

Background Paper for the World Bank's
Economic Report "*Vietnam: Deepening Reform for Growth.*"

FOREIGN CAPITAL FLOWS IN VIETNAM: TREND, IMPACT, AND POLICY IMPLICATIONS

November 25, 1997

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CURRENCY EQUIVALENTS

Currency Unit = Dong
US\$1.00 = 12,300 Dong (October 1997)
SDR1.00 = US\$1.38134 (October 1997)

ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BCC	Business Cooperation Contract
BOT	Build, Operate, and Transfer
EPZ	Export Processing Zone
FOE	Foreign Wholly Owned Enterprise
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HCMC	Ho Chi Minh City
IDA	International Development Association
IMF	International Monetary Fund
IZ	Industrial Zone
JV	Joint Venture
MNC	Multinational Corporation
MOF	Minister of Finance
MPI	Minister of Planning and Investment
ODA	Official Development Assistance
OECD	Organization of Economic Cooperation and Development
OOG	Office of Government
SBV	State Bank of Vietnam
SME	Small and Medium Enterprises
SOE	State-Owned Enterprises
TFP	Total Factor of Productivity
UNDP	United Nations Development Programme

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Acknowledgment:

The authors wish to thank the officials from various government agencies, especially those from the Ministry of Planning and Investment, who provided extensive information and assistance in the preparation of this paper, and to the staff of the World Bank Resident Mission for their valuable support.

The views expressed in this paper are those of the authors and should not be attributed to the World Bank and its affiliates, nor any other official organizations in Vietnam.

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Executive Summary and Key Messages

1. *One of the striking developments in Vietnam in recent years has been the large external capital inflows--mostly in the form of foreign direct investment (FDI). Vietnam has emerged as a leading recipient of FDI flows -- compared to the size of economy -- thanks largely to its initial progress in macroeconomic stabilization, improved investment regime, and outward orientation. These reforms in the domestic economy have been aided by the rapid pace of globalization of corporate production, trade liberalization, and technological advances that all have contributed to a surge in cross-border investment worldwide. Nevertheless, sustaining a high level of FDI inflows and maximizing their contribution to economic growth will be a major challenge to policy makers, especially in light of the current external environment in Asia. Meeting these challenges will require a deeper reform effort, aimed at establishing a more neutral incentive regime, and an administratively less complex and more transparent business climate.*

2. *The effect of FDI has been largely positive on Vietnam's domestic economy, providing an engine of economic growth by increasing productive capacity and enhancing productivity. Foreign-invested operations now contribute to nearly 10 percent of Vietnam's GDP, more than 30 percent of gross capital formation, 8 percent of total exports, and the employment of some one million -- when those jobs created indirectly are also included. Foreign-invested enterprises lead the growth of industrial output, outpacing state and domestic private sectors. Cross-country experiences suggest, however, that there is considerable scope to raise further the beneficial effects of FDI in Vietnam, especially its export orientation and its effect on the current account balance. In China, for example, foreign affiliates account for 31 percent of the country's total exports. Import contribution of FDI projects in Vietnam reaches nearly 20 percent of the total, more than twice the rate for their export contribution.*

3. *Direct investment flows in Vietnam have been concentrated in a handful of major cities and provinces. They have originated predominantly from Japan, Korea, Singapore, and other neighboring Asian states (with the intra-regional flows accounting for 90 percent of the total). Their sectoral distribution has been skewed, dominated by import-substituting industries and non-tradable sectors. Tradable manufacturing sectors account for less than 30 percent of FDI in Vietnam (even then, export-oriented sectors of mostly labor-intensive light industries represent less than 10 percent of the total). This share is considerably lower than many comparable low-income countries, not to mention middle-income countries: for example, manufacturing industries (largely export-oriented) account for two-thirds of the total FDI in China and nearly 60 percent in India.*

4. *Looking ahead, Vietnam faces growing challenges in sustaining FDI inflows and enhancing their productive and efficient uses. Signs of slower new FDI commitments are already emerging in Vietnam in an environment where a number of developing countries increasingly compete for external investment flows. Limited absorptive capacity and apparent saturation in certain industrial sectors have been factors in the slowdown in FDI. Licensing and implementation of FDI projects in Vietnam has also been administratively difficult and non-transparent, dampening the enthusiasm of foreign investors. Dwindling capacity utilization,*

coupled with counterproductive government interventions, appears to be causing increasing cancellations of projects in the pipeline.

5. *Moreover, the unfolding financial crisis in Asia -- especially among ASEAN economies, could bring about further difficulties for the Vietnamese economy. FDI inflows to Southeast Asia in general and to Vietnam in particular from non-Asian countries would probably decline or slow down due to a deterioration in the investment environment -- perceived as riskier -- in the region. In addition and more importantly, FDI inflows from the neighboring countries, such as Thailand, Malaysia, Indonesia, Singapore, and Korea, which are important sources of FDI in Vietnam, may decline substantially, given the current financial difficulties of these countries. All these factors would further cloud the prospects for foreign investment in Vietnam. As foreign investment inflows are critical to achieve needed productivity gains and to meet external financing requirements, lower FDI inflows would, in turn, lead to lower economic growth.*

6. *To cope with these challenges, Vietnam needs to:*

- *Strengthen macroeconomic fundamentals by deepening structural reforms. Cross-country evidence suggests that one of the most important determinants of FDI flows is strong macroeconomic performance. Thus, the sustainability of capital flows to Vietnam hinges critically on its continued progress on macroeconomic stabilization, supported by strong structural reform programs. Vietnam's ambitious economic development objectives are achievable only if reforms are deepened in key policy areas and sectors (as discussed below) to create the conditions for successful market-oriented growth.*
- *Pursue more open trade and investment regimes for greater competition. Open and neutral trade policies lead to the larger presence of foreign (manufacturing) firms and generate greater technological and productivity gains in developing host countries. Vietnam can, therefore, increase the beneficial effects of FDI flows by adopting more open policies -- for example, to allow easier entry for foreign wholly-owned enterprises, which can induce competition for higher economic efficiency. Policy distortions, such as the recently imposed import restrictions, can do more harm than good. The existing distortions in the areas of trade taxation and controls on entry and volume of trade impede both domestic and external competition, promote inefficient resource allocation, and constrain export growth as import substitution activities become more profitable.*
- *Promote financial sector development and financial system resiliency. Availability of domestic financing is another factor attracting foreign investment. Lack of local financing opportunities with weak domestic banking systems has worked against efficient implementation of FDI projects and is expected to be an increasingly significant impediment to new FDI inflows. A well-functioning capital markets will contribute not only to domestic resource mobilization, but also to greater financial integration conducive to portfolio equity investment over the medium term. The banking sector's weak capital base and high indirect exposure to foreign currency*

risk pose a threat to financial stability in Vietnam. The recent currency crises in the region highlight that the costs of maintaining a fragile and under-developed banking system can be severe in a world of rapid financial integration. In a broader context, a stronger financial sector enhances domestic resource mobilization, helping relieve the dependence on external financing to support growth.

- *Accelerate state-enterprise reform and private sector development. Bulk of FDI projects in Vietnam have been carried out with state enterprises as joint partners, and in many cases, these local partners lack knowledge, entrepreneurship, and managerial skills. This has contributed to the limited positive externalities of foreign investment. Development of a dynamic private sector by leveling the playing field will be crucial in bringing in a sustained level of investment because it will help attract, among others, small-to-medium size FDI projects (many in export-oriented labor-intensive sectors) that tend to be implemented more quickly than large-scale projects. It will also help enhance the positive spillover effects of foreign investment in local enterprises. The global trends also point to the growing role of privatization in promoting new equity investment flows.*
- *Improve efficiency and transparency in administration and regulatory framework. Compared to the large committed foreign investment, actual disbursed FDI flows remains relatively low (less than 30 percent on a cumulative basis). Despite recent progress, Vietnam's investment policy framework lacks transparency and still involves a high degree of government intervention at various levels. More efficient project approval and implementation require streamlining of administrative procedures and overlapping jurisdictions—among government agencies, and between central and regional levels. The recently amended Foreign Investment Law needs to be strengthened with transparent and consistent regulations on related policies, including land policies, credit management, foreign exchange and borrowing policies, and trade regime. Following the introduction of Decree No. 36/CP in April 1997, efforts should continue to improve the efficiency of project implementation and operation in industrial zones (IZs) and export processing zones (EPZs) with an active development of physical infrastructure. To further improve the system's transparency, FDI information and data reporting system should be publicly available and follow best practiced international standards to support efficient FDI management and implementation and to facilitate economic analyses and projections.*
- *Pursue prudent external borrowing strategies. Even with projected improvements in domestic savings, considerable external resources will be required to finance the needed increase in investment to achieve Vietnam's medium-term growth objectives. Despite recent progress in resolving its external debt, Vietnam is still classified as a severely indebted low-income country and its debt service capacity is limited. Vietnam therefore needs to maintain a prudent debt management policy, limiting external borrowing, particularly with short-term and on non-concessional terms. Thus, Vietnam's external financing requirements would need to be met by ODA and FDI resources, rather than external commercial borrowing.*

I. Introduction

1. This study on foreign direct investment was prepared as a background paper for the 1997 report of the World Bank entitled *Vietnam: Deepening Reform for Growth -- An Economic Report*, which is the official document of the World Bank at the Consultative Group Meeting for Vietnam in Tokyo in December 1997. This study focuses on the foreign direct investment (FDI) flow to Vietnam since the introduction of the *doi moi* reforms in 1986 and the enactment of the first Foreign Investment Law in 1987. It presents a detailed analysis based on a comprehensive data set from the Ministry of Planning and Investment on foreign investment and especially on actual disbursements of FDI projects. These data were made available for the first time to the World Bank. The study consists of three parts: the first part or Section II presents a review of the major characteristics, trends, sources, and performance of the large capital inflows in Vietnam. Section III analyzes of the impact of FDI flows in the various sector of the Vietnamese economy. Section IV provides an assessment of the prospects for sustaining this capital inflow at a high level and policies required to sustain and utilize effectively this flow.

II. Major Characteristics of Capital Flows in Vietnam

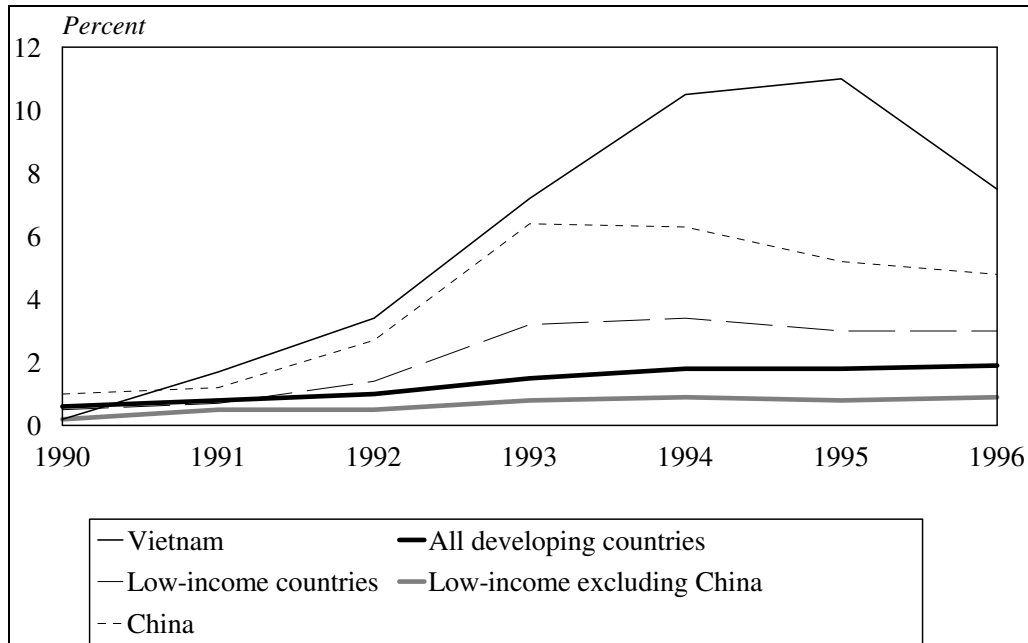
2. Following the introduction of *doi moi* reforms in the late 1980s, Vietnam has experienced a dramatic surge in external capital inflows during the 1990s, propelled largely by the strong inflows of foreign direct investment (FDI). FDI accounted for nearly all of the net private capital flows to the country in recent years (Table 1). Despite the recent slowdown in net flows, Vietnam's FDI/GNP ratio continues to be one of the highest among active FDI host countries, more than several times higher than developing country averages (Figure 1), and even higher than China--the leading developing country FDI recipient in terms of absolute volume.

