14% to 15% for; the share of industry, accounting for 20.2% of GNP in 1990, should be raised to 28% by 2000 while the share of agriculture, representing 50.6% in 1990, should be reduced to 42.7% by 2000. Vietnam's economy will thus "take off" in the early 21st century. In the year 2010, the share of industry should be 40%, while those of agriculture and services should be 28% and 32% respectively.

Industrial restructuring can be divided into two stages:

*) The first stage, up to 2000, in which those industries for which Vietnam has a comparative advantage e.g. in terms of labor costs, natural resources or environment should be developed vigorously to become an overwhelming proportion of economic

activities such as textiles, garments, food and foodstuff processing, and forest products processing.

*) The second stage, from 2000, should involve more high tech industries for which Vietnam has competitiveness in the international market, such as engineering, electronics, transport equipment, etc to be set up from the 1990s.

Based on the reality of Vietnam's industrialization at the present time, as presented in chapter 3 as well as in the SES and SPASIMLTIR, many proposals and suggestions for Vietnam's industrialization have been proposed by Vietnamese economists and economic institutions in Vietnam. However, in the light of the experiences of the EANIEs, I would like to make some proposals for industrialization policies in the late 1990s, which Vietnam's Government might consider.

The highly successful industrialization programs of South Korea, Taiwan, Singapore and Hong Kong in the 1970s and 1980s, and of Malaysia in the late 1980s and 1990s presented earlier in chapter 2 showed the active role of governments in those programs. It is true that in all four EANIEs and the Malaysian economy since the 1980s, private ownership of industrial enterprises has been the dominant, and has indeed been an essential ingredient of their success. But in all these countries, the governments - by deliberate policies, including tariff protection - have played a key role in encouraging development and influencing the direction

of growth. (i) The governments have carried through extensive education programs to create an effective and responsive labor force; (ii) they have also provided adequate and well administered infrastructure, e.g. in the form of power and transport facilities, so that shortages of such inputs have not been bottlenecks to industry; (iii) they have provided stable legal frameworks for private activity in a market environment; and, (iv) they have established conditions for the smooth functioning of factor markets for capital and labor in addition to product markets. The land reform programs in South Korea and Taiwan served to accelerate agricultural growth as well as greater mobility for labor and capital from the land. However, beyond these very important actions in creating institutions and facilities, the governments have actively intervened to influence the direction of industrial growth, both by direct encouragement of selected activities and by more general macro-policies in the areas of taxation, credit availability, foreign exchange allocation and investment by foreign enterprises. One of the governments, Singapore, claimed to be socialist, but with a type of socialism far from the model of so-called socialist countries in Eastern Europe or China. Taiwan has been strongly influenced by Sun Yat Sen´s ideology, in which the state plays a major economic role, while South Korea´s policy mechanisms bear strong resemblances to those of Japan, inasmuch as the government works closely with private entrepreneurs to identify future growth sectors, and supports investment and specialization in the

identified sectors by specific micro-policies. In Hong Kong, the reality is one of small business in a world economy under a late-colonial version of a welfare state. Both South Korea and Taiwan as well as Malaysia began their industrialization with tariff protection and import substitution, but moved from these protective policies at an early stage in their development to a more external orientation. In all these economies, the gains of industrial development were widely spread among their populations as a result of deliberate policy and this created wide spread political support for the economic programs.

Thus, in contrast with what has happened in Vietnam, as mentioned in chapter 3, it will be not difficult to show some differences in industrialization policies of the EANIEs and Vietnam. But in this research paper, I would only like to compare investment management, including of FDI, in the EANIEs and Vietnam.

It is well known that to develop the economy with a high growth rate of 10% or more, it is necessary to mobilize enough capital from different sources to promote investments. Investment - expenditure not for the purpose of satisfying current wants, but to increase the potential for satisfying future wants - is one major category of desired expenditure. The famous formula is:

$$\Delta Y = \Delta I * 1/(1-a)$$

where: ΔY is the change in output

ΔI is the change in the investment

(1-a) is called the multiplier, and its value depends on the behavioral relationship between the change in desired expenditures and the change in real income, i.e. if investment increases by ΔI, output will increase by 1/(1-a) times ΔI, where $0<a<1$.

But the most serious problem is how to get the capital to raise investments. The answer is that capital for investment can be obtained from domestic (internal) accumulation, by both government and private sectors as well external sources, by FDI as well as official development aid (ODA) of international organizations such as the World Bank (WB), the International Monetary Fund (IMF), the Asian Development Bank (ADB) and foreign governments.

4.1 DOMESTIC INVESTMENT

It is widely believed that the decisive factor for the EANIE industrial success is the continuous increase of domestic investment. Table 4.1 shows the gross domestic investment of the EANIEs and some other countries from 1960 to 1985. It is clear that the EANIEs have high growth rates of GDP and manufacturing (Table 2.1 and 2.2) because they have mobilized a lot of domestic capital for investment. In 1980, the gross domestic investment of these countries were above 30% of GDP. Singapore had the highest

investment rate of 43%. Following Singapore were Taiwan and Hong Kong, with rates of 33% and 31% respectively. Malaysia in 1980 had an investment rate of 29% (Table 4.1). In East Asia, there is one glaring exception to the impressive saving rates: the Philippines. Over the last 20 years, saving rates have actually fallen there; therefore, domestic investment has also gone down. That one factor alone helps to explain why the Philippines' economic performance has lagged behind that of other Asian countries (**Far Eastern Economic Review**, 24 November, 1994, p.48).

Table 4.1: GROSS DOMESTIC INVESTMENT AS A SHARE OF GDP, 1960-92

Country	1960	1965	1970	1975	1980	1985	1992
Taiwan	20	23	26	31	33	18	23.2
South Korea	11	15	25	27	31	30	35.6
Hong Kong	18	36	24	24	30	21	27.8
Singapore	11	22	39	40	43	43	40.4
Malaysia	14	18	22	25	29	28	34.4▲
Mexico	20	22	21	22	28	21	19.7▲
Brazil	22	25	21	27	23	16	18.9▲
Japan	33	32	39	33	32	28	30.3

Note: ▲ for 1991
Source: Wade, 1990, p.48; The Economist Intelligence Unit (EIU), country report (CR) third quarter 1993, Malaysia and Brunei p.3; EIU, CR, 4th quarter 1993, Singapore, p.3; EIU, CR, 3rd quarter 1993, Hong Kong and Macao, p.4; EUI, CR, 4th quarter 1993, North Korea and South Korea, p.4; EIU, CR, 4th quarter 1993, Taiwan, p.4; EIU, CR, 4th quarter 1993, Japan, p.3; EIU, CR, 3rd quarter 1993, Mexico, p.3; EIU, CR, 2nd quarter 1993, Brazil, p.4

What is about these indicators for Vietnam's economy? Prior to 1990, due to the impact of the war, the Vietnamese economy did not have much internal accumulation. According to macro economic balance calculations, one third of ODA was used for consumption and the rest for accumulation (Table 4.2). Investment capital from ODA and the state budget have mainly been used to create a favorable economic environment for production and business, particularly to invest in social and economic infrastructure and in some large scale production and business projects. However, so far ODA investments have been limited. At the conference of donors held in Paris in October 1993, all governments and international orgernizations committed themselves to grant aid, including loans in ODA form with a value of US$1.86 billion

Therefore, the investment share of the state budget and ODA was only one third of the total investment (including FDI) in the 1990s. Compared with the GDP, the domestic investment portion was very low (Table 4.3).

