Key Issues for FDI Policy Re-formulation in Vietnam

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Abstract

This paper offers an overview of policy issues that should be considered in re-formulating Vietnam's FDI policy orientation and structure. At first, three basic issues of definition, positive and negative impacts, and the dynamic nature of FDI policy are reviewed. Following that, FDI performance and eight key issues relevant to Vietnam are discussed in turn, which consist of (i) policy consistency; (ii) operational effectiveness; (iii) screening and post-investment follow-up; (iv) FDI marketing; (v) priority and restricted sectors; (vi) FDI-local firm linkage; (vii) consistency with international rules; and (viii) decentralized administration. These eight issues range from procedural matters on the ground to overall policy consistency, from maximizing developmental efforts to minimizing conflicts and problems. They are presented as a comprehensive checklist for FDI policy design and implementation.

Keywords: Foreign Direct Investment (FDI); policy; Vietnam.

1. Introduction

Since the Doi Moi policy was launched in 1986, Vietnam has gained significant achievements in its development goals. Positive results include an economic growth rate averaging more than 7 percent per annum dung the period of 1991-2008 (ADB, 2013), increased foreign investment, and improved living standards for its citizens. Vietnam's export base also shifted from primary commodities to manufactured goods such as electronics, garments and footwear. Foreign direct investment (FDI) policy has contributed to this achievement through gradual improvement in investment procedure and climate, enabling Vietnam to receive a large amount of FDI that has significantly transformed its output, employment and trade structure. During the last two decades, it can be said that FDI performance lived up reasonably well to the expectation in accelerating economic growth, but other objectives were not achieved. Job creation was not as large as it was hoped even though employment in the FDI sector increased annually. In 2011 it accounted for only 3.4% of total employed labor in Vietnam. Expectation of attracting high-tech foreign invested enterprises that would create high domestic value and bring advanced technology to the manufacturing and agro-forestry-fishery sectors was not realized, with most multinational corporations (MNCs) investing in simple processes with low value-added using low or middle technology. In order to achieve these missed objectives, it is crucial for Vietnam to address the weaknesses of FDI policy framework and incentive system for further FDI attraction in both quality and quantity, especially in the face of fierce competition to attract high-quality FDI among existing and emerging ASEAN economies.

The overal objective of the paper is to explore policy recommendations for improving Vietnam's FDI policies. The paper lists possible areas for future improvements, reviews Vietnam's current FDI performance and policy, and compares FDI policies of selected ASEAN countries. International comparison of policy practices of countries at different levels of economic development permits Vietnam to look at the question of FDI attraction from a dynamic, evolutionary perspective. It also introduces Vietnam to the issues faced by other governments and may suggest possible answers to them.

2. Definition, impacts and policy evolution

2.1. Definition

Foreign direct investment (FDI), sometimes also called direct foreign investment, direct investment or foreign investment, is a type of investment in which the investor acquires a substantial controlling interest in a foreign country (Markusen, 1995). The key term is "substantial controlling interest", which is somewhat vague. Control here includes not only complete or dominant control but also participation in the management of a company. FDI is distinguished from portfolio investment, another type of overseas investment which pursues financial returns without any interest or intention to control a company.

According to the International Monetary Fund Balance of Payments Manual, FDI "refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor". The investment is considered direct because the in-

vestor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise.

Similarly, the Organization for Economic Co-operation and Development (OECD) Benchmark Definition provides the following designation: "Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor (direct investment enterprise). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated",(OECD, 1996, p.7-8)

In terms of actual operation, there are three types of FDI:

- Equity acquisition - buying shares of an existing or a newly created enterprise.
- Loans from a parent company.
- Profit re-investment - FDI firms re-investing their profits for further expansion.

For example, the Bank of Thailand defines direct investment as the lasting interest of a nonresident in the economy of the resident entity and lists three optional forms, as above, which include equity capital, lending to affiliates, or reinvesting earnings. FDI in the form of equity is said to occur when direct investors own 10 percent or more of the ordinary shares or voting power for an incorporated enterprise, or the equivalent form of control for an unincorporated enterprise. Affiliate lending refers to the borrowing and lending of funds between direct investors and subsidiaries, branches and associates. Excluded from this classification are inter-office loans to and from financial institutions, which are treated as "other loans." Reinvested earnings are defined as investment earnings not distributed as dividends nor remitted to direct investors.

In additional terminology which is often used, if foreigners come to build a new factory (instead of acquiring shares or purchasing existing production facilities), it is called *greenfield*-type FDI. This is counted as "investment" in the national income account because it increases the physical capital stock of the host country while other types of FDI do not.

Besides 100% foreign-owned firms, there are also "joint venture" (JV) firms where foreigners and domestic partners set up a company together. The ratio of ownership (shareholding) varies from company to company. In some countries there are restrictions on how much foreigners are permitted to own (say, up to 49%). Such ownership restriction is often imposed on "sensitive" sectors and sectors dominated by domestic producers with a strong political voice. In other countries, there is no such restriction and 100% foreign ownership is acceptable.

While the theoretical definition of FDI is relatively clear, in reality there are certain measurement problems.

First, whether a foreign investor has an intention to control or participate in the manage-

ment is not directly observable. The standard practice, as explained in the Thai case, is that investment is considered FDI if the foreign share is 10% or more; otherwise, it is classified as portfolio investment. Admittedly, this rule is somewhat arbitrary.

Second, while a loan from the parent company is counted as FDI, a bank loan guaranteed by the parent company is not. Again, this is an arbitrary distinction since the two loans would have virtually the same economic effect.

Third, whether the value of foreign investment is recorded at book value or at market value makes a difference. The latter changes with inflation and deflation as well as capital gains and losses.

Fourth, statistics for *registration* (approval or promise to invest) is easier to collect, but actual *implementation* is more difficult to know and the monitoring of subsequent business operations is even harder and more costly.

2.2. Positive and negative impacts

Positive impacts of FDI

Economic theory suggests that FDI can generate positive effects on the host country including job and income creation, technology transfer, participation in international production network, tax revenue contribution, and easing financial constraints.

Job and income creation is one of the positive effects of FDI. In a country with a young and growing population with many new workers entering the job market every year, arrival of labor-intensive FDI is highly welcome as a creator of jobs and income for them, alleviating the problem of unemployment and under-employment. This situation is typically seen in a low-income country with a large pool of unskilled workers. Most ASEAN countries, including Singapore, Malaysia and Thailand, adopted such a policy some time in the past. Job creation is still the overarching policy goal in India today. However, as countries graduate from low-technology manufacturing, wages start to rise, and shortage of highly skilled labor emerges, policy shifts from creation of any jobs to creation of high-wage jobs.

Technology transfer is another highly coveted benefit of FDI. Since multinational corporations (MNCs) possess both capital and technology, their entry may be regarded as facilitating the transfer of technical and business know-how, which results in productivity gain and competitiveness of local firms. There are horizontal (intra-industry) and vertical (inter-industry) spillover effects. Horizontal spillover is said to occur when MNCs and domestic firms belong to the same sector while vertical spillover results from interaction between domestic and foreign firms that are in different industries (backward or forward linkages). Spillover can develop through best practice demonstration and diffusion, creation of production linkages between foreign and domestic firms with the latter becoming either suppliers or customers, or movement of experienced engineers and workers from foreign to local firms. The entry of MNCs may also increase competition within a sector and force weak local firms to exit and surviving domestic firms to imitate and innovate. However, it must be stressed that technology transfer does not occur naturally or automatically. The primary motive of a MNC is to make profit for itself and not train workers or teach technology in developing countries. To

achieve technology transfer, serious joint effort must be expended by developing country government and entrepreneurs to create attitude and mechanisms that make technology transfer "win-win" for both MNCs and local firms.

Participation in international value chains is another potential advantage. Global and regional production networks are highly developed in such sectors as automobiles, machinery, electronics and garments. Domestic firms, particularly small and medium sized ones, can indirectly participate in global networks by becoming suppliers of components or services outsourced by MNCs. Participation in these networks may additionally provide domestic firms with knowledge and experience for accessing export markets directly.

Another advantage of FDI is related to financial resources. In capital-scarce countries, the financial power of MNCs makes possible large investments which are beyond the capability of domestic firms (Ishida, 2012). For example, the minimum efficient size of investment in equipment-heavy industries with scale merit, such as a petro-chemical complex, an integrated steel mill or power generation, may reach billions of US dollars. Big projects such as these often require the financial power of foreign capital if they are to be successfully built and operated in developing countries.

Negative impacts of FDI

FDI can also be a negative factor in development if proper policy and institutions are not in place. This may happen through environmental problems, creation of shortage, economic overheating (inflation and bubbles), illegal activities, and foreign dominance.

One of the undesirable impacts of FDI is exploitation of nonrenewable resources and environmental damage. This includes forest destruction, air and water pollution, soil contamination, and dumping of hazardous solid wastes.

