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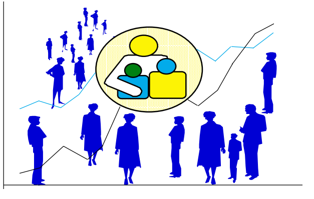

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Some Experience of the Four Asian Tigers on Trade and Investment Related Issues

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Abstract

Capital investments, in the form of direct investment, currently flowing into Vietnam indicate overseas investors' belief that Vietnam is going to be the next growth center, or the next 'tiger', in South East Asia; and they may be able to make extravagant profits for getting in early to get ready for the economic take-off.

The capability of trade and investment policies focussing on domestic issues is reduced because of global linkages in trade and investment. Therefore, policymakers must view domestic policymaking in the global context in order to maintain a viable trade and investment environment. To arrive at a sound and realistic policy on trade and investment for Vietnam, one way is to learn from Hong Kong, Singapore, South Korea, and Taiwan, nicknamed as 'Four Tigers' in the Pacific Rim for their phenomenally rapid economic growth. The three different but interrelated areas: national trade and investment policies, environment, and corruption which are critical to Vietnam are discussed herein.

A sound and realistic trade and investment policy should be based upon the minimum intervention, balanced by a commitment to maintaining the most business-friendly environment. Nevertheless, it must provide a reasonable balance between the environment and foreign investment issues, or the so-called "enough pain, enough gain" policy. In terms of corruption, opportunities for corruption could be reduced by trimming layers of bureaucracy, paying government workers adequately, introducing more sophisticated and effective accounting and auditing practices, and by an education system which is committed to the balance of collectivism and individualism.

Introduction

Capital investments, in the form of direct investment, currently flowing into Vietnam indicate overseas investors' belief that Vietnam is going to be the next growth center, or the next 'tiger', in South East Asia; and they may be able to make extravagant profits for getting in early to get ready for the economic take-off. Historically, trade and investment policies have been a subset of domestic policies. Domestic policies in turn have aimed primarily at maintaining and improving the standard of living, the development level, and the employment level within a nation. However, this view of trade and investment policies is changing. Increasingly, the capability of policymakers simply to focus on domestic issues is reduced because of global linkages in trade and investment. Policymakers must view domestic policymaking in the global context to maintain a viable trade and investment environment.

To help arrive at a sound and realistic policy on trade and investment for Vietnam, one way is to learn from its neighboring countries-Hong Kong, Singapore, South Korea, and Taiwan- nicknamed "Four Tigers" in the Pacific Rim for their phenomenally rapid economic growth. They have gone through the trade, investment and environmental problems; and have considerable experience in the design and implementation of policies to solve those problems. The objective of this paper is to look at some problems on trade and investment related issues they have encountered in the past first. These include national trade and investment policies, environment, and corruption; and then to figure out what Vietnam can do to avoid those problems.

National Trade and Investment Policies

As world economy grows, and the volume of world trade increases, many firms of industrialized countries move their capital, technology, and know-how to countries that possess other unique factors or market advantages that will help the firm keep pace with global market demand for their products. The source of concern over foreign investment in any country normally focuses on two major topics: control and profit. On control, it is still very much a domestic political concern, giving rise to some international economic issues. With regard to profit, the main concern over foreign investment is who will ultimately receive the profits from a multinational enterprise. In the case of Vietnam, where control is considered to be more important than profit, foreign direct investments that still have some degree of control are considered herein; while foreign portfolio investments with little control from the host country, are ignored. In addition, only policies which are applicable to Vietnam are examined.

Lesson of Singapore

Singapore has one of the world's most open investment regimes, through which it seeks to overcome land, resource and labor limits, and to launch itself into the league of developed countries by attracting firms that can help to build the country's technological base and improve its human resources. Singapore is highly open to international trade and investment, and is rated one of the most attractive targets for foreign investments in 1995 due to its sound trade and investment policy.

Openness to foreign investment

Singapore's economy is based on free enterprise with strong government participation and guidance. Government policies encourage local firms to form partnership with multinational corporations (MNCs), especially in high technology industries. MNCs value Singapore's manufacturing and support facilities, and consider Singapore the gateway to the fast expanding South and East Asian markets. Investment policies are transparent and the bureaucracy is not oppressive. There are no tax on capital gains and no restriction on foreign ownership of businesses. The government does not prohibit or discourage investment to protect local industries or for any other reason. The government offers foreign firms various incentive schemes, and assistance. The government provides a one-stop service for foreign investors, helping them avoid bureaucratic obstacles, and has a reputation for being responsive to changing business conditions.

Investment incentive

The government offers a broad range of incentives to attract specific types of investments to Singapore. The following are some examples of its investment incentives offered.

