

Overview of Investment Situation and Policy in Viet Nam in the 1990s¹

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Investment has been one of the most important factors contributing to the high economic growth of Viet Nam through the period of economic reform, which started from 1989. Primary analyses show that there are converse trends of investment in the two periods: 1991-1995 and 1996-2000. The most concerned trend is that the growth rate of investment in the second period has decreased too much in comparison with that of the previous period. In order to rationalize causes of those trends, this report will examine investments in state sector, state-owned enterprises (SOE), private sector and households as well as foreign invested sector during the 1990s in the following aspects:

- Investment trends in the above 4 sectors;
- Reviewing investment regimes in those sectors
- Assessing problems and difficulties of current investment policies.
- Discussing some measures to amend investment regime in the next 5 years.

In the following part, we will analyze current policies on investment to see how much they help effectively allocate investment capitals, which are actually a scarce resource of the country. Particularly, the paper will discuss in detail the efficiency of public investment mechanism. Finally, in the annex 2, we will list pieces of legislation regarding the mechanism and policies on investment in the above 4 economic sectors.

Part 1 Investment situation and policy

A. Situation and policy of public investment

1. Public investment trend

Public investment is excised by the Government through 2 sources of fund: Non refund budget capital and state credit with low rate and favorable conditions. Non refund budget capital is mainly reserved to projects on infrastructure construction and human resource development sectors, which are not capable to take a very long time to return capital. State credit is a form of loan with low interest rate and favorable conditions provided to prioritize projects identified in the state development plan.

The main trends of public investment from 1991-2000:

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(1) With regards to the non refund state budget capital:

- 1) Investment from state budget capital during the last 10 year did not enjoy a stable growth. Even though its value estimated by current prices increased steadily (except a light decrease in 1994), its value by constant price increased rapidly in 1992, 1993, 1996 and 1997 but had a minus growth in 1994, 2000 or very small growth in 1998.
- 2) However, in overall, investment from state budget was in a going-up line in the period 1991-1993 and gradually going down from 1994 till present. On average, the growth rate of investment from state budget is 21.2% from 1991-1995 and 14.1% from 1996-2000. Thus its share in the total social investment reduced from a relatively stable ratio of 35% on average in the period 1991-1993 to a stable rate of 21% in the period 1995-2000.
- 3) Regarding the structure of investment from state budget capital classified by the hierarchy of administration, the share of capital managed by central authorities increased during the period 1991-1993 from 52.9% to 66% then reduced to 45.7% in 1998. Conversely, the share of public investment from local authorities' budget has increased sharply form 1994 till now after a heavy drop during the period 1991-1993.
- 4) Regarding the structure of using state budget classified by economic sectors, the years 1994 and 1995 marked a structural change. Before 1994 and 1995, the ratio of investment in industry and construction increased very rapidly while the share of investment in other economic sectors considerably reduced. On the contrary, after 1994 and 1995, the ratio of investment in the first 2 sectors sharply decreased and the proportion of state budget capital invested in agriculture, forestry, fishery, irrigation, infrastructure, trade and services has increased very quickly.

There is a clear trend that state budget capital is concentrated to the construction of infrastructure and human resource development as expected target in order to create necessary conditions for the development of other economic sectors.

(2) Preferential state credit

- 1) State credit as well as other sources of capital did not experience a stable growth in the 1990s. However, it has been a source of the most rapid increase. Its growth rate was minus 50% in 1992, but went up to 200% in 1993 then reduced to 21% in 1994 and even dropped to minus 27.3% in 1995. In 1996, it again enjoyed an expected growth up to 116.9% but very quickly dropped down to 16.7%. Since 1998, its growth rate has been increasing thanks to the policy of investment promotion of the Government.
- 2) Because of its high growth rate, the share of state credit provided to enterprises in the total of social investment increased very quickly: this share increased from 3.2% in 1993 to 10.4% in 1996

and 19.9% in 2000. Thus in the year 2000, the share of this capital is approximately equivalent to share of public capital and higher than the self-capital of enterprises or FDI.

- 3) In a general trend, state credit in 1990s was more and more focussed on prioritized projects identified in plans and economic development programs of the country, especially projects aiming at developing and enhancing the effectiveness of state owned enterprises (SOEs) in the key sectors such as irrigation, multi-year crops, agricultural science and technique and infrastructure for agriculture production. In industrial sector, public investment is allocated with priority to important sectors such as electricity, cement, steel, fertilizers, petro-chemical and agriculture processing.
- 4) Even though the economy has been reformed towards market based economy for many years, it is recently in a tendency of returning to the old mechanism, i.e. soliciting-giving mechanism, subsidization of credit as it was in the period of central planning. Such a mechanism is actually a subsidization in terms of credit for non-competitive products and prolongs the lives of ineffective enterprises.

2. Evolution of public investment policy

Public investment policy has been considerably changed since late 1980s. In 1989, the Government of Viet Nam reduced sharply the subsidization to SOEs in terms of investment; public investment is concentrated to the development of infrastructure and social welfare. In fact, many enterprises are not capable to cope with this change and the number of loss making enterprises increased dramatically. It implies so much pressure that the Government has to return to the regime of credit subsidization to help enterprises.

From 1994 and 1995, the Government reapplied policies of 1989, i.e. prioritizing public investment to sectors undesired by private enterprises. From 1994 and 1995, the Government's policy is to reduce considerably its investment to industry sector and to increase investment in infrastructure, health care, education and other public services.

Apart from the adjustment of public investment structure, the Government issued in 1990s many legal documents to regulate and enhance the efficiency of public investment, e.g. the Decree 385/HDBT dated 7/11/1990 of the Ministerial Council issuing the Regulations on Investment and basic construction administration which has been updated by the Decree 177/CP; the Decree 92/CP in 1998 of the Government regulating in detail the process of implementing and managing basic constructions funded by state budget and other public funds; the Decree 52/1999/ND-CP date 08/07/1999 of the Government on the issuance of the Regulations on Investment and basic construction administration which replaced the Decree 42/CP is one important advance step to renovate the investment and construction regime towards removing institutional and administrative obstacles to investment and business activities of enterprises.

There are two main points in the Decree 52/CP as follows:

Renovating the regulatory regime on investment: each source of capital is managed by a distinctive mechanism, e.g. for state budget investment, the Government regulates comprehensively from the preparation of project, exercise of investment to the operation. For preferential state credit or other credit sources guaranteed by the Government, enterprises can take the lead in carrying out their investment but remained under the control of credit organizations to ensure their credibility. In this case, the Government intervenes in the phrase of making decision on investment, including the approval of the overall budget for investment, planning, architecture, standards, land and environment.

Extending the rights to enterprises, organizations and individuals in order to encourage them engage in investment and in parallel, enhancing the Government's regulation on investment on the basis of legal documents.

3. Difficulties occurred from policies applied to public investment

Corruption and waste in public investment is a phenomenon prevailed in the 1990s. Since legal and regulatory mechanisms are not sufficient and clearly shaped in the transitional period, they are open for corruption and waste by a large part of government officials who rely on their mandate to make decision on every stage of investment, from the adoption of project's proposal till the implementation of the project. From 1993, Viet Nam started to put public investment projects to auction. However, in most cases, decision is implicitly made beforehand by the Board of auction, so the efficiency of auction is in fact relatively low.

Investment policy, which is still weak in many aspects leads to inefficiency. Many projects, even large projects, have not been carried out in accordance with procedures stipulated by laws, especially in the period of implementing the Decree 385/HDBT. Criteria for clearing off public investment funds are not uniform and recording documents (receipts) are arbitrarily used. Therefore many fault-recording documents have been made to draw public investment fund.

The spread and leveling of investment capital has been an emerging problem. The implementation of project is relatively slow and the procedures of approving projects, auction and disbursement are very complicated and time consuming. The quality of some public investment projects is still very low because project-designers do not pay attention to the efficiency of projects funded by Government budget. Those projects are therefore subject to many adjustments and amendments, even in the stage of implementation, which cause a large waste and prolong the duration of projects.

In recent years, public investment plans are carried out very slowly and not in time. There is often the phenomenon that " money has to wait for projects" which is totally converse to previous fact that projects were approved but no fund available for disbursement. There are some causes of this phenomenon. Firstly, the assignment of investment plans from budget funds to Ministries and provinces is very slow

so those funds can not be transferred. Secondly, while ministries, agencies and provinces are still looking for effective projects, banks themselves are also bewildered to work out credit services consistent with current complicated policy and mechanism. Thirdly, the allocation of investment funds at ministries, agencies and provinces does not match the list of projects indicated by the Ministry of Planning and Investment, therefore banks and the Ministry of Finance are not able to disburse funds.

4. Recommendation on public investment policy in Viet Nam

- (1) Investment should not be scattered around but concentrated to key projects so that they can be promptly brought into practice and help enhance the economic efficiency. Once investment budget funds are allocated to ministries, agencies and provinces, a council, which compose of qualified and wise experts should be established to examine and select the most necessary projects on the basis of close scoring and voting.
- (2) Prioritizing public investment funds to projects on infrastructure, agriculture, industries associated to agriculture, health care, education and human resources development.
- (3) Promptly amending, completing and improving laws decrees, circulars related to the use and administration of public investment funds so that investment can be carried out in the most rapid manner. Main points for immediate actions include among others: improving the process and procedures of formulating, examining, approving, auctioning and disbursing public investment projects; Binding public investment projects to follow strictly decrees and circulars of the government and other competent ministries.
- (4) Strengthening the supervision and control toward Government agencies in charge of the implementation and administration of public investment projects in order to prevent corruption, waste and impediments in the course of implementing projects.

B. Investment situation and policy in state enterprises

1. General trend of investment in SOEs

- (1) Investment from self-capital of SOEs has not regularly grew: its growth rates were respectively 60%, 119.3%, 81.3% and 46.3% in 1991, 1993, 1994 and 1997 but dramatically dropped in the consecutive years, i.e. minus 46.7% in 1992, -9.7% in 1995 and 15.6% in 1998.
- (2) Generally, the growth rate of investment from self-capital of SOEs has been slowly decreased. The average growth rate was 25.2% in 1991-1995 whereas it was only 21.3% in 1996-2000. There are 2 periods where the growth rate decreased: the first period was from 1994 after a peak growth in 1993 (119.3%) and the second period was from 1998 because of the Asian financial crisis.
- (3) Despite of unstable growth, the share of self-capital investment of SOEs in the total social investment has a tendency of increase in the period 1996-2000 after an unstable change in 1991-1995. This

share mounted up from 13.8% in 1995 to 18% in 2000.

- (4) Investment of SOEs, classified by sectors has been oriented to intensive investment and renewal of equipment with a view to enhancing products' quality so that the productive capacity increases rapidly with a large number of products satisfying export standards or import substitution.
- (5) However, "instant noodle investment" and "short-term investment" are still prevailed in SOEs during 1990s: since enterprises do not have confidence in the stability of Government policy and mechanism, they invest a large amount of money but intend to draw it quickly, leading to a high proportion of depreciation cost and profit in the price of product and thus making product less competitive and can not be sold in the market.
- (6) In the context of hard competition, low demand for economic growth, high valuation of Viet Nam dong, tough competition from imports, SOEs are advocated to invest in capital intensive sectors, protected sectors and industries producing goods for export within preferential quotas.

2. Evolution of investment policy vis-à-vis SOEs

Since 1991, reforms in SOEs sector have been taking place very slowly even though this sector has been chronically in difficulty. In the regulatory reform process, the reorganization of SOEs and national corporations gives a strong effect to the investment of those enterprises.

- (1) Reorganization of SOEs: from 1989, in implementing the decrees 315/HDBT and 388/HDBT, the Instruction 500/TTg and Decision 90/TTg, the number of SOEs decreased from 12000 in 1990 to 5340 in 8/2000. By reducing the number of enterprises, the seize of enterprises' self-capital and budget funds allocated to them have increased. Enterprises have more capital to modernize their machinery and equipment and to produce product of good quality. As a result, enterprises' profits are in a rise and they in turn help increase the self-capital of enterprises.
- (2) Establishing national corporations: In implementing the Decisions 90/TTg and 91/TTg dated 7/3/1994 of the Prime Minister, there are currently 18 national corporations functioning under the Decree 91 (so called 91 national corporations, administered by the Government) and 74 national corporations functioning under the Decree 90 (administered by relevant Ministries). Even though the mechanism and policy applied in the establishment of national corporations are still exposed to much inefficiency, they have contributed considerably to profit-making of those enterprises. The reason is that because of those mechanism and policy, national corporations became lawful monopoly enterprises, especially in terms of price setting, import-export, controlling the quantity of goods circulated in the market etc. Thanks to high profit making, SOEs in national corporations have increased considerably their investment.
- (3) Changes in laws and regulations during the last 10 years have been directed to enhancing the autonomy in investment of SOEs. The Law on SOEs issued in 5/1994 allowing SOEs to diversify

their activities in many sectors. The Law on enterprises being in effective from 1/2000 removed 145 types of licenses respectively in 2/2000 and 8/2000 and facilitates business activities. The Decree 52 issued in 1999 regarding regulations on investment and construction allows SOEs the right to decide on their own investment projects funded by their self-capital and loans without Government's guarantee (except projects in Group A). Furthermore, SOEs can autonomously take the lead in all stages of investment on the basis of observing existing policies and regimes of the Government.

3. Problems and difficulties occurred by investment policy on SOEs

- (1) Mechanism and policy related to financial and monetary markets are not uniform. Taxation policy is not equally imposed between sectors and businesses and oriented to protection and increased budget revenue. Tax and tariff rates are frequently changed, which put investors in a passive position. Pricing policy is also exposed to some inappropriateness, leading in one hand to price volatile and on the other hand to the monopoly of some enterprises. As a result, they set very high prices which thus affects the demands of public and in turn affect the investment of enterprises.
- (2) The functioning of commercial banks is still weak. Because of low expertise and moral degeneration of some banking staff, loans are often non-refundable. Financial situation of some commercial banks became more and more difficult during the 1990s. As a result, in the last 2 years, the Government has to strengthen the banking system, which implies some difficulties for investment of SOEs.
- (3) The process of streamlining SOEs has been considerably progressive in the 1990 but there are still many difficulties. The number of SOEs is still too many, the model of national corporate is facing many problems and the process of equitization is too slow. The most threatening thing is the low efficiency and weak competitiveness of SOEs when they are coping with tough competitions from foreign capital investment enterprises and imported goods.

