Figure 52: Ranked industries before FDI consideration

High = 3
Medium = 2
Low = 1

		Criterion 1	Criterion 2	Criterion 3	Criterion 4	Criterion 5	Criterion 6	Criterion 7	Criterion 8	Criterion 9	Overall pre-weighting	Overall post weighting
	Weighting	**2**	**2**	**2**	**2**	**1**	**1**	**1**	**1**	**1**		
I	**Mining industry**											
1.1	Oil and gas industry	2	3	3	3	1.5	2	3	2	2	21.5	32.5
1.2	Coal exploration	2	2	2	1	1	2	2	2	1	15	22
1.3	Other natural resources	2	1	1	1	1	1	2	2	1	12	17
II	**Basic industry**											
2.1	Mechanical engineering industry	2	2	2	1.5	3	3	3	2	2	20.5	28
2.2	Metallurgy	3	2	1	1	2	2	3	2	1	17	24
2.3	Electronics	2	3	2	1.5	3	3	3	2	3	22.5	31
2.4	Information Technology	2	3	1	1	3	3	3	2	3	21	28
2.5	Chemicals	3	3	2	1.5	3	3	3	2	1	21.5	31
III	**Agriculture processing industry**											
3.1	Fishery products processing	1	2	3	3	2.5	2	2	3	2	20.5	29.5
3.2	Agriculture product processing	1	2	3	2	1.5	2	2	3	2	18.5	26.5
3.5	Forestry product processing	1	1	2	2	1	2	2	3	2	16	22
IV	**Textile - shoes and leather industry**											
4.1.	Garment	1	2	3	3	2	1	2	3	3	20	29
4.2	Textile	2	2	1	2	3	2	3	3	2	20	27
4.3	Shoes	1	2	3	3	3	1.5	2	3	2	20.5	29.5
4.4	Leather products	1	2	3	2	2	2	2	3	2	19	27
V	**Construction material industry**											

5.1	Cement	2	1	1	1	1	2	3	2	1	14	19
5.2	Porcelain and Glass	2	1	1	2	2	2	3	2	1	16	22
5.3	Others	2	1	1	1	3	2	3	2	1	16	21
VI	**Power and water supply**	3	3	3	1	2	2	3	1	2	20	30
VII	**Services**											
7.1	Transportation	3	3	1	2	3	3	2	3	2	22	31
7.2	Telecommunication	3	3	1	2	3	2	3	2	3	22	31
7.3	Banking and Finance	3	3	1	1	1.5	3	2	3	3	20.5	28.5
7.4	Hotel - Tourist	3	2	3	3	3	2	1	3	1	21	32
7.5	Culture - Health - Education	3	3	1	1	3	3	2	2	3	21	29
7.6	Other services	2	2	3	2	2	2	1	3	2	19	28
VIII	**Construction**											
8.1	Urban development	3	2	1	1	2	3	2	2	3	19	26
8.2	Office - apartment building	3	2	1	1	2	3	2	2	3	19	26
8.3	EPZ & IZ infrastructure construction	3	3	1	1	2	3	2	2	3	20	28
IX	**Agriculture, Fishery, Forestry**	3	2	3	3	1	1	1	2	3	19	30

Source: Statistics from MPI, Ministry of Industry, Ministry of Trade, General Department of Statistics, surveys conducted by different organisations, Ten-Year strategic development plan of Vietnam, PwC's assessment.

3.2 Segregation of target industries from FDI funding from the Government's perspective

The promotion of FDI by any Government is to achieve certain set objectives. For Vietnam and most other countries, there are three key objectives for attracting FDI. These are job creation, technology transfer and foreign currency earnings. Other objectives could include GDP growth, improving management skills, encouraging local investment, and wider integration into the global economies.

In addition to the benefits, FDI could also create negative impacts to a country. From the Government perspective in a socialist transitional economy like Vietnam, the negative implications of FDI include the potential reduction of Government control of the economy, potential implication on social development requirements and environmental concerns, the potential increase in income distribution spectrum and cultural values. It is also common for countries to retain control and restrict FDI in certain sensitive sectors.

Due to the above reasons, it is necessary to identify which industries are not attractive for FDI investment from the Government's perspective (i.e. inappropriate for FDI promotion). The criteria to segregate target industries from FDI funding are set out below. These criteria measure the unattractiveness of FDI funding. Therefore, a high score means that the industry is highly unattractive for FDI funding from the Government's perspective.

Criterion 1: It is the national interest to retain control over this industry

All countries whether developed, developing or transitional economies want to retain the control over certain key "sensitive" sectors. Until the last decade, many developed countries in Europe still retained control over many public sectors such as public utilities, telecommunication, and transportation, especially airlines. There are many reasons for not encouraging FDI in these areas such as protection of domestic and State owned enterprises from foreign competition.

This criterion measures the level of control which the Government wants to retain over a specific industry or sector and is rated as follows:

- High – meaning high control
- Medium – certain control
- Low – little control

The assessment of this criterion is based on the current policies and regulations of the Government concerning FDI. Due to its importance, this criterion is given a weight of 3.

Criterion 2: Primarily objectives of FDI strategy not met

As discussed above, the FDI promotion aims to achieve certain key objectives such as employment, development boost, and foreign currency earning. If these primarily objectives are not met, FDI funding will not be attractive for the Government. This criterion measures the extent in which the encouragement of FDI in a particular does not meet the desired objectives and is rated as follows:

- High – FDI does not or will only little meet the key objectives
- Medium – FDI will meet in some extent the key objectives
- Low – FDI will highly meet the key objectives

This criterion is given a weight of 2.

Criterion 3: Exposes the country to destabilising forces

Most countries restrict or prohibit FDI in certain sectors which the Government believes that foreign participation in such industry could create negative impacts on the country's stability from a social, economic, military and cultural aspects. This criterion measures the potential exposure to country's stability created by foreign participation in an industry and is rated as follows:

- High –high potential impact on the country's stability
- Medium - certain potential impacts
- Low – little or no impacts

This criterion is given a weight of 2.

The assessment of potential impacts on the country's stability is always subjective and generally reflects the perception of the political leaders. In this study, the assessment is based on our understanding of the current Government's view.

Criterion 4: Sector already too heavily invested in by FDI

There is a desire by most Government to minimise the over-dependence of an industry on foreign companies. Most Governments desire to use FDI as an engine to develop new industries and encourage domestic investment. Therefore, it may not be desirable from the Government perspective to encourage further FDI in those sectors in which FDI is already heavily invested.

This criterion measures the share of FDI in the total investment of a particular industry using the statistical data of FDI over the total investment. It should be noted that the assessment would depend on the grouping of the industries. For example, if only considering the automobile industry, it can be said that the industry has a high ratio of FDI. However, when considering the mechanical engineering industry, which includes the automobile industry, the ratio of FDI can only be valued as medium to low.

On the basis that the total FDI stock accounts for approximately 25% of the total investment of the country, the measurement of the share of FDI will be rated as:

- High if its share in the total investment of a specific industry is greater than 35%
- Medium if the share of FDI in total investment is between 15% and 35%
- Low if the share of FDI in total investment is less than 15%.

This criterion is less important in terms of FDI attractiveness and is therefore given a weight of 1.

The consideration of a long list of target industries identified is the first step in terms of FDI attractiveness from the Government perspective and is set out in Figure 53.

Figure 53: Considering industries to be segregated from FDI funding

	High = 3 Medium = 2 Low = 1	Criterion 1	Criterion 2	Criterion 3	Criterion 4	Overall pre weighting	Overall Post weighting
	Weighting	3	2	2	1		
I	**Mining industry**						
1.1	Oil and gas industry	2	1	1	3	7	13
II	**Basic industry**						
2.1	Mechanical engineering industry	1	1	1	1.5	4.5	8.5
2.3	Electronics	1	1	1	1.5	4.5	8.5
2.4	Information Technology	1	1	1	1	4	8
2.5	Chemicals	1	1	1	1	4	8
III	**Agriculture processing industry**						
3.1	Fishery products processing	1	1	1	1	4	8
3.2	Agriculture product processing	1	1	1	1	4	8
IV	**Textile - shoes and leather industry**						
4.1.	Garment	1	1	1	2	5	9
4.2	Textile	1	1	1	1	4	8
4.3	Shoes	1	1	1	2	5	9
4.4	Leather products	1	1	1	2	5	9
VI	**Power and water supply**	3	2	1	1	7	16
VII	**Services**						
7.1	Transportation	3	2	2	1	8	18
7.2	Telecommunication	3	1	2	1	7	16
7.3	Banking and Finance	3	1	2	1	7	16
7.4	Hotel - Tourist	3	1	2	2	8	17
7.5	Culture - Health - Education	3	1	3	1	8	18
7.6	Other services	3	1	2	1	7	16
VIII	**Construction**						

8.1	Urban development	2	1	2	1	6	13
8.2	Office - apartment building	2	1	1	3	7	13
8.3	EPZ & IZ infrastructure const.	1	1	1	1	4	8
VI	**Agriculture, Fishery, Forestry**	3	2	2	1	8	18

Once the segregation score (i.e. the unattractiveness of FDI funding) of the long list of target industries has been identified, the next step is to determine the attractiveness of FDI funding for different industrial sectors in accordance with the following formula:

Investment weighted score (A) — Segregation weighted score (B) = FDI attractiveness from the Government perspective

The attractiveness of an industry for FDI from Government's perspective could be rated as follows:

Below 15: Low

Between 15 and 18 : Medium

Above 18 High

Figure 54: Ranked industries after segregation consideration

		Investment weighted score	Segregation weighted score	FDI attractiveness from the Government perspective	
		A	**B**	**A-B**	
I	**Mining industry**				
1.1	Oil and Gas industry	32.5	13	19.5	High
II	**Basic industry**				
2.1	Mechanical engineering industry	28	8.5	19.5	High
2.3	Electronics	31	8.5	22.5	High
2.4	Information Technology	28	8	20	High
2.5	Chemicals	31	8	23	High
III	**Agro processing industry**				
3.1	Fishery products processing	29.5	8	21.5	High
3.2	Agriculture product processing	26.5	8	18.5	High
IV	**Textile - shoes and leather industry**				
4.1.	Garment	29	9	20	High
4.2	Textile	27	8	19	High
4.3	Shoes	29.5	9	20.5	High
4.4	Leather products	27	9	18	High
VI	**Power and water supply**	30	16	14	Low
VII	**Services**				
7.1	Transportation	31	18	13	Low
7.2	Telecommunication	31	16	15	Medium
7.3	Banking and Finance	28.5	16	12.5	Low

7.4	Hotel - Tourist	32	17	15	Low
7.5	Culture - Health - Education	29	18	11	Low
7.6	Other services	28	16	12	Low
VIII	**Construction**				
8.1	Urban development	26	13	13	Low
8.2	Office - apartment building	26	13	13	Low
8.3	EPZ & IZ infrastructure construction	28	8	20	High
VI	**Agriculture, Fishery, Forestry**	30	18	12	Low

On the basis of the above analysis, the following industries are attractive from the Government's point of view to promote foreign direct investment:

- Oil and gas industry
- Mechanical and engineering industry
- Electronics
- Information technology
- Chemicals
- Fishery processing
- Agriculture processing
- Garment
- Textile
- Shoes
- Leather products
- EPZ and IZ infrastructure development

3.3 Considering the FDI attractiveness from the Investor's perspective

A successful FDI promotion strategy requires a good understanding of which factors attract foreign direct investment. Part I of this study has illustrated the main motives of foreign companies when conducting foreign expansion plans. These factors will form the basis for analysing the attractiveness of industrial sectors from the investors' perspective.

Foreign direct investment is driven predominantly by corporations, which act (mostly) in a manner to maximise shareholder wealth (i.e. profits). In striving towards this goal, corporations may look either at the short-term, the long-term or both when allocating financial capital and other resources.

Shareholder wealth is dependent on many issues including:

a) Future expected returns, which are dependent on
   - Profitability of an investment – such as market conditions of supply and demand
   - Industry and country specific such as cost of business in

specific countries

- ➢ The growth in revenues arising from investment affected by growth of the market and the competitive advantage of the investment (or the growth in market share)
- ➢ The additional investment required to achieve growth (capital intensive projects require more investment to grow. Additional growth may be dependent on the availability of local human resources).

b) The risk associated with future returns including

- ➢ Country risk - the risk associated with carrying on business in a specific country. Country risk is composed of many elements and is hard to measure. The typical considerations which foreign investors often use when analysing country risk of an investment project are political stability, clear direction of Government policy, foreign exchange control, regulatory environment, incidence of corruption, corporate transparency, development of law, strength and impartiality of the judiciary.
- ➢ Investment risk - the amount of time before an investment recoups the cost of investment is important. The longer this is generally the higher the risk profile: uncertainty increases the further one looks into the future.

In general, the following criterion can be used to evaluate the attractiveness of industry sectors from the investors' perspective.

Criterion 1: Potential domestic market growth

Market access is rated by most companies as the primarily objective in undertaking foreign expansion. Potential domestic market growth therefore plays an important role in the decision making process by foreign investor. The growth potential in the domestic market of a specific industry is rated as:

- High - If the expected market growth rate is 18% or more
- Medium – If the expected market growth rate is between 10% and 18%
- Low - If the expected market growth rate is less than 10%.

The estimated growth rate used for the analysis is based on various studies conducted by the Ministry of Industry, CIEM and other organisations.

This criterion is given a weight of 1.

Criterion 2: Potential domestic market profitability

Profitability is the underlying objective of the investors. As discussed above, the profitability of an industry is seriously affected by the market position, the relation between supply and demand. This criterion measures the competitive environment of each industry in the domestic market taking into account the market size in relation to potential supply.

- High = the supply is significantly lower than the demand of the domestic market
- Medium = the supply is able to meet the current market demand
- Low = over supply or highly competitive

This criterion is given a weight of 1.

Criterion 3: Export potential arising from cost advantages

This criterion measures the opportunities to achieve low cost advantages of an industry (i.e. labour cost, material cost, resource cost). This is an important factor affecting the profitability of an industry since for certain labour intensive industries, the labour cost could account for 50% of the cost of goods sold.

- High = many opportunities to achieve cost advantage are available
- Medium = some opportunities to achieve cost advantage are available
- Low = few opportunities to achieve cost advantage are available

This criterion is given a weight of 2.

Criterion 4: Market access to other countries from this platform

Most investors do not look at the domestic market when making investment decisions. An important reason for foreign expansion is to have greater access to the regional market. For export-oriented industries, this is a very important factor. This criterion measures the opportunities to access to the market of neighbouring countries and is rated as follows:

- High = Potential access to more than 5 countries
- Medium = Potential access to 3 to 5 countries
- Low = Potential access to 2 countries and less

This criterion is given a weight of 2.

Criterion 5: Alternative countries that meet the same investment objectives- meaning that no investment will ever be required in Viet Nam

- High = few countries offering the same opportunities
- Medium = some countries offering the same opportunities
- Low = many alternative countries offering the same opportunities

This criterion is given the weight of 1.

Criterion 6: Degree to which FDI is affected negatively affected by cost of doing business

- High = cost of doing business has significant effects on total production cost
- Medium = cost of doing business has some effects on total production cost
- Low = cost of doing business has little effects on total production cost

This criterion is given a weight of 2.

