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TOWARDS AN ATTRACTIVE INVESTMENT
CLIMATE IN VIETNAM.

Speech by Mr NGUYEN DANG KHOI, Secretary General of
the Board of Investment, August 24, 1972.

TOWARDS AN ATTRACTIVE INVESTMENT CLIMATE IN VIET NAM

At the outset let me thank the American Chamber of Commerce, particularly Mr Sesto Vecchi, for giving me the privilege and pleasure of addressing myself to such a distinguished audience on my favorite subject : Investment. Indeed, investment has been a subject very close to my heart since I returned to work in Vietnam seven years ago. Today I will try to present to you some of the recent measures taken by our Government and how they fit into the larger picture of the overall efforts to make VietNam a desirable place for a foreigner or Vietnamese investor to do business.

Vietnam used to be considered off-limit to foreign investors. There is no need to mention to you the difficulties created by twenty-seven years of war except to say that the Government's principle preoccupation has been to win the war and economic programs have played a secondary role. Economic reforms and innovations which have become common in other countries of this region have, therefore, been delayed in VietNam. But now the Government is giving to them its full attention, and is committing much of its resources towards creating a favorable investment climate, and particularly to the development of export trade.

On November 15 last year, in his Message to Congress and his Proclamation on Investment and Export Promotion, President Thieu has declared the determination of the Government of the Republic of VietNam to promote the rapid economic development of this country. He pledged Government encouragement and assistance for the expansion of investment and exports.

Since then, the Government has taken up several measures to keep that pledge in spite of heavy burdens imposed anew by the invasion from the North.

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FINANCIAL AND ECONOMIC REFORMS

For years Vietnam's economy was geared towards the emergency needs of the war hence it was inevitable that distortions and inefficiencies developed, making it an undesirable place for longterm investment. Since November 1971, the Government has embarked upon a program of fundamental reform to eliminate distortions and inefficiencies in the exchange, trade and tax system, to foster an envigorating business climate and lay the foundation for a growing and healthy industrial sector capable of meeting the challenge of domestic and international competition.

Instead of boring you with the details which you are all familiar with, I am going to mention only a few most significant measures which have direct bearing on the investment climate. Instead of a fixed rate of exchange artificially maintained throughout the years, we now have a realistic and flexible rate that adjusts itself naturally to market conditions. With black market transactions of foreign exchange become unprofitable, it is now possible for the Government to eliminate most administrative controls. At the same time no investors need worry about large and unexpected changes in the rate of exchange while having equipment or raw materials imported, a source of bitter complaints in the past. In addition, the new exchange rate structure makes export of Vietnamese products possible, opening up new opportunities for profitable investment in export-oriented industries.

Another measure is the present ambitious plan to reform the tax structure. This is a matter about which most of you are all too familiar. Suffice it to say that Vietnam has inherited a tax structure that is immensely complex, and cannot be understood except by tax experts.

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Throughout the years it has become a patchwork of regulations and amendments all jumbled together, and is very difficult to enforce.

As example, the income tax is based on a sliding scale set up nearly 20 years ago which today as the result of the piaster's devaluation has become totally unrealistic. A tax as unrealistic and onerous as this simply invites tax evasion, and an effort on the part of tax collectors that is either lethargic or worse. I believe that it is the intention of Government to promulgate soon a revised Income Tax measure which would be much more reasonable, enforceable, and understandable.

In another area, progress has already been made to simplify our system of customs duty. Formerly it was very complicated with some 300 separate rates. Again, such a complicated system was virtually unenforceable, resulting in substantial losses to the nation's coffers. In addition it was found that a duty rate of 700% or 800% merely encouraged smuggling, and revenues from this source did not increase as expected. Recently a much simplified system was introduced with only four import duty rates. Most imported commodities, necessary for the development of the country, such as capital equipment, spare parts, and raw materials for industries can enter duty free. On the small balance duties are assessed at 25%, 50%, 100% or 200%.

The rest of the tax system is also undergoing revision with a view to encourage a healthy business growth and at the same time avoid losses to Government's revenue.

With such measures of simplification and rationalization, many troublesome control procedures have been streamlined. For example, the export license has already

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been eliminated for most commodities; import licensing has been abolished for all GVN financed imports; import procedures for equipment and raw materials under CIF program have also been greatly streamlined to save time and effort for investors.

NEW AND STRENGTHENED INSTITUTIONS

Along with the above reform program, the Government has created several important institutions and strengthened existing ones for the purpose of promoting investment and foreign trade, and assisting investors with integrity and dedication.