Other than pollution, a large inflow of FDI may compete for scarce resources in the country and create shortage, excess import, inflation or speculative bubbles in such resources without contributing to productivity or innovation. For instance, too many real estate investments of unregulated type may cause destruction of farmland, shortage of construction engineers and workers, land bubble and traffic congestion. Arrival of labor-intensive manufacturing in large scale may dry up unskilled labor which may push up the general wage level or increase labor migration from remote areas or neighboring countries.

In the worst case, FDI may even stimulate illegal activities such as crime, drug and arms trade, money laundering, corruption, tax evasion, and other fraudulent transactions. It is true that these illegal activities did not start with globalization, but their magnitude has increased significantly partly because of the inflow of an enormous amount of capital, including FDI, across national boundaries as globalization accelerated.

Historically, hostility toward FDI was based on the hegemonic view of the world that foreign MNCs were the instrument of economic imperialism of rich countries undermining sovereignty, oppressing workers, and over-exploiting natural resources of latecomer countries. This highly political vision, which culminated in the 1970s when the "New International Economic Order" was demanded by the collective action of developing countries, generated criti-

cisms and violent demonstrations against FDI. Inflow of Japanese FDI was at that time severely criticized by Indonesian and Thai citizens.

Despite these potential demerits, FDI nowadays is generally considered to be a very positive factor for the economic development of latecomer countries, even to the extent that there is an acute competition to attract FDI among such countries. This phenomenon can be explained partly by the undeniable fact that FDI played a crucial role in successful industrialization and economic transformation in East Asia (the flying geese model), and partly by the fact that many of the source countries, including Japan, have learned to behave more responsibly in the developing world. From the viewpoint of developing country governments, it is essential that policy mechanisms should be in place to guide and regulate the activities of FDI firms so that their positive impacts are maximized and their negatives minimized.

2.3. Policy evolution

The desirable content of FDI policy critically depends on the stage of economic development. A good policy practice in one country may be considered unnecessary or even harmful in another country which is at a different level of industrialization. For example, provision of an open and level playing field for all investors regardless of size, sector or nationality is a desirable goal for latecomer countries just beginning to open up, but for more advanced countries with already excellent business conditions, selectivity and individual negotiations with targeted MNCs may constitute a more important policy tool. Improving the licensing and incentive procedure may be critically important for some countries, but for others the quality of human resources and active R&D may be more crucial. International best practices of FDI policy must thus be understood conditionally in the context of each development stage.

FDI policy must evolve as the national economy develops and government's policy capability rises. Broadly speaking, the policy must start with the provision of a comfortable business environment aiming at absorbing a critical mass of FDI (especially manufacturing one), then proceed to the stage where quality and value creation of FDI, rather than sheer quantity, becomes an overarching objective. Let us elaborate further.

In the first stage, the policy objective is provision of good business conditions. A country just opening up to the global market typically has poor business conditions and low policy capability. Infrastructure must be built, legal frameworks must be established, and FDI policy and incentives must be created and improved. Government officials must be trained and new agencies must be formed. Irregularities and delays are detected for correction. Corruption and arbitrary decisions must be replaced by open and transparent rules. Up-to-date information and one-stop service must become available to all investors. Industrial parks of one kind or another are created to provide exceptionally good business conditions. If these efforts bear fruit, and if the country is an attractive destination for foreign investors in the first place, FDI will start to enter the country in large volume and begin to visibly transform its industrial structure. This is the *quantitative* FDI achievement in the early stage of industrialization.

In the second stage, the policy objective is domestic value creation. The country already

has reasonable - if not perfect - business conditions and a large number of FDI firms are operating in the country. However, most of value-creating activities such as business strategy making, R&D, product design, production management, input procurement, marketing, branding, and so on, are still in the hands of foreigners while the country's contribution is mainly in the forms of unskilled labor and industrial land. Though wages gradually rise and poverty declines, the levels of technology and income are still low or moderate. To overcome this "middle-income trap" situation, policies and institutions must be established to promote (or even force) improvements in human capital, productivity and innovation. Though this can be done in various ways including education and training, subsidies, technology projects, etc., a judicious use of FDI - inviting foreigners to come, operate and teach - is one important tool. FDI policy must shift from general attraction to conditional and strategic attraction. In this stage, foreign firms that can facilitate domestic value creation are welcomed while labor-intensive, simple-process manufacturing is asked to leave - or they spontaneously leave under the pressure of rising wages and unskilled labor shortage.

These two stages of FDI policy may be subdivided into many phases. Moreover, the two stages normally overlap with the weight of the first-stage policy gradually falling and the weight of the second gradually rising. But the important point is that any country that successfully completes the quantity-driven stage of industrialization must shift its FDI policy orientation from improvement of business conditions to domestic value creation.

Among the ASEAN countries, Myanmar is the latest comer just beginning to integrate into the world economy just like Vietnam two decades ago. Its FDI policy is still embryonic and the most urgent task is initial creation of policy frameworks that can handle FDI inflows. In contrast, Malaysia and Thailand, which already attained large accumulations of FDI firms, have already shifted to the policy of domestic value creation. The cases of the Philippines and Indonesia are somewhat ambiguous; they should now start moving from the quantitative to the qualitative stage, but one needs more research to determine whether this is actually happening. Advanced economies such as Singapore and Taiwan, are primarily interested in enhancing competitiveness through innovation. Their FDI policies and business conditions are already first-rate and no further great improvements are needed.

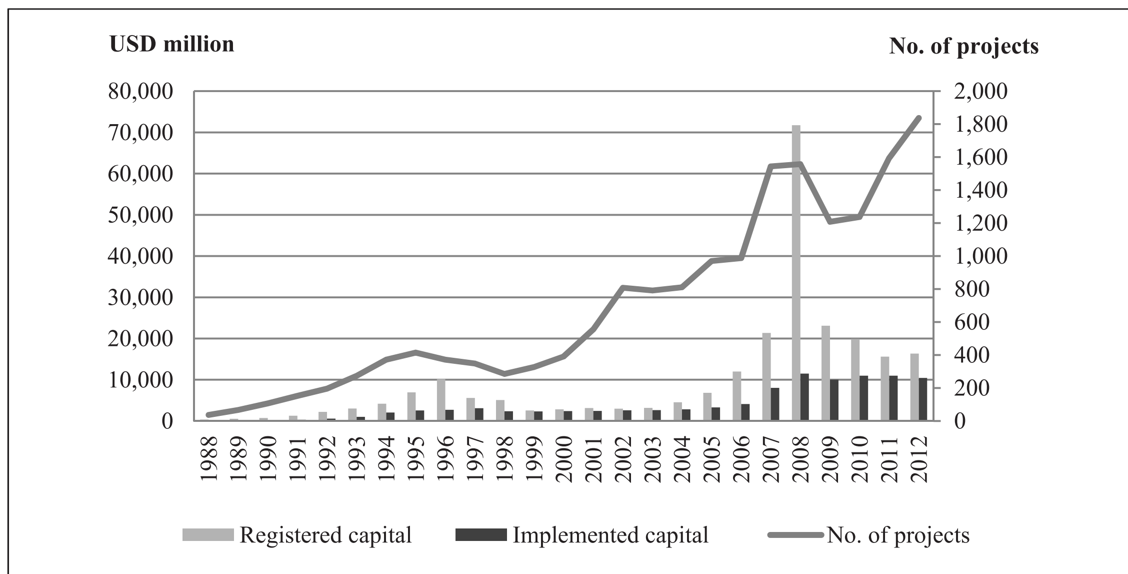
For Vietnamese policymakers, it is extremely important to recognize these two stages clearly because the country is on the verge of needing such policy transition. Starting from the low level of FDI intake in the early 1990s, Vietnam has already attained sufficient inflows of FDI in quantitative terms on a par with other ASEAN countries. To move ahead and break through a middle income trap in the future, Vietnam needs to install a national mechanism to encourage domestic value creation, in which FDI policy should play a key part.

