Vietnam

Vietnam is attracting the attention of overseas investors. With the collapse of the Cold War order, Vietnam—formerly a member of the Eastern camp—is seeking to re-establish relations, both politically and economically, with Western governments. The country has a lot to offer: abundant natural resources which include oil and coal, the availability of cheap labor (the average monthly salary is $50), a quality work force with a literacy rate of 90% and a population of 70 million, making Vietnam the second largest market in Southeast Asia. It is no surprise, then, that Vietnam is catching the eyes of investors.

Vietnam's economic performance over the past few years has also received high marks. The nation is making smooth progress in its transition from a socialist economic system to a market economic system without political upheaval. Economic upheaval did occur during the early stages—high inflation and a sudden drop in the exchange rate—but these are now being brought under control. Inflation, which at one point hit 300%, dropped to 5.2% by 1993 and since 1991 the exchange rate has settled in at around 11,000 dong to the U.S. dollar.

Furthermore, since 1992 the overall economy is looking up. The rate of economic expansion has exceeded 8% for the past three years running. With its macroeconomic stability, and signs of rapid economic growth, overseas investors are viewing Vietnam as a possible "new frontier."

In Japan, too, interest in Vietnam is increasing every year. As portrayed in Table 1, the number of articles on Vietnam in the *Nikkei,* the *Asahi* and the *Mainichi* newspapers has increased steadily over the past four years. In 1990 these three major Japanese dailies ran 1,308 stories on Vietnam. The figure increased to 2,256 in 1992, 2,412 in 1993 and hit 2,898 by the end of November 1994. Subject matter has also shifted from political and social stories to economic matters. Furthermore, an endless stream of Japanese economic delegations has visited Vietnam; in 1994 alone the total reached over 20,000 businessmen.

Table 1: Newspaper Articles on Vietnam

	1990	1991	1992	1993	1994 (til end of Nov.)
Nikkei (4 publications)	436	649	783	876	1,159
Asahi	598	967	1,010	1,015	960
Mainichi	274	430	463	521	779
Total	1,308	1,176	2,256	2,412	2,898

Source: Nikkei Data Base

Investment trends

An open policy toward other countries and moves toward a market economy have developed hand in hand in Vietnam. The door for foreign direct investments has been swung wide open. In December 1987, the Foreign Investments Law, which allows companies that are 100-percent foreign capitalized to operate in Vietnam, was passed. Revisions in 1990 and 1992 allow BOT (build-operate-transfer) direct investments and the use of foreign capital in the building and maintenance of the national infrastructure.

The approved number of direct overseas investments in Vietnam is increasing in both number and value. In 1988 there were 17 investments worth a total of $147 million. Two years later there were 69 cases of direct overseas investment in Vietnam worth a total of $512 million. 1992 saw 193 cases worth $1.926 billion, and 1993 weighed in with 261 cases for $2.615 billion. In 1994, there were 300 direct overseas investments, which are expected to reach a total of $4.1 billion, a 45% increase over the previous year. Within the span of seven years, between the enactment of the Foreign Investments Law and September 1994, overseas direct investments have totalled $9.389 billion.

Since the lifting of U.S. sanctions against Vietnam in February 1994, U.S. companies have jumped into the market with both feet. The result has been an intensification of competition among all foreign companies struggling for a foothold. Approval of direct investments are expected to continue to increase in the same vein in 1995 and beyond.

Table 2 breaks down investments in Vietnam according to origin. As of September 1994, Taiwan was the number one investor with 145 cases at $1.799 billion, followed by Hong Kong with 157 cases at $1.416 billion; both accounting for one-third of all foreign investments. Like other Southeast Asian nations, Vietnam is greatly effected by investments from ethnic Chinese businessmen.

The third largest investor is South Korea with 79 investments at $755 million. Due largely to major investments by the Daewoo group (tube televisions, automobile factories, industrial parks) and aggressive advances into the textile field where inexpensive labor is key, South Korean investments have grown rapidly since 1993 ($371 million in 1993 and $157 million in the first nine months of 1994).

Japan is the seventh largest investor in Vietnam, following France, Singapore and Malaysia. Singapore's number five position is due primarily to increased investments in real estate such as hotels, office buildings and golf courses in recent years, making it the main instigator of the construction rush. The United States places 14th, with 19 investments totalling $168 million.

When the numbers are broken down according to what industries are attracting the most foreign direct investment dollars, the real surprise is the $1.95 billion directed into the hotel and tourist industry, targeting the 900,000 businessmen who visit Vietnam annually as well as foreigners residing in the country.

The industrial sector heads the list with 341 investment projects worth $2.801 billion. The majority of these investments, however, are directed toward light industries such as textiles and foodstuffs. Few of the industrial investments are on a grand scale. However, the reopening of aid and loans from international financial organs and advanced nations since 1992 has led to signs that economic development will accelerate.

Consequently, there should be a gradual increase in investments in the heavy industries (cement, iron, petrochemicals, etc.) which form a nation's economic development foundation. Competition is also heightening among players in the beverage and automobile industries trying to get their piece of Southeast Asia's second largest consumer market.

