

Role of Foreign Direct Investment in the Development of Vietnam

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MASTER OF PHILOSOPHY

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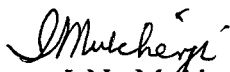
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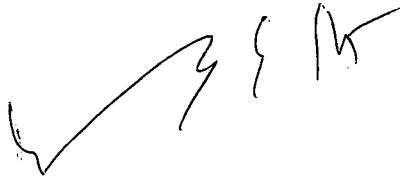
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We recommend that this Dissertation be place before the examiners for evaluation.


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PREFACE

In 1986, Vietnam entered a new era in its economic development and international relations. After more than a decade, its economic situation has improved significantly. The country has reached a high GDP growth rate and its macroeconomy has achieved stabilization. Vietnam has established full diplomatic relations with the USA and become a member of the ASEAN. It also has applied for membership of the APEC and WTO. The country has a plan to double GNP per capita in the year 2000. In the last decade, Vietnam has been one of the most dynamic economies in the region and fully participated in world trade, capital markets and investment. It has been an international destination for foreign investors. From 1987 up to the end of 1996, around 23.5 billion US\$ of total investment capital have been invested in Vietnam, of which over 30 per cent have been in operation.

For Vietnam, nowadays foreign direct investment (FDI) is a new economic phenomenon. Its related issues are the most concerns of many investors, economists, researchers, decision-makers... either inside or outside the country. The FDI has played a pivotal role in Vietnam's development, but so far, no academic research work has been done on this problem.

The main thrust in this work is on the role of the FDI in the development of Vietnam.

Chapter I concentrates upon the reasons that led Vietnam to introduce its Foreign Investment Law.

Chapter II examines the main features of the Foreign Investment Law in Vietnam, its subsequent Amendments, the evolution in the legal framework regarding the FDI, and its liberal aspects, as well as, its weaknesses.

Chapter III analyses the role which FDI plays in the economic development. Comparative study of the FDI in the top five countries. The obstruction which Vietnam government faced between ambitious to attract more capital and actual realities. The difficulties which foreign investors faced in doing business in Vietnam such as infrastructure, legal framework, corruption and bureaucracy... The equitization of the SOEs in Vietnam and its paradox. The relationship between investors and workers and labour problems...

Chapter IV examines, the political fall outs and social changes with the coming of the FDI. The growing economic development and interaction with the outside world has fostered political and social changes. The new social forces have come up. Many reforms have taken place in the existing political system. The marketbased culture has infiltrated the Vietnamese society. Thus, the FDI put pressure for more radical reforms in Vietnam.

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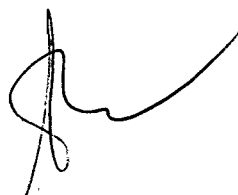
I owe special thanks to the Indian Council for Cultural Relation (ICCR) who has given me the generous financial assistance in the last years.

My thanks are also due to the Embassy of the Socialist Republic of Vietnam in India, JNU Library, Teen Murti Library, IDSA Library and other Libraries in New Delhi for helping me to consult the materials available there.

I am thankful for my family for their emotional support - their love and encouragement from a distance. Last but not least, my thanks for my husband for his encouragement, exchange of views with him gave me, as well as, peace of mind.

I take full responsibility for the shortcomings, which may remain, with regard to the contents of the dissertation.

Date 21 July 1997



NGUYEN THI NGAN

*Dedicated to my parents
who kindled in me the desire to learn !*

Chapter - I

HISTORICAL BACKGROUND

At the end of 1980s, the man-kind entered a new era of historic development. World situation stated changing from the old world order to a new one which is still in the process of formation. The changes in the East European Countries and in the former Soviet Union have led to the collapse of the bipolar world order and the end of the cold war.

The end of the cold war is the end of East-West bloc confrontation which was maintained on different ideologies. The disappearance of the Soviet Union has opened an era of a new balance of power and multi-polarization. It "has directed additional attention to the liberal model. After all, it was the western liberal democracies, with their relatively open economics, that won the cold war and that now appear, through the continued deepening and widening of the European Union and the maintenance of collaborative spirit throughout the Organization for Economic Cooperation and Development (OECD) to be consolidating their victory".¹

¹ Barry B. Hughes, "The future of the global political economy", in *International Political Economy; State Market Relations in the Changing Global Order*, ed. by Goddard, Passe-smith and Conklin, U.S.A., 1996, p.511.

Privatisation and economic liberalism has taken place globally. The power of the multipolar world is disbursed among the world's leading economic powers. Advanced countries are seeking their own interests by extending the activities of the Multinational Companies (MNC) in the developing countries, in order to obtain cheap raw materials and make efficient use of a local workforce.

The tremendous development of science, technology and global communication such as publications, satellite television, internet, fax, phone have brought about the formation of the single world market and globalization of productive forces. No country would be isolated from the universal information and international economy. Thus, the interdependence among nations is growing significantly.

Since trade and capital flows have become the most important and general global exchanges and competition. People all over the world are extended their own regional grouping or forming the new regional grouping and community grouping in order to protect their own national interest in which the most important is economic interest. So that both intra-regional trade and global trade have been increased. The ordinary people are concerned with regional issues rather than global issues. The consciousness of cultural identity, cultural commonality and national sovereignty develop rigorously among the nations.

The collapse of the former Soviet Union, East European countries and its controlled economies which emphasised on state and collective sectors have undoubtedly extended a greater recognition to the role of the private sector

globally. Meanwhile, many of the developing countries facing external and internal crises, were aware of the effectiveness of technology transfer by foreign investment and its other important roles as a source of development finance, in term of employment generation, fostering growth, enhancement of export... Basically, foreign investment brings about the key to sustained economic development. Therefore, it becomes a matter of concern for both developed and developing countries. The low-income countries are attempting to increase the inflow of foreign direct investment by relaxing restrictions, taking adequate legal measures and by offering greater incentives.

The new trends of international politics and economics have created many difficulties, challenges, as well as, advanced, favourable conditions for the countries, and their decision makers to chose the way toward development and prosperity. In this new situation, all countries have to change, adjust their domestic policies and affairs, and re-orient the security concepts and strategies of foreign policy to suit the new world situation.

In South East Asia, the Cambodian problem was resolved with the signing of the "Cambodian Peace Treaty" on 23 October 1991. The General election in May 1993 resulted in the formation of an elected government in Cambodia. The Cambodian problem is henceforward the problem of Cambodians only. The post-Cambodian problem have led to the entering of ASEAN into a new era of its functioning. "While emphasising the need to rely exclusively on a peaceful process in the settlement of intra regional differences, the ASEAN leaders urged for

rigorous development of an awareness of regional identity and the creation of a strong ASEAN community."²

In the 80s, world witnessed considerable economic booming of members of ASEAN. Singapore, Malaysia, Thailand and Indonesia. In 1987, Singapore economy "made a strong recovery, attaining a growth rate of 9.4%, a pace which was sustained with growth rates of 11.1%, 9.2% and 8.3% per annum in 1988, 1989 and 1990 respectively".³ Malaysia is most dynamic and fast growing economy in South East Asia. For the period 1971-90, gross domestic product (GDP) grew on average by 6.7% per annum and by 1991 was estimated to have reach US\$ 2,581 per caput. For the years 1988, 1989, 1990 and 1991 GDP increased by 8.9%, 9.2%, 9.7% and 8.7% respectively.⁴ "Indonesian official statistics revealed GDP growth rates of 5.8% in 1988, 7.4% and 7.3% in 1989 and 1990 respectively".⁵ Thailand since 1986 has reached remarkable economic recovery. The growth of the manufacturing export sector has led the government

² Parimal Kumar Das, "ASEAN, its salience and relevant to regional peace and development in South-Asia", In *SAARC 2000 and beyond*, ed. by L.L Mehrotra, H.S Chopra and Gert W. Kueck, New Delhi, India, 1995, p.273. This quoted follows "Declaration of ASEAN Accord", Bali, 24 Feb. 1976, p.32.

³ Philippe Regnier, (Singapore) "Economy", in *The Far East and Australasia - 1996*, 1995, England, p.946.

⁴ Spencer Moore, (Malaysia) "Economy" in *The Far East and Australasia - 1996*, n.3, p.567.

⁵ Sarwar O.H. Hobohm, (Indonesia) "Economy", in *The Far East and Australasia - 1996*, n.3, p.384.

to the conclusion that Thailand is firmly on the path toward newly-industrializing status.⁶ Between 1986 and 1991 Thailand became one of the fastest growing economies in the world. During this period the value of export grew at 30% per year. Between 1986 and 1993, gross national product increased from 43.9% to 71.0%.⁷ Thailand and Malaysia are considered the next Newly Industrial Economies. Even the Philippines which had been lagging behind for many years has given indications of picking up.⁸

With its high growth rate and dynamism, the ASEAN which used to be poor just a few decades ago, has been the engine of the world economy. It has been intensified co-operative relationships with its dialogue partners namely, Australia, Canada, the EEC, Japan, the Republic of Korea, New Zealand and the U.S.A. and extended its consultative relationships with interested non-dialogue countries and international organizations. In the meantime, the intra-ASEAN trade has been increased. The ASEAN members started discussing about free trade area for the region.

⁶ Chris Dixon, (Thailand) "Economy", in *The Far East and Australasia*, 1996, no.3, p.1016.

⁷ Ibid, p.1010.

⁸ B.D. Arora, "Stability and development in ASEAN", paper presented at International conference on *SAARC and ASEAN*, Summer 1996, New Delhi, p.2. This followed statistics from B. Bhattacharyya, Ramesh Behl and L.D. Mago, *India-ASEAN Trade Co-operation and Investment Opportunities*, Indian Institute of Foreign Trade, New Delhi, May 15, 1995, table 2, p.6.

After the world war II, Japan has emerged as one of the richest economies in the world. Its investment in other Asian countries such as Malaysia, Singapore, Thailand, South Korea has generated employment and economic growth across the region. Taiwan, South Korea, Hongkong and Singapore come up as the Newly Industrializing Economies. Their high growth rates are due to high levels of foreign investment in their economies and a high level of integration into international trading system. By the end of 70's, China - a sleeping giant, awoke with fundamental reforms in economic sphere - the whole planning organization had been subject to a series of reform, and to some extent in political sphere. Since then, "China's average annual GDP growth rate has been nearly 9 per cent. Assuming no extra-ordinary change in policies in 10 years time, China's economy is expected to be eight times that of 1978. This year (1994), China's trade will be US\$ 170 billion - up from a mere US\$ 21 billion in 1978. Its true economic output may be as much as US\$ 1.5 trillion or about a fourth the size of U.S."⁹

The disintegration of the Soviet Union and East Europe Countries created a new world situation ending frictions among the major powers in international trade and economy. The countries in Asia-Pacific region formed their own regional organization by 1989 in order to promote trade and cooperation in the region, as well as, create a balance counterpart to the EEC and NAFTA (European Union Community) and (North American Free Trade Agreement). The APEC - (Asia -

⁹ Hartarto, "APEC and Open Regionalism", a paper presented at *PECC X* in Kuala Lumpur, Malaysia, 22-24 March 1994, p.49.

Pacific economic community) includes 17 countries in the region : ASEAN countries, U.S.A., Canada, Mexico, Japan, China, Taiwan, Hongkong, South Korea, Australia, New Zealand, Papua Newguinea and Chile. it represents a tremendous economic force. "The economies of the Pacific region assume approximately 55 per cent of world's GNP and 40 per cent of global trade. Moreover,while intra-regional trade was only 57 per cent in 1980, it has grown to nearly 70 per cent fifteen years later."¹⁰

Vietnam, at the end of 1980s, faced a serious crisis economically, politically, socially, as well as, in foreign affairs.

Historically, Vietnam has passed 20 years of war which created serious damages to its national economy. After reunification, the controlled and subsidised economy did not lead the nation to prosperity. Economically, Vietnam was highly dependent on the Soviet Union and East Europe countries "Sixty percent of Vietnam trade is with the Soviet Union. The Soviet Union supplies more than two-thirds of Vietnam's import. According to Soviet Statistics, over the past ten years, the Soviet Union has been involved in more than 250 construction projects in Vietnam and has helped with production of 60 per cent of Vietnam's electricity, 87 per cent of its coal, 40 per cent of it cement, and 60 per cent of its tin. All of

¹⁰ Hansung-Joo, "Megatrends in Asia: Security and Political Implications", Paper presented at *Ninth Asia-Pacific round table*, 5-8 June 1995, Kualalumpur, pp.2-3.

Vietnam's petroleum products, 75 per cent of its rolled metal, 75 per cent of its fertilizer and 80 per cent of its trucks originated in the Soviet Union".¹¹

Despite all of this assistance, Vietnam remained a poorest country in the world with GDP income just 130 US \$ per head by the end of 80s. Devaluations and demonetisations were resorted to repeatedly control inflation, but inflation was always on the rise, even it reached to triple-digits-680 per cent in 1986. The centrally-controlled bureaucratic subsidiary system failed to check the rate of inflation, as well as, unemployment which occupied 20-25 per cent of population. The situation became worse with the rampant corruption that was encouraged by the subsidiary system and two-price system. From 1981 to 1984, the budget deficits averaged nearly 19 billion dong a year.¹² The country bore a heavy foreign debt and almost no capital accumulation.

Rapidly deteriorating economic situation annoyed the people and a large number of people had tried to run away from the country which created a refugee exodus (Known as "Boat people") to the other countries, specially the South East Asian countries. By mid-1979, it was estimated, that there were 200,000 such

¹¹ Charles Bunton, "The role of the NICs in South East Asia to political and economic development", in *International Journal*, Summer, 1986, pp.664-665. These statistics are given in Keith, B. Richburg, "Hanoi stays loyal to the Soviets but looks west for new aid", *Washington post Foreign Service*, 6 December, 1988.