Thus, the gross domestic investment share of GDP in Vietnam was very small in comparison with the EANIEs. The issues arising now are how to mobilize the capital for investment and how to allocate this capital properly to the appropriate sectors of the economy. The experiences of the EANIEs provide some the good answers to these questions.

Table 4.2: VIETNAM GDP, ODA AND ACCUMULATION: 1985-93

(billion dong, at 1989 constant prices)

Year	GDP	Growth rate (%)	GDP+ODA	Expenditure	Accumu-lation
1985	29,253		32,236	30,142	2094
1986	30,472	4.0	34,341	31,906	2435
1987	31,709	3.9	34,658	32,088	2570
1988	33,414	5.1	37,657	34,643	3014
1989	36,320	8.0	39,697	37,600	2097
1990	38,272	5.1	42,290	37,764	4526
1991	40,623	4.1	44,766	39,841	4925
1992	44,686	10.0	49,467	42,046	7421
1993	49,095	9.8	54,462	44,658	9804

Source: Vo Dai Luoc, 1994, pp.91, 104

Table 4.3: VIETNAM GROSS DOMESTIC INVESTMENT: AS SHARE OF GDP, 1985-93.

Year	1985	1989	1990	1991	1992	1993
Ratio	6	4	8	12	14	17

Source: Calculation according to Table 3.7, and GSD, 1993, pp.10-11

High savings have allowed the EANIEs to finance domestic investment - education, infrastructure and the like. In fact, that kind of investment is crucial for a country to grow. Savings

rates have increased more rapidly in the EANIEs than in other countries. Savings in Taiwan increased from about 5% of national income in the first half of the 1950s to over 30% in the late 1970s. By 1975, Taiwan's ratio of the net savings to net national product had exceeded Japan's (23.0% against 22.7%). Since then, Taiwan has had one of the highest savings ratio in the world. Its 30.5% average between 1970 and 1979 may be compared with South Korea's 17.5% and Japan's 26.3% (Sun and Liang, 1982, p.404). Because of this vast mass of savings, Taiwan's rapid growth has been accompanied by much less inflation and foreign borrowing than Korea. Savings occur in households, firms and governments (including public enterprises). Over the period from 1970 to 1978, government savings averaged 38% of net savings in Taiwan as against 35% in Korea. High government savings have helped to keep inflation low. If the rate of household savings as a proportion of personal disposable income for Taiwan between 1965 and 1980 was 17.6% , while the figure for the Korea was 17.6%.

In the case of Singapore, worker contributions to the Central Provident Fund (CPF) have given the island republic the world's highest savings rates - currently a whopping 48% of GDP. Japan's rates have hovered around 30% (**Far Eastern Economic Review**, 24 November, 1994, p.48).

It is often said that the reason for high savings rates in EANIEs was that the governments of these countries generally

maintained interest rates above the rate of inflation during the 1970s and 1980s. According to them, high interest rates paid to depositors raised both the quality and the quantity of investment. Taiwan was one of the first, if not the first developing country to adopt a high real interest rate policy. The real interest rates for bank savings deposits was 6% or more in virtually all years between 1955 and 1980, except for the high inflation years 1973-4 and 1979-80, when it turned negative. In the mid 1960s, the real cost of secured bank loans in Taiwan was about 11% and the nominal cost around 14%. In Korea, the nominal rate was 26% and the real cost of ordinary or non-priority loans was 17%, much higher than in Taiwan, but the real cost of policy or priority loans was very low, or even negative, and such loans accounted for about half of total official loans (Wade, 1990, pp.58-9). Priority loans have been provided through the bank system. The curb market is an unregulated, semi-legal credit market in which loan suppliers and demanders can transact freely at uncontrolled interest rates. Between 1963 and 1965, the Korean government carried out a set of major economic policy reforms, including fiscal reform, to promote government savings in 1963, and an interest rate reform to promote savings in 1965.

Between 1976 and 1981, it is estimated that private business borrowed abut 60% from the banks and most of the remainder from the curb market, while public enterprises got 96% of borrowings from the banks. The loan rates in Taiwan from the curb market

were 50 to 100% higher than the bank loan rates during 1970s. However, the gap between the loan rates from the banks and from the curb market in Korea was somewhere between 20 and 30% (Table 4.4).

What will happen if the central bank of Vietnam raised the interest rates, as was the experience of most EANIEs? Vietnam has enough U.S. dollars circulating in private hands to finance a substantial percentage of the investment requirements of the country. According to the analysis of national income and monetary data, roughly US$1.6 billion in hard currencies (mostly in US$) is currently used by residents and visitors for cash transactions. A large part of this, combined with the dollars held by domestic residents as a storehouse of value, can be tapped by financial intermediaries. Both foreign and domestic banks operating in Vietnam should take note of this pool of hard currency: it represents a potential source of commercial bank deposits that is more than sufficient to finance the credit needs of the business sector. To compete effectively in both domestic and international markets, local enterprises require funds to pay machinery imports and other investments to upgrade their production and distribution facilities.

The legacy of Vietnam's previous policies associated with high inflation dating to the mid-1980s explains the use of dollars in everyday transactions. Apart from that, it is also the results of

the special circumstances that make US$ easily accessible to private households in Vietnam. Ever since the government pushed forward on economic reform, the amount of money sent by overseas Vietnamese to their relatives in Vietnam has been rising. It is estimated that about US$1.1 billion was sent to Vietnam in 1993 and that figure is likely to have been higher in 1994.

Table 4.4: **SOUTH KOREA INTEREST RATES OF DOMESTIC BANKS AND THE CURB MARKET, AND INFLATION RATES, 1963-1985**

Year	Bank lending rate	Inflation	Real interest rate	Curb market lending rate
1963	15.7	29.3	-13.6	52.6
1965	26.0	6.2	19.8	58.9
1967	26.0	15.6	10.4	56.5
1969	24.0	14.8	9.2	51.4
1971	22.0	13.9	8.1	46.4
1973	15.5	13.4	2.1	33.2
1975	15.5	25.7	-10.2	47.9
1977	16.0	15.7	0.3	38.1
1979	19.0	21.2	-2.2	42.4
1981	17.0	15.9	1.1	35.3
1983	10.0	3.0	7.0	25.8
1985	10.0	3.6	6.1	n.a.

