

CG urged to make good haven for foreign investors

By Mong Binh - The Saigon Times Daily
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HCMC - Foreign experts at a major forum in HCMC on Thursday underscored the importance of enhancing corporate governance to develop Vietnam into a safe haven for foreign investors, even in troubled times.

U.S. and European companies have to be more prudent and learn about corporate governance in emerging markets before they invest there, said Steve Farrer, senior consultant of the business consulting company World-Check in Asia.

“If you are trying to attract foreign investors, you will have to come up with the standards that those investors require,” Farrer said at a panel discussion on the opening day of the Vietnam Corporate Governance Forum, held by the business information solutions provider LexisNexis and International Finance Corporation (IFC) in HCMC.

Farrer said the competition in foreign direct investment (FDI) attraction was increasingly tough, as pointed out by Philip Armstrong, head of IFC Global Corporate Governance Forum, in his opening remarks at the two-day event.

Armstrong said the global crisis had led to a sharp decrease of FDI inflows to many developing countries, including Vietnam. “Although registered FDI in Vietnam reached US\$64 billion in 2008, only US\$11.5 billion was disbursed,” he said.

“Since the equity ratio in these FDI projects is only 28% on average (compared to 43% for the period 1988-2007), the global credit crunch will result in project delays and cancellations.”

Ministry of Planning and Investment figures show fresh FDI pledged for new projects and operational projects in Vietnam in the first nine months of this year declined by a whopping 78.6% year-on-year to US\$12.54 billion.

Farrer of World-Check said the speakers of the forum pointed out global FDI had come down a lot. “Vietnam is now going to compete effectively with China, India and other emerging nations for that share of a pie.”

Armstrong said the financial crisis had also affected Vietnam’s market and capital mobility indirectly, and the domestic capital market slumped last year as investor concern about the long-term prospect of the global financial markets mounted.

“Vietnam is likely to face more difficulties in mobilizing foreign portfolio investment,” Armstrong said. “Foreign investors may realign their investment.”

Talking with the Daily during the tea break of the forum, Armstrong underlined better corporate governance, saying it would make foreign investors feel that Vietnam would be a safe haven and a market where they would make good returns on their investments.

Australia's senior trade and investment commissioner Tony Burchill told the forum that joint ventures, mergers and acquisitions could be vehicles to facilitate foreign investment in Vietnam.

However, he noted foreign firms coming to Vietnam also wanted to ensure that they conducted sustainable business and were able to offer competitive products.

Burchill told the Daily on the sidelines of the forum that there were close links between FDI attraction and corporate governance, and that a lack of transparency meant the cost and the risk would be higher for foreign companies.

Burchill said good corporate governance mitigated the lack of transparency and corruption, which foreign companies have to face when they want to invest in an emerging market like Vietnam.

Armstrong described corporate governance in Vietnam as the beginning of a long journey. Burchill said Vietnam would attract many more investors, especially the high-profile ones like Intel if corporate governance was higher.

"If Vietnam wants to become a middle-income country it has to improve corporate governance and ... attract those fine investments," Burchill said.