¹² Ganganath Jha: "The politics of Perestroika in Vietnam, 1986-1990", *International studies* 28,4(1991), p.374. This quoted follows *straits Times* (Singapore), 16 December 1986.

refugees from Vietnam in China and perhaps another 200,000 had reach other countries of South East Asia, HongKong, Taiwan or Australia. Thousands had been drowned in the seas. By June 1992, 354,000 people had left the country according to the U.N. High Commissioner for Refugees programme.¹³ The Vietnamese refugees created unstable situation and anxiety for the neighbouring countries. As a result of these crises, the Communist Party of Vietnam lost the trust of the people and became a separate class with many privileges. Meanwhile, because of involvement in Cambodia, pressures increased on the national economy and Vietnam was being isolated from the international community. The neighbouring ASEAN countries worried and cautioned about the possibility of the Vietnamese hegemony extending in the South East Asia region.

With the changes in the Soviet Union and East European regimes, Vietnam lost its traditional and ideological friends, allies, as well as, the "most traditional markets (Which affected 60% of Vietnam export and 80% of import)".¹⁴ On the verge of a collapse, Vietnam's leadership did not have other choice except to look for reforms in its system. The Sixth Congress of the Communist Party of Vietnam marked a historical development. The concept of "DOI MOI" was introduced, Doi Moi is the policy of comprehensive renovation of the country. In the Sixth

¹³ Ralgh Smith, (Vietnam) "History", in *The Far East and Australasia-1996*, n.3, p.1039.

¹⁴ *Vietnam, 2 September 1945 - 2 September 1993*, Embassy of the Socialist Republic of Vietnam in India, New Delhi, 1993, p.14.

Congress, the Communist Party of Vietnam emphasized, that in the light of the new world, as well as, regional situation, the Vietnamese strategic objective and supreme interest is peace and development.

The Doi Moi - reform actually started since early 1980 with the contractual system in agricultural production and in reform of prices, salaries and currency, but they did not gain much success. In 1986, the Party Congress determined to shift from the centrally controlled bureaucratic system to the cost-accounting system, then to the multi-sectoral market economy under the state^a management in 1988.¹⁵ Doi Moi is a process of "restructuring of government and socialist system or, in any case, to throw some outdated ideas overboard. It means social changes and economic development"¹⁶ under the leadership of the Communist Party. It means economic liberalism and privatisation and also to some extent, it is the "introduction of certain aspects of liberal democracy in the Communist system. It is, however, against ending the dominant role of the Communist Party."¹⁷

Reform started in agricultural sphere, government granting quasi property right to the tiller with the policies of incentive, cultivation rights being given to peasant for a certain period of time. After contributing a part of the product for

¹⁵ Ibid, p.13.

¹⁶ Gangadh Jha: "The Politics of perestroika in Vietnam, 1986-1990", *International Studies*, 28, 4 (1991), p.376.

¹⁷ Ibid.

the government, the remaining part could be sold in the free market by the tiller. The agricultural collectivised cooperatives of earlier period had been abolished. Privatization has also been introduced in industry, a large number of state enterprises were dissolved or merge the small enterprises into a big one, the private enterprises being allow to exist. The subsidiary parts in state-owned enterprises are being cut off or reduced to a large extent. The "Socialist Business Accounting" has been introduced, according to which each state-owned enterprises would be responsible for its own business, based on the total out put value, total quantity of key products and revenue contribution to the state.

The private sector was allowed to function in the national economy along with the state sector. The farmers, merchant and enterprises are given autonomy in manufacturing and sales. The price control of earlier period has been abolished, only some items are under state price control including electricity, steel, fertilizer, petroleum and public transportation. The exchange rate system is bring kept floating. The market oriented economy is being opened for foreign countries and foreign investment.

Politically, Vietnam remained a single party system. The Constitution of 1992 guaranteed that the Communist Party is one and only legitimate political party of the country. However, reforms in the political system have been introduced to suit the economic reforms and market- oriented economy. From the very start, a "clean party" strategy has been adopted. The media has been allowed to criticize the negative aspects of the Communist Party, many cases of corruption and power

abuse were discovered, investigated and carried in public. The Communist Party has made efforts to make itself clean, transparent, open for the people, to be trusted and loved by the people.

The significant reform has been made in the process of electing the member of the National Assembly and its powers, a system called the "Multi-candidate system" was introduced in which those who are not communists could also be candidates. Before reform, the Communist party controlled and tackled almost all problems of the National Assembly, but now the National Assembly bears new duties, responsibilities and authority. The period of National Assembly plenary session is being extended, opposite opinions or reserved opinions are being allowed to be expressed, although within certain limitations. Lively debate has taken place among the members of the Assembly instead of "merely raising their hands in favour of the proposals made by the Council of Ministers which in fact, were nothing but the party platform"¹⁸ as earlier.

In the real of media, the press has got independence and relaxation to some extent. Many of the restrictions, censorships on literary publishing have been dropped, as well as, the writers, correspondents, artists enjoy more freedom to work in their own professions. The correspondents have been encouraged to investigate and bring in public the wrong doings of the state high- ranking

¹⁸ Tsutomu Murano "Can the communist party maintain its dominant position", in *Dynamic Vietnam, IDE Spot Survey*, Institute of Developing Economies, Tokyo, June 1995, p.28.

personals and party cadres. Many political issues have been allowed to be debated in newspapers. However, this freedom is freedom within limits.

The mass-organisations also were being re-organized to suit the needs of the market-economy. Their functions have become more professional and these support their own interests, rather than merely carry out party lines and state policies.

The basic concepts and strategies of Vietnam in foreign and security policies have changed fundamentally along with the changes in domestic affairs. "In the foreign policy, the Party Congress solemnly declared that " Vietnam wishes to be a friend of all countries in the world community striving together for peace, independence and development. The nucleus of the newly oriented foreign policy is the idea of national independence and sovereignty in combination with diversification of international relation. While firmly and confidently marching forward on the path to build the socialist society, Vietnam constantly strives for peace and development and considers them the norms and objectives in all her activities in the international arena... In order to achieve these goals, while carrying out the line on diversification and multilateralisation of her international relations, Vietnam attaches great importance to creating the substantial progress in her relations with developed countries, as well as, countries in the region. Opening up and stepping up the relations with developed countries is to genuinely take part in the process of global integration while strengthening the relation with countries

in South East Asia is to be actively involved in the process of regional integration.¹⁹ The first positive move of the Vietnamese government to impress the world community of its good will and peaceful intentions was to withdraw, partly and then completely its troops from Cambodia. Meanwhile, the government decided to reduce its own armed forces significantly. The Vietnamese armed forces used to be the fifth biggest in the world accounted for 8 percent of its population. By the end of 1980s, Vietnam desired to reduce it further around one percent of the population.²⁰ Nowadays, Vietnam and the ASEAN share the same aspirations and interests, that is, peace, stability, co-operation and development.

Along with the significant improvement in the relation with neighbouring countries. Vietnam has upgraded and improved relationship with many other countries is Asia-Pacific, Western Europe and the U.S.A. Vietnam position in the international community now is much more favourable on the path of development and defence of the country.

As part of the renovation process and its economic reform, the Sixth Party Congress decided to introduce the foreign investment promotion policy. Along with this decision, the Foreign Investment Law in Vietnam was approved by the National Assembly on 29 December 1987.

¹⁹ *Vietnam, 2 September 1945-2 September 1993*, no.14, pp.8-9.

²⁰ Ganganath Jha, "The politics of perestroika in Vietnam 1986-1990", no.16, p.383.

From the very start, the FDI played a vital role in transformation of Vietnam's economy. According to the International Monetary Fund (IMF) Vietnam's Foreign Investment Law, was a strategically important signal of the nature of direction of the reform process that was being set in motion. After a decade, nowadays, Vietnam is having one of the highest ratios of the FDI to GDP in the world, and a corresponding positive impact on the economy²¹, as well as, social, political changes of the country.

²¹ Dodworth John. R. (etal), *Vietnam's transition to a market Economy*, Occasional paper of IMF, washington DC, March 1996, p.2.

Chapter - II

FOREIGN INVESTMENT LAW IN VIETNAM AND IT'S SUBSEQUENT AMENDMENTS

"Foreign Direct Investment is an investment in enterprises located in one country but effectively controlled by residents of another country",¹ "FDI takes the forms of investment in branches and subsidiaries by parent companies located in an another country",² in order to obtain higher returns than would be achievable on comparable domestic investment.

For the host country, FDI has been viewed as vital centre for economic development, especially for those economy in transitional period. The FDI supplying capital, raising employment and more importantly it may contribute by transferring technologies, management, labour skills and a market business culture.

On the case of Vietnam, for the last ten years, the government has been trying to attract maximum flow of FDI inside the country. Many efforts have been made to shorten time and simplify the procedure for investors, to protect their interests and in the meantime, protect the up coming local industrialists, so that Vietnam could run faster in order to catch up with its neighbouring countries economically. Vietnam Foreign Investment law has been considered as one of the

¹ Miltiades Chacholiades: *International Economies*, Singapore, 1990, p.286.

² Ibid, p.289.

most open, liberal and attractive Laws in the region. The Law was promulgated initially on 29 December 1987 and subsequently, get amended thrice by the National Assembly. The first Amendments was adopted in June 1990, the second in December 1992 and the third one in November 1996.

The 1992 constitution of the Socialist Republic of Vietnam confirms the equality of state owned, collective and private capital economic sectors in their economic activities before the law. The constitution also confirms that the assets of the investors shall not be nationalized. Many of the *investment protection measures* have been confirmed in Vietnam Foreign Investment law and its Amendments.

In Art 21 of the Foreign Investment law in Vietnam, 1987; the government stated that "throughout the duration of their investment in Vietnam, the invested capital, property and assets of foreign enterprises and private persons shall not be expropriated or requisitioned by administrative procedure and the foreign invested enterprises shall not be nationalized. The Amendments of 1992 added that in cases where there is a change in Vietnamese legislation that could do harm to the interests of the contracting parties and of licensed foreign invested enterprises, the state shall take appropriate measures to guarantee the interest of investors.

Foreign investors investing in Vietnam shall have the right to remit abroad:

1. Profits accruing from business operation;
2. Payments due to them from the provisions of technology or services;

3. The principal and interest due on loans made in the course of business operations;
4. Their invested capital;
5. Other sums and assets in their legal ownership.

Foreign persons working in Vietnam have the right to remit their legitimate income abroad after payment of income tax and in accordance with Vietnam foreign exchange regulations.

In case of any dispute between or among the partners, it shall be first solve through mutual consultation and amicable settlement. If it fails to reach an agreement, the dispute shall be referred to a Vietnamese economic body or any other arbitration body (Art 25, Vietnam Foreign Investment Law 1987).

In regard to *the forms of foreign investment*, Vietnam Foreign Investment Law, 1987, approved three forms:

1. A contractual business co-operation venture
2. A joint venture enterprise or company
3. An enterprise with 100 per cent capital.

Few restrictions on equity participation in joint venture (JV) has been imposed such as "There shall be no ceiling on the maximum contribution by the foreign partner or partners to the legal capital of a joint venture which, while being subject to agreement of the partners involved, shall not, however, be less than thirty (30) per cent of the legal capital, (Art 8 of Amendments 1990).

In the JV, the Law allowed multi-parties to joint in, it also allowed JV to cooperate with their foreign partner to set up a new JV (Amendments 1990). The Vietnamese side comprises one or more Vietnamese organizations in different sectors of ownership (clause 2, Art 2, law 1987).

The foreign partner may contribute to the JV prescribed capital in following forms:

- a) foreign currencies
- b) Equipment, machinery, plant and other building facilities.
- c) The value of industrial property rights, technical know-how, technical processes, and technical services.

The Vietnamese partner may contribute the legal capital to JV in the following :

- a) The Vietnamese currency, foreign currency
- b) Natural resource
- c) building materials and other kinds of fixtures and furnishing.
- d) right of using land, water surface and sea surface.
- e) plan and other building structure, equipment, machinery, tools, components and spare parts.
- f) services for the construction and commissioning of the plant, patents, technical know-how, technological processes and technical services.

The Amendments 1996 allowed foreign investors to use Vietnamese currency for reinvestment. The Vietnamese partners would gradually increase the volume of the capital contribution in the prescribed capital or buy back part of capital contribution of the Vietnamese side (Art 8, Art 14, Amendments 1992).

The Export Processing Zones (EPZs), Industrial Zones (IZs) or Industrial Parks (IPs) and Build-Operate-Transfer (BOT) are encouraged. The establishment of EPZ and incentive measure for foreign companies invest to EPZ were being approved by the Vietnamese government in Vietnam Foreign Investment Law 1987. The preferential conditions to foreign investors who invest in EPZ, IZ and BOT were confirmed and extended in Amendments 1992 and 1996.

An EPZ is an industrial estate specializing in export oriented production and in provision of services to support export activities. EPZs are to be set up by the government of Vietnam at locations with favourable geographical positions for production and export of goods. EPZs have defined geographical boundaries as set out in their respective establishment decisions. The government of Vietnam guarantees equitable and appropriate treatment for foreigner who invest in EPZs.

Investors who establish operation in EPZs are entitled to separate preferences.

In EPZs, investors may operate in the following areas:

- production, processing and assembly of export products
- service relating to exports.

Forms of investment in EPZs are : An enterprises with 100 per cent foreign owned capital and a JV enterprise between one or several foreign/Vietnamese parties.³

Vietnamese enterprises under all economic sectors shall be liable to cooperate with foreign partners to invest in EPZs. The relations are exchange of goods between the markets of Vietnam and enterprises in EPZs as the export-import relations and this must be done in accordance with the law on Export - Import (Art 19a Amendments 1992).