Source: Kim S.K., 1987, p.176

In addition, about US$250 million is spent yearly by tourists on

food, gifts, souveneirs and the like. This money goes directly into private hands. By adding these money flows, together and it is easy to see why Vietnamese households have an ample supply of U.S. dollars to carry out transactions.

Vietnam today has a dollarized, dual-currency economy like Argentina, Peru, Mexico and other high inflation countries had in the 1980s. The option of using a relatively more stable currency issued by another country is an effective weapon to protect oneself from the consequences of inflationary monetary policies. The decision to use foreign currency in day to day transactions indicates a lack of confidence in the domestic currency. The government of Vietnam pays a price for this lack of confidence. If all the US dollar transactions had been conducted in Vietnamese dong, it would have saved about US$64 million in 1994. The use of US dollars in Vietnam allows the seignorial gain to be earned by the US government, instead of Vietnamese government.

The government in Vietnam can change this situation by (i) sticking to its anti-inflation monetary policy, and (ii) taking steps to demonstrate that it is committed to strengthen the banking system.

On the first point, the objective of a sound monetary policy is to supply enough money to meet the growing economy's transaction needs while being careful not to supply too much. If there is

excessive growth in the domestic money supply, the problem of too much money chasing too few goods will arise. In order to determine the non-inflationary rate of money supply growth, the government will need to improve its data collection system and develop more reliable economic indicators. Otherwise, economic signals, including signs of overheating, could be misread or overlooked, which could lead to serious policy mistakes. According to the EANIE experiences, one of the important methods for collecting data to determe money supply is to allow the curb market to operate because the curb market is important not only in providing financial flexibility, but also in supplying information. The central monetary authorities of some EANIEs have conducted weekly curb market surveys. When curb market exchange rates shift, or interest rates rise, or when curb dealers experience a string of defaults, the central bank takes notice. When such changes are corroborated by other indicators changes in monetary policy are likely to follow (Reigg, 1978, p.253).

Practically, the curb market in Vietnam was allowed to operate from 1988 to 1990. But due to the lack of management experience at the level of the central bank as well as in the root units, the curb market collapsed. Since then, the curb market has been forbidden to operate. This is contrary to the requirements of the development of a market economy.

On the second point, it takes time to convince the public that

the monetary authorities are serious about fighting inflation and maintaining the real value of the domestic currency. However, there is persuasive evidence that the government has been making progress on this score. The monetary data from 1989 to 1993 indicate a significant correlation between Vietnam's inflation rate and the observed transaction velocity of Vietnam's dong, which is defined as the monetary value of all stock transactions divided by the money stock composed of dong in circulation and dong in deposits. Both have declined substantially. Between 1991 and 1993, the GDP deflator growth rate declined from an annual rate of 73% to 15%, while the observed dong velocity fell from 6.3% to 5.6%.

It is worth noting that in 1988, the central bank instructed the raising of interest rates at the highest level to 12% per month to attract cash from circulation to curb inflation, but not to attract idle money for investment. The result was that the inflation rate fell to 15% per year in 1992. Then, there was a big amount of money in the hands of government that could not be lent to both the private sector and the public sector because interest rates were too high for them to borrow. Meanwhile, the government had to pay a lot of money to depositors as interest every month. This exacerbated the state budget deficit and caused inflation. That was why from early 1989 until 1994, the central bank gradually reduced interest rates to 2.1% per month. With this interest rate, the banking system only mobilized about

US$300 million of an idle US$1.9 billion in 1993. This confirms that the government should permit the curb market to operate as soon as possible to attract idle money by raising interest rates. But before raising interest rates, the central bank should carefully examine the demand for capital in the country.

It is to be noted that the inflation rate fell dramatically, not only due to higher interest rates, but for other reasons, such as the central bank stopping the issue of cash to subsidize losing SOEs, reducing the staff of SOEs, ministries, agencies, central and provincial administrative apparatuses, i.e. cutting unnecessary expenditure.

The decline in velocity of the domestic currency is to be expected in a dual economy in which inflation is being brought under control. Coming to grips with inflation in that manner reduces the need by protection of holding foreign, rather than domestic currency. In the case of Vietnam, it results in the substitution of the dong for the dollar in transactions, and allows the dollar to be used for investment rather than consumption.

Despite the progress. made to induce resident in Vietnam to increase their holdings of doing-dominated assets as means of payment, this is not the time for the government to sit back and rest on its laurels. The experiences of other countries show that

credibility in monetary policy is hard to win, but easy to lose. Any perceived lack of discipline on the monetary front will send holders of dong dominated currencies scurrying for US dollars. However, a strong commitment to stick to non-inflationary monetary policy will improve the Vietnamese government's ability to make good its recent decision to limit use of foreign currency in Vietnam.

With respect to investment allocations, Vietnam should also learn from the EANIE experiences. Up to now, Vietnam has not got an obvious strategy for export industrialization or import substitution. So, the criteria for encouragement of investment of these industries are not clearly determined. The key feature of both Korean and Taiwanese patterns of capital accumulation has not been macro economic policies ensuring the right prices, but the specific manner in which the governments have used its control over the allocation of domestic capital to mould the behavior of private capital. Credit allocation has clearly been the most important tool of government control of business. As said earlier, the bank loans themselves constituted a major source of profit to the firms receiving them. But access to these subsidized loans has been very selectively distributed.

In South Korea, bank credit allocation has been closely tied to the allocation of another key mechanism of capital accumulation - investment licenses. Those who obtained major investment licenses

received cheap loans through government controlled banks, while those in a position to obtain large loans were in an excellent position to obtain new, profitable licenses. Korea stressed economic performance as a major criterion in the allocation of both loans and investment opportunities (Appelbaum, 1992, p.128). Decision on the allocation of major investment licenses were personally made by president Park himself. The government particularly emphasized economies of scale and the rapid economic growth that would result from it. The developmental orientation was clearly inclined toward an unbalanced, concentrated pattern of growth over which the government exercised close supervision and guidance. The chaebols fitted perfectly in this development orientation. This investment was for export oriented and import substitution industries. A major success of the Korean government was the transformation of merchant capital into industrial capital, thereby changing the accumulation process from a "zero-sum-game" into a "positive-sum-game" (Chang, 1991, pp.56-62). But this does mean that profit making through rent seeking was eliminated. The most important source of such accumulation was real estate investment. Land investment was extremely profitable not only because land prices increased much faster than the inflation rate but also because real estate could be used as collateral for bank loans. Another important source of rent seeking is money lending in the underground money market (Appelbaum, 1992, p.132). It is worth noting that the commercial bank loans outstanding were a small part of the financial market

The estimated outstanding assets and liabilities in the curb market were almost double the commercial loans outstanding (Kim, 1987).