4. Policy proposals to enhance and improve the quality of investment in SOEs sector

- (1) Accelerating SOEs reforms towards putting them in leveled playing field with other economic components and foreign enterprises. Equitising as soon as possible enterprises the Government does not need to hold 100 shares; giving autonomy, sale, leasing, merging, disbanding or dissolving most of loss making SOEs, except public benefit enterprises.
- (2) Creating incentives to SOEs to investment intensively and renew their equipment and technology, enhance management skills of SOEs and using up existing capacity. It is not necessary to have mass investment as it was in the last few years.
- (3) Creating favorable policy to exporting enterprises which have enlarged their markets and promised great potential. Similar preferences can be provided in projects of constructing and upgrading transportation infrastructure, irrigation system, electricity networks, shrimp cultivation, multi year

crops, fruit trees, forestry and agro-forestry and aqua products processing.

- (4) Encouraging banks to increase their loans to projects of SMEs, light industry and labor intensive enterprises because those projects and enterprises are more effective than projects and enterprises of large size.
- (5) In the administrative work, the Government should have determining and sanctioning instructions vis-à-vis officers at Ministries, agencies and provinces who do not follow strictly legislation, especially the Law on Enterprises and Law on SOEs and try to maintain regulations for their own benefits. Enhancing the struggle against corruption and professional degeneration of banking staff.

C. Investment situation and policy in private sector

1. General trend of investment from household and private sector

- (1) The growth rate of household and private sector's investment which was very low in the last 10 years did not keep up with the potential of this sector and opportunities brought about by market mechanisms and international integration process. While its growth rate were respectively 20.5% and 42% in 1991 and 1992, its average growth rate was only 9.4% for the next three years, and minus in the following 4 years (1996-1999), even dropped down to minus 10% in 1998.
- (2) As the annual growth rate was low, even minus in many years consecutive, the share of household and private sector's investment in the total social investment reduced considerably and continuously during the 9 years of reforms: it fell from 43.4% on 1991 to 20.1% in 1999, then go up to 24.2% in 2000 thanks to the application of the Law on Enterprises.
- (3) About 90% of investment of private sector was at first from its self-capital. However, during the 1990s, the proportion of banking loans and other unphysical loaning markets in this investment tends to increase.
- (4) The structure of investment in agriculture and rural industries has been adjusted towards increasing the ratio of investment in small and medium production, exploiting competitive advantages such as natural resources and abundant labor forces to produce products that SOEs and foreign invested enterprises do not want to engage because of small market.

2. Evolution of policies regarding household's investment

(1) Main policies to mobilize capital for agriculture development

It can be said that the most dramatic reform of the economic renovation process of Viet Nam has taken place in agriculture sector and stemmed from this sector. Because of the implementation of many policies advocated to the liberalization of agriculture during the 1980s, Viet Nam became a crop exporting country from 1989. Resolutions of the Communist Parties, especially the Resolution 2 and 6 of the VII Section have provided more favorable conditions of agriculture productions, e.g. removing

multi-prices mechanism in cooperatives, applying a market-based price system, creating an unified market for agriculture capital goods, enhancing the application of science and advanced technology in agriculture, developing agriculture service etc. The National Assembly also issued many pieces of legislation on taxation related to agriculture production such as the Law on Agriculture, the Law on import-export tariffs, Land use tax, Tax on Natural resources etc. This taxation system, which is formulated in a manner to be ready comprehensible and applicable to peasants, clarify the sums of taxes that peasants have to contribute to the Government, helping prevent the corruption and abuse of power by different levels of authorities.

Furthermore, in the 1990s, the Government adopted many types of supporting policies in favor of agriculture sector and rural areas, such as increasing public investment to upgrade rural infrastructure, provide investment credit to SOEs as a support to agriculture production, liberalizing domestic rice market, allowing private sector to compete in getting rice export quotas and move gradually to open up the export of rice from 2000. Discrimination between agriculture and other sector has been reduced. As a result, private investment in agriculture and rural areas tend to increase.

(2) Main policy to mobilize capital for developing non-agriculture private sector:

Since the VI Party's Congress in 12/1986, non-agriculture private sector has been recognized as an economic component and allowed to compete in a leveled field with state economic sector. In 4/1992, the National Assembly passes new Constitution, which acknowledges private ownership of property and capital goods. The confiscation of private property has been prohibited. In 1/1991, the National Assembly passed the law in private company, which allowed private sector to engage in most of economic activities. In 6/1993, the National Assembly amended the Law on foreign investment in Viet Nam, allowing Vietnamese private enterprises to create joint venture with foreign enterprises. The Law in encouraging domestic investment has also been adopted in 1994. Those policies have been obviously giving positive effects to the investment of non-agriculture private sector.

However from 1994, 1995 till end of 1999, many difficulties occurred in the private sector that regulatory policies were not adjusted in time to response to. For example, private enterprises which were already of small size and limited capital, once developing to a stagnant point had been lacking of capital, land and physical infrastructure to modernize their production and meet high product's quality requirements; the intention of strengthening the economic role of the Government and establishing national corporations; and a rapid increase of corruption, and red tape of state administration vis-a-vis private enterprises.

In 1/2000, the Law on Enterprises officially replaced the existing Law on Company and Private Enterprises formulated in 1990, that creates more favorable conditions to private sector. The most strength of the Law on Enterprises is that it eliminates inequality among investors in establishing new business, simplify formalities for new business establishment and reinforce the responsibility of investors

through the mechanism of "registration and verification". The process of business registration was simplified and shortened.

3. Remaining difficulties in the application of policies and mechanism for private investment

Despite a lot of improvements in policies and mechanism for capital mobilization from the private sector, private investors have been facing difficulties regarding environment for production and trade, import and export activities, credit terms, market information and transparency. Difficulties facing the agricultural sector as well as the non-agriculture private sector are normally related to legal framework, land use rights, incentives for investment in unfavorable areas, direct access to foreign market for inputs and outputs.

Generally, the major reason that limits the mobilization of capital from rural population for economic development can be reflected in 2 ways. Firstly, the financial system is not strong enough; investment environment is not attractive or transparent; the banking system is not well developed; the organization of capital mobilization and lending is not diversified enough to meet different requirements of depositors; bank credit reserved for agriculture is limited while credit terms are not favorable for farmers. At the same time, infrastructure for agriculture and rural development is under bad conditions.

Non-agriculture private sector faces the same difficulties as in the case of agriculture and rural development. The worrying situation of investment in this sector is also attributed to the fact that business environment is unstable and government's policies are not yet supportive or encouraging to this sector. There is an idea that the Government has not realized the importance of this sector to future development of the national economy.

During 1990s, the Government issued a great number of laws. However, the promulgation of Decrees and Circulars providing guidelines on the implementation of these laws has been slow and not synchronous; the last Circular may be promulgated at the same time when the revision of law is taking place. Therefore, private investors do not believe in the stability of the legal system. Each time, they only invest a small amount of capital and withdraw their investment if it is not rewarding. On the other hand, existing policies are not equal to different economic sectors, and private investors are the victims of this unfair mechanism.

4. Recommendations on policies and mechanism governing the mobilization of capital from private sector and from the community

- (1) *accelerate the development of the financial system, including direct finance from long term securities markets and indirect finance through banks and credit organizations. At the same time, introduce more policies and mechanism that better meet people's need and aspiration in order to make the best use of this capital source for the development objective;*

- (2) introduce more effective policies in order to gain people's belief in the government's policy of developing a multi-sector economy, diversifying the forms of ownership, and creating a fair environment for trade; eliminate discriminative policies toward private sector and household businesses; eliminate monopoly to ensure free and fair competition among different kinds of businesses. It is necessary to minimize procedures relating to the registration of businesses, and conduct a number of reforms to make it more favorable for businesses in terms of credits, prices and taxes, while furthering combat against corruption and bureaucracy;
- (3) *the government need to introduce policies to stabilize and and improve people's income.* These policies include developing rural infrastructure, imposing low taxes and removing some taxes imposed on farmers, reducing taxes imposed on industries which support agriculture and rural development, and other policies to help farmers find an outlet for their products, i.e marketing, soft loan for farmers in case they have to store their products when prices decrease...

D. Foreign direct investment, situation and policies

1. Outstanding trends in FDI

- (1) *Foreign direct investment tends to increase in the period from 1987-1988, when the Law on Foreign Direct Investment was adopted, until 1995-1996, but then fell sharply since 1996 in terms of both number and value of projects.* The number of projects kept increasing from 153 in 1991 to 412 in 1995, with total registered capital increased from USD 1294 million in 1991 to USD 8640 million in 1996. However, the situation has reversed since 1996. By 2000, foreign direct investment in Viet Nam has come back to 1990 level.
- (2) *The proportion of foreign direct investment in the total investment of the whole society increased rapidly in the period 1991-1995 and decreased in the period 1996-2000.* The figure, estimated at 14.7% in 1990, increased to 32.7% in 1995 and then fell steeply to only 15.9 % in 2000.
- (3) *The structure of foreign direct investment has been changing in a positive way, with higher priority shifted from the production of non-tradable goods to the production of tradable goods, thereby positively contribute to economic growth.*
- (4) *A common tendency in recent years is that the proportion of foreign capital invested in industrial zones, export and processing zones, business cooperation contract, and BOT projects has increased while capital proportion and the number of projects licensed by the Ministry of Planning and Investment and Provincial Authorities has decreased very fast.*

In addition to some common and positive trends as mentioned above, there have also been some irrational tendencies relating foreign investment, which limit its socio-economic effects:

- (1) *Foreign investment has only been focused in areas with favorable conditions or industries which*

show quick return on investment. As a result, there is a lack of capital in areas Viet Nam needs to develop (such as agricultural processing, aqua-agriculture, manufacturing...) or in areas that face the problem of unemployment;

- (2) *The tendency of diversifying sources of investment take slow effects while the proportion of investment from ASEAN countries has been increasing. Depending heavily on investment from ASEAN and Asia, the improvement of technology and management skills takes place at slow pace, and furthermore, investment flow will go down as soon as these countries suffer from crisis;*
- (3) *In recent years, the proportion of small-scale projects and 100% foreign invested projects has been increasing, while the proportion of joint venture projects and business cooperation contracts decreasing. The contributed capital of the Vietnamese side tends to be lower in proportion, just around 20% in stead of 30% as before, and mainly in the form of land use rights;*
- (4) *Despite some positive improvement regarding investment structure, the proportion of investment in industrial production and estates trading still outweigh that in agriculture and infrastructure. By 1998, industry accounts for 37.6 %, oil and gas 20.4%, estate 17.8%, while agriculture 6.1 % and telecommunications only 4.5 %.*

2. Improvements of policies and mechanism with regard to foreign direct investment in Viet Nam

(1) Law on Foreign Investment dated 12/1987:

The National Assembly adopted the Law on Foreign Investment in December 1987 in order to create a legal environment for foreign investment in Viet Nam. However, this first version had many drawbacks, and had to be revised in 1990. This was because the law was issued in the background that Viet Nam began its renovation process, the centrally planned economy principles was still applied, and a law governing the development of market economy was not yet in place;

(2) Revised Law on Foreign Investment 1990

In June 1990, the National Assembly of Viet Nam adopted the Law on the amendment of and supplement to the Law on Foreign Investment 1987. These amendments and supplements include: (1) definition of the roles and responsibilities of the Vietnamese side, (2) more detailed definition of business cooperation contracts, (3) more detailed definition of joint ventures (4) regulations on business cooperation between Vietnamese private enterprises and their foreign partners. They also provide more concrete definitions and regulations on joint ventures.

(3) Revised Law on Foreign Investment 1992:

The National Assembly of Viet Nam revised the Law on Foreign Investment for the second time in December 1992. The amendments and supplements cover the following matters: definition of Vietnamese side consisting of 1 or more businesses of different economic sectors, establishment of export processing zones (EPZ) and business activities in EPZ, regulations on BOT contracts. In

comparison with the first revision, the revised law 1992 is more concrete and focusing in some definitions. Particularly, it also provides regulations on new types of attracting and contributing investment capital.

Since 1992, along the course of revising and completing laws and other documents regarding foreign investment in Viet Nam, regulations on the repatriation of investment capital or profits tends to be increasingly strict and complicated. As a result, worries have been raised among investors since 1995-1996, and the number of projects approved went down considerably at the end of 1996.

(4) Law on Foreign Investment November 1996

On 12th November 1996, the National Assembly adopted the new Law on Foreign Investment by basically amending and supplementing the Law on Foreign Investment 1987 and its two revisions in 1990 and 1992. In addition, the National Assembly has also revised and adopted many important laws such as Commercial Law, Company Law, Law on Private Companies...

New contents of the 1996 Law include: concrete regulations on the areas and fields where foreign investment is encouraged; areas and fields where foreign investment is restricted; new regulations on the reduction and exemption of profit tax, for example, profit tax can be exempted for at most 4-8 years; exemption of import duties on machinery and transport vehicles specified for investment projects; reduction and exemption of rents on land, water and sea area used in investment projects under the form of BOT, BTO, BT; investment projects in mountainous, remote and hard-up areas; regulations on diversification of investment forms; legalization of industrial zones; regulations on the use of Vietnamese currency by the foreign parties; limiting the use of consensus voting in making decisions through the Board of Management; reducing the time for evaluating and licensing to 60 days...

(5) Revised Law on Foreign Investment 2000

In the condition that investment flows have seen continued reduction in recent years, the National Assembly of Viet Nam has revised the Law on Foreign Investment version 1996. The Government also issued a Decree dated 31st July 2000, providing detailed regulations on the implementation of this Law. However, there have not been any further guiding Circulars since then. Thus, investors are still not much interested in investing in Viet Nam. Their traditional worry is that Law is fairly open and clear, while sub-laws try to limit incentives and make it difficult to implement the Law.