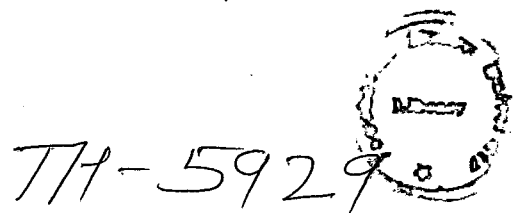
With regard to "BOT contract", it is a document signed between a foreign organisation or individual and the authorized state agency of Vietnam to build and do business in an infrastructure project within a definite time limit. When the project expires, the foreign organization or individual shall transfer it without refund to the government of Vietnam (Point 15, clause 2 of Art 2, Amendments 1992).

BOT contracts may be carried out with 100 per cent foreign capital or with capital which is partially foreign and partially contributed by the government of Vietnam and/or Vietnamese organizations or individuals.⁴

The Amendments 1996 introduced two new investment forms - the BT (build transfer) and the BTO (build -transfer - operate) which compliment the

³ Investment Transaction Centre (ITC), *SCCI Guide book for foreign investors in Vietnam*, in collaboration of UNDP and UNIDO, Ha Noi, 1995, p.24.

⁴ Ibid, p.25.



existing BOT. In the BTO form, investors transfer the project to the government upon completion, after which they are allowed to join the management work and enjoy a certain rate of profit to get their payback. In the BT form, the project is handed over to the government upon completion, which later gives some preferences to investors such as special access to land in other projects, or to building and service within the completed project, for a time period long enough to retake the whole outlay with satisfactory profit.⁵

IZ refers to a zone reserved for the manufacture of industrial commodities and for carrying out services for industrial production, established by the government (Point 16, Art 2, Amendments 1996))

On *the operational duration of enterprise with foreign capital*, Vietnam Foreign Investment Law 1987 stated, that it shall not exceed 20 years, where necessary it may be extended for a longer period. The Amendments 1992 stipulated, that the duration would be extended up to 50 years and in some special case would be extended up to 70 years (Art 15).

On the issue of *transfer of technology*, the government implemented safeguards to protect the industrial ownership rights and other legal benefits of foreign investors who transfer technology to Vietnam, to encourage high technology industries through a preferential treatment programme. The transfer of foreign technology into investment projects in Vietnam may be treated as a

⁵ Tran Manh Hung, "New investment forms panacea or problematic", *Vietnam Investment Review* (VIR), 9-15 December, 1996, p.17.

contribution to prescribed capital or may be the subject of payment of royalties in accordance with a technology transfer contract. The activities may be regarded on the transfer of technology:

- Transfer of the ownership of licensing of patents, industrial designs, trade mark.
- Transfer of know-how or technical expertise
- Provision of the technical assistance and consultation services including training and information supply.

The transfer of technology into Vietnam shall be subject to the requirement such as:

- Enhance the technological standards and production efficiency.
- Not detrimental to production safety
- Made rational use of energy, natural resources and manpower.
- Not adversely affect the environment.⁶

On the issue of *Foreign exchange control*, all enterprise with foreign invested capital shall open accounts in Vietnamese or foreign currencies at the Bank for Foreign Trade of Vietnam or at a branch of a foreign bank established in Vietnam as may be approved by the State Bank of Vietnam (Law 1987). The Amendments of 1992 stated that enterprises with foreign invested capital shall open

⁶ See, n.3, p.32.

their account in Vietnamese currency and foreign currency at the bank of Vietnam or at the JV bank or at the foreign bank branches based in Vietnam.

In a special case where there is approval of the State Bank of Vietnam, enterprises with foreign invested capital are eligible to open their account of loans at the bank in a foreign country (Art 17, Amendments 1992)

The areas in which FDI is encouraged in accordance with Foreign Investment Law 1987 are :

1. Implementation of major economic programmes, export-oriented production and import substitute
2. High technology industries using skill labour
3. Labour-incentive industry using raw materials and natural resources available in Vietnam
4. Construction of infrastructure facilities
5. Foreign exchange-earning service such as tourism, ship repair, airport and seaport services.

The Amendments 1996 stipulated the areas in which FDI should be encouraged as the following.

- Sector :
 - a) production of exports;
 - b) cultivating, growing and processing agricultural, forestry and aquatic products;

- c) High technology, advanced know-how industries, with a view to protecting the ecological environment, investment in research and development,
- d) labour-intensive industries, processing materials and using efficiently natural resources available in Vietnam
- e) Construction of infrastructure and other important industrial production facilities,

- Localities :

- a) Mountainous and remote regions
- b) Socio-economically under-developed areas (Art 3. Amendments 1996).

However it also listed the areas where investment shall be prohibited "the state of Vietnam shall not grant foreign investment licence in sectors and areas therein foreign investment may hamper the national security and defence, cultural and historical heritage, custom, or ecological environment". (Art 3. Amendments 1996).

The "South East Asia Monitor" given a different information regarding in this issue "It also listed the areas where investment shall be prohibited and the areas where 100 per cent foreign-owned enterprises shall not be allowed. it

includes telecoms, power generation, insurance and auditing. FDI in the forest product sector and broadcasting will be banned."⁷

On the matter of management of the J.V., the Amendments 1990 stated that the most important matters concerning the operation of the J.V. shall be determined upon by the Board of Management of J.V. on the principle of unanimity. However, the revised law 1996 added, that the most important issues of the J.V. will now be determined by an unanimous decision, while remaining matters will require the approval of a "more than half the votes of members of the Board of Management present at the meeting" (Art 14, Amendments 1996).

The application of foreign investor shall be considered by state organ for administration of foreign investment and its decision communicated to the partners concerned within three months from the date of receipt of the application (Art 38, Vietnam Foreign Investment Law 1987). In order to simplify the procedures, Amendments 1996 stated, that the relevant authorities will make decision to issue licence within 45-47 days in the cases of licence under decision of the Ministry of Planning and Investment and 30 days in the cases of licence under decision of the provincial people's committee (Art 94 and Art 100 of Amendments 1996), since the day of receiving an investment application.

Licensing powers used to be in the hands of the Ministry of planning and Investment (MPI) only during the period of 1987-1996. But Amendments 1996

⁷ *South East Asia Monitor*, 10 November 1996, p.3.

declared, that MPI will also select major cities, provinces and management bodies of EPZs and IZs, IPs, giving them power to issue investment licences to foreign project, case by case, especially, project management.

Under the system during period 1987-1996, foreign investors used to go to different ministries to collect papers/documents, but the Amendments 1996 decided that the MPI will act as the single authority, receiving investment applications and consult other ministries to examine and licence investments project.⁸

The issues of taxation, tax exemption and reduction are the most concerns of both investors and the host government. Foreign Investment Law 1987 defined, that the enterprise with foreign invested capital and the foreign partner operating under business-cooperation contracts, shall be liable to a corporate income tax from 15 per cent to 25 per cent of the earned profits except in exceptional cases which enjoy lower tax rates in order to encourage investment.

With regard to oil and gas and a number of other valuable and rare resources, the corporate income tax shall be higher following international practice (Art 26).

Depending on sector of investment, the geographical areas where the investment is made, the scale of investment, the volumes of articles as substitutes for those essential import products which the domestic economy is still incapable of producing or producing insufficient quantities, the nature and duration of

⁸ Trinh Thi, "Investment Law gets legislative overhaul", *VIR*, 28 October - 3 November, 1996, p.2.

business cooperation, the state organ for administration of foreign investment may exempt a J.V. from payment of corporate tax for a maximum period of two years, counting from the year the J.V. starts making profit and grant it a 50 per cent reduction of the same tax for a maximum period of two succeeding years (Amendments 1990).

At the same Foreign Investment Law 1987, it confirmed, that in exceptional cases, corporate income tax may reduce to ten per cent of the earned profit and the period of tax exemption or reduction may be longer than the period mentioned above.

In the "Guide book for foreign investors in Vietnam" by Vietnam Investment Transaction Centre, 1995, the detail of corporate income tax for investors has been interpreted as follows:

- Enterprises with foreign owned capital in which foreign partners shall pay corporate income tax at 25 per cent of the profit made
- The rates of corporate income tax for privileged cases would be:
 - + 20 per cent for project having two of the following requirements:
 - ▶ employing 500 workers or more
 - ▶ using advanced technology
 - ▶ exporting at least 80 per cent of its products
 - ▶ having prescribed capital or contributed capital in business cooperation of US\$ 10 million or more

Project in this category may exempt taxation for the first two profit making years and for reduction of 50 per cent for up to three succeeding years.

+15 per cent for project of :

- ▶ infrastructure construction
- ▶ exploitation of natural resources (except oil and gas and rare precious resources)
- ▶ heavy industry (metallurgy, basic chemicals, mechanical manufacture, cement...)
- ▶ growing of perennial industrial plants
- ▶ investment in the mountains and region of harsh natural and socio-economic conditions (but not the rare or precious resources exploitation).
- ▶ Non compensatory transfer of properties to Vietnam projects of this category may be considered for income tax exemptions for the first two profit making years and for reduction of 50 per cent for up to four succeeding years.⁹

+ Ten per cent for enterprises with foreign owned capital carrying out projects of :

- ▶ building infrastructure in the mountains and regions of harsh natural and socio-economic conditions.
- ▶ afforestation

⁹ See n.3, p.37.

- ▶ special importance.

Projects of this category may be considered for income tax exemption for the first four profit making years and for a reduction of 50 per cent of income tax up to four succeeding years.

In IZs, the tax rate for foreign invested enterprises shall be 18 per cent of earning profit in case of manufacturing enterprises. With enterprises which export at least 80 per cent of their products, the tax rate shall be 12 per cent of profit earned. The above enterprises are entitled to an exemption from profit tax for two years from the first profit making year. With respect to enterprises engaged in service, the tax rate shall be 22 per cent of the profit earned. These enterprises are entitled to an exemption from profit tax for one year.¹⁰

EPZs shall be subject to corporate income tax as follows:

- ▶ manufacturing enterprises: ten per cent of profit made and tax exemption for the first four profit making years.
- ▶ Service enterprises : 15 per cent of profit made and tax exemption for the first two profit making years.

BOT companies shall only bear a profit tax of ten per cent of the profit earned and shall be entitled to an exemption from the profit tax for four years from the first profit making year and a reduction of the profit tax for the following four years.

¹⁰ Ibid, p.38.

Corporate income tax of 15 and 20 per cent shall apply within the period from five to seven years from the year that follows the issuing year of Investment Licence. The tax rate of ten per cent shall apply within the period from eight to ten years from the year that follows the issuing year of Investment Licence.¹¹

Prior to the Amendments 1996, foreign organization and individuals that reinvest their profit for a period of three years or more, are entitled to a refund of the tax paid for the profits re-invested.¹² But the Amendments 1996 allowed only foreign invested enterprises which reinvest in projects encouraged by the Vietnamese government and relevant authorities will be entitled to receive a part of full refund on the amount of company profit tax they paid. The conditions for such a refund are not spelled out except to say the government shall determine the tax refund ratio, subject to the field, locality, form and term of such reinvestment.¹³

At the same Amendments 1996, the tax breaks under the new law are given:

1. Depending upon the field and location of the investment, a profits tax exemption may be available for a maximum period of two years and a

¹¹ Ibid, p.39.

¹² "Holidays in the Sun", *VIR*, 23-29 December 1996, p.12. Also see "Foreign Investment Law in Vietnam", 23 December 1992 of Vietnam Financial Ministry, Hanoi, December 1993, p.30.

¹³ "Holidays in the Sun", *VIR*, n.12.

reduction of 50 per cent of profit tax for a maximum of two successive years.

This would appear to correspond to the conditions required for the 20 per cent profit tax rate to apply.

2. In case where a lot of the conditions and criteria where investment is encouraged are satisfied, a profit tax exemption may be available for a maximum period of four years and a reduction of 50 per cent of profit tax for a maximum of the four successive years.

This would appear to correspond to the conditions required for the 15 per cent profit tax rate to apply.

3. In case where investment is especially encouraged, the maximum duration for profit tax exemption shall be eight years.

This would appear to correspond to the conditions required for the ten per cent profit tax to apply.¹⁴

Overseas Vietnamese doing business in Vietnam can choose to use the Foreign Investment law or the Domestic Investment Promotion Law. If they opt Foreign Investment Law, shall be entitled to a reduction of 20 per cent of the profit tax (except where the ten per cent profits tax rate has already been granted) and a five per cent withholding tax of the profits transferred abroad.¹⁵

¹⁴ See, *VIR*, n.12.

¹⁵ *Ibid.*

On the overseas remittances of profit, the revised Law 1996 stated that the remittance of profits abroad by a foreign investor attracts a tax of five per cent, seven per cent or ten per cent depending upon the rate of capital contributions made by investors into the legal capital or depending upon the capital use to implement a business co-operation contract .

Previously, the rate applies as follows: five per cent for foreign contributions of legal capital over US\$ ten million; seven per cent for amounts between US\$ five and ten million, and ten per cent for amounts less than US\$ five million.

This appears to also be in conflict with the current draft new Corporate Income Tax Law. This draft proposed a ten percent withholding tax rate on dividends and other income.¹⁶

On the issues concerning import tax, the foreign invested enterprises shall be entitled to an exemption from import duties as follows:

- a) Equipment and machinery imported as part of the fixed assets of the enterprise or as part of the fixed assets for the implementation of the business co-operation contract.
- b) Specialized means of transport which form part of the technological process imported as part of the fixed assets of the enterprise or as part of the fixed assets for the implementation of the business co-operation contract, and means of transport used for transporting employees.

¹⁶ Ibid.

- c) Components, parts, spare parts, support structures, moulds and accessories of the above equipment, machinery, specialized means of transport and means of transport.
- d) Raw materials and supplies imported for the implementation of BOT, BTO and BT projects.
- e) Species of plants and animals or specialized agricultural chemicals permitted to be imported for the implementation of agricultural, forestry and fishery projects.
- f) Other goods and materials required for projects in which investment is especially encouraged as determined by the Prime Minister.