Table 1: Aggregate Net Long-Term Resource Flows to Vietnam, 1990-1996

	1990	1991	1992	1993	1994	1995	1996
	(US \$ million)						
Aggregate net resource flows	37.9	159.2	745.3	1,356.5	1,914.2	2,616.4	2,541.0
Official development finance	19.8	-55.7	272.3	440.4	398.5	448.1	730.0
Official grants	88.0	55.0	64.0	194.0	135.0	150.0	150.0
Official loans	-68.2	-110.7	208.3	246.4	263.5	298.1	580.0
Bilateral	-69.9	-124.5	207.5	286.4	140.2	207.4	457.0
Multilateral	1.7	13.8	0.8	-40.0	123.3	90.7	123.0
Total private flows	18.1	214.9	473.0	916.1	1,515.7	2,168.3	1,811.0
Private debt flows	2.1	50.0	139.7	-6.7	-114.9	-67.3	-27.0
Commercial banks	0.0	0.0	0.0	30.0	49.6	13.9	41.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	2.1	50.0	139.7	-36.7	-164.5	-81.2	-68.0
Foreign direct investment	16.0	164.9	333.3	922.8	1,630.6	2,235.6	1,838.0

Note: 1996 data are preliminary.

Source: World Bank, Debtor Reporting System; Vietnam's Ministry of Planning and Investment (MPI) for net FDI flows.

Figure 1: Net FDI flows as a share of GNP, 1990-1996

Source: World Bank, Debtor Reporting System and national sources; MPI for FDI flows in Vietnam.

Factors contributing to large FDI flows

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

- *Progress in macroeconomic stabilization.* Sustained economic growth and liberalized investment regime attract strong FDI inflows. Vietnam has enjoyed robust economic growth rates during the past five years, reaching an average of 8.9 percent. Cross-country experiences and empirical evidences suggest that the GDP growth rate in host economies is the most significant determinant of FDI inflows.
- *Improved investment regime.* Investment framework has undergone progressive changes, which included new investment laws, liberal arrangements for entry, incentive structures, and more bilateral treaties. Vietnam’s regulatory regime for FDI provides a number of incentives, generally comparable to those actively seeking foreign investment, and include: a tax holiday; tariff exemptions for certain imports; and lower profit taxes for priority sectors.

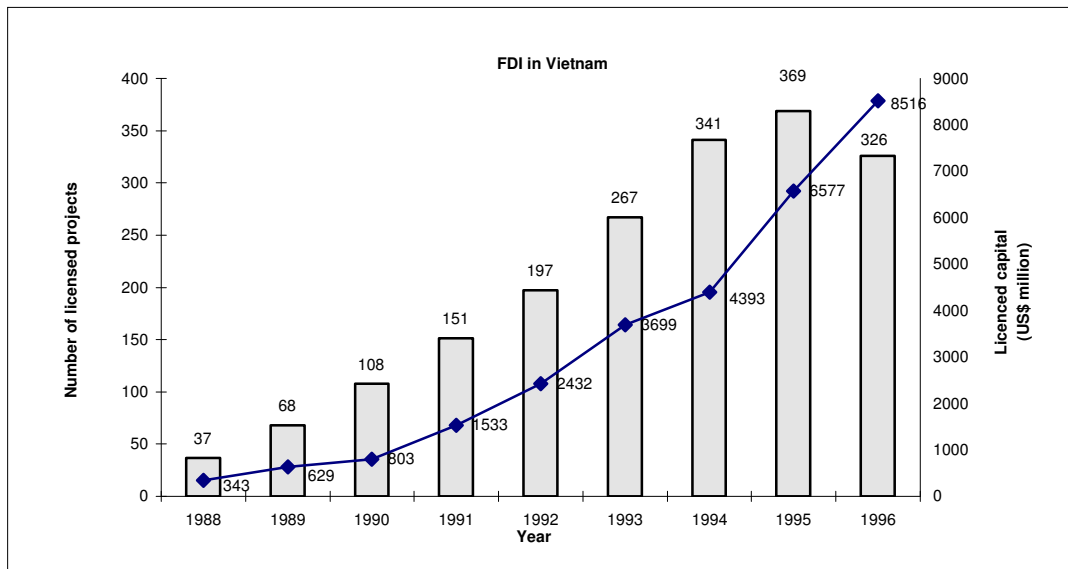
- *Outward orientation.* Vietnam's open door policy and strategy of integration into the world economy has contributed significantly to create a favorable environment for foreign investment in the country. Most noteworthy are the rapid improvement of the international and regional diplomatic relationships including the recent diplomatic normalization of relations with the United States, the new agreement with the European Union, and especially the admission into the Association of Southeast Asian Nations (ASEAN).
- *Large market and labor force.* Much of FDI flows directed to construction and domestic consumption (e.g., beverages), and many import substitution projects have been induced by the potentially large market that Vietnam offers with a population of 75 million. Moreover, the big pool of hard-working and cheap labor forces—with an average monthly salary of US\$50 or less for many joint ventures—also made Vietnam a favored destination for direct investment by multinational corporations (MNCs).

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

- Globalization of corporate production underpins the acceleration of FDI flows. Patterns of global production are shaped by cost consideration that take into account worldwide productivity differences and the skilled and cost-efficient labor forces in many developing countries such as Vietnam.
- Trade liberalization, technological advances, and declining transport and communications costs have also allowed firms to divide production processes into discrete activities that can be transferred to locations that offer the greatest cost and efficiency gains.

Overall FDI trends

5. MNC's interest in direct investment in Vietnam has significantly increased since 1988, as measured by number of licensed projects and total approved investment capital, with the average annual growth rate of FDI commitments exceeding 50 percent for the period of 1988-96 (Figure 2). As of May 31, 1997, a total of 1,991 projects amounting to US\$30,895 million has been registered in Vietnam: 1,652 projects totaling US\$28,115 million of approved capital are in operation; 317 projects amounting to US\$2,659 million were canceled; and, 22 projects worth US\$121 million were completed. The number of projects annually registered jumped nearly tenfold to 326 in 1996, compared to 37 in 1988, and the annual registered capital rose to US\$8,516 million in 1996 from US\$342 million in 1988.

Figure 2: FDI -- licensed capital and number of projects, 1988-1996

Source: MPI.

6. Out of the total investment approved for FDI projects that are currently in operation--that is US\$28.1 billion by June 1997, the “legal” (i.e., equity) capital accounts for US\$12.3 billion or about 44 percent of the total, with the debt component (i.e., loans from parent firms or international commercial lenders in support of working capital) representing the rest. Actual disbursements on FDI projects (or so-called implemented capital) amounted to US\$9.8 billion through the end of May, 1997, of which US\$5.9 billion was in the form of equity investment. This disbursed equity investment, as compiled by Vietnamese authorities at MPI and SBV, includes both foreign equity investment (of US\$4.5 billion) and capital infusion (valued at around US\$1.4 billion mostly in the form of land and building contribution) by domestic partners of the joint ventures.

7. The genuine FDI flows, which conform to the standard statistical definition, should reflect only direct financing mobilized by foreign investors. Typically this encompasses mostly equity investment and, to lesser extent, debt financing in support of working capital (Figure 3). Hence, the actual FDI flows in Vietnam are estimated at US\$8,403 million for the period of 1988 - June 1997, roughly a quarter of the total investment approved. The equity investment by foreign investor therefore amounts to US\$4,486 million, or 53.4 percent of the total FDI flows whereas the actual FDI debt component amounts to US\$3,917 million, or 46.6 of the total FDI. As for the “net” FDI flows, capital repatriation figures have not been reported in official statistics. This is due largely to the fact that the reflow of capital investment tends occur mostly during the mature phase of FDI projects. The figure of US\$8.4 billion should serve as a reasonable estimate for the cumulative net FDI inflows to Vietnam through the end of May 1997, and could also be used as a proxy for the “stock” of FDI in Vietnam, in the absence of systematic information on retained earnings. A more detail explanation on the data used in this report compared to other sources and its implications on the country’s balance of payments are presented in Box 1.

Box 1: Statistical Discrepancies in FDI Flows in Vietnam

This paper reports detailed FDI data, perhaps most comprehensive published to date. The time series data in this report are based on project-by-project database compiled and updated in the Project Monitoring Department of the Ministry of Planning and Investment (MPI).

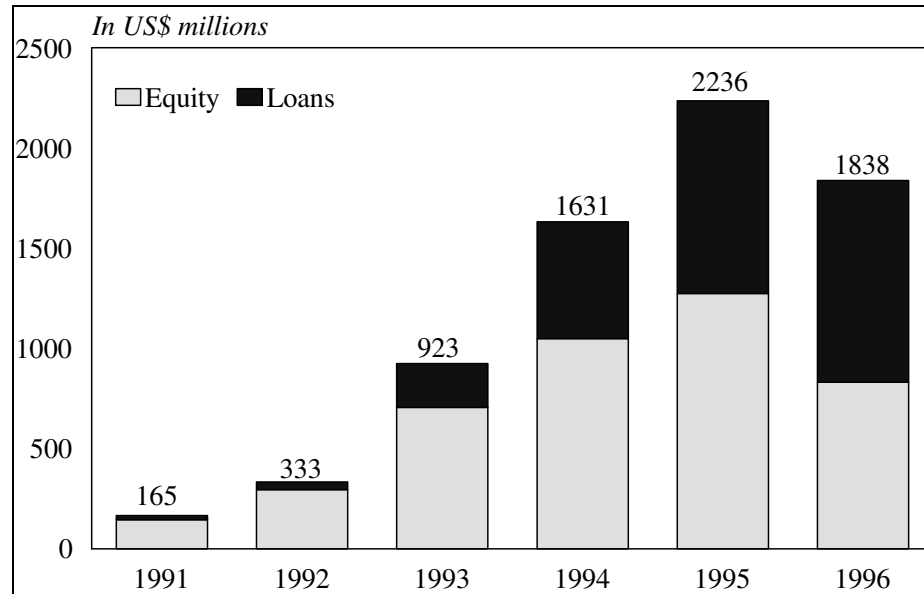
Prior to these new findings, FDI inflows have been estimated mainly from the aggregate statistics provided by MPI. Little details on actual implementation or disbursements of individual projects being implemented were made available, which led to inaccurate FDI flow figures. Furthermore, in the absence of actual disaggregate data, the composition of FDI flows--e.g., the breakdown of equity and loan components--has often been assumed to follow the respective shares applied to project approvals. The usual assumption in this context was to treat all FDI projects effectively as joint ventures, of which contracts usually call for the 30 percent share of equity and 70 percent for loan. This (old) series of course does not take into account the different types of foreign direct investment--namely joint ventures, foreign wholly owned enterprises, and business cooperation contracts--in terms of the share between foreign equity and local contribution, and capital structure by type of investment and by sector. This resulted in the FDI estimate for the balance of payments as shown in the following table.

Gross FDI: Comparison of Two Series (US\$ million)

Year	Gross FDI (presented in this report)			Gross FDI (estimated by IMF staff and SBV)		
	Equity	Loan	Total	Equity	Loan	Total
1990				36 (30.0)	85 (70.0)	120
1991	145(82.8)	20 (11.8)	165	66 (30.0)	154 (70.0)	220
1992	295(86.6)	38 (11.4)	333	78 (30.0)	182 (70.0)	260
1993	705 (76.4)	218 (23.6)	923	250 (30.0)	582 (70.0)	832
1994	1,049 (64.3)	582 (35.7)	1,631	314 (30.0)	734 (70.0)	1,048
1995	1,273 (57.0)	962 (43.0)	2,236	456 (30.0)	1,064 (70.0)	1,520
1996	831 (45.2)	1,007 (54.0)	1,838	541 (30.0)	1,262 (70.0)	1,803
Total	4,298 (60.3)	2,827 (39.7)	7,125	1,741 (30.0)	4,062 (70.0)	5,803

Note: Percentage share are in parentheses and italic.

On the other hand, the current series of FDI statistics presented in this report are based on the detailed recording of implemented capital from the most comprehensive MPI database. The (gross) FDI in this series is calculated as a sum of legal implemented capital by foreign investor (equity) plus the actual disbursement of the loan in support of the FDI projects. This series has not been made available before and is the first time series of detailed foreign investment capital implemented in Vietnam.

Figure 3: FDI Flows: 1991-1996

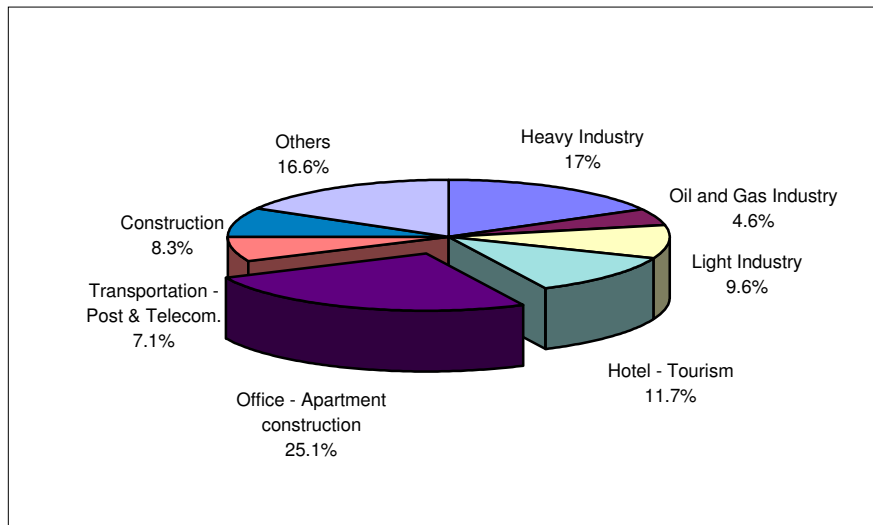
Note: Figures are based on actually implemented capital, excluding local investors contributions.
Source: MPI.