First off, the Industrial Development Center, one of the oldest such institutions in Viet Nam, was converted in May 1971 into an Industrial Development Bank -- and will concentrate its efforts in the area of investment financing, and in building profitable client industries.

Then, the Export Development Center, equally old but long dormant because of the heavy emphasis on imports which was demanded by the struggle against inflation. It has been revived and greatly strengthened and, helped by potent Government export incentives, it has already assisted in raising the country's export rate to almost double that of last year, despite the current North Vietnamese invasion.

In February 1972, The National Economic Development Fund was established with an initial capital of 10 billion piasters. This fund will serve the twofold purpose of providing virtually unlimited capital financing for new ventures; and since the fund will be disbursed through local banks, such as the IDB, the Agricultural Development Bank, SOFIDIV, and others, it will serve to strengthen the local banking community, and broaden the scope of activities of some of the

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commercial banks. And now I believe that plans are being considered for setting up a banking institution specialized in export financing. Then there will be enough credit to meet the investor's every financial need.

To help offset the initial investment cost, low-cost infrastructures for industries have been offered for years by SONADEZI, the Government agency in charge of developing industrial parks. SONADEZI offers plant sites in well planned and developed industrial parks complete with access and public utilities at moderate cost. The operations were expanded recently to Can Tho in the Delta, and to Da Nang in Central Viet Nam, and plans are now being made to convert the famous Long Binh military base into another industrial park which will include an export processing zone.

THE NEW INVESTMENT LAW

All the efforts mentioned was climaxed by the promulgation of Law No 4/72 "Regulating Investment in Vietnam" generally referred to as the New Investment Law. This measure had been fully deliberated, for almost two years, in both Houses; and it therefore represents a consensus of both the Executive and the Legislative Branches, and has the support of both.

The New Investment Law offers certain privileges to investment projects - whether industrial, agricultural technical or ~~whatever~~ - to the extent that they meet certain priority criteria, such as the generation of foreign exchange (either by export or by import substitution), employment of labor, use of indigenous raw materials, locality, and the overall contribution of the project to the national economy.

The privileges which an approved investment can earn, if it meets these criteria, are substantial : and I should like to refer briefly to a few of them.

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First, the law confirms that it will accord the same treatment to foreign as to Vietnamese investors. Moreover, there is no upper limit to foreign ownership : a foreigner may own 100% of a new venture. Of course, broadening of the ownership base to include Vietnamese participation, would probably be sound entrepreneurial judgment, and would be so regarded by the Board.

To attract the foreign investor, the law stipulates that he may remit in hard currency his full share of profits earned from foreign capital invested. It is understood that the Government will permit this repatriation of profits at the rate of exchange prevailing at the time profits are actually remitted.

The most important privileges include a five year exemption of profits tax, duty exemption not only for imported capital equipment but for spare parts and operating supplies and materials; and a five year exemption from a host of taxes related to doing business, acquiring or transferring real estate, borrowing money, transferring securities and others. However, the 5 year profits tax holiday may be terminated if, during the five year period, the initial investment is recovered by distributed profits.

In addition, if an approved project requires an essential technician, the Board may recommend that he be ~~exempt~~ from payment of the Vietnamese income tax for a period of three years.

Finally, the law specifically guarantees against nationalization, and against creation of a competitive government owned enterprise.

There are other privileges also, but the foregoing are probably of greatest interest to you. As a whole, we believe that this law compares favorably with current investment laws of other countries in the region. In many instances it even proves to be much more progressive and generous.

THE INVESTMENT SERVICE CENTER

The Government does not by any means consider the New Investment Law to be the only measure necessary to an improved investment and business climate. It provides the legal framework for investment in Viet Nam, and is but one part of a massive effort to eliminate wherever possible the disincentives to doing business here.

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Experience from other developing countries reveals that red tape with its troublesome and time-consuming characteristics often proves to be fatal to the investment promotion efforts. An investment climate cannot be considered attractive as long as investors still feel confused, angered and discouraged by complicated, lengthy, costly and impossible government regulations. Under the former investment law, an office of the Investment Commission was responsible for the screening of investment applications. However, after approval of their investment plans, investors still had to individually apply to the various government authorities for approval of various matters concerning the implementation of their investment projects. As most investors, especially foreign investors, were not familiar with government regulations which incidentally changed quite often in the past, they often felt confused and frustrated. In some cases, unpleasant issues developed as a result of the investors' entrusting the implementation of their projects to the improper parties.