Criterion 7: Degree to which industry is affected by legal and bureaucratic restrictions

- High = legal and bureaucratic restrictions have less effects on the industry
- Medium = legal and bureaucratic restrictions have some effects on the industry
- Low = legal and bureaucratic restrictions have little effects on the industry

This criterion is given a weight of 2.

Criterion 8: Estimated pay back period

- High = expected payback period of less than 3 years
- Medium = expected payback period is between 3 and 5
- Low = expected payback period is more than 5 years

This criterion is given a weight of 2.

The weighting given in this analysis is a subjective assessment. Different investors may give different weighting to each criterion depending on whether they are risk adverse or risk takers.

The detailed assessment of FDI attractiveness of industries sectors from the investors' perspective is set out in Figure 55 below.

Figure 55: Selecting industry sector for FDI from investors' perspectives

	High = 3 Medium = 2 Low = 1	Criterion 1	Criterion 2	Criterion 3	Criterion 4	Criterion 5	Criterion 6	Criterion 7	Criterion 8	Overall pre weighting	Overall Post weighting
	Weighting	**1**	**1**	**2**	**2**	**1**	**2**	**2**	**2**		
I	**Mining industry**										
1.1	Oil and gas industry	1	3	2	3	2	3	1	1	11	26
1.2	Coal exploration	1	1	1	1	2	2	2	1	11	18
1.3	Other natural resources	1	1	1	2	2	1	1	1	10	16
II	**Basic industry**										
2.1	Mechanical engineering industry	3	3	1.5	1.5	1	1	2	1.5	14.5	22
2.2	Metallurgy	2	2	1	1	1	1	2	1	11	17
2.3	Electronics	2	2	2	3	1	1	2	2	15	25
2.4	Information Technology	3	3	1	2	1	1	2	1	14	21
2.5	Chemicals	3	2	1.5	2	2	2	2	1	15.5	24
III	**Agro- processing industry**										
3.1	Fishery products processing	1	1	2	2	1	1	2	1	11	19
3.2	Agriculture product processing	1	1	2	2	1	1	2	1	11	19
3.5	Forestry product processing	1	1	1	1	1	1	2	1	9	15
IV	**Textile - shoes and leather industry**										
4.1.	Garment	2	2	3	2	1	1	2	2	15	25
4.2	Textile	2	2	2	2	1	1	2	1	13	21
4.3	Shoes	2	2	3	2	1	1	2	2	15	25
4.4	Leather products	2	2	3	2	1	1	2	2	15	25
V	**Construction material industry**										
5.1	Cement	1	1	1	1	1	1	1	1	8	13

5.2	Porcelain and Glass	2	2	1.5	1	1	1	1	1	10.5	16
5.3	Others	2	2	1.5	1	1	1	1	1	10.5	16
VI	**Power and water supply**	3	2	1	1	2	2	1	1	13	19
VII	**Services**										
7.1	Transportation	3	2	1	1	2	3	2	1	15	23
7.2	Telecommunication	3	3	1	1	2	3	2	1	16	24
7.3	Banking and Finance	3	3	1	1	2	2	1	1	14	20
7.4	Hotel - Tourist	2	2	1	1	2	3	2	1	15	22
7.5	Culture - Health - Education	2	2	1	1	2	3	1	2	15	22
7.6	Other services	3	2	1	1	2	3	2	2	16	25
VIII	**Construction**										
8.1	Urban development	2	1	1	1	2	2	1	1	11	17
8.2	Office - apartment building	2	2	1	1	2	3	1	1	13	20
8.3	EPZ & IZ infrastructure construction	2	2	1	1	2	3	1	1	13	20
IX	**Agriculture, Fishery, Forestry**	1	1	2	2	1	1	1	1	10	17

Source: various surveys on investors' motive for expansions from UNCTAD, UNIDO and other organisations.

3.4 Matching the FDI attractiveness from the Government's perspective with the investors' perspective

Based on the weighted score calculated in Figure 56, the attractiveness of industrial sectors from investors' perspective will then be rated as:

Below 15: Low
Between 15 and 22: Medium
Above 22: High

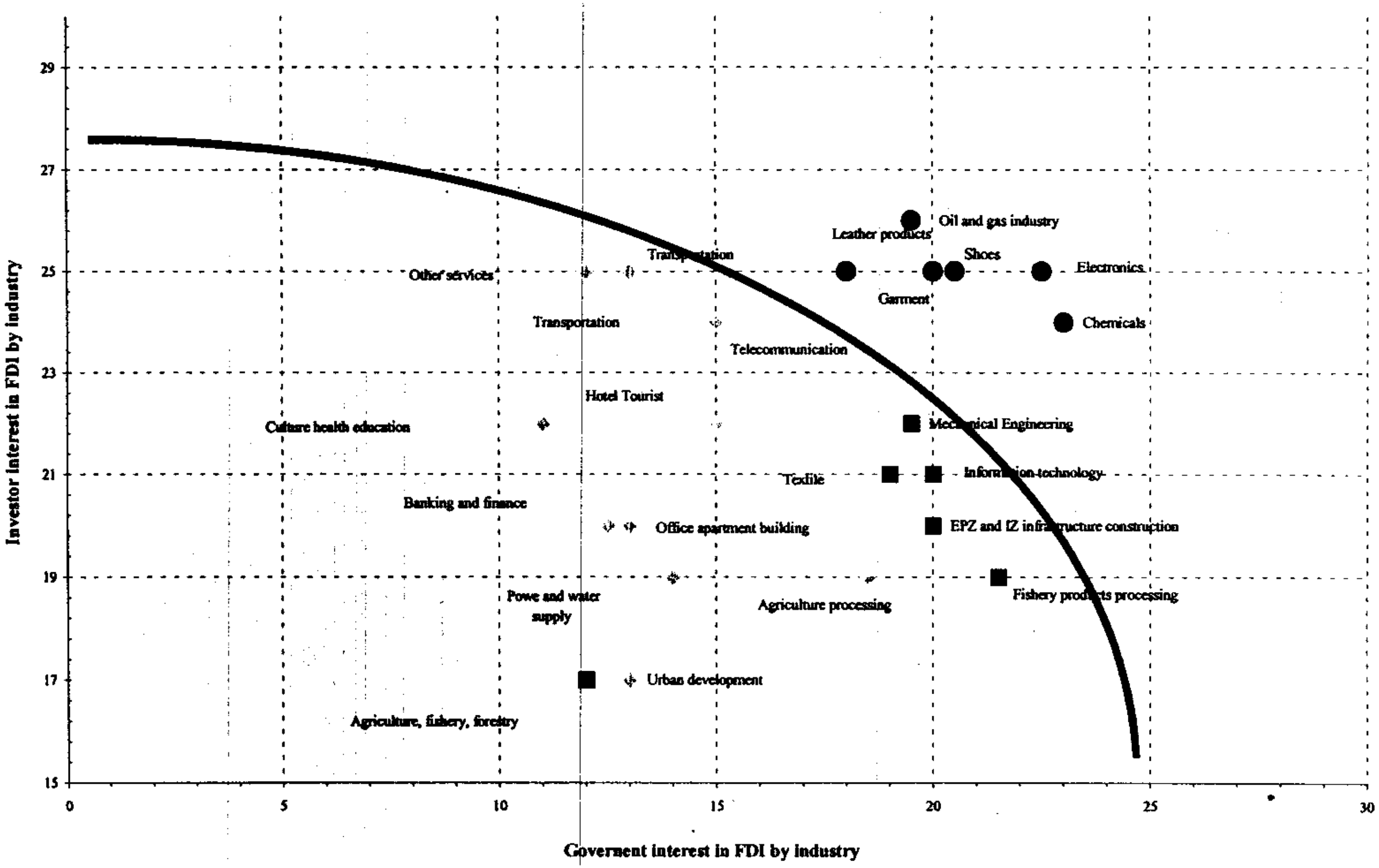
The next step is to match the FDI attractiveness from the Government's perspective and the investors' perspective (See Table 5).

Figure 56: Matching FDI attractiveness from Government and investors' perspective

		FDI attractiveness from the Government perspective		FDI attractiveness from Investors perspective	
1.1	Oil and gas industry	19.5	High	26	High
2.1	Mechanical engineering industry	19.5	High	22	Medium
2.3	Electronics	22.5	High	25	High
2.4	Information Technology	20	High	21	Medium
2.5	Chemicals	23	High	24	High
3.1	Fishery products processing	21.5	High	19	Medium
3.2	Agriculture product processing	18.5	High	19	Medium
4.1.	Garment	20	High	25	High
4.2	Textile	19	High	21	Medium
4.3	Shoes	20.5	High	25	High
4.4	Leather products	18	High	25	High
VI	**Power and water supply**	14	Low	19	Medium
7.1	Transportation	13	Low	23	High
7.2	Telecommunication	15	Medium	24	High
7.3	Banking and Finance	12.5	Low	20	Medium
7.4	Hotel - Tourist	15	Medium	22	Medium
7.5	Culture - Health - Education	11	Low	22	Medium
7.6	Other services	12	Low	25	High
8.1	Urban development	13	Low	17	Low
8.2	Office - apartment building	13	Low	20	Medium
8.3	EPZ & IZ infrastructure construction	20	High	20	Medium
VI	**Agriculture, Fishery, Forestry**	12	Low	17	Low

The attractiveness of the industrial sectors from the Government and investors perspective could be illustrated in Figure 57 below.

Figure 57: Prioritizing industries for FDI promotion



Clearly the FDI promotion strategy should firstly focus on those industries which are rated High from both Government's and investors' perspective (those industries above the prioritising line).

These include:

- Oil and gas industry
- Electronics
- Chemicals
- Garment
- Shoes
- Leather products

The promotional efforts spent on each of these industries would depend on the industry specifics. Generally, natural resource-based industries do not require much promotional efforts since not many countries have similar competitive advantages. In addition, companies operating in these industries are mainly large multinational companies, which can easily be identified.

For industries that compete on low labour cost, it must be realised that low cost labour is not a sustainable competitive advantage since it can easily be diminished by other high costs of doing business and by increase of productivity. To attract FDI in these sectors, the Government should ensure that it is committed to take appropriate measures to reduce costs of doing business. The FDI promotion strategy should convey this message to foreign investors.

The next focus group for FDI promotion strategy is those industries that are attractive from the Government's perspective for FDI promotion, but only rated as Medium from the investors' perspective (those industries on the right side and closed to the prioritising line). With regard to this group, the Government should identify those factors that reduce its attractiveness to the investors and implement appropriate measures to improve its attractiveness. This group of industrial sectors include:

- Mechanical engineering
- Information technology
- Fishery products processing
- Agriculture products processing
- Textile
- EPZ and IZ infrastructure construction

As discussed above, the attractiveness of an industry to foreign investors depends on the two key factors of expected returns and the risk affecting the expected return. Certain factors affecting the expected return are industry and geographically specific. Consequently, they are outside the short-term sphere of influence by the Government. However, for those factors such as cost of doing business, the Government could take appropriate measures to improve the competitiveness. In addition, there are many areas in which the

Vietnamese Government can reduce country and investment risks, which could affect the expected returns of investors. This would help to improve competitiveness of the investment environment since many companies would prefer investing in a country which has lower return, but also less risk.

The third group of industries, which may be considered for FDI promotion, are those industries highly attractive for the investors, but are rated as Medium or Low by the Government. Since the demand for investment is high, but the supply (i.e. the opportunities) is low, the Government can increase the price of investment and choose the desirable investors. Not much promotional efforts are required for attracting FDI in these industries.

Those industries rated as Low by both the Government and investors should not be targeted in the short term.

3.5 Determination of industrial sectors for Japanese FDI promotion

Once the target industries for FDI promotion have been identified (i.e. those industries that are rated as High and Medium by both Government and investors), the next step is to identify the geographical areas (i.e. the countries) for FDI promotion. The criteria for identifying the target industries for FDI promotion in a specific country, in particular Japanese FDI include:

Criterion 1: Position of that country in the world and regional market

A successful FDI promotion program requires the promotional activities to take place in those countries that are strong in the target sectors. This criterion measures the country's position in the relevant industry. A country will be rated as:

- High – if it is in the top 5 countries which are the leaders in the specific industry
- Medium – it is ranked at place 6th to 10th
- Low – if it is outside the top 10 countries.

Due to its importance, a weight of 3 is given to this criterion.

The assessment of a country's position in the world and regional market is mainly based on World Investment Report of UNCTAD and reports of other studies.

Criterion 2: Potential plan to expand foreign market of investors

The second issue to be considered is the potential plan for foreign market expansion of the investors. This could change from time to time depending on the internal and external environment. In the crisis, investors may be more cautious with any foreign expansion plans. The assessment of potential plans for foreign expansion could be based on the surveys or reference to recent trends of the industry. In respect of Japanese investors, JBIC conducted regular surveys on the trends in Japanese FDI, these survey results could be used as the basis for the analysis.

The rating could be as follows:

- High – if there is an increasing trends in foreign investment outflow
- Medium – if foreign investment outflow remains unchanged
- Low – if there is a declining trend in outflow

This criterion is given a weight of 2.

Criterion 3: Possibility to attract new investors

In certain sectors, there are only limited players such as oil and gas, power and banking. If the main players are already present in the country, the ability to attract new investors is limited. For those industries, which are dominated by small and medium size enterprises, the ability to attract new investors is much higher. The rating of this criterion is:

- High – if the industry has many small players
- Medium – if the industry has both small and large players
- Low – if the industry is dominated by a small group of companies

This criterion is given a weight of 2.

Criterion 4: Cultural and historical ties

FDI flows can be strongly influenced by cultural and historical linkages. It is often easier to attract investment from countries with which Vietnam has an established relationship because investors' of that country may already be knowledgeable about Vietnam. However, where investors from a single country dominate an industry, it may be better to diversify the geographical source of investment.

This criterion is rated as follows:

- High – if strong relationship with the home country of investors (top 5 investors or key investors in the region)
- Medium – if relatively good relationship (the next 5 largest investors)
- Low – some relationship

This criterion is given a weight of 1.

Again the weighting given to each criterion is subjective. Figure 58 below set out the assessment of target industries for Japanese FDI using the above criterion.

Figure 58: Determining target industries for promoting Japanese FDI[37]

		Criterion 1	Criterion 2	Criterion 3	Criterion 4	Overall pre weighting	Overall post weighting
	Weighting	3	2	1	1		
1.1	Oil and gas industry	2	2	1	2	7	13
2.1	Mechanical engineering industry	3	3	2	3	11	20
2.3	Electronics	3	3	3	3	12	21
2.4	Information Technology	3	3	3	3	12	21
2.5	Chemicals	2	3	2	3	10	17
3.1	Fishery products processing	1	2	3	1	7	11
3.2	Agriculture product processing	1	2	3	1	7	11
4.1.	Garment	1	3	3	2	9	14
4.2	Textile	1	2	3	1	7	11
4.3	Shoes	1	3	3	1	8	13
4.4	Leather products	1	3	3	2	9	14
7.2	Telecommunication	2	2	1	1	6	12
8.3	EPZ & IZ infrastructure construction	2	1	1	3	7	12

Source: MPI statistics, JBIC surveys, World Investment Reports, PwC assessment

Based on the above analysis, Vietnam should first focus in targeting Japanese FDI into the following industries:

- Electronics
- Information Technology
- Mechanical engineering, and
- Chemicals

Other industries such as oil and gas, garment, shoes and leather products could also be target industries for Japanese FDI.