If imported items are referred in clause (a) and (b) above are to be sold or transferred in the Vietnamese market, it must be obtained an import duties, turnover tax or special sales tax in accordance with laws of Vietnam.

Patents, technical know-how, technology processes and technical services, to be used as capital contribution shall be exempted from any taxes related to transfers of technology (Art 63, Amendments 1996).

Foreign national working and having incomes in Vietnam shall have to pay personal income tax as such :

Level	Annual income (VND 1 million)	Tax rate %
1	Up to 60	0
2	60 → 200	10
3	200 → 400	20
4	400 → 600	30
5	600 → 900	40
6	over 900	50
[Marginal tax rates for foreigners (VIR 1-13 Oct, 1996)]		

On the regard of *rents for land, water and sea surface* toward foreign investors who invest in Vietnam, and having lease of land, shall have the right to:

- ▶ Enjoy investment results on the leased land;
- ▶ Mortgage the value of land use right together with their own assets which have been invested, constructed on that land at Vietnamese banks;
- ▶ Where they are permitted to invest in the construction of infrastructure facilities and re-lease them in EPZs, IZs, they are entitled to re-lease the land to investors in which the construction of infrastructure has been completed.
- ▶ Benefit from public project on the protection and melioration of land...¹⁷

Rental of urban land are calculated as follows:

- a) group I : from US\$ 1.70/m²/year to US\$ 13.6/m²/year.
- b) group II : from US\$ 1.50/m²/year to US\$ 12.0/m²/year.

¹⁷ See n.3, p.42.

- c) group III : from US\$ 1.125/m^e/year to US\$ 9.0/m^e/year.
- d) group IV : from US\$ 0.75/m^e/year to US\$ 6.0/m^e/year.
- e) group V : from US\$ 0.375/m^e/year to US\$ 3.0/m^e/year.¹⁸

- land rental rates in rural areas are in the range of US\$ 30 to US\$ 750/hectare/years.
- Mountainous and bare hill areas: US\$ 30 to 150/hectare/year.
- Other areas : US\$ 150 to 750/hectare/year.
- rental for water surfaces, rivers, ponds, lake and inland water : US\$ 75 to 525/hectare/year

Where the area to be leased is not fixed, the rentals shall be from US\$ 1500 to US\$ 7500/hectare/year.

Every five years, the Ministry of Finance shall consider and adjust the rent on land, water and sea surface if it is necessary. If the adjustment of the rentals shows the increase, the increased rate shall not exceed 15 per cent of the previously rentals.¹⁹

BOT and special projects may enjoy an exemption from or a reduction of rent for the use of land and water or sea surfaces. Foreign invested enterprises invest into areas of specially difficult conditions such as mountain and remote areas

¹⁸ Ibid, p.43.

¹⁹ Ibid, pp.43-44.

shall be reduced of 50 per cent of the rental. Projects in construction of bridges, roads, airport, seaports, power-plant (but not under BOT) shall not have to pay the land rental during the construction time. Other projects, shall also pay only 50 per cent of the land rental during the construction period. Projects in the field of agricultural and industrial trees planting entitled to minimum rate of land rental. When the trees have not yet had their product, the owner of project shall not have to pay the land rental. Foreign invested enterprises shall be entitled to a reduction of five per cent of the payable the land rental in the case where the investor pay the land rental in one time for the leasing period of five years.²⁰

In sum, law on foreign investment in Vietnam and its subsequent Amendments are attempts to create more favourable business environment, to establish and complete its legal framework for foreign investors, at the same time to protect local investors/enterprises. It has been considered as one of the most liberal Foreign Investment Law in the region by many special treatment terms, such as approval for the existence of wholly foreign capital owned enterprises, tax exemption, tax reduction and exemption or reduction of rentals for land, water surface and sea surface, favourable treatments for the infrastructure construction, high-tech and basic industries, long terms and large form of investment, production of export and import substitutes... Generally speaking, its policies focused toward a industrialised and modern economy; export-oriented industries; to upgrade and

²⁰ Ibid, pp.44-45.

improve infrastructure of the country; to create a balance development among different regions; to attract huge projects so that create employment for the people; to using maximum potential of the country's resources; to catch up modern methods of economic management... Thus to create the favourable conditions for national economy toward development and improving people's living standard. Notwithstanding, the Law on Foreign Investment in Vietnam and its Amendments does not yet allow for the existence of financial investment form (foreign partners invest capital buy shares but do not take part in management as in the case of JVs), foreign investors are still not able to buy share in Vietnamese companies. Although Vietnam Foreign Investment Law is considered as most liberal, but it still lacks concrete regulation needed to provide better environment for foreign investors. Vietnam Foreign Investment Law in some extent is not conformity with other legal framework of the country. The BOT provisions is being considered as a vague legal provisions in the bidding process while the BOT projects demand large investment capital and slow payback period. The formalities and procedures for granting land and land clearance, often take a long time, which accounts for the delays in project implementation. Although in principal, foreign investors are entitled to invest in all sectors of Vietnam's economy, but actually Vietnam's government has become more selective in approving projects which being considered important for the national economy.

Chapter - III

THE ROLE OF FDI IN VIETNAM'S ECONOMIC DEVELOPMENT

Since Doi Moi has been introduced in Vietnam, the country has emerged as an international destination for foreign investor, an important market in the Asia - pacific region.

There are two most important factors that any foreign investor should think about before investing his money in any market. The foremost concern is political stability and the second one, is the existence of a clear, strong, transparent legal system. The former one Vietnam is having, the latter Vietnam is trying to work out. Apparently, nobody would expect a country with the GNP per capita just 130 US \$ (before reforms) and 270 US\$ (after ten years of reforms) having a clear, transparent, serious and strong legal system, since the development of legal system should be relative to economic development. However, the investors observed, that the Vietnamese decision makers are really serious in creating a sufficient and favourable legal framework for foreign investors. The Vietnamese elite is well aware of the reality, that compared with the neighbouring countries, Vietnam is far behind in economic development. They are very keen to learn and adjust themselves with international regulations, and paid attention to listen outsider's opinion.

The attempts of the governments to attract foreign investment have been successful, assisted by other objective factors such as Vietnam's advantageous geographical location, human resources and abundant natural resources...

Lying in the middle of the Asia - Pacific the most dynamic and high - rate of economic growth region of the world and being a part of the South East Asian region, Vietnam enjoys advantages of adjacent geography with the more advanced countries economically and having many things in common culturally. Vietnam is also being considered as a primary conduit to enter Lao, Cambodia, if investors are able to put their foothold in Vietnam, they would enter the whole Indochina with around 70 million souls. Almost the foreign investors in Vietnam believed that if trading and business with Vietnam go smoothly, the doors to Lao and Cambodia shall be opened. The under-developed region of South China also being considered as a potential area for the expanding of foreign investors's business. Vietnam also enjoys other advantage of having 3200 KM coastal border on the Pacific, it serves as a bridge between the North East and South East Asia regions. It also locates in the centre of the MeKong river basin - known as the Mother river of the South East Asia mainland.

One of the most attractive point for foreign investors to Vietnam is Vietnamese people. Eventhough being a least developed country, it has achieved a high level of social development in terms of human resource development. The agricultural society, basically, has an adult literacy rate of 92,5 per cent, according

to UNDP's Human Development Report 1996.¹ The country having a huge market of 76.7 million population and labour costs in Vietnam are among lowest in the world. The labour forces are relatively well-educated, diligence, very hard working and creative, so that the quality of labour is much higher than in other countries in terms of productivity and educational level.

A researcher on Indochina, Douglas Pike had commented about Vietnamese: "Vietnam in particular is rich in human resources - intelligent, literate, hard - working people - hence best to remember it is poor but not backward".²

Vietnam also being blessed by nature with great potentials in term of natural resources as natural gas, oil, coal, hydro-electricity, apatite, bauxite, iron ore, copper and the coastal line of 3200 kilometres which being the selters for plenty of marine products. Luckily, Vietnam also enjoys the favourable conditions for agricultural development and having wonderful landscapes for attracting tourists.

The HongKong factor should also be mentioned here. As far as HongKong and China are concerned, by July 1997, when HongKong will be handed over to China, many changes would take place in polities. The Vietnam market would be in favour of these changes.

¹ MS Shivakumar, "Political parties, development policies and pragmatism in a changing world, lessons from Vietnam", *Economic and Political weekly*, 14 December 1996, p.3259.

² Douglas Pike; "Year of uncertainty", A -PDR 1995 Annual Reference Edition, U.S.A., p.32.

With tremendous potentials and the government's own efforts, in the last ten years, Vietnam has become one of the most attractive destination in the world for foreign investors.

According to statistics of the Ministry of Planning and Investment of Vietnam (MPI), at the end of 1996, the ten biggest investors are: Taiwan, Singapore, Korea, Japan, HongKong, British Virgin Islands, Malaysia, the U.S.A., Thailand and Australia. So the four newly Industrialised Economies or "Asian Tigers" and Japan are holding the top five investor's positions; three countries of the ASEAN are amongst the top ten investors.

So far, Taiwan tops the list of foreign investors. By the end of 1996, Taiwan have total investment approval numbering 248 projects worth more than US\$ 4,038.00 billion investment capital and US\$ 1,714.52 billion legal capital. Taiwan invested in Vietnam in either large-scale project and medium-sized manufacturing. But recently, they are shifting from large-scale projects to medium-sized manufacturing ventures in IZs. The investors are involved in manufacturing of shoes, textiles, machinery, spots ^{glass} ~~gen~~, agricultural and wood products... Taiwan shall build Sai Dong IZ in a 40 hectare site outside Ha Noi and is applying for approval for Da In IZ to be located in Hai Phong. About 150-200 medium sized manufactures expect to be accommodated in each. Sai Dong IZ is expected to create 15.000 jobs and an annual export-import flow of US\$ 400 million. Da In

IZ with a total investment capital of more than US\$ 100 million which will cover 200 hectare.³

Singapore, in 1996, has overtaken Japan, South Korea and HongKong to become the second largest investors in Vietnam. Presently Singapore having 140 on-going projects with investment capital of US\$ 1,402.53 billion and legal capital of US\$ 1,025.65 billion.⁴

In the first years, Singapore's investment in Vietnam just covered in small and medium projects and focused on hotel and service sectors. But after Singapore's Prime Minister paid a visit to Vietnam, the investment has been promoted speedily since 1994. In the first ten months of 1996, Singapore's investment in Vietnam reached US\$ 760 million a 20 per cent increase compared to the same period last year.⁵ Presently, Singapore's investment covers almost all sectors of Vietnamese economy but the hotel, office and accommodation areas seem to be the focal points of Singaporean investors. These fields account for 33 projects worth US\$ 965 million, equal to 27 per cent of the number of Singaporean investment and 51 per cent of the total capital invested.

Industry and construction sectors are other areas of interest of Singaporean investors. Their 58 projects are worth US\$ 757 million, account for 48 per cent

³ Duc Hung, "Taiwan Shifts investment strategy", *VIR*, 12-18 August 1996, p.4.

⁴ "Top 40 investors in Vietnam", *VIR*, 9-15 December, 1996, p.12.

⁵ *Ibid.*

of the project numbers and 40 per cent of the total value of their investment. The remaining projects are transportation, fishery, agriculture, finance, post.⁶

It is estimated that in the near future Singaporean investors would be focused on food processing, light manufacturing and infrastructure.

Singaporean projects located mostly in large cities and important economic regions which have advanced infrastructure. Ho Chi Minh city has 57 projects of US\$ 778 million, equals with 42 per cent of Singaporean investment nationwide. Hanoi ranks in second place with 17 projects worth US\$ 600 million and Song Be province the third position with ten projects worth US\$ 168 million.⁷

Vietnam-Singapore IZ in Song Be is the biggest licensed projects so far with total investment of US\$ 210 million. This IZ is expected to create job for about 50,000 local labourer and bring a total production value of more than US\$ one billion annually when it would be operated.⁸

While foreign investors from other countries have focused on services or the light manufacturing areas, South Korean investors are focused on heavy industry manufacturing with large-scale and long-term projects which occupied almost 70 per cent of South Korean investment in Vietnam. By the end of 1996,

⁶ "Shaking hands with neighbours", *Vietnam Economic News*, (VENs), No.33, 1996, p.16.

⁷ Ibid.

⁸ Hai Nam, "Vietnam drinks up Singapore Slings", *VENs*, No.22, 31 May - 6 June 1996, p.18.

South Korean have 166 projects with investment capital of US\$ 1,662,32 billion and legal capital of US\$ 905.01 million.

Small Korean, manufactures and trading firms have opened their way to Vietnam, then the big cooperation and conglomerates followed. At present, all of South Korean giants such as Daewoo, Sam Sung, Lucky-goldstar group, Hyundai and Posco have a present in Vietnam. Daewoo is the single largest foreign investors in Vietnam with US\$ 720 million in investment approvals, committed to 14 J.Vs. Daewoo also announced its intention to invest some US\$ 2 billion into 20 other projects in Vietnam by 2000. Daewoo also expressed an interest in replacing France Total which recently dropped out of its 30 per cent share in the US\$ one billion plus project to build Vietnam first oil refinery at Dung Quat bay.⁹ The L.G. group won a licences for investment values at US\$ 90 million and currently negotiating a further 20 ventures including from mining to property development to food processing. Samsung group have invested close to 400 million in Vietnam.¹⁰ Hyundai have a licence for US\$ 95 million shipbuilding and shiprepair J.V. Pohang Iron and Steel company have five licensed projects worth US\$ 160 million.

South Korean investors are concentrated in Ho Chi Minh city and Ha Noi. So far 382 companies are active in Vietnam including 20 construction firms with

⁹ Tran Trung, "Chaebols settle in for long haul, *VIR*, 2-8 Oct 1995, p.3.