Like Korea, the channeling of high savings through the government controlled banking system has been a key instrument of industrial coordination in Taiwan. Any bank loan in Taiwan is in a sense preferential. Since the 1960s, the government has been slowly forging a more differented banking sector, with some banks specializing in particular types of lending. This is intended to be a way of targeting credit at certain sectors and of increasing the amount of medium and long term lending. The government has also indicated priority industries for bank lending. By the 1960s, the banks were receiving lists of six to twelve industries to which priority attention was to be given, instead of detailed case by case instruction from the planners. These lists were drawn up by the planning agency, with the ministries of finance and economic affairs and the central bank having opportunities to suggest modifications. To identify promising industries, government officials used a combination of criteria. They studied trends in income demand elasticities and technological change for particular items in Western markets, identifying subset of products which ranked high by one or both criteria. They probably also employed some other diagnostic criteria which Japan's MITI was then using for the same purpose. Even subsequently, investment choice has been influenced by essentially engineering

concepts of take-off, linkages, gaps, substitution and incremental extensions, conceived in the first instance in physical, rather than value terms. Considerations of economies of scale have been important in deciding which products were to be promoted. In contrast to economic principles, planners have sometimes set higher levels of protection for mechanical components than finished products to encourage domestic producers to reap economies of scale thought to be particularly important in the manufacture of some components. Export performance is used as a principal source of information feedback as investment choices unfold, and choices may be altered in response to the feedback. Moreover, businessmen have come to understand that export performance is one of the main standards to which the government responds, one of the principal criteria by which unexpected contingencies are resolved. In this sense, the government has created an export culture with exports becoming a crucial point of government-business relations. During the 1970s, the banks themselves began to participate much more in drafting the list. Each bank was required to select five or six areas it wished to focus upon in the coming year.

Thus, it can be said that the government officials of both Korea and Taiwan played important roles in selecting products to be encouraged by using policy instruments, some of which required them to examine in general and some of which required them to exercise discretion case by case. It is widely believed tha

though Mexico and Brazil had gross domestic investment levels as high as those of EANIEs (Table 4.1), growth rates and the shares of manufacturing in GDP have been far less than those of EANIEs because the governments of the EANIEs were pursuing sectoral industrial policies and sound policies for investment allocation, going beyond simulated free market limits, the significance of this being that in the conventional chronology the onset of sectoral industrial policy began with the development of heavy and chemical industries. Therefore, it is entirely useful for Vietnam to learn from the experiences of the EANIEs in terms of investment allocation. It means that Vietnam - based on its own intention to establish criteria for providing bank loans and use them properly to mediate the involvement of domestically based firms in the international economy by way of import controls, export controls and foreign exchange controls, direct foreign investment controls for encouragement of certain industries to be developed, like labor-intensive industries and import substitution industries. Modulation of the impact of external volatility on the domestic economy will help encourage long run investment.

Vietnam's government should also attempt to target industries for growth by using several kinds of instruments, such as the control of resources to make it plausible that they affect output significantly, or disperse effective protection for different manufacturing sectors, especially since the dispersion is around

a low average.

4.2 FOREIGN DIRECT INVESTMENT (FDI)

Diminishing flows of ODA have made developing countries more interested in FDI. That is why many economists, not only in Vietnam but also in other developing countries, place hope on FDI for capital formation, technology transfer, employment generation and industrialization that otherwise would not exist. So, most developing countries now are outbidding one another to attract foreign capital; this is an indication of the low negotiating power of these countries. When manufacturing is in the form of component production, instead of complete products, negotiating power changes even more in the favor of transnational corporations (TNCs). However, in fact, there are no theoretical reasons to assume that FDI is beneficial or detrimental for industrialization in all countries in all circumstances. It all depends on when the FDI is made, in what sectors they are made, under what conditions they are made, how the domestic capital and labor markets are affected and the international market.

So far, the effects of FDI on the industrialization of developing countries have been contradictory. Different conclusions have been drawn. The negative impacts of FDI have been emphasized by many authors[1].

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1 "Foreign investment emanating from the industrial West hasnot served to depress growth rates in the third

Meanwhile, the studies of East Asia have been less quantitative, but more uniform in their positive evaluation of FDI[2]

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world" (Jackman, 1982, p.196).

"This study indicates that FDI is not a panacea. Encouraging investment in manufacturing, transportation and domestic trade may lead to some growth in these sectors and in agriculture. At the same time, however, it may lead to the aforementioned social dislocations. Moreover, the findings show that domestic investment plays an important part in promoting growth" (Rothgeb, 1984, p.13)

"Accumulated prior capital formation by TNCs has clearly disadvantageous consequences for economic growth ... Penetration by TNCs has an overall negative effect on economic growth which is statistically extremely unlikely to be by chance. This replicates the findings of previous research using large numbers of countries unrestricted by geographical region. The effects of flows of FDI is in the predicted positive direction and also is statistically significant. This is further evidence of the conclusion drawn from our comparison of earlier studies that stocks and flows have opposite effects on economic growth" (Bronschier and Chase Dunn, 1985, pp.94-96)

"This paper presents some theories, backed by an empirical analysis of cross national data for 75 developing countries from 1975-80 that countries which have had a larger presence of FDI have had slower rates of economic growth than expected. FDI actually results in net capital outflows overtime due to repatriation of profit, transfer pricing, and monopolization of capital markets" (Saltz, 1992, p.628).

2 "FDI has contributed significantly to the economic growth and efficiency of developing countries in the Asian and Pacific Region" (Ranna, 1987, p.114).

Thus, it is widely believed that the acceptable conclusion on the role of FDI in economic development and industrialization derived from the experiences of the EANIEs and other developing countries is that substantial FDI is not necessary for development. Moreover, where it has been substantial, it was not sufficient by itself. FDI is ultimately significant for economic transformation only when it stimulates local firm production linkages and/or when it results, over time, in shifts to higher value-added forms of production within subsidiaries of the TNCs themselves. While the latter partly explains the success of Singapore and Malaysia, in other parts of the Third World, neither significant linkages nor shifts to higher value-added production have resulted from FDI. Therefore, if we place hope in FDI - as EANIEs, especially Singapore and Malaysia, did before - Vietnam should also learn from what they have done in last thirty years. If not, we will encounter failures as other developing countries have. It is well known that the main purpose of FDI is of course, to make profit; but since firms from different countries tend to invest differently, it is of interest to

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"FDI can increase the rate of growth by bringing in new ideas and lowering the cost of innovation...This hypothesis helps explain the rapid growth of developing countries in the Asian and Pacific Region" (Ruffin, 1993, p.23).