3.6 Analysis of selected target industries for FDI promotion

Once target industries have been determined, it is necessary to review the current regulations and policies in terms of its appropriateness to support the industry development plan.

A SWOT analysis of selected target industries for FDI is presented below. A SWOT analysis is conducted for those industries that are deemed as target industries for Japanese investors and some selected industries that belong to the target industries for general FDI promotion.

[37] Only those industries rated as High or Medium in terms of FDI attractiveness from both Government's and investors' perspective are selected for analysing the target countries.

The selection of target industries for further study in this report is based on the following criterion:

- Industries which are under high competitive pressure
- Industries which play an important role in the economy and has increasing contribution to the GDP
- Export-oriented industries
- Industries which can utilise local competitive advantages

3.6.1 Electronics Industry[38]

Overview

New and fast growing industry

The electronics industry is a new industry in Vietnam, but has achieved a high growth rate (on average 20% per annum). It is relatively undeveloped with many enterprises being small and in need of capital. At present, the share of the electronics sector accounts for close to 10% of GDP and on average the annual production value is close to US$1 billion. Of this output, nearly 80% is exported.

Small compared with East Asian countries

However, Vietnam's electronics industry is still very small compared with other East Asian countries.

Limited types of products.

The electronic equipment industry can be broken down into two groups: industrial electric equipment and consumer household appliances. Within these groups the electronics industry is divided into two smaller industries, namely assembling and parts and components manufacture. Within the electronics industry, assembling of household appliances accounts for 40% of the total output. Assembly of telecommunication equipment 30%, computer 15% and industrial products 13%[39].

High concentration in major cities

Currently, there are about 200 enterprises in which the state sector makes up half this amount. Most companies are located in the three areas of Hanoi, Ho Chi Minh City and Dong Nai. The share of multinational companies is close to 5%, a rapid increase over the last few years, but Vietnam's share of electronics production in ASEAN still remains very small.

Electronics has been expected to be one of the key exports sectors and the main export items are TVs, electronic circuits and electronic components. However, while domestic demand has risen, the export of electronics, computers and components experienced a negative growth rate from 2000 to 2001. Current growth rates are not expected to rise in the near future.

Most electronic enterprises import most of their components and accessories from overseas. Over 75% of computers in Vietnam are domestically assembled

[38] A more detailed analysis of the electronics sector can be found at www.neujica.org.vn
[39] Ministry of Industry

using imported parts, because Vietnam does not produce computer accessories.

Mainly simple assembly

In terms of technology, this industry remains a labor-intensive industry in which complete knock down (CKD) assembly accounts for 80% of total. Only about 10% is incomplete knock down (IKD) assembly. Simple labor is Vietnam's largest input.

Foreign direct investment

Japanese investors dominate the sector

Foreign direct investment accounts for a large portion of the capital and revenue in the industry. While the industry has progressed significantly over the past decade it is currently on a downturn. There are over 30 foreign-invested projects worth a total of more than US$1.1 billion and 93% of this foreign domestic investment comes from Japan. Foreign firms manufacture 78% of the total number of radios and television sets 33% of other electronic items in Vietnam. The result is that the FDI economic sector contributed 84% of the country's exports of electronics.

SWOT analysis

Low labour cost is an advantage.

Strengths - The industry has the potential to be cost-competitive and up until now there has been an adequate supply of low-cost skilled labor. Production processes have been improved and there is a growing domestic market.

Vietnam also has certain natural resources, which could be used for the production of materials used in the electronics industry.

Poor infrastructure and high business cost hinder the development.

Weaknesses – The industry is largely dependent on foreign suppliers due to the lack of local supplies and materials.

The local content regulations that seek to promote joint ventures have seriously hindered the imports of components. This is still in effect, even thought the domestic components quality is relatively low.

There is a trend to shift production to low cost countries.

An inadequate infrastructure and high business costs increase the cost of production, particularly for this type of commodity, which is mainly produced for export. Some products can meet international standards, but most are of low quality and price levels are higher than that in the region. There is also no emphasis on research and development, product development or design.

Potential local market demand

Opportunities: The electronics industry is arguably the most globalised of all industries. Trade in electronics products is underpinned by an increasing geographic dispersion of TNC-driven production networks. The electronics industry is the single most important sector for investment by both Japan and the US. They continue to shift their production bases offshore.

There is growing domestic market and increasing buying power on the part of the consumer. The Vietnamese electronics industry can be modernized by updating existing state electronics firms and fostering cooperation with foreign firms. This can bring technology and skills necessary to expand the export market. By removing domestic distortions there is the possibility that some industries can be competitive in the international market. The domestic electronics industry needs to change its production strategy in order to produce value-added components and accessories.

Fears competition with ASEAN and China countries both in domestic and international market.

Threats: Tariffs must be rapidly reduced due to AFTA requirement. The taxes on electronics will be reduced from 40% to15-20% as of 2003 and to 0-5% by 2003. The prices of imported electronics will thus go down and will be a major challenge to the electronic industry.

The component market is seriously underdeveloped and most components must be imported. The labor force cannot meet the demand for workers.

There is increasing competition from China and the Chinese are taking an increasingly large share of the world's electronics. Last year the Chinese produced about US$110 billion worth of electronics goods. This is compared to 4 years ago, when Chinese production was only US$37 billion worth. This amazing increase in production (32% per year) is a direct threat to Vietnam.

There is also the large of amount of smuggling into the domestic market that affects the competitiveness of domestic producers.

Overall assessment of the potential competitiveness

Electronics are the target industries of all ASEAN5, which already have an established electronics industry. Compared with these countries, the electronics industry of Vietnam is very small. Thus, the entry barrier of this industry is very high.

As discussed above, Vietnam has certain advantages for development of the electronics industry whereby the law cost labour is not a sustainable competitive advantage. In order to capitalise on these advantages and support the development of the electronics industry, appropriate policies will be required. There are two key areas that require the attention of the political leaders to support the development of this industry: improve the quality of the education and training system, and effort to reduce other costs of doing business.

Various studies indicate that Vietnam may not be able to compete in consumer electric appliances. Thus, Vietnam may consider focusing on industrial electric products.

Current Government Policy on the Electronics Industry:

Lack of clear development strategy for the sector

Electronics industry is seen as one of the priority industry of Vietnam in the Five and Ten Year socio-economic Development Plan. However, there is no clear strategy for the electronics industry. This leads to inconsistency between different policies and regulations.

Vietnam wants to have a short cut from simple assembly to high value added activities and more technology intensive. To achieve this, Vietnam has adopted

The Government wants to fast move from simple assembly to technology intense activities

a fast-tract policy by imposing strict local content requirement and high import tariff for parts and components.

However, Vietnam does not yet have a parts industry that supplies the inputs to the electronics industry. The imposition of local content requirement and high import tariff will just increase the material cost, which adds further to the already high cost of doing business in Vietnam. Instead of encouraging FDI, this policy in fact discourages FDI in the electronics industry.

Local content requirement and high import tariff on parts reduce the competitiveness

As part of the development of the electronics industry, there are suggestions to develop the parts industry. These suggestions support the local content policy. However, to develop the parts industry, it should first have economies of scale, which Vietnam does not yet have due to the small size of the electronics industry. Until the electronics industry further develops and achieves a certain standard, attracting FDI into parts industry will be difficult.

The production process of electronics industry has many sub-processes. The protective import tariff for parts and components is not a good tool to encourage the development of the parts industry. This is because the parts industry will in turn be hit with high import tariff when importing its input.

FDI policies only encourage export and discourage local market sales.

Current polices in the electronics industry concerning foreign investment tends to focus on encouraging production for export. Example of such policies is the minimum export ratio requirement applicable to foreign invested enterprises. This applies not only to finished goods but also to producing parts and components. This requirement will restrict and discourage FDI.

To be effective, the export promotion strategy should focus on building up competitive advantages for the electronics industry by reducing the cost of doing business and bureaucracy rather than introducing restrictive and protective measures.

Recommendations for future development of the industry and the role of FDI[40]

Promoting FDI to electronics industry should be done mainly through improvements in the business environment rather than monetary incentives. To achieve this, the following actions are required.

- Develop a clear strategy and direction for the industry. This should be based on careful analysis of Vietnam's conditions and competitive advantages.
- Remove the local content requirements and minimum export ratio. This should be a business decision rather than a legal requirement. The Government can achieve the same objective by different measures

[40] Watanabe, Sadanori, "An opinion and comment on how to promote the Electronic industry in Vietnam and how to strengthen the competitiveness, November 2002.

- Remove the protective import tariff system and move to a more liberalise trade system.
- Expand investment in the infrastructure including improvement of the educational sector to train workers.

3.6.2 Information Technology Industry [41]

Overview

New industry.

The information technology industry can be divided into two groups: hardware and soft ware industry. The hardware industry is developing quickly and is tied to the electronics sector. The Vietnamese software industry is relatively new, comprised of a number of small enterprises operating in the domestic sector. The number of foreign investment projects has been increasing in this sector, but all are small scale with little capital invested. Most software companies are operating on an outsourcing basis.

Software and services account for 25% of Viet Nam's information technology market, whose operations are mainly in personal computers or office local area network installations.

Highly encouraged by the Government

The Government of Vietnam has been making efforts in the past years to help develop the local information technology industry. In particular, the software industry is considered a special encouraged investment sector and a key industry. The Government has announced that it will invest nearly US$100 million in the software sector for the period 2003-2005 and has set ambitious plan to train 50,000 information-technology workers by 2005.

Viet Nam's software industry aims to gross total revenue of US$500 million by 2005, of which US$200 million from exports, and to provide jobs for 25,000-30,000 workers. These targets, however, appear unrealistic as only a meagre US$5 million was contributed by this industry in 2002.

Two software parks, both located in the Ho-Chi-Minh-city area are currently operating and a number of companies, including a few foreign firms have established operation. However, many of these operations are unprofitable and although a high-volume Internet network links both parks, the relatively high connection cost is a problem.

SWOT analysis

High commitment from the Government

Strengths- The government is committed to the development of this sector and is offering generous incentives. The industry is relatively labour intensive and the cost of labour is in Vietnam is relatively low. The capital requirement for firms is not large. The market for information technology and software is expected to grow at high rates in the future both domestically and

[41] The analysis of this sector if based on information provided by the Vietnam Software Industry (www.softonline.com) and the Vietnam Software Association (www.vinasa.org).

expected to grow at high rates in the future both domestically and internationally.

Lack of qualified work force

Weaknesses- The labour force does not currently possess the necessary skills to develop sophisticated software. A large number of software projects in Vietnam are regarded as failures due to difficulties meeting deadlines, cost overruns and the creation of products, which do not meet market or customer expectation. Thus, the level of quality is a critical problem for the Vietnamese software industry.

Internet and telecommunication cost in Vietnam are still relatively high.

Growing domestic and international market demand

Opportunities There is a large potential growth of the domestic market – all in urgent need of computerisation. State-owned companies and organizations form 70% of the market for software. There is also a growing world market for information technology estimated at a 10% growth rate annually.

Cop right is key for the industry development

Threats - Vietnam's software industry faces the issue of copyright infringement, which runs rampant and discourages software producers from investing more in their development efforts. Firms are reluctant to produce for the domestic market and this is where software development is most urgently needed. The wage rate for software developers is low and if not increased may cause a brain drain.

There is also severe competition from well-established firms in the US and Europe as well as from the developing software industry such countries as Singapore, Philippines and in particular, India. All of these countries have comparative advantages in software development that Vietnam does not currently possess.

Overall assessment of the potential competitiveness of the industry

The competitiveness of Vietnamese IT industry is still low. However, there are great opportunities for further development. Due to the expected high growth in the domestic market, the IT industry should initially focus on meeting the domestic market and build up its strengths. Over time, it would then explore opportunities for export. Large and young work force is an advantage for Vietnam to develop this industry.

It is too early to focus on soft ware industry due to the lack of expertise. However, Vietnam could build up this industry via outsourcing arrangements. Although the value added of this form is low, it is a good start. This is also the common approach adopted by other countries such as Indian, Malaysia and Indonesia.

Current Government Policies

The software and informational technology industry is considered a priory industry

On June 5, 2000, the Vietnam government issued a decree (No. 07/2000/QD-

CP) on creating and developing the software industry for the period 2000-2005. The decree defines the "software industry" as an important component of the IT industry. It includes activities related to production, business transactions of software products and supply of software services. To strengthen the country's software industry, the government is set to build up the software industry as a leading economic sector that would rapidly grow, accelerate modernization and sustainable socio-economic development, improve efficiency and effectiveness of state management and ensure national security; utilize the country's intellectual potentiality, especially its young generation, to prepare high skilled human resources for the coming decades; and, for the software industry to contribute US$500 million in GDP by 2005.

Another regulation (Prime Minister Decision No 128/2000/QD-TTg) which plays an important role in encouraging IT applications in various sectors was issued by the Prime Minister on November 20, 2000 on incentive policies and measures for investment and development of the software industry.

The government has also committed to training 25,000 highly qualified IT experts and skilled professional programmers with English proficiency by 2005.

In addition to the above, businesses involved in software production and services, both local and foreign-invested, are exempt from corporate income tax for four years from the date they generate taxable income.

Vietnamese companies are subject to corporate income tax of 15%, 20% or 25%, as compared to the typical 32%. Foreign invested enterprises are taxed 10% against the common rate of 25%. Software products will receive zero VAT rate and be free from export tax. In addition, Vietnamese nationals directly working in software development and services are paying personal income tax under foreigner rates, which are significantly lower than those applicable to Vietnamese nationals working in other industries. This is a very special treatment applicable only to the software industry.

3.6.3 Mechanical engineering industry

Since 1955, the mechanical engineering industry started to develop into a priority industrial sector in Vietnam. The main reason was the strong emphasis on heavy industry by the Vietnamese Government. The mechanical engineering industry consists of the following main sub-groups[42]:

- Bicycle, motorcycle and automobile
- Engine and agriculture machinery
- Machinery and Equipment
- Machine tools
- Ship building
- Construction machine

[42] Vietnam's Industrial Strategy in light of its WTO accession process, April 2002.

- Mechanical engineering for agriculture, forestry and light industry

The mechanical engineering industry supplies a wide range of products. However, the capacity is low and does not meet the demand of the economy both in terms of quantity and quality.

In general, at present the competitiveness of the mechanical engineering industry is still low. This can be seen through the fact that many local companies are running below the capacity. Some companies only achieve less than 25% capacity utilisation rate. But, the local production only accounts for 5% to 25% market share. The remaining market is dominated by imported goods (legal and illegal imports).

A number of companies have adopted advanced technology and are able to make some products which can compete with other ASEAN countries such as diesel engines of 6-18hp capacity, certain types of rice polishing machines, water pumps, certain motorcycle components. The export of mechanical engineering products is small and accounted for about 1% to 2% of the total country's export.

The mechanical engineering industry employs about 225,000 people with over 10,000 people with university degrees.

Below is a review of selected sub-sectors of the mechanical engineering industry.

<u>Motorcycle production</u>

Motorcycle industry has developed fast during the 1990a. There are eight joint ventures and more than 52 small and medium size enterprises assembly and producing parts and components[43]. The total designed capacity is about 1.5 million units per year. Vietnam becomes not only a huge market for motorcycle, but also a production centre.

