

Thematic Report

**FDI FOR AGRICULTURE 1988 - 2003
AND ORIENTATIONS TO 2010**

*Tran Nam Binh
Manager
ISG Secretariat*

Hanoi, April 2004

I. The situation on attraction and implementation of foreign investment in agriculture 1998 - 2003

1. Foreign investment in the agriculture and rural sector is lower than in other sectors

By the end 2003, 5.424 foreign investment projects nationwide have been licensed with the total registered funds of US\$ 54.8 billion, among them 4,376 projects are still valid with total investment capital of US\$ 41 billion. The industry and construction sectors account for the largest proportion, particularly 66.9% of the total projects and 57.2% of total registered capital. Ranking the second is the services sector, accounting for 19.5% of total FDI projects, and 35,8% of the total registered capital. The **agricultural, forestry, fishery sectors account for 13.6% of the total projects, and 7% of the total registered investment capital.** (*MPI statistics*).

In the period 1998-2003, the agricultural and rural development sector received 781 FDI projects with the total amount of registered capital up to over US\$ 3.8 billion. Among that number, 528 projects have been put into operation with the total capital of over US\$ 1.75 billion. (*MARD statistics*).

FDI in agriculture and rural development 1988 - 2003 (*)				
Year	Registered capital (USD)	Implemented capital (USD)	Registered projects	Impl'ted Projects
1988	119,930,000	8,000,000	4	1
1989	120,965,020	11,201,969	19	6
1990	106,851,716	29,995,827	33	25
1991	176,140,152	86,674,092	34	29
1992	138,309,813	113,785,092	34	31
1993	460,692,299	168,167,901	48	37
1994	421,960,626	315,055,357	44	36
1995	634,363,904	442,676,069	59	52
1996	349,661,993	165,842,545	45	33
1997	352,618,859	139,046,562	43	30
1998	167,443,925	56,004,112	53	48
1999	150,212,470	85,802,918	64	58
2000	137,134,238	59,635,968	79	67
2001	214,284,037	53,371,938	78	51
2002	171,378,897	17,073,068	90	23
2003	112,649,020	1,000,000	54	1
Total	3,834,596,969	1,753,333,418	781	528

(*) As of 10/2003

Annually, the agriculture and rural sector attracted at an average of **50 projects**, worth around **US\$ 200 million**. Most FDI projects in agriculture are small, medium-sized, and are located near the local sources of raw materials.

In 2003, FDI enterprises employed some 75.000 industrial labours and some ten thousands of agricultural labours. These enterprises contributed more than US\$ 17 billion to the State budget, and obtained an export turnover of over US\$ 500 million.

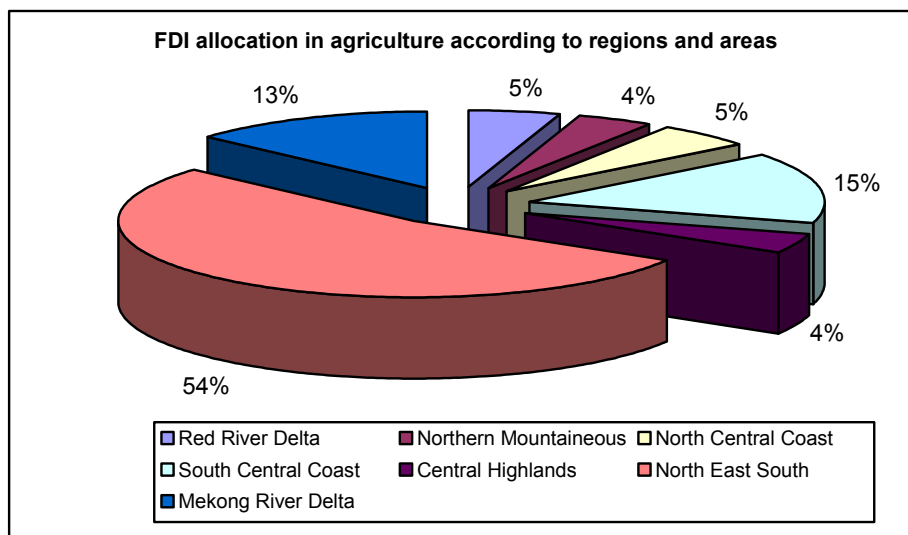
About 50% of the total registered capital was put into operation.