In an attempt to remedy the situation, the Government established the INVESTMENT SERVICE CENTER (ISC) on March 31, 1972 to serve two main purposes : to promote investment through the incentives stipulated in the new investment law and to assist investors completing all administrative procedures concerning his investment. The ISC consists of 2 offices :

1- Office of the Board of Investment.

Headed by a Director, Mr. CHU TAM CUONG, a graduate of University of Arizona (1964).

It is the responsibility of Mr Cuong and his staff to review applications for privileges under the New Investment Law, to analyse them in terms of their contribution to the national economy and to make recommendations to the Board of Investment . The Board of Investment of which I am the Secretary-General is composed of high-ranking officials representing Ministries or agencies directly concerned with the promotion and coordination of investment in VietNam. Chaired by the Minister of Economy the Board will include representatives of the Ministries of Finance, National Planning and Development, Interior, Land Reform and Agricultural Development, as well as the Director General of

Foreign Exchange, and representatives from private industrial and business sectors.

The Office of the Board will conduct studies concerning such matters as taxation and labor, will identify blocks or obstacles and recommend ways of surmounting them. It will develop and recommend new investment policies and promotional strategies. It will recommend priority attention to specific investment opportunities not only because they will contribute to development of the national economy, but because they are, or can become, profitable enough to interest private investors.

2- Office of Investment Services.

Headed by a Director, Mr. DO DUY LAM, a graduate of Monash University, Australia. The functions of this Office are promotional ; and it promotes investment in two ways. First, it publicizes profitable investment opportunities, by means of brochures, notices in the media, and direct approach to potential investors. Even more important, perhaps, it is responsible for speeding up the formalities, so that there is as little delay as possible between the time an entrepreneur decides to invest, and the start-up of his project. We hope that in the future the only address an investor will need to know is that of the Investment Service Center. He will need to come only to ISC for all the permits required for his investment. This is the "one-stop" or "one-door" service principle, one that has been applied with great success in several other countries such as Korea, Singapore, Taiwan. It places with the ISC the responsibility of cutting through red tape, and assisting the investor in every way possible to understand and comply with regulations, to obtain permits, visas, and meet other legal requirements, and in general to expedite, by eliminating roadblocks, the progress of every approved investment project. We hope to reduce the lead-time of a project, which presently might take up to 24 months, down to three or four months, as far as red tape is concerned.

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Since the Board of Investment will include representatives from most agencies concerned in the investment and implementation process, we expect that we can obtain maximum intraministerial cooperation in our program. In time, we expect that officials up and down the ladder in these ministries and agencies will recognize the authority of the Board and give top-priority attention to directives issuing from it, resulting in efficient and speedy handling of all applications concerning investment.

Of course, all this is a monumental task, and at our most optimistic we do not hope to achieve our goals overnight. The difficulties you are having in obtaining travel visas, in repatriating profits, in getting all the permits for the implementation of your approved investment projects will not be over tomorrow. But let me assure you that we are determined to **reach** our goals, and with careful planning, realistic strategies, with the co-operation and goodwill of the involved ministries and agencies, and with your patience, we expect that they can be achieved in a not too distant future.

Fortunately, we have certain advantages, of which we expect to make maximum use.

First, the new Investment Law gives us an undisputed mandate. We are responsible directly to the Board of Investment, the government body responsible for all problems involving investment in Viet Nam. Moreover, it is planned to set us up as a financially autonomous agency, supported by sources both within and without the National Budget. This financial independence is important because it will enable us to offer salaries sufficiently high to attract the best technical talents available. Our staff made up as it is of well-qualified and highly-motivated young men, who are dedicated to achieving the goals I have mentioned.

Our office, at 100 Tu Do Street, is centrally located, and convenient in respect both of the hotels in which foreign investors are likely to stay, and of the Vietnamese business and government offices.

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We are the only institution in Vietnam which maintains direct contact with investors and with the Board of Investment, hence we are in the best position to provide accurate and authoritative information to investors and to collect feed-back information from them to further improve the investment climate in this country. One hundred Tu Do is the only address an investor needs to remember and the first place he needs to come to.

CONCLUSION.

Looking ahead, what can Vietnam offer the investor ? Abundant natural resources virtually untapped ; a large and well-trained labor pool which will become more and more accessible as the war winds down ; a large number of engineers, technicians and other professionals, fine products of well-established educational institutions ; a vast infrastructure, inherited from the war, which can make other developing countries turn green with envy ; a new Investment Law that is more progressive and generous than even the best ones in the region ; and of course, the determination of the Government to take every possible measures to improve the investment climate and attract foreign investors. Taken as a whole, it promises to be a pretty good package.

Thank you for your attention.