



German Investment in Vietnam

Inputs and Strategy Approaches for
the Promotion of German Direct
Investment in Vietnam

Including a Study of German Investor
Satisfaction with the Current Investment
Conditions in Vietnam

Axel Mierke

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List of Abbreviations

ADB	Asia Development Bank
AFTA	ASEAN Free Trade Area
AG	Aktiengesellschaft (Joint Stock Company)
AHK	Auslandshandelskammer (German Chamber of Foreign Commerce)
AIP	Asia Invest Programme of the European Commission
AmCham	American Chamber of Commerce
APA	Asien Pazifik Ausschuss der deutschen Wirtschaft (German Business Asia-Pacific Committee)
APEC	Asia-Pacific Economic Co-operation
ASEAN	Association of South-East Asian Nations
AUMA	Ausstellungs- und Messe-Ausschuss der Deutschen Wirtschaft e. V. (Association of the German Trade Fair Industry)
BCC	Business Co-operation Contract
BDI	Bundesverband der Deutschen Industrie e. V. (Federation of German Industry)
BFAI	Bundesagentur für Außenwirtschaft (German Office for Foreign Trade)
BOT	Build - Operate – Transfer
BT	Build - Transfer
BTO	Build - Transfer – Operate
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
CIM	Centrum für Internationale Migration und Entwicklung (Centre for International Migration and Development)
CKD	Completely Knocked Down
DAAD	Deutscher Akademischer Austauschdienst (German Academic Exchange Service)
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DIE / GDI	Deutsches Institut für Entwicklungspolitik (German Development Institute)
DIHK	Deutscher Industrie- und Handelskammertag (German Chambers of Commerce and Industry)
DPI	Department for Planning and Investment
EBIC	European Business Information Centre
EPZ	Export Processing Zone
EU	European Union
Eurocham	European Chamber of Commerce in Vietnam
FDI	Foreign Direct Investment
FIA	Foreign Investment Agency
FIE	Foreign Invested Enterprise
FOB	Free On Board
FOE	100 % Foreign Owned Enterprise
GBA	German Business Association
GIC	German Industry and Commerce

GNP	Gross National Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH, German Technical Cooperation
GWZ	Gesellschaft für Wirtschaftliche Zusammenarbeit Baden-Württemberg
HCMC	Ho Chi Minh City
HEPZA	Ho Chi Minh City Export Processing and Industrial Zones Agency
IFC	International Finance Corporation
IHK	Industrie und Handelskammer (Chamber of Industry and Commerce)
ILPD	Investment Legislation and Promotion Department
IMF	International Monetary Fund
ITPC	Investment and Trade Promotion Centre Ho Chi Minh City
IPC	Investment Promotion Centre
IZ	Industrial Zone
JBIC	Japan Bank for International Co-operation
JETRO	Japan External Trade Organisation
JICA	Japan International Co-operation Agency
JV	Joint Venture
KMB I	GTZ - VCA Small & Medium Enterprise Promotion Project
KMB II	MPI-GTZ Promotion of Investment and Economic Co-operation Project
KfW	Kreditanstalt für Wiederaufbau
LBBW	Landesbank Baden-Württemberg
M&A	Merger & Acquisition
MIGA	Multilateral Investment Guarantee Agency (World Bank Group)
MNC	Multinational Company
MPDF	Mekong Project Development Facility
MPI	Ministry for Planning and Investment
NRW	Nordrhein-Westfalen
OAV	Ostasiatischer Verein e. V. (German Asia-Pacific Business Association)
ODA	Official Development Assistance
PERC	Political & Economic Risk Consultancy, Ltd.
PIT	Personal Income Tax
PPP	Public Private Partnership
PWC	PricewaterhouseCoopers
SME	Small and Medium-Sized Enterprises
SOE	State Owned Enterprise
TI	Transparency International
UNCTAD	United Nations Conference on Trade and Development
USBTA	US Bilateral Trade Agreement
VBF	Vietnam Business Forum
VCCI	Vietnam Chamber of Commerce and Industry
VDG	Vietnamesisch-Deutsche Gesellschaft e. V. (Vietnam German Society)
VDZ	Vietnamese-German Centre at Hanoi's Technical University
VIPA	Vietnam Investment Promotion Agency
VND	Vietnam Dong
WTO	World Trade Organisation

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0 Summary

Background Achieving the Vietnamese leadership's ambitious development goals requires among other things a large influx of FDI to Vietnam – government planning is based on annual inflows of 1-2 billion USD. German direct investment to Vietnam is as yet relatively low. The present study was compiled to provide inputs for the new FDI promotion strategy of MPI and to support Vietnamese institutions in their efforts to convince more German firms to invest in Vietnam. It will examine the following points:

- State and development of German direct investments worldwide
- Expected trends in German direct investment
- State and development of German direct investments in Vietnam
- Satisfaction and experience of German investors in Vietnam
- Interest shown by German firms towards Vietnam
- Institutional landscape of investment promotion in Vietnam, focusing on German investors and relevant institutions in Germany
- Means of FDI promotion
- Strategy recommendations for promoting FDI from Germany

The results of the study are based on surveys conducted among German investors in Vietnam and managers in Germany with an interest in Asia, as well as numerous conversations with multipliers and intermediaries, and participation in various investment promotion events.

0.1 German Direct Investment in Vietnam – an Overview

German direct investment in Vietnam remains very low

There are currently approximately 30 German direct investments (depending on which statistics) in Vietnam. Slightly more than half of these are 100% foreign-owned enterprises and the rest are joint ventures (JV) with a cumulative investment level of 70 - 118 million USD and between three and four thousand employees. In addition, numerous German firms have representative offices (approx. 85) in Vietnam. Nevertheless, Germany is only twentieth on the list of countries bringing FDI to Vietnam. The inflow of FDI from Germany reached its peak in the mid-1990s before suffering a massive drop in 1997, even before the onset of the Asian crisis. Since 2001, a somewhat more positive trend can be observed once again. The regional distribution of investment is clearly concentrated in Ho Chi Minh City (HCMC) and the surrounding provinces of Dong Nai and Binh Duong, as well as in Hanoi. It is striking that the great majority of the German 100% foreign-owned enterprises (FOE) are to be found in the South. This can be attributed to the great importance of local good governance, as was confirmed in interviews with the enterprises, which commended the competence and willingness to cooperate of the authorities in the above-named Southern provinces and identified these as important locational factors. The most important factor motivating German enterprises to invest in Vietnam to date has been the opening up of new markets. No more than a few German investors chose the location in order to lower production costs. Only in the clothing and shoe manufacturing industries is a small concentration of German production for export to be found.

Satisfied German investors in Vietnam Interviews with German investors and intermediaries in Vietnam painted an exceptionally positive picture of investment conditions for German investors in Vietnam. The climate for investment was judged to be good to satisfactory, with a clear tendency towards improvement. This positive mood was also expressed in the fact that 80% of the enterprises surveyed would invest in Vietnam again and that 70% plan to expand their Vietnamese activities. In interviews, Vietnam's workforce was identified as the greatest advantage of the location. Besides the low cost of wages, almost all managers emphasised the very high quality of the workmanship, the high working morale, loyalty, quickness to grasp new tasks and thoroughness, leading to high product quality and low failure rates. That, together with low wages, leads to higher work productivity and low unit labour costs. Interestingly, managers who are familiar with the situation in numerous other countries in the region highlight the high quality of labour in Vietnam as an important locational factor. Further important positive aspects for FDI are the high political stability and the excellent security situation. The development of local markets is also very promising. Indeed, the market for consumer goods is growing rapidly through the emergence of a dynamic middle class, which has led among other things to a surge in demand for brand products, making German products attractive as they are relatively well-known and liked. The domestic private sector is also developing dynamically and there is increasing demand for equipment and technology, and state investment in infrastructure is also experiencing a positive development. Vietnam occupies a strategically advantageous position within ASEAN and AFTA. In an analysis of the most important factors for business investment decisions, the situation in Vietnam is evaluated as positive or very positive in five out of ten factors. There is a clear need for improvement among some of the other five factors. None of these seem to be a reason for not investing in Vietnam, however.