"The role of FDI in Southeast Asia has been benign. FDI raise the rates of economic growth in the absence of financial repression and trade distortions" (Fry, 1994, p.57).

briefly discuss the main differences among the major investors in EANIEs. FDI is, in general, motivated by a perception of the investing company that they can utilize some competitive edge or special circumstance to make a larger profit than at home. These reasons are different among countries and over time. For example, the U.S.A. and Japan have some differences in their investment patterns as follows:

Japanese FDI was mainly motivated by six reasons, namely

1. Need to control natural resources.
2. Availability of cheaper labor.
3. Shortage of appropriate sites in japan.
4. Less risks with diversified assets and liabilities.
5. Excess management capacity in Japan.
6. Incentives provided by both Japanese and host governments (Sekiguchi and Krause, 1980, p.424).

It is pertinent to note that for Japanese firms, technology transfer is mostly in the form of technological know-how such, as how to run something rather than more basic technological knowledge (Dhirawegin, 1986, p.324).

U.S. motivations have not been the same. Their five most important motivations were:

1. Expertise in finding and developing petroleum reserves
2. Availability of cheaper labor

3. Desire to obtain a share of local and regional markets.

4. Wish to maximize economic rents from superior technology

5. Familiarity with the South Korea and Taiwan (Sekiguchi and Krause, 1980, p.424).

Table 4.5: SECTORAL DISTRIBUTION OF US AND JAPANESE FDI, 1983 (%)

Industries	World		Developing countries		Other Asia		ASEAN	
	Japan	U.S.	Japan	U.S.	Japan	U.S.	Japan	U.S.
Mining	19.4	29.4	26.0	34.3	37.0	39.8	49.4	65.7
Manufacturing	31.9	39.9	37.1	40.2	39.9	22.0	39.6	18.4
Trade	16.0	12.6	4.7	12.4	4.5	10.5	1.9	6.6
Banking & finance	7.2	12.7	3.1	5.7	2.5	14.1	1.2	7.8

Source: Hiemenz, 1987, p.123

Table 4.5 shows the motivations for FDI of Japan and U.S forms. Both countries invested in ASEAN to get natural resources, therefore the proportion of investments in the mining sector were very high, i.e. 49.4% of Japanese FDI and 65.7% of US FDI. 39.6% of Japanese FDI was in manufacturing, reflecting the shortage of sites in Japan owing to the restrictions on high environmental effluent discharges in Japan.

Though FDI is such a politically controversial question, it is not easy to find empirical evidence on their effects. But I will try to examine some of the evidence for the effects of FDI in

EANIEs, particularly Taiwan, South Korea and Malaysia, and the behavior of EANIE governments to FDI.

All the EANIEs have been trying to attract FDI by various means, though some, e.g. South Korea and Taiwan, have been much more selective than others. Official attitude have been positive to FDI in most of these countries. But levels of hospitality FDI have been different in different countries. For South Korea and Taiwan, domestic producers in selected sectors have been protected, not only from import competition, but also from foreign firms operating in the domestic markets. The access of domestically based foreign firms to domestic markets has been controlled from the beginning.

***Table 4.6*: IMPORTANCE OF FDI IN TAIWAN, SOUTH KOREA AND MALAYSIA**

Country	FDI/GDP (%)	FDI/GDCF (%)	FDI exports/ total exports, (%)
Taiwan[a]	2.00	7.00	25.6
South Korea[b]	0.81	2.50	19.0
Malaysia[c]	7.40	21.6	45.0

Notes: a for 1987; b for 1975; c for 1988
Sources: Purcell, 1987, p.81; Amsden, 1989, p.77; Calculation according Jomo, 1989, p.76 and Ariff, 1991, p.75

FDI has been quite important in Taiwan´s economy, but not important as is often thought. As a source of capital,

accounted for only 3-10% of gross domestic capital formation (GDCF) over the 1970s, averaging 4-8% of manufacturing investment (Table 4.6). In term of related party trade, only a fifth of total exports to the U.S. in 1971 was through "related party" channels. In 1981, exports to the U.S. from U.S. affiliates amounted to only 9% of total manufactured exports (compared 6% for Korea and 68% for Singapore, 11% for Hong Kong). The role of U.S. affiliates in total Taiwanese exports has been even smaller: 6.2% in 1977 and 3.9% in 1983. The figures for South Korea are even smaller, at 1.4% and 1.3% respectively (Wade, 1990, p.149). However, over half of foreign firm exports during the 1970s were in electronics and electrical appliances, and foreign firms accounted for two thirds or more of total exports from this industry; most FDI for which came from the U.S. and Japan. Industries producing chemicals, machinery, basic metals and metal products accounted for another 27%.

The Taiwanese government drew up a set of incentives to woo FDI whereas Latin American countries forced joint ventures and threatened expropriation, Taiwan offered 100% foreign ownership and management and guarantees against expropriation. Whereas the Latin Americans raised taxes on foreign investors, Taiwan offered a five year tax holiday or accelerated depreciation. Whereas th former limited profit repatriation, Taiwan did not. Whereas th had labor strikes and political instability, Taiwan had neitl (Gold, 1981, p.195).

Nor did the Taiwanese government wait passively for foreign firms to take the initiative. It often sought out particular companies, sometimes paying them to visit with no obligation. Much effort went into making the firms feel welcome, one trick was discover - in advance - some personal connection, however remote, between the firm and a senior official in Taiwan's government (Wade, 1990, p.150).

Taiwan has been less selective about FDI than South Korea, but it became increasingly selective over the 1970s. Taiwan limited FDI to industries which would introduce new products or direct their activities toward easing domestic shortages, exporting, increasing the quality of existing products, and lowering domestic product prices. Some sectors were made subject to local content requirements, including refrigerators, air conditioners, transformers, television, radios, cars, motorcycles, tractors and diesel engines. Exemption from local content requirements were often available for export-oriented goods (Schive and Majumdar, 1981). FDI proposals were evaluated in terms of how much they opened up new markets, built new exports, transfered technology, intensified input-output links, made Taiwan more valuable to TNCs (e.g. as a foreign investment site and as a source for important component), and enhanced Taiwan's international politica support. However, in this respect, South Korea has been far muc more stringent than Taiwan in determining exactly what incenti to offer and what obligations to impose on foreign investors (

case by case basis.

In connection with a concerted strategy of industrial deepening around 1970, the involvement of both foreign firms and public enterprises increased. FDI in labor-intensive production came to be discouraged or even prevented. Most foreign investors were faced with export requirements and/or local content requirements. The export proportion in foreign firm output was especially high in garments, and footwear, textiles, plastics and rubber, more than 85% in 1976 and more than 65% in 1981 (Table 4.7)

During the 1980s, due to the surplus of foreign exchange reserves, the function of foreign firms has no longer been to help earn foreign exchange, but to insure bringing to Taiwan technoloiesy advanced enough for the products to compete in other markets and, to check the firm´s access to the domestic market. Access to the domestic market has also been checked by mechanisms such as tough local content requirements for that part of production sold locally and/or requirements that investments mainly oriented to the domestic market take the form of joint ventures.