- New manufacturing and service investments introducing high-tech skills can enjoy complete or partial exemption from the 27 percent corporate tax on profits for five to ten years. Accelerated depreciation allowances are allowed. Companies can claim an annual depreciation allowance of 33.33 percent over three years for all plants and machinery. They may also claim 100 percent depreciation in one year for computers, prescribed automation equipment, and robots. Industrial building allowances may be depreciated over 25 years.
- To enhance Singapore's status as a trading center for the Asia Pacific region, companies that engage solely in counter trade, doing at least one leg of each transaction through Singapore, can obtain full exemption of income tax on profits arising from counter trade.
- To boost Singapore's position as the region's financial hub and encourage MNCs to base their international or regional treasury and financing operations in Singapore, the government offers concessionary corporate tax of 10 percent on income received by companies from the provision of such services to their subsidiaries and related companies. Tax exemption is also given for all

dividends received by companies with FTC status, including those repatriated to the parent company. Non-residents are exempted from tax on interest earned on deposits placed in approved banks in Singapore. Income earned through offshore transactions and dividends distributed out of such profits are taxed at a concessionary rate of 10 percent.

Conversion and transfer policies

Singapore lifted all restrictions on foreign exchange transactions and capital movements in 1978 and places no restriction on reinvestment or repatriation of earnings and capital. Foreign firms are taxed on the same basis as local companies. The corporate tax rate was lowered from 31 to 27 percent in 1993. The government has indicated it will lower the tax rate further to 25 percent over the next few years. There is no withholding tax on the remittance of profits. Singapore has agreements with 28 countries to provide relief from double taxation. The Singapore government uses tax policy to enhance its international competitiveness. The government does not impose taxes on capital gains, turnover, and development. Tariffs are minimal; 96 percent of goods that enter Singapore are duty free.

Expropriation and compensation/dispute settlement

Singapore has investment promotion and protection agreements with 21 countries. These agreements mutually protect nationals or companies of either country for a specific period (usually 15 years) against war and non-commercial risks of expropriation. In the event of expropriation, Singapore will compensate foreign investors either directly or through their government; and the compensation will be based on the market value of the property destroyed or confiscated. To date, there have been no significant dispute between the government and foreign investors. The risk of expropriation or nationalization of foreign investments in Singapore is virtually nil.

Regulatory system

Singapore's regulatory environment is characterized by clarity, fair competition and sound business practices. Prior to implementing any law or regulation, the government usually consults relevant bodies and agencies, companies and the public. Tax, labor, banking and finance, industrial health and safety, arbitration, wage and training rules, and regulations are formulated and reviewed with the interests of foreign investors and local enterprises in mind. However, local laws give regulatory bodies wide discretion to modify regulations and impose new conditions; and such changes are not necessarily made public. This enables the government to negotiate the way it provides incentives or other services to foreign companies on a case by case basis.

Political violence

There has been no politically motivated violence in Singapore for the past 24 years. Tough internal security laws give the government wide ranging powers to keep in check any instability or civil disturbance. Singapore has cordial relations with its neighbors and cooperates with them either on a bilateral basis or under the ASEAN framework. Risk evaluation agencies almost always rate Singapore as free of political risk.

Capital outflow policy

The government imposes no restriction on international capital flows into or out of Singapore.

Environmental issue

Government policies are designed to regulate, stimulate, direct, and protect national activities. The exercise of these policies provides a government with the right and burden to shape the environment of the country and its citizens. The domestic policy actions of most governments aim to improve – or at least to maintain – the standard of living of the country's citizens, the quality of life for the present as well as for future generations; and to stimulate national development. Clearly, all of these goals are closely related. Government officials may believe that economic development threatens the culture, health, or the standard of living, hence the quality of life of its citizens. The government has a regulatory role to protect its citizens from those threats.

The bottom line of most foreign investments is to maximize profit. Thus, the government should have policies which maintain a good balance between the nation's environmental concerns and the incentives for foreign investors. Unluckily, it was not the case for Taiwan. Taiwan has made numerous economic achievements; however, that country is paying a high price through the deterioration of its environment and the quality of life of the Taimanese citizens.

Lesson of Taiwan

Taiwan has been the focus of growing international attention in recent years for its 'economic miracle'. Per-capita income topped the US $10,000 mark for the first time in 1992, up from just US $14 (in nominal terms) in 1951. Economically, Taiwan stands on the threshold of joining the ranks of the world's developed nations. However, its environmental practices still lag far behind.

Air pollution is one of the most serious problems in Taiwan, due mainly to the heavy traffic and high concentration of industrial plants on the island. Air pollution is so bad in the major cities, especially the capital of Taipei, that some cyclists and commuters wear masks on the way to work. Air pollution is a daily reality for residents of Taiwan's two major metropolitan areas-Taipei and Kaohsiung-. Motor vehicle emission also contributes significantly to the pollution problem on this island.

More than 60 percent of major rivers in Taiwan face moderate or serious pollution problems. Among the country's 21 major rivers, 13 are either moderately or heavily polluted. One main reason for the deterioration of Taiwan's water quality is the island's failure to develop its sewage system. Most advanced countries have completed 95 percent of their systems, while Taiwan has built only 3 percent, of which nearly a fourth is in Taipei. Most wastewater drains directly into rivers, seriously polluting downstream water sources. The primary culprits are industrial waste. In 1960, Taiwan had 6000 factories; now the number is close to 100000 in a country as large as the state of Maryland. This number does not include numerous unregistered factories. Most are small businesses with insufficient money or technical expertise to set up disposal or waste water treatment facilities. Several drinking water sources have been polluted from heavy metals and agricultural chemicals. Several reservoirs show signs of serious eutrophication. The disappearance of some forests have led to serious soil erosion problems and the destruction of many of the natural stands.