Most companies import spare parts and assembling motorcycles under CKD forms. Only few companies assemble IKDs. Since 2000, Vietnam implemented the localisation policy with the aim to encourage the development of the local components and parts industry. Most foreign invested companies are required to use 60% of the value of components and parts produced locally within 5-6 years of operations. However, the lack of domestic quality components producers makes it difficult to comply with this requirement.

<u>Automobile industry</u>

There are eleven automobile companies operating in Vietnam including leading automobile firms from the United States, Europe, Japan and Korean. There are five Japanese automakers present in Vietnam (Daihatsu, Hino, Isuzu, Mitsubishi and Toyota) with a total registered capital of US$574.75 million and

[43] Ministry of Planning and Investment

implemented capital of US$391.9 million. There is a wide range of vehicle models being assembled in Vietnam, including small cars, mid-size cars, sport cars, minibus, light and medium trucks. The designed capacity is 148,000 units per year.

The main difficulties of automobile industry are limited market size and the high import of completed units. Accordingly, the capacity utilisation rate in Vietnam is very low. All locally produced vehicles import CKD kits for assembly. The localisation rate is very low (approximately 8%-10%) due to non-existence of supply-base. This makes the production cost locally-produced vehicles much higher than other countries. According to an automaker manager in Vietnam, the price cars assembled in Vietnam is double the price of similar car in the home country.

The Ministry of Finance recently announced the new tax policy applicable to automobile industry. Notably is the intention to increase the import duty on spare parts and increase in special sales tax. According to automobile companies, if such policies are enforced, the car price will be double by 2005.

<u>Engine and agricultural machinery</u>

The real development of agriculture machinery production in Vietnam dated back to the 1950s. Main products of this sub-sector include diesel engines, electric engines, irrigation pumps, ploughing machines, and agricultural machines of various types. The current production capacity utilisation rates are only between 15% to 40%[44].

Most engines are manufactured based on outdated technology. Some new engines are based on new designs and more advanced technology with the aim to supply to foreign invested sectors and foreign markets. In terms of market share, local production only meets about 5%, while Chinese motors may have as high as 70%. The remaining 25% are met by Japanese motors.

Agricultural machinery and equipment produced by Vietnam are also characterised by old-fashioned design and technology which result in low quality, high production cost and low sales. Although some products for processing of rice, coffee, tea and sugar have attained adequate quality, the imported new and second hand equipment is dominating most product areas with superior quality/price ratios.

Foreign direct investment

By the end of 2002, there were over 180 projects with foreign invested capital in the mechanical engineering sector with a total capital of $2.2 billion. Of these, more than 50% was in the assembly of automobiles, motorbikes and other consumer goods. The number of projects in production of equipment for agriculture and mechanical equipment is still very small.

[44] UNIDO and DSI, Vietnam – Industrial Competitiveness review, Final report, 2/1999

SWOT analysis

Strengths - Vietnam has a number of natural resources needed to produce mechanical engineering products such as iron and bauxite ores. If appropriate policies are implemented, Vietnam can develop the basic metal products to supply the materials to the mechanical engineering industry

Low wages of unskilled labour is another advantage. However, this only applies to low-end of the labour market (i.e. unskilled labour). Certain sub-sectors of the mechanical engineering are labour-intensive. Thus, low labour cost could become a competitive advantage of Vietnam to develop this industry.

Weaknesses - Outdated technology is the main weakness of this industry. According to a study conducted by the Ministry of Industry, the technology adopted by the mechanical engineering industry is 2 to 3 generations behind the world standard[45].

Low productivity and increasing cost of managerial and technical workers has driven up production costs and reduces the competitiveness of the industry. The productivity of Vietnamese workers is well known to be lower than those in Indonesia, Malaysia, Korea and Taiwan.

Lack of specialisation and cooperation is another weakness of this industry.

Opportunities – A large potential local market offers huge opportunity for the mechanical engineering industry. In the last years, the import of mechanical products (including consumer products) accounted for 30% to 35% of the total import of Vietnam.[46] It is anticipated that the demand for the mechanical engineering products for the period from 2003-2010 will be in the region of US$10 billion.

A number of international donors have committed to provide funding to the Government of Vietnam to upgrade the technology of the mechanical engineering industry. This offers huge opportunities for companies to have access to cheap funding, advanced technology, modern management and technical know-how.

Threats - The integration process poses significant difficulties to local companies, which already have low competitiveness. Without restructuring the business, it will be difficult for local companies to compete with other countries in the region.

[45] Institute of industrial sector strategy, Ministry of Industry, A study on competitiveness of Vietnamese industry, 2nd draft report.
[46] Institute of industrial sector strategy, Ministry of Industry, A study on competitiveness of Vietnamese industry, 2nd draft report.

Overall assessment of the competitiveness of the industry

As highlighted above, the overall competitiveness of this industry is very low. One of the fundamental factors impacting the current competitiveness of the mechanical engineering industry is application of import substitution policies, a high rate of effective protection, majority state ownership and a low degree of cooperation and specialisation.

Current Government policy

The mechanical engineering industry is always been treated as priority industry of Vietnam. This is clearly indicated in the Resolution of the VIII Party Congress stating "The mechanical industry must become a key economic sector which is strong enough to equip a major part of the economy in order to step by step mechanise the production process, to contribute to structure change, job creation and increase productivity as well as strengthen the national defence of the country". Ambitious goals such as the mechanical engineering industry should meet 40% of local demand and export 30% of its production by the year 2010, while the local content should reach 60%-70% of product value have been set.

On this basis, the Government has issued various incentives to encourage the development of this industry, including issuance of list of products, which are entitled to soft loans or providing loans to farmers for purchasing agricultural machinery and equipment to stimulate the market demand.

In addition, protection policies are implemented to protect state-owned enterprises, which has resulted in overprotected enterprises and limited competition. The industry policy focuses more on import substitution rather that export orientation, reducing the competitiveness of local producers.

Recommendations for future development

- Provide stable policy framework
- Assist in the creation of parts and components supply base
- Take strong policy actions in order to encourage foreign parts and materials manufacturers
- Accelerate the SOE reform process to restructure the SOE mechanical engineering companies, which still dominate this industry
- Comprehensive improvement of business climate which has to become more "pro-business"
- Specific assistance program should be implemented in capacity building, training
- Identify priority cluster for development

3.6.4 Chemical industry

Overview

The Chemicals industry of Vietnam comprises the following main groups[47]:

- Fertilisers
- Agricultural pharmaceutical products
- Rubbers
- Basic chemicals
- Consumer chemicals
- Petrochemicals

During the period from 1996-2000, the chemical industry had an annual average growth rate of approximately 13%.

The chemical industry of Vietnam can only meet the domestic demand for some products. Other products are produced locally, but their quality is not high or the quantity cannot meet local demand. In sectors where there is high level of FDI, the products produced by Vietnam meet the high quality standard and could compete with other countries in the region.

The fertilizers sector can meet the local market demand in superphosphate, fused superphosphate and NPK fertilizers. SA, DAP and potassium fertilisers have to be imported. The competitiveness of this group is low due to outdated technology and high production cost.

Agricultural pharmaceutical products can meet the domestic market demand. However, its production is limited due to the lack of production of basic composites.

The production of basic chemical is limited to some basic inorganic chemicals. The demand on H_2SO_4, HCl, H_3PO_4 can be met by local production. However, other pure chemicals, soda and alum must be imported.

In recent years, consumer chemicals developed rapidly, in particular detergent products due to the high share of FDI. The production of detergent does not only meet the local market demand, but also for export. However, the export turnover of consumer chemicals is still very small compared with other sectors.

Petrochemical is in the start up period. Currently, Vietnam can only produce PVC and DOP. However, the cost is high since the intermediate inputs must be imported.

Most chemical products, except fertilizers, are protected by the Government in the form of high import tariff, surcharge, quota, and minimum dutiable price. .

Foreign direct investment.

[47] Vietnam's industrial Strategy in light of its WTO accession process, April 2002.

FDI plays an important role in the development of the chemical industry. Up to the end of 2001, there were 122 projects in the chemical industry with total registered capital of US$1.12 billion and implemented capital of US$497 million.

FDI is concentrated in consumer chemicals, agriculture pharmaceutical products and petrochemicals. Most foreign invested companies in the chemical industry are still making losses and face many financial difficulties. There are, however, certain successful projects such as Lever Vietnam. Castrol, LPG Vietnam. The two Joint ventures (Unilever and Procter and Gamble) account for 80% of the total market share of detergent products.

SWOT analysis

Strengths – The main advantage of Vietnam is the availability of natural resources used in production of chemical products such as apatite, pyrite, oil & gas, natural rubber etc. In particular, Vietnam has large natural rubber plantations, which could provide high quality and low cost materials to the rubber industry. This is a sustainable competitive advantage of Vietnam, which could be exploited on the long term.

Large labour force is another competitive advantage of Vietnam. However, this is not sustainable.

Weakness – Outdated technology is the main weakness of the chemical industry, in particular the state owned and domestic sectors. The foreign invested sector, however, has adopted more advanced technology. Thus, their products are of high quality, lower cost and more competitive.

Opportunities – the largely untapped local market provide huge opportunities for the chemical industry.

The export of chemical products has recently been started and grew quickly. Main export markets are China, Cambodia, Iraq and other developing countries. These remain attractive and key market for the next 5 years.

The US BTA and potential WTO accession would not provide major opportunities for the Vietnam chemical industry in the near future. However, in the long run when the industry is more established and developed, there could be opportunities to expand the export market.

Threats – the chemical industry is highly protected by the Government by way of high import tariff, quota, and minimum dutiable price. Under the AFTA commitment, Vietnam will have to reduce the import duty and cannot apply other protective measures in favour of domestic production. This could impact the development of the new products, which need certain protection at the initial period.

Overall assessment of the potential competitiveness

Vietnam has certain advantages to develop this industry. In the short term, the chemical industry should focus on the domestic market. In the medium and long term, the aim is to export those products in which Vietnam can build up the competitiveness such as rubber products, detergents etc.

Current Government policy on chemical industry

The chemical industry has not yet received proper attention from the Government. This is a capital-intensive industry, which has a long payback period and high risk. The current regulation does not provide sufficient incentives and guarantee to stipulate the private sector investment. Those projects, however, which qualify as import substitute products are entitled to certain incentives.

The protection policy adopted by the Government sometimes impedes the development of the industry. There are certain cases where the import duty applicable to finished goods is lower than the import duty rate applicable to raw materials and components.

The minimum export requirement for certain sector reduces the attractiveness of the chemical industry because the competitiveness of the industry is still very low.

Recommendations for future development of this industry

- Encouragement of domestic and foreign investment in those areas which utilise natural resources available locally
- Speed up the SOE reform
- Removing the minimum export requirement for foreign invested enterprises
- Providing concrete measures to protect the interest of investors is the key issue to develop the chemical industry.
- Provision of financial incentives such as import duty free for import of raw materials, land rental reduction could help to stimulate the interest of investors
- Simplifying administrative procedures in particular for large scale projects
- Improve the quality of locally produced raw materials
- More pro-active investment promotion

3.6.5 Oil & Gas industry

***Overview*[48]**

Oil & gas industry under Vietnamese definition includes oil and gas exploration and oil and gas services. The down stream sector is grouped into other

[48] PetroVietnam web sites

industries such as chemicals (fertiliser, petrochemical).

Oil and Gas exploitation

The oil and gas industry has huge potential for development and attraction of FDI

The total picture for oil and gas exploration and exploitation in Vietnam is quite promising. To date, Vietnam has signed about 48 production sharing contracts or joint operating contracts with foreign partners for upstream operations with a total investment in the upstream sector to more than US$4 billion.

Vietnam has 600 million barrels of proven oil reserves, and further discoveries are expected. Crude oil production averaged close to 400,000 barrels per day in 2002. The country has six operating oil fields, of which Bach Ho (White Tiger), Rang Dong, Hang Ngoc, and Dai Hung (Big Bear) are the largest. Most oil exploration and production activities occur offshore in the Cuu Long and Nam Con Son Basin. Vietnam currently has no operating oil refineries - therefore almost all of its oil production is exported. Export markets include Japan, Singapore, the United States, and South Korea and oil exports are one of the country's largest foreign currency earners.

The fledgling gas industry holds great promise for investors as a result of large reserves that have been discovered offshore. These recoverable reserves have been estimated to be as high as 60-80 trillion cubic feet. The development of the country's gas resources will largely depend upon the ability of the Government and foreign investors to move existing gas development projects forward.

Oil and Gas services

Domestic sources cannot provide many services required for development of the oil and gas industry

Foreign firms take the largest share in the multi-billion-dollar petroleum services sector. Currently, Vietnam does not have a major refinery, but it is in the process of building its first. The $1.3 billion Dung Quat Refinery, which is located in Quang Ngai province, will have a capacity of about 140,000 bbl/d. The was initially intended to a joint venture between PetroVietnam and the Russian firm Zarubezhneft, but in December 2002 the Russian firm withdrew its commitment.

According to PetroVietnam the oil and gas industry spent close to US$1.8 billion on services in 2002, up nearly US$670 million from 2001. Domestic sources can only provide medium tech services like drilling, repairing and maintaining wells, manufacturing and installing platforms, giving investment advice, designing works for oil and gas exploration, insurance and salvage.

PetroVietnam estimates US$510 million is needed for construction services for planned oil refineries, urea fertiliser plants in Phu My in Bia Ria-Vung Tau Province and Ca Mau Province, and plastic material plants. Experts in the oil and gas industry predict that the oil and gas industry will need some US$2 billion every year in the next three years for services as there will be more oil and gas fields to be explored, and many works are set to undergo construction. PetroVietnam, however, has targeted gaining a 45% stake of the local oil and gas services market by 2005.

Foreign Direct Investment

FDI is present in 100% of oil & gas projects.

Forecasts are that a large amount FDI will be needed to develop this industry

The oil and gas processing industry has expanded rapidly in the past few years and PetroVietnam has increased the number of blocks under exploration by means of Production Sharing Contracts, Business Cooperation Contracts or Joint Ventures. Over the last decade, PetroVietnam has signed 45 domestic product-sharing deals worth a total US$4 billion with foreign companies. Nineteen of these contracts have been currently implementing. FDI projects for processing DOP (30,000 tons per year), PVC (100,000 tons per year), LPG (130,000 tons per year) and bitumen (300,000 tons per year) have been licensed and are under way. Foreign contractors have played an important role in the introduction of up-to-date technology and management skills as well as the provision of investment capital for the oil and gas sector. This involvement has contributed to the development of a full range of economic activity in the oil and gas industry including exploration, transportation and processing. From 1988 to 2001, 56 foreign direct investment projects with registered investment capital of US$4.2 billion in the oil and gas industry sector have been licensed.

SWOT analysis

Strengths: Vietnam has a large quantity of proven energy resources and there is an expanding need for energy sources. The energy sector is a significant source of hard currency and the government is committed to its development. The oil and gas processing industry has developed rapidly in recent years and PetroVietnam has increased the numbers of blocks under exploration.

Weaknesses: The price of oil is volatile and the export markets will depend on the state of the economy in overseas markets.