Need for action according to investors Despite the generally high satisfaction of German investors, there continues to be a need for action to improve the investment climate. The most important points here are; dismantling bureaucracy, creating transparency of regulations and reducing corruption. There were also demands for lower telecommunication costs, tax reform - including lowering the income tax rate for Vietnamese staff in the higher wage brackets - and improvements in the country's infrastructure.

0.2 German Direct Investment Worldwide – Current Situation and Expected Trends

German direct investment worldwide German direct investment worldwide amounts to approx. 700 billion Euros, shared across a total of almost 30.000 firms with over 4 million staff. A huge expansion in German fixed assets abroad took place between 1997 and 2001 and there was a shift from trade and processing industries towards investment companies and other financial institutions. The peak of German FDI activity was reached in 1999 and has decreased sharply since then, in line with the worldwide trend. The most important target countries for German investors remain within the EU and North America, followed by Eastern Europe and Asia. Within Asia, German firms have directly invested 38 billion Euros, 9 billion Euros of which are in Japan and 6,8 billion Euros in China. Less than 1% of German FDI flowing to Asia is directed towards Vietnam. A look at annual FDI flows indicates above all the high volatility of investment flows to Asia. The development of investment flows also underlines the importance of a country's political stability to be attractive to German investors.

China as a competitor A look at German FDI in China, currently probably Vietnam's biggest competitor in terms of FDI, reveals that half of annual investments from Germany - which lay between 322 and 822 million Euros from 1995 to 2002 - went to processing industries, although the service sector is gaining in importance. In interviews with German managers, China as a location was seen to have an advantage in the areas of low-cost mass production, better supply industries and a substantially larger domestic market. Elements speaking for Vietnam during the survey were the significantly higher quality of work, greater openness towards Germans, a higher quality of life for foreigners, the strategic position within ASEAN/AFTA and the diversification of risk.

Expected trends in German foreign investment A survey of German Chambers of Commerce and Industry (*Deutscher Industrie und Handelskammertag, DIHT*) revealed that a significant increase in FDI from Germany can be expected in the years to come – 38 % of all German industrial enterprises are planning foreign investment in the next three years. The following trends are of particular interest:

- Increasing interest in Asia
- A trend to relocate also capital and knowledge-intensive functions abroad
- The biggest tendency towards FDI in the clothing, electrical appliance production, vehicle building, electrical engineering and textile sectors
- Well-developed interest in FDI among medium-sized enterprises
- Clear South-North and West-East split among German enterprises in their tendency towards FDI
- Reports of a particularly high interest in Asia from some chamber of commerce districts, although a clear West-East split exists. East German enterprises show little interest in Asia.
- Cost reduction is a more frequent reason for FDI than the opening up of new markets.

0.3 Inputs and Strategy Recommendations for Promoting German FDI

German investors' interest in Vietnam Since the massive drop both in German investments in Asia and FDI flows due to the global economic and stock market downturn during the mid-1990s, interest in Vietnam has been minimal over the last few years. In the meantime, more companies have been taking up the issue of FDI in the Asian markets, first and foremost in China. The demand for information about Vietnam has also increased, although it set out from a low level.

Vietnam hardly known in Germany as a location for investment Even though investment conditions in Vietnam are advantageous, the inflow of FDI from Germany is still low. This is due, among other things, to the fact that Vietnam is hardly known as a location for investment in Germany and still remains a country with a rather exotic image. Further, the great interest in China currently overrides attention paid to other Asian markets. Insufficient sources of information, reluctance (particularly on the part of medium-sized enterprises) to take the plunge in what seems such a geographically and culturally distant country, and a lack of know-how in tackling this step represent additional hurdles, with the search for business partners in Vietnam being the greatest obstacle. Many of the interviewees also lamented the fact that it was difficult to obtain information about investment conditions in Vietnam.

Improving FDI promotion useful and promising In sum, the evidence shows that investment conditions for FDI in Vietnam can now be classified as good. At the same time, both the tendency to invest and interest in Asia are increasing in Germany. Given the current fact that Vietnam hardly features as an investment location for German managers, few direct investments flow from Germany to Vietnam. For that reason, an improvement and intensification of FDI promotion for Vietnam would be useful and promising.

No comprehensive support for German investors on entering the market There are numerous German institutions dealing with the issue of FDI in Vietnam, some of which offer information and events on the subject. Only few promotion/information activities on investment in Vietnam have taken place in the last few years, and there has also been very little demand for such information. There are numerous institutions offering support to German firms in their engagement to Vietnam. Nevertheless, there is no point of contact either on the Vietnamese or the German side offering comprehensive support to interested entrepreneurs, something that deters small and medium-sized enterprises in particular. Another point of criticism is that many institutions did not answer requests from Germany, or the answers were of low quality.

FDI promotion necessary at different levels A certain allocation of tasks between the different institutions is in place. The focus of the relevant Vietnamese institutions is thus on marketing Vietnam as a location, whilst German institutions support entrepreneurs in choosing a suitable location, which might be Vietnam, and help them in carrying out their project there. On the Vietnamese side, the Ministry for Planning and Investment (MPI) is in charge of FDI promotion and is currently developing an FDI promotion strategy. In order to better market Vietnam as a location in Germany, activities are necessary at different levels:

	Potential Activities
Awaken interest in Vietnam/ Image improvement	<ul style="list-style-type: none"> • Advertising campaign • Better information of intermediaries in Germany • Improved public relations activities, media tours • Creation of a network for public relations work in Germany • Representative in Germany • Road shows • Development and presentation of Vietnam's advantages as a location • Further improvement of the investment climate

Availability of information	<ul style="list-style-type: none"> • Production and distribution of suitable information materials • Improvement of existing websites • Publication of market studies • Availability of information materials for German intermediaries on the advantages of Vietnam as a location • Business visits for entrepreneurs • Information events • Establishment of information centres in Germany • Co-operation with German sectoral associations and German firms established in Vietnam • Professionalisation of responses to requests in all relevant institutions • Qualifications for staff working in the field of investment promotion
Sector approach	<ul style="list-style-type: none"> • Identification of promising sectors • Production of sector studies • Pro-active approach to further improve the investment situation in these sectors (action plan) • Co-operation with sector associations in Vietnam and Germany
Support of enterprises in preparing and implementing an investment	<ul style="list-style-type: none"> • Availability of information materials on the individual steps for market entry • Support in the search for business partners • Support in the search for a location • Support in registration and licensing • Advice in designing contracts • Lobby function vis-à-vis state institutions

Support for German investors

The majority of the above-named activities must surely come from the Vietnamese side and are in many cases dependent on the co-operation of different German institutions as multipliers. On the German side, the expansion of information services for interested enterprises and support for their market entry would be helpful. Medium-sized enterprises report above all on difficulties in entering the market and on the need for comprehensive support. The institutions concerned should develop a (joint) strategy how the support for German enterprises in Vietnam can be further improved. Possibilities here would be the creation of a German Centre, for instance, or a variation on the concept such as a virtual German Centre concentrating on specific services, which the market does not offer, or a European Centre in co-operation with other European institutions.

1 Background

Ambitious development targets Vietnam's Socio-economic Development Strategy for 2000 to 2010 has ambitious aims; both hunger and absolute poverty should be eradicated by 2010. The objectives set can only be achieved through rapid economic development and integration into the world economy. The government is applying itself to doubling GNP, something that requires an average annual growth of 7%, an investment quota of 30 % of GNP and export growth averaging 14%. Foreign direct investment (FDI) inflow in the form of capital and technology transfers should also contribute to reaching this goal; the government is counting on annual inflows of 1-2 billion USD.