Sectoral composition

8. Through the end of 1996, more than 700 companies from 55 countries have committed to direct investment projects in 14 basic industries in Vietnam (Appendix Table 2). The FDI projects, however, have been concentrated in several key sectors, including: manufacturing (both heavy and light industries), construction-related projects such as hotel and tourism, office and apartment development, infrastructure (including transportation and telecommunication), and gas and oil exploration. Together, these sectors account for about 85 percent of total approved FDI (Figure 4).

9. The sectoral distribution of FDI in Vietnam contrasts that of many other developing countries. Tradable manufacturing industries account for about one quarter of the total in Vietnam, considerably lower than the lion share in China (65 percent) and India (59 percent), among others, not to mention a number of middle-income countries like Malaysia (about 80 percent). Export-oriented FDI in Vietnam, mostly in labor-intensive light industries, is even smaller (less than 10 percent) because the bulk of FDI flows in capital-intensive heavy industries such as automobile assembly projects has been targeted at import substitutions.

Figure 4: FDI approval by sector, cumulative through 1996



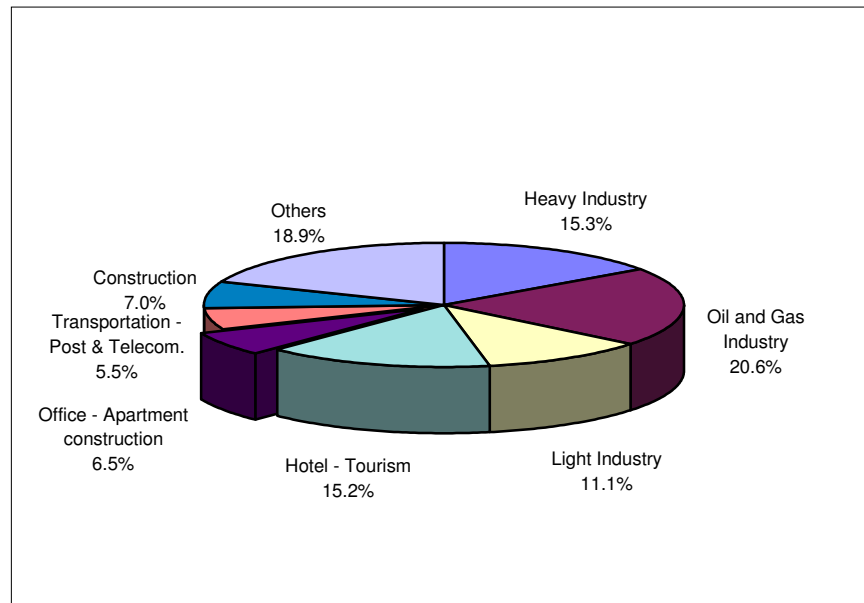
Source: MPI.

10. The sectoral distribution has evolved over time. During the initial phase, the approved investment was dominated by construction-related activities and small scale investments in services--such as consulting services, entertainment, and advertisement, but since then it has gradually diversified to manufacturing sectors, including both labor intensive light industry (textiles and shoe factories) and relatively capital intensive and large-scale heavy industry (e.g., automobile assembly and chemical/fertilizer projects).

11. The sectoral preference of direct investments also varied by origin of investors. MNCs from industrial countries—namely, Western European countries, Japan, and the United States--have targeted at large oil and gas exploration projects, automobile and telecommunication industries. In contrast, investors from the Newly Industrializing Economies (NIEs) in East Asia have focused more on the light industry, food processing and hotel constructions.

12. Net FDI flows—i.e., accounting only for actual capital contribution from foreign investors—show a somewhat difference picture of sectoral distribution (Figure 5). Oil and gas development projects tops the list, followed by manufacturing industries and construction activities. The relative share of actual flows is considerably smaller in office and apartment construction sector—only 6.5 percent, compared to 25.1 percent on a commitment basis, reflecting the loner duration for project implementation and the relatively higher share of local investment. The converse appears to hold for investments in manufacturing projects and gas and oil exploration ventures.

Figure 5: Net FDI flows by sector, cumulative through May 1997



Source: MPI.

13. Sectoral patterns are also linked to the size of FDI projects. Roughly 77 percent of all FDI projects in Vietnam are relatively small, with registered capital of less than US\$5 million. These smaller projects are most apparent in agriculture, which represents 11 percent of the total number of projects, but only 3 percent in terms of capital amount. In contrast, capital intensive projects in heavy and light industries, oil and gas, transport, and construction are in much larger scale. In contrast, projects in office and apartment construction sectors are usually large scale. Recent trends point to an increasing size of average FDI projects: in 1996, the average capital size of FDI projects rose to US\$8.5 million, compared to US\$6.5 million in 1995 (and less than US\$5 million in the earlier period), indicating a gradual shift to larger capitalization projects.

Sources and host regions

14. FDI in Vietnam has largely been driven by intra-regional flows, which account for nearly 90 percent of the total FDI commitments through the end of 1996 (Table 2 and Annex Table 8). On a cumulative basis, Singapore leads the list with US\$5.1 billion or 18.4 percent of the total, followed by Taiwan (US\$3.9 billion or 13.8 percent), Japan (US\$2.7 billion or 9.6 percent), Korea (US\$2.5 billion or 9.0 percent), British Virgin Island (US\$2.5 billion or 8.9 percent). However, Hong Kong, Malaysia, and Korea are those countries which have highest implementation rate. Among 57 FDI source countries, the five Asian economies including Singapore, Taiwan, Japan, Korea, and Hong Kong together represent almost two thirds of the total committed FDI in Vietnam (Table 2). Foreign investment was dominated by small-to-medium size projects by Taiwan and Hong Kong during the earlier period, but gradually expanded to larger projects by MNCs from Singapore, Korea, and Japan.

Table 2: Leading foreign investors, 1988 - June 1997
(projects in operation)

Country	Total Capital (US\$ mil.)	Share in Total	Implemented Capital (US\$ mil.)	Implementation Rate
1. Singapore	5,162	18.4%	807	15.6%
2. Taiwan	3,879	13.8%	1,314	33.9%
3. Japan	2,700	9.6%	891	33.0%
4. Republic of Korea	2,534	9.0%	1,010	39.9%
5. British Virgin Islands	2,506	8.9%	349	13.9%
6. Hong Kong	2,160	7.7%	1,205	55.8%
7. Malaysia	1,090	3.9%	556	51.0%
8. Thailand	995	3.5%	195	19.6%
9. USA	866	3.1%	271	31.3%
10. Others	6,224	22.1%	3,192	51.3%
Total	28,115	100.0%	9,790	34.8%

Source: MPI.

15. FDI from ASEAN countries has been on the rise, thanks in part to Vietnam's new membership in the group. Neighboring ASEAN states account for 26.7 percent of total committed capital of foreign investment. Singapore's investment covers various major sectors, including heavy and light industries, food processing, fishery, and hotel, office and apartment construction. Malaysia, on the other hand, has focused on heavy industry, oil and gas, construction, telecommunication and banking.

16. The role of Viet Kieu -- overseas Vietnamese -- as a source of FDI in Vietnam has been limited, despite the large such population of about two million (with nearly half residing in the United States). Remittances by Viet Kieu appear to have been substantial, estimated at more than US\$500 million a year, but only a small fraction of the remitted funds have been placed with domestic financial institutions and very little have been mobilized for FDI projects. Official statistics suggest less than two percent of total FDI flows are originated by Viet Kieu. The relatively insignificant participation by overseas Vietnamese in FDI projects may also be attributed to the preferential tax treatment for remittances (private transfer), which do not constitute as income for tax purposes in Vietnam.

17. The concentration has also been experienced with host regions in Vietnam, although FDI projects have been directed to as many as 59 cities and provinces in the country. The top five recipients attracted about three quarters of the total FDI capital commitments: Ho Chi Minh City (28.9 percent), Hanoi (23.8 percent), Dong Nai (11.9 percent), Ba Ria-Vung Tau (5.5 percent), and Hai Phong (3.8 percent). The regional concentration can be attributed largely attributed to the availability of basic infrastructure and industrial base, skilled labor forces, large consumer markets, tourist attractions, and natural advantages and strategic location (especially for trade-linked FDI projects). This also reflects Government's regional development strategy toward industrialization and modernization (Box 2).

Box 2. Recent Developments in Industrial Zones and Export Processing Zones

Legal framework. Recognizing the increasingly important role that industrial and export processing zones can play in facilitating foreign investment for industrialization and export promotion, the Government promulgated Decree No. 36/CP on the regulation of industrial zones (IZs), export processing zones (EPZs), and high-technology zones (HTZs) on April 24, 1997. The Decree is aimed at improving the efficiency of establishment, construction, development, and management of IZs, EPZs, and HTZs. It also provides more favorable conditions for both domestic and foreign investment in terms of attractive location, good internal infrastructure, incentive taxation, and streamline licensing and custom procedures.

Recent performance. As of July 1997, a total of 38 IZs and EPZs have been established for total areas of 6,200 ha. Total registered capital for infrastructure development amounts to US\$1.5 billion, while the actual implemented capital is US\$338 million, for an implementation rate of 26 percent. The existing IZs and EPZs absorbed 246 direct foreign investment projects with the total registered capital of US\$3.9 billion. Since the first EPZ establishment in 1991 and first establishment of IZ in 1994, disbursement of FDI projects registered in these IZs and EPZs amounted to US\$1.25 billion. The implementation rate of the FDI projects in IZs and EPZs is 32 percent, compared to 30 percent of average implementation rate for all FDI projects. Turnover of the existing industrial and export enterprises in IZs and EPZs reached US\$730 million, of which US\$406 million was for exports. Enterprises located in IZs and EPZs also generated 40,000 new jobs. The table below provides data for overall performance of IZs and EPZs in Vietnam.

Basic information on IZs and EPZs

(as of July 1997)

1. Infrastructure development

Areas	ha	6,200
Expected number of projects		2,575
Total registered capital	US\$ million	1,520
Total implemented capital	US\$ million	380

2. Invested projects

Number of projects licensed		300
Total registered capital	US\$ million	3,900
Total implemented capital	US\$ million	1,250
Number of workers	persons	40,000
Total Turnover (1996)	US\$ million	730
Total export	US\$ million	406

Incentives. The tables above and below provide comparable treatments in terms of tax, prices of land, electricity, and water in some selected East Asian countries.

Box 2: Recent Developments in Industrial Zones and Export Processing Zones
(continued)

Profit tax, tax holiday, and custom duty exemption for IZs and EPZs in selected countries

	Vietnam	China	Thailand	Philippines
Profit tax	10%	15%	20%	20%
	15%	20%	25%	25%
Tax holidays	2 years	2 years	3-8 years	6-10 years
50% tax exemption after tax holiday period	2 years	2 years		
Custom duty exemption	equipment raw materials kits commodities	equipment raw materials kits commodities	equipment raw material for construction	all kinds of raw materials

Source: For Vietnam: MOF; other countries: World Bank data.

The new profit tax rate for IZs and EPZs is lower in Vietnam than that of neighboring countries including China. Tax holiday period is also longer, and custom duty exemption is applied for a wider range of items in Vietnam than in other neighboring countries.

Prices of land, electricity, and water for IZs and EPZs in selected countries

Country	Land US\$/sq.mi	Electricity US\$/KWh	Water US\$/c.m.
1. China	0.06 - 3.2 (p.a.)	0.015 - 0.037	0.02 - 0.06
2. Thailand	39.5 - 66.7 (project life)	0.1	0.36
3. Malaysia	6.3 - 22.2 (project life)	0.62	0.35 - 0.46
4. Indonesia	45.0 - 61.7 (project life)	0.05	0.42
5. Philippines	0.20 - 0.24 (per month)	0.037 - 0.073	na.
6. Vietnam	65 - 150 (for 50 years)	0.08	0.35

Source: Vietnam: MOF and MPI; other countries: World Bank data.

Type of FDI projects

18. There are three types of FDI operations in Vietnam: wholly foreign-owned enterprise (FOE) which includes the form of Build - Operation - Transfer (BOT); joint-venture (JV); and, business cooperation contract (BCC). With respect to total capital registered by the end of 1996, a majority of foreign investment has been in the form of JVs, accounting for 71.5 percent, followed by FOEs (20.8 percent) and BCCs (7.7 percent). As shown in Table 3, however, the relative importance of the three forms of FDI projects differs considerably in terms of the implemented capital. BCCs, for example, represents about one third of the total, more than four times their share of the total registered capital, suggesting much faster and fuller implementation than JVs. The number of FOE projects has been on the rise in recent years, thanks in part to increased foreign investor confidence in local business environment, whereas the number of new JV and BCC projects have stabilized or slightly declined.