2. Uneven allocation of foreign investment among regions and areas

The structure of foreign investment capital, to some extent, is still irrational. In spite of several preferential policies for the agricultural, forestry, fishery sectors, the foreign investment capital in these sectors remains too low, and the registered capital continues to decrease.

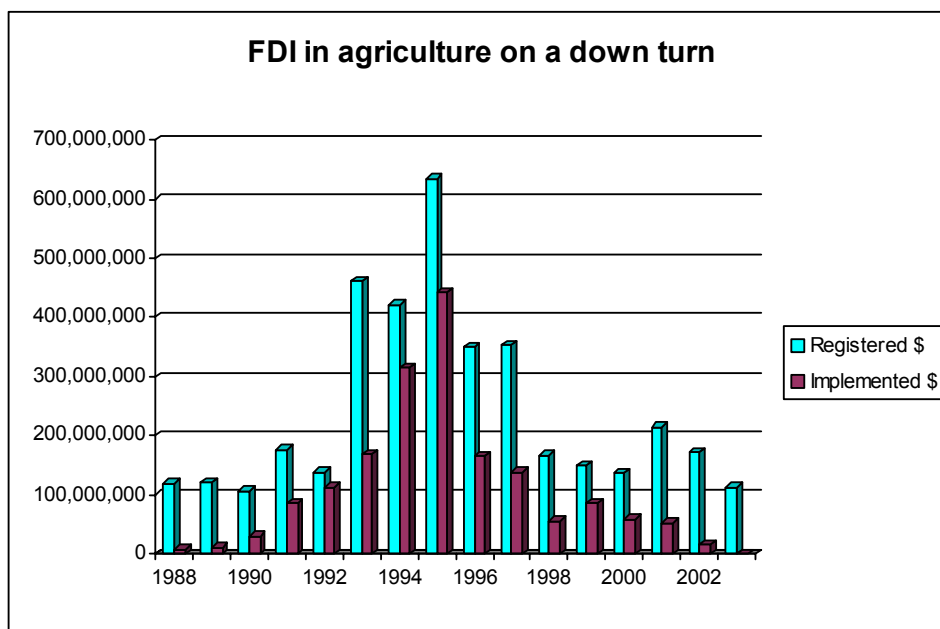
Foreign investment is mainly focused to the favourably-conditioned areas: North East South (54%), whereas has limited impacts on the Northern mountainous area (4%), Red River Delta (5%), North Central Coast (5%), Central Highlands (4%) and Mekong River Delta (13%).

According to the Ministry of Planning and Investment, some preferential policies have been stipulated in Government's Decrees, namely 5-year tax exemption for importing production materials for the projects of special investment encouragement, and the ones located in the areas of difficult social-economic conditions, and so on.



3. Foreign investment in agriculture and rural sector shows a decline trend

Foreign investment in the agricultural sector has been decreasing since the Asian financial crisis 1997. Until now, no signal of recovery has been recorded due to the fact that investment conditions into the sector has not been really attractive.



The percentage of projects that were terminated and converted in terms of investment forms in the sector is 20%, higher in comparison with the average of 16% nationwide.

4. Big investors in agriculture have not been really ready to invest in Vietnam

So far, over 30 countries and territories have been investing in the agriculture sector of Vietnam, mainly the Asian nations.

Agricultural powers are such as the USA, Canada, Australia and European countries (except France) have not really invested in Vietnam.



5. Some remarks on FDI situation in Vietnam's agriculture over the past time

Active contributions:

- ✓ Structure of foreign investment capital is relatively appropriate to requirements for the sector economic restructuring. The investment capital has been attracted fairly equal to cultivation, agro-forestry products processing, sugar production, animal food processing, breeding, reforestation and paper material production;
- ✓ FDI projects have contributed a lot to the promotion of production capacity, brought about advanced technology, and contributed to increasing the competitiveness of agro-forestry produces. Sugar production programs, vegetables and fruits plantation and processing programmes, reforestation programmes, and new technology transfer have produced high-yield plant and animal varieties, and other processed products of international standards;
- ✓ Ten thousands of jobs have been created (there have been so far 75.000 industrial labours working for FDI enterprises in the sector), raw materials and services produced for the processing industry, etc. Skill for managers and technical staff have been strengthened, and workers trained with higher professional skills.