Annual FDI inflows of 1-2 billion USD necessary

Both, the investment climate in Vietnam and the investment promotion must be improved in order to achieve such investment flows. The Ministry for Planning and Investment (MPI) is currently developing a new FDI promotion strategy.

Low influx of FDI from Germany

The German direct investment inflows and assets in Vietnam to date remain relatively low, even though Germany is Vietnam's biggest trading partner within Europe. For this reason, MPI will pay special attention to German investors in developing its new investment promotion strategy. Since investment promotion should as far as possible be specifically adapted to the target group, the Ministry requires detailed information regarding the group of potential German investors.

The study provides inputs for the development of MPI's investment promotion strategy

The present study provides detailed information and inputs for the promotion of German investments and the development of MPI's investment promotion strategy.

Among others, the study elaborates on the following issues, as formulated by MPI:

1. What are the developments and current trends in German direct investment with regard to sectors and target countries?
2. Why is German investment in Vietnam so low?
3. How can more German investors be attracted to Vietnam?
4. How can investment promotion for German investors be improved?
5. Which sectors are best suited to German investors in Vietnam?

Overview of the institutional landscape

In addition, the study will offer an overview of the institutional landscape surrounding investment promotion in Vietnam, with a focus on German investors.

**Definition
of Foreign Direct Investment (FDI)
by UNCTAD**

Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. Individuals as well as business entities may undertake FDI.

Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor. There are three components in FDI: equity capital, reinvested earnings and intra-company loans.

UNCTAD (2001): The World Investment Report, New York and Geneva 2001, p. 291

Investors are described as companies having opened a business in the form of a business co-operation contract (BCC), joint venture (JV) or a 100 percent foreign-owned company or bank branch. Representative offices do not count as investments in the narrow sense and will be referred to specifically.

Vietnam and Germany reached a dual taxation agreement in 1995. A bilateral investment promotion and protection agreement was signed in 1993 and came into force on 19th September 1998.

2 Structure and Approach

Part A: Part A addresses German foreign investment. It will show the countries and sectors into which German FDI flows, the trends that have developed over past years and those to be expected in future.

Analysis of German FDI worldwide and in Vietnam

The report also analyses German investment in Vietnam. Following a portrayal and analysis of these investments, German investors' level of satisfaction with the location Vietnam will be explored. The strengths and weaknesses of Vietnam as an investment location will be made evident. The study will also analyse for which types of investors Vietnam should be an interesting location.

The conclusions provide answers to the question why German investments in Vietnam remain relatively low.

Part B:
Investment promotion

These conclusions lead into part B, which is concerned with the institutions and instruments of FDI promotion. One chapter describes the existing institutions relevant to FDI promotion as well as their role.

A further chapter considers instruments for FDI promotion. Recommendations for further development follow a short description of these instruments. Finally, different strategy approaches for FDI promotion in Germany are outlined.

Detailed Appendix

The Appendix contains a great deal of supplementary information as well as the results of the survey.

Approach:
Literature review, surveys in Germany and Vietnam, discussions with intermediaries in Germany and Vietnam

In addition to a literature review regarding FDI, FDI promotion and FDI in Vietnam, numerous interviews were carried out in Vietnam and Germany with intermediaries such as chambers, associations, financial intermediaries, state authorities and consultants (interviewees are listed in Appendix 3). Semi-structured interviews were carried out in Germany at the management level of over 30 German enterprises with an interest in Asian or Vietnamese markets. During a visit to Vietnam in May 2003, semi-structured interviews were undertaken with a total of 25 managers of foreign invested enterprises (FIE).

During interviews with company managers in Germany, some were informed and advised about investment conditions in Vietnam. To date, two of the firms contacted the consultant with a request for advice, as they are studying or preparing activities in Vietnam. Thus, the study also had a promotional effect. A briefing with the deputy mayor and the municipal authority of HCMC by the consultant resulted in contacts being made between the municipal authority and the German Business Association (GBA), with a view to co-operating in organising a road show about HCMC in Germany. This led to the GBA (and the consultant) becoming involved in organising the road show in Germany in November 2003.

Part A: German Direct Investment – Current State and Development

3 German FDI in Vietnam

This chapter is concerned with the following issues: How extensive is German direct investment in Vietnam? In which areas, sectors and regions does it take place? How satisfied are German investors in Vietnam and how is the investment climate in Vietnam judged? What are the strengths and weaknesses of the location?

3.1 Current State of German Direct Investment in Vietnam

Different statistics were evaluated to gain an up-to-date overview of the state of German direct investment in Vietnam. This was based on MPI data, supplemented with statistics from the Deutsche Bundesbank (German State Bank) as well as the German Vietnam Business Handbook & Directory by German Industry and Commerce Hanoi (GIC).

43 German FDI projects are registered with MPI

According to MPI, there were 43 German investment projects in Vietnam with an implemented capital of 118 million USD (registered capital: 245 million USD) and a total of 3.090 staff in Vietnam at the end of 2002. This puts Germany in twentieth place on the list of FDI countries, far behind countries such as the British Virgin Islands (placed 7th) or the Cayman Islands (placed 16th).

Many German investors have invested in Vietnam through third countries

These figures are only an incomplete reflection of reality, however, since numerous investments by German firms flowed into Vietnam through third countries. Such an approach is very common with foreign investments, mostly for tax or strategic reasons. In some cases, these investments are made through the regional Asian headquarters or via branch offices in countries offering tax advantages. Tax havens such as the Cayman Islands or the Channel Islands are such “big” investors for this reason. Around a third of the German investors interviewed made their investments in Vietnam through holdings in third countries. The total investment by these enterprises comes to a three-figure sum in millions. This amount does not appear as German FDI in the MPI statistics, but instead as that of a third country. It is itself bigger than the total amount of “implemented FDI”, which MPI identifies as German investments in its statistics.

Deutsche Bundesbank identifies 19 German FDI projects in Vietnam

In Germany, the Deutsche Bundesbank is responsible for recording German direct investment abroad. It records both direct investments and so-called indirect investments, in other words German investments that take place through holdings in third countries. At the end of 2001 it had registered 19 German firms in Vietnam altogether (Deutsche Bundesbank 2003), with investments of 70 million Euros and 4.000 employees. The direct German investments are valued at 46 million Euros. The difference in figures between Deutsche Bundesbank and MPI can in part be explained by different registration requirements, as only investments over a certain amount must be registered with Deutsche Bundesbank.¹ This explains above all the discrepancy in the number of investments (MPI: 43, Deutsche Bundesbank:

¹ Whilst all foreign direct investments must be registered with MPI, only those foreign investments with a balance of over 500.000 Euros and a German stake of over 50% or a balance of 5 million Euros with at least 10% German ownership are required to register with the Bundesbank. Further, only subsidiaries with company assets of more than 500.000 Euros must register. An explanation of the duty to register can be found in Federal Bank 2003, p. 71 ff.

19 investors), added to the fact that the Deutsche Bundesbank's most up-to-date figures are from 2001. A further explanation is the fact that MPI also includes investments authorised but not yet made, whilst the Deutsche Bundesbank only registers actual investment flows. The difference in magnitude of German FDI (MPI; 118 million USD, Deutsche Bundesbank; 70 million Euros) is probably primarily due to recording procedures, since Deutsche Bundesbank records are based on company balance sheets, and the investments' asset values thus make up the statistics.

**GIC
handbook
lists 17 FIE
and 14 joint
ventures as
well as 85
representative
offices**

The German Vietnam Business Handbook & Directory by German Industry and Commerce Hanoi (GIC) provides another perspective on German investments in Vietnam, listing 180 firms, representative offices and institutions. It should be noted that only part of these are German investors, since many German development co-operation project offices, non-German enterprises and institutions such as the German Embassy and Consulate or foundations are included. If one eliminates these and adds those firms not (yet) listed in the handbook, there are 17 100 % foreign owned enterprises (FOE), one bank branch and 13 joint ventures (JV) from Germany, accruing to 30 investment projects (foreign invested enterprises, FIE) in Vietnam. Around 85 representative offices of German enterprises are also listed. This number of German investments in Vietnam is smaller than that contained in the MPI statistics, which could be because all investments applied for and authorised are included, even when these have not (yet) taken place. At the same time, one can assume that the actual investment volume is substantially greater than as shown in the figures, if one includes the large German investments administered through third countries.