Table 3: Different types of FDI, through 1996

Types	Number of Projects	Total Capital (US\$ million)	Foreign-Implemented Capital (US\$ million)
Wholly Foreign-Owned Enterprises	540 (32.7)	5,170 (20.8)	1,792 (18.3)
Joint Ventures	1,026 (62.1)	20,106 (71.5)	5,596 (57.2)
Business Corporation Contracts	86 (5.2)	2,171 (7.7)	2,402 (24.5)
Total	1,652 (100.0)	28,115 (100.0)	9,790 (100.0)

Notes: Percentage shares are in parenthesis.

Foreign capital includes both equity and debt financing.

Source: MPI.

19. A JV is a separate legal entity incorporated in Vietnam with limited liability, and must have at least 30 percent local participation, which is most commonly contributed in the form of land use rights for the venture. Most JVs have been formed with state enterprises. A BCC is only a contractual agreement between domestic and foreign investors, and does not constitute a new legal entity. The two parties concerned are treated separately for legal and tax purposes. Projects in oil and gas industry have been allowed only for a BCC type arrangement: the only exception so far is Valboc (Jersey) Limited established on December 17, 1996 in Ha Bac Province to produce gas, which is wholly foreign owned. Unlike in many countries where foreign joint venture investors are not allowed to contribute more than 49 percent of the legal capital, Vietnam does not limit the maximum legal capital contribution by foreign investors. The only requirement for foreign investors is that their legal capital contribution should not be less than 30 percent of total legal capital authorized. A FOE is a separate legal entity incorporated in Vietnam with limited liability, but with all capital owned by foreigners.

Performance of approved FDI projects

20. While FDI registration has recorded an uninterrupted growth over the past 10 years, the actual disbursement rate fluctuated and declined sharply in 1996 (Table 4 and Figure 5). This appears in contrast with the experience in other countries where the disbursement rate tends to pick up as times goes on, even after the commitment figures started slowing down or declining. For example, in China, the largest recipient of FDI flows in the developing world, new FDI commitments peaked in 1994, but net flows of FDI continued to rise through 1996, reflecting a typical time lag of 2-3 years between commitment and disbursement. In the case of China, the disbursement rate has steadily increased from about 20 percent in 1992 to above 55 percent in 1996. As indicated earlier, the slow FDI disbursement in Vietnam, particularly in 1996, is partly attributable to the large FOE and JV projects approved in recent years, whose implementation is much slower than BCC operations of which implementation procedures are much simpler because these projects generally do not involve an establishment of new physical production facilities.

Table 4: FDI disbursement and implementation rates

Cumulated capita (US\$ million)	1988-1991	1992	1993	1994	1995	1996
Registered capital	3,308	2,432	3,700	4,393	6,577	8,517
Disbursement	213	398	1,087	1,954	2,632	2,116
Implementation rate (%) ^a	6.4	16.4	29.4	44.5	40.0	24.8
Disbursement rate (%) ^b		7.0	12.2	16.0	15.6	9.3

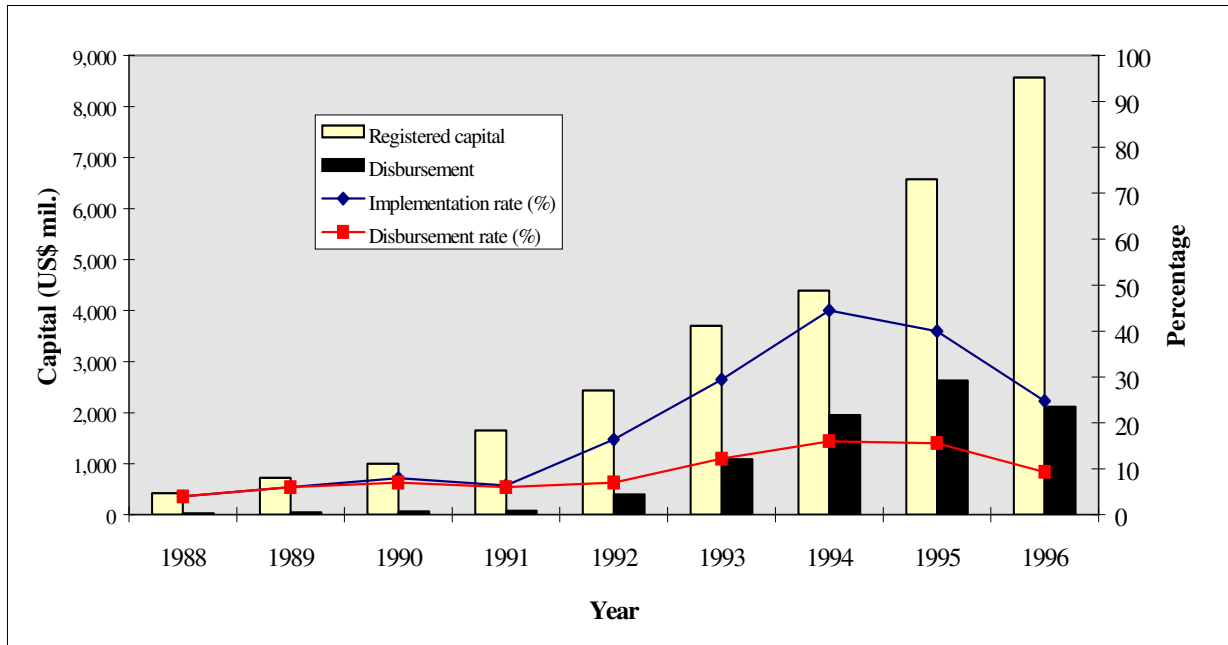
Note:

^a Yearly disbursement divided by yearly registered capital, i.e. a “flow” measure.

^b Yearly disbursement divided by the “stock” of undisbursed capital commitment at the beginning of the year.

Source: MPI.

21. During the first half of 1996, the number of projects and licensed capital decreased sharply in two sectors: office and apartment development and hotel. Due to market saturation in hotels and the change in the master development plans in Hanoi and Ho Chi Minh City, total investment of these two sectors declined by US\$2 billion compared to the same period of 1995. Also, due to the merging of SCCI and SPC into MPI, delays occurred in the project licensing and implementation process. Another reason for the decline in FDI disbursements relates to the fact that many small projects which began as Vietnam opened its economy in the late 1980s are now all completed, while new projects are gradually coming on line but have not reached a stage of large disbursements. Adding to the decline in FDI disbursements in 1996 were obstacles stemming from complicated procedures to implement projects after licensing (see Annex for regulatory framework for FDI projects in Vietnam) and cancellation of projects (e.g., Chrysler’s withdrawal) due to market saturation, which will be discussed further in Section IV.

Figure 6: FDI registration versus implementation

Note: Disbursement rate for every single year during 1988-1991 is estimated based on an aggregate figure of this period. Disbursement rate is derived from actual FDI flows divided by the cumulative (i.e. “stock”) FDI commitment.

Source: MPI.

22. Capital structure of FDI projects in Vietnam varies by the type of operations. By definition and design, the local partners commit to contribute a certain percentage of legal capital as equity FDI projects others than FOEs. As of end of May 1997, the legal implemented capital by local counterpart amounts to US\$1,388 million, or 23.6 percent of total legal implemented capital¹. The main component of domestic contribution is in form of value of land use right (74 percent). Other non-land assets and equipment share 15 percent of total domestic contribution. The rest is contribution in the form of cash, raw material and other services².

23. By the end of 1995, a total of 9,170 hectares of land, valued at US\$1.6 billion, was authorized for use by JVs. Legal capital contribution through valuation of land use right from Vietnamese partners has created some technical difficulties in project assessment, management, and implementation. It also became a source of confusion in FDI data compilation due to the lack of guidelines determining land value based on its location and quality. Furthermore, domestic contribution through land use right has brought much red tape for project

¹ According to Government Statistics Office (GSO), domestic and foreign contributions in total legal capital account for 29.1 and 70.9 percent, respectively.

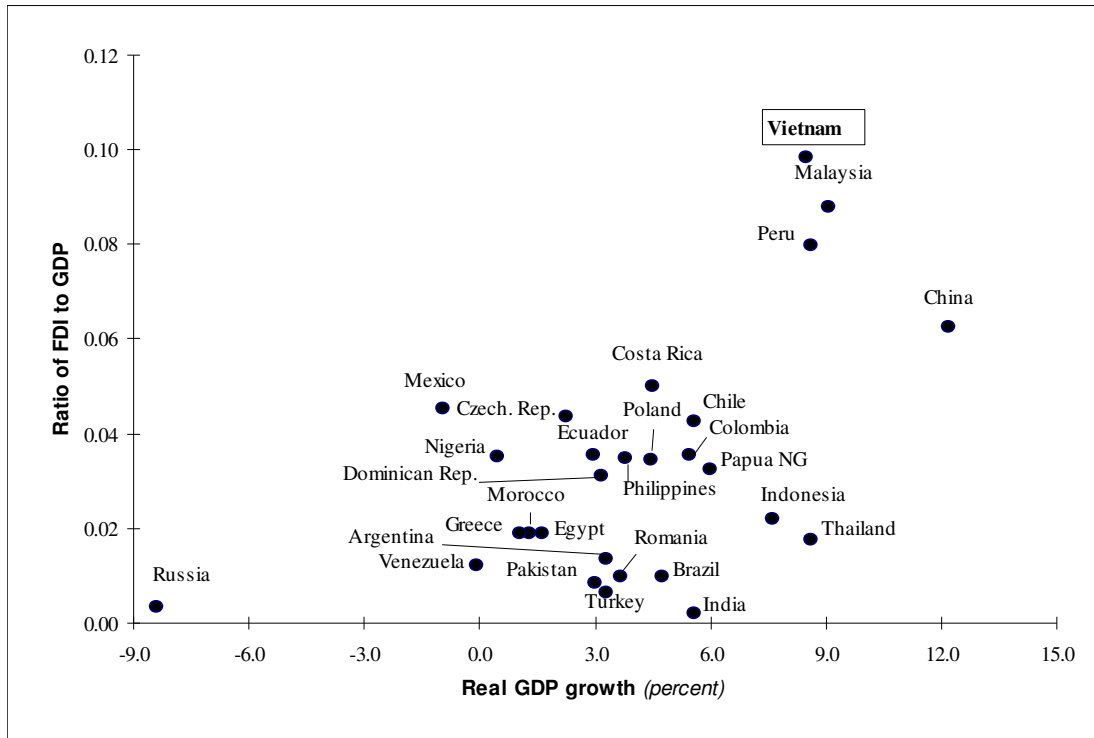
² According to MPI, by the end of 1995, Vietnamese partners contributed US\$ 1.800 million, of which 90 percent in the form of value on land use right, 8 percent in the form of building and equipment, 2 percent in cash or other liquidities.

implementation, given that land policies and management continue to be subject to close government control.

III. Impact of FDI Inflows on Vietnam's Economy

Background: cross-country experience and empirical evidence

Figure 7: Ratio of FDI to GDP compared with real growth



Note: Calculations are based on averages for 1993 - 1995 for the top thirty recipients of FDI in 1995.

Source: World Bank, Debtor Reporting System and World Bank Data. For Vietnam, GSO.

24. Direct investment can bring substantial gains to recipient economies, contributing to physical capital formation, human capital development, transfer of technology and know-how (managerial skills), and expansion of markets and foreign trade. In part because of these benefits and in part because fast-growing countries attract a lot of foreign investment, there is a positive correlation between FDI and economic growth (Figure 7). FDI's beneficial impact on host countries tends to be enhanced in the absence of domestic policy distortions. Likewise, FDI benefits from a sound enabling environment, complemented by public investment in social sectors such as education where there is a substantial divergence between private and social returns.

Box 3: The evidence on technology spillovers

One goal in liberalizing the rules governing FDI has been to capture the benefits of the technology spillovers associated with direct investment and the operations of affiliates of transnational firms in local economies. The literature on such spillovers is extensive, but evidence of the benefits—believed to be significant—is difficult to pin down.

A technology spillover is a special case of a positive externality. For example, a horizontal technology spillover might arise from research and development (R&D) that leads to a new technology copied by other firms. The technology spillover is horizontal because benefits are realized (or generated) by firms that compete with the firm that created the technology. A vertical technology spillover can occur if, for example, a manufacturing firm transfers technology to input supply firms that enables these firms to deliver inputs at a lower cost, and these lower costs are then passed on to customers of firms other than the original firm.

A 1995 study of sixty nine developing countries presented circumstantial evidence that FDI generates technology spillovers.¹ First, it found that FDI contributes to economic growth and that FDI has a larger impact on growth than domestic investment does. This finding is consistent with other studies indicating that FDI to developing countries is associated with the transfer of technology.² Second, it found that, beyond a minimum threshold, higher FDI inflows are associated with higher productivity of human capital for the economy as a whole, indicating that FDI may have some positive spillover effects through the training of workers. Third, it found that FDI does not crowd out domestic investment, but instead seems to supplement it—a finding consistent with vertical spillovers, leading to increased capital investment by suppliers and distributors.