Some issues for consideration:

- ✓ Compared to other sectors, foreign direct investment to agricultural and forestry sectors are still low, not matching the potentials and importance of the sector in the national economy. At present, agricultural, forestry and fishery sectors account for only 13.6% of the total projects and for 7% of the registered investment capital;

- ✓ There has been no agency of the sector responsible for formulating a strategy to attract and plan utilisation of FDI sources in agriculture and rural sector, including the supervision and addressing of impediments during implementation of projects.
- ✓ Attention should be paid to setting up a system of policies to encourage the modern-oriented development of agro-forestry production in order to expand the national and international markets. Policies of land use, tax and investment preferential, particularly investment in agriculture and in rural areas, should be completed.
- ✓ Although infrastructure and skills of rural labours have been much improved thanks to achievements on poverty reduction, it has not been attractive enough to lure foreign investors;
- ✓ There are much more risks in investment in the agriculture and rural areas than in other sectors. Vietnam's agriculture still depends mainly on raw materials. The time for agriculture investment and capital recovery is long. The agriculture sector is directly influenced by weather and disasters, particularly by adversely fluctuating prices of raw materials in the world market. And yet, agro-products of high quality, famous trademark and high added value have not been produced.
- ✓ The majority of projects are small-scaled, uneven allocated among the regions and areas of the nation.
- ✓ No mechanism for regular linkages between the Ministry and Provinces has been established in order to select prioritised projects in agriculture sector for introduction to foreign investors.
- ✓ Stronger investment encouragement policies should be formulated in the areas of agro-forestry products processing technology, post-harvest preservation, production of high-quality seedling and animals to meet the domestic demand and for exports.
- ✓ The enterprises in the agriculture sector have not been strong enough to actively call for investment in accordance with their own strategies and market development.

II. Orientations to attract FDI in agriculture and rural areas to the year 2010

1. Sector Development objectives towards 2010

- *To build a commodity agriculture that is strong, diversified, sustainable and highly effective on the basis of making full use of comparative advantages, application of new hi-technology to produce highly competitive products upon our entry into the WTO, immediately the AFTA and BTA.*

- *To build new rural areas with an appropriate agriculture-industry-services structure, gradually striving for industrialisation and modernisation, creation of jobs for rural people so as to build new rural areas of good livelihood, democracy, equitableness and civilisation.*

(Strategy of Agriculture and Rural Development towards 2010)

2. Issues to be addressed

Various resources should be co-ordinated in order to attain ultimate effectiveness of investment, avoiding separate utilisation:

1. Investment capital sources from the State budget (including the Government bonds),
2. Loans or grants by foreign countries (belonging to the State budget),
3. Investment capital from domestic investors, direct or indirect,
4. Investment capital from foreign investors, foreign direct investment and indirect (through issuing company stocks and bonds).

It is vital to combine those resources as each of them has its own advantage. Among those, **FDI should be encouraged and mobilised so as to ensure the objective to build a strong commodity agriculture with high effectiveness on the basis of making full use of comparative advantages and application of new hi-technology to produce competitive products upon international and regional integration.**

Investment capital from the State budget and loans from foreign countries should be prioritised for synchronised **improvement of infrastructure for agriculture and rural areas**, creating momentum for the development of a commodity agriculture on the basis of encouraging private investment and sound competition. This source of capital will play an important role in encouraging application and research of new technologies right at the beginning of production cycle when no profit is seen.

At the same time, capitals from national investors (enterprises, households and individuals) will create the diversity, abundance and attraction to the supply of Vietnam's agro-product market.

3. Solutions for effectively attracting and using FDI in agriculture

- To formulate a strategy to attract and plan the utilisation of FDI in the sector, particularly to strengthen interaction, introduction of investment opportunities and potential products to foreign investors;
- to establish a standing agency fully responsible for management of issues relating to FDI (from interaction, procedures support, statistics, monitoring and evaluation, management and addressing of problems faced by enterprises during their business operation;

- to contribute in a systematic manner to the national list of projects calling for investment, based on strategies and plans in combination with local proposals (not only based on local proposals just because of the fact that they lack an overall objective)...
- to use ODA sources to support FDI flows in agriculture and rural areas (for example, to design a strategy and plan for FDI in the agricultural sector, to set up a general system for monitoring and evaluation of the effectiveness of resources for development; design training courses to strengthen capacity enterprise management, vocational training schools in rural areas; design programs to support investment promotion; programmes to support development of trademarks for Vietnam 's agricultural products; design programmes to create modern agro-products markets, etc.).

III. **Appendix:** List of FDI Projects in the agriculture and rural development sector