3. Difficulties and drawbacks in policies and mechanism governing foreign direct investment in Viet Nam

(1) Planning for the development of FDI sector is slow and less concrete, which leads to many difficulties in evaluating projects, and poor quality of projects. Due to the fact that a master plan for each region and area is not yet in place, and that the exploration steps do not have enough reliability, many projects including those for building restaurants and hotels, producing freshwater, audio visual products,

assembling car and motorbike, washing powder..., have been licensed improperly, which lead to excessive supply in the overall economy. Investment incentives have not yet been institutionalized to attract foreign investors to such areas as agriculture, forestry, fishery, and infrastructure development in many big cities or in concentrated industrial zones. Although joint ventures have been more facilitated, accounting for 50 % of the project number and 60% of the registered capital, this sector has the highest number of loss-making and bankrupt businesses. Part of the reason is that the existing mechanism does not stimulate the participation of non-state enterprises in joint ventures.

- (2) *Policies and legal system are not synchronous, stable, and transparent.* Many changes not only disadvantage investors, but also reverse and cause damage to their business. Many legal documents are not issued in time. Some guideline documents issued by ministries, branches and local authorities tend to tighten and restrict the development of foreign investment. Most of the related documents have unclear articles...
- (3) *High level of government intervention in the operation of foreign investors:* There is too much overlapping inspection and examination by different Government agencies, causing a lot of troubles for business activities. The criminalization of economic relations tends to increase. A policy to improve Vietnamese staff working in foreign investment projects is not yet in place. Corruption is becoming popular at different levels, causing delays for many foreign invested projects.

4. Recommendation on policies and mechanism in order to further attract foreign investment

- (1) *Maintain the balance between maintaining government intervention in the overall economy and foreign invested sector, and creating a more favorable and attractive environment for foreign investors.* To this end, we need to identify some areas of priority in which foreign investors should be encouraged. These include some areas of higher comparative advantage in order to promote export, or areas involved high level of technology. In particular, we should give higher incentives for areas and industries that have high demand for foreign investment;
- (2) *Revise the existing legal documents in order to reduce difficulties facing investors.* This can be achieved by: ensuring an attractive and transparent legal environment together with incentives of higher level than those applied to domestic investors; reducing costs and unifying prices for both domestic and foreign investors; reviewing costs of land use rights, cost and compensation for the demolition of people and the clearance of land; introducing reforms in the areas of finance, credit, and exchange with a view to equalizing foreign investors with domestic ones;
- (3) *Diversify forms of foreign investment, allowing foreign investors to change from one form to another; helping foreign investors when they are in difficulties by granting loans, thereby increasing the capital contribution of the Vietnamese side; encouraging private sector to take part in joint ventures with foreign partners.*

Part 2 The effectiveness of investment capital

A. Impact of policy and mechanism on the effective allocation of scarce resources

1. Impact of policy and mechanism on the allocation of investment capital in early 1990s

In late 1980s and early 1990s, economic liberalization and the open door policy created a milestone in the national ideology: multi-sector economy is adopted in the reality, and the motive to enrich oneself is stimulated in all social groups. Investment policies are greatly eased to allow the participation of all economic components. Capital mobilized for investment in early 1990s has grown rapidly with increasingly higher effectiveness.

The liberalized economic mechanism in all industries, together with the devaluation of the Vietnamese currency in 1988-1992, is a decisive factor to the comprehensive reallocation of all development resources, including investment capital. In fact, thanks to the new economic mechanism, which includes the removal of obstacles to investment as mentioned above, exports and other industries—both labor intensive and capital saving—have made increased profits. This encourages investors to move their capital to agriculture, light industry which are labor intensive and export-oriented, and particularly small scale industry and handicraft, instead of heavy industry as the case was in 1985-1987.

During this time, there were unprecedented incidences after the unification of our country in 1975. Laborers moved from cities to the countryside to take part in agriculture production. Capital flows were transferred from heavy to light industries, from the state to non-state industries, especially to those industries that support agriculture, service industry and consumer good production. Thus, investment was restructured, and scarce resources such as capital, land, labor, material were reallocated among different economic sectors and among secondary industries in each sector in a way that could improve the effectiveness of trade, production, and of investment capital.

The ICOR index with the deviation of 1 year has decreased from above 3 (in 1986-1989) to less than 3 in 1990, 2.4 in 1991, 1.76 in 1992, and 2.2 in 1993. Therefore, it can be assured that economic and investment policies in late 1980s and early 1990s, has brought good results for the allocation of investment capital.

Despite the fact that exact statistics on investment by different economic components in different areas are not available, the overview of the national economy shows that investment structure in early 1990s was relatively rational. In 1990-1991, the average proportion of investment capital reserved for agriculture production (particularly for export) was up to 16.4%, while only 42.4% for service and 41.2% for industrial production.

Table 1 Investment capital structure (%)

Industries	1990	1991	1992	1993	1994	1995	1996	1997
Industrial production and construction	38.4	44.0	48.9	55.3	39.0	33.0	41.1	31.5
Agriculture, forestry and fishery	17.1	15.7	12.7	8.9	9.4	12.0	8.5	15.4
Service and social infrastructure	44.5	40.3	38.4	35.8	51.6	55.0	50.4	53.1

Source: Ministry of Planning and Investment

2. Impact of policy and mechanism on the allocation of investment capital in the period from 1993-1994

In this period, economic policies and mechanism became less responsive to the development of the production force than the case had been in 1992-1993. In some areas, such as encouragement of foreign direct investment or private investment, policies and mechanism even became more tightening. On the other hand, a great deal of foreign exchange was poured into Viet Nam: more income from oil, the lifting of US financial embargo against Viet Nam, the sharp increase in investment capital from FDI and from Vietnamese overseas, the return of international financial aid.

These sources of foreign capital made an important contribution to higher domestic saving and investment, fostering the economic growth in 1990-1995. However, excessive foreign capital led to the revaluation of Vietnamese currency, greatly reducing comparative advantage of sectors that produce internationally commercialized goods (tradable goods sector). The negative effect of this economic and investment mechanism was that both domestic and foreign investors did not dare to put their money to vital industries, high-tech industries, or capital intensive industries. Instead, they turned to invest in the production of goods that could only be domestically rather than internationally. Examples can be found in those areas as estate trading, sales, restaurant service and tourism... In 1996-1997, when those areas faced lower demand, investors again turned their money to industries or products still protected by the State. This process resulted in sharp increase in prices of land and other estates, labor, service, pushing up production cost.

Thus, investment and economic policies and mechanism after 1994 helped accelerate the process of automatic reallocation of resources in a less effective way. Ineffective use of investment capital was reflected not only at the national economy's level, but also at industry and product levels. At the national economy's level, our ICOR increased greatly in 1990s, from only 1.76 in 1992 to 5.3 in 1998, fastest growth in Asia. At industry level, the proportion of investment in agriculture fell deeply after 1991 while this industry had lowest ICOR and employed the most labors.

At product level, on the one hand, irrational regulation and policy distortion led to excessive supply and low economic efficiency. On the other hand, this inefficiency was partly due to misleading decision in choosing key industries irrelevant to the present development level of the economy. Investment was concentrated on purchasing machines and equipment assembled in other countries, and on building up

factories and workshops, which led to high production cost and inward development of the economy.

Effects of investment related policies in 1993-1994 period can be rephrased as 3 dangerous tendencies: increasing exhaustion of domestic capital sources due to the imbalance and ineffectiveness of investment structure, and slow improvement of people's income (even decreased income and poorer life for people in rural areas); the recurrence of subsidized credit funds through whereby all industries and branches, including private and foreign invested enterprises expect preferential capital from the Government; and lastly, foreign direct investment has seen continuous decreases every year since 1996.

3. Conclusion on the impact of policy and mechanism on investment capital allocation in 1990s

The fact was that Viet Nam saw relatively high growth rates in 1990s and that huge development of investment capital was the most important factor to this achievement. However, it can be concluded that policies and mechanism in this period lessened the effectiveness of capital allocation as they turned investors to industries that met domestic demand or industries that were still under the protection of the State and reduced the competitiveness of the overall economy.

B. The role of capital mobilization through Viet Nam Postal Savings Fund

1. The objective of mobilizing capital through Postal Savings Fund

(1) The objective of postal savings service

Based on the need to thoroughly utilize all domestic sources for socio-economic development, the Government issued Decision 215/1998/QĐ-TTg dated 20/5/1998 allowing the General Corporation of Postal and Telecommunication to provide the postal savings service. In May 1999, the General Department of Postal and Telecommunication decided to establish a Postal Savings Fund.

The reality shows that Vietnamese people are hardworking and thrifty, but receive low income, and as a result, rarely keep their money as savings accounts in banks. Moreover, the banking network is not widespread, especially in mountainous, rural and remote areas. Forms of mobilizing capital are not diversified, and not suitable for low-income population. The mobilization of capital through the State Treasury is still limited and not on a regular basis.

However, the majority of households keep their money, from several hundred thousands to several millions VND, in their pockets. With a mobilization system convenient, flexible and suitable to the urgent need of people, these small sums of money can be utilized for the national economic development. This is the basis for the formulation of postal savings fund system. In the first 2-3 years, the post and telecommunication industry can make use of over 500 post offices to mobilize capital, more effectively than any banks. In the future, it can also extend its service to other post offices in the total of 2760 existing post offices all over the country.

The major objective of postal savings service is to attract and mobilize idle funds in all social

groups to be contributed to the state budget for investing in infrastructure and some key national economic projects, in accordance with the Government's guidelines and Law on Domestic Investment Encouragement. Another objective is to motivate the saving movement in the society, in order to stabilize people's income and lives, while making better use of the post and telecommunication system.

As decided by the Prime Minister, all capital sources mobilized through the postal savings system will be kept in forms of term savings or demand savings. Presently, the postal savings service includes 2 categories for Vietnamese currency: term savings (3 months, 6 months, 12 months) and installment savings (6 months, 12 months, 18 months and 24 months).

(2) State management mechanism for postal savings funds

- The Ministry of Finance is responsible for instructing, supervising and examining the whole process: transferring, receiving, using and refunding between the General Corporation of Postal and Telecommunication and the Development Assistant Fund. The Ministry of Finance will: decide the interest rate that the Development Assistant Fund has to pay to General Corporation of Postal and Telecommunication for using funds; consider the guarantee rate for regular refunding; instruct, supervise and examine the implementation of accounting regulations provided for postal savings service; act as the State administration authority in financial issues for the postal savings service provided by the General Corporation of Postal and Telecommunication;
- The Ministry of Finance shall cooperate with the Ministry of Planning and Investment to work out and submit to the Government the yearly plan for postal savings fund mobilized by the General Corporation of Postal and Telecommunication. The State Bank of Viet Nam is responsible for supervising and controlling interest rate, the transfer of money, safeguarding the postal savings storage system.
- The General Department of Post and Telecommunication shall carry out the role of state management for postal savings service by issuing service providing licenses, setting up rules, regulations, and service standards. The General Corporation of Postal and Telecommunication is responsible for organizing the provision of postal savings service and ensuring that mobilized capital is properly transferred to the Development Assistant Fund.

2. Mechanism and policies to make effective use of capital mobilized through Postal Savings Fund

The mechanism of using mobilized capital: the General Corporation of Postal and Telecommunication retains part of the mobilized capital for regular repayment (the maximum proportion is 20% of the planned mobilized capital). The rest is transferred to Development Assistant Fund, which in turn extends loans to investment projects in accordance with the orientation of the Government and of the Law on Encouragement of Domestic Investment. The fact indicates that this mechanism has been applied flexibly in that the Postal Savings Fund usually retains only enough cash for repayment purpose.

Interest rate: Interest rate for postal savings is decided by the General Corporation of Postal and Telecommunication based on the average of the interest rate existing on the market, provided that the planned mobilized fund is ensured.

Interest rate at which the Development Assistant Fund has to pay for using mobilized capital is decided by the Ministry of Finance based on the State Treasury Bills of the same term. Ministry of Finance on the last day of every quarter (3 months) pays the General Corporation of Postal and Telecommunication the interest calculated on the net capital transferred to the Ministry of Finance.

Mechanism for transferring and refunding of mobilized capital: On the 10th or 25th of every month, based on the planned amount, the Development Assistant Fund receives the mobilized capital from the General Corporation of Postal and Telecommunication on terms of 1 year, 2 years, 3 years and 5 years. To ensure the security of the whole postal savings system, the Ministry of Finance, the State Bank of Viet Nam, and the General Corporation of Postal and Telecommunication shall cooperate in supervising its operation.

From the beginning of its operation, May 1999, through August 2000, the Postal Savings Fund has mobilized VND 2211 million, of which VND 1315 million has been transferred to Development Assistant Fund. This Fund has been operating more and more effectively. However, it is currently difficult to evaluate how efficiently the mobilized capital has been used at the Development Assistant Fund. This is due to a number of reasons, particularly the following:

The Postal Savings Fund has only been in operation for 1 year; the mobilized capital is too small to evaluate its social and economic effects.

Furthermore, this small sum (estimated at VND 1200 million) will be transferred to the Development Assistant Fund and add to its own capital of VND 7000 million, which will be put to different purposes without separating mobilized capital and State Budget's fund. It is therefore difficult to evaluate the mobilized capital alone.

The Development Assistant Fund itself only started its operation at the beginning of 2000. Presently, it is carrying out feasibility study and some trial projects. As a result, it is difficult to evaluate the Fund's operation.

However, from what the Postal Savings Fund has achieved, it can be asserted that this Fund is necessary and that its mobilized capital has made its contribution to the Government investment and to the implementation of Government's guidelines on pushing up the demand. Hereby, we will discuss on the effectiveness of this policy and mechanism.

C. Evaluation of public investment policies and mechanism

Two major objectives of public investment are to develop infrastructure and to formulate a number of state-owned enterprises. To evaluate the effects of public investment policies and mechanism, it is impossible

not to mention its important role to the national economy. The importance and constructive effects of public investment in Viet Nam can be reflected by the following two points:

- (1) *Public investment is the most important for long-term development.* To achieve fast and stable development, and to carry out long-term industrialization projects, it is clearly important to invest in infrastructure including roads, ports, energy, post and telecommunication, water-resource system, land reclamation ... These projects require large initial investment, but have low profitability and late return. It is, therefore, impossible for other economic components especially private sector, to invest in these areas because they are neither interested in nor strong enough to take part in these projects. As a result, only state sector, with capital mobilized through the state budget and from foreign assistant sources, can carry out these projects.

