

Building on strong foundations

INTERVIEW WITH HE VO HONG PHUC

MINISTER OF PLANNING AND INVESTMENT, VIETNAM



VO HONG PHUC graduated from the Mineral Faculty of Ha Noi University of Technology in 1968. He has worked in the Department of Industry since joining the government in 1969. He took several roles within the department until he was promoted to Director General in 1992. In December 1992 he was appointed Vice Minister of Ministry of Planning and Investment, and shortly afterwards became a member of the Central Committee of Vietnamese Communist Party. Since 2002 he has been the Minister of the Ministry of Planning and Investment. He has been a member of the National Assembly of Vietnam since 2002.

What are your key aims and objectives in terms of planning and investment policy in Vietnam?

The planning and investment policy of Vietnam aims to mobilise and efficiently use all development resources, maintain high and sustained economic growth and gradually narrow the development gap in order to compete with other countries in the region and the world. This policy also aims to speed up industrialisation and modernisation, develop a knowledge-based economy, improve the material, cultural and spiritual life of our people, strengthen and expand our external relations, integrate judiciously with the world economy and raise the status of Vietnam in the region and on the global stage.

To achieve those goals, Vietnam is undergoing reform and we have upgraded our planning and investment policies in recent years, leading to encouraging results in terms of socio-economic development and international economic integration. The international community recognises and values our achievements.

How important is foreign direct investment to Vietnam's economic development?

In implementing the open policy to attract foreign direct investment, the foreign-invested sector has been expanded and promoted to become an important part of our economy, and has greatly contributed to the success of our reforms and economic development in the past twenty years.

Firstly, foreign investment has made positive contributions to our economic growth and development. During 2001-05, the foreign-invested sector accounted for 14.6 per cent of GDP. Specifically, in 2006 and 2007, this figure was 17 per cent, with a total biennial turnover of over US\$ 69 billion.

Secondly, foreign investment is an important source of capital to meet investment needs for social development and economic growth. To date, the registered capital of foreign investment in Vietnam has totalled more than US\$98 billion. It is noted that foreign investment inflows to Vietnam has reached US\$20.3 billion, a rise of 70 per cent against 2006 and nearly equal to the total foreign investment inflows of the 2001-05 period, accounting for 20 per cent of foreign investment in the last 20 years. From 2001-05 and in 2006 and 2007, foreign investment made up approximately 17 per cent of total social investment.

Thirdly, foreign investment has contributed to restructuring the economy and accelerating national industrialisation and modernisation. Industrial growth of the foreign-invested sector from 1996 to 2000 was higher than the average industrial growth of the whole country, shifting the economic structure to industrialisation and modernisation and increasing the corporate contribution to GDP from 23.79 per cent in 1991 to 40 per cent in 2004. So far, the foreign-invested sector has made up about 35 per cent of total industrial production value, creating new industries and increasing the capacity of others. In terms of agriculture, the foreign-invested sector has generated new high-technology products and new breeds. Foreign investment has promoted services in Vietnam by improving quality, especially in the telecommunications, tourism, real estate, transportation, finance and banking sectors.

Fourthly, the foreign-invested sector has fostered the transfer of advanced technology to Vietnam, developed major sectors such as telecommunications, oil and gas exploration and production, chemicals, engineering, electronics, information technology, and the automobile and motorbike manufacturing industries. Most of all, foreign-invested businesses have applied modern management methods and advanced management systems used by their parent companies.

Fifthly, there have been knock-on effects of foreign investment on other economic sectors. Through the linkages between foreign-invested companies and the domestic ones, technology and business capacity have been transferred from foreign-invested enterprises to other parts of the economy.

Sixthly, foreign investment has markedly contributed to the State's budget and macro balances and played an important role in generating jobs. The contribution of the foreign-invested sector to the budget has increased. From 2001-05, the budget revenue of the foreign-invested sector was more than US\$3.6 billion, an increase of 24 per cent per year. In 2007, this figure exceeded US\$1.5 billion. In addition, foreign investment has helped maintain macro-economic balances such as a balanced budget and the balance of payments account by encouraging the transfer of capital to Vietnam, increasing foreign currency revenue from tourists, land rent and purchase of machinery and raw materials. The foreign-invested sector has also created 1.26 million direct jobs and

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millions in indirect employment.

Seventhly, foreign investment has helped Vietnam to access and expand into international markets, and enhance export capacity. The export value of the foreign-invested sector (including crude oil) in recent years has always accounted for more than 55 per cent of national export value. In 2007, the export value of the foreign-invested sector reached US\$19.7 billion (crude oil excluded) and US\$27.3 billion (crude oil included), making up nearly 57 per cent of national export value.