¹⁰ "Sam Sung invests with care and commitment", *VIR*, 2-8 Oct 1995. Supplement on Korean Investment, p.3.

projects worth US\$ 530 million. Total orders received by Korean builders have reached US\$ 700 million. South Korean companies employ about 20,000 Vietnamese staffs and workers.

In the first ten months of 1996 alone, South Korea came to the top of the list of foreign investors of the year with 36 projects worth more than US\$ 764 million.¹¹

Japan takes the fourth position with 145 projects worth US\$ 2.30 billion of investment capital and US\$ 1,059.61 billion legal capital. The Japanese investors same as Korean investors focused on long-term investment capital and large-scale projects. The areas most attracting them are manufacturing various kinds of machines and machine parts. Statistics at the end of 1995, showed, that the Japanese investors are concentrated on heavy industry and construction: US\$ 560.57 million and US\$ 478.28 million respectively, the following sectors are hotel and tourism, oil and gas, office and apartment, transportation and telecom: US\$ 301.83; US\$ 131.81; US\$ 108.04; US\$ 76.32 millions respectively; the remain other sectors are 79,43 million US\$.¹²

For small and medium Japanese enterprises, wholly foreign invested enterprises are more favoured by them.

¹¹ Duc Hung, "Investment bonanza shoots Korea to top in 1996", *VIR*, 18-24 Nov 1996, p.4.

¹² "Japanese investment by sector", *VIR*, 27 Nov.-3 Dec.1995, 1995, p.2.

Normura-Haiphong IZ has been established by the Japanese investors, it covers 153 hectares and plans to build 130 factories, between 30.000 and 40.000 jobs will be created with investment capital between US\$ 100 millions and US\$ 1 billion. Normura IZ is one of the biggest IZ of foreign investors in Vietnam.

HongKong at the end of 1996 had a investment capital of US\$ 2,050.06 billion and US\$ 1,042.64 billion of legal capital in 173 project.¹³

HongKong investment in Vietnam are mainly in the South of Vietnam, in areas with quite strong infrastructure such as Ho Chi Minh City, Dong Nai and Song Be provinces. Out of the total investment projects, 18 per cent are 100 per cent foreign-invested project. The major fields of investment of HongKong in Vietnam are construction of hotel and entertainment clubs, agricultural processing and light industry as textiles, garments and footwear production. HongKong investors used to invested in small and medium project but at present, the larger amounts of capital investment of projects have been increasing. Prior to February 1994, when U.S.A. had not yet lifted embargo on Vietnam, the U.S., Japanese and Western European companies invested into Vietnam through HongKong and Singapore.

Earlier, HongKong investors paid much attention to hotel and hospitality services but since this sector at present is not at favour for development, HongKong investors, pay more attention to agriculture and foodstuff processing,

¹³ "Top 40 investors in Vietnam", n.4.

as well as, light industry. In 1995 alone, nine out of a total 26 projects engaged in agricultural and aquatic products processing, of which two projects on tobacco plantation and processing in Quang Nam - Da Nang and Dong Nai were worth wound US\$ 36 million. HongKong operated around 72 projects in textile, garment industries and footwear manufacturing with a total capital investment of more than US\$ 250 million.¹⁴ Previously, HongKong aimed at exporting products to overseas market but when Vietnam enjoys preference from the EEC - the Most Favoured Nation status - MFN, and became a member of the ASEAN, as well as, they witnessed the development of Vietnam's economy, the attention has been paying to local market.

Being a major financial and transaction centre in the region and the departure and destination point of almost 17 percent of the total volume of goods in South East Asia, HongKong investors have acted as the transferred person of international investment.

Since the law on Foreign Investment in Vietnam promulgated in December 1987, a new source of investment capital have been pouring in the country, assisting Vietnam overcome the financial difficulties that seem to be

¹⁴ Thai Nhu, "HongKong investment in Vietnam, latest upheavals", *VENs*, No.28, 1996, pp.8-9.

insurmountable. In 1992, Vietnam's foreign debts were equal to 120 per cent of its GDP and 560 per cent of its annual export.¹⁵

FDI in Vietnam plays the vital role in mobilization of foreign capital. With the coming of the FDI, the national economy meeting the increasing demand for capital in the country without increasing the already existing burden of debt.

By the end of 1996, 700 foreign companies from over 50 countries and regions have invested in Vietnam with a total investment capital of US\$ 23.5 billion for 1850 projects of which over 30 per cent have been put into operation.¹⁶

According in statistics of MPI, in the projects licensed, the industry accounts for 37 per cent, hotel, tourism, office building and apartment for 31 per cent, construction for 9 per cent, transport, telecom and post for 8 per cent, oil industry for 5 per cent, agro-forestry and aquaproducts for 4 per cent, EPZ, IZ and infrastructure for 1 per cent, the remaining other for 2 per cent.¹⁷

Despite many difficulties, FDI has increased rapidly, averaging 50 per cent a years, with an average of 3.5 million US\$ in the 1988-1990 period, 7 million US\$ in 1991, 15 million US\$ in 1995 and 17.6 million US\$ in 1996.¹⁸ If in 1988

¹⁵ * Ngo Hoc Hai; "FDI, a considerable source of investment capital in Vietnam", *Vietnam Courier*, 29 December 1996 - 4 Jan 1997, p.6.

¹⁶ "Foreign Investment law approved", *VENs*, 22-28 November 1996, p.7.

¹⁷ "Top 40 investors in Vietnam", n.4.

¹⁸ n.15.

alone, foreign investment was US\$ 366 million, then the increasing in 1995 was US\$ 7.457 billion.¹⁹

According to the report of the MPI, the total turnover of foreign invested projects was US\$ 192 million including US\$ 52 million from export from 1988 to 1991, compared with US\$ 230 million and US\$ 112 million in 1992, US\$ 358 million and US\$ 115 million in 1993, US\$ 850 million and US\$ 350 million in 1994 and US\$1,277 million and US\$ 400 million in 1995.²⁰

In 1995, the total turnover of foreign invested projects including the oil sector was US\$ 2.00 billion of which US\$ 1,400 billion belong to export. In the same period, foreign invested projects contributed US\$ 600 million to the state budget.²¹ It is a considerable amount of capital toward an economy having GNP per capita of US\$ 270/year and GDP per capita of US\$ 1.310 year.

The growing presence of multi-national cooperation and foreign capital from the strong economic powers, such as, Japan, NIEs, the U.S.A., Western European Countries, South Korea... has consolidated the trust of many international organizations and governments to offer more Official Development Aid (ODA) loans which has low interest rates and long duration. During the three consecutive years from 1993 to 1995, Vietnam had borrowed over US\$ 4.6 billion worth of

¹⁹ Nguyen Tri Dung, "Vietnam needs incentives for new investment", *VIR* 15-21 July 1996, p.2.

²⁰ Ibid.

²¹ Ibid.

ODA loans. The most significant sponsors were Japan (US\$ 1.275 million); the Asian Development Bank (ADB) US\$ 634 million); the World Bank (WB) (US\$ 1.118 million).²² For the country with infrastructure is out of date and endless list of infrastructure projects not to be built as Vietnam; ODA plays a vital role in building electrical power projects, telecommunication industry, irrigation, water supply, environment, health-care, education and training, population control...

The ADB alone, has given non-refundable aid worth of ten million US\$ per year to assist Vietnam in the technological field. At present, more than 200 non-governmental organization active to support the country in health-care, education and humanitarian issues.

The FDI has brought in Vietnam advanced technology. It help Vietnam improved technology in many vital fields as post and communication, civil aviation, oil and gas production... It helped improve the qualities of Vietnamese products, close the gap of difference between Vietnam products and products of other countries. Vietnam's present technology transfer is stronger than ever. Technology comes from foreign lending, foreign experts, overseas Vietnamese, ODA and equipment purchased abroad of JVs or foreign companies. Of the licensed projects, many of them involve technology transfer.

²² Hoang Tan, "ODA to develop infrastructure", *VENs*, No.30, 1996, p.16.

The FDI has brought in Vietnam management and marketing skills of the market economy in which the profit - oriented - strategy for the first time being apply in the country.

The FDI also create job for the Vietnamese, so far it recruited some 170.000 - 180.000 local workers, excluding the ten of thousands of other involved indirectly. This workforces is expected to grow quickly when the numerous projects under construction would be operated.²³

The FDI has helped Vietnam fostering growth and may have a positive effects on national saving. "If FDI affects national saving directly or indirectly by influencing the rate of economic growth, its impact on the current account will not be identical to its impact on domestic investment. If FDI affects the rate of economic growth, it will also exert an indirect effect on domestic investment. In this and other way, the FDI could increase domestic investment by more than its own direct contribution".²⁴

The FDI has fostered export and import substitution. In 1995 alone, enterprises having foreign invested capital contributed 14.3 per cent of the country's export turnover and 20 per cent of its export products.²⁵

²³ n.15, p.10.

²⁴ Maxwell J Fry, *FDI in South East Asia, Differential Impacts*, the Institute of South East Asia Studies of Singapore, Singapore, 1995, p.25.

²⁵ "Red Carpet For Foreign Investment", *Vietnam News*, 19 March 1996, pp.3-4.

IZs, EPZs, IPs and BOT are areas having priority in strategy of Vietnam development. They have contributed considerably in the process of industrialisation, urbanization, exported orientation industry, as well as, in regional development. By July 1996, Vietnam has licensed six EPZs and ten IZs. They have been located in Ha Noi, Hai Phong, Quang Nam - Da Nang, Dong Nai, Song Be, Ho Chi Minh City, Ba Ria - Vung Tau and Can Tho. These IZs and EPZs have attracted foreign investment of around 1.5 billion US\$ in registered capital, disbursed in 85 enterprises. Among them 75 enterprises have complete construction and put in operation. According to National Urban Development Strategy, Vietnam plans to build more 30 IZs throughout the country. In the future plan, not only big cities such as Ha Noi, Ho Chi Minh city benefit from IZs but small cities also enjoy this privilege such as, Bien Hoa, Da Nang, Can Tho, Thai Nguyen, Viet Tri, Nam Dinh...

MPI schemes to develop Hai phong - Ha Noi - Quang Ninh triangle as the area to setting up about 20 IZs on the area about 10,000 - 11,000 hectares and supposed to attract 1.5 million workers. So far, US\$ 169 million has invested in infrastructure construction in the existing IZs including Normura, Dai Tu and Noi Bai.²⁶

²⁶ Xuan Hung, "Zone plan envisages industrial surge", *VIR*, 15-21 July 1996, p.17.

In central Vietnam, the Lien Chien, Hoa Khanh and Dien Nam, Dien Ngoc area of Quang Nam - Da nang province and Dung Quat in Quang Ngai province are the home of the huge IZs.

In the South, under the master plan, Dong Nai province will have IZs with a total 8.382 hectare extracted from the province's 15.500 hectares of industrial area. The IZs is targeted in long Binh, Go Dau, Tuy Ha, Slope 42 and the Bien Hoa II. Recently, the decision by the developers seems to have altered the nature of development from EPZ to an IZ, due to infrastructure related difficulties.

Tan thuan EPZ, Bien Hoa II IZ and Linh Trung - Saigon EPZ are the most successful among EPZs and IZs in Vietnam.

Tan Thuan EPZ formed in 1991, comprises 300 hectare with a total capital investment of US\$ 90 million. By July 1996, 124 investors were registered and paid land rent at a total capitalisation of US\$ 370.3 million, 86 projects were granting licences worth around US\$ 312.9 million. To date, 41 enterprises have begun production, with exports totalling of US\$ 83.8 million during the last two year and have created jobs for more than 10.000 local labourers.²⁷

Bien Hoa II IZ at present have 47 projects operating with a total investment capital of over US\$ 270 million and using 92.6 ha of land.²⁸

²⁷ "Two most successful EPZs in Vietnam", *VENs*, no.34, 1996, p.6.

²⁸ Cong Thanh, "Sonadezi authorised to oversee IZ land rental", *VIR*, 22-28 January 1996, p.16.

With the existing IZs and EPZs and the future IZs and EPZs which are supposed to be present throughout the country, IZs and EPZs have played a dominant role in urbanization and industrialisation of the country.

With regard to BOT, since it was introduced in December 1992, there have been two licensed BOTs : the US\$ 30 million water production and supply project by Malaysian Emas Company in Ho Chi Minh city and the US\$ 637 million Vung Tau International Transshipment Port project. BOT could not attract much attention of foreign investors since the Law given before Amendments of Foreign Investment Law in Vietnam (1996) was vague, while BOT projects demand a huge capital. Prior to March 1997, the regulation on land use, foreign exchange conversion, the pricing of utilities and government guarantees were not yet clarified, so the foreign investors did not want to take a risk. With the Amendments 1996 of Foreign Investment Law in Vietnam, hopefully BOT form will attract more FDI.

The FDI, by July 1996, was presented in 51 out of 53 cities and provinces of the country, of which Ho Chi Minh city is at the top of the list with US\$ 6.326 billion, followed by Ha Noi, the capital with US\$ 3.717 billion, Dong Nai with US\$ 2,661 billion, Hai phong US\$ 892 million, Ba Ria - Vung Tau US\$ 889 million, Song Be US\$ 709 million and Quang Nam - Da Nang US\$ 552 million.²⁹

²⁹ See n.19.

vinces, the FDI has been
Joi - Hai Phong - Quang
Minh city - Dong Nai -
as belong to these three
economic triangles. Many new urban centres in those areas have been formed.
Since FDI is not only create production capabilities and trade but also fosters the
business operations of such sectors as services and utility supply, transportation
and telecommunication.

The switch to a market economy and the existence of foreign investors have
been required privatizing state - owned industry and opening up the emerging
markets for both domestic and foreign investors. In case of Vietnam, after a long
time of an inward - oriented command economy, there has been a switch toward
outward - oriented market economy where companies are pushed into international
competition often formed by MNCs and growing international trade in goods,
services and capital. There is no way except the state - owned enterprises (SOEs)
increase their economic efficiency in order to competition in the new environment.
Privatization has taken place paralld with the coming of MNCs.