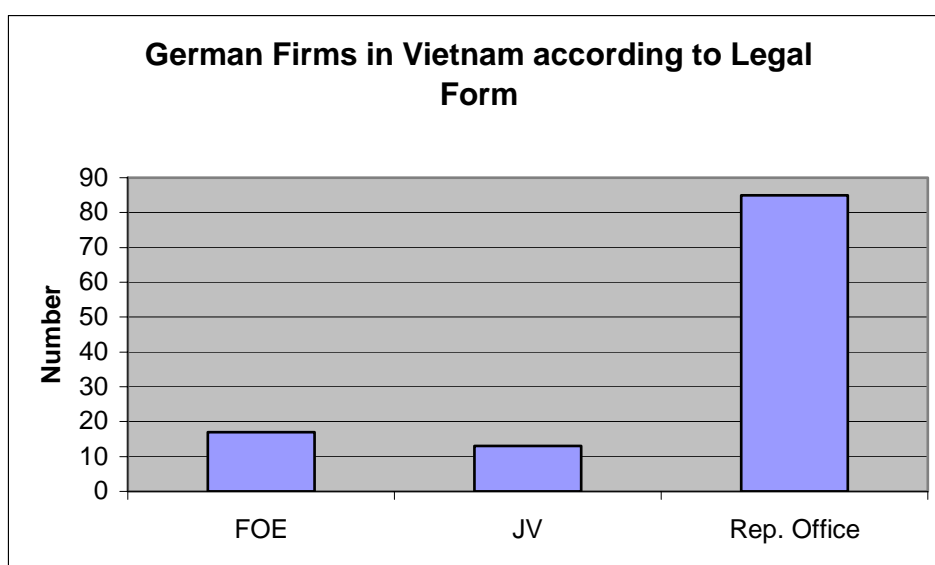
**Rough
estimate of
German FDI:
500 mio. USD**

Taking into account the known "hidden German investments" and the results from the conducted interviews the consultant would estimate the actual German direct investments in Vietnam roughly at around 500 million USD with a cumulative employment of more than 10.000 employees.

Overview of German FDI in Vietnam:²

Figures from ...	1995	1996	1997	1998	1999	2000	2001	2002
... Deutsche Bundesbank (in million Euros)								
Flows (direct)	15	9	-1	11	1	-1	17	6
Direct assets		20	31	23	38	38	46	
Indirect and direct assets		25	38	30	45	53	70	
Indirect assets		26	42	7	7	15	24	
No. of direct and indirect investments		8	12	15	22	20	19	
Staff (direct and indirect, in 1.000s)		2	2	3	3	3	4	
... MPI								
Million USD implemented capital								118
Number of investment projects								43
Number of staff								3.090
... GIC Handbook								
Number of FOE (+ bank branch)							16+1	
Number of joint ventures							13	
Number of German firm representative offices							85	

Sources: Deutsche Bundesbank, Deutsche Bundesbank 2003, MPI, GIC 2003 and interviews



² The Federal Bank records FDI flows in the balance of payments statistics that is the annual payment flows through direct investments, or in other words the flow of direct investments from Germany abroad in each year. Assets, on the other hand, are taken from the company financial statements. The data for assets and flows are therefore not directly comparable, since assets represent values whose amount depends on fluctuations in exchange rates. Consideration of flows can only take direct investments into account; that is, investment flows out of Germany via holding companies abroad are not recorded. The figures for flows and assets can therefore seem contradictory at first sight.

Some German investments do not appear in official statistics

A further category of investments from Germany are those enterprises, which are recorded as Vietnamese limited companies, registered by a Vietnamese or overseas Vietnamese and officially managed by them. There is a whole range of such enterprises in Vietnam, whose investors come from Germany and who are not included in FDI statistics. It can be assumed that most of these firms are SME. Numerous such enterprises fabricate relatively labour-intensive products, resulting in substantial employment effects. However, given that there is hardly any data available about these firms, they must be left aside here.

Another group, which can scarcely be grasped statistically, is made up of German firms such as Adidas which only hold a representative office in Vietnam. At the same time different enterprises from other countries like Taiwan have concurrently built up large factories in Vietnam with thousands of workers to produce for these German companies.

Conclusion: German FDI in Vietnam rather low

Despite the discrepancies in figures, the magnitude of German direct investment in Vietnam is clear. There are between 20 and 43 investment projects with approx. 3 – 4.000 staff and an investment volume of between 100 million and several hundred million Euros. The investment volume of German firms is thus still rather small. Even amongst the ten German multinationals (MNC, see Appendix 10) with the largest assets abroad, only five are represented in Vietnam to date, of which two merely maintain a representative office. Of the investors interviewed, (that is JV und FOE), most already had experience in investing abroad before coming to Vietnam.

Almost all German FIE are located in Southern Vietnam

It is interesting to take a look at the regional distribution of the investments. Almost all FIE are registered in HCMC and the surrounding provinces of Binh Duong and Dong Nai. Joint ventures, on the other hand, are distributed equally throughout the North and the South, whilst there are hardly any German investments to speak of in other provinces. This can be explained by the fact that economic development is most dynamic in the HCMC conurbation and attracts those firms that can freely choose their location. It was evident from the survey of investors in Vietnam that many of the firms not only value the more dynamic economic development in the South, but also judge the local administration in HCMC and the provinces of Binh Duong and Dong Nai to be very co-operative and uncomplicated. This shows the importance of good local governance to FDI. Joint ventures, on the other hand, are dependent on their local partner in choosing a location, providing one explanation for the location of joint ventures in Hanoi. A further reason for locating in Hanoi is proximity to central government. This is especially relevant in the infrastructure construction sector and suchlike, and applies also and in particular to representative offices, two-thirds of which are to be found in HCMC and one third in Hanoi.

Considerable importance of good local governance for FDI

Advantages of individual locations

Advantages of individual locations identified by the firms interviewed are:

- HCMC: Biggest and most dynamic market, best supply of trained staff, good transport infrastructure links (harbour, airport, roads), existing (international) clients and business partners are located there, uncomplicated relationship with the administration, high standard of living for expatriates.
- Binh Duong and Dong Nai: Well-developed IZ / EPZ with low prices, easy registration and a co-operative administration, low-cost workers, trained staff can be recruited from HCMC, use of HCMC's infrastructure whilst avoiding the traffic problems of the metropolis.
- Hanoi: Joint venture partners in Hanoi, proximity to the national government and state-owned enterprises, relatively large market
- Central Vietnam: In a few years, whilst wages in the provinces surrounding

HCMC continue to rise, regions such as central Vietnam will become more competitive because of low-cost wages and land, since there are/will be acceptable transport links around Da Nang too. However, this area has so far not attracted German investments. A similar situation is reported in other provinces, i.e. Binh Dinh.

Export firms in the shoe and clothing sectors A look at the firms' target markets shows that a third of FOE and JV produce for export. There is an evident focus on the shoe and clothing sectors in these export businesses. No sectoral focus can be discerned among the enterprises producing for local markets, which come from such diverse sectors as vehicle manufacture, services, insurance, trade and banks as well as consumer goods, medical products etc.