Special incentives are available for projects invested in remote areas

Opportunities: Forecasts are that around US$5 billion will be needed to further develop Vietnam's petroleum resources by 2010 and it is committed to a second refinery and the linking of new gas fields to shore. There is also a commitment utilizing and promoting Vietnam's oil and gas potential to its full range of applications, including power generation, production of fertilizer and other petrochemicals (methanol, ethylene, polypropylene, LPG bottling as well as a distribution network.
Developing the energy sector will both support and stimulate economic growth. Energy exports are a significant component of total exports and the provision of energy is vital for the development of industry and commerce.

Threats: The volatile price of oil and the extent to which the government will want to maintain control over this industry.

Overall assessment of the potential competitiveness

Based on the extent of oil and gas reserves, the potential competitiveness would appear to be relatively high. However, due to the immaturity of the market, bureaucratic obstacles, high cost of business and the extent of control in which PetroVietnam must be involved in all aspects of this industry, the attractiveness is somewhat diminished.

Current Government Policy on the Oil and Gas Sector

In 1998, Decision No. 216/1998/QD-TTg on the petroleum activated in deep, remote waters and areas with special geographical, geologic, economic, or technical difficulties. Under this decision petroleum operations having one of the above –mentioned difficulties has be granted privileges such as:

- Reduction in the profit tax rate (to 32%), enjoying a preferential tax rate on remittance, exempt from the export tax when exporting the petroleum portion to pay royalty;
- Signature bonus and data fee will be reduced or exempt subject to the agreement;
- Temporary suspension of the contract, or to conditional reservation of the contract;
- Up to 70% cost recovery;
- Entitlement to gas export after meeting domestic demand; entitlement to exchange the oil & gas sales into foreign currencies etc.

Continue attracting FDI to develop this industry.

And in a further effort to further improve the investment climate in the oil and gas sector, PetroVietnam is currently under negotiation with relevant government agencies to come up with a new series of measures to attract foreign investors. The major new measures include

- Cutting tax rates for companies operating in certain exploration or production fields;
- Lowering administrative costs charged to foreign companies involved in establishing exploration and production facilities.
- Foreign investors will receive a higher percentage of earnings from production sharing contracts to cover cost of exploration.
- Fees paid by bidders such as training fees, charges for reading materials and commission fees should be kept at a minimum level.

Recommendations for Future Development of the Industry and the role of FDI

- Continue to expand industry due to the comparative advantage of it natural resources
- FDI will continue to play a major role in this sector and should be a primary target for investment promotion
- Design appropriate incentives to attract the necessary foreign investment needed
- Streamline decision making process

3.6.6 Textile and Garment Industry [49]

[49] This analysis is based on reports by the Vietnam Textile Industry (www.vinatex.com), various articles in the Vietnam Investment Review (www.vir.com.vn) and related links. For a full discussion of the growth

Overview

The textile and garment industry employs a large amount of the labour force

Vietnam's textile and garment industry is one of the largest employers in the country and an importance source of hard currency earning. In 2002, the industry employed approximately 2 million workers accounted for approximately 25% of the total industrial workers.

Vietnam's textile industry is characterised by small size and outdated technology.

Vietnam has 1,224 industrial textile and garment enterprises with a total registered capital of $ 1.8 billion. Most garment enterprises are small-to-medium size; for example, only 40 of the 280 export garment companies in HCMC have more than 500 workers. The textile industry is dominated by state owned and foreign invested enterprises, while garment industry is dominated by domestic private sector.

Garment is more developed than textile.

Steady export growth, averaging more than 30% over the past 10 years, has made Vietnam a significant regional exporter of textile and garment products. Export value increased from over US$100 million in 1990 to approximately US$3 billion in 2002. It is expected that the export of the garment and textile industry will continue to growth. The goal is to achieve an annual rate of 14%.

During the period from 1996-2002, the growth rate of the textile industry averaged 10%, but growth rates varied widely, while the growth rate of the garment industry was more steady and higher at close to 15% per annum.

Despite these positive developments, the competitive advantage of the textile industry is relatively low due to outdated technology. Fabric production, for example, can only meet about 30% the demand and most material must be imported.

Foreign Direct Investment

The number of FDI projects is the highest in this sector, but small in size.

The textile and garment sector has absorbed 237 FDI projects with total registered capital amounting to more than US$ 2 billion. Among them are 85 projects invested in textile fibres, 144 in garment and 12 in garment accessories with total registered capital of approximately US$ 1,680 million, 708 million and US$ 34 million respectively.

The total legal investment capital of all foregoing projects is US$ 824 million, of which US$807 million has been implemented. Notably, the textile fibre project invested by Hualong Corp. (Taiwan) has the total capital of more than US$ 400 million. The share devoted by the foreign invested sector in textile and garment production value has increased from 17.33% in 1995 to over 26% in 2002.

It is also noteworthy that textile and garment absorbed the largest numbers of projects invested in Vietnam since the introduction of Law on Foreign

and development strategy of the garment and textile industry the reports found on the website of the NEU-JICA project (www.neujic.org.vn).

Investment. The foreign invested sector has also made a significant contribution to the improvement of the technology. All foreign invested enterprises have brought with them advanced technology that has forced local producers to enhance their competitiveness and up-date methods of production.

The striving objective for the textile and garment sector is to reach US$ 4 to 5 billion in foreign investment by 2005 and US$ 8 to 9 billion by 2010. To this end, by 2005 the sector must produce 30,000 tons of cotton fibres, 60,000 tons of synthetic fibres, 800 million square meters of fabrics, 300 million knitted articles, 780 million of apparels and these figures must increase twice by 2010.

SWOT analysis of the Vietnam Garment and Textile industry

Strengths

Low labour cost is an advantage.

These industries involve labor-intensive production. A large pool of cheap and young labor, who can learn quickly, are the main advantages of the Vietnam garment and textile industry. However, this competitive advantage is not sustainable if Vietnam cannot improve the means to increase productivity.

Weaknesses

High dependence on foreign customers

The value-added in this sector is relatively low and there is a high dependence on foreign customers. According to statistics, 80% of the exported garment is produced on processing on a contract basis. In most cases, the foreign buyer/order supplies the local producer with imported fabric and auxiliary materials needed for garment production and then buy the final products. In some cases, the purchasers also provide the equipment. The local producers only earn a processing fee, which is continuously under price pressure.

Lack of local materials resources

The current textile industry at present cannot meet the demand of the garment industry, in particular the demand for producing goods for export. The import turnover of textile products accounts for around 30%-40% of the total import of the garment and textile industry, while over 90% of the materials for exported garment products must be imported.

Lack of expertise in design and marketing

Lack of expertise on fashion design, marketing and management skills is other weaknesses of the textile and garment industries.

The technology used in the textile industry is outdated. According to a report of the Ministry of Industry, over 70% of the textile equipment was produced in the 90s and before. This has adverse effects on the product quality and productivity.

The global trend is to shift production to low cost countries.

Low productivity is another weakness of the garment and textile industry. According to a study conducted by the Ministry of Industry, the productivity of Vietnam only accounts for 50% of the productivity of other countries in the region. The low productivity diminishes the labour cost advantage of Vietnam.

Opportunities

Market grows with income growth

Fears competition from East Asian countries.

Potential competition with imported products.

China is the main competitor in the US and EU market.

The garment and textile industry does not require a high capital investment when compared to other industries. The level of technology is not relatively complex (particularly in the garment sector) and this is very suitable for small and medium size firms.

There is also a global trend to shift labour- intensive industries such as garment and textile from developed to developing industries which have competitive advantages in a large and cheap labour force in the form of direct investment, technology transfer. If Vietnam can increase its productivity by maintaining the labour cost, it would have the opportunity to further develop these industries.

Garment and textile products are essential goods. Thus, the market for garment and textile products will increase with the increase of the living standard.

The garment and textile is an industry often subject to protection and most countries maintain entry barriers via quota or high import tariff. However, with the ratification of the VN - US BTA this will provide Vietnam opportunities to enter the US market with much lower rates.

In 2000, Vietnam and EU entered into an agreement to increase the export quota for Vietnam garment and textile products to the EU by 26% one year earlier than the previously agreed schedule. This offers opportunities for the Vietnam garment and textile industry to promote export to this market.

Threats

This industry has a short life cycle due to the rapid change in fashion. Currently, Vietnam does not have a fashion design industry. This limits the ability of Vietnam to meet the frequent change in customer demand and makes Vietnam's garment and textile industry more dependent on foreign customers.

The main export market of Vietnam is EU (more than 40%), Japan (30%) and the remaining belongs to countries in Middle East, East Europe, North America and other Asian countries. The EU market is matured and other markets are subject to stiff competition from other East Asian and Southeast Asian countries as well as China. This is a challenge, but also an opportunity for the Vietnam's garment and textile industry.

At present garment and textile industry enjoys the protection of high tariff rates (between 40% to 50%), but such rates would have to be reduced to as a result of AFTA/CEPT commitment. The local producers will have to compete with imported products from ASEAN countries.

The East Asian and Southeast Asian countries are the largest garment and textile exporters. Their respective shares in the world trade are 43% for textile and 46% for garment. Compared with other countries, the textile and garment industry of Vietnam still very small (See table below). Vietnam is thus subject to stiff competition in maintaining and increasing its share.

China is one of the main competitors of Vietnam and China is competitive in terms of labour cost. China is also now a member of WTO, and will enjoy the benefits of the elimination of quota on textile and garment trading between WTO members, which is expected to be in force by 2004.

Figure 59: Comparison of garment and textile industry of selected countries

	Country	Yarn output	Silk output	Garment product	Export turnover
		Thousand ton	Million m2	Million units	US$ million
1	China	5,300	21,000	10,000	50,000
2	India	2,100	23,000	-	12,500
3	Bangladesh	200	1,800		4,000
4	Thailand	1,000	4,200	2,500	6,500
5	Indonesia	1,800	4,200	3,000	8,000
6	Vietnam	85	304	400	2,000

Source: Vietnam Garment and Textile Association "Speed up Development Strategy for Vietnam's garment and textile industry up to 2010".

Overall assessment of the competitiveness of the industry

If Vietnam can tap the large pool of low cost labour, increase the productivity and management skills, Vietnam garment industry will be able to compete with other countries in the region. China has similar competitive advantages as Vietnam and is very strong in low quality products. Vietnam may consider not competing in this market and focusing on higher quality products instead.

The textile industry of Vietnam could also benefit from low cost labour. However, such advantages may be countered by the outdated technology and equipment. Vietnamese textile industry could only compete if further investment could be placed on upgrading the technology to improve production capacity and quality. Vietnamese silk has high export potential. If further investment can be made in this area, it can become an attractive niche market for Vietnam.

One of the key factors for the development of the textile and garment industry is to establish the linkages between textile and garment. Currently, most of materials used by the garment industry have to be imported since the textile industry is not able to meet the quality requirement of the garment industry. The objective of the textile industry is therefore firstly to supply raw materials to the garment industry and then consider the export opportunities.

Current Government Policy on the Textile and Garment Industry

Textile and garment is a priority industry.

The textile and garment industry is considered a priority industry in the Five and Ten-Year socio-economic development plan of Vietnam. The strategic goals of the textile and garment industry set out in the Strategy for Development of Textile-Garment industry to 2010[50] are:

[50] Vietnam Garment and Textile Association, Speed-up Strategy for Development of Garment and Textile Industry up to 2010. (www.vinatex.com).

- To create 2.5 to 3 million jobs by 2005 and 4 to 4.5 jobs by 2010
- To reach export turnover of US$ 4 billion to US$ 5 billion by 2005 and from US$ 8 billion to US$ 9 billion by 2010

Generous incentives are available for production for export.

However, there are no specific incentives or policies concerning the textile and garment industry directly and the Government has stated that it wants to keep this industry under state control. However, Vietnam provides various incentives to export-oriented industries and labour intensive industries and the garment and textile industry fall under this classification. These incentives include:

- Import duty exemption for raw materials imported for producing goods for export. The import exemption applies to the first and also second tier importers.
- Low corporate income tax for enterprises achieving high export ratio – the corporate income tax of foreign invested enterprises can be as low as 10% compared with the standard rate of 25% if the enterprise exports 100% of their products. A 15% rate would apply if the export ratio reaches more than 50%. For domestic enterprises, the preferential rate is 25% compared with the standard rate of 32%.
- Enterprises adopting advanced technology and creating large number of jobs are also entitled to preferential corporate income tax rate.
- Domestic enterprises engaging in producing goods for export, materials and semi-products for export or import substitution can borrow funds with lower interest rate.
- High protection policy in the form of high import tariff. The average import tariff for textile is 41% and for garment is 42%. However, this is only temporary measure since when Vietnam integrates into the regional market, the tariff should be reduced to 5%.

However, despite these incentives, certain policies are limiting the market development of the garment and textile industry. These include amongst others:

Complicated customs procedures and minimum export ratio discourages FDI.

- Complicated customs procedures in particular procedures to claim import duty exemption and refund,
- Complicated procedures for getting certificates for investment incentives,
- Minimum export ratio required for foreign invested enterprises,
- Bureaucratic inefficiencies in allocating import quota
- Priority policies for SOEs

Recommendations for Future Development of the Industry and the Role of FDI[51]

[51] A detailed analysis of the textile and garment industry is presented in Goto, Kenta, "Coordinating Risks and Creating Value: The Challenges for the Vietnamese Textile and Garment, March 2002 found at www.neujica.org.vn.

Promoting private sector should be priority.

Improving the industry will require technology and management skill.

Removing of protection policy

Reducing business cost

- The textile and garment industry is a commodity producing industry, not a sensitive and strategic industry. Therefore, the Government does not need to control.
- Encouraging private investment (including foreign investment) is therefore an appropriate strategy to develop this industry.
- The development of the textile sector is not just an issue of upgrading machinery or increasing capital. Improving the technical and managerial skills is also very important, and building capacity in these takes time.
- Import substitution policies will not work given the AFTA deadline of 2006. Thus, FDI will become very important not only as a source of financial resources, but also as an effective channel of technology transfer that supports building capacity.
- Further agglomeration of the garment sector should come first, not direct backward linkage promotion.
- Create better conditions for rapid and sustained productivity growth by moving the industry to more sophisticated ways of competing.
- Reducing business cost by reducing transportation and infrastructure cost will increase the competitiveness.
- Continue to introduce reforms aiming at removing major obstacles to growth of private firms.

3.6.7 Agriculture and Seafood processing industry[52]

Overview

The agricultural sector is one of the leading currency earners.

Highly dependent on the world price fluctuation.

The agricultural processing sector contributed over 30% to the industrial output in 2002. It provides jobs for over 1 million people and the industry had averaged a growth rate of over 8.3% per year over the last decade.

The competitiveness of the agricultural and seafood processing industry, however, depends largely on the quality and cost of production of the raw material. For export-oriented processing enterprises, the price of the output is generally fixed by international prices. At the same time, the price of raw materials typically accounts for 70-90% of the cost of producing the exported product. Thus, a small change in the cost or the quality of the raw material will make a large difference in the ability of the processor-exporter to compete with other suppliers on the world market. Thus, the success of the processing sector hinges on the ability of farmers and fishermen to make continual progress in productivity and the status of each sector. [53]

Agricultural Sector

[52] This analysis is based on data from the Ministries of Agriculture and Rural Devloepmment (www.mard.gov.vn), review of agricultural fisheries in Vietnam found at (www.ahk.org.hk) and related links.