3. Performance of FDI in Vietnam

3.1. Overview

Since the start of Doi Moi in 1986, and especially since global economic integration of the early 1990s, Vietnam has become an attractive destination of FDI. As illustrated in Figure 1,

Figure 1: Vietnam: Number of projects and registered and implemented capital

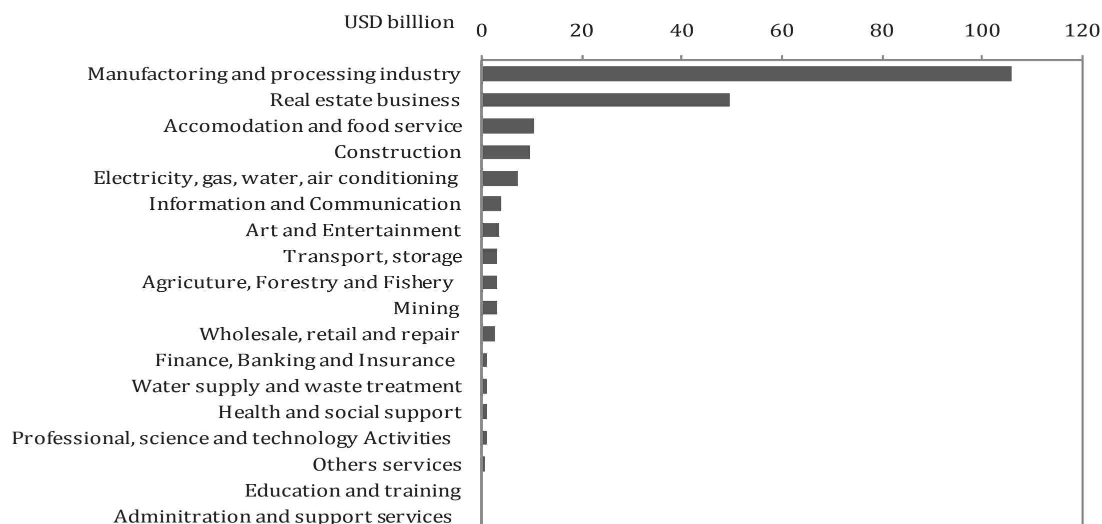


Source: General Statistics Office (2013)

during the period of 1988-2012, FDI inflow into Vietnam has followed a long-term upward trend and short-term fluctuations. More recently, in the period of 2004-2008, FDI in both number and registered capital increased steadily and significantly. Because implemented capital also grew but at a slower speed, this resulted in the decline of the implementation-to-registration ratio. The sharp increase in FDI in 2008 reflected the strong world economy up to that time, as well as the rising interest of foreigners in Vietnam as the country joined the WTO in 2007. Registered FDI in 2008 included some large projects such as a petro-chemical complex, steel mills, a software park and a tourism complex. However, as the world economy was hit by a severe financial crisis in late 2008, many of these projects were delayed or cancelled. The lowest implementation rate of 16% was recorded in that year. Subsequently, FDI activities in 2009-2012 fell but still remained relatively high, with implemented capital at about US$10-11 billion. This caused a sharp rise in the implementation-to-registration ratio to about 70% in 2011.

By sector, as shown in Figure 2, FDI in Vietnam is concentrated in the manufacturing and real estate sectors. In 2012, manufacturing FDI was highest among all sectors in number of projects and registered capital, but was not highest in registered capital per project. It was the real estate sector that had the highest registered capital per project, largely due to large-scale foreign investments in that sector. Real estate is also a sector that is subject to large swings. In the last few years, Vietnam's real estate market has been "frozen" due to a sharp decline of FDI in this sector with its share of total registered capital falling from 34.3% in 2010 to only 5.8% in 2011.

Figure 2: Vietnam: FDI by economic sector
(Total registered capital, cumulative at end 2012)



Source: General Statistics Office (2013)

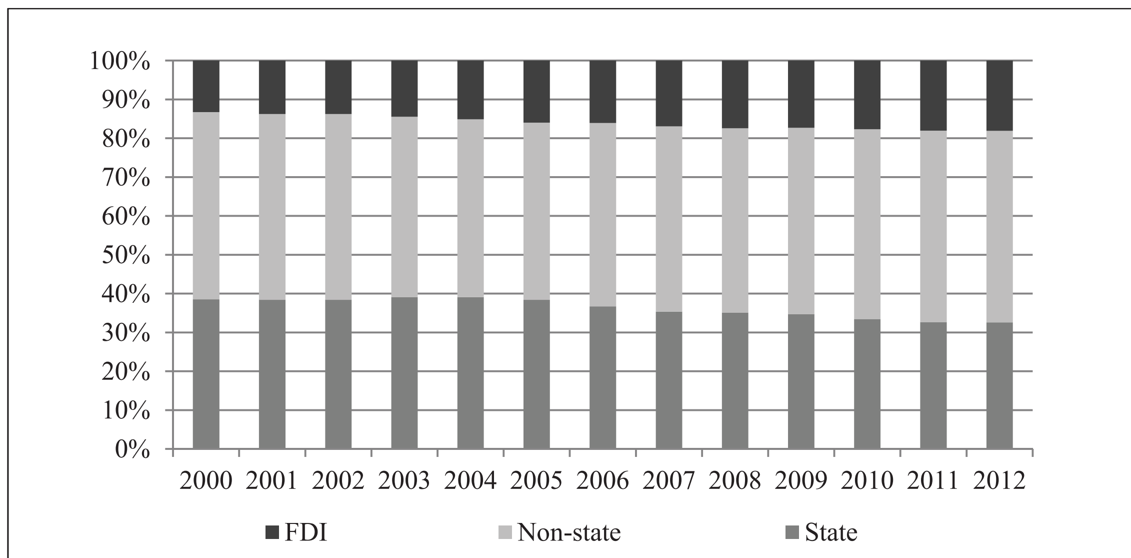
The majority of FDI comes from the rest of Asia. As seen in Table 1, at the end of 2012, seven of the top ten investors in Vietnam were Asian countries. Registered capital by these countries accounted for 59% of cumulative FDI in Vietnam.

Table 1: Vietnam: Top 10 foreign investing countries
(Cumulative as of 31/12/2012)

	No. of projects	Total registered capital ($ mil.)	Percentage (capital)
Total	14,522	210,521.6	100.0%
Japan	1,849	28,699.6	13.6%
Taiwan	2,234	27,129.1	12.9%
Singapore	1,119	24,875.3	11.8%
Korea	3,197	24,816.0	11.8%
British Virgin Islands	510	15,386.4	7.3%
Hong Kong (China)	705	11,966.7	5.7%
United States	648	10,507.2	5.0%
Malaysia	435	10,196.4	4.8%
Cayman Islands	54	7,506.0	3.6%
Thailand	298	6,063.7	2.9%

Source: General Statistics Office (2013)

Figure 3: Vietnam: Contribution to GDP by ownership type



Source: General Statistics Office (2013)

3.2. Economic contribution

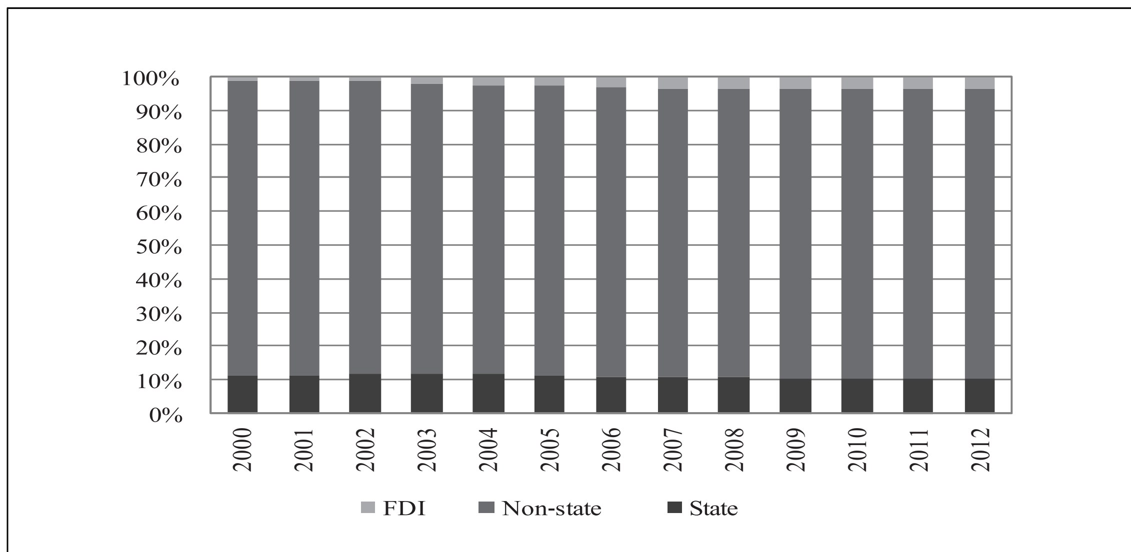
Vietnam's success in attracting FDI has had a positive impact on the country's economic performance. As shown in Figure 3, during the period of 2000-2012, contribution of FDI to GDP has followed an increasing trend from 13.3% in 2000 to 18.1% in 2012.

Contribution of FDI to job creation is relatively small albeit on a rising trend. As illustrated in Figure 4, the FDI sector directly employed 3.4% of Vietnam's labor in 2011, increasing from 1.0% in 2000 and 2.6% in 2005. When employment generated indirectly by FDI in the non-state sector is also included, it is likely that the contribution of the FDI sector to employment is even greater.

Regarding the contribution to investment, as shown in Figure 5, during the early period of 1995-2004, despite an increase in absolute value, the share of FDI in total investment declined from 30.4% in 1995 to the low of 14.2% in 2004 mainly due to the vigorous expansion of public investment. After that, it bounced back from 14.9% in 2005 with the most recent figure of 23.3% in 2012. Meanwhile, the share of the state sector declined significantly after 2001 partly due to the state-owned enterprise (SOE) reform in recent years which included streamlining of public investment.