At the start of the transition in 1988, about 75 per cent of the economy was
collectively organized. In industry and services, the state was responsible for about
one-half of output. The predominant agricultural sector was mainly organized as
a cooperative sector. In 1988, about 12.000 the SOEs were in existence, one-fourth
of which were in industry. Close to 80 per cent of the 3.100 industrial SOEs were

owned and managed by local government bodies and the remain in the central government controls.³⁰ Further, in 1990, 20 per cent of all central government SOEs and 60 per cent of all provincial authority of SOEs were deemed to be unprofitable.³¹

In 1990, Law on Private Business and the Law on Companies which laid the formal basic for the development of a private sector has been approved by the Vietnam National Assembly. The following result was the wholesale restructuring of state enterprises, lost-making enterprises were either dissolved or emerged with other more efficient enterprises.

About 6500 SOEs remain after that~~er~~ even, public sector employment dropped from over four million in 1988 to less than three million in 1992. About 85 per cent of the decline was due to reduction in employment in the SOEs.³²

The SOEs have to stop receive large budgetary subsidies and given greater authority in manufacturing their enterprise. As a result, the output increased significantly and the average productivity in the SOEs sectors increased speedily

³⁰ Dodsworth John R. (et al), "Vietnam, transition to a Market Economy", *IMF*, Washington D.C., March 1997, p.12.

³¹ Nick, J. Freeman, "The role of 'equitisation' in Vietnam's reform of State-owned enterprises", *Communist Economies and Economic Transformation*, vol.8, no.2, 1996, p.218.

³² See n.30.

by nearly 70 per cent from 1989 to 1992 and by 30 per cent from 1992 to 1994.³³ It is a significant reform of the SOEs in Vietnam.

However, further reform in the SOEs is needed. Although SOEs account for less than ten per cent of employment, they dominate industry, banking, trade and transport. Among more than 6000 SOEs, only a third of which are thought to be profitable, represent a quarter of Vietnam's economic output and provide more than half of the government's budget revenue.³⁴ The average capital of one SOEs only equals to 9.3 per cent that of a foreign invested enterprises. These problems plus with mismanagement and tough market competition led to many of SOEs came to an end. As many as 70 per cent of the SOEs are dragging on, most of them are running at 30-40 per cent of their capacity.³⁵ Equitisation of the SOEs is a right step in order to improve the efficiency of the SOEs's business. In principle, government accepted equitisation of the SOEs but in practice, only eight SOEs were issued shares and now operating under company law. Results so far have been promising in these eight SOEs.

At Refrigerating Engineering Enterprises (REE), equitised in December 1993, turnover almost tripled last year and profit was up 1.5 times. At the Transport Union Company where equitisation took place in June 1993, turnover,

³³ Ibid.

³⁴ Adam Schwarz, "Question of control", FEER, 24 October 1996, p.51.

³⁵ Thu Thuy, "Vietnam needs to speed up Equitisation of SOEs". *VENs*, no.34, 1996, p.18.

net profit and contribution to the state budget were all up between 200 per cent and 400 per cent in the first nine months of 1995. The number of workers increased from 85 to 240. The Hiep An Shoe Enterprises has seen net profit rise around 700 per cent since equitisation in 1994 and has contributed 600 per cent more in tax to the state budget.³⁶

So, the results of equitisation are very positive and successful, but so far equitisation in Vietnam has gone very slowly. The Equitisation Decree was issued on 8 June 1992 but as September 1996, only eight SOEs had been equitised in the four cities. The reasons of this delay are due to the interests of the individual ministries, regional authorities and public entities who have a large share of their revenues from the SOEs they control. They do not want to lost their own revenues and powers. Labourers also are scared of losing their jobs or may be no longer enjoy state subsidised bonuses since they do not understand properly meaning and mechanism of equitisation. Meanwhile, the Eight Party Congress in 1995 emphasised that state sector should have the leading role in the national economy. The state sector should raise the share of the national economy to 60 per cent, by 2020 (At present the state sector shares is about 40-45 per cent), but privatisation of the SOEs is a mean of reducing state's influence in business enterprise. That is why equitisation in Vietnam is set in a paradox. Due to the delay in expansion of equitisation, Vietnam does not yet have a stock market and foreign investors are

³⁶ Nikki Mandow and Manh Hung, "Equitisation-quick, quick, slow, *VIR*, 19-25 February 1996, p.10.

not yet allow to buy shares or bonds in Vietnamese enterprises. Without a stock market, the equitisation process also shall become ineffective. The economists said, that stock market should be established at the same time of the SOEs undergo equitisation in large scale.

The equitisation and privatization processes of the SOEs in Vietnam is still long way to go. But no doubt that with the presence of the MNCs and FDI, as well as, the international donors; there have been pressure from them to reduce the scale of public sector as a condition for continued financial assistance and generating confidence necessary for a dynamic market economy.

The negative effects of the FDI should also be mentioned here. Since lack of knowledges in technology and international market, the Vietnamese side in J.V. have been taken advantage of by the foreign side in terms of pricing of technology transfer or foreign investors dumping the out-of-date technology and environment un-friendly technology.

Many local investors also complain about the government's policies toward foreign and local investors. They thought that the policies of government were in favour of foreign investors rather than local investors, that local investors have been driven out of the market because they were unable to compete with the foreign investors in terms of capital, technologies and market management's skill, while the tax system was not much in favour of the local investors. Many of the local enterprises have no way to choose except enter into J.V. in order to avoid dissolution.

Many efforts from the government side have been made to overcome these negative effects. The tax system have been adjust for domestic investors. The government has encouraged local investors to set up IZs and IPs for themselves or participate in IZs, IPs with foreign investors, some of IZs of local investors have come up...All of these efforts are to balance a business environment for both local and foreign business, to attract more foreign capital and in the meantime mobilizing local capital. Many measures have been implemented in order to ensure the effectiveness and reasonableness of technology transfer, as well as, to protect environment.

To attract Vietnam overseas come back, investment in the country is a priority in the development strategy of Vietnam. The Vietnamese overseas would choose doing business follow either Foreign Investment law or Domestic Investment Law. Following the latter, theoretically Viet Kieu (Vietnamese overseas) entitled to act as the Vietnamese party in the J.V. but under other law they are not yet allowed to form Vietnamese companies. They are being treated generally as foreign investor and barred from most areas - such as distribution, however, Viet Kieu are being treated as local people for the purpose of criminal cases. Because of this contradiction, overseas business activity has not yet been promoted enough compared to their potentials. If Viet Kieu choose doing business according to Foreign Investment Law, they would enjoy reduction in remittance tax. So far the Viet Kieu choose Foreign Investment Law with small scale investment. Government's statistics showed that Viet Kieu invested in 42 projects

worth less than US\$ 100 million in total.³⁷ It is a very small amount in contrast with their potential in terms of capital, knowledges, skills and technical know how.

By and large, FDI has contributed significantly to Vietnam's economic boom in the last ten years: the average annual growth rate in the 1991-1995 period was 8.2 per cent for the gross domestic product (GDP), 13.3 per cent for industry; 4.5 per cent for agriculture and 20 per cent for export volume. Vietnam has been one of the four major rice exporters of the world. In the last five years, there have been rarely any considerable ups and downs in exchange rates and gold price. Inflation reduced from 500 per cent in 1986 to 68 per cent in 1990 and 12.7 per cent in 1995. The economic structure experienced a measure of change: the ratio of industry and construction to GDP increased from 22.6 per cent in 1990 to 29.1 per cent in 1995, and that of services from 38.6 per cent to 41.9 per cent. Accumulation from within the economy started. The capital investment of the whole society accounted for 15.8 per cent of GDP in 1990 and for 27.4 per cent in 1995 (in which investment from domestic sources amounted to 16.7 per cent of GDP).³⁸ The total agricultural output has increased but the volume of agricultural

³⁷ Adam Schwarz, "You can go home again", *FEER*, 17 October 1996, p.30.

³⁸ "Political Report of the Central Committee (VIIth Tenure) to the VIII National Congress" of CPV, *Vietnam, VIII National Congress June 28-July 1, 1996*, Embassy of the Socialist Republic of Vietnam in India, New Delhi, 1996, pp.7-8.

output in the GDP has been from 40.3 per cent down to 35 per cent.³⁹ In 1996, the GDP growth rate was 9.5 per cent, industrial growth at 14.1 per cent, food production reached 29.0 million tons (against 27.5 million tons in 1995) and inflation at 5 per cent. Export value is expected to go up by 32 per cent reaching seven billion US\$ and the import value up by 28 per cent, reaching 11 billion US\$.⁴⁰

The living condition of people in both rural and urban areas are improving. A survey of living conditions conducted in 1993 showed, that the number of poor household was reduced from 55 per cent in 1989 to 17.81 per cent in 1994. By 1994, 30.86 per cent of rural households owned T.V. and Video cassette players, 41.88 per cent owned radio; 60.4 percent of communes were electrified, 99.8 per cent had primary school and 93.2 per cent had medical centres.⁴¹

Being aware of the pivotal role of FDI plays in national economy, Vietnam government plans to attract from 13-15 billion US\$ within 5 years (1996-2000), according to Eight Party Congress. However, it is not easy job, government has faced many obstructions between ambitions to attract more capital and actual realities, as well as, foreign investors found that doing business in Vietnam is not

³⁹ Investment Transaction Centre (ITC), *SCCI Guide book for foreign investors in Vietnam*, in Collaboration of UNDP and UNIDO, Ha Noi, May 1995, p.8.

⁴⁰ Kim Diep, "1996 ends with mixed feelings" *Vietnam Courier*, 29 December 1996 - 4 January 1997, p.5.

⁴¹ Huong Lan, "'Socialisation' is key to development programmes", *Vietnam Courier*, 29 December 1996 - 4 January 1997, p.2.

easy. On the government side, the decision makers are put in paradox of the desire for further liberalisation economically, such as equitisation of SOEs, to promote the role of private sector in national economy and the fear of losing control over the national economy. In other words, they want to raise capital for the SOEs without losing state influence. Officially and constitutionally, government recognises the private sector and the state sector as equal, but in reality, the state-sector enjoys more preferential treatment than private sector in terms of commercial credit, access to land, supply of power, water and other inputs.

The matter of infrastructure is a headache concerning both Vietnamese government and foreign investors, as the country suffered many years of war and has emerged out of international isolation, and centrally planned economy. Vietnam's infrastructure is not only poor, but seriously degraded, it has posed a major obstacle to the development of the economy as a whole. A serious problem for large-manufacturing project relates to the lack of basic infrastructure as roads, ports, bridges. Big projects must either wait for the necessary infrastructure to be built or setting up infrastructure by themselves. In the last ten years, many efforts have been made to improve transportation, telecommunication structures. Progress has been achieved, but still much to be desired. From now, and up to the year 2000, Vietnam needs US\$ 20 billion to develop its decaying infrastructure, according to Vietnam State Committee for Cooperation and Investment. Many of the foreign investors are finding Vietnam more expensive than expected.

Telecommunication, office and house rental and transport costs are higher than regional standards; the services in these areas are not suitable with the payment.

The weakness of legal framework is also a big concern. Investors complain about inconformity of legal system, high income taxes and various kind of taxes and fees which they have to bear. Tax system has been a subject constantly for change.

Foreign investors also complain about the under-developed banking system, the absence of stock-market; the lack of a level playing field between SOEs and private enterprises, the counterfeiting products and smuggling, the low-level of local-trained technicians, the low purchasing power of the Vietnamese, the uncertainty related with regulatory environment and direction of future policy...While the Vietnamese side complains about foreigners having overvalued the price of technology transfer, the foreign side complains about Vietnamese often having overvalued the right of using land to bring the local partner's equity go up to 30 per cent of equity minimum. Foreign investors are being prevented from distribution directly to local market and they have to sell their products to state-owned distributors who are working inefficiently and sell those goods at a very expensive price.

Bureaucratic and rampant corruption are other serious problems. It is the most significant impediment to conducting business in Vietnam, resulting in numerous down-scalings and cancellations of investment projects. An official report presented before the Vietnamese National Assembly at the end of 1995,

estimated, that corruption had cost Vietnam at least US\$ 150 million over the past four years, with almost 5000 cases officially recorded from January 1993 to September 1995. However, business and investment experts said, the true extent of corruption was much worse than the official figures indicated.⁴²

Corruption in Vietnam is increasing at alarming rate. The government officials often take advantage of their position to earn extra incomes while their salary from government is too low. Investors often confused to distinguish corruption from red tape and bureaucratic inefficiency. The weakness of the SOEs also contributes significantly to corruption, proper management in SOEs is lacking and create land for government managers, officials take advantage at the expense of the state.

The relationship between foreign staffs of JVs or foreign-owned companies and their labours also created many troubles, especially, in Korean companies. Many strikers and abuse of workers have been taking place, particularly in 100 per cent foreign-owned companies where labourers have protected against overworking, the rude behaviour of foreign investors and ask for their rights to illness or pregnancy leave. At the Sam Yang company (South Korea), 15 female workers were physically punished by the foreign staff, two of them lost consciousness. A South Korean manager force 45 female staffs to kneel down with their hands above their heads as a punishment for failing to meet targets at the Tae

⁴² "Business Join P.M. Keit's campaign to end corruption", *VIR*, 25 November - 1 December 1996, p.2.