Massive drop in FDI flows to Vietnam even before the Asian crisis It can be observed from investment flows recorded by the Deutsche Bundesbank over time that there was a continuous flow of FDI from Germany to Vietnam in the mid-1990s until 1996. However, these FDI flows broke down in 1997, a fact generally explained by many investors' disappointment with the lack of further economic reforms, and not by the Asian crisis, which only had an effect on FDI flows in the following years. German investments also follow the general trend in this respect; after a continuous rise in registered FDI until 1996 (disbursed FDI to 1997), flows sank sharply thereafter. The period between 1997 and 2001 lacks a clear trend. German FDI in Vietnam was subject to strong fluctuations; the number of German firms thus rose by 10 until 1999 and fell by 3 over the next 2 years. At the same time, FDI flows of 1 million Euros actually were net disinvested in 1997 and 2000 respectively, whilst in 1998 11 million Euros flowed to Vietnam. With reference to assets, a drop from 38 to 30 million Euros was indicated in 1998 despite the 11 million flow, which can be explained by the very low exchange rate of the *Deutschmark* to the USD and VND in 1998 on the one hand, and on the other by the lower asset values of investments in Vietnam through German firms. There has been a positive trend since 2001.

3.2 Satisfaction of German Investors in Vietnam

Interviews conducted with managers of half of all German investors in Vietnam In order to better evaluate the investment conditions for German investors in Vietnam, a survey of German firms was carried out as part of the present study. The survey took place in May 2003; managers of 23 German firms and two other foreign firms were questioned using semi-structured interviews. Among these were 15 managers from 100 % FOE and joint ventures, so that almost 50 % of all German foreign direct investments in Vietnam in the narrower sense were included. A summary of the questions and replies can be found in Appendix 1. Some of the firms have been in the country since 1991 and they have on average 190 staff in Vietnam, of which 2.5 are expatriates. The average number of staff worldwide is over 70.000 as a result of some large corporations being interviewed. Of the firms questioned, 19 supply the local market, 4 also cater to other countries in the region and 5 produce primarily for export. 17 of the firms are in the business of investment services, 6 are in the field of investment products and 9 in consumer goods and services.

Further interviews were conducted with intermediaries such as the German Embassy and the German Consulate General, German Industry and Commerce in Vietnam (GIC), Eurocham, EBIC, GBA, KfW, the World Bank, IMF and others.

80 % of all In summary, it can be observed that German investors in Vietnam are

managers would invest again in Vietnam, 70 % of the German investors want to expand their business satisfied with the situation in the country. Almost 90 % of managers stated that their firm would still make the same decision to invest in Vietnam, whilst fewer than an eighth of those interviewed said that they would not invest again (some of these firms attributed this to a change in the strategy within their companies, factors not directly linked to Vietnam). More than 70 % of the firms plan to expand their presence in Vietnam and none of the companies interviewed wished to end or reduce its activities in Vietnam. Over half of the managers would recommend other firms in the same sector to become active in Vietnam, only three would recommend not to do so.

Goal: Legal reform of 100 % FOE It was also evident from the interviews that some of the firms which currently only have a representative office in Vietnam had serious plans to open a subsidiary in Vietnam soon. The planned legal form would be a 100% FIE wherever the law would allow it. In some cases, the firms wanted to wait until it was legally possible to establish a 100% FOE in the relevant sector before launching an investment.

Investment climate satisfactory with a strong tendency to improve The investment climate was given an average grading of 2.9 (1= very good, 6= unsatisfactory) with a median value of 2.5. It can be assumed that the firms would currently give Germany a worse rating. At the same time, around 90% of the interviewees pointed out that the investment climate had improved or greatly improved in the last 2-3 years, whilst only 10% testified that things were at a standstill. German entrepreneurs in Vietnam are thus altogether satisfied with the investment climate, even though there is definite room for improvement.

Vietnam's greatest strengths are its workers and its working morale Without a doubt, Vietnam's greatest strength is its workers, who are not only low cost, but are above all regarded as very high quality. A grading of 1.7 for labour cost is a very good mark, whilst the evaluation of the cost of middle management and engineers is still rated just good at 2.4, although showing a tendency to decline further. This can be attributed to the fact that gross wage costs for qualified employees rose as a result of growing demand over the last few years. At the same time, not enough workers receive a high quality education, again pushing wages upwards. The high income tax rates for well-paid Vietnamese raise the gross wage costs still further. The quality of the workers is considered good and singled out for praise (workers were given a grading of 1.9 and middle management and engineers a grading of 2.4 with a strong positive trend in both cases). Numerous interviewees especially emphasised the quickness of Vietnamese employees to grasp new tasks, willingness to learn and a high working morale, particularly compared to staff in other countries of the region. Above all, the high quality of the work leads to very high productivity and low failure rates in Vietnamese factories. This was mentioned explicitly by some managers who are in a good position to compare the situation due to their experience in other countries in the region.

Working productivity in Vietnam much higher than in other countries of the region

Political stability in Vietnam "very good" The interviewees rated Vietnam's political stability as the second important positive locational factor, rating it with 1.4 (very good) with a positive trend. The standard of living for foreigners in Vietnam was judged to be "good" at 2.2 with a tendency to improve, although some rating agencies such as PERC evaluate the quality of life in Vietnam as unsatisfactory.

Locational advantages: Quality of the work, high productivity and good strategic The quality of work, high productivity, willingness and ability of staff to learn, high working morale and loyalty as well as low working costs also clearly came to the fore regarding the issue of Vietnam's specific advantages as a location. Strategic advantages include high political stability, progressive reforms (evident in the WTO and AFTA membership process and the USBTA), a strategically advantageous location in South-East Asia within ASEAN or AFTA and a positive attitude towards German firms as well as a high quality of life (primarily security) for foreigners. Factors concerning the

situation size and growth of markets in Vietnam constituted the third important set of advantages for the location, for instance a growing demand for brands and quality products, a fast-growing middle class with the desire to catch-up in terms of consumption, a dynamically developing private economy as well as a very young market with relatively low competition.

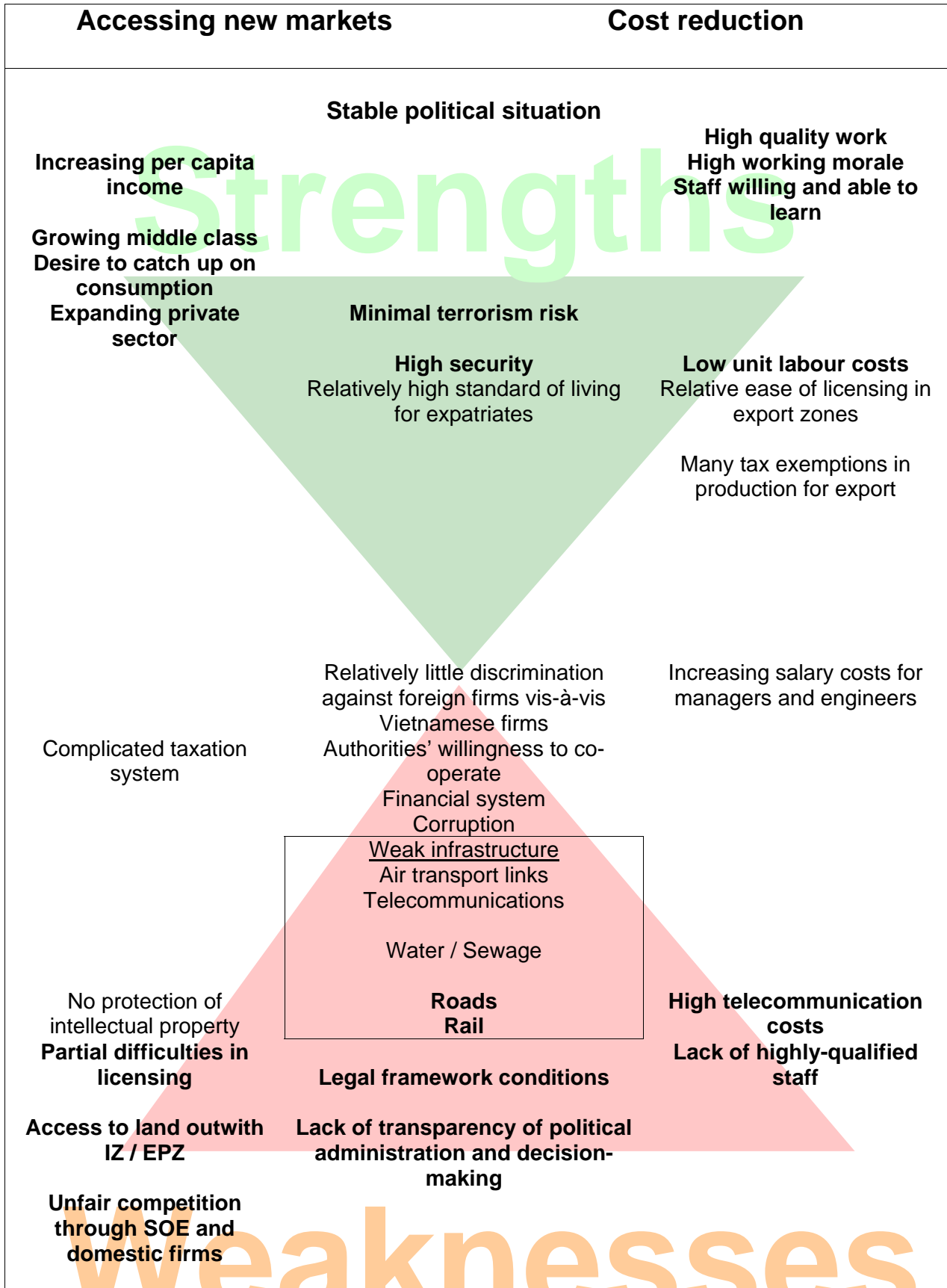
Criticism of lack of transparency in regulations and administration Weaknesses repeatedly alluded to in the survey were primarily to be found in the realms of regulation and administration. A lack of transparency of regulations and the administration were first to be named here. In addition, state interference in many areas of business life, corruption and “red tape” (i.e. an exaggerated amount of bureaucracy) were criticised. Concrete instances were high income tax rates for Vietnamese employees in higher wage brackets as well as unsatisfactory protection of intellectual property rights. Weak infrastructure was identified by five of the managers interviewed as one of the greatest hurdles.