The practice in Viet Nam shows that, infrastructure is one of the prime concerns for investors when they choose to invest in any area. Not only foreign investors but domestic investors also keep away from underdeveloped areas. Without investment to develop production and improve income, there will not be enough capital for infrastructure development as well. This vicious circle constitutes the fact that developed areas become increasingly developed while in areas with degraded infrastructure, economic development is more and more difficult and there is a danger of being lagged behind. Over the past years, public investment in our country has been reserved for the development of infrastructure, human resource, health care service and education. Therefore, public investment has played a vital role in creating pre-conditions for the development of other economic sectors.

- (2) *Public investment is the prime source of investment for the development of basic industries, capital-intensive industries, or those industries vital to national economic development*

As analyzed above, industries that require large amount of capital but have low return on investment can not be developed without public sources. In fact, the government has mobilized the public investment sources to develop these industries through State-owned enterprises with a view to remove the "bottle-neck" in the economy, facilitating the development of other economic sectors.

Although the excessive intervention of the Government in economic activities may, to some extent, pose negative effects to the development of private sector, public investment has basically been positive and supportive to the development of other economic sectors in Viet Nam, even the foreign invested sector. For example, without investment in water system, electric supply, transportation, post and telecommunication (which goes beyond the ability and interest of private sector), private sector can not have survived nor carried out its business. Without primary industries and capital intensive industries, there would be a shortage of input, semi-products, machinery and equipment for the production of the private sector.

- (3) *Public investment in Viet Nam also plays an important part in the development of agriculture sector.* In fact, the stable and fast growth of economic development in 1990s was partly due to State's

public investment in agriculture.

- (4) *Public investment plays a pivotal role in the development of public services, health care service, culture, education, science and technology...* It is decisive to enhancing the quality of human resource for long-term development. It is also important for the reallocation of social production force, reducing the gaps between the rich and the poor, removing the difference in the level of development.
- (5) *In difficult economic situation, as the case has been since 1977, public investment has accounted for an increasingly higher proportion and motivated other economic components to invest.* In fact, public investment has gradually pushed up the investment demand of other economic components.

There are some worries that the increasing proportion of public investment over the past years may have negative impacts on the growth of private sector's investment by reducing credit supply and raising the cost of capital mobilization by the private sector. However, practical and theoretical experience from many countries around the world has proved that it is not a cause-and-effect relation. The impact of public investment on private sector's investment depends on whether they are supplements to or substitutes for each other. The impact would be positive if they are supplements.

The practice in Viet Nam has proved that public investment has been reserved for developing infrastructure and some primary industries, both of which are necessary for the development of the national economy in general and for private sector in particular. Thus, public investment is supplement to private investment, reducing cost and improving capital efficiency. Generally, growth in public investment is positive to private sector's investment in Viet Nam as well as in other developing countries, especially those countries at the same level of development.

In brief, it can be concluded that the positive effects and importance of public investment, and of public investment mechanism are great to the national economy of Viet Nam. It has been proven that:

Public investment mechanism witnessed a great deal of improvement in 1990s and has become increasingly adaptive to the requirements of the national economy. Public investment mechanism was not in place until 1990 when the Government issued Decree 385/HDBT, the first government legal document regulating the management of investment and primary construction. Since then, a number of legal documents have come into effect. Up to now, Viet Nam has a relatively complete and comprehensive policy and mechanism for the mobilization and management of public investment, which is up to international standards and ensuring the effectiveness of public investment.

Many modern and scientific methods for the management of public investment have been in place to evaluate and select projects with a view to meeting the practical need, while ensuring the socio-economic effects. Public investment structure has been adjusted in a way that socio-economic effects are improved in the long-run and capital efficiency is enhanced through tendering regulations.

Recommendations

It is a visible potential that the domestic capital source will increase following the momentum of economic development. However, the problem of how to mobilize this potential for the course of economic development used to be relatively thorny. Therefore, in the next 5 years, it is necessary to conduct a comprehensive renovation of the mechanism for mobilizing investment capital from all sources. This renovation should be based on increased economic liberalization and reduction of obstacles caused by cumbersome and bureaucratic administration, and conducted in a way that participation of all economic sectors is encouraged. New policy and mechanism should attract capital from all sources, small and large, in order to carry out the industrialization and modernization policy set by the Communist Party.

In addition to full exploitation of capital sources, it is also urgent to renovate the management and personnel structure to improve the capital efficiency. We are making another step towards the knowledge-based economy and globalization. Therefore, efficiency and effectiveness should be top priorities, as well as basis for any development process. This is the biggest demand and challenge for Viet Nam at the threshold of 21st century.

Table 2 Value, structure and growth rates of investment resources

Investment resources	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<i>Total (bill dong, current prices)</i>	6747	11526	19755	34167	43100	68048	79367	96870	96400	103900	124600	147480
Investment from state budget	2237	2246	7045	12558	10300	13575	16544	20570	20700	26000	29700	34280
State credit	300	1060	636	2391	3200	3064	8280	12700	14800	19000	21200	25000
Investment of SOEs	420	1300	574	2418	2000	9409	11070	13300	16100	19000	22300	25000
Investment of private sector	2800	5000	7000	8000	14400	20000	20773	20000	20500	21000	29000	35000
Foreign direct investment	990	1920	4500	8800	13200	22000	22700	30300	24300	18900	22400	28200
<i>Structure %</i>	100	100	100	100	100	100	100	100	100	100	100	100
Investment from state budget	33.16	19.49	35.66	36.75	23.90	19.95	20.84	21.23	21.47	25.02	23.84	23.24
State credit	4.45	9.20	3.22	7.00	7.42	4.50	10.43	13.11	15.35	18.29	17.01	16.95
Investment of SOEs	6.22	11.28	2.91	7.08	4.64	13.83	13.95	13.73	16.70	18.29	17.90	16.95
Investment of private sector	41.50	43.38	35.43	23.41	33.41	29.39	26.17	20.65	21.27	20.21	23.27	23.73
Foreign direct investment	14.67	16.66	22.78	25.76	30.63	32.33	28.60	31.28	25.21	18.19	17.98	19.12
<i>Growth rates, prices of 1995</i>												
Total of investment	11.7	25.6	49.8	51.2	9.1	15.7	13.3	12.5	-3.4	1.9	14.8	
Investment from state budget		11.9	41.6	70.9	-13.8	11.8	31.2	24.8	5.2	18.7	9.35	
State credit		...	-50.0	200.0	21.0	-27.3	116.9	58.8	16.7	21.3	6.8	
Investment of SOEs		60.6	-46.7	119.3	81.3	-9.7	25.1	46.3	15.6	11.6	12.35	
Investment of private sector		20.5	42.0	7.1	17.7	4.6	-1.1	-4.4	-9.8	-3.2	32.2	
Foreign direct investment		-11.1	131.4	116.5	49.7	33.3	14.3	3.8	-23.0	-26.5	13.4	

Source: Ministry of Planning and Investment (MPI)

Table 3 Role of foreign direct investment in total investment

- Realized foreign direct investment (million USD)	214	394	1099	1946	2671	2646	3250	1956	1563	1600
- Exchange rate (VND / USD)	7400	10000	11000	10980	11027	11300	12300	13900	14000	14200
- Total inves. of whole society (mil usd)	1558	1976	3106	3925	6171	7024	7876	6935	7421	8775

Source: Ministry of Planning and Investment (MPI)

Table 4 Foreign direct investment incentives in selected Asian Countries, April 1997

	Viet Nam	China	Thailand	Philippines
Profit tax	10% 15%	15% 20%	20% 25%	20% 25%
Tax holidays	2-4 years	2 years	3-8 years	6-10 years
Import duty exemption	Equipment, raw materials, kits, commodities	Equipment, raw materials, kits, commodities	Equipment, raw materials for construction	All kinds of raw materials

Table 5 Evolution of FDI in Viet Nam (number of projects and millions of USD)

Indicators	88-90	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Number of projects	213	153	195	273	371	412	368	331	275	230	2000
Registered capital	1582	1294	2036	2652	4071	6616	8640	4654	3897	1567	1600
Legal capital	1272	859	1553	1728	2099	3311	3096	2221	1795		
Contribution of Viet Nam to legal capital	265	212	215	367	551	878	695	321	626		
Number of projects dissolved	6	37	48	34	58	56	52	80	95		
Capital value of project dissolved	24	293	402	79	217	477	1023	352	2428	564	
Expired projects	2	1	3	3	1	2	3	3	3	1	
Expired capital	0.25	1.00	13.94	15.50	0.13	0.50	74.60	0.82	19.09	1.00	
Number of projects supplemented capital	1	6	10	51	73	122	134	132	133		
Capital value of projects supplemented capital	0.3	7.7	49	222	504	1247	684	1146	875	641	600
Projects in implementation	72	83	142	215	314	362	334	322	275		
Effective investment capital	959	1468	2315	3671	4233	6570	7666	4397	3897		
Disbursed investment capital		214	394	1099	1946	2671	2646	3250	2189	1933	2000
Disbursed legal capital		190	366	845	1297	1606	1489	1373	545	251	
Legal capital disbursed by Viet Nam		46	66	220	271	428	393	288	143	73	
Legal capital disbursed by foreign partners		144	300	625	1026	1178	1096	1085	402	178	
Foreign capital in Viet Nam		168	328	879	1675	2243	2253	2962	2062	1758	1800
Turnover		151	224	485	1023	1852	2583	3851	3910	4600	5500
Budget contribution					128	195	263	315	317	271	260
Exports of foreign invested enterprises		52	112	257	352	440	786	1790	1983	2577	3250
Imports of foreign invested enterprises						1458	2043	3197	2668	3398	4000
Employment in foreign invested enterprises (by thousand people)									270	296	327

Source: Economy and forecast review, MPI, 10-11/2000.

ヴィエトナムにおける国内投資活動の変遷と 公共投資計画 (PIP) の評価

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ヴィエトナム経済は、1986年の党大会における「ドイモイ（刷新）」政策の採択により社会主義を基軸として残しながら市場経済化をめざすこととなった。改革開放政策と8千万人に近い人口を抱える市場の魅力、勤勉かつ低賃金雇用の供給力、および天然資源の潜在性などが外国からの直接投資を呼びこみ、第5次5ヵ年計画（1991-1995年）にあっては、GDP年平均成長率8.2%（目標：5.5-6.5%成長）を達成する等、経済離陸への成長軌道に乗った。この成果を受けて、1996年11月の国会において、第6次5ヵ年計画（1996-2000年）が承認された。この計画実施に当たっての国内投資に関する具体的指針としてヴィエトナム政府によって策定されたのが、「公共投資計画：1996-2000年（PIP：Public Investment Program）」である。当計画は、世銀および国連開発計画（UNDP）のテクニカル・アシスタンスを得て計画投資省（MPI）が作成し、1996年6月18日付Decision No. 2920/QHQTにより首相の承認が得られている。当該計画の概要については「ヴィエトナム国市場経済化支援開発政策調査（第2フェーズ）、ヴィエトナムにおける投資開発資金金融—森和之」（Study on Economic Development Policy in the Transition Toward a Market-oriented Economy in Viet Nam）に詳述されている。

本稿は、ヴィエトナムにおける将来の経済発展の鍵ともなる国内投資、就中、公共投資計画に焦点を当て、1990年代の実績をレビューすると共に、次期第7次の経済計画およびその中の公共投資計画について入手可能なデータに基づき、評価を行うものである。本稿作成に当たっては、今次ヴィエトナム国市場経済化支援開発政策調査（第3フェーズ）における、ヴィエトナム政府側への委託調査の内、「1990年代のヴィエトナムにおける投資政策と実績概況：Overview of Investment Situation and Policy in Viet Nam in the 1990s, Le Viet Duc, Ha Xuan Tu, and Le Quoc Ly MPI」が参考になった。

1. ヴィエトナムにおける投資活動のトレンド

ヴィエトナムのGDPは、1999年時点で約400兆VDN（3兆円強）の水準であり、構成要素別には消費のウェイトが高く75%（内個人消費68%、政府部門消費7%）を占め、総投資は27%、純輸出は2%の赤字である。

表1 ヴィエトナムのGDP（支出カテゴリー別 現在価格）

	1993	1994	1995	1996	1997	1998 est.	1999 est.
Consumption	116.7	148.0	187.2	225.2	250.6	283.4	301.7
Investment	34.0	45.4	62.1	76.4	88.7	104.8	109.0
Net exports	-12.2	-16.8	-20.8	-29.8	-25.5	-26.3	-8.8
GDP	140.0	178.5	228.8	272.0	313.6	361.0	399.9
(in % of GDP)							
Consumption	83.3	82.9	81.8	82.8	79.9	78.5	75.4
Investment	24.3	25.5	27.1	28.1	28.3	29.0	27.3
Net exports	-8.8	-9.4	-9.1	-11.0	-8.1	-7.3	-2.2
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(Source: IMF Statistical Appendix and Background Notes, GSO data)

GDPにおける総投資の構成比は、1993年の24%から漸増しているのが特徴であり、90年代のヴィエトナムの経済成長を支える重要な要素となっている。総投資の調達手段別の構成は、計画投資省提供の統計によれば、以下の表2のとおりである。

表2 総投資の調達手段別構成比（現在価格）

(Unit: Trillion VND, %)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Investment	11.5	19.7	34.1	43.1	68.0	79.3	96.8	96.4	103.9	124.6
By State Budget	2.2	7.0	12.5	10.3	13.5	16.5	20.5	20.7	26.0	29.7
By State Credit	1.0	0.6	2.3	3.2	3.0	8.2	12.7	14.8	19.0	21.2
By SOE's own	1.3	0.5	2.4	2.0	9.4	11.0	13.3	16.1	19.0	22.3
By Private Sector	5.0	7.0	8.0	14.4	20.0	20.7	20.0	20.5	21.0	29.0
By FDI	1.9	4.5	8.8	13.2	22.0	22.7	30.3	24.3	18.9	22.4
FDI (million US\$)	214	394	1,099	1,946	2,671	2,646	3,250	1,956	1,563	1,600
(% of Total)										
State Budget	19.5	35.7	36.8	23.9	20.0	20.8	21.2	21.5	25.0	23.8
State Credit	9.2	3.2	7.0	7.4	4.5	10.4	13.1	15.3	18.3	17.0
SOE's own	11.2	2.9	7.0	4.6	13.8	14.0	13.7	16.7	18.3	17.9
Private Sector	43.4	35.4	23.4	33.4	29.4	26.2	20.7	21.3	20.2	23.3
FDI	16.7	22.8	25.8	30.6	32.3	28.6	31.3	25.2	18.2	18.0
Total Investment	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(Source: MPI)