FDI makes a particularly important contribution to export revenue. In 2011, export by the FDI sector was more than US$55 billion, or half (49.4%) of the country's total export. Figure 6 verifies a rising trend of FDI exports over the period of 1995-2011, which rose faster than the export of the domestic invested sector. Export fell temporarily in 2009 because of the global recession, but continues to rise subsequently. This highlights the fact that FDI activity is a crucial determinant of trade flows and

Figure 4: Vietnam: Labor by ownership type

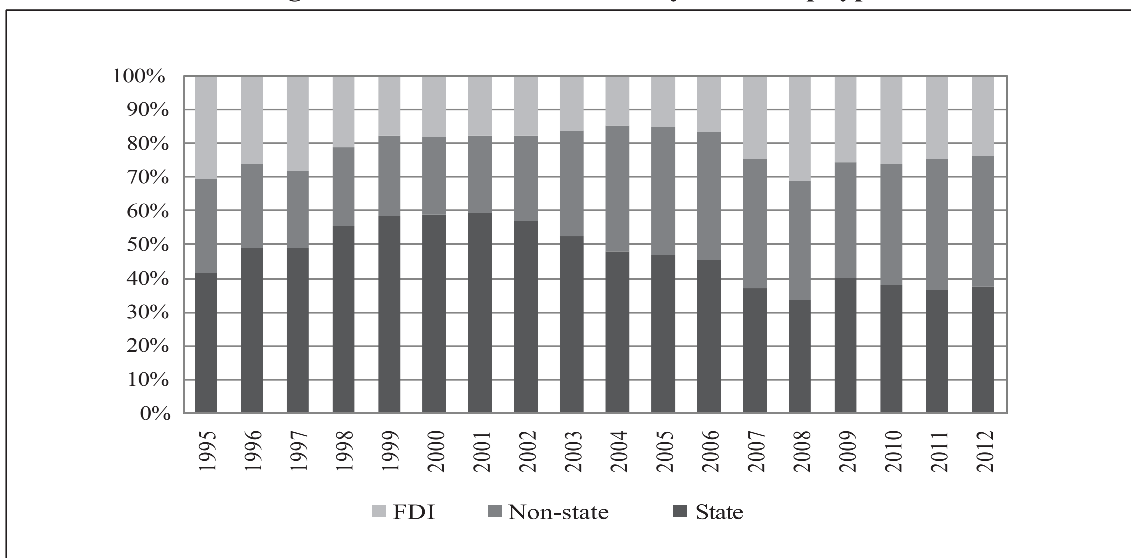


Source: General Statistics Office (2013)

structure in the Vietnamese economy.

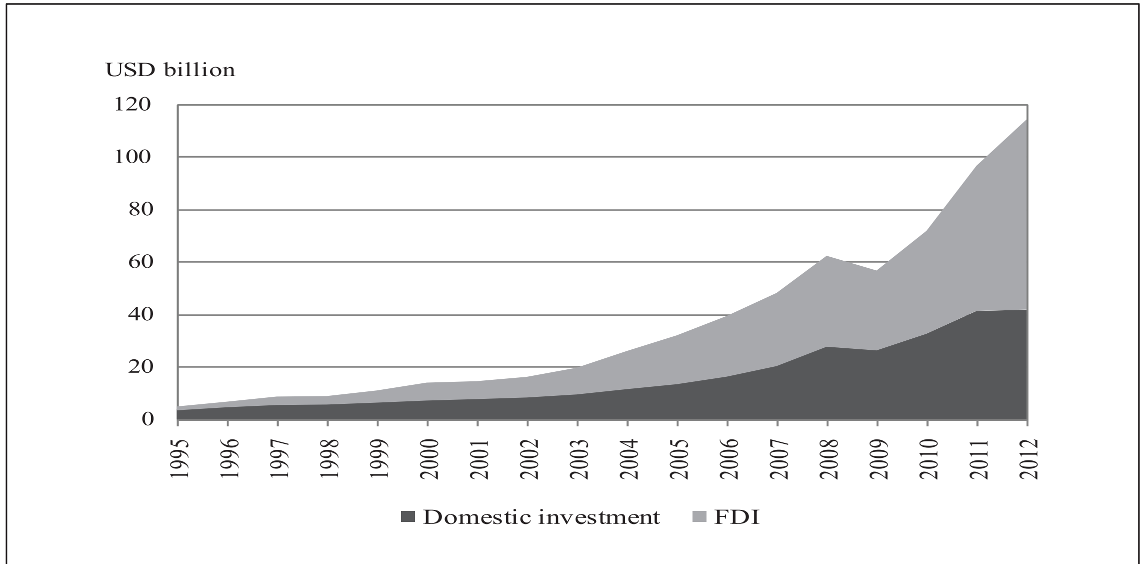
Regarding *net* export (export less import), FDI's contribution is even more prominent. Some sectors import large amounts of machinery, components and materials reducing their contribution to foreign exchange earnings. The FDI sector has long been a net exporter while the domestic invested sector has consistently

Figure 5: Vietnam: Investment by ownership type



Source: General Statistics Office (2013)

Figure 6: Vietnam: Export by ownership type

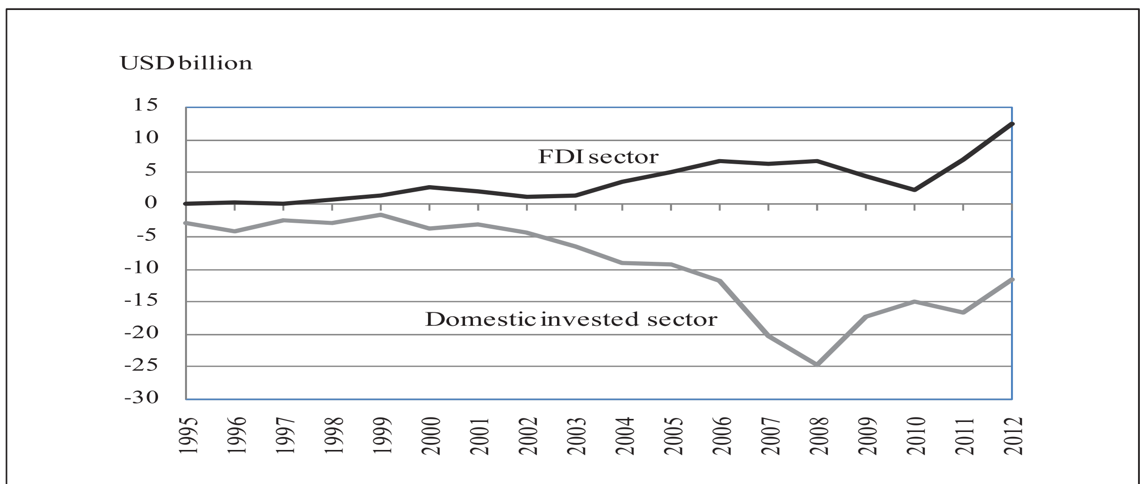


Source: General Statistics Office (2013)

been a net importer (Figure 7). This result is obtained from GSO data, which is somewhat different from customs data (available only after 2009). However, the above conclusion does not change by the use of different datasets.

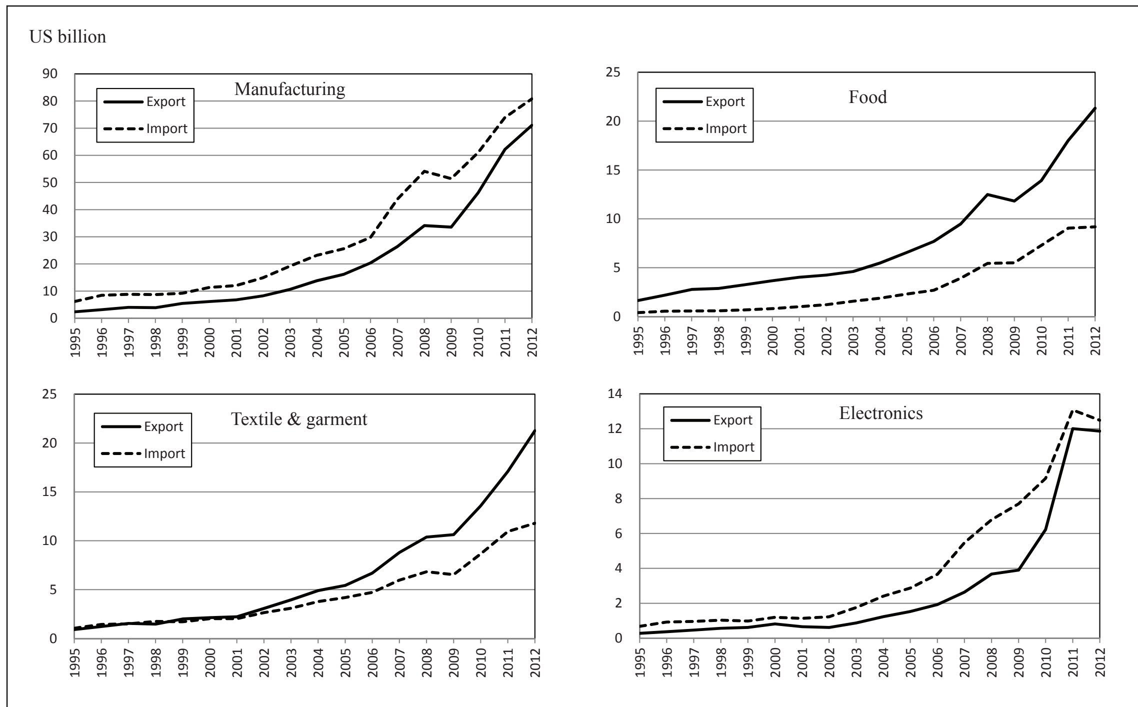
Figure 8 shows exports and imports of selected sectors. While Vietnam's manufactured export grew rapidly in recent years, manufactured import also grew with its level always higher than manufactured export. This phenomenon,