In some cases, Taiwan´s government, has also required foreign firms to assist in upgrading the capability of local suppliers a part of the approval process. Limits have been placed on t extent to which foreign firms can capitalize their technol

typically, the technology can be valued at no more than 15% of the firm's equity contribution in the case of joint ventures, with the object of making the firms commit more equity to the project, thereby carrying more of the risk (Wade, 1990, p.152).

It is often said that in the chronic conflicts of interest between foreign firms and the government, the government seeks to modify the normal working of the market in line with national objectives. If the foreign firm does not behave as expected, the government will, of course, rapidly and, without publicity, remove its protection. The initial capital of foreign investors can be remitted, at only 15% a year, starting three years after the approved investment is completed while capital gains cannot be remitted at all. However, in practice, these rules are flexibly implemented - e.g. a sought-after company will receive better terms than others.

While attracting and constraining foreign firms, government has been active in reducing their enclave nature, especially in the EPZs. By using detailed and quickly produced trade statistics, the government scrutinized, the flow of imports going to industries dominated by TNCs, to see what could feasibly be produced in Taiwan at roughly the same price, and by taking the initiative to find local suppliers. The government did the same with exports to see what could be further processed within Taiwan (Wade, 1990, pp.155-56). Thus, there are many economists

stressing the wisdom of the Taiwan government's intervention, e.g.: "most of the FDI concentrated industries had high linkage indices, indicating that public authorities in Taiwan gave some consideration to potential linkages in directing FDI activities" (Schive and Majumdar, 1981, p.19).

Table 4.7: **TAIWAN EXPORT SHARE OF OUTPUT OF DOMESTIC AND FOREIGN COMPANIES, 1976 AND 1981 (%)**

Industry	1976		1981
	Taiwan Co.	Foreign Co.	Foreign Co.
Food	14	26	15
Garments and footwear	79	97	93
Textiles	28	85	74
Paper and pulp	14	13	10
Plastics and rubber	27	89	65
Chemicals	19	50	41
Nonmetallic minerals	n.a.	9	15
Basic metals	17	58	53
Machinery equipment and instruments	n.a.	49	34
Electric and electronics	26	71	71
Export as % of total sales	n.a.	61	54

Source: Wade, 1990, p.153

For Taiwan's government, the main purpose of attracting FDI was

to increase Taiwan's general attractiveness to firms in high technology sectors. Taxes on technology imports were reduced in the early 1970s, and generous tax write-offs for R & D have been allowed.

More importantly, Taiwan's science and technology infrastructure has been transformed by means of a dense network of government laboratories, industrial assistance organizations, technical education facilities and special funds to buy foreign technology and to develop domestic R & D. The government required both foreign and local firms to establish sizeable research departments and to train local personnel in advanced technology. With these measures, the government has taken more direct roles in technology acquisition.

The government has not allowed incoming foreign portfolio investment in the stock exchange, although, it has seriously considered permitting some investments of this kind, though only for indirect portfolio investments via a unit trust in the early 1980s.

Thus, as gatekeeper for the national economy, the state has scrutinized inflows and outflows, and affected the terms of transaction in line with national objectives. It has balanced the need to bring international market pressures to bear on domesti producers with the need to build up supply capacity in

increasing range of industries. It has accomplished this by avoiding free trade though high, unselective and unconditional protection and welcoming FDI while placing constraints on its role in the domestic economy (Wade, 1980, pp.157-8).

Compared with Taiwan, the South Korea government in the 1960s was more cautious towards FDI. It showed a preference for public and commercial loans over FDI because in its opinion, foreign loan capital provided the necessary foreign exchange without the involvement of management and control by the TNCs as foreign dominance in any form was lamented by the intellectual community as well as the public, e.g. public loans strengthened state autonomy and capacity while FDI undermined state autonomy (Kim, 1989; Stalling, 1991). However, since South Korea was devastated by the Korean war, and its per capita GNP was below US$200 (like that of Vietnam in the early 1980s), the government had already adopted the Foreign Capital Inducement Law in 1966 to solve the capital shortage problem and technology issues. Allowing TNCs to enter and operate in the Korean economy was interpreted as a first step toward economic and political domination by others. But, in fact, TNCs did not show interest in investing in Korea in the early 1960s. Stepping into the 1970s, international capital began to flow in large volumes. However, the vast majority of international capital was composed of public and commercial loans (more than 90%) whereas FDI constituted a very small proportion of the total foreign capital (of less than 10%). The proportion

of FDI to GDP never exceeded 1% (Table 4.8). FDI was restricted to a few limited areas. The FDI proportion in South Korea was in 1975 higher in the other years (Table 4.8), but the proportion of FDI export to the total exports of the economy was only 19% (Table 4.6).

Hence, Korea's FDI legislation does not stand out as particularly liberal even if it is true that some types of investment have been granted very generous incentives. Korea used a positive list system with respect to FDI according to which all sectors were closed to FDI unless otherwise specified. In comparison with Taiwan and with Malaysia and Singapore in particular, Korea has been relatively strict in requiring local participation with FDI. Of the investment made by all foreign firms in Korea, only 29.7% took the form of whole-owned subsidiaries whereas the average ratio for all countries in the sample was 69.1%. Therefore, it can be said that Korea has the lowest share of wholly owned subsidiaries in the entire sample (Koo, 1982, p.38). Korea emphasized ensuring the complementarity between FDI and domestic firms in both export and domestic markets and the compatibility of such investments with Korean development plans (ILT, 1983; and MOF, 1982).

The foreign firms faced difficulty in the tough negotiating stand taken by the Korea government. When negotiating joint ventures or contracts with local partners, foreign firms often

assumed that once an agreement has been signed, the contract is final. In Korea, however, the government reserved the right to review and - where if deemed it necessary - to demand changes in agreed contracts. Such attempts to renegotiate signed contracts not only occurred in the pre-investment phase, but occasionally even after an agreement had been in place for some time. The basic government attitude appears to be that business should serve government and not vice versa. Foreign firms have often confronted (in some cases, unacceptable) demands with respect to local participation, management control, product specification, export technology transfer and duration service fees. Foreign investors were expected by their partners and by the government to make continuing contributions to Korean development, complementary to, rather than at the expense of domestic manufacturing interests. Therefore, it is widely believed that the Korean government has been consistent and successful in attracting the FDI it considered desirable (Coolidge, 1980, p.376).

Moreover, in Korea there exists a gap between the law on paper and the law in practice, which - more often than not - works against, rather than in favor of foreign investors. Korean bureaucrats enjoy a considerable degree of administrative freedom at the working level with respect to how they interpret a given law. Viewing patriotism as a personal duty, a bureaucrat coul raise objections to FDI applications he did not believe to be i

the best interest of Korea, even if the law or a senior official considered such investments as permissible. To make matters worse, there were no formal grievance procedures to appeal against the rejection of applications.