総投資の内、政府部門の公共投資および公的融資は、90年代を通じてシェアを伸ばしているのが特徴のひとつである（1991年シェア：30%→2000年見込41%）。特に、90年代後半における公的融資の拡大が顕著である。財政支出制約の中で、重点産業分野や社会インフラ整備といった政策的投資を、公的融資に委ねている構図が窺える。ヴィエトナム政府は、80年代後半に、財政の健全化対策の一環で、国営企業（SOEs）の設備投資補助金を圧縮する政策変更を実施した。しかし、昨今の公的融資拡大は、SOEに対する支援が補助金から国営商業銀行融資へ肩替わっただけとの印象もぬぐい切れず、かつてのソフトバジェット制約（Constraint）が色濃く残存し、

それが貸し手である国営商業銀行の財務体質を不良債権拡大という形で大きく毀損していることが目下の大きな問題である。公的融資は財政による補助金と違い、融資の対象プロジェクトの事前審査により償還確実性を評価の上実行されることが原則であり、この規律遵守が融資の当事者に求められる。尚、政府部門の投資には、海外公的援助資金（ODA）が含まれる。

一方、民間部門による投資は、国営企業の独自投資、民間部門（個人事業者、農業従事者を含む）の投資、および海外直接投資（FDI）から構成される。1990年代中頃まではFDIが牽引し、近年は、国営企業の独自投資が支えている構図であるが、1998年以降、アジア金融危機の煽りを受けFDIが冷え込んでいることもあり、全体として弱くなっている。民間部門には、地方や農村部の零細な生業者が多く含まれており、担保不足問題やマーケティングの弱さ等のリスクを抱えていることから、フォーマルな金融が届き難い環境であることも民間部門における投資活動の弱さの背景にある。また、民間セクターは融資条件面で、国営企業向け融資に比べ不利な取扱いを受けていたこともあった。この不平等性については、1999年12月の政令178号（担保政策の変更）等により制度面で公平性が確保されるようになってきている。

เวียดนามにおけるFDIは、ASEAN諸国を中心とするアジアに大きく依存する体質を有しているが、1997年のアジア金融危機以降、対เวียดนาม投資スタンスが慎重になってきている。計画投資省（MPI）のレポートによれば、投資の中身が近年、工業団地や輸出加工ゾーンをベースに輸出向け商品生産を目的とするものが拡大してきており、投資効率や短期の投資資金回収を図る意図が窺われるとのことである。FDIは、民間部門の投資資金受け入れだけでなく、海外の進んだ設備、技術を導入することができ、加えてマネジメントスキルの向上も期待できることから、さらに誘導すべく、投資許認可手続きの煩瑣性改善、および投資インセンティブの拡充等の国内投資環境を整備することが望まれよう。

産業セクター別の投資内訳については、入手可能なデータが限られており分析が困難であるが、参考までに計画投資省（MPI）から入手した統計を表3に記す。

表3 産業セクター別投資内訳（％）

	1990	1991	1992	1993	1994	1995	1996	1997
Industry & Construction	38.4	44.0	48.9	55.3	39.0	33.0	41.1	31.5
Agriculture, Forestry etc.	17.1	15.7	12.7	8.9	9.4	12.0	8.5	15.4
Service & Social Infrastructure	44.5	40.3	38.4	35.8	51.6	55.0	50.4	53.1

(Source: MPI)

高成長を維持した90年代前半までは、工業および建設部門投資が全体の投資を牽引してきたが、90年代半ば以降は、サービスセクターならびに社会インフラ投資が設備投資の主流を占めるようになったのが特徴である。

(注)

1. FDIに対する法整備は、1987年の外国投資法制定に遡る。以降、90年、92年ならびに96年に修正がなさ

れ、投資促進分野ならびに税の減免等の投資インセンティブが拡充、明確化されつつある。2000年6月の改正では、輸出振興型投資奨励等が含まれているが、投資回復の効果はまだ見えていない。

2. ヴィエトナムにおける公共投資計画（PIP）および計画達成状況評価

2-1 PIP策定の背景

PIP策定の経緯ならびに第一回目のPIP計画（1996-2000年）については、旧OECDの開発援助研究（Vol. 3, 4, 1996）「ヴィエトナムの公共投資計画の概要と評価」に詳しいので、参考にした。

PIPが策定される以前の公共投資計画は、中長期的かつ包括的な計画は無く、計画投資省（MPI）の前身である国家計画委員会（SPC）が調整役となり、各年度毎の予算編成の一環として策定されていた。その手順は以下のとおりで、単年度予算主義に基づいて行われていた。

- SPCが当該年度の重点セクターを明示したレポートを作成し、各省に提示
- 各省は、それに沿って年度投資プロジェクトのリストを作成
- SPCが全体のバランスを考慮・調整の上、投資予算を各省に配分

このシステムは、毎年各省のプロジェクトリストの積み上げを基礎としており、①総合的かつ長期的視野にたったプライオリティー付けや継続プロジェクトへの配慮欠如、②緊急プロジェクトへの対応の困難性等の問題を抱えていた。また、外国との関係においては、海外直接投資（FDI）や公的援助（ODA）による資本受け入れが本格化する中、政府として、国内の公共投資計画や投資プロジェクトの優先順位を、民間投資家やドナーに対して説明することが求められるようになった。

こうした状況の中、世銀は、ヴィエトナムにおける財政・予算システム改革の一環として中長期のPIP策定の必要性を指摘し、その策定のための技術支援をUNDPとオランダ政府の援助資金を活用して実施した。世銀は、1994年9月のヴィエトナム政府向け構造調整融資（ESAF）実行に際し、1996-1998年までの3カ年の公共投資計画策定を、そのコンディショナリティーのひとつとした。これを受け、ヴィエトナム政府は、1996年をスタートとする5カ年のPIP策定に向け1995年初より作業をスタートした。目的は、5カ年間のマクロ経済成長予測と投資必要額を想定し、その資金調達手段を考慮し、セクター別、地域別配分を計画することにあった。第1次のPIPは、世銀等からの技術支援を得ながら、各ドナー、関係機関の意見を汲み取るプロセスを経て、1996年6月に首相の承認、同年11月に国会承認を得て、実行に移された。2000年からスタートする次期PIP策定は、引き続き同様の支援態勢、手続きを経ながらMPIを核として関係各省、政府機関、ならびに地方自治体の協力の下準備が進められており、この3月開かれる国会ならびに第9回党大会に付議される予定となっている。

2-2 PIP (1996-2000年) の計画と実績評価

PIP (1996-2000年) における投資と資金調達計画および実績見込を、以下の表4および表5により示す。

表4 経済発展5ヵ年計画における投資および資金調達計画

	1991-1995	%	1996-2000	%
Investment	18.0	100.0	41.0-42.0	100.0
State	7.7	43.0	15.6	37.1
FDI	4.9	27.0	14.0	33.3
Private	5.4	30.0	12.4	29.5
Fund Source	18.0	100.0	41.0-42.0	100.0
ODA	2.0	11.1	8.0	19.0
FDI	4.5	24.7	14.0	33.3
Domestic	11.5	63.9	21.0	50.0
Euro Bond	-	-	1.0	
Investment / GDP	19.1%		30.0%	
ICOR	2.0-2.5		3.0-3.3	

(Source: Government Report to CG, IMF data; Unit: Billion of US\$, 1995)

1996年から始まる5ヵ年計画においては、それまでの5ヵ年の投資実績に比べ、対GDP比投資規模を19%から30%に急拡大させており、とりわけ海外直接投資を大幅に増大させることを見込んでおり、その実現可能性に関し野心的 (ambitious) との評価もあった。

表5 経済発展5ヵ年計画 (1996-2000) の当初計画と実績見込対比 (MPI資料)

(Unit: trillion VND at 1995 constant price)

	Planned 5 year	1996	1997	1998	1999	2000 Committed	Likely outcome
Total	460.0	73.0	83.6	76.5	77.9	88.4	399.5
Domestic resource	232.0	42.5	46.7	44.0	48.5	56.5	238.3
External Resource	227.5	30.5	36.9	32.4	29.4	31.9	161.2
PIP	173.2	22.8	28.7	28.1	33.7	36.0	149.4
Domestic resources		13.2	18.0	15.0	18.6	19.3	
External resources		9.6	10.7	13.2	15.2	16.8	
State budget fund	96.8	15.2	17.8	16.4	19.5	18.4	87.3
Of which, ODA		4.4	4.7	5.3	5.5	5.9	
State credit	76.4	7.6	10.9	11.7	14.2	17.6	62.1
Of which, ODA loan		3.7	4.3	6.0	7.6	9.0	
SOE own funds	66.0	10.2	11.4	12.7	14.2	15.8	64.5
Private domestic investment	76.5	19.1	17.2	16.2	15.7	21.4	89.5
FDI	144.3	20.9	26.1	19.2	14.1	15.1	95.5
(マクロ指標)							
GDP成長率	9-10 %						6.7%
工業生産	14-15%						12.2%
農業生産	4.5-5%						4.9%
サービス	12-13%						7.0%

(Source: MPI comments on PIP, Public Expenditure Review 2000)

MPIの2000年までの投資5ヵ年計画実績見込みによれば、当初計画に比べ総投資額ベースで87%の達成率、PIPベースでは86%の達成率であった。1998年以降、アジア金融危機によるFDIの落ちこみが大きく影響しているのが窺われる。一方、公共部門の投資が弱かったのに比べ、民間設備投資が予想を上回る拡大を示したことが特筆される。

表6 PIPのセクター別投資配分(1996-2000年推計)

	% of PIP	% of Capital Budget Expenditure
Agriculture, Forestry and Aquaculture	18	45
Industry	45	4
Transport and Communication	26	40
Education and Training	4	10
Cultural, Health, Social affairs, and Sports	6	17
Science, Technology, and Environment	1	4

(Source: MPI)

セクター別投資の特徴は、表6に示されるとおり、製造業における投資が半分近くを占め、次いで交通・通信インフラ投資、第1次産業向け投資と続く。第1次産業向け投資および、社会インフラ部門の投資は、国家予算にかなり支えられていることが分かる。

PIPの地域別配分は、表7に示されるとおり、紅河デルタ、南東部、およびメコンデルタ地域で全体の約70%を占める。地域別配分統計は、政府の地域政策策定にとっての基礎的情報となることから、毎年の投資バランスを把握し政策のプライオリティー策定に活かしていくことが大事である。

表7 PIPの地域別投資配分(推計)

Region	% of PIP
Northern mountain area	7.6
Red River delta	26.0
North central	9.0
Central coastal area	11.7
Central highland	4.7
South east region	27.6
Mekong delta	15.6

(Source: MPI)

2-3 次期PIP5ヵ年計画(2001-2005年)のフレームワーク

次期PIPは、現在MPIにより取りまとめられており、3月に予定される国会、党大会への付議原案の詳細は、未だ公表されていない。しかしながら、次期社会・経済開発戦略10ヵ年計画の経済フレームワークに沿って策定されることから、先ず、参考までに公表されている経済開発10ヵ年計画の経済フレームを以下に記す。

- ・ 2010年までにGDPを倍増する。このための経済成長率目標：年率7%以上
- ・ 投資規模：30%/GDPに伸長
- ・ 輸出規模：GDP比倍増
- ・ 農業生産規模縮小（25%→16-17%/GDP）
- ・ 工業生産規模拡大（35%→40-41%/GDP）
- ・ サービスセクター拡大（40%→42%/GDP）
- ・ 地方の雇用の縮小（2/3→1/2）と都市部人口増加（1/4→1/3）

表8 経済開発10ヵ年計画における計画値と90年代実績対比

Indicator	Actual average annual growth rate	Target average annual growth rate
	1990-2000	2001-2010
GDP	7.6 %	7-8 %
Agriculture	4.2	4
Industry	11.2	10
Services	7.2	7
GDP per capita	6.0	5.8
Export earning growth	20.5	14
Manufactured exports	28.2	18.5
Labor Force	2.8	2.4

Note: All values real growth rates (Source: Draft Strategy and World Bank estimates)

次に、MPIインタビューにより入手したデータにより次期5ヵ年の投資計画（PIP）を前期5ヵ年計画との対比により整理してみる。

表9 次期5ヵ年投資計画と前期5ヵ年計画対比

(Unit: billion US\$ 1995 / billion US\$ 2000)

Sources of fund	1996-2000	%	2001-2005	%	Condition
Total investment	41.4	100	56-60	100	30%/GDP
State budget	8.7	21	11.5	20	7% growth / year
Domestic fund	5.2	13	8	14	
ODA	3.5	8	3-3.5	6	
State credit	6.9	17	9-10	17	9-10% / year
Domestic fund	2.9	7	4-4.5	8	
ODA	4.0	10	5-5.5	9	
Public investment total	15.6	38	20.5-21.5	37	
SOE's own	5.9	14	9-10	17	9-10% / year
Private enterprises	6.9	17	15-16	27	15-16% / year
FDI	13.0	31	10-11	19	8.7% / year
Non-public investment	25.8	62	34-37	63	
Domestic fund total	20.9	50	38.5	66	
Foreign fund total	20.5	50	20.0	34	

(Source: Interview with MPI)

総投資規模GDP比30%は、前回計画と同様の前提である。想定するGDP成長率7%とのバランスを考えると妥当な水準と評価できよう。経済発展に伴い、ODAを抑制気味としており、一方国内資金動員を高めているのも合理的と思われる。公共部門の投資に比し民間企業の投資の急拡大を想定しているが、これには民間セクターに対する更なるインセンティブ提供が必要と思われる。また、国営企業改革の帰趨も大きく影響するものと思われる。ヴィエトナムにおいて、どれだけ民間セクターの経済活動が定着するかは、政府の民間セクター振興に対する取り組み姿勢および資金面や経営能力におけるこれまでの制約要因がどれだけ改善されるかにかかっている。内外資本の民間企業に対して、国営企業と同等に競争しうる土俵が、国内に整備されるかが鍵である (Providing a level Playing Field)。