Figure 7: Vietnam: net export by ownership type



Source: General Statistics Office (2013)

Figure 8: Vietnam: export and import for selected sectors



Source: UNCTAD stat database, accessed on Dec.2, 2013, from http://unctadstat.unctad.org

common in many industrializing economies, reflects the weakness of domestic machinery production and supporting industries as well as citizens' strong demand for imported mechanical products as income rises. Looking at sub-sectors, food is a net contributor to foreign exchange earnings because imported inputs are relatively few. Textile and garment began to become a net contributor around 2000. Meanwhile, the electronics industry, dominated by giant MNCs, remains a net importer despite its remarkable export growth in recent years.[1]

FDI also contributes to the state coffer. Despite the existence of many incentives in the forms of exemptions and reductions of taxes and import duties, contribution of the FDI sector to fiscal revenue is on a rising trend, from 5.2% of the total state revenue in 2000 to 11.0% in 2011.

Overall, Vietnam's economic growth in the last two decades was closely associated with the inflow and operation of FDI. The long-term rising trends in the contribution of FDI to a number of macroeconomic aspects including GDP, investment, employment, export and fiscal revenue are evidence of the critical importance of the FDI sector in Vietnam's economic development. With its increasing presence, FDI as well as its relationship to the domestic sector hold the key to realizing the national goal of becoming a fully industrialized economy.

Table 2: Vietnam: contribution of the FDI sector to state revenue

Year	State revenue from FDI sector (Mil. VND)	Total state budget revenue (Mil. VND)	FDI share (%)
2000	4,735	90,749	5.22
2002	7,276	123,860	5.87
2003	9,942	152,274	6.53
2004	15,109	190,928	7.91
2005	19,081	228,287	8.36
2006	25,838	279,472	9.25
2007	31,388	315,915	9.94
2008	43,953	430,549	10.21
2009	50,785	454,786	11.17
2010	64,915	588,428	11.03
2011	77,432	704,267	10.99

Source: General Statistics Office (2013)

4. Key issues for FDI policy re-formulation

Eight policy issues relevant to the re-formulation of Vietnam's FDI policy are discussed in this section.

4.1. Policy consistency

Because FDI policy is one component of the national development strategy, it must be consistent with the national development strategy itself and its various other components such as policies for labor, education and training, infrastructure, land, small and medium enterprises (SMEs), trade, finance, official development assistance (ODA), and so on. The objective and targets of FDI policy must be fully in line with those of the national development strategy. However, this is not yet the case with Vietnam's policy making. The problem can be divided into two aspects.

First, Vietnam does not have an implementable and monitorable long-term overall national development strategy that can guide industrialization up to 2020 and beyond. The slogan of *Industrialization and Modernization*, together with an aspiration to become a fully industrialized country by 2020, is a long-term goal, but the performance criteria for judging and monitoring this achievement remain undefined. As a result, it is difficult to pin down what a fully industrialized country means, and what policies are to be mobilized between now and 2020 to attain it. The five-year socio-economic development plan and the ten-year socio-economic development strategy contain too many objectives and measures to be implemented effectively. The initiative of the Industrialization Strategy in the framework Vietnam-Japan cooperation deals only with one aspect of industrial policy (promotion of six selected sectors) and its scope therefore is too narrow. Meanwhile, some regional countries have a well-defined long-term national vision which is supported by many concrete measures.

In Malaysia, *Vision 2020*, an overarching national aspiration to become a fully developed country by 2020, consists of per capita income of US$15,000 or above, inclusiveness, and sustainability, with additional five characteristics, i.e., market led, well-governed, regionally integrated, entrepreneurial, and innovative. These goals are to be attained by the Economic Transformation Program with eight Strategic Reform Initiatives and 12 National Key Economic Areas, and the Government Transformation Program with seven National Key Result Areas and a large number of Ministerial Key Result Areas[2].

Second, Vietnam's FDI policy is not structured for target orientation. Over the last two decades, policy effort has been made to first establish, then improve, the country's policy framework as well as human capital and infrastructure in order to absorb as much FDI as possible and accelerate industrialization. International standards have been introduced, membership of World Trade Organization (WTO) and other international arrangements was realized, laws and regulations have been revised to facilitate commercial activities and satisfy investors' requests, and so on. These are admirable initial achievements, but they were mostly in response to changing circumstances, especially market orientation and global integration, rather than for realizing pre-set long-term goals in competitiveness, productivity or innovation. Since there were no such targets, success of FDI policy was measured quantitatively by the number and amounts of annual FDI inflow.

In Thailand, the FDI regime will change from zone-based broad promotion to one featuring selectivity and high-tech orientation in January 2015. This policy shift will support the "Country Strategy", the Yingluck government's growth strategy announced in 2012, targeting growth and competitiveness, inclusive growth, and green growth. The new FDI policy will be in line with Thailand's high-wage policy, a lower corporate income tax[3], and "Thailand-plus-One" strategy where labor-intensive activities are relocated to neighboring countries such as Myanmar, Cambodia and Laos while Thailand will strengthen higher-value activities. In this way, Thai FDI policy is closely integrated with its overall development strategy.

In order for Vietnam to design a more coherent and proactive FDI policy, an overall industrial master plan with high quality and implementable details is required. The Ministry of Industry and Trade has been drafting such a master plan for some time but it remains unapproved. In addition, FDI policy must be restructured to attain long-term goals contained in the overall industrial master plan. When these two revisions are made, linkage between national goals and FDI policy will become clear and monitoring of performance will become meaningful.

4.2. Operational effectiveness

During the last two decades of global and regional integration, Vietnam has made much progress in improving business conditions for both domestic and foreign investors. Laws and regulations have been revised or unified, licensing and incentive procedures have been installed, and investor demands have been heard and acted upon. The Vietnam Business Forum, the Vietnam-Japan Joint Initiative, meetings with foreign chambers of commerce, and other

interaction forums with the business community have in steps removed business barriers and created more favorable conditions for economic activity.

Despite this progress, Vietnam, as a latecomer country in ASEAN, still remains a relatively difficult place to do business in comparison with the top group countries (see next chapter). For instance, the annual survey of Japanese firms operating abroad or interested in doing business abroad, conducted by JETRO (Japan External Trade Organization) in January 2013, shows that Vietnam's business risks are perceived to be in the mid-range among eight Asian countries (China, Thailand, Malaysia, Indonesia, Philippines, Vietnam, India and Myanmar) [4] (JETRO, 2013). Regarding the seriousness of 11 types of business risks[5], Japanese investors found no serious risk in Malaysia, only one serious risk in the Philippines (insufficient infrastructure), and two series risks in Thailand (high wage and natural disaster risks). Meanwhile, they found three serious risks with Vietnam (insufficient infrastructure, unpredictable laws and lack of supporting industries) and four each with Indonesia and India. The worst performers were Myanmar, with five serious risks, and China, with seven serious risks. The latter two still attract foreign investors because they offer large business opportunities as well. According to this survey, Vietnam is above Myanmar and China but on a similar standing with Indonesia and India, and worse than Malaysia, Thailand and the Philippines in perceived business risks.

The low mark on predictability of laws should be particularly noted. In Vietnam, investors still complain about corruption, the lack of policy transparency, arbitrary taxation and customs clearance, the shortage of investor-oriented information and support, and the like. Foreign investors' evaluation of Vietnamese policy and officials is generally low. One cause of these problems may be the scattered authority of FDI policy. By contrast, such problems are hardly heard of in Singapore, Malaysia or Thailand where there is a strong and competent one-stop authority responsible for attracting and helping FDI. Their policies and services are highly regarded among foreign investors.