[53] See DSI-UNIDO Report on "Competitiveness of Food Processing in Vietnam: A Study of the Rice, Coffee Seafood, and Fruit and Vegetables Subsectors, " for an in-depth analysis of each sector.

In the agriculture sector key exports are rice, coffee, rubber, pepper, cashew nut, pork, tea, vegetables and fruits. The country exports about 22% of its total output of rice; over 90% per cent of its coffee and cashew. Vietnam is the second largest coffee exporter in term of volume and 4th exporter of cashew.

Fisheries Sector

With over 3,260 km of coastline, Vietnam has an advantage in terms of natural resources with a large inventory of sea products. In recent years, fish, shrimp and other cultures have increased. Planned aquaculture is one of the two main sub-sectors of aquaculture. The contribution of planned aquaculture will continue to increase and be more important in the future as a result of increasing demand for fisheries products

In Vietnam, the potential area for planned aquaculture development is estimated at1.82 million hectares including one million hectares of fresh water, 375,500 hectares of brackish water, and 445,000 hectares of marine water.

Vietnam aquatic products are exported to 45 countries in the world. Japan is the biggest market and accounts for 50% of the total export value. The U.S. market alone, accounts for 22.2% of total Vietnam aquatic export turnover. The principle species exported are shrimps. Frozen shrimp account for more than half (52%) of the quantity and nearly two third (63%) of the value of fishery products exported.

Exports of fish are responsible for a much smaller share (25%) of the volume of seafood exported and is still lesser (12%) in terms of dollar value. Exports of squid, in both frozen and dried forms, account for 12% by quantity and 14% in terms of value.

Foreign Direct Investment (FDI) in Agriculture and Seafood Processing

FDI is low compared with the needs and potential.

Up until 2002, the number of foreign invested products implemented in the agricultural sector numbered 403 valued at over US$ 1.8 billion, while in the fisheries sector there are 81 projects valued at US$100 million. The majority of these projects has been funded by overseas development assistance and are relatively small scale with an average capital of less than US$ 7 million. The projects are located throughout the country.

Advantage of resource base

Strengths: The agricultural and fisheries sector has been one of the main success stories in Vietnam. Productivity of raw material production has risen over the past decade, which will provide opportunities for processors.

Outdated technology and poor management are main weaknesses.

Weaknesses: The processing industry is dominated by SOEs (although the number is declining) and the majority of these companies use outdated technology. The industry is also characterized by poor management and marketing ability. A majority of the SOE operates inefficiently and while there is a call for equitisation, this process has proceeded slowly. There is also the question of hygienic standards.

Large potential market

Opportunities: The food and seafood processing industry is in its infancy and has a good growth potential. There are large markets in Japan, China, the USA and Europe for processed products that will continue to open up in the future.

Threats - Climatic conditions and the volatile nature of the international market place can seriously affect the profitability of enterprises. The seriously impact on the value added of food and seafood processing.

Current Government Policy on the Agriculture and Seafood processing industries

A priority industry of Vietnam

The Vietnamese government sees that developing raw material growing areas and improving after harvest technologies will not only help to raise the value of agriculture products for export, but also are significant in industrializing and modernizing agriculture, rural areas, restructuring labour and increasing income for farmers. Accordingly, from now to 2010 the agricultural sector will focus on improving processing techniques, interfacing the processing industry with the development of raw material growing areas, and investing in modern equipment to produce high quality consumer and export goods.

Significant investment will be made to improve technology and growing areas.

The Ministry of Fishery's five-year plan for 2001 – 2005 estimates total aquatic harvests of 2.45 million tons by late 2005, including 1.15 million tons from aquaculture, generating export revenues of US$2.3 – 2.5 billion (nearly ten percent of GDP). To realize these goals, the Government plans to spend US$1.58 billion within the next five years on an ambitious plan to assist aquatic products processing enterprises to improve their managerial capabilities and upgrading production and processing technology/equipment.

The Fisheries Ministry also intends to upgrade more than 80 processing factories and will build fresh fish markets and supermarkets in Ho Chi Minh City, Ha Long, Nha Trang and Bac Lieu. It is also hoping to attract between US$70 and US$80 million a year of foreign investment in fishery sector over the next decade.

Agriculture and Seafood Processing is classified as encouraged and special encouraged (if located in difficult areas) sector for FDI promotion. Generous financial incentives are available.

SOE reform and attracting FDI are key to success

Recommendations for Future Development of this Industry and the Role of FDI

- Reform of the SOE is a key component in improving the agriculture and food processing industry
- Improvement of infrastructure as the basis for the industry development
- Utilize foreign investment to gain access to technology and management and marketing skills.
- Continuous improvement in the quality of raw materials.

PART IV - REVIEW OF FOREIGN DIRECT INVESTMENT PROMOTION ACTIVITIES IN VIETNAM

4.1 Organizations in Vietnam responsible for investment promotion

Investment promotion is carried out at three levels – MPI, DPIs and MBs.

In Vietnam, investment promotion responsibility is divided between three different organizations:

- Ministry of Planning and Investment – responsible for formulating FDI policy and investment promotion strategy for the whole country.
- Department of Planning and Investment of Provinces and Cities – implements the FDI policy formulated by the MPI and manages the FDI activities within each province, and
- Management Board of IZs and EPZs (MB) – manages the FDI activities in the IZs and EPZs located in each province.

All three organisations are governmental authorities and have different functions and responsibilities other than investment promotion. The role of all three organisations focuses more on "state management." Although the investment promotion role is not clearly defined, to some extent the MPI can be considered the national IPA and the DPIs and MBs as sub-national IPAs.

4.2 Organizational structure and Legal Framework of Vietnamese investment promotion agencies

The Ministry of Planning and Investment

At the MPI level, investment promotion is coordinated by different departments.

No single department of the MPI is solely responsible for FDI promotion activities. There are a number of departments involved with the key role of each department as follows:

- Legal and Investment Promotion Department is responsible for drafting legal regulations and policy on FDI. It is also responsible for coordinating the investment marketing activities conducted by the MPI.
- Project Monitoring Department is responsible for management of FIEs and assists the FIEs in resolving any difficulties during project implementation. Thus, this department focuses more on post licensing services.
- Foreign Investment Department concentrates on image building, investment generation, and pre-licensing and licensing services.
- IZs and EPZs Management Department is responsible for all issues related to FDI in the IZs and EPZs.

While each department has a designated focus, there is no clear-cut distinction between the roles and responsibilities of each department. In any major activity, all relevant departments would need to be involved. In this structure, it is very difficult to identify the responsibility and accountability of a specific department.

The role, responsibilities and legal framework of the MPI is set out in Decree 75/1995/ND-CP dated 01 November 1995 issued by the Government. The functions of the MPI include among others:

- Develop the direction and strategy to attract foreign investment,
- Prepare and publish a list of priority projects calling for foreign investment in Vietnam,
- Develop legal regulations concerning FDI promotion to support the implementation of the strategic socio-economic plans,
- Develop investment policies and guidelines,
- Issue guidelines to other ministries, governmental authorities, provincial People's Committee in order to develop plans to attract foreign investment,
- Guide and control the implementation of Government's policies on FDI,
- Control investment promotion activities in Vietnam,
- Coordinate with the relevant authorities to resolve all important issues concerning FDI and all issues arising during the project implementation, and
- Evaluate investment projects (other than those authorised to provincial PCs and MBs) and issue investment licences.

The functions and responsibility of the MPI are very broad. In terms of FDI, the role of the MPI appears to focus more on developing FDI policy and formulating the overall investment promotion strategy and plan.

There is no clear legal framework governing the investment promotion agencies.

Department of Planning and Investment in Provinces and Cities

The role, responsibilities and legal framework of the DPIs are set out in various regulations such as Decision 852/Ttg dated 28 December 1995 outlining the establishment of a number of organisations at provinces and cities, and Inter-ministerial Circular 01 BKH-TCCP/TTLB dated 2 January 1996 specifying the functions, responsibilities, power and organisation of the DPIs.

According to Inter-ministerial Circular 01, the responsibilities of the provincial DPI include among others:

- Assist the implementation of legal regulations and policies concerning FDI within the province,
- Act as the co-ordinating point to receive investment applications of domestic and foreign investors who want to invest in the province,
- Gather comments and complaints from the investors,
- Review the investment application of foreign investors,
- Issue the licence based on the mandate given by the People's Committee (PC),
- Provide comments and suggestions to the PC to develop policies suitable to the specific features of the province, and
- Carry out any other functions as delegated by the PC.

The role of investment promotion is not clearly mentioned in any legal regulations. In most cases, the investment promotion function is detailed in decisions or directives issued by provincial PCs.

Each DPI usually has one division to handle issues related to FDI and is headed by a Deputy Director. This can include targeting potential investors, granting the investment licence, and providing guidelines on the pre-licensing and post licensing process.

This division may try to act as a One-stop agency (One stop shop) in servicing foreign investors. All issues can be referred to this division, and it will work with other divisions and authorities to resolve issues that arise. In practice, it mainly deals with licensing services and certain pre-licensing services. The involvement of DPIs in post-licensing services is very limited.

Ho Chi Minh City has a separate organisation named the Investment Trade and Promotion Council or Centre (HCMC ITPC) and Da Nang City have separate organization called the Da Nang Investment Promotion Council or Centre (Da Nang IPC). These agencies have been delegated the role of investment promotion in their respective jurisdiction.

The Da Nang IPC and the HCMC ITPC appear to act as One-stop shops for the pre-licensing stage, while the DPI will take care of evaluation, granting licences and post-licensing management. However, the IPC or ITPC will also assist foreign investors in the licensing and post-licensing process by coordinating with the DPI if foreign investors so request.

Management Board of IZs and EPZs

The organisational structure of the MB is stipulated in Decree 36/CP. Since the main role of the MB is to develop and manage the operation of IZs and EPZs, most divisions in the MB are involved with foreign investors. Based on the general structure, the Investment management division is responsible for attracting foreign investors and granting licences. The enterprises management division will take care of post-licensing activities. Different divisions, however, handle the issuance of import/export licence and work permit.

In some MBs, one division will act as One stop shop to receive the requests from the investors and then coordinate with other divisions within the MB or with other authorities outside the MB.

The role of the MB in terms of investment promotion is not legally defined and depends on the authorisation given by the PC.

4.3 Current investment promotion strategies in Vietnam

At present there does not appear to be a substantial overall FDI promotion strategy at the national level. Lack of a national FDI promotion strategy is cited as a contributing factor affecting the performance of investment promotion at the regional and local levels. No sub-national agency indicated receiving support from the national government in terms of implementing a strategy.

Lack of a national promotion strategy is cited as the key factor affecting the performance of investment promotion agencies.

Although each agency or province has to rely on its own promotion strategy, interviews revealed that the concept of investment promotion does not seem to be well understood by the majority of DPIs, MBs, IZs or EPZs. There are also coordination problems between the national and sub-national authorities.

The Southern provinces seem to be more innovative and creative than the Northern provinces in terms of promotion strategies and programs and place more emphasis on investment promotion (for both domestic and foreign investment). As a result, Binh Duong and Dong Nai, for example, have been more successful in attracting investment.

4.4 Current Investment Promotion Activities

There is an urgent need to improve the image of Vietnam.

Image building

A consistent comment from all parties interviewed or surveyed is that Vietnam does not have a good image in the international market. As one foreign director of a relatively successful industrial zone pointed out, Vietnam has a public relations problem. In the West, Vietnam is too often still associated with war. The message that Vietnam is a country, not a war, is not conveyed tomuch of the rest of the world. Potential investors in Europe and America especially need to be aware of the new Vietnam. The irony is that the tourist industry has been fairly successful at conveying this message, but the investment community has not yet been targeted to receive this message.

In the survey of investors conducted for this study, almost 40% perceived Vietnam's image abroad to only fair and more than 20% rated it as poor.

Despite this perception, there does not appear at present to be any major strategy to improve the image of Vietnam abroad by either the MPI or other agencies.

Investment generation activities

Many investors learn about Vietnam from other investors.

To date, investment promotion activities have concentrated on the following methods:

1. *Brochures* – Most organizations have put together brochures outlining their purposes and which give a brief description of investment opportunities in Vietnam. The main problem with these brochures, however, is that the majority is of low quality and much of the information is outdated. Quite often the brochure is nothing more than a printed version of PowerPoint presentations that have been used at seminars.

How foreign investors obtain these brochures is not clear. In some cases, the brochures are predominately displayed upon entering the office of the agency, but in other cases they must be requested. Some agencies do send these brochures to Vietnamese embassies overseas or to trade organizations with interests in Vietnam.

Brochures are of low quality

The main type of documentation provided relates to the Law on Foreign Direct Investment and lists of priority projects.

Type of Documentation	Percentage Indicating Documents Provided
Investment guides	35%
General brochures	19%
Documents on Foreign investment Laws	43%
List of industrial zones or export processing zones	20%
List of priority projects	26%
List of potential investment partners	6%
Other type of documents	5%

Source : Survey of investors by PwC

The MPI and most DPIs issue lists of projects calling for FDI. However, these lists received very low interest from foreign investors due to various reasons.

List of projects calling for FDI receive low interest.

- The list fails to provide attractive information to investors such as what are the benefits for investors, infrastructure availability and cost, labour access and cost, utilities availability, potential market access etc. Financial incentives for investing in these projects are provided in the brochures. However, the investors are less interested in this issue since their first concern is whether they can make any profits from investing in these projects.

- In contrary, some information provided in the list make investors feel that they do not have the flexibility in making investment decisions. For example, the MPI list and lists of most DPIs contain information on form of investment and size of projects. The list of Hanoi even contains information on estimated legal capital and loan capital, what is the share of Vietnamese party, the duration of the project and expected export ratio. Issues such as size of the project, legal capital ratio or form of investment are very sensitive and require a lot of consideration. Even though the information provided in the list is a reference only, it still makes the investors feel restrictive. Some investors commented that the list of projects calling for FDI is prepared based on the government's interest, not on investors' interest. They are doubtful of whether they can make any profits from these projects.

- The lessons from China indicate that the issuance of the List of Projects calling for FDI is not a good means of FDI promotion because this makes the investor feel that they operate in a "planning" economy. China had therefore removed its List of projects calling for FDI and only announced areas and regions calling for FDI (i.e. target industries and target regions). This could be a good lesson for Vietnam.

2. *Websites* – Many agencies have either set up or are planning to set up websites to be used for promotion. The quality of these websites, however, is generally low and once a website has been set up it is not properly maintained and updated.

The MPI website is poorly maintained

In a survey of investors, however, the majority rated the quality of the information available on Vietnam to be only fair.

A good example of a poorly maintained website for the Ministry of Planning and Investment. This website is listed at www.mpi.gov.vn and is also referenced on the MIGA Investment Promotion page (www.ipanet.com). The maintenance and usefulness of the web page is poor compared to websites of other IPAs in the region.

Evaluation of the MPI website

The Ministry of Planning and Investment website is listed at www.mpi.gov.vn and in the link to "Who We Are" it states that the Ministry of Planning and Investment (MPI) is the authoritative source on all matters relating to foreign investment and the first point of contact for anyone considering investing in Vietnam.

The website is available in English and Vietnam and once potential investors choose a language, they are presented with a broad range of links various information.

Some of the important links provided are as follows:

- About us
- Country overview
- Project database
- Business Guide
- Laws and regulations
- Startup procedures
- Industry information
- Presentation kit

About Us contains links to short discussions of the role of the MPI, the services the MPI can provide to the investor and mail and e-mail addresses to contact for additional information.