Table 4.8: SOUTH KOREA INFLOW OF FOREIGN CAPITAL, 1959-89

(US$ thousand)

Year	Total foreign capital	Loans		FDI	FDI/GDP
		Public	Commercial		
1959-61	4,386	4,386	0	0	0
	(100)	(100)	(0)	(0)	
1962-65	138,276	52,836	65,939	19,501	n.a.
	(100)	(38.2)	(47)	(14.1)	
1966-70	1,757,232	549,396	1,143,376	64,460	0.45
	(100)	(31.3)	(65.1)	(3.7)	
1971-75	4,998,780	2,027,250	2,483,348	488,182	0.62
	(100)	(40.6)	(49.7)	(9.8)	
1976-80	12,280,637	4,774,606	6,974,102	531,929	0.21
	(100)	(38.9)	(56.8)	(4.3)	
1981-85	11,371,912	7,499,026	3,136,057	736,829	0.41
	(100)	(65.9)	(27.6)	(6.5)	
1986-89	11,192,059	3,357,000	5,026,000	2,809,059	0.40
	(100)	(30.0)	(44.9)		

Sources: Amsden, 1989, p.77; Appelbaum, 1992, p.135

Apart from that, foreign firms regularly complained about the high degree of restriction and interference to which they were subject while operating in Korea. Manufacturing enterprises in Taiwan were often given precise instructions as to which products or product lines they could produce and what share of these might be sold on the domestic market. Guidelines on pricing (e.g. of export inputs) were not uncommon. Foreign insurance and leasing

firms were also severely restricted. Foreign firms were often also denied the service and support functions they considered necessary. Thus, foreign firms generally could not compete on equal terms with local firms on the domestic market.

In addition, foreign firms were required to disclose considerable sensitive information about their accounts and operations to Korean officials and screening agencies. Sometimes, such information ended up in the hands of domestic competitors or were otherwise used against the foreign firms. Foreign firms can not practice transfer pricing in Korea because custom officials not only have very detailed international price lists at their disposal, but also detailed records of virtually all international commercial transactions involving Korea.

Although the Revised Foreign Capital Inducement Law of July 1984 promised to remove many restrictions, the active role of the state with respect to FDI was only being reduced very slowly.

Unlike Taiwan and Korea, it can not be denied that FDI has significantly contributed to the development of the Malaysian economy in general and the to manufacturing sector in particular. FDI has played a key role in the diversification of the Malaysian economy, as a result of which the economy is no longer precariously dependent on a few primary commodities, with the manufacturing sector assuming an increasingly prominent position.

It is no exaggeration to state that the structural transformation of Malaysia would not have taken place with such rapidity in the absence of FDI (Ariff, 1991, p.67). FDI has helped the Malaysian economy in several ways. Malaysia has needed FDI not only to modernize, energize and dynamize the economy, but also to strengthen the country's balance of payments. In 1981, FDI financed 50.9% of the current account deficit in the balance of payments (Ariff, 1991, p.90). Malaysia is likely to experience sizeable external deficits in the foreseeable future as the economy continues to grow. The surplus in the merchandise account may not be sufficient to offset the widening deficit in the service account. Besides, FDI in Malaysia has remained indispensable for continuing the country's export drive as FDI provides Malaysia with access to international marketing channels and the networks of parent companies in the home countries.

Although technology can be obtained under licensing arrangements without foreign equity participation, FDI is still the main source of foreign technology in Malaysia. While Malaysia should diversify FDI by resorting to new forms of investment which would enable greater un-packaging of foreign capital and technology, FDI will remain the main vehicle for technology transfer for a long time to come, at least until the country attains industrial maturity.

Unlike Korea, FDI in Malaysia has been prefered over external

debt. According to Ariff, it is because creditors will have to be paid regardless of the country's export performance, whereas foreign investors need to generate sufficient foreign exchange earnings before they can repatriate profits. In this sense, unlike foreign debt, FDI does not burden the recipient. The external debt burden is also exacerbated by bforiegn exchange risks under contractual obligations (Ariff, 1991, p.86). Therefore, it can be said that FDI has an important and useful role in the Malaysian economy. In 1988, the ratio of FDI to GDP was 7.4%, and FDI was 21.6% of GDCF, much higher than for Taiwan and Korea (Table 4.6). As a result, unlike Taiwan and Korea, Malaysia has maintained a positive attitude towards FDI so that foreign investors find Malaysia a profitable offshore site while offering a positive sum game.

It is well known that Malaysia has been offering a rich assortment of investment incentives, including tax holidays, investment tax allowances, reinvestment allowances and a variety of export incentives (MIDA, 1989). It is worth noting that tax incentives are seldom cited by foreign investors as the main reason for investing in the country and that such incentives are often seen as compensation for disincentives and not to compensate. Thus, it would make considerable economic sense for Malaysia to deregulate the economy and to adopt liberal policies instead of offering tax incentives for the purpose of attracting FDI. In this view, Malaysia has become an attractive offshore

base for foreign companies, not because of tax incentives, but because of political stability, an institutional and physical infrastructure, a disciplined labor force, abundant natural resources healthy economic environment and so forth. There are only a few developing countries in the world that can rival Malaysia on all these counts. Seen in this light, Malaysia's tax incentives appear redundant. That is why it has been suggested that if Malaysia has the political will to relax equity rules, loosen red-tape, simplify bureaucratic requirements and allow market forces greater leeway, the various investment incentives can be withdrawn with positive budgetary and balance of payment effects, and without dampening FDI flows. This would also eliminate the implicit bias against local investors and small scale operators presently found in the incentive schemes (Ariff, 1991, p.81)

***Table 4.9*: MALAYSIA FOREIGN PROJECTS WITH EXPORT CONDITION**

Export condition	1984	1985	1986	1987	1988	1989
50% and above	25.5	23.5	33.6	57.4	84.4	81.4
80% and above	19.9	19.0	29.3	51.7	78.7	74.2

Source: MIDA, 1989

Like Taiwan and Korea, the Malaysian government has also required FDI to increase export volumes, with export condition of 50% and above from 24% of the total during 1984-5 to about 82%

during 1988-9 (Table 4.9). The table 4.9 also shows that the proportion of foreign projects with export condition at least 80% has also increased from 19.9% of the total in 1984 to about 74.2% in 1989.

Thus, it cannot be denied that FDI in Malaysia is contributing to the development of intra-regional and intra-industry trade. The TNC plants in Malaysia produce some of the parts that other subsidiaries in the region require, and source most of their components from TNC affiliates and subsidiaries in the region. Particularly, several Japanese and American TNCs in the electronic and electrical industries have developed extensive and complex production networks spanning several countries, resulting in increased intra-firm trade among subsidiaries and between subsidiaries and headquarters. Intra- firm trade in general and intra-firm sales in particular are intimately related to FDI, as borne out by the Malaysian experience.