Table 3: Number of days required to start a business

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Singapore	8	8	6	6	5	4	3	3	3	3	3
Malaysia	37	37	37	37	31	20	18	17	6	6	6
Thailand	33	33	33	33	33	33	32	32	29	29	28
Viet Nam	59	51	45	50	39	39	39	38	38	34	34
Philippines	49	49	47	47	47	41	42	37	36	36	35
Indonesia	168	151	151	97	105	77	63	50	48	48	48
Lao PDR	153	153	153	123	93	93	93	93	93	92	92
Cambodia	94	94	86	86	86	102	102	102	102	102	104

Source: World Bank, Doing Business Project, from http://data.worldbank.org

Table 4: Corruption perception index

	2005	2006	2007	2008	2009	2010	2011
Singapore	9.4	9.4	9.3	9.2	9.2	9.3	9.2
Malaysia	5.1	5.0	5.1	5.1	4.5	4.4	4.3
Thailand	3.8	3.6	3.3	3.5	3.4	3.5	3.4
Indonesia	2.2	2.4	2.3	2.6	2.8	2.8	3.0
Viet Nam	2.6	2.6	2.6	2.7	2.7	2.7	2.9
Philippines	2.5	2.5	2.5	2.3	2.4	2.4	2.6
Lao PDR	3.3	2.6	1.9	2.0	2.0	2.1	2.2
Cambodia	2.3	2.1	2.0	1.8	2.0	2.1	2.1
Myanmar	1.8	1.9	1.4	1.3	1.4	1.4	1.5

Source: ADB (2013)

Other indicators also point to the same conclusion that Vietnam is far below the top group. Table 3 is the time required to start a new business as reported by the World Bank's Ease of Doing Business Index. As of 2013, the number of days range from Singapore's 3 days to Cambodia's 104 days, with Vietnam taking 34 days on average. Again, Vietnam's performance is in the middle range.

Similarly, the corruption perception index of the Asian Development Bank, ranging from 0 (highly corrupt) to 10 (highly clean), reveals that Singapore has the highest score (9.2) and Myanmar has the lowest score (1.5) in the region as of 2011. Vietnam's score was 2.9, which was better than the Philippines, Laos, Cambodia and Myanmar but worse than Singapore, Malaysia, Thailand and Indonesia.

Note: scores above relate to perceptions of the degree of corruption as seen by business people and country analysts, and range from 0 (highly corrupt) to 10 (highly clean). Due to the change in methodology, data for 2012, which are not shown here, are not compatible with the data above.

All these surveys illustrate that, as far as the quality of FDI policy and business environment is concerned, Vietnam does not yet belong to the top group of ASEAN and that effort must be doubled to further improve the operational effectiveness of FDI promotion.

4.3. Screening and post-investment follow-up

How much of approved FDI is actually implemented and how much becomes commercially successful is a great concern of the host country. In Malaysia, for example, actual implementation of manufacturing FDI projects approved during 2008-2012 was 75.7% as of end 2012, which means that most of the approved projects are actually implemented. In Vietnam, the implementation-to-approval ratio has fluctuated widely. In recent several years, it ranged from the low of 16% in 2008 to the high of 70% in 2011. It is necessary to analyze the cause(s) of the gap between approval and implementation of FDI.

Part of the approval-implementation gap can

be explained by the existence of license hunters. These are the people who are not serious about investing but still apply for a license and incentives because they may invest in the future if situations prove favorable (wait-and-see investors) or because they want to take advantage of investor privilege for unauthorized purposes (incentive abusers)[6]. From the viewpoint of policy makers, license hunters should be eliminated as much as possible, and only those willing to invest immediately should be given a license and incentives.

Another part of the gap comes from unforeseen difficulties encountered by the investor after the license is granted. This may include external problems such as global recession, regional crisis, a natural disaster or terrorism. Alternatively, it may be the result of an unfavorable turn in the policy or domestic socio-economic conditions of the host country (country risk). Or it may reflect common business challenges that may arise in any developing country, such as weak business plans, administrative delays, contract dispute or breach, problems associated with staff recruitment or labor relations, unreliable service providers and suppliers, difficulty in local marketing, social customs and cultural differences, and so on. Some of these problems can be alleviated by policy action but others are beyond the control of either the investor or the national authorities.

This suggests that two approaches must be taken to improve the implementation ratio of FDI: one to select serious investors from the casual or the irresponsible, and the other to help reduce difficulties encountered by licensed investors. Malaysia achieves high implementation consistently because the Malaysian Investment Development Authority (MIDA) carries out these two functions competently, which may respectively be called "screening" and "post-investment follow-up."

Effective screening of investment applications is important to reduce unwanted license hunters. Both feasibility and desirability must be checked, that is, (i) whether or not the proposed project will be commercially viable and the applicant firm has sufficient knowledge, experience and funding to carry out the project; and (ii) whether or not the proposed project is in line with national development and will contribute to value creation, technology transfer, industrial linkage or human resource development without harming the country's resources or environment. In Malaysia, investment licenses are granted automatically to all applicants (save a few sensitive sectors) but incentives are provided only after strict screening. The screening procedure consists of a detailed list of eligible products and activities, checking by the relevant sectoral divisions of MIDA, and assessment and decision on a case-by-case basis by the weekly committee of MIDA headed by the director general. For MIDA, it is especially important to verify that the project will be true manufacturing (which is given incentives) rather than disguised trading.

Effective post-investment follow-up is another important service rendered by FDI authorities that can significantly increase the success ratio of FDI projects and generate a "win-win" situation for both the investor and the host country. Encounters with unforeseen difficulties are inevitable in FDI projects, for which joint solution by the investor and authorities is desirable rather than leaving all prob-

lems to the investor. Close monitoring of the progress of licensed investors can also detect "license hunters" who delay action without due reasons. In Malaysia, MIDA's Investment Analysis and Data Management Division with 13 staff (including the director) conducts the implementation survey and the Annual Performance Report (APR) survey, and maintains the FDI database. The former survey semi-annually collects data on about 2,000 approved but not yet fully implemented projects and classifies them into unimplemented, planning, site acquisition, equipment installation, and production. The latter survey is conducted annually on about 4,000-7,000 FDI projects in operation to monitor their employment, investment and export situations. These surveys enable MIDA to pinpoint and solve problems on an individual project basis. MIDA monitors and assists all FDI projects, old and new, as long as they continue to operate in Malaysia.

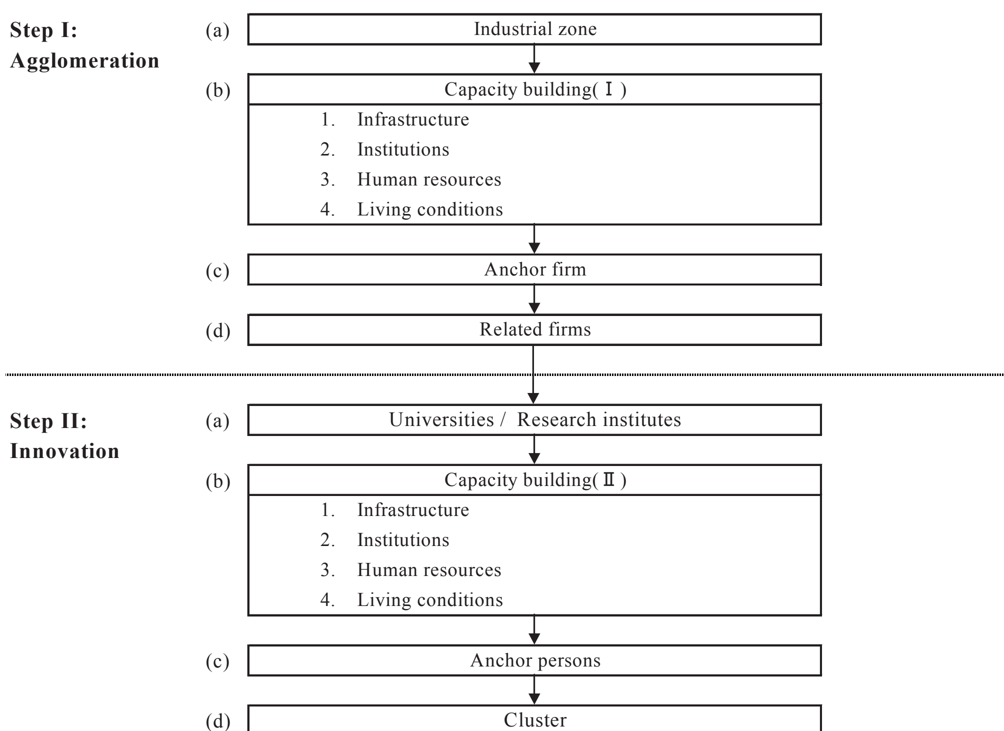
4.4. FDI marketing

FDI marketing must proceed from easy to sophisticated as policy capability rises. Countries just starting to integrate should improve business conditions generally and create a level playing field. More advanced countries should offer flexible and customer-oriented services that attract and support individual investors. Countries with most advanced capability will not even publish their incentive policies; they directly approach foreign companies they want to court and negotiate special incentives individually in exchange for investments that support their national objectives. Vietnam should improve FDI marketing in all these aspects despite the fact that it has already succeeded in attracting FDI in quantitative terms. Together with improving operational effectiveness, screening and post-investment follow-up mentioned above, this should contribute to receiving more and better FDI inflows for the purpose of national development.