Country Overview provides links to brief details on the country and the economy. There is a link to politics, but the page only displays the message "there is no information to display on this page. The link to "more" also contains this message. The information that is available, however, appears to be somewhat outdated.

Project Database is

Project Database advertises that "the project database provides a list of recent, high profile projects seeking foreign investment. While the database is as current as possible, the opportunities for investment in these projects change *not included*

often. Also, foreign investment is not limited to the projects in this database. Please search our lists and contact the MPI for more information on any of the items found in the project database".

The project database, however, is not provided. There is no link to download this information.

Startup Procedures contains links to downloadable documents relating to Forms of Foreign Investment Project Files, List of specially encouraged investment projects, List of encouraged investment projects, List of regions where investment is encouraged, List of sectors in which licensing of investment is conditional, List of sectors in which investment will not be licensed.

Industry Information provides short descriptions of Agriculture, Energy and Mining, Manufacturing, Transportation, and other industries. There information has not been updated for a few years. For example, under the description for Transportation it states that major investment is underway to upgrade and enlarge the airport of Noi Bai at Hanoi. This project, however, was completed a number of years ago and should be highlighted as a positive factor in encouraging investment.

Much of the information is outdated

Presentation Kit which appears to enable the user to view the PowerPoint presentation given by the MPI to potential investors. The only thing that can be downloaded, however, is a master slide with no information.

Business Guide is intended to be a downloadable document, but it cannot be accessed and is not available.

Many links are not included.

Laws and Regulations provides links to downloadable documents on Investment Law, Banking and Finance, Import, Export and Customs, Land, Construction and Tendering, IZs, EPZs, Technology and Environment and Labour. While this information may be useful, the latest material is from 1998. New laws that have been enacted in any of these areas are not provided. This appears to be a serious deficiency in the website.

Additional links provide addresses and contacts of hotels, consultants, banks, and airlines. Again this information has not been updated. A link to a business directory is also made available, but most of the information is in Vietnamese.

The potential investor can apply for an investment license using an online form. There website also advertises a free newsletter if the viewers e-mail address is supplied. This does not seem to work.

Overall, the website is adequately designed, but poorly maintained. This is frustrating for the user and the effectiveness would appear to be very low. Instead of giving a good impression to the potential investor, it perpetuates the image of Vietnam as a backward country.

Other websites

The website of the HCMC DPI (www.hcminvest.gov.vn) is somewhat better, but it is obvious that the design of this website it the same at the MPI since assistance was provided by MIGA. The Hanoi Ministry of Planning and Investment (www.hapi.gov.vn) also has a website that can be classified as adequate.

The website of the HCMC ITPC (www.itpc.hochimincity.gov.vn) is the most advanced. It appears to be well designed, well maintained and is relatively user-friendly.

The table below contains a comparison of various websites in both ASEAN countries and Vietnam.

Figure 60: Rating the web sites

Rating: A = Excellent B= Good C= Fair D- Poor	Thailand (BOI)	Malaysia (MIDA)	Philippines (BOI)	China (FDI)	Vietna m (MPI)	Vietnam (ITPC)
Languages ((Number)	A (5)	B (2) (6 pub.)	C (3)	C (2)	C (2)	C (2)
Quality of Design	A	A	A	B	C	A
Basic Macroeconomic Data	A	A	A	A	C	B
How to Start a Business	A	B	B	B	D	B
Legal Issues	A	A	B	A	B	A
Costs of Doing Business	A	A	A	B	D	B
Project Database	A	B	B	NI	NI	NI
Links To Publications	A	A	B	A	B	B
Links to Service Providers	A	A	A	A	B	A
Government Contacts	A	A	A	A	B	A
Investment Activities by Sector	A	A	B	B	D	C
E-mail Contacts	A	A	A	A	A	A
Feedback Survey	A	NI	NI	A	NI	NI
Search Capabilities	A	A	C	A	A	A
Updated	A	A	A	A	D	B

* Subjective rating by PwC

1 Thailand - Board of Investment (BOI) www.boi.go.th
2. Malaysia - Malaysian Industrial Development Agency (MIDA) www.mida.gov.my
3. Philippines- Board of Investment (BOI) www.boi.gov.ph
4. China - Invest in China (FDI) www.fdi.gov.ch
5. Vietnam - Ministry of Planning and Investment (MPI) www.mpi.gov.vn
6. Vietnam - Ho Chi Minh City Investment Trade Promotion Council -(ITPC) www.itpc.hochimincity.gov.vn

Overseas missions are of poor quality.

3. *Overseas missions and seminars* – A number of agencies have participated in overseas seminars. The effectiveness of these seminars is questionable, but a few agencies have reported satisfactory results.

Successful overseas trip for Vinh Phuc

The Vinh Phuc DPI has joined one or two overseas trips for investment promotion organised by the MPI or the Government. The DPI considers this to be successful tool to promote FDI. They have attracted on average 2 investors for every trip, while the other DPIs reported no success.

The key success factor attributed by the Vinh Phuc authorities is that they invited existing successful investors to join these trips and the existing investors spoke for Vietnam. Before 2001, there was one investor from Taiwan and now there are five. The Vinh Phuc authorities consider this to be the most effective investment promotion tool.

The agencies themselves realize they don't have the expertise and resources to present quality seminars, and a few individuals even admitted they were somewhat embarrassed at the quality of the seminars presented by Vietnamese authorities when compared to other country presentations.

One of the main problems of these seminars is that the criteria used to select individuals to present are based more on seniority and position rather than the quality of the presentation skills. The material used for these seminars is also of questionable quality. These are mainly PowerPoint presentations. Thus, the effectiveness of overseas missions and seminars is basically very low.

Some agencies have relied on trade organizations in other countries either to help in the organization of seminars or to present the seminars themselves. This method was generally perceived to be a better form of promotion than seminars presented by Vietnamese authorities.

CD-Roms are not readily available.

4. *Other promotional materials* – A few agencies have indicated that either CD-Rom presentations have been produced or plans are in place to produce such presentations. The quality is not known since they were not made available. It is not clear how the CD is or will be made public. To date, it is not in the public media either in Vietnam or overseas.

Examples of Promotion Activities to Promote Foreign Investment

Da NangDPI

- Establishment of Da Nang Investment Promotion Centre
- Distribute brochures and CD-ROM
- Organize domestic workshops
- Website
- Overseas mission to Taiwan and Hong Kong

Hanoi Authority for Industrial and Export Processing Zone (HIEPZA)

- Publish and distribute brochures
- Design a website
- Overseas mission to Korea, France and US
-

Binh Duong DPI

- Establishment of website
- Overseas missions to EU, Japan, and Korea
- Organise domestic forums
- Pay attention to needs of existing investors

Investor services

Importance of investor services is recognised by all organisations.

All agencies recognise the importance of investor services and the fact that satisfied investors are the best promoters. Significant improvements have been made in the pre-licensing process, but post-licensing services are still grossly inadequate and a major impediment to foreign investment.

Pre-licensing services – the concept of a One-stop shop does exist. This is particularly true for IPZ's and EPZ's. One factor affecting the efficiency of one-stop shops is the effectiveness of the People's committee that controls the zones. Some People's committees such as HCMC and Duong Nai appear to be quire progressive and relationships between agencies are good.

Substantial improvements have been made in on pre- and licensing services.

It is recognised that the quality of pre-licensing services has shown certain improvements. DPIs and, in particular, MBs, provide free advice and consult with new investors. They also assist investors in preparing the investment application.

Licensing services – The licensing process is much more simple now compared with a few years ago. The approval time has been significantly reduced. For those projects within the licensing authority of the DPI and MB, the approval process only takes 2 to 3 days. For those projects, which only require only registration, it may take only one day to issue the licence.

One Stop Shop exist in respect of licensing services in certain DPIs and MBs.

One of the reasons for the reduced approval time is the early involvement of the DPI and the MB in the project. For example, the DPI or MB will review the projects while helping the investor to prepare the licence application. Certain agencies, Hai Phong for example, also allow the investors to choose the time and date for receiving the licence.

For projects that require the approval from the MPI or the Government, the DPIs and MBs can play an active coordination role in dealing with different authorities.

Post licensing services remain problematic.

Post-licensing services – although significant improvements have been achieved, this remains the weakest area. One-stop shop for post-licensing services appears to only exist at the IZ and EPZ level where the MB can carry out most of the post licensing procedures. Therefore, investors located in IZs and EPZs seem to have fewer problems with post licensing procedures than those outside the zones. Certain agencies, such as the Hai Phong MB, provide post licensing services such as issuance of import licence, introducing labour, issuance of work permit without any charge.

For investors locating outside the IZs and EPZs, the investor will have to deal directly with the relevant authorities.

All agencies reported that they spent significant effort in resolving the difficulties facing by investors. Some DPIs (Binh Duong, Dong Nai, HCMC) hold regular meetings with investors to listen to their problems. For example, Dong Nai organises quarterly meetings with all investors to listen to problems. All departments of the province are present at the meeting. In addition, the PC of Dong Nai also conducts specific meetings with certain group of investors such as Japanese, Chinese, Korean.

Although the investment environment has been improved, there remain many obstacles. Land clearance, customs, labour and taxation have been recognised by the DPIs and MBs as the key problems facing by the investors. Many issues facing by the investors such as uncertainties and unexpected changes in the laws or Government's policies are not within the authority of the DPI and MB. These issues diminish the effort of DPIs and MBs in attracting foreign investment.

4.5 Human resource issues

<u>Resources</u>

Lack of an appropriate human resources development plan reduces the effectiveness of promotion agencies.

The shortage of human resources was pointed out as the main problem of most DPIs and MBs. For example, the Foreign Investment Division of the Hanoi DPI has only six staff currently working. This division, however, is in charge of all matters concerning FDI including identifying and attracting foreign investment as well as post licensing services. With the large scope of work and lack of facilities, the DPI does not have enough manpower to deal with all requirements of investors and actively contact with investors. Thus, many DPIs concentrate on the licensing process and less on post-licensing services.

Lack of qualified staff reduces the effectiveness of promotion activities.

Qualifications and skills

Qualifications, language capability and lack of marketing skills are also major problems that diminish the effectiveness of any investment promotion program.

Many staffs at the provincial level do not have an adequate educational background. Agencies located in Hanoi and HCMC have the most qualified staff, with many studying overseas.

In the HCMC ITPC, for example, most permanent staff can speak English and some can speak Russian, German, or French. However, at the provincial level, only a few staff has foreign language skills. Thus, investors have to bring their own interpreters or consultants when having meetings with DPIs or MBs.

The quality of authorities is generally perceived as low

The staff of most agencies also lacks skills in marketing and presentation. Current investors also recognized the low quality of Vietnamese authorities. In the survey of investors, for example, the skill and ability were assessed as follows:

Skills and Ability	Excellent	Good	Fair	Poor
Management skills	5%	10%	45%	40%
Quality of staff	2%	22%	44%	32%
Language ability of staff	2%	17%	49%	32%
Motivation of staff	0%	24%	38%	38%
Honesty of staff	2%	21%	57%	20%
Servicing investors	0%)	22%	42%	36%
Marketing skills	0%	12%	48%	41%

Source: Survey of investors by PwC

The is a need for staff training in investment promotion activities

Training and staff development

Most DPIs and MBs recognised the need to further train their staff. However, only a few organisations (i.e. Hanoi DPI, HCMC DPI and HCMC ITPC) are able to provide additional training. The main constraint is financial.

When discussing training needs, most agencies seem to focus on language training. Some indicated the need for training on business awareness. However, none of the agencies raised the need for improving marketing skills although this has been recognised as one of their main weaknesses.

HCMC ITPC seems to have the best training program for staff partially due to special support from foreign countries and organisations. In addition to providing language training, the HCMC ITPC also organises special training courses on exporting to the US and foreign market. Some staff has received scholarships for overseas training. There was no indication, however, that any staff receives specific training in investment promotion.

Reward system

Except for the HCMC ITPC, there is no special reward system for staff involved in investment promotion. The HCMC PC recently issued a decision that allows the HCMC ITPC to set up its own reward and incentive system. As of the end of 2002, however, the new reward system was not yet in place.

4.6 Funding resources for investment promotion

Limited funding resources is the key issue of all promotion agencies.

There is no specific budget for FDI promotion by the national Government. Investment promotion is financed from the annual operating budget of the MPI and local DPIs. The small number of activities carried out by the MPI for promotion activities and the poor maintenance of the website would appear to indicate funding for investment promotion is severely limited.

At the sub-national level, the interviews revealed funding is a crucial issue for all agencies. All funding for investment promotion at the sub-national level comes from the provincial budget. Therefore, the allocation of budgets to investment promotion depends on the understanding of the provincial People's Committee of the importance and role of investment promotion.

Based on the interviews, many agencies indicated that only since the year 2000 has investment promotion been accepted as "legitimate expense." Since the definition of investment promotion is not clear, many expenses not relating to investment promotion are also accounted for in this budget. Certain MBs claim that under Decree 36, the MB is not allowed to conduct direct investment promotion activities. Therefore, no or very little budget is allocated to investment promotion and budget constraints limit the ability of the agencies to carry out effective promotion activities.

In addition, there is no long term budget planning and the budget is only prepared and approved on an annual basis. Therefore, it is very difficult for agencies to develop a long-term investment plan.

Budget constraints are also the main reason for the reliance on ad-hoc promotion programs. Some agencies received funding from the private sector to develop a website or produce a CD ROM or video. Once this money runs out, the website, for example, cannot be maintained or updated.

4.7 Overall assessment of the effectiveness of current investment promotion programs

The effectiveness of investment promotion programs is low.

Overall, the effectiveness of all investment promotion programs is very low. This is attributed to:

- No nationally designated investment promotion agency
- No investment promotion strategy at the national or sub-national levels
- Lack of coordination among agencies dealing with foreign investment

- Poor image of Vietnam
- Low quality of investment promotion materials
- Post-licensing services remain weak
- Shortage of qualified staff
- Lack of funding to carry out investment promotion activities
- Poor management of promotion activities.

While some Southern provinces have achieved a certain degree of success, there is a definite need for an investment promotion strategy at the national level and better coordination among all agencies involved.

4.8 Examples of promotion activities carried out by selected DPIs

4.8.1 Hanoi Department of Planning and Investment

Overview of foreign investment

Currently there are investors from 42 countries and territories. Most are from Asia including Singapore, Thailand, Malaysia, Japan and Korea. To date, 495 projects have been licensed and 440 projects are currently in operation.

Until recently, the Hanoi DPI has not been activity involved in investment promotion.

Number of FDI Projects Licensed and (Amount of Invested Capital):

2001 - 37 (US$ 115 million)
2002 - 54 (US$166 million))

Body in charge of foreign investment

The Foreign investment Department is in charge of foreign investment promotion activities. This Department is responsible for promotion, licensing and post-licensing management.

Relationship between the DPI, PC, and the BOM of Industrial Zones

In terms of organisation the Hanoi DPI and BOM are at the same level. However, with respect to the issuance of investment licences for essential projects, the BOM has to consult with the DPI. The BOM also has to send periodical reports to Hanoi DPI for comments. The promotional budget is allocated by the People's committee

Extent of promotion activities carried out by the DPI

Until now, the Hanoi DPI has not been very active in foreign investment promotion activities. It is currently drafting an investment promotion strategy to be finished sometime in 2003. Investment promotion has primarily concentrated on issuing regulations to create a more favourable investment environment.