Eighthly, foreign investment has contributed to expanding our external relations and promoting Vietnam's economic integration in the region and the world. Foreign investment has also helped Vietnam extend international economic integration via multilateralisation and diversification, and push the process of trade and investment liberalisation. Vietnam has signed 51 agreements on investment encouragement and protection including the Vietnam-US Bilateral Trade Agreement and the Vietnam-Japan Agreement on Investment Liberalisation, Encouragement and Protection. Through the help and support of foreign investors, Vietnam's image and position has been enhanced. In the coming years, with the policy to use all the resources for development to meet the huge demand for investment capital, foreign investment will continue to play an important role in the social and economic development of Vietnam.

What role does domestic investment play in Vietnam's economy and what policy initiatives are in place to promote this?

Domestic investment plays an important role in implementing the Social and Economic Development

Plan for 2006-10 and the following years in a sustainable manner. It is projected that domestic investment will account for 65 per cent of the total investment between 2006-10.

The Government of Vietnam has been consistently undertaking policies to promote, mobilise and effectively use this vital source of capital. The goals are as follows:

- Ensure macro balances and build a stable and healthy financial system to attract foreign investment under various forms.
- Continue to improve the business and investment climate, create favourable conditions for the development of all types of business, reduce costs and facilitate business registration. Remove discrimination in access to information of opportunities, sources and markets among economic sectors.
- Upgrade the legal system to encourage domestic investment. Continue to finalise the implementing documents of the Construction Law and Investment Law.
- Increase decentralisation in investment management in accordance with the requirements of the administrative reforms and the simplification of investment procedures.
- Push the reforms and equitisation of State-owned Enterprises (SOEs), attach equitisation of SOEs to listings on the stock exchange.
- Encourage and honour the spirit of business and entrepreneurship.

The banking sector has shown impressive growth in recent years in Vietnam. Do you see the potential for further liberalisation in this area?

In Vietnam, liberalisation is evaluated in two ways: to expand the rights to business for domestic commercial banks and to open the market for foreign banks.

The Strategy on the Development of the Banking Sector by 2010 was approved by the Government in 2006. Accordingly, interest rates will be fully liberalised, as will the exchange rate.

Vietnam's commitments within the WTO's roadmap for liberalisation in finance and banking are strong, for instance, the right to mobilise capital in Vietnamese currency of foreign banks by 2010 will be identical to that of domestic banks and the foreign-owned banks will have the same rights to business as the domestic banks, and foreign ownership in the banking sector will increase from 30 per cent at present to 49 per cent by 2010. Vietnam continues to fulfil these commitments.

The issue of energy security and its impact on international relations is now top of the policy-making agenda. How do you view this issue, especially with regard to investment in the energy sector?

Currently, with fossil fuel sources becoming scarcer,

Vietnam's SME sector is a key driver of economic growth



the potential of new energy and renewable sources still being limited and the energy price highly volatile, the policy on national energy security is really one of the most important items on the national policy making agenda. Investment in energy requires a comprehensive policy on the development of all energy sources, exploitation and economical use of domestic sources, import substitution, suitable import and export of coal, connectivity of the energy network in the region, extension of oil and fuel storage, and energy security in coordination with national defence and security.

Currently, energy security is a crucial factor affecting international relations through trade and investment and regional and global networking cooperation.

In terms of trade, the export of primary energy would decrease as the national policy on energy security is implemented. Crude oil would be the raw material for domestic refinery plants. Coal would be used in domestic coal-fired power plants. The import of fuels would be reduced as a result of domestic production. The connectivity of regional power grids would also help to enhance the trade of electricity.

In terms of investment, there will be a huge demand for investment to realise the government's energy security policy as the construction and installation of power and refinery plants, petroleum storage systems and regional power grids take place. Domestic capital resources are limited, therefore we encourage domestic and foreign investors to invest in the energy sector. Direct foreign investment and official development assistance will increase in the energy sector, in the coming years.

In terms of the energy sector, this is the top development priority because energy is central to economic growth. National energy security, in other words, is the assurance of economic growth in a stable, independent and self-reliant manner. Therefore, investment in the energy sector should be in line with the principle that both investors and the economy benefit. Apart from domestic investment, foreign investment in energy has a very important role to play.

How should risk be shared in the development of energy infrastructure?

As for foreign investment in the energy sector, investors pay attention to major risks such as inputs, outlet for products and currency exchange. Therefore, the government of Vietnam helps investors avoid risks where possible and creates a favourable investment climate for investors in accordance with Vietnam's Investment Law. In the implementation of energy projects, the projects should gain contracts and guarantees. For example, a foreign-invested power plant under BOT (Build-Operate-Transfer) must obtain the BOT contracts, the coal and power purchase agreements, the commitment of the Government's

guarantee of payment of Vietnam Electricity Group (the power buyer) and the transfer of foreign currency prior to the implementation of the project.

What is the current progress on economic liberalisation and the international integration of the Vietnamese economy?

Recently, Vietnam has participated in various forums and regional and international cooperation frameworks with a view to fulfilling policies relating to furthering integration and economic liberalisation. Vietnam's achievements have been recognised and appreciated by the international community.