Reduction in corruption, tax reform and more transparent regulation required Consequently, managers judged improvements in transparency, the stricter formulation of regulations and their implementation guidelines, a reduction in corruption and tax reform (esp. a lowering of income tax rates and import taxes) to be the most urgently needed reforms. Land clearance, the introduction of international accounting standards, a further reduction in telecommunication costs as well as improvements in infrastructure were also mentioned in this context.

Main motivation of investors: new market openings The main motivation of most German investors for investing in Vietnam was to open up new markets, coupled with the expectation that the Vietnamese market would grow quickly. Only a small percentage came to Vietnam because of the advantageous conditions for production, primarily its high quality, low cost workers. This concurs with the observation that only a few German firms in Vietnam produce for export to date. Most of the German firms in Vietnam had already made other foreign investments before becoming active in Vietnam.

With an average grading of 2.51, enterprises in the South are marginally more satisfied than in Hanoi with a mark of 2.56. The best mark of 2.05 for investment climate came from investors in Binh Duong and Dong Nai.

Strengths and Weaknesses of Vietnam as a Location



Vietnam is a suitable location for producing labour-intensive, high quality products for export A look at the strengths and weaknesses of Vietnam as a location reveals that firms planning a production transfer abroad should find a suitable location in Vietnam. Low wages, combined with an excellent working morale and high quality workmanship, are important positive points for these firms. Above all, the high quality of the work, very good skilled craftsmanship and low failure rates are factors in favour of producing labour intensive, high quality products. Locational disadvantages such as a lack of transparency of local markets and regulations, state interference in the business world, high import taxes, as well as some difficult licensing and area utilisation procedures, do not usually affect investors who produce for export and are based in an export promotion zone. Disadvantages for this sector are primarily the great geographic and cultural distance to Germany. Nonetheless, transportation costs and times are very much comparable to other Asian locations (a comparison of transport costs from different economic zones in Asia can be found in Appendix 5). The fact that well-qualified trained staff are relatively hard to find was evaluated by most firms as a disadvantage but not a serious one, since staff can be trained relatively quickly. The theory that Vietnam is exceptionally well suited as a location for export production is supported by evaluations from the export enterprises interviewed. These judged the investment climate to be above average with a grading of 2.3. Export enterprises located in export zones actually gave the investment climate a grading of 1.5.

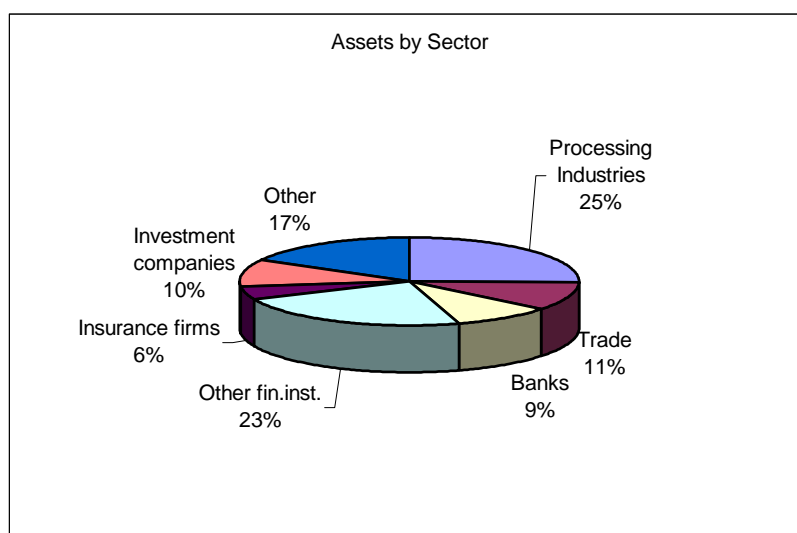
As yet hardly any production shifts in the field of technology To date, few German firms have exploited these good production conditions in Vietnam in order to produce there for export. These are currently almost exclusively companies in the clothing and shoe production sectors, whereas no German investors in the technology sector as yet have made their way to Vietnam to produce for export there. There is certainly potential here that is still to be explored and which could represent a win-win situation both for German investors and the country of Vietnam.

4 German Direct Investment Abroad

4.1 State and Importance of German Foreign Investment

German FDI totals approx. 700 billion Euros worldwide with over 4 million employees

Recorded German (direct and indirect) investments abroad amount to a total asset volume of almost 700 billion Euros (in 2001, Deutsche Bundesbank 2003), distributed among 28.617 firms with 4.064.000 staff and an annual turnover of 1.150 billion Euros. Almost exactly a quarter of investments are in the processing industries, around a third in banks and other financial institutions, around 10% each in trade and investment companies and 6 % in insurance companies.



Source: Deutsche Bundesbank 2003

Largest employment effects relative to investment capital in processing industries and trade

A look at employment by these firms reveals that the vast majority of employees work in processing industries, namely almost 60 %, followed by trade with 20 %, whilst the other sectors only have low employment effects. If one considers the average size of the firms, processing enterprises turn out to be the largest with an average of 278 employees. Interestingly, banks and insurers, at 205 and 153 staff for each respective sector, are also rather large. As expected, trade and production industries are far ahead of the financial sectors in terms of investment capital, with 11 and 13 employees per million Euros of company assets compared to a range of only 0.03 to 2.1 employees per million Euros of invested capital.

