

SURVEY

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IMF Embarked on Strategy to Adapt To New Global Environment

In an interview with the Editor of the IMF Survey on July 31, IMF Managing Director Michel Camdessus discussed proposals under consideration to modify IMF policies and provide it with adequate resources to allow it to fulfill its mandate in the twenty-first century. He also expanded on the importance of high-quality growth for IMF members and talked about his experiences as Managing Director since 1987.

IMF SURVEY: The IMF is currently considering a wide range of proposals affecting its operations and policies. Which are you most pleased about and which in your view merit the highest priority in preparation for the October 8 Interim Committee Meeting?

CAMDESSUS: One point that has pleased us all recently is that the Halifax summit of industrial countries fully endorsed what the IMF's Executive Board and the Interim Committee had defined as a strategy to handle the "crises of the twenty-first century"—of which Mexico was possibly a first manifestation. This basic strategy is simple: strengthen



Camdessus: The basic strategy is to strengthen IMF surveillance to prevent crises, and if a crisis occurs, to strengthen the IMF to deal with it.

surveillance to prevent future crises, and, if a crisis occurs, strengthen the IMF to allow it to do what it did for Mexico.

It was good to observe that in attempting to define principles for handling emergency situations, the seven heads of state and government at Halifax suggested that the IMF adopt the same principles that guided its action in the case of Mexico—strong adjustment programs, expeditious action, and, if needed, front-loaded IMF financing. This is what we had to do for Mexico. We are now attempting to give this response some structure; the details will constitute the essential elements of our emergency financing instruments for the future.

We are currently working to strengthen (Please turn to the following page)

Foreign Investment in Viet Nam Is Strong and Growing

From the start of its transition process, Viet Nam's foreign direct investment was expected to play a key role in upgrading the country's infrastructure and productive capacity, and it has played that role. Disbursements, which have grown rapidly in the last few years, are projected at just below \$1 billion in 1995, with a large stock of committed capital still to be disbursed.

One of Viet Nam's first major reform measures was the Foreign Investment Law of December 9, 1987. Though enacted somewhat later than comparable legislation elsewhere in the region—and at a time when Viet Nam lacked a supporting legal framework and elements of planning still pervaded its economy—the original law was liberal by international standards. After (Please turn to page 258)

Foreign Investment in Viet Nam on the Rise

(continued from front page) several subsequent amendments, Viet Nam's regulations for foreign direct investment now compare favorably with regimes elsewhere in terms of tax incentives, import privileges, access to economic sectors, and approved ownership structures, such as joint ventures and foreign-owned enterprises. Indeed, Viet Nam offers generous tax concessions and duty exemptions, welcomes foreign investment in all economic sectors with the exception of defense industries, imposes no minimum capital requirement, permits 100 percent foreign ownership, and guarantees the unrestricted repatriation of capital and profits.

To expedite its investment approval process, the Government at an early stage designated the State Committee for Cooperation and Investment as the sole agency responsible for evaluating and approving investment appli-

cations: The licensing process, however, has remained complicated and lengthy because most projects still require additional approval from other agencies, including local authorities. According to a local survey conducted in early 1994, the licensing of joint ventures took an average of one year, and that of wholly foreign-owned enterprises took twice as long. Cumbersome administrative procedures are seen as the greatest challenge facing potential investors.

In response to complaints about burdensome procedures, the Government took measures in early 1995 to streamline the administrative process. Strict time limits were set for the authorities to raise any objections to investment applications, and responsibility for larger foreign investment projects was shifted to the Prime Minister's Office. This appears to have

helped spur the disbursement of investment commitments, although other hurdles—including a still-weak legal system and a prohibition on the ownership of land—remain.

Distribution of Investment

The distribution of foreign direct investment commitments by region, economic sector, and country of origin has undergone marked structural change over the past five years. With regard to regional distribution, foreign investment was initially concentrated in the South; the North has caught up quickly, however, and now attracts over one third of new commitments. The bulk of all investment has gone to Viet Nam's two industrial centers—Ho Chi Minh City and Hanoi/Haiphong. Barely 20 percent of commitments went to the countryside, where more than 80 percent of the population lives.

Viet Nam: Licensed Foreign Direct Investment Commitments by Country of Origin¹

(shares in percent)

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 ² | Average | Shares in Total Trade of | |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|-------------------|----------------------|--------------------------|--------|
| | | | | | | | | | Commitment | Viet Nam | World |
| | | | | | | | | | 1988-95 ³ | 1993 | 1993 |
| Industrial countries | 88.0 | 75.4 | 63.5 | 13.6 | 37.5 | 18.6 | 39.6 | 38.2 | 36.2 | 39.6 | 70.8 |
| Australia | (33.9) | (1.2) | (37.0) | (4.5) | (5.3) | (4.9) | (1.1) | (—) | (4.9) | (3.1) | (1.2) |
| France | (18.2) | (37.7) | (0.6) | (3.1) | (5.7) | (5.8) | (4.3) | (0.4) | (5.0) | (5.6) | (5.5) |
| Japan | (—) | (15.5) | (0.4) | (1.5) | (6.5) | (4.1) | (11.0) | (19.3) | (9.7) | (20.0) | (8.0) |
| United States | (0.1) | (0.3) | (0.1) | (0.0) | (0.1) | (0.0) | (6.9) | (7.4) | (3.5) | (0.1) | (14.2) |
| Asia ⁴ | 6.4 | 15.3 | 33.1 | 80.6 | 58.1 | 78.3 | 58.6 | 51.3 | 58.6 | 58.5 | 17.7 |
| Hong Kong | (3.3) | (14.2) | (11.9) | (19.8) | (17.2) | (24.8) | (16.5) | (9.9) | (16.3) | (8.2) | (3.4) |
| Singapore | (1.3) | (—) | (3.0) | (5.0) | (4.0) | (9.1) | (14.9) | (8.1) | (8.4) | (16.6) | (1.9) |
| Taiwan Province of China | (—) | (0.2) | (14.4) | (37.8) | (23.5) | (12.7) | (12.0) | (16.9) | (16.5) | (8.2) | (2.2) |
| Rest of the world | 5.6 | 9.3 | 3.4 | 5.8 | 4.4 | 3.1 | 1.8 | 17.3 | 6.6 | 1.9 | 11.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