These findings are consistent with another recent study showing that productivity tends to be higher in developing countries that have strong links with OECD countries than in those that do not.³ The difference is attributed to technology embodied in imports from OECD countries by the high-productivity developing countries. But because FDI flows from OECD to developing countries are highly correlated with trade flows, the productivity could be associated with technology transfer through FDI rather than trade.

Another study provides evidence that FDI has produced technology spillovers in China.⁴ Using data covering 434 urban areas in China during 1988-90, the study showed that of the three types of firms in China (state-owned, township-and-village, and foreign-invested), the foreign-invested firms grew the fastest. Moreover, the study found that the share of foreign-invested firms and the depreciated stock of FDI were important in explaining differences in growth among urban areas.

¹ E. Borenzstein, J. de Gregorio, and J. Lee, “How Does Foreign Direct Investment Affect Growth?” NBER Working Paper No. 5057, National Bureau of Economic Research, Cambridge, Mass., 1995.

² See, for example, Magnus Blomström, Robert Lipsey, and Mario Zejan, “What Explains Developing Country Growth”, National Bureau of Economic Research, NBER Working Paper 4132. Cambridge, MA., 1992.

³ David Coe, Elhanan Helpman, and Alexander Hoffmaister, “North-South R & D Spillovers” Discussion Paper 1133, Centre for Economic Policy Research London, 1995.

⁴ Shang-jin Wei, “Foreign Direct Investment in China: Sources and Consequences, in Takatoshi Ito and Anne O. Krueger editors “Financial Deregulation and Integration in East Asia.” University of Chicago Press, forthcoming.

Contribution to production and growth

25. The correct way to gauge the influence of FDI is by its impact on the real economy of the host country, rather than merely as a net financial flow. Just as with trade, host countries should be concerned less with the balance of exports over imports than with the stimulus to competition, the allocation of resources at international prices, and the like, so with FDI the real economic effects are what should matter.

26. FDI can promote growth in a number of ways, including “spillover” effects such as technological changes. It can have a direct impact through its contribution to higher factor productivity, changes in product and export composition, research and development practices, and employment and training. And it can have an indirect impact through collaboration with local research and development institutions, technology transfer to local downstream and upstream producers, and the effects of the presence of foreign affiliates on the composition of production and the efficiency of local producers. While the evidence does not conclusively demonstrate the existence of technology spillovers, it does suggest that it is likely that FDI generates substantial economic benefits and at least some spillovers (Box 3).

Table 5: The importance of FDI operations, 1991-1995

Item	1991	1992	1993	1994	1995
Actual FDI Flows (US\$ million)	165	333	923	1,631	2,236
Share of GDP in Production (percent)	2.6	2.6	6.5	6.8	8.8
Share of Gross Capital Formation (percent)	22.0	15.3	28.1	27.8	33.8
Share of Export (percent)				4.0	8.1
Share of Import (percent)				10.3	18.0
Number of Employees (million)				0.7	1.0

Source: MPI, GSO, Vietnam; IMF; World Bank data.

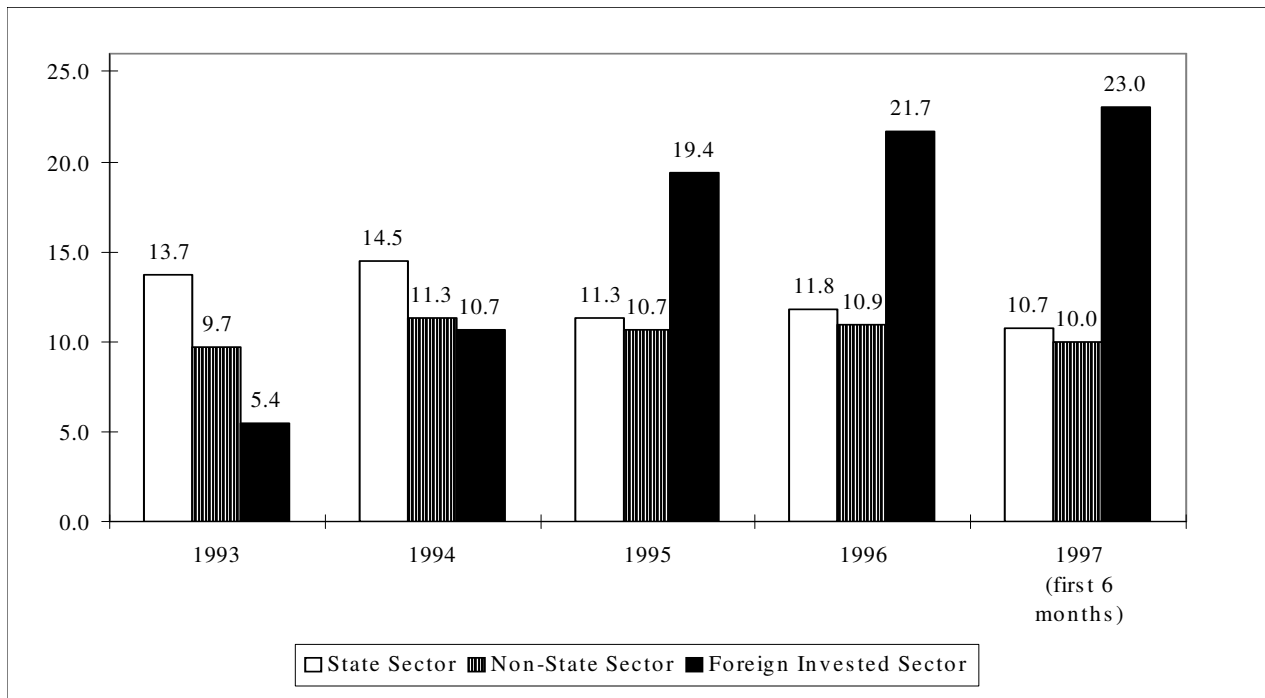
27. Foreign-invested projects have contributed to an increasing share of Vietnam's domestic production, reaching about 10 percent of GDP in 1995-96 period (Table 5). A total of US\$4.6 billion in turnover has been generated by FDI projects, of which two thirds were accounted for by JV operations, followed by FOEs and BCCs with roughly the same share of 17 percent.

28. FDI flows has also given a substantial boost to industrial output. As shown in Table 6 and Figure 8, foreign-invested projects recorded the fastest growth rate of industrial production, especially in mining and manufacturing sectors. Over the 1993-96 period, industrial output growth rate of the foreign invested sector was increased from 5.4 percent in 1993 to 23.0 percent in the first half of 1997 while the state sector growth rate declined slightly from 13.7 percent in 1993 to 10.7 percent in the first half of 1997. In the case of key manufacturing sector, output of foreign-invested entities grew at nearly three times that of SOE and local non-state sectors in 1996.

Table 6: Industrial gross output, 1995-1996, by economic sectors and by economic activities (Billions of 1994 Dong)

	Mining	Manufacturing	Public Utilities	Total
State Sector				
1995	2,709	43,020	6,172	51,901
1996	2,932	47,994	7,125	58,051
<i>Growth Rate</i>	8.2%	11.6%	15.4%	11.8%
Non State Sector				
1995	611	23,943	8	24,562
1996	689	26,556	9	27,254
<i>Growth Rate</i>	12.8%	10.9%	12.5%	11.0%
Foreign-Invested Sector				
1995	10,824	11,554	16	23,394
1996	12,251	14,993	16	27,260
<i>Growth Rate</i>	15.7%	29.8%	0%	21.7%
Total				
1995	14,144	78,517	6,196	98,857
1996	16,142	89,553	7,150	112,845
<i>Growth Rate</i>	14.1%	14.1%	15.4	14.2%

Source: General Statistic Office.

Figure 8: Industrial output: growth rates by sector (%)

Source: General Statistic Office and Bank's staff estimates.

29. FDI's impact on Vietnam's economic growth can also be seen from the experience of regions actively attracting foreign investments. For those leading host localities of direct investment, growth has been significantly higher than others and the national average. The record of Ba Ria-Vung Tau Province must be a telling story (Box 4). The Province of less than one million population and with the highest per capita inflow of FDI in the country, registered the highest GDP growth in the country of 16.8 percent in 1996, with the highest per capita income of US\$1,200. The impressive growth was also facilitated by the large portion of FDI being directed to manufacturing industries, accounting for 78 percent of total foreign investment flows to the region.

Box 4: FDI in Ba Ria - Vung Tau Province

This small province of population of about 700,000 has been very successful in attracting large FDI inflows, thanks largely to active promotion efforts and natural advantages such as availability of ports. As of December 31, 1996, 62 projects have been approved in Ba Ria - Vung Tau with a total registered capital of US\$1,562.8 million, of which US\$183.5 million was already disbursed, with an average implementation rate of 11.7 percent, reflecting that most of large projects have only recently approved. FDI projects have generated 8,742 direct employment with the average salary of US\$160, considerably higher than national and local averages.

FDI implementation in Ba Ria- Vung Tau (1991-1996)

	1992	1993	1994	1995	1996
Total Implemented Capital	8.891	13.812	24.952	110.313	25.56
Total Implemented Capital by					
Foreign Investor	5.989	9.659	22.952	94.069	18.613
Equity	5.989	9.659	22.952	47.069	7.452
Loans	0	0	0	47	11.161
Total Implemented Capital by Local					
Counterpart	2.901	4.153	2.952	16.244	6.974
Land	1.817	3.444	2.756	9.143	2.795
Others	1.084	708.19	196	7.101	4.154

An overall picture of the significant impact of FDI on provincial economic development of Ba Ria - Vung Tau can be shown as follows:

	1992	1993	1994	1995	1996
GDP (\$US million)	202	264	312	328	1174
Output of FDI projects					
(\$US million)	5.891	12.864	21.673	28.144	72.732
Share of total FDI output in GDP(%)	2.9	4.9	6.9	8.6	6.2
Share of FDI in GDP (%)	3	3.7	7.3	28.7	1.6
Number of labors in the province					
(.000)	268	290	294	309	317
Number of labors in FDI projects					
(.000)	5.4	6.1	7.6	8	8.7
Share in total (%)	2	2.1	2.6	2.6	2.8
Total province's export (\$US million)	859	926	854	1109	1273
Total export by FDI projects					
(\$US million)	1.7	3.1	3	9.6	3.2
Share in total (%)	0.19	0.3	0.4	0.9	0.3

Table 7: Disposition of capital inflows, 1989-1996

	1989	1990	1991	1992	1993	1994	1995	1996	Ave. 1989- 1992	Ave. 1993- 1996
<i>Amount (US\$ million)</i>										
Net Resource Deficit 1/	350	44	64	60	547	1,195	2,345	3,150	130	1,809
Deficit on net factor income and private transfers	237	273	248	262	300	26	-237	-689	255	-150
Reserve accumulation	110	159	276	463	-477	292	179	471	252	116
Net capital flows 2/	696	421	409	474	286	1,478	2,082	2,957	500	1,701
<i>Percent of GDP</i>										
Net resource deficit	5.0	0.5	0.7	0.6	4.3	7.7	11.6	13.5	1.7	9.3
Deficit on net factor income and private transfers	3.4	3.3	2.6	2.5	2.3	.02	-1.2	-3.0	2.9	-0.4
Reserve accumulation	1.6	1.9	2.9	4.5	-3.7	1.9	0.9	2.0	2.7	0.3
Net capital inflow	9.9	5.0	4.2	4.6	2.2	9.5	10.3	12.7	5.9	8.7
<i>Percent of net capital inflow</i>										
Net resource deficit	50.3	10.5	15.6	12.7	191.3	80.9	122.6	106.5	22.3	122.8
Deficit on net factor income and private transfers	34.1	64.8	60.6	55.3	104.9	1.8	-11.4	-23.3	53.7	18.0
Reserve accumulation	15.8	37.8	67.5	97.7	-166.8	19.8	8.6	15.9	54.7	-30.6
<i>Percent of GDP</i>										
Gross investment	11.6	11.7	15.1	17.0	24.9	25.5	27.3	27.9	13.9	26.4
Government	5.8	5.2	2.8	2.8	0.7	6.9	5.7	6.6	4.2	6.6
Private	5.8	6.5	12.3	14.2	17.9	18.6	21.6	21.3	9.7	19.9
FDI	1.4	1.4	1.7	3.2	7.2	10.5	11.1	7.9	1.9	9.2

Notes:

1/ Net resource deficit is imports minus exports of goods and services.

2/ Net capital inflow includes official transfers, net errors and omissions, accumulation of arrears and use of IMF credit.

Source: World Bank staff estimates from data provided by Vietnamese authorities, and Khatkhate (1997).

30. FDI's contribution to the enhancement of productive capacity in Vietnam is also shown by Table 7. By and large, much of the FDI inflows have been used to finance higher purchases of goods and services in the 1990s, and in 1996 alone, 14 percent of the capital inflows were added to the accumulation of foreign exchange reserves. Most of the imported goods were instrumental in raising investment ratio, which increased from an average of 16 percent of GDP in 1990-92 to an average of 26 percent in 1993-96. Private sector investment accounted for more than 80 percent of this increase, and FDI alone accounted for 45 percent of the private investment increase. Very little part of foreign capital inflows was used for consumption.