In many investment seminars, crucial information needed by foreign investors is not given. Investors do not want general information such as population, geographical features, investment law or national development strategy. They are also little moved by the presentation of priority sectors, investment incentives, infrastructure services, etc. unless they are sufficiently concrete so as to numerically clarify Vietnam's advantages against other countries or be able to answer specific questions that potential investors may raise. Investors are interested in detailed information relevant to their sector and chosen location only. Moreover, they want to hear honest opinions of investors already in operation about both strengths and weaknesses of the host country as well as their happy and bitter experiences, not just unilateral advertisement on how excellent the country is for foreign investors.

FDI marketing must be strategic and differentiated for different segments of investors in response to the needs of each group. For example, a number of surveys reveal that Japanese manufacturing SMEs (especially of supporting industry type) are interested in Thailand and Vietnam as most desirable destinations, and that they want rental factories, reliable one-stop service in Japanese language, assistance in local marketing and staff recruitment, etc. to minimize initial cost and risks. Investment seminars targeting this group should concentrate on a few to several points that appeal to them with

Figure 9: Kuchiki's flowchart approach to industrial cluster creation



Source: Kuchiki (2007, p.47)

concrete specs, costs, statistics, maps, photos, etc. rather than general presentation applicable to all groups. Conditions and incentives offered to interested firms may be re-negotiated as they are consistent with the national development policy.

One problem of Vietnam's FDI marketing is scattered authority and duplication. Licensing procedure is decentralized in Vietnam, which prompts each city and province to stage its own FDI marketing missions and seminars. Additionally, industrial parks also engage in separate marketing. To some extent, such localized FDI marketing is natural and even commendable. But in the case of Vietnam, there are too many provincial investment missions coming to Japan until the Japanese side becomes weary of receiving so many similar missions from Vietnam. To cope with this problem, each city and province should design a more unique and concrete promotional package suitable for its own target group. Additionally, a mechanism to centrally coordinate local missions should exist so general information about Vietnam's economy, laws, incentives, etc. can be shared.

Another aspect of FDI marketing is providing attractive industrial land in the form of industrial parks of one kind or another. Akifumi Kuchiki summarizes the success formula for creating industrial estates in a sequential list of

actions and players (Kuchiki, 2005; Kuchiki, 2007; Kuchiki and Tsuji, 2008). In his flowchart approach (Figure 9), the first step is *agglomeration*, in which an industrial zone with essential services and support is established to invite an anchor firm, while the second step is *innovation*, in which tripartite cooperation among industry, government, and universities and research institutions generates high value. Relevant players in these steps are local and central authorities, NPOs, semi-government organizations, and private enterprises.

Using this framework, Kuchiki (2007) analyzes industrial clusters in Asia including the printer cluster in Northern Vietnam, the automotive clusters in Tianjin and Guangzhou, China, the science and technology cluster in Zhongguancun, Beijing, and the (not so successful) automotive cluster in Malaysia. Kuchiki's formula clearly points to the vital importance of supplying necessary conditions and institutions in a well-coordinated manner to first attract FDI and then create internal value. Designation of land plots and announcement of priority sectors and incentives is hardly enough for the successful execution of an industrial estate.

4.5. Priority and restricted sectors

Most countries announce priority products and activities for which FDI is highly welcomed as well as products and activities in which entry of foreign businesses is restricted or banned. In order to make these announcements effective, promoted sectors must be given concrete privileges and incentives while restricted or banned areas must be strictly enforced. For both categories, designation of products and activities must be transparent and free from delays and arbitrary decisions of officials or agencies in charge.

The number of promoted and restricted sectors should be appropriate to the development stage of each country. Too many priority sectors in a country with low policy capability and limited financial resources means that they are just a wish list without any serious intention of actual promotion. As a tendency, developing countries often welcome manufacturing FDI while protect sectors dominated by weak domestic SMEs such as agriculture and services. The number and scope of protection should gradually decline as the economy grows[7]. A sudden removal of all protection at the early stage of industrialization, often under international pressure, is as detrimental to economic development as the refusal to remove protection even after industrialization and high income are achieved.

When the domestic manufacturing sector rises to a certain level, political lobbying often emerges to demand protection of "products that can be supplied domestically" and welcoming FDI only in the sectors where domestic capacity does not exist. This is a tricky policy for which deep knowledge of industry as well as the capacity to rule over conflicted interests in a fair manner are required on the part of the government. Formulation of a proper tariff structure over finished products and intermediate and raw inputs of a certain sector - say, automobile or electronics, is a similarly delicate policy which requires sufficient knowledge and deliberation if distortion and slowdown in industrialization are to be avoided.

In Vietnam, special investment incentives are given to far and remote regions and indus-

trial zones located in such regions, as well as to high-tech industries and supporting industries. It must be admitted that administration of these different incentives lack uniformity and simplicity in structure, mutual consistency, and fair and transparent application. These incentives must be constantly reviewed in both policy content and operational effectiveness.

Investment projects in certain designated sectors which are located in areas with "difficult" or "extremely difficult" socio-economic conditions or in industrial zones in such areas qualify for special incentives. They consist of land rent exemption for 7, 11 or 15 years depending on the degree of regional difficulty; a low corporate income tax of 10% (instead of 25%) with exemption for a maximum of four years and subsequent 50% reduction for a maximum of nine years from the year of first revenue generation; deduction of cost incurred for worker housing in industrial zones; a 50% reduction in personal income tax for Vietnamese and foreigners working in such industrial zones; and visa and residence privileges for foreigners and overseas Vietnamese working in such industrial zones.

According to the High-tech Law (2008), high-tech industry is permitted to invest in high-tech parks; qualifies for highest incentives on land rent exemption, corporate income tax, value added tax, and import and export tax; and receives financial support from the National Program on High-tech Promotion and other funds sourced from government budget. Specifically, highest incentives mean the industry will receive land rent exemption for 7, 11 or 15 years depending on the areas, corporate income tax of 10% in 15 years and can be extended to 15 more years, with exemption for a maximum of four years and subsequent 50% reduction for a maximum of nine years, exemption of VAT for equipment, machinery, and special transportation means that are used to create fixed assets and have not been produced in Vietnam, and exemption of import tax for imported goods to create fixed assets or to use directly for research and technology development, exemption of import tax for 5 years for imported materials and semi-products used directly in production but have not been produced in Vietnam.

For supporting industries, a list of eligible products has been announced, and applications for incentives are to be reviewed by a committee organized by the Ministry of Industry and Trade (MOIT) (Decision 12/2011/QD-TTg). Specific incentives for supporting industries are not clearly mentioned in Decision 12, but incentives are referred to in different legal documents, such as incentives for SMEs in Decree 56/2009/ND-CP and incentives for high-tech products in the High-tech Law. As regulated in Decision 12, incentives for supporting industry enterprises should be proposed by enterprises themselves and will be decided by the committee on a project-by-project basis. However, up to this moment (end 2013) the number of projects receiving this incentive package is small (only one) and the procedure and criteria for approval, regulated by the MOIT document No. 9734/BCT-CNNg, is still not clear to investors. The modality of supporting industry incentives must be improved for effective implementation.

4.6. FDI-local firm linkage

It must be stressed that absorbing FDI does not automatically promote industrial capabil-

ity. First of all, it is manufacturing FDI - not mining companies, real estate developers, or big infrastructure projects - that can contribute significantly to the upgrading of a nation's industrial capability. Gigantic investments in these sectors, whether public or private, may erect infrastructure or bring money games to the country, but little can be expected in the accumulation of knowledge, skills, and technology in the population at large.

Second, even with manufacturing FDI, technology transfer is far from spontaneous. Arrival of global "high-tech" firms such as Intel, Samsung and Canon does not mean that they will automatically transfer high technology to Vietnam. Such MNCs usually come to developing countries to carry out labor-intensive assembly processes, which are the lowest value segment of the global supply chain, because these processes are too costly to perform in developed countries. Such FDI projects are essentially the same in nature as FDI in garment and food processing in the sense that they are attracted to Vietnam for unskilled labor (and additional incentives, if any) and not as a receiver of high technology.

While developing countries often covet high technology, proprietary knowledge is a corporate secret guarded strictly by intellectual property rights and will not be transferred to developing country partners without high charge. Moreover, technology transfer will not occur unless it is judged that the host country is capable of absorbing it and also is the best location for this purpose, and that the transfer will benefit the MNC in its global business strategy.

Therefore, FDI policy must re-consider the following two points seriously if it is to promote technology transfer in a developing country. First, the main learning from FDI in the early stages of industrialization should not be "high-tech," but non-proprietary knowledge which is accessible globally and freely but not yet practiced at home, such as strategic management, work discipline, factory operation and maintenance, marketing, productivity improvement through kaizen or benchmarking, compliance with international standards in accounting, safety, labor, environment, and so on. Second, since even this learning will not happen automatically, it is necessary to install a national mechanism that can confer mutual benefits to both learners and teachers. This may include, for example, a national program for technology learning with top-leader commitment, clear goals and a responsible agency; strengthening support institutions; subsidies and funding for eligible activities; competition and awards for excellent people and companies; and mobilization of foreign technical assistance for kaizen, shindan, and others.