セクター別の投資配分計画は、次のとおりである。

表 10 セクター別投資配分

	1996-2000	2001-2005
Agriculture and rural areas	18%	15%
Industry	45%	45-47%
Transport and communication	26%	14-15%
Culture, Education, Health etc.	11%	23-25%

(Source: MPI)

MPI資料によるセクター別の投資配分は、過去5カ年に比べ大きな変化を想定している。すなわち、交通・インフラといったハードインフラ投資を控え、代わりに教育、健康などのヒューマン・ベシック・ニーズ (HBN) 向けの投資を倍増させる計画であり、世銀の貧困削減戦略ペーパー (PRSP) の理念が色濃く反映されているように見える。また、こうしたHBN分野への投資は、金融に馴染まず財政支出への依存が高まる点、使い道と投資効果については、より厳格にモニターする必要がある。また、農業・工業部門における投資は、比較優位分野や雇用創出能力、投資効果等を勘案の上、優先順位をつけて取り組むべきである。

3. PIP計画の課題について

3-1 投資決定と実施のメカニズム

投資計画の準備と実行ならびに建設管理の規則は、首相決定Decree No. 52/1999/ND-CP of JULY 8, 1999により整備された。この政令に基づく投資プロジェクトの計画と実施は、凡そ以下のフローにより行われる。

財政支出 (State Budget) と公的融資 (State Credit) 計画・実施フロー

- ラインミニストリーおよび地方の人民委員会が初期の投資プロジェクト計画を策定
- ラインミニストリーと地方政府における次年度一般投資計画として統合

- 当該プランがMP Iに送達（9月まで）
- MP Iにより各省および地方政府の投資計画が統合され、予算制約があれば、MP Iのイニシアティブにより、プロジェクトの必要性、優先順位が各省と地方政府の間で調整され、その結果が政府（Government）に提案される
- プロジェクトカテゴリーA案件については政府が、B、C案件についてはMP Iが決定し、投資の実施をラインミニストリー乃至地方政府に指示する。（A、B、およびC案件の区分は投資分野と投資規模により区分される。A案件は、国家プロジェクトの性格を有する）
- MP Iは、プロジェクト実施機関に対し年度予算を配布する。
- 予算配布を受けた省庁および地方政府は、予算の範囲の中で投資プロジェクトを選択し、投資プロジェクトリストを策定し、案件登録のためMP IおよびMOFに提出する（2月末迄）
- 各省ならびに地方政府は、年度プロジェクトの実施に関し、当該プロジェクトリストに沿って投資実行をしなければならない
- 政府予算支出による投資は、首相府、MP I、およびMOFが関与する
- 公的融資の決定・実行の仕組みも、基本は財政支出と同様であるが、融資機関として開発支援基金（DAF）が関与することになる点が異なる
- ODA資金の中核的窓口はMP Iが司どり、首相府の承認をとり実施に移される。ODA資金の支出実行はMOF（償還不用案件）およびヴィエトナム中銀（SBV-公的融資）が分担する

公的投資計画は、MP Iが調整役を担っているが、プロジェクトの種類によって決定権限者が異なり、また決定権限者と投資の実行機関が異なる等、計画策定から実施までの手続きが煩瑣であり、コンセンサス作りにも時間がかかる構造となっている。プロジェクトの評価能力、プロジェクトの実施能力等人的能力にも限界があり、投資実施が遅れる要因となっている。今後益々、投資案件の事前審査と事後の投資効果についてのモニタリングの厳格化が求められることから、担当専門家の育成、能力向上が緊急なる課題である。投資決定の地方への権限委譲は、公共投資執行の効率性を高めるため進められるべきであるが、それをマネージできる地方における専門的人材育成と整合的である必要があろう。

表 11 投資の計画決定と実施における担当機関関係

資金ソース別	投資計画立案機関	決定機関	投資実施機関	備考
State Budget (ODA)	Line Ministries Peoples Committee MPI (調整、配賦) (ODA-MPI)	A-首相府 B-MPI C-MPI (ODA-首相府)	-MOFへ案件登録 -Line Ministries -Peoples Committee	(Un-recoverable) プロジェクト評価: MPI
State Credit (ODA)	同様 (DAF等と調整)	同様	DAF等の政策融資機関 資金は、MOF乃至SB V (ODA) を経由して DAFへ	(Recoverable) プロジェクト評価・ 審査: DAF
Investment of SOEs	SOE自身	SOE自身	SOE自身	原則自己資金 投資目的制約有り
Investment of PES	PE自身	PE自身	PE自身	
FDI	自身	自身	自身	

(Source: MPI)

公的融資については、これまでMOF管轄下の投資開発総局、投資支援基金（優先産業、山岳地域等の後進地域向け投資）および投資開発銀行（BIDV）が担っていたが、2000年1月に、新たに投資支援基金（DAF）が設立され、産業開発ならびに償還可能な社会インフラ整備事業向け公的融資機能は原則DAFに集中させることになった。これにより、BIDVは、純粋商業銀行の道を歩むことになった。DAFのマネジメントボードには、首相府、財務省、計画投資省、およびヴィエトナム中銀（SBV）の副大臣、副総裁クラスが参画し、最高意思決定機関を形成し、業務を監督する体制（Board of Management）である。日常のオペレーションは、執行機関である執行役員会（Board of Directors）の決定に委ねられる。融資の意思決定は、A案件を除き、独自の審査に基づき自主的に決められることになっているようであるが、実質的な自主経営権が委譲されているかどうかは定かではない。当DAFの健全経営には、人材面で審査やリスクマネジメント等の専門能力の向上が図られ、自主決定権の確保が前提となるが、評価は今後の実績を待つことになる。また、政令により赤字補填が認められている等、補助金導入による政策融資が想定されている点は、モラルハザードが起こる心配もある。

この他の課題については、ヴィエトナム支援のドナーグループ（世銀、UNDP、およびADB等）が取りまとめた「Viet Nam 2010-Entering the 21st Century」においていくつか指摘されているので以下に整理する。

3-2 投資のプライオリティー付け

投資活動の効率性を高め生産性を上げるためには、事前のコスト・ベネフィット評価による投資のプライオリティー付けが不可欠である。これに加えて、環境への影響評価（環境アセスメント）や投資の外部経済効果等も判断材料として考慮すべきである。サービスの需要と供給

のバランスを保つためには、地域毎、セクター毎の需要や投資ニーズを把握することも重複投資を防止するために必要である。こうした、的確な事前評価により投資に係るさまざまな Transaction Costを抑制することが可能となる。

3-3 長期計画と単年度計画の整合性確保

MPIは、次期PIPの策定・実施に当たって、5カ年の長期計画と単年度の投資計画の整合性を保つために、年度ごとの投資レビューを行い、かつ5カ年の中間段階で投資の中間レビューを実施することを表明している。経済環境の変化により、投資プロジェクトの緊要度も変わる可能性もあり、定期的に計画を点検し、プライオリティーを調整する柔軟な仕組みをビルトインすることは投資の効率化に資するものと思われ首肯できる。

3-4 投資のメンテナンスコストの想定

投資プロジェクトが完成後、長期に資産の有効活用を図るためには年度毎必要な維持・保全コストを投下しなければならない。そのためには、予め投資に見合ったRECURRENT COSTを想定する必要がある。但し、この費用はMOFが管理しており、MPIとMOFとの連携・調整が望まれる。使用不能になった資産の再投資は、大きな資金的ロスを生み出すことを認識すべきである。

3-5 民間投資の促進

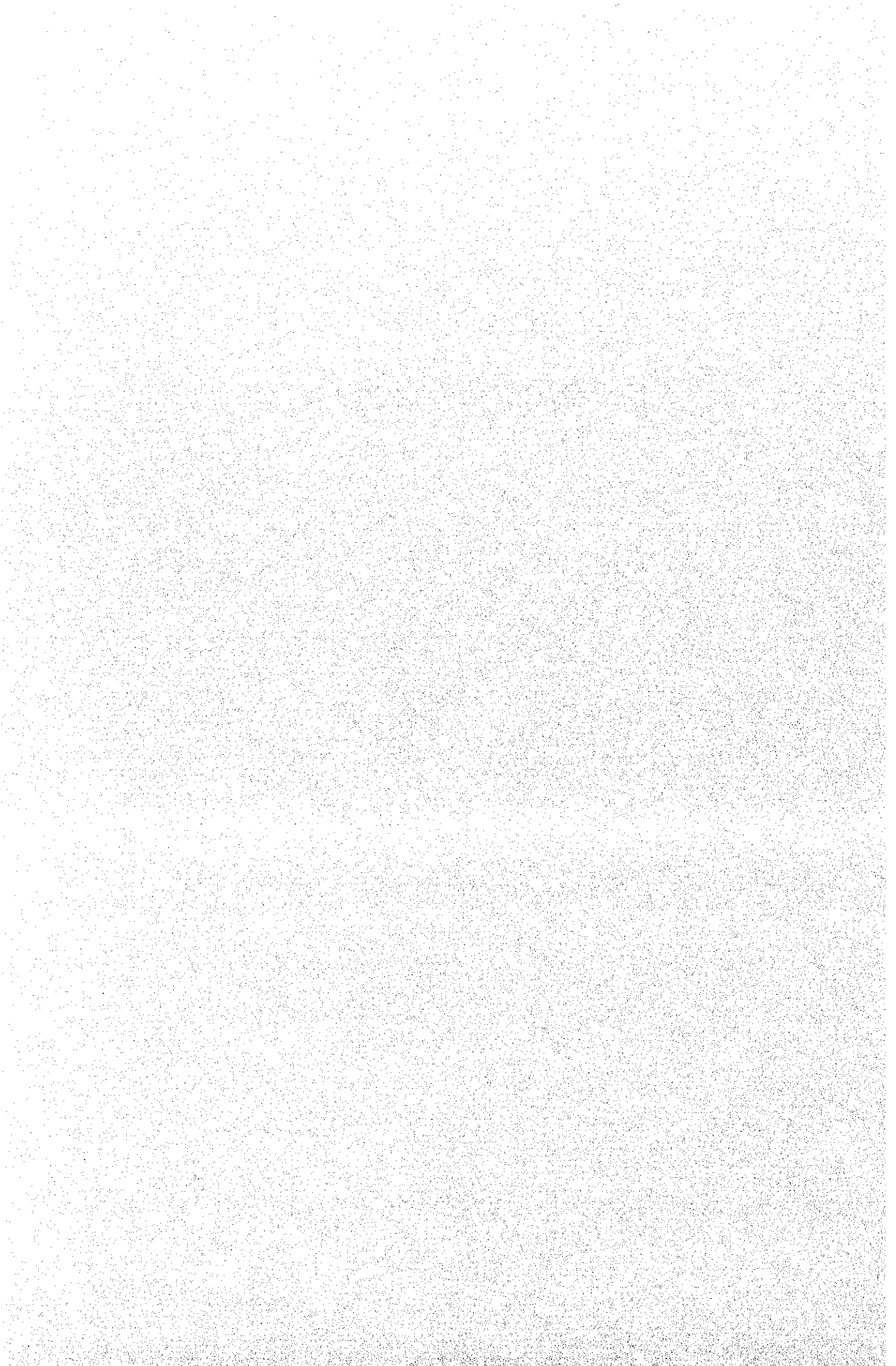
国内投資活動は、将来のヴィエトナム経済発展を支える重要な要素である。就中、公共部門の投資は、直接にヴィエトナムの社会福祉水準向上に役立ち、さらに、インフラ整備は民間投資の効率を高め、投資促進の機能も果たす。公共投資にあつては、財政規律を維持し、専門の人材を育成し、計画・執行の手続を効率化し、投資効率を一層高める努力が求められる。また、公的融資にあつては、償還確実性を厳格に評価することにより健全性を確保していくことが肝要である。更なる制度面、人材面の能力向上を期待したい。

以上

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F. 金融改革のシナリオ



Evaluation of Viet Nam's Financial System

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State Bank of Viet Nam

1. Evaluation on reforming steps of various sectors of Viet Nam's financial system (including the State Bank, state-owned commercial banks, state-owned enterprises, private enterprises, stock market, foreign exchange market) which impacts on and comes under influence of other sectors renovation progress in the period of 1995 - 2000:

The relationship among different sectors of financial system is dialectic, dependent and indispensable. Therefore each activity of one sector impacts on and comes under influence of other sectors. The relationship in the reforming period of various sectors of financial system will be notably analyzed in the following writing.

(1) State Bank's reform and its impacts on other sectors

Since the State Bank's system operated under two-tier banking system model, operating function of the State Bank has been clearly separated as "working out policies, conducting state's management over monetary, credit and banking activities while commercial banks shall conduct monetary operation and banking services functions". Up to present, many steps of reforming were conducted in order to renovate the economy.

1) *Reform on the State Bank's activities*: The target of reforming the State Bank's system is to upgrade capacity of management and control over monetary and credit activities in order to stabilize national monetary system – the decisive factor for the macro-stabilization and steady development of the economy. After the establishment of the state bank under the Ordinance on the State Bank issued in May 1990, many steps of reforming several activities such as organization status, inspecting and monitoring activities, operation of monetary policies... In this writing, only reforming steps that have exercised strong influence on activities of other sectors are stated as following:

- (a) *Reform on managing monetary policies*: the orientation of reform on managing monetary policies is to shift from direct monetary instruments to indirect ones. The process of renovating monetary instruments notably impacted on operation of commercial banks, activities of enterprises, stock market and foreign exchange market.

- The gradual renovation on interest rate managing mechanism toward interest rate liberalization has significantly influenced on the progress of reforming commercial banks and operation of enterprises because the interest rate is the price of capital and if the price is appropriate the distribution of capital will be suitable, effective and undistorted. Therefore, it became a motive that helped to encourage the intermediary role of commercial banks, to distribute capital over effective places, to stimulate the domestic production.

During the shift from the negative interest rate mechanism to the real positive one, the impact was clearly seen as the operating outcomes of commercial banks became profitable instead of many losses. It created initial fundament for the effective reforms of commercial banks.

For the enterprises, the shift from the negative interest rate mechanism to the real positive one woke them up to consider the effectiveness of lending capital in order to be able to pay principals and interests for commercial banks.