Assets of German Investments Abroad in 2001

	Assets in million €		Number of firms		Employees		Empl. per firm	Assets per firm in million €	Empl. Per million € assets
All sectors	699.035	100 %	28.617	100 %	4.064.000	100 %	142	24,43	5,81
Processing industries	175.995	25 %	8.516	30 %	2.371.000	58 %	278	20,67	13,47
Trade	74.759	11 %	11.243	39 %	824.000	20 %	73	6,65	11,02
Banks	66.087	9 %	435	2 %	89.000	2,19 %	205	151,92	1,35
Other financial institutions	160.186	23 %	660	2 %	16.000	0,39 %	24	242,71	0,10
Insurance firms	32.703	5 %	450	2 %	69.000	1,70 %	153	72,67	2,11
Investment companies	69.993	10 %	595	2 %	2.000	0,05 %	3	117,64	0,03

Source: Deutsche Bundesbank 2003, own calculations

150 percent increase in German FDI between 1997 and 2001

A clear growth in the fixed assets of German enterprises abroad can be observed between 1997 and 2001; in 2001 there were thus two-and-a-half times the total fixed assets of 1997. At the same time, a move away from trade and processing industries towards investment companies and other financial institutions can be traced, although substantial growth occurred in all sectors.

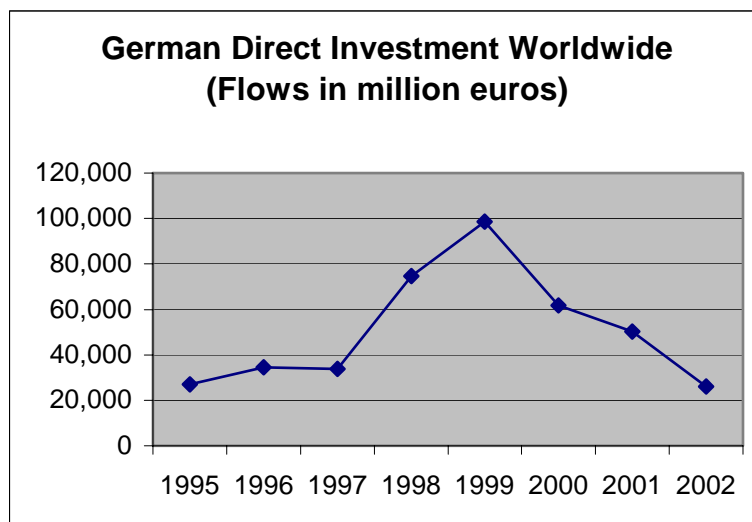
Development in German Direct Investment Assets between 1997 and 2001

	1997		1998		1999		2000		2001		Growth since 1997
All sectors	282.985	100 %	318.627	100 %	411.493	100 %	582.338	100 %	699.035	100 %	247 %
Processing industries	108.596	38 %	128.476	40 %	157.448	38 %	179.082	31 %	175.995	25 %	162 %
Trade	43.858	15 %	49.379	15 %	55.190	13 %	70.689	12 %	74.759	11 %	170 %
Banks	27.211	10 %	30.766	10 %	44.536	11 %	60.932	10 %	66.087	9 %	243 %
Other financial institutions	46.871	17 %	42.435	13 %	63.602	15 %	136.713	23 %	160.186	23 %	342 %
Insurance firms	16.832	6 %	19.090	6 %	23.889	6 %	25.963	4 %	32.703	5 %	194 %
Investment companies	18.351	6 %	21.193	7 %	24.683	6 %	44.985	8 %	63.993	9 %	349 %

Source: Deutsche Bundesbank 2001 and 2003, own calculations

Drop in German FDI flows post 1999

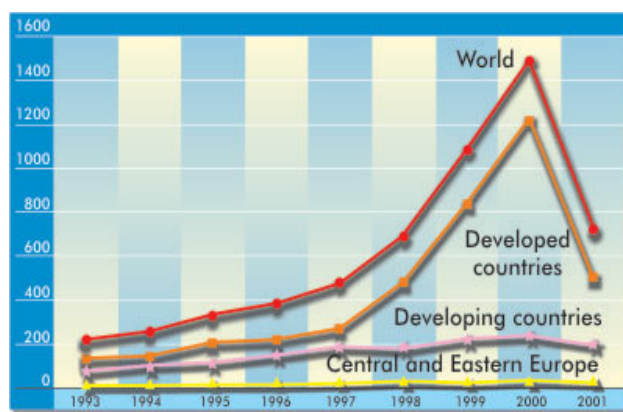
It is interesting to take a look at German FDI flows – in other words annual new investments – in order to gain a better overview of German direct investment dynamics. New German investments abroad lay between 26 and 98 billion Euros between 1995 and 2002. During this period, the peak of German investment abroad was reached in 1999. Since then, the investment activities of German firms abroad has suffered a massive drop and reached a new low last year. This negative trend can primarily be explained by the slowdown of the world economy and stock exchanges and corresponds to worldwide developments, which resulted in a massive drop in FDI after 2000.



1995	1996	1997	1998	1999	2000	2001	2002
27.032	34.407	33.888	74.751	98.516	61.701	50.263	26.070

Source: Deutsche Bundesbank, in Million Euros

Global flows of FDI 1993-2001



in USD billions, by group of countries

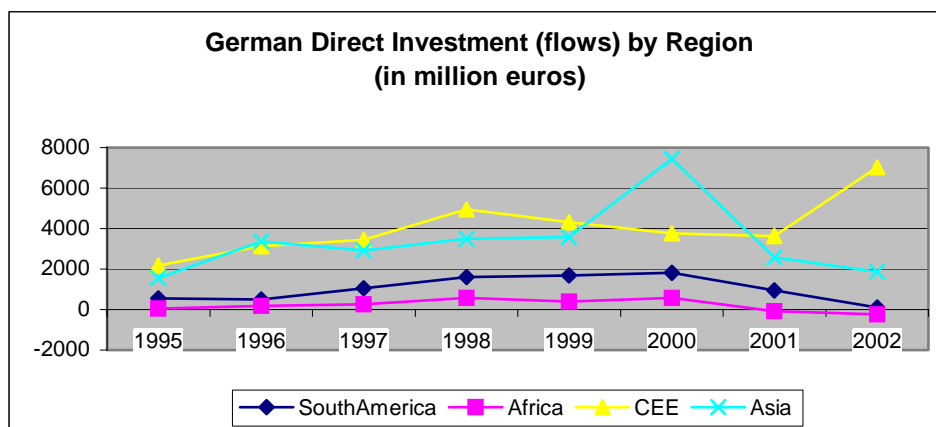
Source: UNCTAD

4.2 Target Countries for German FDI

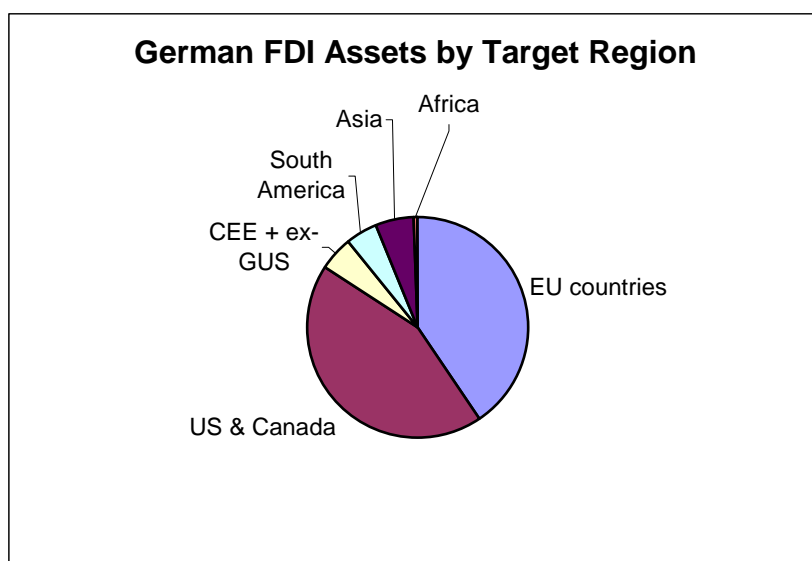
Target countries are primarily the EU and North America, followed by Eastern Europe and Asia

Apart from the developed markets in the EU and North America, Eastern Europe and Asia are the most important target countries for investments by German entrepreneurs. Asia was worst hit by a 75% reduction of German FDI from almost 7.5 billion Euros in 2000 to less than 1.9 billion Euros in 2002. This dramatic fall can be explained by the after-effects of the Asian crisis combined with the slowdown of the world economy. At the same time, markets in the candidate countries for EU membership became considerably more attractive due to their legislation being brought into line with EU regulations (*acquis communautaire*).