Kwang Vina shoe factory.⁴³ In 1995, there were 24 strikes at foreign invested companies out of 46 incidents of work stoppage throughout the economy. The labour disputes involve mostly the foreign companies in textile and footwear industries where workers are almost women. Of the 35 labour disputes in HCM city in 1996, 26 happened at South Korean invested enterprises.⁴⁴ The reasons are the Vietnamese workforce is not familiar with the industrialised workstyle. Meanwhile, the foreign parties tend to drive for a quick profit out of local cheap labour, they often force labourers to work hard, put worker under very strict and unfamiliar rules; for instance, some workers of a J.V. complain about the foreign managers in their enterprise do counting how many times a worker go for toilet in a working day, these things hurt the worker's feeling and guilty whenever, they do this job. Language and culture differences lead to misunderstanding or lack of communication between investors and workers, 95 per cent of foreign investors in Vietnam do not know Vietnamese, according a statistics. Stressful from a stranged work environment in which foreign investors have to face with many upsets such as corruption, tax and legal system, infrastructure weakness...foreign investors and foreign staffs do not have any one to pour their anger on except on their workers.

⁴³ Huong Lam, "Media scrutiny forces labour abuse apology", *VIR*, 15-21 July 1996., p.4.

⁴⁴ Ngo Hoc Hai, "labour management at joint venture - an urgent problem", *Vietnam Courier*, 23-29 June 1996, p.4.

The Vietnamese society basically is an agricultural society, skills of labour are not yet suitable to industrialisation and industrialised behaviour. The Vietnamese labour generally is new recruit, attended short-term training course, lack of work experience, so that they found difficulties in coping with new working environment and they are not having proper sense of labour discipline and industrial workstyle. In addition, the Vietnamese are very nationalistic and having high consciousness of equality between workers and management staffs, since they have been living for many decades under a socialist regime.

So far, many efforts from either the government side and the side of the foreign investors have been made to reduce tensions between foreign investors and local workers, through the legal framework - Trade Union or by improving the capacity to communicate between workers and investors...

The difficulties and tensions which foreign investors have been facing in doing business in Vietnam are common in any developing country, particularly, least developed country, but statistics showed, that there was a considerable slowdown in the foreign capital influx in the year 1996-97 to the country, compared to 1995. Only one third of the total committed foreign capital has been put in operation. Many international investment experts and international donors have warned, that if the Vietnamese government does not work hard to make investment climate better, they will lose attraction for the Vietnamese market as it had in the last years.

Chapter IV

POLITICAL FALL OUTS AND SOCIAL CHANGES

As a result of economic renovation, as well as, the fostering of FDI, the political and social changes also took place.

Politically speaking, the existing political frame-work basically remains, but many reforms have been introduced in the system.

Article 4 of the 1992 Constitution stated, that the Communist Party of Vietnam is the force leading the state and society and thereby, guaranteed, that the Communist Party is the only one legitimate political party recognized by the system. Communist Party alone can amend and improve the system.

As regards, political reforms since 1986, significant changes have taken place in the National Assembly and the election system.... the National Assembly has got more power, more responsibility. The election system has become more competitive, more liberal, it allows for independent candidate to take part and do some campaigning. But since the Communist Party is the only single political party constitutionally permitted, it often gets an overwhelming majority in the National Assembly. Thereby, legally, no threat for the Communist Party exists.

Since 1986, the Communist Party started reforms in the political system by 'clean party' campaign. A large number of disreputable communist members

have been discharged and new recruitments have been made in order to strengthen the party. However, recruitment has become more difficult, as party standing and connections have become less important in obtaining employment and other opportunities. More than a million workers and staffs in the state sector had been laid off. "...the member of the Communist Party has been increasing slowly. The total number was 2.12 million in 1988, 2.09 million in 1992 and 2.15 million at present (1995). These years it stands at more or less 2.10 million. Meanwhile, the size of the population increase annually at the rate of 1.5 million. Consequently, it is obvious, that the percentage of the Communist Party member vis-a-vis the total population, has decreased".¹

The expansion of private sector and development of urbanization, modernization and economic growth created many areas where in the party has no presence including sectors concerned with 100 per cent foreign-owned enterprises, joint-ventures, in scientific and technological fields, in literature and art.

The introduction of market-economy and market-based business culture, have a great influence on the minds of the young generation. Their concern nowadays is to get a good job, good income, and comfortable life, rather than ideology. The young people in urban areas particularly the students are under

¹ Tsutomu Murano, "Can the Communist Party maintain its dominant position", *Dynamic Vietnam, IDE Spot Survey*, Institute of Developing Economies, Tokyo, June 1995, p.27.

little influence of the party than the youth in the rural areas. Frankly, the quality of the new recruited member of the party is also reduced due to the impact of many external and internal factors.

There has been polarisation between the conservatives and reformist forces and split among the faction of Communist Party members about the issues related to the speed of reforms and concerning issues but these are not so serious. The conservative faction is formed by the war-veterans or army faction including those who made sacrifices in the war, within the party. The reformists are formed by intellectuals, bureaucrats and others. Normally, both factions would compromise with each other peacefully.

There are a few dissident opinions inside the Communist Party regarding multi-party system and democracy, but those members are not many. Immediately they must leave their positions if they expressed their viewpoints. Tran Xuan Bach case is an example, he lost positions as a politburo and secretary by 1990 when he called for democratization and multiparty system of Vietnam politics. "Club of former Resistance Fighters (an organization of veterans in the South Vietnam) led by General Tran Van Tra, all of whom are party members in 1988, sent a letter for the Central Committee and the National Assembly, asking for a genuinely democratic election free from pressure from the party leaders. The Club attacked the party for failing to practice openness

and for various socio-economic policies.² This organization still exists, perhaps because their criticisms did not matter much for the regime.

The voice asking for democratization also come from intellectuals, scholars, artists such as Phan Dinh Dieu, Ha Si Phu, Duong Thu Huong, Tran Quoc Vuong..., but their voice could not gain much support.

There are some religious organization which functions as a political organization, but their activities are not so strong as to pose any challenge to the government.

The main issue that challenged the Communist Party since the beginning of the period of reform, was how to harmonize the ideology of Marxism Leninism and a market economy. How can socialist ideology adjusts itself with the coming up of the private sector and a free market; at the same time eliminate the side-effects come from abroad, including foreign direct investment. A typical example of this kind of adjustment is government and the Communist Party initiated the forming of party cells in JVs or 100 per cent foreign capital enterprises, as well as, Trade Union (under party control). The sending of the Communist Party members to foreign invested enterprises has not been getting enthusiastic response from the investors and its Boards of Management of foreign enterprises since they do not want to check by them.

² Murray Heibert, "Against the Tide", *FEER*, 14 September 1989, p.30.

The "social evils campaign" by the beginning of 1996 is another example, the targets for attack were trademarks and signs written in foreign languages "at the wrong place", the mobilising public opinion against prostitution, drugs, gambling, pornography, and to rebuild a base for socialist culture. Tens of thousand of pornographic or violent video tapes were confiscated while hundreds of massage parlours and karaoke bars have been closed or severely restricted.³

Accompanying economic liberation, limited Liberty has been allowed in political, ideologies, culture, press... Press have more freedom to investigate, discover and brought to book "the wrong doings" of the important persons. The correspondents have become bolder in criticising bureaucracy, corruption, abuse of power. The ordinary people also have the right to discuss these issues more frankly. However, later on, the government quickly put stricter restrictions on the exercise of freedom. Foreign investors and foreign correspondents have been allowed to take part in the media, naturally in some semi-official Review, such as, "Vietnam Investment Review" and matters which concern economic and social issues than politics. The voice of dissent of foreign investors has been allowed and responses are lively from other viewpoints. Many of the articles concerning serious matters are unsigned and criticism is made in a very

³ Ms Shivakumar, "Political Parties, Development Policies and Pragmatism in a Changing World, Lessons from Vietnam", *Economic and Political Weekly*, 14 December 1996, p.3262.

mild and sophisticated manner. Press is not totally free but neither there are so many restrictions.

As regards politics, some basic changes have taken place in the National Assembly. The National Assembly as an elected body, has become the forum for ordinary people rather than a tool of the party. Eventhough the members of the Communist Party are in a majority in the Assembly, the controlling power of the party has been reduced. The representatives have become bolder in discussing issues and opposite opinions get ventilated. At the December 1988 session of the Assembly, the newly-accepted principle that, the party would set only general orientations on policy issues and allow the Assembly to legislate without direct interference, was put into operation for the first time.⁴ Although the Assembly has become a forum for lively debate on issues and occasionally gets divided sharply on a draft law, a close vote is more likely to indicate conflicts between the interests of the party leadership and those of the party-state bureaucracy than to reflect genuine autonomy from the government.⁵

The integration with the outside world brought about the new politicisation of the Vietnamese, people do not longer repeat only the official

⁴ Nguyen Huu Tho, "Renovation of the Mechanism - Pressing needs for the Renovation process", *Tap Chi Cong San* (Communist Review), March 1989, trans in FBIS-EAS 5 May 1989, p.65, Quoted in Gareth Porter, "The politics of 'Renovation' in Vietnam", *Problems of Communism*, May-June 1990, p.82.

⁵ Gareth Porter, *Ibid.*

view of the government, but also speak their own viewpoints in the matters concerning politics. The reformists also argued about the need for reduction of party's system control over the state administration, while the conservatives emphasised upon re-enforcement of state influence in all sectors of economy. The young people's concerns are more practical, pragmatic rather than ideological. With the growth in economy, people are returning to religious beliefs. Majority of the people are visiting temples and pagodas for worshipping.

The process of urbanization, industrialisation has created new social forces, a small number of bourgeoisie has been forming and started to raise their voice to protect their own interest. Local entrepreneurs have been forming their own industrial zones. Recently, some of local entrepreneurs have registered as candidates for the National Assembly but very few of them could pass through the screening of Vietnam Fatherland Front. Local investors have voiced their anxiety over the government's rules, which they say, are favouring the foreign investors. Take the tax politics for example. Domestic entrepreneurs are required to pay a profit tax which ranges from 25 per cent to 42 per cent, depending on each enterprises's product line while foreign invested enterprises pay only from 10 per cent to 25 per cent for this tax. Put together with the 5-10 per cent tax on their profit repatriation, foreign investor's maximum profit tax is still 10 per cent lower than that on Vietnamese investor. The Vietnamese

investors are also subjected to higher rates in many other taxes while foreign investors are exempted from virtually all import tax in machinery and equipment...⁶

Meanwhile, the process of privatization, equitization are going on. These new social forces shall be strengthened speedily and that demands - political and economic-should also be met.

The mass organization has been changed its functions. It used to be used as means of mobilizing support and exercising social control of the party. Each of the mass organizations such as the Ho Chi Minh Youth Union, the Fatherland Front, the Women Association, the Collective Peasant Union..., all remained under party control. The changes of social and economic structure have led to changes in structure and role of mass organization and their relationship with party and state. They have become more representative, flexible and self financing.

The Vietnam leadership is being rejuvenated and becoming more professional. Number of leaders are changed at every Party Congress. The average age of the Central Committee reduced to 56 years at the Sixth Party Congress. The Eight Party Congress is an other example, the newly-elected 169 member Central Committee, which will be in power for the next five year, has

⁶ Kim Diep, "The unfavoured kid?" *Vietnam Courier* 10-16 November 1996, p.5.

124 new members, many of whom have attained higher education. The Party Congress introduced young blood to lower the average age of the Central Committee by two years.⁷

The infiltration of foreign companies in the national economy, as well as, the open communication with the outside world, brought about worry with fear of "a peaceful happenings" for the party leadership. It is a concept of a peaceful evolution of the socio-political system moving apart from Marxism, Leninism and Ho Chi Minh thoughts, with the supposed backing of by the U.S.A. and Western countries. The peaceful evolution means dilution and subversion of the communist ideology by foreign influence and spread of capitalism. many measures have been taken to ensure the party's leading role such as the "Campaign against the social evils" or promotion of the activities of the Communist Party in foreign invested companies.... By the end of 1996, there were 82 foreign invested companies having grass-roots party organization. The Deputy Director of the Party's Central Personal Department, Le Quang Thuong, said building up of party organization in foreign invested enterprises was a vital requirement of business development. "The Party's organizations and socio-political organizations have the right to be established in a sustained manner in all enterprises in accordance with the Constitution and Laws of the

⁷ See n.3, p.3262-3263.

Socialist Republic of Vietnam", he said. Minister - Chairman of the State Evaluation Commission - Dau Ngoc Xuan said, the party should exercise its leadership through party members holding key positions in enterprises (foreign enterprise).⁸

Satellite dishes are allowed only for hotels, guest houses for foreigners and foreign residences. "Access to the Internet is still tightly restricted; a committee is due to start meeting this month to figure out how to put limits on cyberspace. Late last month (March 1997), authorities pulled the plug on Ho Chi Minh City's only cybernet cafes, which had offered E-mail Links... A recent decree limits the tenure of most foreigners working in Vietnam to three years. And Vietnamese who have married foreigners have been told they cannot work for state-owned enterprises which still dominate the country. Leaders have said that they will set up Communist Party cells inside all ventures: state owned, private and foreign alike".⁹

The coming of foreign investment, as well as, the renovation have made "the material conditions of life of the majority of the population have been improved. A number of medium-income and wealthy households have risen while the percentage of poor households have decreased. Each year, over one

⁸ Hoang Van Huan, "Party hopes to help JVs", *VIR*, 2-8 September 1996, p.6.

⁹ Tim Larimer, "No help wanted", *Time*, 14, April 1997, p.15-16.

million more working people have found employment. Many dwelling houses and roads have been upgraded or built in both rural and urban areas.

The intellectual level and extent of cultural enjoyment of the population have been raised. Education, training and health care, cultural, artistic and sport activities, mass communication, family planning and other social activities have seen development and progress.

Working people, liberated from the bondage of a good number of unreasonable mechanisms, having their right to be the masters and their dynamism and creativity promoted, show greater initiative in seeking employment, generating additional income and taking part in community activities.