The next step of renovating the real positive interest rate mechanism was to liberate deposit rates and to regulate the ceilings of lending rates. It helped commercial banks to operate actively and deposit rates were freely decided basing on the ceiling of lending rates regulated by the Governor of the State Bank. Although this mechanism did not well originated the equilibrium prices in comfomity with the market demand and supply and distorted the allocation of capital, it created more flexible room for the commercial banks to distribute their capital.

The latest step of renovating the real positive interest rate mechanism was to conduct the base interest rate mechanism applied for VND deposit rates and SIBOR plus fees applied for foreign exchange lending rates. It can be seen as the most important step in the process of liberating interest rate. The calculation of base interest rate basing on the best lending rates of commercial banks plus specific margins proved that under this mechanism interest rates are more actively decided by market factors in comparison with the previous lending rate ceiling mechanism. Therefore, the prices of capital have been tightly linked to the demand of and supply for capital in the market, to the risk levels of the each lending activity. This encouraged the appropriate movement of capital, created the fundamental base for pricing other assets in the market, especially for pricing security, and stimulated the development of secondary market, stock market.

In short, renovation on interest rate managing mechanism not only created favorable conditions under which the State Bank controlled monetary policies by indirect instruments, but also significantly impacted on reform of commercial banks, enterprises and the development of foreign exchange and stock market.

- Reform on exchange rate managing mechanism : The final target of reform on exchange rate managing mechanism is to float exchange rate. The State Bank only intervenes in market to stabilize exchange rate and then foreign exchange market , monetary market.

Firstly, the reform on exchange rate managing mechanism directly impacts on the development of the market, on the development of exporting enterprises. On the other hand, the suitable exchange rate managing mechanism helps to restrain imports and to encourage domestic production. It may not be necessary to recall steps on reforming exchange rate managing mechanism from fixed exchange rate to current one (because it has been stated in special paper No 2-1-7). However, the State Bank was cautious in reforming exchange rate managing mechanism. The cautiousness played an important role in stabilizing monetary market, boosting exports, limiting negative impacts caused by the regional financial monetary crisis, taking part in the establishment and development of the exchange market in general and interbank market in particular.

However, there were definite constrains in the current exchange rate managing mechanism such as the limitation of interbank operation, irregular buying and selling activities, limited number of participants. Foreign exchange hoarding phenomenon is still popular in the interbank market...etc. And exchange rate is an important reason among those causing these phenomenons.

There is a closed sensitive relationship between interest rate and exchange rate—the two monetary instruments of the State Bank. Therefore, the more synchronously these instruments cooperate the better their effectiveness is created. In fact, in the combination of reforming these 2 instruments there is a limitation caused by the financial monetary crisis and the productivity of enterprises. The weakness in production of enterprises during the crisis, especially 1999, caused a difficulty in harmonious combination between exchange rate and interest rate management, created the flow of capital from domestic currency to foreign currencies, increased the ratio of dollarization in the economy (the ratio of foreign exchange in total liquidity of the economy was up from 19 % in 1995 to roughly 29% in 2000), limited capacity of controlling monetary policy of the State bank and usage of capital resources of commercial banks.

Reform on other instruments for implementing the monetary policies such as required reserve, refinancing , the establishment of open market operations impacted on the operation cost of commercial banks. The shift from regulating the ratio of required reserve for everyday within a month to regulating the average ratio of required reserve for a period of holding required reserve helped commercial banks to be more flexible in managing their usable capital, created opportunities of effective investment. Otherwise, the decrease of the required reserve ratio from 10 % to 5 % helped to cut down the operation cost of commercial banks.

Relating to the impact on activities of commercial banks, the open market operations created high liquidity of capital for them, then allowed them to utilize their mobilized capital resources. If the liquidity is not high, commercial banks must keep the ratio of reserve at a higher level in order to

guarantee their liquidity. Although the open market operations is one of state bank's monetary policy instruments, it is not only dependent on the State bank but also influenced by other factors such as the development of market instruments, level of liberalizing interest rate, the development of payment system. Besides, the capital management ability of commercial banks, their evaluation on the important role of managing capital are very important for speeding up the development of the market.

- (b) Reform of inspecting, monitoring activities: the reform of inspecting, monitoring activities has its significant impact on reform of other sectors in financial system.

In broad meaning, inspecting, monitoring activities are not only on-site inspecting, off-site monitoring and upgrading officer's ability, but also regulating criteria of security for commercial banks operation. Since 1996 a great reform on this field has been conducted, many monitoring regulations have been issued:

- Perfection of these regulation following Decision No 296, 297 in 1999 created the movement of commercial banks operation toward effective and secure orientation. The regulation on issuing security ratios for operation of credit institutions : minimum security ratio is 8% of own capital in total assets including off-balance sheet, forced commercial banks to have plans to increase their own capital, to decrease debts. That guaranteed the popular security ratio from 5 –6 % up to 8 %.
- Regulation on credit allows lenders to have a broader access to capital in conformity with Article 94 of the Civil Code in order to encourage economic sectors to lend for developing production. Under this regulation, forms of lending insurance are not only clear but also tight for enterprises, enterprises which are lost in production will be difficult in accessing to bank's capital. It helps to create legal environment for the effective investment of credit institutions.
- Regulation on off-site monitoring was issued to upgrade off-site monitoring activities, to prevent unsecured exposure and to have time for adjustment in order to avoid negative impacts on security of the system. However, this regulation also helps credit institutions to be more confident in lending to customers.

In short, reform on inspecting and monitoring commercial banks activities significantly impacted on the security of the system, on the credit relationship between commercial banks and enterprises. Regulated security ratios will speed up the development of money market, then create high liquid instrument in the market, and encourage other sectors to develop.

- (c) Reform on policies relating to the operation of commercial banks: The State Bank issued several new policies such as : credit mechanism, interest rate, lending insurance, settlement, contingency plans, foreign exchange operation... in order to perfect legal framework for operations of commercial banks. For example, the Decision No 324/QĐ –NH1 that was issued on 30/9/1998 regulated the lending objectives applicable to legal entities in accordance with the Civil Code helped credit institutions

to be active in widening lending objectives. On 25/8/2000, the State Bank issued Regulation No 284/QD-NHNN1 on lending activity instead of Regulation 324 that limited lending for foreign debt payment before maturity.

2) *Sector of commercial bank system:* The target of reforming commercial bank system is to consolidate banking system as a steady base for economic development. Therefore, the reform orients to strengthen capital mobilization and lending, to conduct security mechanism in operation, to consolidate off-site monitoring and inspecting activities, to renovate banking management toward more simple procedure in order to support customers, to widen lending objectives, to perfect and upgrade banking technology for international integration, to apply new services in conformity with domestic economy. Reforming activities are clearly seen in the following aspects:

* For the organization and charter of operations, the State Bank issued Charter on organization and operation of commercial banks to consolidate system and operation of urban and rural stock commercial banks as well as to add some requirements applicable to foreign banks branches which operate in Viet Nam in order to create an equal competitive environment. Up to present, banking system composed of 04 state-owned commercial banks, a Cuulong river delta commercial bank, a commercial bank for the poor, 23 foreign banks branches, 4 joint venture banks, 51 stock commercial banks, 01 Central credit Fund, 21 regional credit funds, 960 local credit funds with over 60,000 cadres working for commercial bank system. There are branches of state owned commercial banks in provinces, cities, districts, and towns. In particular, the agriculture and rural development bank has its inter-villages branches, "on-road" bank, which creates favorable conditions for customers. The widening of credit institutions network supports their ability in mobilizing and lending capital, in allocating capital on time for enterprises, takes part in implementing Government's strategy on developing industrialization in rural areas.

Banking activities were widened, consolidated toward international integration and development of advanced commercial banks in the region and all over the world. The Project of settlement modernization granted by the World Bank (total amount is 48 millions USD) was implemented in order to upgrade the effectiveness of capital movement. Up to present, the State Bank established the Project's management Board and guided 6 state-owned commercial banks, 2 stock commercial banks to establish sub-projects in order to receive and conduct banking settlement modernization following the reform plan on that in 2001 the modern settlement system will be in effect. Initially, mostly companies, modern corporations in the world, conducted the bidding on the sub-projects of commercial banks.

* For consolidating banking activities : The State Bank is setting up project on consolidate the state-owned commercial banks which have a leading role in commercial banks system in Viet Nam economy for submitting to the Government.

No	List	Ratio of mobilized capital in total capital	Ratio of lending from the state bank in total capital	Ratio of lending from credit institutions in total capital
1	Industrial and commercial bank	82%	6.6%	1%
2	Vietcombank	86%	4.3%	0.8%
3	Agricultural bank	78%	7.5%	7%
4	Investment bank	80%	17%	6.5%

Data of 31/12/1999

Commercial banks system from headquarters to branched in provinces, cities perfected and consolidated operation system, especially taking care of Chairman of the Board of Management and General Managing Director positions, reinforcing off site monitoring, inspecting all activities of credit institutions. Credit mechanism was established, interest rate created legal environment for commercial banks operations, many types of possession of commercial banks were built up, and inspecting and monitoring activities were considered. In this period, commercial banks system grew up quickly, the annual average growth of credit was roughly 25 %, total capital was up 35 % which helped macroeconomic stabilization, encouraged the annual average growth rate of GDP at 8.5 %. Parallely, activities of People's credit funds system were experimented in order to support demand for capital in rural areas; this system is being consolidated and developed. Capital supplementing in addition to the charter capital of the state owned commercial banks was conducted to increase their charter capital from 1100 billion VND to 2,200 billion VND; and 70 billion VND for the urban stock commercial banks; 15 billion VND for rural stock commercial banks ; 20 millions USD for joint venture and foreign banks.

- * For restructuring bad debts : Currently commercial banks system is facing many difficulties, so in the reforming period the State Bank guided credit institutions to concentrate on decreasing overdue debts under 5 % of total credit outstandings. In fact , the overdue debts were 12.5 % of total credit outstanding, 7.25 % of total assets, especially some stock commercial banks had overdue debts up to 40 % of total credit outstanding. The State Bank is guiding the reform on ineffective stock commercial banks by options of withdrawing licenses, setting up requirements of operation, conditions for merging, buyback in order to reinforce stock commercial banks system.

Since May 1998, the Government started solving problems caused by stock commercial banks and in June 1999 setting up strategy on developing state-owned commercial banks to improve stabilization of operating environment. Stock commercial banks, which had difficulties, 18 in 51 commercial banks were in insolvency and great losses, are put in special monitoring mode by the State Bank in order to solve problems. Up to present, 2 stock commercial banks were already closed. In 1999, the State Bank planned to restructure all 51 stock banks by reforming activities, solving bad debts, supplementing charter capital including the increase in the capital possession ratio of foreigners to 50 % of banks total own capital . The State Bank is in the process of establishing

Liabilities Management Company to support debt-restructuring activities . Capital of the company was granted by the Government. The company will sell and buy lending guaranteed by collateral assets which commercial banks could not liquidate.

* For auditing, evaluating international credibility standards: The state owned commercial banks were internationally audited in 1999, the Government is guiding relating Ministries to submit projects on solving the frozen debts, charter capital of the state owned commercial banks was supplemented in October 1998, the evaluation the state-owned commercial banks at the beginning of 1999 showed a low ratio of profits , lending activity was not strong, system of on site monitoring and inspecting was weak. Basing on that evaluation, the State Bank built a general plan on reinforcing the competitiveness and transparency of the state-owned commercial banks, enhancing internal management, international integration. This strategy consisted of restructuring, solving and managing debts, reforming management methods such as:

- To self control in operation and distribution
- To re-organize managing system and board of management
- To establish internal controlling board and independent monitoring board
- To decrease costs
- To improve the standardized accounting and information system
- To improve managers and to train staffs

* Establishment of a policy bank: The Government guided to separate policy making function from operation of commercial banks, then to establish a policy bank whose capital is granted by state's budget and sphere of action is clearly set up by the Government. In the next period, Government may establish a bank for exports and a bank for encouraging exports and investment in order to stimulate exports, investment. Trading activities will be reinforced during the process of restructuring the state-owned commercial banks.

Process of reforming commercial bank system impacted on the reform on enterprises sector as followings:

- a) State and private enterprises are confident of reforming commercial banks system on operation network, regulations and policies, advantages and services of commercial banks, access to bank's capital for developing production. Banking services in this time are better than those in the period of 1990-1995, settlement services well match with customer's demand for transaction in trading relation of both banking and enterprise sectors.
- b) Issued regulations were regularly oriented to the market economy, so that state and private enterprises are well encouraged to effectively operate, to access to bank's capital in order to increase production such as the regulation on lending guarantee under Decree No 178ND-CP which set up conditions for good enterprises having fair credit relationship and profit in the 2

latest years to borrow without guarantee.

- c) Various types of commercial banks in term of possession, capital resources, banking technology helped the competitiveness in the market to be greater, stronger, made the credit market, interest rate, exchange rate... closed to the equilibrium levels, helped customers to utilize capital for effective production.
- d) Some regulations did not encourage state and private enterprises to operate effectively or irregularly, to face difficulties in accessing to bank's capital for widening investment. Some private enterprises were not credible for borrowing from commercial banks – it is a restrain in the process of reforming the economy in general and the private sector in particular.

(2) Enterprise sector

- 1) *Reform on state-owned enterprises:* Continuing comprehensive reform on the economy toward the market-oriented economy under the state's management with the above target which required by the economy; setting up targets, guidelines for stabilizing several socio-economical fields; continuing establishing necessary premise for industrialization and modernization, allocating suitable economic structure, investment, construction, consolidating socialist productive relation with social stabilization.
 - (a) Reform on General corporations : under the reforming strategy of the Party and Government, from 1995 Government issued policies on developing and reinforcing state-owned enterprises such as Decision No 90/TTg, Decision No 91/TTg signed by the Prime Minister which specified the restructuring and establishing state enterprise system, disintegrating group of factories, general corporations which played an administrative intimidation role and established general corporations within suitable scale for enhancing internal and external competitiveness. Regime of directly managed ministries was abolished, state's management and operating management was separated in order to let the production of general corporations to be more self controlled. The restructuring activities were the first step in improving accumulative capacity of general corporations in the period of industrialization and modernization.