- Brochures were published in 1995, 1998, and 2001
- CD-ROM produced in 2001.

- Six overseas trips in the last two years to Europe and Asia. These trips usually include foreign investors who have been successful in Vietnam.
- Website is established

The Hanoi DPI plans to organise two overseas trips in 2003. One is to a trade fair in Europe and the other will be to Korea and Japan. The DPI will also participate in conferences organised by the Asian Business Association and Asian Development Bank.

Target sectors

No clear target sectors. A list of projects calling for FDI was developed.

Websites

A website was launched in May 2002. Links to other websites have not been set up and it is not available on the MIGA investment promotion network. Investors can send questions by e-mail.

Number and Quality of Staff

Only a few staff can speak English fluently

There are 8 people in the Foreign Investment Department of which two are now pursuing further studies. Most have graduated from universities in foreign counties. They all can communicate in English, but only a few people can speak English fluently. The foreign investors making contact with DPI usually have their own interpreter or consultant. The DPI is considering an English language training program. The DPI also has conducted some training courses domestically for officer level up to manager level.

Budget for investment promotion

In 2001 – 3.5 billion VND

In 2003 – 5.5 billion VND

4.8.2 Da Nang Department of Planning and Investment and Da Nang Investment Promotion Centre

Overview of foreign investment

To date, there are 46 investors from 14 countries. China is the leading investor in terms of values with investment capital of US$ 144 million, followed by Taiwan and Japan. The best year for foreign investment was in 2002.

Da Nang Investment Promotion Council was set up to carry out trade and investment promotion for Da Nang and

Number of FDI Projects Licensed and (Amount of Invested Capital):

2001 - 4 (US$ 10 million)
2002 3 (US$36 million))

Body in charge of foreign investment activities

Central region.

The Da Nang People's Committee established the Da Nang Investment Promotion Council (Centre) in the year 2000 with its mandate being to promote foreign investment. The Da Nang IPC is designed to be a one-stop shop for granting of licences and will then coordinate with other departments and ministries in post-licensing management.

Connection between the DPI (and IPC), PC, and the BOM of Industrial Zones

The Da Nang IPC is mainly responsible for investment promotion, provision of information to potential investors, supporting foreign investors in carrying out licensing procedures and will support current investors if required. The DPI is mainly responsible for foreign investors after the issuance of investment license.

Extent of promotion activities carried out by the Da Nang DPI and IPC

Workshops have been organised in cooperation with GTZ and JICA

The IPC is designated to carry out the promotion activities. The main activities are:

- Contacting foreign business associations
- Distribute brochure
- Produce CD-ROM
- Organise workshops in cooperation with foreign organizations (JICA, GTZ)
- Organise overseas missions by itself or in cooperation with the Da Nang People's Committee or the MPI
- Improve administrative procedures

Target sectors

No target sectors. The DPI encourages all projects except those having negative impact on the environment.

Websites

A website is in the design process.

Number and Quality of Staff

There are 14 employees in the Investment Promotion Centre. All can communicate in English.

Budget for promotion activities

Budget allocated by the Da Nang People's Committee to IPC. The DN IPC mobilizes funds from current investors to make brochures and a CD-ROM. The investors pay for advertising in this form of media.

4.8.3 Binh Duong Department of Planning and Investment

Overview of foreign investment

Binh Duong is an area of more than 2600 km2 including 1 town and 6 districts. The centre in Binh Duong is about 30km from Ho Chi Minh City. Binh Duong plans to develop 13 IZs with a total area is 6,000ha. Until the end of 2002 there were 588 foreign projects with a total investment capital of US$9.1 billion of which 274 projects are in the IZs.

Binh Duong has been a success story in attracting foreign investment projects.

Number of FDI Projects Licensed and (Amount of Invested Capital):

2001 - 108 (US$ 173 million)
2002 - 135 (US$253 million)

Body in charge of foreign investment activities

The Foreign Investment and External Department is in charge of foreign investment activities. This department is responsible for promotion activities as well as reviewing and appraising the application dossier for the Investment Licence.

Connection between the DPI, PC and the BOM of Industrial Zones

In Binh Duong, there are 3 different authorities managing foreign investment. The first is the DPI, which manages all the investment projects outside IZs. The second is the BOM of the Vietnam Singapore IZ, which manages the entire investment project inside this IZ. The last is the BOM of the Binh Duong IZs, which manages all the investment projects in the remaining IZs. Even though there are different authorities in management of the investment projects, there is still a working relationship between the DPI and the BOM for resolving the problems of all the projects inside or outside the IZs.

The People's committee allocates the budget for various activities.

Extent of promotion activities carried out by the DPI

The DPI pays much attention to FDI promotion.

The DPI pays much attention to promotion activities. In order to attract more foreign investment, the DPI has

- Organized meetings and trips to overseas to place such as the EU, Japan, and Korea. Such a meeting will include a leader from the People's Committee and a senior officer of the MPI. These trips are funded from the budget of the MPI. The main purpose of the trips overseas is to provide general information about Binh Duong.
- The developer of the IZs also organizes forums to introduce themselves to investors overseas. In particular the developer of the Vietnam Singapore Industrial Zones has very strong promotion activities and separate marketing division to introduce the zone.

- Pays attention to existing investors. The belief is that if the existing investors are happy, new ones will come.

Target sectors

No target sectors. The DPI encourages all projects except those having negative impact on the environment.

Investors can ask question by e-mail on the DPI website.

Websites

There are 2 websites in Binh Duong. DPI does not have its own website but they provide information to develop the website. Investor may send their questions by email and there will be an officer to answer all the questions. The websites are not listed on the MIGA investment promotion network.

Number and Quality of Staff

There are five individuals in the foreign investment department and a few people can speak English fluently. The foreign investors making contact with DPI usually have their own interpreter or consultant. The DPI is considering an English language training program. The DPI also has conducted some training courses domestically for officer level up to manager level.

4.8.4 Ho Chi Minh City Department of Planning and Investment and Investment and Trade Promotion Centre

Overview of foreign investment

Ho Chi Minh City has attracted the largest number of projects in Vietnam with 1,220 licensed to date. Taiwan is the leading investor in terms of projects licensed, while Hong Kong in the leading investor in terms of capital.

Ho Chi Minh City has attracted the largest number of projects.

Number of FDI Projects Licensed and (Amount of Invested Capital):

2001 - 162 (US$ 533 million)
2002 - 206 (US$252 million)

Body in charge of foreign investment

The Department of Investment Promotion Division is responsible for promotion at the DPI, but most activities have been shifted to the HCMC Investment Trade and Promotion Center. The HCMC ITPC is under the HCMC People's Committee.

Connection between the DPI (and IPC), PC and the BOM of Industrial Zones

The HCMC ITPC is mainly responsible for investment promotion, provision of information to potential investors, supporting foreign investors in carrying out licensing procedures and will support current investors if required. The DPI is mainly responsible for foreign investors after the issuance of investment license. The budget is allocated by the People's Committee.

Extent of promotion activities carried out by the HCMC DPI and ITPC

The HCMC ITPC is mainly responsible for investment promotion.

The ITPC is designated to carry out the promotion activities. The main activities are:

- Providing information on markets, products and information
- Publishing bulletins and publications on business and investment
- Providing online trade and investment information
- Organise domestic seminars for foreign investors
- Organise overseas mission
- Establishing ITPC as a One-stop shop
- Conducting meetings with investors to "keep investors happy"
- Websites maintained by both the DPI and ITPC
- Improving administrative procedures

Investment Targeting

A list of 16 areas and industries calling for FDI has been developed.

Websites

The websites of both the DPI and ITPC are of good quality.

The website of the DPI is of good quality and is listed on the MIGA investment network. The ITPC is well maintained and provides much information. It is not listed on the MIGA investment promotion network. .

Number and Quality of Staff

There are 8 employees in the DPI, most of who can communicate in English. The ITPC has 25 permanent staff. Most can communicate in English, and a few in Russian, French, and German. Both agencies are concerned about staff abilities and are pursuing training activities.

Budget for promotion activities

Not available, but a US$ 3 million campaign was announced in January 2003.

PART V - REVIEW OF INVESTMENT PROMOTION IN SELECTED COUNTRIES

Investment Promotion Agencies are primarily a government organisation.

5.1 Organisational structure of Investment Promotion Agencies (IPAs)

One of the main issue that governments face in carrying out their investment promotion efforts relates to the nature of the institutional framework that will execute these efforts. In principle, there are two ways to structure an investment promotion agency:

1) as a government organization; or
2) as a private sector organization.

A government could carry out investment promotion itself (directly as a part of its administrative structure), but this approach has the disadvantage that the government organization may be unable to acquire the skills required to manage the activity properly. The required skills may reside in the private sector and attracting them to the public sector may prove difficult, especially with the salary constraints typical of the public sector.

Another option is the creation of a "quasi-governmental" organization. This involves an agency, funded (in total or to a large degree) by the government but separated from the government ministries and public financial institutions. This separation would create the image of an independent organization that is dedicated to serving the interests of investors.

Investment Promotion is considered a public good.

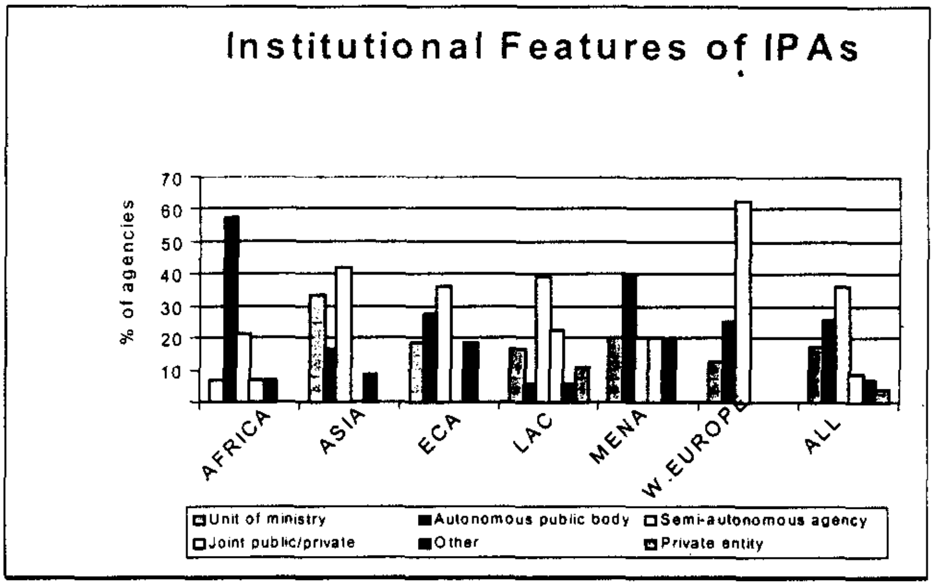
An alternative approach is for the government to delegate the management of investment promotion activities to the private sector. This approach often has the disadvantage that the private sector may not execute effectively those related activities, which are traditionally government responsibilities.

Regardless of the approach that is chosen, there will be management issues with respect to how the inherent disadvantages of either approach are to be overcome. In an attempt to overcome these disadvantages, governments may search for the organizational approaches that combine most effectively, the skills and resources of both the public and private sector.[54].

In most countries, IPAs are part of the government. Thus, in most countries investment promotion is considered a public good.

[54] Alvin G Wint and Louis T. Wells - Marketing a Country (Revised Edition): Promotion as a Tool for Attracting Foreign Investment, World Bank, 2000.

Figure 61 Institutional structure of IPAs



Source: FIAS Workshop – Investment Promotion: Towards Best Practices, May 21, 2002

Investment Promotion agencies are usually at the ministry level or under the responsibility of a ministry.

Investment promotion agencies that are part of the government generally fall under and are included in the responsibilities of ministries such as economic affairs, finance, or foreign affairs. In some cases, IPAs are placed under the President or Prime Minister's Office. The may increase the status of the agency, but may present problems when too many decisions depend on interference from the office in Government.

The Board of Investment of Thailand, for example, falls under the Ministry of Industry, while the Malaysian Industrial Development Authority is an autonomous body set up for the promotion and co-ordination of industrial development in Malaysia.

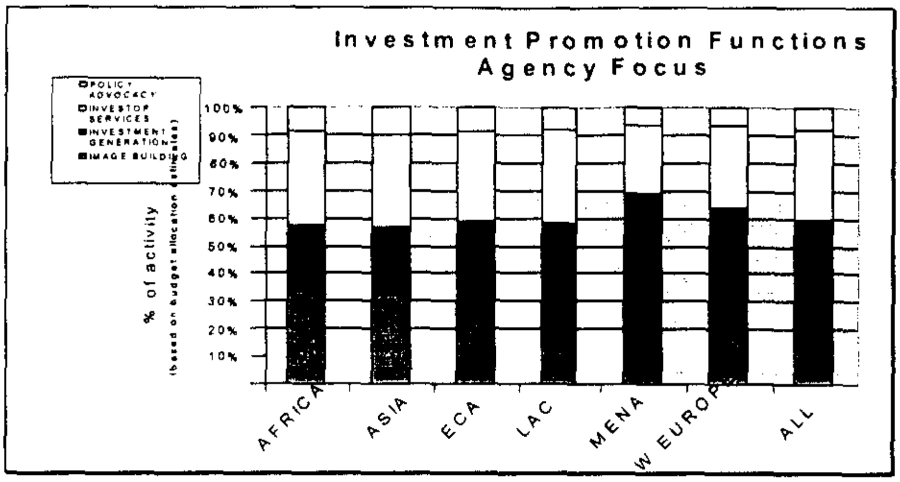
5.2 Mandate and Responsibilities of IPA

The mandate of the IPA varies and depends on the extent of activities assigned.

The mandates and responsibilities of IPAs are varied. In developed countries, the majority of the work of the IPA involves investment promotion. In low and middle income countries, IPAs may combine domestic investment promotion with export promotion. IPAs in middle and lower income countries also deal with a variety of activities such as image building, investment generation and investor services.

Policy advocacy is another function that some IPAs carry out, particularly those located in Africa and the Asia and Pacific region.

Figure 62: Survey of core functions of IPAs



Source: FIAS Workshop – Investment Promotion: Towards Best Practices, May 21, 2002
ECA = Eastern Europe and Central Asia, LAC= Latin America and Caribbean, MENA = Middle East and North Atlantic

Mandate of The Malaysian Industrial Development Authority

MIDA is the Malaysian Government's principal agency for the promotion and co-ordination of industrial development in Malaysia. It is the first point of contact for investors who intend to set up manufacturing and related services projects in Malaysia.

Foreign Investment in Korea-The Role of KISC

The Korea Investment Service Center (KISC)-as an arm of KOTRA-is Korea's premier inbound investment agency and the first contact point for any foreign investor considering a location in Korea. To provide a comprehensive service to meet the foreign investor's every need as a one-stop window, KISC is staffed with experts from various ministries and related organizations.

KISC's One-stop Sevice

Support on all necessary administrative procedures Consultation on all forms of investment including M&As., JVs and real estate acquisition Providing advice on legal, accounting and tax maters. Settlement assistance in areas such as accommodation, schooling, and health care. Follow-up service.