On the positive side, there is a growing environmental awareness in Taiwan. In the past, ineffective laws and regulations have resulted in a virtual nonimplementation of environmental protection measures. To cater for the need for more effective environmental protection policies, the Department of Environmental Protection was approved to be upgraded to the Cabinet level as the Environmental Protection Administration (EPA) in 1987. That marked the beginning of serious government effort to deal with the country's deteriorating environmental quality. The government also has plans to spend large amounts of money on environmental infrastructure 1997. In a six year plan costing US$330 billion for national infrastructure development, US$10.6 billion is slated for environmental projects. This plan commenced in 1991.

Corruption

The psychological concept of individualism versus collectivism helps explain the corruption in Asian countries. Individualism is a cultural pattern found in most northern and western regions of Europe and North America. It is defined as the extent to which people are responsible for taking care of themselves and giving priority to their own interests. Collectivism is characterized by individuals who subordinate their personal goals to the goals of some collective such as family, gang. Individuals give their loyalty to a group, and in return the group takes responsibility for its members. Collectivism is common in Asia, Africa, South America, and the Pacific. As a result, collectivist cultures have more government corruption because group loyalty dictates that those in power will try to serve their group rather than concern themselves for the country as a whole. The corruption also reflects the feudalistic expectation of people controlling government businesses (to be loyal and to repay kindness to the group leaders although what they are doing are causing great harms to the the society).

This 'cultural cum politico' factor is of some concern to policy makers in Asia's newly industrialised countries; and it is particularly true for the case of Vietnam. Corruption can undermine effective government, leading to social as well as economic unrests, and causing inefficiency in the economy as a whole.

Concluding remarks

It is believed that the 21st century will be the Asia Pacific Century. To help Vietnam enter the Asia Pacific Century, trade and investment policies should aim to achieve a balance between economic growth and improve the environment and quality of life of its citizens. Sound and realistic policies could be built on some experience of Asia's newly industrialised countries where some cultural and economic factors are found to be quite similar to those of Vietnam. Another point worth mentioning is that to have effective implementation and enforcement of laws and regulations, corruption must be under control.

On national trade and investment policies, sound and realistic policies should be based upon the minimum intervention balanced by a commitment to maintain a business friendly environment. The following are the major points that should be:

- Business regulations should be transparent and uncomplicated;
- No restriction on repatriation of earnings and capital;
- Companies should be protected against non-commercial risks of expropriation;
- A taxation system should be simple, consistent, and pro-business;
- Foreign firms should be taxed on the same basis as local companies;
- Relief from double taxation;
- No restriction on foreign ownership of businesses; and
- Various incentive schemes and assistance for foreign firms.

On environmental issue, the bottom line of foreign investments is profit. If the Vietnamese government imposes strict environmental laws, this would slow down the inflow of foreign investments; on the other hand, if the government takes a relaxed stand on environment, this would speed up the inflow of foreign investments, but environmental problems also increase as a result. Therefore, a sound and realistic policy must provide a reasonable balance between environment and foreign investment issues, or the so-called "enough pain, enough gain" policy; instead of the so-called "no pain, no gain" policy as the case of Taiwan. Taiwan is paying dearly for its economic growth. For the so-called "enough pain, enough gain" policy, zoning laws are examples of a policy which offers tax incentives (enough gain) to keep industrial plants away from the residential areas to avoid the harmful biological effects on people (enough pain).

On corruption, opportunities for corruption could be reduced by:

- Trimming layers of bureaucracy;
- Paying adequately the government workers;

- Introducing more sophisticated and effective accounting and auditing practices; and
- Education should be committed to the balance of collectivism and individualism, and to the training of young people in ethics because it is difficult for adults to act ethically if they have not been instructed with ethical values when they were growing up.

All in all, when entering the Asia Pacific century the writer is optimistic that for the three main reasons presented below, along with sound and realistic trade and investment policies, Vietnam will be one of the economic miracles in the Asia Pacific century.

1. Vietnam has an educated population. Confucianism has taught the Vietnamese to believe in education (this is partly proved by the Vietnamese children who excel in almost any field of education and workplace in the U.S. and Europe). The wealth of a country is measured on the total of both physical and human capitals. The importance of human capital of was shown in the experience of West Germany and Japan. At the end of World War II, the physical capital of these countries had completely been destroyed; however, a huge part of the wealth of these countries was in their educated population which remained intact. With this substantial base of human capital, and appropriate long term policies on trade and investments, these two countries have achieved a very high standard of living for their citizens.
2. Vietnam offers a strategic location in a most dynamic economic zone of the world, the South and East Asian market.
3. Vietnam has a sizable overseas community of over one million who would be willing to invest in various sectors, especially in small scale businesses and industries. They are going to be an important capital source for the future if the government can provide the correct political atmosphere.