FDI and foreign trade

31. According to GSO statistics, the share of exports and imports by FDI projects (excluding oil and gas) in Vietnam's total trade has been increasing (Table 8). The share of FDI exports in total exports doubled from 4 percent in 1994 to 8.1 percent in 1995, and continued at 10.8 percent in 1996. For the first four months, this share was 9.1 percent, confirming the trend that FDI projects contributes further to the country's exports. On the imports side, the FDI share in total imports also showed an increasing trend, almost doubling from 10.3 percent in 1994 to 18.0 percent in 1995. For the first four months of 1997, this share increased sharply to 20.1 percent, resulting from the need to import material and equipment required for FDI projects to produce.

**Table 8: Exports and Imports by FDI Projects
1994-97 (first four months)**

	Exports (US\$ million)			Imports (US\$ million)		
	Exports by FDI Projects	Total Exports	Share FDI/Total Exports	Imports by FDI Projects	Total Imports	Share FDI/Total Imports
1994	161.1	4,024.3	4.0%	600.5	5,825.8	10.3%
1995	440.1	5,449.0	8.1%	1,468.1	8,155.4	18.0%
1996	786.0	7,255.8	10.8%	2,042.7	11,144.0	18.3%
1997 --: (First 4 Months)	243.3	2,679.0	9.1%	732.0	3,641.6	20.1%

Note: Data exclude oil and gas exports.

Source: GSO.

32. Table 8 also reveals that FDI's net impact on Vietnam's trade balance has been negative. Persistent trade deficits have been recorded as a result of direct operations of FDI projects (due mainly to the low share of export-oriented FDI projects), with their contribution to imports twice the rate of to exports. But, there are at least a two caveats to this negative assessment.

- The data presented above exclude gas and oil exports originated by FDI operations. When the data include oil and gas exports, FDI projects accounted for US\$1.1 billion in 1994 or 27.1 percent of total exports; US\$1.4 billion or 24.7 percent of total

exports in 1995; and, US\$1.7 billion or 24.5 percent of total exports, estimated for 1996. These rates outpace those for imports.

- FDI's potential contribution to other foreign exchange earnings (such as tourism receipts) should not be overlooked. With active foreign investment in construction of hotels and infrastructure, for example, revenues from tourism have been on the rise and could become a source of substantial foreign exchange earnings.

33. More fundamentally, the beneficial impact of FDI on domestic economy--including gains in productivity and competitiveness--tends to be realized through indirect spillovers or externalities, which are difficult to measure. Nevertheless, FDI's relatively weak contribution to the improvement of trade performance (compared with other countries such as China, as shown in Box 5) remains an important issue for Vietnam.

Box 5: China's Successful Experience with FDI

FDI inflows has affected—either directly or indirectly—China's overall economic performance and general policy directions, including reserves, exchange rate, and monetary management. Based on FDI data at the provincial level as well as at the city level, FDI per capita shows positive impact on both capital accumulation and per capita GDP in China; the output shares of overseas/foreign funded firms has a positive and significant relation with China's economic, industrial, and productivity growth. Overall, FDI now accounts for more than 16 million jobs and 13 percent of domestic industrial output in China (see table below).

The importance of FDI in China, 1991-1995

<i>Item</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>
Actual FDI flows (US\$ billion)	4.4	11.2	27.5	33.8	37.5
Average amount per project (US\$ millions)	0.9	1.2	1.3	1.8	2.5
FDI/gross domestic investment (%)	4.5	8	13.6	18.3	25
Volume of exports by foreign affiliates (US\$ billion)	12.1	17.4	25.2	34.7	46.6
Share of exports by foreign affiliates in total exports (%)	17	20.4	27.5	28.7	31.3
Industrial output by foreign affiliates/ total industrial output	5	6	9	11	13
Number of employees in FDI projects (millions)	4.8	6	10	14	16
Tax contribution as share of total (percent)	...	4.1	11.2

Source: MOFTEC, State Tax Administration, China; UNCTAD, World Investment Report (1996), and World Bank DRS data.

34. FDI projects' contribution to the host country economy is enhanced as their import propensity is reduced by greater local purchase of raw materials and supplies. A number of foreign-invested ventures in Vietnam are making conscious efforts to raise domestic procurement. For example, Vietnam Ford Automobile Ltd., a new joint venture with Ford Motors, has a special unit (called "Supplier Development Office") that promotes local purchases and helps develop the capacity of domestic suppliers.

Employment and human capital development

35. According to MPI, 196,262 employees worked directly for foreign invested projects. But, this figure appears to be grossly underestimated, given that there are substantial indirect employment opportunities (such as sub-contracts) that are created by FDI operations. Moreover, workers for BCC operations are accounted for in the official number. On average, foreign investment is believed to have generated from 340,000 to 400,000 jobs annually over the last few years, pushing the total local workers employed by foreign affiliates above one million by end 1995.

36. The average wage for workers at FDI projects is considerably higher: it is estimated about one third to one half higher than the local average, albeit with a wide variation by sectors. For example, an average entry level worker at JV operations in textile earn about US\$60 a month (including support for lunch and overtime), roughly 50 percent higher than the comparable figure for indigenous enterprises.

37. Many FDI projects provide their local employees training opportunities. Most JVs offer selected staff special training programs at the headquarters of their parent firms, allowing them a first hand access to advanced technical and managerial know-how. A number of foreign-invested firms in Vietnam pay a particular attention to the education programs for locally-recruited middle managers whose supplies are often limited or turnovers tend to be high.

IV. Prospects for Sustained Capital Flows and Policy Issues

Sustainability of capital flows: global context and prospects for Vietnam

38. Long-term prospects for sustained capital flows to developing countries as a whole are favorable. Aside from the continuing trend of globalization of production and financial integration, which are the crucial structural factors that underpin this upward trend, developing countries are projected to grow at nearly double the rate of industrial countries. The relatively strong growth, which is likely to be accompanied by improving creditworthiness, should yield higher risk-adjusted rates of return on investment--whether that is FDI or portfolio flows.

39. Nevertheless, growing competition among host countries and more selective attitude by international investors mean that private capital flows will vary considerably over time and across countries. In this context, the sustainability of capital flows hinges critically on macroeconomic fundamentals and investment environment in host countries. This is particularly

the case, given the moderating growth rate of private capital flows, in the aftermath of the financial turmoil in emerging economies in Asia.

40. After the uninterrupted growth of FDI (commitments) since the beginning of economic reforms in the late 1980s, there is a sign of slowdown in FDI flows in Vietnam. FDI applications and approvals have slowed down, particularly since the second half of 1996. Without the approval of two large urban development projects in the last few days of 1996 -- one in Hanoi and the other in HCMC for the combined investment of more than US\$3 billion -- foreign investment approvals would have been lower than in 1995 by about 20 percent. The slower pace of new FDI commitments also reflects increasing market saturation in certain sectors—especially in the import substitution areas such as auto assembly, and construction-related projects.

External financing for sustained growth

41. The Government of Vietnam has set an ambitious target economic growth rate of 9 to 10 percent annually over the medium term through year 2000. To reach this goal, the total financing for investment during the period 1996-2000 must reach US\$41-42 billion (at 1995 prices), twice the amount for the last five year period. Even with the projected significant improvements in domestic savings, considerable external resources (both public and private) will be required to finance the development needs and support the rapid growth. An average of more than US\$3 billion (on a net basis) would be required, and in 1998, it is estimated that the external financing requirements would total US\$3.7 billion.

42. The bulk of external financing requirements would have to come from ODA and FDI flows. This is because Vietnam has no viable alternative external funding vehicles (e.g., portfolio equity investment) given the under-developed domestic capital markets and weak enterprise sectors. Moreover, the relatively heavy external debt exposure of Vietnam will make non-concessional debt financing—including both conventional commercial borrowing and portfolio debt flows by way of international bond issues—not a preferred vehicle of financing. Priorities would have to be placed on non-debt creating flows and efficient use of concessional official flows to build a stronger foundation for sustained growth and external viability.

Policy implications for Vietnam

43. Vietnam is at a cross road. The country's economic performance over the last decade has been impressive, owing to active implementation of reforms accompanied by large inflows of foreign investment. Vietnam is nevertheless only at the beginning of a long and difficult transition from a low-income economy to a status equivalent to its ASEAN partners. It is still one of the poorest countries in the world with per capita GNP at about US\$300, and income disparities are large and widening. The current financial crisis in surrounding Southeast Asian countries has also made Vietnam's short-term economic reform agenda both more difficult and more urgent.

44. The recent trends in capital flows and their challenging prospects raise important issues for Vietnam that must continue to rely on substantial external financing to meet its growth and social objectives. Aside from the need to continue to improve aid implementation and absorption, Vietnam must address a number of issues pertaining to the creation of an environment conducive to stable foreign investment flows.

45. First and foremost, the strength of macroeconomic fundamentals is the key in determining the size and the sustainability of investment flows. Vietnam's ambitious development objectives are achievable and its fundamentals can be strengthened, but this will require a substantially reinvigorated structural reform effort. Vietnam's industrious labor force, its potentially dynamic private sector, and its macroeconomic stability, all augur well for the achievement of rapid growth and the attraction of sustained investment flows. But continued rapid economic progress and poverty reduction cannot be taken for granted. Vietnam needs to be careful to avoid the mistake of locking into an inefficient capital stock which in many other countries has led to economic decline and severe macroeconomic instability. Signs are already emerging that distortions in the incentive framework may be encouraging a pattern of growth that favors lower productivity capital-intensive activities over export-oriented labor-absorbing ones and urban areas over rural areas, contrary to the Government's stated objectives. Deeper reforms are therefore urgently needed to remove existing biases and create a more neutral economic environment that fosters greater efficiency of resource use and promotes broader-based economic growth.

47. As to the specific issue of how to sustain FDI inflows and how to improve its implementation rate, it seems useful to highlight the outcome of the recent Bank Mission's extensive interviews with foreign-invested firms in Vietnam and the result of 1997 surveys conducted by *European Round Table of Industrialists* on FDI conditions in developing countries. These suggest a number of areas of concern from the perspective of foreign investors.

- *Macroeconomic and general policy issues.* Existing impediments that are most frequently indicated by foreign investors are: lack of transparency in tax system; inconsistent trade policy and high level of protectionism; and, weak financial sector and insufficient domestic financing opportunities. On tax system, many investors consider a withholding tax of 5-10 percent for profit remittances—which serves as an incentive for larger reinvested earnings—too excessive. In a number of countries, capacity for domestic resource mobilization has proved to be an important determinant of FDI inflows.
- *Regulatory and institutional issues.* Major problems facing potential investors include: inadequate intellectual property rights; sectoral licensing; restrictions on foreign transactions; and, weak local private sector. Although it is an unstated policy, the government generally steers foreign investors toward state-owned enterprises (SOEs) as JV partners, and often fights for higher equity shares for local companies in JVs even without a significant increase in capital input through inflated values for land use or building rights.

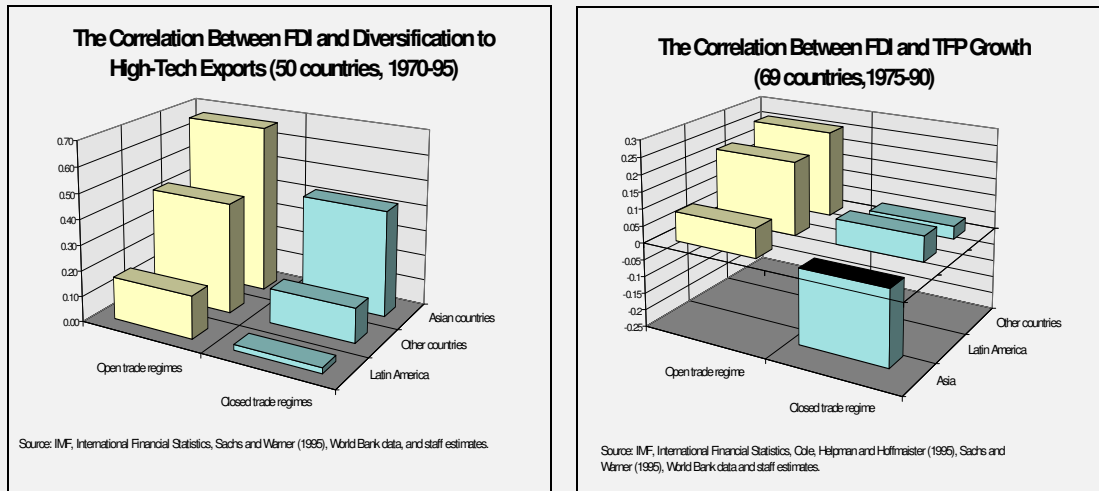
- *Disbursement or implementation rate.* The rate of FDI project implementation (on a disbursement and flows basis) remains low at an average of around 30 percent of the commitment, and in fact, it has fallen to 25 percent in 1996. This is due in part to over-licensing above the absorptive capacity in the local markets, but it also reflects difficulties raising sufficient funds for the project, which is often compounded by dispute over the valuation of local capital contribution. The current minimum size of foreign investment of US\$300,000 not only restricts the access of smaller (foreign and local private) investors, but also limit smaller projects which tend to implemented more quickly than large-scale ventures. Except for a few selected sectors, the 100 percent foreign wholly-owned (FOEs) operations are generally discouraged, and the encouragement of FOE projects (which tend to show higher implementation rate) should support a more effective implementation.