Japanese investments

Japan is almost always the top investor among Asian countries. However, in contrast to the present investment boom among other nations it was not bullish about increased investments in Vietnam. Since the passing of the Foreign Investments Law, Japan's direct investments have been as follows: five investments worth $83 million in 1989, four investments at $2 million in 1990, nine investments worth $13 million in 1991, 11 investments worth $220 million in 1992, 15 investments worth $76 million in 1993, and 10 investments worth $88 million in the first half of 1994. Total investments as of September 1994 were 61 cases for a total of $564 million.

The Vietnamese government had placed high hopes on Japan, but is now expressing concern over the lack of investments. Japanese companies send many delegates to look over the economic situation in Vietnam, they say, but hesitate to invest.

However, even though Japan's economic relationship, particularly in trade, is not on a large scale in terms of the amount of money changing hands, the relationship between the two countries is becoming deeper and more intricate year by year. Trade between the two nations increased by 1.6 times between 1990 (¥116.1 billion) and 1993 (¥189.3 billion). From the Vietnam side of the equation, that is one-third of its total trade, making Japan quite an important trading partner. Oil is Japan's number one import from Vietnam, accounting for approximately half of all imports in 1993. However, as time passes, the volume of garment (from ¥3 billion in 1990 to ¥23 billion in 1993) and processed food imports employing cheap labor is also rising. Some Japanese companies contract out Vietnamese state owned companies to do labor-intensive work such as embroidery for kimono, sending cloth and thread from Japan. As for Japanese exports to Vietnam, industrial machinery and equipment are on the rise as Vietnam strives to increase its industrial production.

Why doesn't this increase in trade volume lead to more direct investments? Businessmen who have been to Vietnam say that the reason lies in the backwardness of the nation's infrastructures, be it hard (ports, roads, airports, electricity, water) or soft (laws). A common characteristic of the way Japanese companies enter a foreign market is to approach the project with a long-term perspective, including the building of local factories. The present status of Vietnam's infrastructure makes the risks involved in long-term investment simply too high. As a result, Japanese companies are relying on consigned production by state-owned companies to fill the need for increased imports of processed goods.

Recent signs do, however, seem to point to rising Japanese investments. For example, several large Japanese trading companies have, in conjunction with ASEAN nation companies, made major investments, with these investments being tallied under the name of the ASEAN countries rather than as Japanese investments. In a joint venture with the Malaysian company Proton, for instance, Mitsubishi Corporation and Mitsubishi Motors have received approval to build an auto assembly plant in Vietnam. Mitsui Corporation and a Thai company have been granted the go-ahead to form a joint concern to produce storage tanks for petroleum. Sumitomo Corporation and a Malaysian company will form a joint venture to manufacture polypropylene bags.

Although investments by Japanese companies are admittedly small in scale, they cover a broadening range of fields from processed foods and textiles to steel and automobile production, from oil developments to hotel and office building construction. Since 1993, the number of investment projects exceeding $3 million is also on the rise, a clear indication that Japanese investments are increasing in scale.

Investments in heavy industries such as steel and cement are expected to increase in the future thanks to national projects that are designed to foster the development of Vietnam's heavy industries.

Table 2: Trends in Investor Nations and Regions (Total Approvals of Investments since 1988)

Investor Nation/Region	Number	Investment (Unit: $ million)
Taiwan	145	1,798.7
Hong Kong	157	1,415.9
South Korea	79	755.2
Australia	41	665.2
Singapore	69	648.0
Malaysia	30	572.6
Japan	61	564.6
France	56	497.1
Others	256	2,472.1
Total	894	9,389.4

Source: State Committee for Cooperation and Investment

Photo: Kyodo News Service

Vietnamese farmers planting rice along Highway 1 between Hanoi and Danang.

Future outlook and issues

Let's look at Vietnam's plans for future economic development and foreign investment policies, as well as future trends in investments by Japanese companies. Vietnam's development strategy of recent years has been based on industrialization and modernization. Shortages of capital and technology have be dealt with by allowing in foreign companies. The Vietnamese government has clearly taken a stance of accelerating economic development. While Vietnam continues to maintain a socialist system, it also continues to stress the importance of foreign capital and is moving steadily down the open door policy path. It would be difficult to imagine a retreat in the direction of isolationism.

Of course, the present open-door attitude towards foreign capital is bound to become more selective as investments are chosen as part of a national strategy. Such a trend is already apparent. In Ho Chi Minh City, for example, foreign capital is concentrated in hotels and soft drink manufacturing, creating fears of excessive competition with domestic companies. In response, the government has taken the temporary step of putting off approval of further direct investments in these areas.

There are signs of rising protectionism in Vietnam. Scarce foreign exchange reserves and the wish to avoid excessive debt accumulation are sited as factors making it necessary to have "import substitutes," i.e. locally made products. If the trend toward protectionism continues, companies that targeted Vietnam's 70-million-strong domestic market will have no choice but to build factories inside Vietnam. In October 1994, Sony Corporation was granted permission to form a joint venture to assemble televisions for the domestic market. Toyota and other automakers are said to be in the midst of negotiating with their local counterparts over setting up projects in Vietnam.

Until now the state of infrastructure development has shackled direct investments, but now conditions appear ripe for quick development. The government recognizes the critical importance of immediate infrastructure development. Each year it must direct $1 billion in support to infrastructure development. If the infrastructure improves, a rapid increase in investments from Japan and other nations as well can be expected. Furthermore, if the yen remains strong, Vietnam's cheap labor will become even more attractive to Japanese companies and we will surely see more small- and mid-sized Japanese companies moving into Vietnam.

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