4.7. Consistency with international rules

Industrialization strategy in general, and FDI policy in particular, must be consistent with international commercial rules. This includes all organizations and agreements to which Vietnam is committed such as WTO as a global system, regional agreements such as ASEAN Free Trade Area (AFTA), ASEAN-China Free Trade Area (ACFTA), Trans-Pacific Partnership (TPP), etc. and a number of bilateral trade agreements.

However, there may arise a number of conflicts between adherence to international rules and developmental needs of a latecomer country. One well-known area of such conflict is the

speed and scope of trade and investment liberalization (Chang, 2002; Rodrik, 2007; Cimoli, Dosi and Stiglitz, 2009; Ohno, 2013). The market principle points to the desirability of free competition and open business environment, as well as the need to avoid protection of weak industries under the pressure of political lobbying. On the other hand, adoption of market fundamentalist policies in a latecomer economy with limited industrial capability is likely to create dominance of foreign firms and products in the domestic market along with a decline or even disappearance of local producers. This dilemma is an old one debated loudly, for example, in the 19th century Germany and Japan. The problem essentially remains the same in the 21st century where free trade and investment is again advocated strongly by advanced economies and international organizations.

Another area of frequent dispute between advanced and developing countries is concerned with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), where intellectual properties held by firms in developed economies are strictly protected with the result that people and firms in developing economies are asked to pay high prices for using them.

A more subtle but nonetheless serious conflict is associated with industrial subsidies. The WTO Agreement on Subsidies and Countervailing Measures regulates the use of "specific" subsidies[8] as well as actions that are taken to offset the effects of such a subsidy by another country. WTO defines two types of subsidies: (i) *prohibited subsidies* which are subsidies that require recipients to meet certain export targets, or to use domestic goods instead of imported goods; and (ii) *actionable subsidies*, which are subsidies that can be countered when it is proven by the complaining country to have an adverse effect on its interests. The adverse effect includes damage in the importing country's market, damage to a third country's market competition, and damage to exporters of the complaining country in the subsidizing country's market. As a counter-measure, the complaining country can take the case to the WTO's dispute settlement procedure or impose bilateral "countervailing duty."

The rule is clear enough in theory, but application to actual, concrete cases can produce grey areas in practice. Local content requirement above a certain percentage clearly violates National Treatment, one of the most basic principles of WTO. However, a subsidy or tax reduction for domestic production of a certain type of goods, say small fuel-efficient cars, with the condition that production is above a certain minimum level but without specifying nationality of producers or local content percentage, is moot. This is what Thailand and Indonesia are doing in their Eco-car projects. In the context of developing countries, relative size of "damage" must also be considered; claimed damage to advanced economies may be relatively small compared to the urgent developmental need of latecomer countries.

International politics matter greatly in judging whether an action is considered permissible or to be violating WTO rules. When the US government bailed out GM, Ford and Chrysler in the aftermath of the Lehman Shock in 2008, few countries formally complained though this assistance was clearly detrimental to foreign rival auto firms - partly because auto subsidies

were common around the world and because US allies did not want to rock the boat. In this sense, there is a risk that developing countries with little political weight may be given harsher treatment. On the other hand, there is also a possibility that a broader policy scope may be permitted to developing countries if it can be convincingly shown - politically and economically - that such action is highly desirable and necessary for economic development.

Determination of the exact borderline between WTO consistency and violation in latecomers' industrial policy is a matter beyond the current report and needs to be studied separately and more deeply.

4.8. Decentralized administration

Evaluation and granting of investment licenses and incentives is centrally managed in some countries but decentralized in others. Vietnam is a typical country in the latter category where the authority for approving foreign investment is given to the Prime Minister, central ministries (MPI or line ministries), provincial People's Committees, and the provincial Boards of Management of various industrial estates depending on the sector, capital size and location. However, tax and tariff privileges are centrally determined and cannot be modified by ministerial or provincial authorities. Meanwhile, most neighboring countries, including Malaysia and Thailand, have a centralized system of investment screening and approval. Both approaches have strengths and weaknesses.

Merits of centralized FDI administration include policy consistency across all sectors, sizes and locations; avoidance of excess competition among localities offering unduly generous incentives; ease of establishing one agency staffed with competent professionals; and saving in financial and institutional costs. Its largest demerit is the lack of autonomy and competition among line ministries or local authorities for designing policies most suitable to their sectors or regions. The merits and demerits of a decentralized system are basically the opposite of the above. Its positive aspect is local autonomy and competition whereas its negatives include the lack of overall policy consistency, over-competition among localities, weak and scattered administrative capacity, and the high cost of designing and implementing FDI in each sector and province.

Vietnam's FDI policy also suffers from these weaknesses associated with decentralized administration. More concretely, they include ineffective FDI missions staged by a large number of provinces; limited authority and capacity of the MPI's Foreign Investment Agency; excess competition for investors with inadequate screening; local lobbying to the central government for special privileges; the lack of optimal geographical distribution of FDI projects from the national perspective; and resulting problems such as labor shortage, insufficient infrastructure and living conditions, traffic congestion, and environmental damage.

Over time, Vietnam should review the merits and demerits of the current decentralized FDI administration and modify it for greater policy effectiveness and coherence if that is deemed necessary.

5. Concluding remark

This paper has analyzed the FDI performance and policy and proposed certain policy actions for Vietnam.

Since the early 1990s, foreign direct invest-

ment, or entry of foreign businesses into the domestic economy for the purpose of owning or conducting commercial business operations, has been one of the important drivers of Vietnam's industrialization process, together with other changes such as economic liberalization, enterprise reform, new trade opportunities, official development assistance, and participation in global, regional and bilateral trade systems and agreements. Vietnam in the last two decades has advanced from an agro-based low-income economy to the status of a newly industrializing economy with lower middle income. FDI policy has contributed to this achievement through gradual improvement in investment procedure and climate, enabling Vietnam to receive a large amount of FDI that has significantly transformed its output, employment and trade structure.

Because of this success in the initial stage of industrialization, Vietnam now faces new challenges and issues. To attain higher income and technology, the growth model of the past based on liberalization and quantitative expansion must be replaced by one that creates domestic value through upgrading skills, productivity and innovation.

In this historical context, Vietnam's FDI policy, as one of the key determinants of national development, must also change. While improvements in legal and procedural frameworks remain incomplete and must continue in the future, that alone will not catapult Vietnam into a higher level on the technological ladder. In order to graduate from simple manufacturing using low-wage unskilled labor and move toward skill- and technology-intensive economic activities consistent with higher wage, FDI policy must become more customer-oriented, selective, and closely integrated with the nation's overall industrialization strategy.

Key issues relevant to Vietnam FDI policy have been discussed. Among them are policy consistency; operational effectiveness; screening and post-investment follow-up; FDI marketing; priority and restricted sectors; FDI-local firm linkage; consistency with international rules; and decentralized administration as eight key policy areas.

Notes:

1. Because an industry's inputs include not only components and accessories belonging to the same sector but also machinery and other products from other sectors, net export of an industry is only a rough indicator of how much it is contributing to the nation's net trade position. A more precise analysis would require information on input and output structure of each industry.
2. Details and progress of these initiatives and areas of Malaysia are reported in the website of the Performance Management and Delivery Unit of the Prime Minister's Department (www.pemandu.gov.my).
3. The corporate income tax in Thailand was lowered in steps from 30% to 20% during 2011-2013. As of 2013 the CIT rates in other neighboring countries are as follows: Singapore (17%), Cambodia (20%), Malaysia (25%), Indonesia (25%), and the Philippines (30%).
4. The survey was conducted in January 2013 with 1,957 respondents, which breaks down to manufacturing (55.2%) and non-manufacturing (44.8%); large enterprises (26.4%) and SMEs (75.6%); firms with overseas business location(s) (49.9%), firms without overseas business location(s) (47.7%), and no reply (3.1%).

5. Seriousness here means that 20% or more respondents replied that it was a problem. Potential business risks cited were currency overvaluation, insufficient infrastructure, unpredictable laws, lack of supporting industries, intellectual property problems, high wages, tax problems, labor relation problems, account settlement problems, political instability, and natural disaster risks.
6. In some countries, incidents of approved investors importing machinery, components or materials with no tariff and taxes, then re-selling them for profit are reported.
7. In India, there were seven sectors for government monopoly, 18 sectors that required entry permission, and over 800 sectors reserved only for SMEs in 1991. As of 2012 these restricted sectors were reduced to 2, 5 and 20 respectively.
8. The WTO regulates only "specific" subsidies and not general ones. A specific subsidy is a subsidy available only to an enterprise, industry, group of enterprises, or group of industries in the country (or state, etc) that gives the subsidy. They can be domestic or export subsidies.

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