...The campaign for hunger eradication and poverty alleviation and philanthropic activities continue to expand becoming a new and fine feature of our society".¹⁰

Private university, colleges have been allowed to be opened. Many students have chances to go abroad for study by self-financing. Writers, artists are having more freedom to work. The new Vietnamese constitution of 1992 recognized human rights and even began a debate with Amnesty International.

¹⁰ "Political Report of the Central Committee of the Communist party of Vietnam (VII Tenure) to the VIIIth National Congress" CPV, *Vietnam, VIII National Congress, June 28 - July 1, 1996*, Embassy of the Socialist Republic of Vietnam in India, New Delhi, 1996, p.8.

Simultaneously, thousands of prisoners, who had been held in re-education camps in Southern Vietnam since 1975-1976, were released in 1987-1988.¹¹

The interaction with outside culture has brought about changes in the style of living. people, especially workers and staffs, who are working in the JVs or foreign invested companies have become more industrious, active, dynamic concise and accurate. They also tend to observe discipline at work, more independent and creative. Many concepts and values in the society have been changing. many things which used to be considered taboos, have now became tolerable, acceptable, such as, live -in before marry, single mothers, marriage with foreigners etc.

Vietnamese labourers are having good qualities in many ways but still far from international requirements. As a result, a considerable number of workers, technicians, executive staffs, lawyers. have been trained by foreign companies either in Vietnam or abroad. These people have increased in number along with the increasing foreign investment.

Letting foreigner join Vietnamese in operating national economy has helped the country close the gap between itself and the outside world in many senses. Take the case of trade as an example, earlier supermarket was something strange for Vietnamese, but nowadays it is mushrooming in the

¹¹ See n.3, p.3258.

country because of the JVs. The presence of the JVs has helped local market to improve and modernise the retail trade, gain management experiences, reduce the fake and low quality products and brought about new shopping style, new consumption style for the Vietnamese. The local traders/vendors also have tried to improve the way of doing business themselves so that, there would be competition with supermarkets of JVs. Telecommunication is an other instance. Vietnam is primarily rural and being one of the world's lowest per capita incomes but has been integrated into global communication network with a great speed. The world telecom giants are present here, such as, Australia's Telstra, France Telecom; TAI - USA telecom consisting of American telecom giant AT and T, Harris Faricon, Northern Telecom. Eriesson USA, LDDS and IDB (a consortium of American companies and subsidiaries), Japan's Nippon Telegraph and Telephone Corp (NTT), Koren^w Telecom...¹² Their presences brought to Vietnam the most-update means of telecommunication. Satellite communication, undersea cable and direct land connection are moving ahead rapidly. Overseas call minutes will supposed to reach nearly 300 million in the year 1996, up seven times from the number in 1992.¹³ Explosive growth has also been seen in domestic service. The network reached one million lines in

¹² "Making the global connection", *VIR*, 21-27 October 1996, Supplementary on Telecommunication, p.1.

¹³ "Major firms join local telecom fray", *VIR*, 4-10 November 1996, p.8.

August 1996. In 1992, there were only 120.000 customers nationwide. By 2000, the Vietnamese government hopes to increase phone penetration to five per 100 people which will require the installation of 2.5 million new lines.¹⁴ Vietnam has opened an optical fibre link to Thailand and Hongkong and has joined to invest US\$ 18 million in a 430 Kilometre fibre optic line in Laos, linking China, Vietnam, Laos, Thailand, Malaysia and Singapore.¹⁵

The explosive development of telecommunication in Vietnam that was assisted by foreign investors, has brought about the fundamental changes in Vietnamese society. People are getting changes to communicate with the outside world, catching newest information, technology, international market's knowledge...

The relaxation in political life, as well as, the improvement in material and cultural life have encouraged a number of the Vietnamese overseas and boat people (those still in detention camps) came home. The government also created the favourable conditions for them to be able to resettle their lives and integrate into the community. But for those Vietnamese overseas who are involved in activities against government, are not allowed to come back country.

The market mechanism in which foreign investment has played an important role, has brought about negative effects also, as the General Secretary

¹⁴ Ibid.

¹⁵ See n.12.

of the Vietnamese Communist Party warned a local audience that these negative effects run contrary to the "essence of socialism". The communist ideology is pro-worker and pro-social subsidies while the nature of market mechanism is profit-oriented. It is hard for the government to maintain social subsidies earlier period. The decades of war took its toll on the poor country "with 4.5 million cripples of whom 1.25 million are children under the age of 15 and 1.1 million are old people. In addition, the country has about three million children who are orphans or homeless, and about 70.000 mentally ill people."¹⁶ Eventhough, half of total state regular expenditure is spending in salaries and social welfare payment, lives of this section and a number of former revolutionary, resistance bases and ethnic minorities areas remain very hard. many negative social effects become more serious, such as drug use, crime, prostitution, spreading of HIV and AIDs disease. A deeper polarization is taking place with small proportion of the population getting richer and a large proportion becoming much poorer, according to the latest government's statistics. Some 80 per cent of vietnam's population lives in rural areas and some sociologists say, that during the last few years under the market economy, an arlarming phenomenon has emerged of farmers losing their land. In 1992, only 12 per cent of farmer households in the suburban areas of Ho Chi Minh city lost land, but the corresponding

¹⁶ Nguyen Tri Dung, "Economic growth must not ignore social impact", *VIR*, 2-8 September 1996, p.2.

percentage in 1995 climbed to 34 per cent".¹⁷ "Polarisation of wealth has rapidly increased between the various regions, between urban and rural areas, and between different segments of the population".¹⁸ In order to prevent the deeper polarization between rich and poor, the government has tried to maintain social subsidies by imposing very high tax for people having high income, limitation on the land areas that each family would be owning, establishing the bank for the poor farmers, so that they would take bank loans, paying very low interests. Educational subsidy is another great effort of the government. So far, subsidy in primary and secondary school has been going on and parents also contributed a part of the cost on education. However, for the poor people that contributed part is also difficult. Higher education for the poor people nowadays has become a big dream, since one student studying in a University for a year would cost as much as the total expenditure of a farmer's family annually.

The coming up of foreign investment brought about many new urban and industrialized areas - a new and dynamic face of the Vietnamese society, but at the same time, drove many domestic producers out of the market. Domestic producers finding themselves in a very disadvantageous position compared with the foreign investors. Domestic producers either SOEs or private enterprises are having serious shortage of capital, while, they have to compete with very

¹⁷ Ibid.

¹⁸ See no.10, p.10.

powerful foreign competitors, having very strong sources of capital, experiences... In this unequal battle, many of the local entrepreneurs have to choose between dismantling their companies or enter into JVS. Take the case of cosmetic products as an example, P/S - a local cosmetic manufacturer which once dominated 60 per cent of the home market for toothpaste is contemplating joining either Unilever, P & G or another foreign producer to survive with the current influx of foreign brands.¹⁹ A visitor coming to Vietnam may wonder whether the Vietnamese would be able to produce cosmetics since everywhere one would find foreign cosmetics only. The competition forces many local producers to improve and upgrade their product's quality, but at the same time change many of them as an "earning shadow" of foreign investors.

The interaction with foreign and market-based culture also created the negative social effects. Many of traditional values have been challenged since people become more pragmatic and individualistic. Take the example of corruption. It has become "the national disaster" in the Vietnamese society. The roots of that "national disaster" originate from a system, it joined the market mechanism. It created many loopholes for the "corruption virus" spreading. But one reality should be accepted, that the foreign investment has created the favourable environment for the "national disaster".

¹⁹ See n.6, p.10.

In sum, the coming of the FDI and existence of MNCs in Vietnam have brought about changes in culture, society, and to some extent in politics. MNCs existence has contributed to changes in the country's political structure. Foreign investors directly or indirectly fostered the coming up of middle and upper income classes - the new social forces... MNCs have put pressure on the government for more radical reforms. Whether the effects of the foreign investment are positive or negative, it is responsible to a considerable extent not only for the internationalisation of Vietnam's economy, but also its political and social life.

Chapter - V

CONCLUSION

The collapse of the socialist regimes in the Soviet Union and East European countries has been followed by a change in the world order. Countries with different political systems have joined the process of regionalisation and globalisation.

Vietnam by the end of eighties stood up to many challenges and opportunities. In order to survive and develop, the Vietnamese government have taken initiatives to adopt the path of socialist political system and market economy.

Foreign Investment law in Vietnam had been promulgated along with the process of Vietnam's transition to a market economy. Many amendments, additions have been made regarding the framework for the FDI, to protect the interests of the investors and to simplify the procedures. Vietnam's Foreign Investment law does not yet come up to international standards, because of the non-existence of stock market. By and large, Vietnam Investment law and its amendments are liberal and attractive. It given permission for 100 per cent foreign ownership, generous tax concessions and duty exemption, guarantee for unrestricted repatriation of capital and profits, no minimum capital requirement,

import privileges for investors, long duration of investment and the access to almost any economic sector.

The financial investment form will come to existence in legal framework, wherever the stock-market in Vietnam is established.

Thanks to huge amount of the FDI pouring in the country, the infrastructure of Vietnam is getting upgraded basically, and the productive capacity has grown up, the purchasing power and saving ratio of people have increased. The large investments have been distributed to establishing production facilities in EPZs, IZs and IPs. Major portion of the foreign investment has been concentrated in the Ho Chi Minh city, Ha Noi and Hai Phong, only a small part has reached the countryside. In the initial period of the last decade, foreign investment was concentrated upon the development of offshore oil and gas deposit, on hotel construction, tourism and service facilities. But recently the FDI has forced on industrial sector, on manufacturing, including labour - intensive. Thus, the FDI, are being centred on industrial process in Vietnam.

The existence of the MNCs and FDI have created a vast potential for absorbing growing section of redundant jobless labour. "Balance of payments estimated that actual FDI amounted to about 1½ per cent of the GDP in 1988-1990, rose to about 2½ per cent of GDP a year in 1991-1993 and climbed further to 4 per cent and 7 per cent of GDP in 1994 and 1995 respectively.

Vietnam, thus, has one of the highest inflows of direct investment ratio to GDP. Although the impact of the FDI on the economic growth is difficult to gauge, on the basis of the historical values of the incremental capital output ratios (ICOR) for total gross capital formation, the FDI during 1988-1994 may have accounted for a combined total approximately 10 per cent (one-fifth) of the aggregate economic growth in Vietnam".¹ A massive of technology transfer that has taken place in the country, has helped Vietnam to catch up with the latest technologies of the world. The state owned enterprises benefitted most from this process. The Vietnamese have also been to learn management experiences and labour skills from their international partners.

Along with the economic changes, political, cultural and social life has also been changing. There have been noticeable relaxations in political fields. The political framework remain basically the same, but the party and government have made many reforms inside the system. To cope with the market mechanism, state's managerial role has been improved, press is having more freedom, the mass- organizations have become more independent and autonomous, the administrative procedures have undergone radical changes, ordinary people have become more independent in expressing their political views. By and large, people are content and happy with fruitful results of

¹ Dodsworth John R. (ed al), "*Vietnam, Transition to a Market Economy*", International Monetary Fund (IMF), Washington DC, March, 1996, p.18.

reforms. Eventhough at present no opposition group, legitimately or illegitimately, would be strong enough to challenge the leading role of the Communist Party, the party has lost the kind of influence that it used to have.

The economic changes brought about new social forces - those who work in non-state economy. The non-state sector has recorded good results over the past years, accounting for a third of the country's GNP, and drawing 30 per cent of the local workforce, according to the Vietnam General Department of Statistics. After 10 years of renewal, Vietnam now has some 20,000 private businesses and 7,499 limited and stock companies, most of them are of small and medium scale".² This new bourgeoisie has been growing in number along with the economic development of the country. These emerging social group interests may clash with other social groups and also contest for their roles in the legal system and consequently, in the political system.

The industrialisation and modernization in Vietnam have just started. If it go further, the social transformations brought by them would bring fundamental changes. Urbanization has gone along with industrialization. The high degree of education and personal income has also increased. The young generation in Vietnam appreciates consumer culture/market culture, rather than ideological matters and 60 per cent of the Vietnamese population is under 25

² Lan Huong, "Non-state economic sector, potentials and challenges", *Vietnam Courier*, 5-11 January 1997, p.4.

years of age. The gap between haves and have-nots has increased dramatically. With the economic development, ordinary people have gone back to their original indigenous beliefs.

The revolution in science and technology continues to develop at an increasing pace and as a result, the scientific-technical elites or intellectual class, have demanded for greater political liberalisation, so that scientific/academic inquiry could be carried on in an atmosphere of open exchange of ideas and freedom.

So far, the level of economic development of Vietnam is still too low to bring the basic social transformation. But, no doubt, the presence of the FDI and their interaction with outside world, directly or indirectly have contributed towards the economic booming of Vietnam in the last ten years.

As long as the government keeps inflation under control, and the economic growth rate of the last years (9-9.5%), no crisis would overtake the government.

From now to the year 2000, the government has a plan to attract 13-15 billion US\$ worth FDI, so that the FDI would continue its pivotal role in the development of Vietnam.

Vietnam's membership of the ASEAN and of the Asian Free Trade Area (AFTA) has promoted investment-friendly effects. Membership of the AFTA has created a number of advantages for the ASEAN investors in terms of

administrative procedures. At the same time, the geographical position favours Vietnam in combining with the ASEAN in cooperation programme on communication, transport, such as projects of developing the Mekong river basin, establishing East-West passages and the Asia - Europe express railway. Thus, Vietnam becomes an eastern gate for the ASEAN chain.³ These also create favourable conditions for the FDI in Vietnam

In sum, the FDI has brought about fundamental changes in the Vietnamese economy and financial position, assisted the country to integrate with regional and world economy and would continue to play a central role in the modernization, industrialisation, as well as, social and political changes of the country.

³ Thanh Son, "Usefulness and harm, Vietnam's economy under AFTA impact", *VENs*, No.5-6-7, 1997, p.15.

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