The FDI situations in Taiwan, Korea and Malaysia presented above raise the question of which model Vietnam should follow? Up to now, the proportion of foreign investment capital to be deployed to GDP has been high even compared with Malaysia, but the ratio between deployed FDI and GDP has been modest, averaging more than 3% (Table 4.10). However, the value of FDI industrial projects was only US$8.1 million, and except for some big corporations that had invested in the exploration and exploitation of oil and

gas, in cement and building materials, and car assembly, over 60% of industrial projects had mainly been concentrated on the exploitation and upgrading of existing SOEs working below capacity. Furthermore, the foreign companies that have invested since 1988 are mainly small ones, from developing countries like Hong Kong, Taiwan, South Korea, Singapore, Malaysia, Thailand and so forth. Thus, the development of production linkages or shifts to higher value added forms of production has still not happened. Vietnam has succeeded in converting "dead properties" - in the form of ineffective SOEs or losing SOEs - into "living ones" with some contribution from them to the state budget. Practically, the new jobs created by FDI in recent years have been very little, less than 1% of labor force. FDI have employed many young female workers, especially in EPZs. This has had important effects on the social structure of families.

In addition, the common trend in developed and industrialized economies is to take environmentally polluting industries out of their countries to poorer developing countries. For Vietnam, some industries like cement, building materials, petro-chemicals and so forth are rather attractive to regional investors due to the increasing demands of the international market. These industries will be the main sources creating environmental pollution in the process of economic development. Now, pollution is occurring in some areas around the EPZs because of the lack of effluent treatment systems. Therefore, parallel with financial incentives,

we should take into account the factor of pollution and environmental standards and elaborate the laws of environmental protection by learning from the EANIE experiences.

Table 4.10: **VIETNAM FDI AND GDP, 1988-93**

Year	GDP (US$ billion)	FDI/GDP, (%)	Deployed FDI / GDP, (%)
1988	9.7	2.4	2.5
1989	10.5	3.1	3.4
1990	11.0	4.3	3.1
1991	11.4	10.1	4.5
1992	12.5	15.3	3.7
1993	13.8	19.9	1.0

Sources: SCCI report, first quarter 1994; GSD, 1993.

In Singapore and Malaysia experiences, FDI has been significant for economic transformation only when it stimulates local firm production linkages and/or when it results in shifts to higher value added forms of production within subsidiaries of TNC themselves over time. To achieve these goal both Singapore and Malaysia have created a favorable economic environment by offering low labor costs, social peace, an educated and disciplined labor force, excellent industrial and communications infrastructure, stable fiscal policy, political stability and so forth. However, it is widely believed that there are only a few

developing countries in the world that can compare with Malaysia or Singapore on all these counts.

Actually, it is difficult for Vietnam to reach these goals. Moreover, it is clear that with respect to volumes of FDI inflows, Malaysia is bigger than both Taiwan and Korea. But the degree of industrialization and economic development, of both Taiwan and Korea have been much higher than Malaysia's (see Tables 2.1, 2.2, 2.3). This suggests that industrialization based on FDI cannot be better than based on the national investment. Furthermore, substantial FDI is not necessary for development. Where it has been substantial, as in Malaysia or Singapore, it has not been sufficient by itself.

This suggests that since it is difficult for Vietnam to create a healthy economic environment to attract investments from TNCs which will bring expertise and assure markets in the near future, it is not easy for Vietnam to follow the Malaysian and Singapore experiences of attracting the FDI. However, this suggests that Vietnam should refer to the Taiwanese and South Korean experiences regarding FDI policies, meaning that Vietnam should be selective about FDI. FDI proposals have been evaluated in terms of how much they open new markets, build new exports, transfer technology, intensify input-output links, and make the host country more valuable to TNCs (as foreign investment site and as sources for important components) Korea used a positive

list system with respect to FDI, according to which all sectors were closed to FDI unless otherwise specified. Korea emphasized ensuring complementarity between FDI and domestic firms in both export and domestic markets and the compatibility of such investment with Korea´s development plans. In the Taiwanese case, the government limits FDI to industries which would introduce new products or direct their activities towards easing domestic shortages, exporting, increasing the quality of existing products, and lowering domestic product prices. Some sectors were made subject to local content requirements including refrigerators, air conditioners, transformers, televisions, radios, cars, motorcycles, tractors and diesel engines.

Most foreign firms have been required to export high proportion of their output (Table 4.7, 4.9). Foreign manufacturing enterprises are often given precise instructions in Taiwan and Korea as to which products or product lines they may produce and what share of these may be sold on the domestic markets. In response to this requirement, the states have given financial incentives to foreign investors who manufacture commodities for export by offering low taxes in comparison with other investors, as well as unlimited duty free imports of equipment, machinery and raw materials needed by FDI enterprises and by accelerating depreciation allowances. However, Vietnam still trends all foreign investors equally regardless of industry. Even more importantly, Vietnam has not stimulated export requirements for

output.

To satisfy export requirement, the EANIE states have required the foreign firms to bring technologies advanced enough for their products to compete in other markets. Those firms whose products are sold locally are required to take the form of joint ventures. The states have limited the extent to which foreign firms can capitalize their technology with restricted amounts of the firm equity contributions. In these cases, foreign firms cannot practice transfer pricing in these countries because customs officials have been fully informed about the international prices of various kinds of products and technologies. But unlike the EANIEs, Vietnam's officials working with FDI have not been well or systematically trained. As a consequence, Vietnam can be easily deceived by some foreign investors. A recent survey of technology imports of FDI projects in Vietnam is of concern because almost all technologies were backward and very old, even worse than those already in Vietnam, causing high costs of production and environmental pollution, thus giving rise to less product competitiveness, even in the domestic market. In the EANIEs, when technology is transferred, it is usually as result of a contract. Contracts involving technology often have many restricting clauses. They typically include a list of restrictive conditions such as total export bans. Other conditions covered on export areas, confidentiality, tied purchases of raw materials, machineries and/or intermediate products. Tied purchases can, in

some cases, function as an effective ways of transfer pricing. Firms from the U.K. and Australia had the most restrictions on exports; Japanese firms were moderately restrictive and American firms were least restrictive (Lindgren, 1994, p.39).

It costs more to obtain advanced technology rather than "trash" technology. This suggests that taxes on technology imports should be reduced, and generous tax write-off for R & D should be allowed. According to the Taiwanese and Korean experiences, governments should require foreign firms to establish sizeable research departments to train local personnel in advanced technology. It is hoped that with these measures, the government has taken a more direct role in technology acquisition.

Thus, on the whole, it can be said that FDI is not detrimental per se. Therefore, in order to exploit FDI very well, Vietnam should continue to improve and perfect the FDI policies in accordance with EANIE standards and the concrete conditions of Vietnam.