(million U.S. dollars)

Memorandum items:

| | | | | | | | | |
|----------------------------|-----|-----|-----|-------|-------|-------|-------|-------|
| Commitments | 347 | 536 | 784 | 1,318 | 2,290 | 3,144 | 3,843 | 3,985 |
| Disbursements ⁵ | ... | 100 | 120 | 220 | 260 | 300 | 650 | ... |

¹ Commitment data include offshore investment in oil and gas.

² January-June.

³ Total gross commitments for the period 1988 through end-June 1995.

⁴ Excluding Japan.

⁵ Balance of payments data.

Data: Viet Nam State Committee for Cooperation and Investment, and General Statistical Office; IMF, *International Financial Statistics and Direction of Trade Statistics*

Sectoral distribution has also changed. Initially, the emphasis was on the development of offshore oil and gas deposits, but it quickly shifted to the construction of hotels and tourism facilities and, since 1991, to manufacturing. More recently, large investments have been committed to establishing production facilities within export processing zones and industrial parks. Overall, the industrial sector—including labor-intensive manufacturing—has attracted almost 40 percent of total commitments, followed by housing, tourism, and hotels (24 percent). By contrast, agriculture has attracted very little foreign investment.

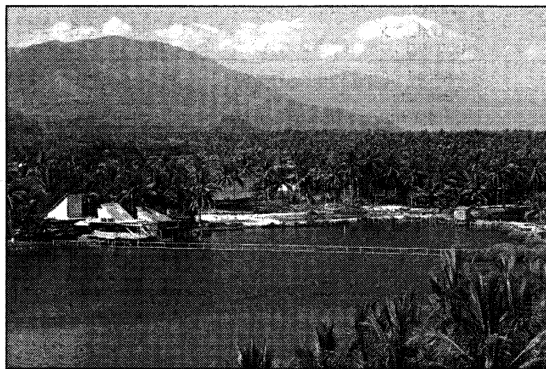
In line with Viet Nam's recent trade pattern, Asian neighbors dominate the distribution of foreign investment commitments by country of origin (see table, page 258). Taiwan Province of China leads the list, followed closely by Hong Kong. In 1994–95, two thirds of total commitments are accounted for by Asia. Japan's share, which is still small, has been rising rapidly since the lifting of the U.S. embargo in February 1994. The U.S. share quickly rose to 7 percent once the embargo was lifted. The relative importance of Australia and France—both of which pioneered foreign investment with large projects when Viet Nam opened up to foreign investment in 1988—has since declined.

Disbursements Have Accelerated

Although sizable commitments of foreign direct investment were already being made in 1988 and new commitments have risen rapidly in the following years, initial disbursement rates remained rather low, reflecting constraints on administrative capacity and related concerns of foreign investors. Since then, the pace of disbursement has quickened, most no-

tably since the latter part of 1994.

Balance of payments estimates suggest that actual foreign direct investment amounted to about 1½ percent of GDP in 1988–90, rose to about 2½ percent of GDP a year in 1991–93, and reached 4 percent of GDP in 1994. These data indicate that Viet Nam has one of the highest in-



A seaside resort in Nha Trang. The tourism industry in Viet Nam receives a large share of direct foreign investment.

flows of direct investment relative to GDP. The impact of foreign direct investment on economic growth is difficult to gauge. On the basis of historical values for the increase in output per unit of investment in the economy, however, foreign direct investment during 1988–94 may have accounted for a combined total of approximately 10 percentage points (or one fifth) of aggregate economic growth. Although rough, this estimate should be regarded as being at the lower end of the range because foreign-invested projects can be expected to have higher output for a given amount of investment.

The indirect economic benefits of foreign direct investment—such as technology transfer and exposure to modern organization and management techniques—may have been as significant as the direct benefits. State enterprises have benefited more from this process than private sector enterprises,

because their relatively larger size, established links with decision makers, and access to land and services have typically made them a more attractive domestic partner in joint ventures.

Prospects

Rising commitments and recent improvements in public administration promise quickening disbursement of foreign direct investment, which should soon reach—or even exceed—the equivalent of 5 percent of GDP. New commitments during the first six months of 1995 already exceed the total recorded for 1994 as a whole. Some of this boom may be temporary, however. Streamlined procedures, for example, may create an initial surge in the licensing of backlogged commitments, but this level is not likely to be sustained. Also, new investment commitments may fall below recent

trends, at least temporarily, in the wake of measures recently taken by the Government to dampen speculation in the real estate market and to ensure greater financial discipline. For example, a decree has limited the scope for using leases on land as collateral for bank loans.

In sum, the growth in foreign direct investment in Viet Nam has been impressive. The announcement in July 1995 that the United States would open diplomatic relations with Viet Nam has triggered further announcements of upcoming projects. This, together with Viet Nam's entry into the Association of South East Asian Nations, its cooperation agreement with the European Union, and other diplomatic initiatives, should help sustain a strong momentum of foreign direct investment over the medium term.

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