48. On the question of how to enhance the development impact of FDI on Vietnamese economy, the beneficial effects of direct investment and the efficiency of resource use can be raised, but this would hinge critically on improvements in the several areas.

- *Trade performance.* FDI operations' persistent negative impact on trade balance is a source of concern. Although foreign-invested projects have greatly supported Vietnam's recent export expansion at an annual rate of nearly 30 percent, it has been outpaced by their large share of imports. On average FDI has contributed to exports and imports by the ratio of 1:3 to 1:4. Priority in project licensing should therefore be placed on labor-intensive export-oriented projects, away from investment in capital-intensive import-substitution and domestic consumption industries. The improvement in the sectoral distribution needs to be induced by creating favorable investment conditions, rather than through fiscal and financial incentives that may lead to long-term policy distortions. Infrastructure development—for example through efficient implementation of official flows—is crucial in laying the foundation for export-led growth in the host economy.
- *Technology transfer, upgrading and other externalities.* FDI flows, especially those directed to manufacturing sectors, promote positive spillover effects. from foreign investment. These spillovers are essential for FDI projects to contribute to the long-term productivity gains, leading to sustained growth in a host country. Cross-country experiences suggest that a strong foundation for human resources (backed by sound education programs) tend to facilitate transfers of technology and management skills, and that more open trade and competition policies lead to greater technological and productivity gains from foreign investment (Box 6).

Box 6: More open policies lead to greater technological and productivity benefits from foreign investment

More open trade policies are associated with the presence of foreign firms (proxied by FDI to GDP ratios) and economy-wide technological and productivity gains in developing countries. There is a stronger positive correlation between FDI and GDP ratios and diversification to high-technology exports in countries that had open trade regimes. There is also a stronger (positive) association between FDI and GDP ratios and measures of total factor productivity growth in countries with open trade policies.



Source: Global Economic Prospects, 1997, the World Bank.

49. As indicated earlier, Vietnam needs to rely ODA and FDI flows to meet the external financing requirements for the foreseeable future. As a longer-term policy direction, however, Vietnam may consider building its capacity to broaden and diversify sources of external finance.

- *Portfolio equity flows and capital market development.* Along with FDI, portfolio equity investment represents a major source of cross-border investment flows to developing countries. In fact, given the growing role of institutional investors (such as pension funds and insurance companies) in industrial countries, portfolio flows are expected to provide a major pool of development funds. Due to its large volatility and risk of sudden reversal, however, Vietnam's opening up of domestic capital markets for foreign portfolio investment should proceed slowly and gradually, along with certain safeguards to help limit the potentially disruptive effects of investment flows on domestic markets (in line with policies pursued by a number of Asian countries). Vietnam's recent establishment of Securities Commission is a welcome development, but much more needs to be done to make the stock market an efficient channel for foreign investment as well as for domestic resource mobilization.

- *International equity issues.* Over the long-term, and in tandem with the development of local capital markets and active equitization programs, Vietnam may access international capital markets by floating shares of local enterprises in the form of depository receipts—e.g., American Depository receipts (ADRs) and Global Depository Receipts (GDRs). International equity offerings can provide benefits of not only lowering cost of capital for the enterprise concerned, but also supporting local market development by way of dual listings. The equity flotation in international capital markets would have an advantage (over the opening of local stock markets) in that the domestic market can be insulated from the large price volatility in global markets.
- *Portfolio debt flows.* Vietnam's relatively high external debt exposure would make additional debt financing undesirable at least in the medium term. Over the long term, Vietnam may consider accessing international bond markets, to the extent that it will help improve the country's debt profile by, for example, refinancing the existing debt of short-term maturity and undesirable rate base or currency denomination. As with portfolio equity investments, institutional investors are large financing sources for emerging market bond issues. The recent rating of Vietnam by Moody's (Box 7) reflects growing interest and appetite among institutional investors for high-yield below-investment grade bonds issued by developing countries. Nevertheless, as the recent financial crisis in Asia as well as in Mexico a few years ago clearly demonstrate, a heavy reliance on debt financing increases the borrowing country's external vulnerability. Therefore, Vietnam, which is still classified as a severely indebted low-income country, must continue to maintain prudent debt management policies by placing high priorities on sustaining the non-debt finance (such as FDI) and the efficient use of concessional official flows to meet external financing requirements for the foreseeable future.

Box 7: Credit rating for Vietnam - Assessment by Moody's

On April 17, 1997, Moody's Investors Service has assigned, for the first time, a Ba3 ceiling for ratings on long-term foreign-currency bonds and notes of issuers domiciled in Vietnam and a Not Prime ceiling for short-term obligations. In line with its view that bank deposits are generally riskier obligation than bonds, the rating agency also assigned a B1 country ceiling for ratings of foreign currency-denominated bank deposits.

The ratings are supported by Vietnam's track record of structural reform and macroeconomic stabilization, its robust investment-and export-led growth, and success in restructuring its external debt burden. The government's commitment to integrate Vietnam into the international economic system is demonstrated by its progress in normalizing economic and political relations with the United States, its accession into ASEAN and its intention to join the WTO. Constraints on the rating include the low domestic saving rate, weak legal and administrative system, massive infrastructure needs, a fragile financial sector and undeveloped capital markets. Moreover, the rapid buildup in short-term debt has been accompanied by certain payment irregularities within the financial system. This raises concern over the relatively low level of official foreign exchange reserves and the overall strength of the country's external payments position.

Reforms initiated in the late 1980s have liberalized the investment and trade regimes, freed most prices, and sharply reduced subsidies to the state enterprise sector. Fiscal adjustment, a restructuring of state enterprises and tight credit policies have sharply reduced the government's budget deficit and the inflation rate. Agricultural price reforms as well as changes in land use have markedly improved agricultural output, leading to an exportable surplus of rice. Structural reforms combined with the rise in crude oil production have together enabled Vietnam to avoid the collapse of output characteristic of other countries undergoing a transition from command to market-driven economies. Since 1992, Vietnam's rate of real GDP growth has averaged almost 9 percent and it is expected to reach 9.5 percent in 1997.

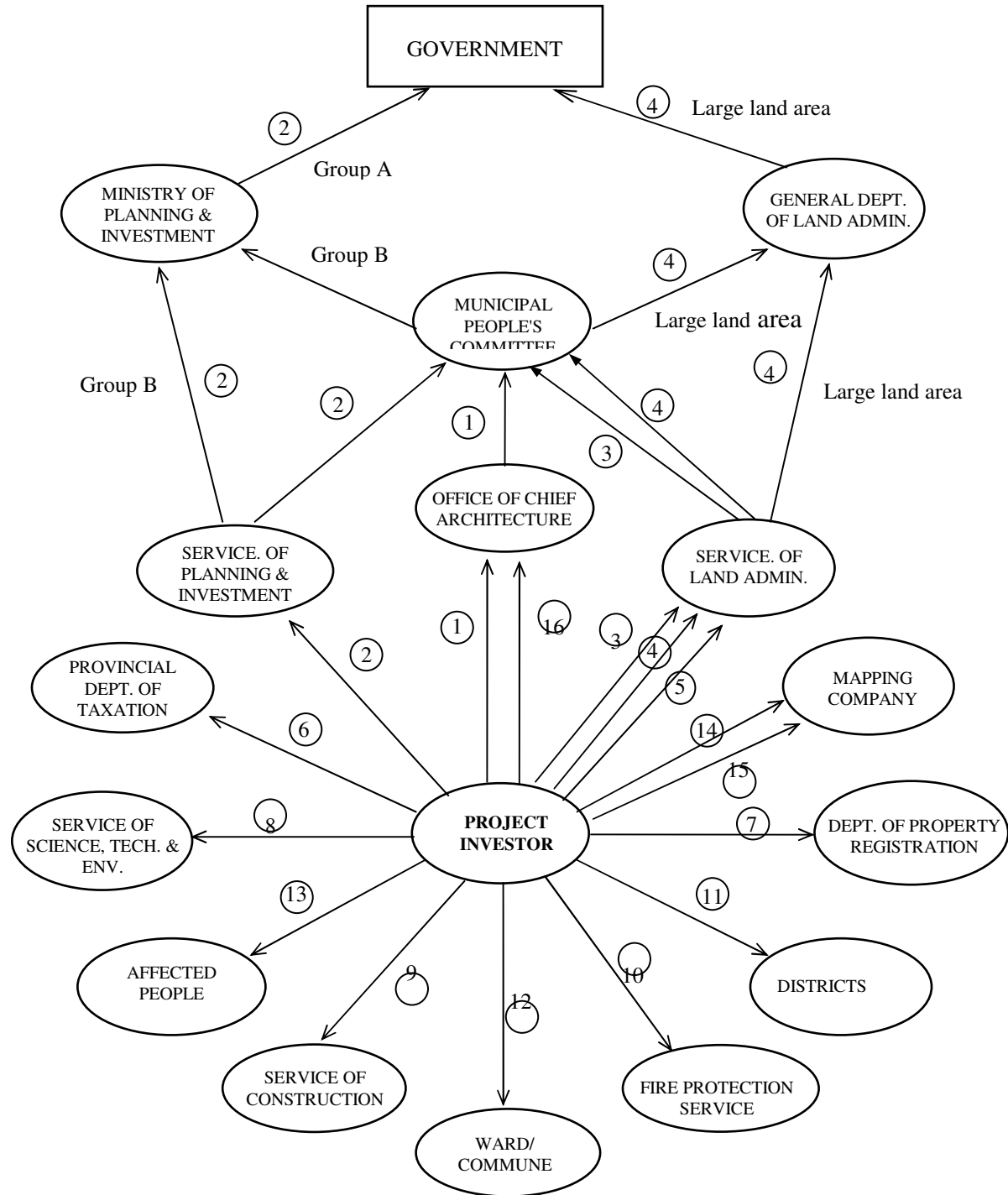
Merchandise exports have increased at a brisk pace. The growth of manufactured exports is strengthening the country's diverse export base, but Vietnam's access to the potentially large U.S. market remains impeded by the lack of most-favored nation trade status. The more rapid increase in imports, however, has led to very large current account deficits. These deficits have been financed largely by foreign direct investment. Large current account deficits will likely persist over the near-to-medium term, making Vietnam vulnerable shocks and/or shifts in creditor confidence.

Progress in regularizing long-standing arrears on external debt includes: a restructuring with official, Paris Club creditors which involved some debt forgiveness; an agreement in principle with commercial bank creditors for restructuring about \$0.9 billion in interest and principal arrears; and a rescheduling of non-convertible ruble debt owed to several Central European countries. Uncertainty remains, however, on the settlement of substantial transferable ruble debt arrears owed to Russia.

Annex 1: Legal Framework for FDI in Vietnam

1. Despite considerable progress in recent years, the legal and institutional framework for FDI in Vietnam remains weak, and the decline in FDI disbursement in 1996 as well as the recent slowdown of new project applications and approvals can be attributed to, among others, the complex legal framework for foreign investment. Much red tapes and complicated procedures are still impeding efficient processing of application, registration and implementation of foreign-invested projects. The Foreign Investment Law (FIL) containing 42 articles has undergone revisions since its introduction in 1987, and more than 100 legislative documents guiding the implementation of the law have since been issued.
2. The absence of specific and consistent development plans for broad economic sectors results in not only confusion to investment planning, but also delays in investment registration and implementation. Absence of a clear blue print also confuses concerned government agencies when they make investment decisions, especially those complex arrangements such as build-operate-transfer (BOT). The large and increasing project cancellation can also be attributed to the government's inconsistent planning.
3. The current FDI regime in Vietnam also lacks clarity and transparency, deterring efficient investment decision and implementation. Moreover, overlapping--often conflicting--legislative documents have been issued, causing distortions in investment and trades. For example, import tax of CKD spare parts to assemble the motorcycle and electronic products is higher than that of finished products and discourages foreign investors in this field. While the FIL guarantees against expropriations and full repatriation of profits, a remittance tax (of 5 percent) makes dividend remittances costly and practically difficult.
4. Complicated procedure for investment registration and implementation are the weakest point in this process, especially during the "post-licensing" phase. According to government regulations, the lead time required to obtain the land use right should be no longer than 30 days. In practice, however, it usually takes much longer. A recent MPI survey indicates that the average time for completion of land use right procedures for 220 projects was: 3 months for 16 projects to obtain land use rights; 4-6 months for 47 projects; 7-12 months for 55 projects; 13-24 months for 47 projects; and over two years for 55 projects.
5. Even after obtaining the land use right, foreign investors often confront the compensation problem. Design approval is also a complicated step that needs 15 types of documentation. Multiple layers for the implementation of foreign-invested projects can be seen in the following flow chart (see Figure A1).