In 2007, there was a significant event in Vietnam's international economic integration – our entry into the World Trade Organisation (WTO). Last year, Vietnam fully implemented its commitments within the WTO negotiations. As a result, Vietnam's legal system and regulations have become transparent, in compliance with international standards. Moreover, Vietnam has put in place the essential factors for a market economy. Many countries now recognise Vietnam as a market economy.

Within ASEAN, Vietnam has contributed to intra-bloc liberalisation by joining the ASEAN Charter (signed in the end of 2007), building the ASEAN Economic Community and partaking in free trade agreements between ASEAN and its partners, including the United States, Japan, China, the Republic of Korea, Australia, New Zealand, India and the European Union. Indeed, Vietnam has actively liberalised in terms of goods, services, capital and movement of labour in order to achieve the goal of building a common and united market for ASEAN by 2015.

Vietnam has increased bilateral cooperation with all

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Vietnam's path to the future will be conditioned by its success in attracting FDI



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countries, especially the countries in the Asia Pacific region and European Union. Vietnam, together with its partners, has formulated and implemented a series of agreements on bilateral economic cooperation. In addition, Vietnam has actively participated in forums and international economic frameworks such as APEC, etc.

Recently, the election of Vietnam as a non-permanent member of the UN Security Council has affirmed the confidence of the international community in Vietnam, our positive contribution and our important position on the global stage.

What are the benefits of membership of the ASEAN Free Trade Area and Vietnam's accession to the WTO?

Vietnam has a policy to enhance economic liberalisation and international integration. We have taken the lead in participating in regional and international integration frameworks to make use of the benefits of liberalisation. Specifically, participation in the ASEAN Free Trade Area (AFTA) and the World Trade Organisation has helped Vietnam gain important benefits.

Vietnam's entry into AFTA has not only helped Vietnam contribute to stability, unity and peace in the region, but also created fundamental changes in our legal system and domestic policies in accordance with international standards. Accordingly, Vietnam has enjoyed favourable access to markets in the region. As a result, the competitiveness of the whole region and of individual economies, including Vietnam, will increase.

It should be noted that these are initial steps and lessons for deeper integration in the future. Joining AFTA has helped raise awareness of international economic integration and constituted useful steps for preparation of domestic businesses to go to broader markets.

Our accession to the WTO has enabled Vietnam to enjoy the rights of member countries. Specifically, Vietnam will have three major interests: (i) rights of fair access to market, (ii) rights to dispute settlement and (iii) establishment of a consistent and transparent legal system.

With the rights to market access, Vietnamese businesses will have the rights of WTO non-discrimination in market access in terms of goods and services. Vietnam will have better conditions to promote its exports and overseas investment in order to enhance national competitiveness and production.

Now that a dispute settlement mechanism is available, enterprises will be protected in accordance with transparent, impartial and binding international principles and rules. Enterprises can therefore avoid damages, and receive compensation in case of discrimination or partiality.

Vietnam's legal system is being made more transparent, clear, and consistent with international rules and practices after acceding to the WTO. This will not only increase the attractiveness of the

Vietnamese market to foreign investors, but also help the international community to broadly recognise the market status of the Vietnamese economy, which is an important ground for Vietnam's accessibility to other members' markets at the highest level possible.

The socio-economic achievements of Vietnam in 2007 represent a vivid manifestation of the positive influence of our WTO membership after one year.

Into which sectors are you seeking to attract foreign investment and expertise?

Foreign investment and technology play an important role in our industry as they create opportunities for the transfer of advanced and modern technology, managerial experience, research and development, and human resources training. This will contribute to our national modernisation and industrialisation. Vietnam's policies encourage the attraction of foreign investment and technology in the following key areas:

- High-tech, new technologies and areas of high added value and competitiveness, especially technologies from developed countries;
- Processing industries, infrastructure for industrial parks, high-tech zones, technical infrastructure for electricity, sea ports, and supporting industries. Investment from international groups is encouraged in major projects.

What is your vision for the Vietnamese economy in the medium term?

In the future, the Vietnamese economy will enter a new development phase that presents new opportunities. Preconditions for sustainable development are also stronger than before, both qualitatively and quantitatively, allowing Vietnam to become an industrialised and modern country by 2020.

By 2010, Vietnam will no longer be a low-income developing country, thanks to high GDP growth rates (forecast at around 8-9 per cent from now to 2010), when income per capita is estimated to be over US\$ 1,100. The economic structure will undergo a positive shift towards higher contributions to GDP from the industrial and service sectors and less from agriculture. Socio-economic infrastructure will be remarkably improved. Vietnam is now attracting foreign direct investment and strengthening its exports and imports. The percentage of poor households in the population will decrease to around 10 per cent.

After 2010, the Vietnamese economy is estimated to have good growth prospects. These crucial foundations for development have been built by reform and open-door policies, high growth rates and stable macro-economic balances, a surge in investment in the economy, and many completed large-scale infrastructure and production facilities. **F**