In the reform, 70 general corporations were established and these corporations played the leading role in the economy : power generation was 94 %, coal : 97 %, tobacco: 63 %, cement : 59 %, paper: 50 % in comparison with the economy. Credit relation of the general corporation model was initially advantageous, commercial banks concentrated capital resources for lending to production in new period. However, under this model, there were some limitations such as lending capital to a borrower was capped within 15 % of the own capital of credit institution. This limitation impacted on lending activity of credit institutions. This problem must be solved in conformity with security criteria on operations of credit institutions and demand for capital of General Corporation under Decision 90,91.

Output weights of general corporations in total output of the economy:

No.	List	1997 (%)	1999 (%)
1	Electricity	90 %	94 %
2	Coal	95 %	97 %
3	Tobacco	59 %	63 %
4	Cement	55%	59 %
5	Paper	40 %	50 %

Data source : Enterprise renovation committee

In period of 1998 up to present, on 21/4/1998 Government issued instruction No 20/TTg on restructuring and reforming state-owned enterprises basing on classification of enterprises and on 26/5/1999 issued instruction No 15/TTg on perfecting organization structure of general corporations, re-organizing corporations, experimenting with establishment of economic group, privatization of state-owned enterprises, selling and hiring state-owned enterprises.

As the results, 50 % of enterprises was terminated, self-controlling activities, full responsibility and flexibility of enterprises were upgraded, productivity and competitiveness was enhanced and capacity of international integration was consolidated.

Results of restructuring enterprises

No	List	1995	1999
1	State-owned enterprises, of which	12,000	6000
2	- merging		3100
3	- dissolution		3350

Data source : Enterprise renovation committee

Reform on policies created synchronous legal framework toward self controlling of state-owned enterprises in operation, wages distribution, remains of profits, accounting in conformity with demand and supply forces of the market, state management organizations while administrative organization do not deeply intervene in state-owned enterprises operation.

Results in reforming period showed that the number of enterprises which possess capital below 1 billion VND decreased (1994 : 50 %; 1998 : 26 % in total number of enterprises) while the number of those having capital above 10 billion VND increased (1994 : 15 %; 1998 : 20 %), the average capital of enterprises was up from 3.3 billion in 1994 to 18 billion in 1998, profit ratio was 14 %. Those advantaged can be seen from such results:

- State-owned enterprises play a leading role in the economy
- State-owned enterprises is an effective tool to manage the market economy toward socialist guidelines

- State-owned enterprises play a definite role in social policies
- State-owned enterprises account for a great proportion in imports and exports revenues
- State-owned enterprises play an important role in budget revenues

However, there are following troubles :

Productivity was still not high, profits of some enterprises decreased, some enterprises exposed to bankruptcy. In 1995, one dong of state's capital bore 3.46 dong in turnover and 0.19 dong in profit, but in 1998 it created only 2.9 dong and 0.14 dong.

Estimated number of enterprises having profit was 50 %, getting losses was 20 % and other were irregular profitable, sometimes lost

Outstanding debts of enterprises accounted for 124 % of total assets granted by the State

Collecting debts of enterprises accounted for 80 % of total assets granted by the State

Working capital of state owned enterprises accounted for 15 % in total demand for capital of enterprises, the other 85 % was borrowed from banks. Therefore, many enterprises lacked capital for developing, renovating and reconstructing production, waited for capital granted by budget (in fact capital granted by budget was small, since 1990 it was only 200 billion dong, in 1998 it was 3000 billion dong). Besides, bond issuance conducted by enterprises was not well implemented, some enterprises faced difficulties in borrowing capital or consuming products. These factors required the priority of taxation, interest rate from the State. Now the number of state owned enterprises is 5248 with the average capital of 18 billion dong, the numbers of enterprises having capital below 5 billion dong accounts for 62.5 % and above 10 billion dong: 20 %. Technological and technical level of enterprises is backward, capacity of international integration is weak, production line is 10 – 20 years backward in comparison with international standard, invisible attrition accounts for 30 – 50 %, in which 52% comes through reparations, products are higher than ones imported by 5 to 10 %.

- (b) Privatization of state owned enterprises: Government issued Decree No 28/CP dated May 07, 1997 on transforming some state-owned enterprises to stock enterprises in order to mobilize and utilize capital resources to invest and renovate technology, to develop enterprises, to consolidate self-controlling roles and motivate effective production. This Decree allowed small-scale enterprises having capital below 10 billion and effective production plan to be privatized by issuing shares, to be given tax priority, to give employees the priority for buying deferred payment shares within 5 years, to be able to borrow bank's capital. And then Government issued Decree No 25/CP amending some points in Decree 28/CP in which decided that enterprises having over 20 billion dong capital will be submitted to Government, enterprises having around 10 – 20 billion are submitted to Ministries, Provincial people Committees and reported to relating Ministries, the others are submitted to Ministries, Provincial People Committees.

Based on Government's policies, Ministries, local authorities conducted privatization. Since 1995,

370 enterprises were privatized and after privatization results are good such as: average annual turnover increased by 25 % (some increased by 50 %), job creation was up by 10 % , income of employees increased 20 %, annual profit was up by 26 % and payment for Budget's collection was up by 30 %.

(c) Contracting out, hiring state owned enterprises : Government issued Decree No 103/1999/ND-CP dated September 10,1999 on transferring, selling, contracting out production, hiring state owned enterprises to facilitate state owned enterprises restructuring activities, to upgrade effectiveness, competitiveness and job creation of state's sector, to change management method of enterprises in order to consolidate owner rights of employees, to utilize invested capital and mobilize potential resources from all economic sectors; to decrease costs and state's responsibility of management. This Decree is applicable to enterprises having below 1 billion dong capital, except for state-running farms, enterprises operating in consulting, designing and inspecting. Government will decide the enterprise having capital around 1 – 5 billion. Up to now Government is taking care of the implementation of this Decree.

Process of reforming state-owned enterprises affects to the reform on banking sector

- a) Firstly, the restructure of state-owned enterprises enhanced competition and domestic production, then created a safe effective credit environment for commercial banks to be more confident in investment. Up to now, total credit outstanding of state owned enterprises accounted for 24.5 % of GDP.
- b) State-owned enterprise privatization supplemented financial instruments for the capital market – it was one of important factors that effected to the establishment and development of security market.
- c) Government issued some policies on supporting enterprises in the period of 1995-1999 such as allowing lost enterprises to borrow capital, to lend without collated assets, to have priority in lending interest rate... that influenced and caused in exposure to commercial banks.
- d) Reform on state-owned enterprise did not stop written off, rescheduling and blocking debts, giving priority in investment, exempting taxation and price subsidiary. Some state-owned General Corporations such as Postal and Telecommunications, Aviation, Maritime, Cement supplemented their own capital themselves by 1.5 –2.2 times in comparison with the initial charter capital. It made credit relationship with commercial banks more advantageous. Besides, many other enterprises have very low charter capitals, their demand for borrowing bank's capital accounts for 85 %, especially 95 %, so that it will be very difficult for banks to avoid risks.
- e) Reform on state-owned enterprises left the burden of bad debts on commercial banks. The current bad debt is roughly 4,650 billion dong while in Viet Nam credit market there are potential risks in changes of interest rate, exchange rate policies.
- f) Organization Schema of state-owned enterprises was not suitably renovated in order to mobilize

collective forces and motivate the development of enterprises. Especially, distribution activities could not encourage employees to work causing the tardy growth of production.

- 2) *Private enterprise sector:* Government issued the Law on Private Company, the Law on Stock Company and other regulations in order to create operation environment, to secure legal rights of operation. Tax policies, financial management policies were established in initial step. Credit and state's management policies were gradually guided to help this sector to operate legally and effectively and to increase annual budget's collection. It is an important reform on private enterprises in the period of 1995-1999. However, up to present, legal regulations, circulars for guiding the implementation of these 2 Laws are not synchronous, many enterprises operate ineffectively, some are in fraud or losses.

In order to continue reforming this sector, Government is reinforcing and perfecting legal framework. And in January 1, 2000 Law on Enterprise was issued to replace the above mentioned 2 Laws. It helped services operation of private sector to be safer and more effective in conformity with the market economy trends and laws under the state's management.

The private enterprise reforming process may exert some impacts on the reforms of other sectors as follows:

- (a) Despite of the huge number of private enterprises (about 16,677 limited companies, 7,500 private companies so far, and 8,000 companies being established from the 1st January 2000 to September 2000 under the effective of the Law on Enterprises), the fact of inadequate or without working capital has driven these enterprises into losses or bankruptcy, even banks' loan fraud resulting in banks' loan burdens. This is an important point in the private sector reforming process in last period.
- (b) With regards to the restructured effective private enterprises, the application of capital safety standards and annual recapitalization have facilitated the security and effectiveness of the credit markets. It's easier to access the wide range of banking services. Commercial banks gain their own confidence in investing to renovate this sector's business activities. Total credit outstanding of this sector in commercial banks have accounted for 20.6 percent of GDP.
- (c) Policies set up and applied by the banking system without differentiating private economic sector from public sector have facilitated the private sector in getting banks' credits in compliance with market economy.
- (d) Unfinished or unable to recover the bank loans during the private sector reforms made investors reluctant if not to say not to invest to this sector. This has been a real trouble in the credit markets recently. In additions, most of the low capital private enterprises which found difficult in accessing bank credits tried to illegally use other enterprises' capital or to defraud in order to have capital, causing the instability in the general economic relations.
- (e) In this period, the burdens of unrecovered nonperforming loans by the private sector on state-own commercial banks are rather significant. The most updated data have shown the total of 4,650 billion

of dong of these bad loans which were mostly caused by some large illegal uses of banks' capital (Minh Phung, Epcó, Tameco, Ngoc Thao...). Furthermore, credit markets in Viet Nam still face a lot of potential risks such as risks on interest rates, foreign exchange rates, and policy instability causing many difficulties for the banking system.

- (f) The private sector is still in modest scale, with low competitiveness and inappropriate reforms. The low motivations for the development of the private economic sector together with the problems in distribution mechanism have discouraged employees.

(3) Reforms on the stock market: concerning the establishment of the stock market of Viet Nam, the Government had promulgated the Decree No. 48/1998/ND-CP on the organization and operations of the stock market in Viet Nam, regulating the conditions to establish and develop stock trading companies, brokerage companies, stock custody companies and Stock Trading Centers in Hochiminh City and Hanoi. Although the Stock Trading Center has been operating since the August 2000, the conditions for proper operations of this Center are still not synchronous, total trading volumes are very small with an average of 10 billion per session. On the other hand, the number of primary stocks issued by companies is quite modest, and they have not been listed in the Stock Trading Center yet. The companies' stocks and bonds have not yet gained the full credibility of the private investors so that total trading volumes in the Center are limited.

In short, in order to have an efficient stock market in the future, it is essential to reform the financial system towards the market orientations to mobilize capitals for long term investment in the economy, to enhance the state management and conduct on the operations of stock market, as well as to speed up the state-owned enterprise privatization process.

(4) Foreign exchange markets: the foreign exchange markets have been gradually improved and developed. The legal frameworks have been established since the promulgation of the government's decree on foreign exchange management and operations applied to banks, institutions and individuals in the economy, ensuring the principle that all the lending, payments, and other transactions in the economy must be executed in Viet Nam dong.

The Government Decree No. 63/1998/ND-CP dated 17 August 1998 on foreign exchange management and the Circular No. 01/1999/TT-NHNN7 providing the guidance for the Decree No. 63 provided regulations on foreign exchange transactions of residents and non-residents in order to encourage institutions, individuals to bring foreign currencies to the economy. However, after a period of application, there arose some problems such as: lending on foreign currencies for loan payment before due maturity, surrender regulations, domestic lending on foreign currencies... Referring to these problems, the State Bank has drafted the official letter to the Government for the approval of amending some articles in the Decree No.63; the services supplied to

foreign partners would be allowed to be executed in foreign currencies, institutions and individuals having foreign currencies inflows would be permitted to sell to commercial banks at the foreign exchange rates quoted in the market.

The State Bank allowed commercial banks to enter the foreign exchange transactions including spots, forwards, and swaps. In additions, commercial banks as well as State Bank actively sold and bought foreign currencies in the interbank market, provided regulations on time deposits and carried out their investment in some international financial institutions. On the other hand, the State Bank promulgated regulations on foreign currency positions applied to the permitted credit institutions for the foreign exchange trading, managing the foreign borrowings and repayments of the credit institutions and enterprises including managing short and long term borrowings, granting guarantees for deferred payments... so as to control the foreign currencies inflows and outflows the economy, significantly contributing to the Viet Nam balance of payments improvement. Up to 1999, the Viet Nam current account balance is getting surplus, annual export turnovers increase by 15 to 20 percent in the period of 1995-2000, total export turnover is 11.5 billion USD in 1999, and estimated to be 12.5 billion USD in 2000, remarkably contributing to the monetary stability and exchange rate management in the economy.

The regulations that the exchange rate management should be closed to the interest rate and credit mechanism have influenced on the capital movements, and thus exerted impacts on exchange rate fluctuations. In fact, the State Bank had taken into account the exchange rate movements when decided to adjust the ceiling interest rates, especially the effect of interest rate changes on the shifts from domestic currency capital inflows to foreign currency ones.

The process of foreign exchange management reform may result in some of the following influences on the reforms of other sectors:

- 1) The renovation of foreign exchange management to improve the ability of State Bank in controlling the capital flows thereby facilitating the conduct of monetary policies encouraged enterprises to get foreign currency inflows, met the demand on foreign currency to import materials and goods of exporting companies, strictly controlled the foreign exchange trading in private enterprises, lessened the strain of foreign currency supply and demand.
- 2) Foreign exchange management mechanism applied to exporting enterprises such as surrendering 80%, and then 50% of their current foreign currencies inflows contributed the rest to satisfying foreign currencies for import demand, raising foreign exchange reserves. To some extent, however, this surrender requirement affected the self-control rights in doing business of exporting enterprises, causing certain adverse movements towards exporting companies, especially in case of exchange rate depreciation expectation.
- 3) Owing to the psychological factors as well as the limited foreign currency supply in commercial banks, it is still difficult for individuals and private sector to access the foreign exchange market of commercial banks. Upon the regulations, exporting enterprises are responsible for selling their current