Figure A1: Procedures for capital investment



- (1) Application for site approval. (2) Application for foreign investment license. (3) Submission of application for land lease. (4) Contract of land lease. (5) Payment for land use right. (6) Approval on land lease rate. (7) Payment for property registration. (8) Application for environmental permission. (9) Design appraisal (10) Permission from Fire Protection Service. (11) Application for land approval in districts. (12) Application for land approval in wards/communes. (13) Resettlement and compensation. (14) Primary drawing. (15) Official drawing. (16) Application for project construction.

6. The 10th session of the National Assembly has enacted the newly amended FIL this year, which provides a basis to simplify procedures and improve the regulatory environment for foreign investment. The major changes of the amended FIL include:

- The new FIL more clearly identifies which investments are encouraged by the country and which sectors and locations are preferred. It also provides the specific list of prohibited sectors for foreign investment. With a view to enhancing information dissemination, the MPI will draw up a master plan which contains a list of projects with the necessary information on sites, industry, and export ratio, assisting foreign investors in their search for appropriate investment opportunities in Vietnam.
- For the investment that is encouraged, a profit tax exemption will be applied for the first four years of the profitable operation, and a 50 percent reduction of profit tax will be applied for the subsequent four years.
- There is an exemption of import tax for the means of transports used in the assembly lines and for bringing workers from home country to work stations.
- The new FIL allows foreign investors to use profit from investment in Vietnam to reinvest in domestic currency, abolishing one of the previous restrictions.
- Foreign investors are allowed to set up a joint venture between a pre-established joint venture with a local partner. Before this amendment, only a foreign company was allowed as a partner in such joint venture projects.
- The new law ensures the convertibility of Vietnamese Dong to foreign currency for projects encouraged by the Government, such as BOTs and certain import substitution production.
- The new law allows overseas Vietnamese who invest in Vietnam with a 20 percent reduction in the profit tax, except for those investments where a 10 percent profit tax has been applied.
- The new FIL allows the provincial people's committees and management boards of export processing zones to grant licenses to some projects based on specific regulations of the Government.
- The new law provides a clearer definition of accountability, function and coordination between the government agencies involved in foreign investment activities such as ministries and provincial people's committees.

A new article has been included to address the issue of corruption and red tape. Foreign investors can file their complains with the responsible office. Officials or offices that create red tapes for foreign investors will be treated in accordance with the administrative regulations, or, if it is identified as a crime, under the Criminal Code.

Annex 2: Selected Laws and Regulations related to Foreign Direct Investment

I. Related Laws

Law of Foreign Investment, 1987; amended on December 11, 1996.

State Enterprise Law, April 20, 1995

Labor Code of the Socialist Republic of Vietnam, July 5, 1994.

Company Law, December 21, 1990; Law to amend a number of articles in the Company Law, on June 22, 1994.

Private Enterprise Law, December 21, 1990; Law to amend a number of articles in the Private Enterprise Law, on June 22, 1994

Bankruptcy Law, December 30, 1993.

Environmental Law, December 27, 1993.

Law on Domestic Investment Promotion, December 30, 1993.

Law on Export-Import Tax, December 26, 1991; amended July 5, 1993.

Land Law, January 8, 1988.

II. Investment

Decree No. 36/CP of the Government, dated April 24, 1997, on the issuance of the regulation of the industrial, export-processing and high-technology zones.

Circular No. 101/BXD-CSXD, dated April 15, 1997, guiding the management of the contraction of foreign invested projects and foreign contractors with contracted work in Vietnam.

Decree No. 12/CP of the Government on regulations on foreign investment in Vietnam, February 18, 1997.

Decree No. 42/CP of the Government, dated July 16, 1996, on the issuance of the regulation on investment and construction management.

Decree No. 43/CP of the Government, dated July 16, 1996, on the issuance of bidding regulations.

Decree No. 191/CP of the Government, dated December 28, 1994, on the issuance of the regulation on identification, appraisal, and implementation of foreign direct investment projects.

Decree No. 192/CP of the Government, dated December 25, 1994, on the issuance of the regulation on industrial zones.

Decree No. 179/CP of the Government , dated November 2, 1994, on the supplemental regulations on the operations of foreign economic representative offices in Vietnam according to Decree No. 82/CP.

Decree No. 82/CP of the Government , dated August 2, 1994, on the issuance of the regulations on the establishment of foreign economic representative offices in Vietnam.

Circular No. 333/UB-LXT, dated February 28, 1994, of the State Committee for Cooperation and Investment guiding the implementation of the regulation on BOT investment.

Decree No. 87/CP of the Government, dated November 21, 1993, on the issuance of regulation on BOT investment.

Circular No. 1126/HTDP-PC, dated August 20, 1992, of State Committee for Cooperation and Investment on the implementations of the regulation on export processing zones.

Regulations on export processing zones issued in accordance with Decree No. 352/HDBT, dated October 18, 1991.

Interministerial Circular No. 02/TTLB of the Ministry of Planning and Investment, Ministry of Construction and Ministry of Trade, guiding the implementation of the bidding regulations.

III. Banking

Decision No. 217/QD-NH1 of the Governor of the State Bank, dated August 17, 1996, on the issuance of regulation on mortgaging, pawning, and guaranteeing for bank loans.

Inter-ministerial Circular No. 01/TT-LB of the State Bank - Finance - Justice, dated July 3, 1996, providing procedures on mortgage applicable to state enterprises and on notary mortgage contracts and guarantees for bank loan borrowers.

Decision No. 161/QD-NH7 of the Governor of the State Bank, dated June 8, 1996, on the addition and amendment of some points of Circular No. 07/TT-NH7, dated March 26, 1984, guiding the management of the borrowing and repayment of foreign debts by business.

Decision No. 262/QD-NH14 of the Governor of the State Bank, dated September 19, 1995, on the amendment of some articles of regulations on guaranteeing bank operations issued along with decision No. 196/QD-NH14, dated September 16, 1994, of the Governor of the State Bank of Vietnam.

Document No. 3050/UB-TMDV of the State Planning Committee, dated September 9, 1995, on the list of import substitutes relating to the sale of hard currency to foreign-invested enterprises.

Decision No. 208/QD-NH7 of the Governor of the State Bank, dated July 26, 1995, promulgating the regulations on State Bank's foreign exchange fund management.

Document No. 3831/KTTH of the Government, dated July 13, 1995, on the selling of foreign exchange to foreign invested enterprises.

Decision No. 361/TTg of the Prime Minister, dated June 20, 1995, on establishment the commission on preparation of the stock market in Vietnam.

Circular No. 01/TT-NH5 of the State Bank, dated April 28, 1995, guiding the implementation of regulation on the establishment and operation of the representative offices of foreign economic organizations in Vietnam with regard to representative offices of foreign credit institutions and foreign banks.

Decision No. 275/QD-NH5 of the Governor of the State Bank, dated November 7, 1994, promulgating the regulation on shareholders, shares, and prescribed capital of joint - stock credit organizations.

Decision No. 204/QD-NH7 of the Governor of the State Bank, dated September 20, 1994, on promulgation of the temporary statute of foreign exchange positions of credit institutions authorized to do foreign exchange trading.

Decision No. 203/QD-NH13 of the Governor of the State Bank, September 20, 1994 on the promulgation of the organization and operations of the interbank foreign exchange market.

Decision No. 174/QD-NH5 of the Governor of the State Bank, dated August 26, 1994 on the amendment to the scope of activities and content of foreign bank branches and joint-venture banks operating in Vietnam.

- Decision No. 175/QD-NH5 of the Governor of the State Bank, August 26, 1994, on foreign currencies lending by foreign bank branches and joint venture banks to domestic banks.
- Decision No. 147/QD-NH7 of the Governor of the State Bank, July 28, 1994, on stipulating the exchange rate for trading in foreign currencies by the State.
- Decision No. 149/QD-NH14 of the Governor of the State Bank, dated May 27, 1994, promulgating the regulation on hire-purchase credit.
- Decision No. 337-HDBT of the Council of Ministers, dated October 25, 1991, on measures connected with foreign exchange management for the present.
- Circular No. 178/NH-TT of the Governor of State Bank, dated October 5, 1991, on the guidance for implementing of the regulation on the foreign bank branches and the joint-venture banks operating in Vietnam.
- Circular No. 75-NH-TT of the State Bank, dated March 16, 1991 guiding the implementation of the regulations on savings in freely convertible foreign currencies.
- Ordinance on the State Bank of Vietnam, dated May 23, 1990.
- Ordinance on banks, credit cooperatives and finance companies, dated May 23, 1990.

IV. Tax

- Circular No. 83/TC-TCT of the Ministry of Finance, dated December 25, 1996, guiding the implementation of the income tax and profit tax obligations of the foreign economic entities and foreigners doing in express mail delivery services in Vietnam.
- Circular No. 61/TC-TCT of the Ministry of Finance, dated October 23, 1996, guiding the implementation of the tax obligation of the foreign economic entities and foreigners with leasing services for machinery, equipment and means of transportation in Vietnam.
- Circular No. 37/TC-TCT of the Ministry of Finance, dated May 10, 1995, guiding the application of tax regime for the foreign economic entities and foreigner doing business in Vietnam outside of the investment forms according to the Foreign Investment Law.
- Circular No. 90/TC-TCT, dated November 10, 1993, of the Ministry of Finance guiding the implementation of the tax policies with respect to joint-venture banks and foreign banks' branches.
- Decree No. 54/CP of the Government, dated August 28, 1993, on the regulation of the implementation of the amended law on export-import taxes.

V. Trade

- Decision No. 28/TTg of the Prime Minister, dated January 13, 1997, on the policy of export-import management in 1997.
- Announcement No. 3816/TCHQ-GSQL of the Customs Department on the import-export between export processing zones and domestic market.
- Decree No. 89/CP of the Government, dated December 15, 1995, on the abolishment of shipment licenses for export and import goods.
- Decree No. 33/CP of the Government, dated April 19, 1994, on the state management of import-export activity.
- Regulation No. 299/TMDL-XNK of Ministry of Trade, dated April 09, 1994 on the granting of export-import license.

Announcement No 2923/TM-XNK of the Ministry of Trade, dated March 28, 1994, on the processing of goods and commodities in the foreign-invested projects.
Ordinance on Customs, February 20, 1990.

VI. Land

Circular No. 01/BXD-CSXD, dated April 15, 1997, guiding the construction management of construction sites with foreign investment funding and foreign contractors with construction contracts in Vietnam.

Circular No. 293/TT-DC of the General Department of Land Administration, dated March 14, 1997, guiding the preparation for land transfer and leasing documents for the domestic organizations and land re-leasing in industrial and export-processing zones.

Decree No. 42/CP of the Government, dated July 16, 1996, on the issuance of the regulation on capital investment and construction management.

Circular No. 1124/TT-DC, dated September 8, 1995, guiding the preparation of the application forms for foreign entities and individuals to lease land in Vietnam and for the Vietnamese entities to lease the land for foreign joint-ventures.

Decree No. 11/CP of the Government, dated January 24, 1995, on the implementation of the ordinance on the rights and obligations of the foreign entities and individuals leasing land in Vietnam.

VII. Labor

Decree No. 58/CP of the Government, dated October 1, 1996, on the licensing foreign workers in businesses and organizations in Vietnam.

Ordinance on the procedures to settle labor disputes promulgated on April 11, 1996.

Decree No. 22/CP of the Government, dated October 31, 1995, stipulating the details and guiding the implementation of several articles of the Labor Code of Vietnam on jobs.

VIII. Environment

Directive No. 199/TTg of the Prime Minister, dated April 3, 1997, on the urgent measures in controlling solid waste in the urban areas and industrial zones.

Decree No. 26/CP of the Government, dated April 26, 1996, stipulating administrative punishment for violation of environmental protection.

Decree No. 175/CP of the Government, dated October 18, 1994, guiding the implementation of the environment law.

IX. Other Regulations

Decree No. 9/CP of the Government, dated January 30, 1997, on the amendment of Article No. 7 of the regulation allowing the foreigners and Vietnamese overseas to rent houses in Vietnam.

Decree No. 58/CP of the Government, dated September 18, 1995, issuing the regulation allowing the foreigners and Vietnamese overseas to rent houses in Vietnam.

Circular No. 37/NHTT-TT of the Ministry of Culture and Information, dated July 1, 1995, guiding the implementation of Decree No. 194/CP of the Government dated December 31, 1994, on the advertisement activities in Vietnam.

Ordinance on the protection of copyrights, issued along with the order of the State President No. 38/TCN, dated February 10, 1994.

Decree No. 49/HDBT of the Council of Ministers, dated March 4, 1991, stipulating the details of industrial property rights.

Circular No. 3/NCPL of the Supreme Court, dated July 18, 1989, guiding the consideration and settlement of a number of disputes on the industrial property rights.

Ordinance on the industrial property rights dated February 11, 1989.

Ordinance on foreign technology transfer to Vietnam, dated December 5, 1988.

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Table 18:	Industrial gross output, 1995-1996, by investment sources.

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