Since 2000:
a steep drop
in FDI flows
to Asia in
favour of
flows to
Central and
Eastern
Europe



Source: Deutsche Bundesbank



Assets in 2001	
EU countries	271.793
North America	293.635
CEE & ex-GUS	33.660
South America	31.290
Asia	36.493
Africa	4.222

Source: Deutsche Bundesbank 2003

4.3 German Direct Investment in Asia

36 billion German FDI in Asia

German firms have invested a total of approx. 36 billion Euros in Asia. The firms hold almost 40 %, that is over 9 billion, of this amount in Japan. China is in second place with over a sixth of the assets, 6.8 billion Euros altogether. Singapore, Hong Kong and South Korea follow. At approx. 70 million Euros, investment in Vietnam amounts to only one percent of that in China.

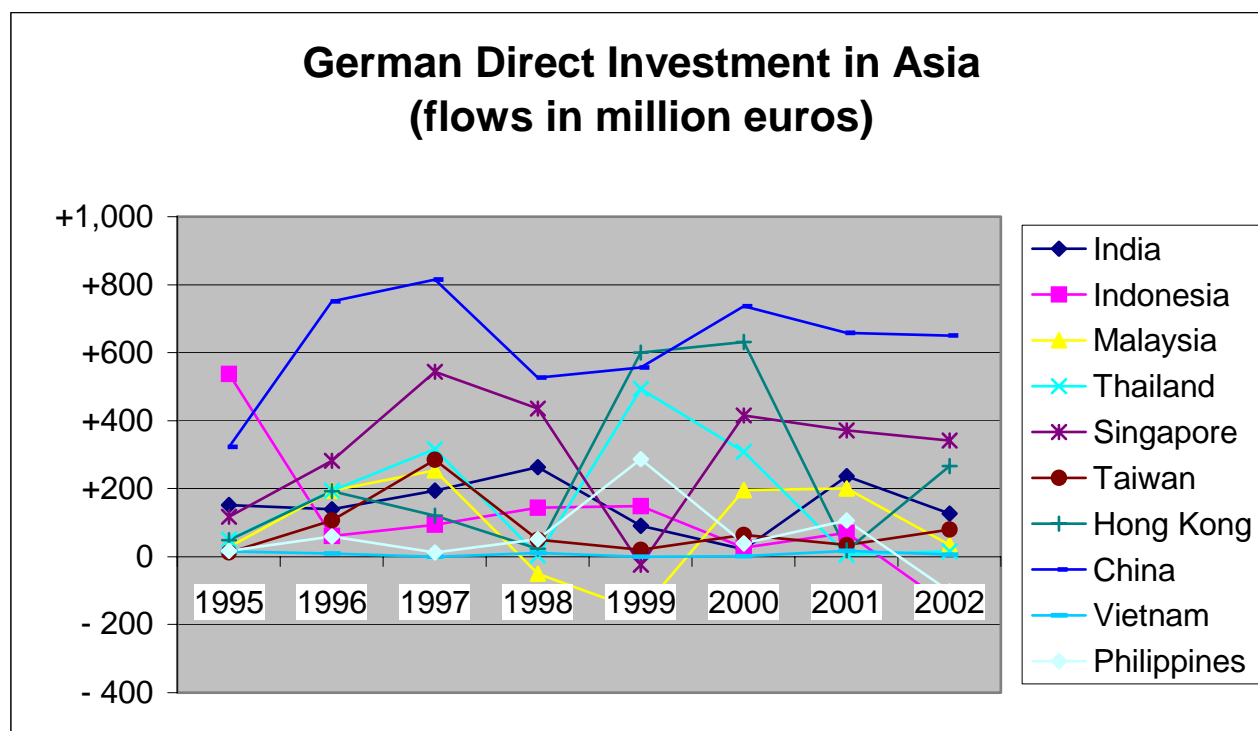
German FDI Assets in Asia at the End of 2001 in Million Euros

Asia	36.493	India	1.654
Japan	9.069	Thailand	1.275
China	6.855	Indonesia	799
Singapore	4.903	Philippines	663
Hong Kong	3.708	Taiwan	993
South Korea	3.356	Vietnam	70
Malaysia	1.834	Bangladesh	18

Source: Deutsche Bundesbank 2003

High volatility of FDI flows to Asia During the last eight years, over 7% of all German direct investments flowed to Asia. A look at the FDI flows to individual Asian countries quickly reveals their high volatility. The largest plunge took place in the context of the Asian crisis in 1998. An average of one fifth of German firms' investments within Asia went to China over the last seven years. Singapore followed with approx. 10% and between 4 and 7% flowed into India, Indonesia, Thailand and Hong Kong. Whilst Malaysia, Taiwan and the Philippines each benefited from more than 1% of German FDI in Asia between 1995 and 2002, Vietnam had an average of 0.31% and thereby clearly came before countries such as Cambodia, Laos, Myanmar and North Korea, which had inflows in the region of up to 0.02 %.

China receives 21,5 % of German FDI flows in Asia



Source: Deutsche Bundesbank

German Direct Investment in Asia (flows in million Euros):

	1995	1996	1997	1998	1999	2000	2001	2002
China	322	750	815	527	556	736	659	650
India	152	139	195	263	90	22	237	127
Indonesia	537	60	95	145	148	27	71	-146
Malaysia	28	194	254	-50	-160	196	201	34
Thailand	50	195	317	4	494	308	6	15
Singapore	118	283	544	436	-24	416	371	341
Taiwan	13	106	285	50	20	64	35	80
Hong Kong	49	192	121	23	600	632	18	266
Vietnam	15	9	-1	11	-1	1	17	6
Philippines	17	60	13	51	286	39	107	-102
Cambodia	0	0	0	0	1	-1	1	0
Laos	0	0	0	0	-1	1	0	0
Myanmar	0	1	0	0	1	0	0	0
North Korea	0	1	0	28	-3	-3	-22	6

Source: Deutsche Bundesbank

Proportion of German FDI Flows to Target Countries in Asia

	1995	1996	1997	1998	1999	2000	2001	2002	Average
World in million Euros	27.032	34.407	33.888	74.751	98.516	61.701	50.263	26.070	
Asia in million Euros	1.547	3.378	2.912	3.502	3.571	7.449	2.578	1.874	
Asia/World	5,73%	9,82%	8,60%	4,69%	3,62%	12,07%	5,13%	7,19%	7,10%
Country / Asia									
India	9,81%	4,12%	6,69%	7,50%	2,52%	0,30%	9,19%	6,78%	5,86%
Indonesia	34,72%	1,79%	3,25%	4,13%	4,14%	0,36%	2,75%	-7,79%	5,42%
Malaysia	1,82%	5,74%	8,71%	-1,43%	-4,48%	2,63%	7,80%	1,81%	2,82%
Thailand	3,24%	5,77%	10,88%	0,10%	13,83%	4,13%	0,23%	0,80%	4,87%
Singapore	7,63%	8,37%	18,66%	12,44%	-0,67%	5,58%	14,39%	18,20%	10,57%
Taiwan	0,83%	3,15%	9,79%	1,43%	0,56%	0,86%	1,36%	4,27%	2,78%
Hong Kong	3,14%	5,69%	4,14%	0,66%	16,80%	8,48%	0,70%	14,19%	6,73%
China	20,81%	22,20%	27,98%	15,04%	15,57%	9,88%	25,56%	34,69%	21,47%
Vietnam	0,99%	0,27%	-0,02%	0,31%	-0,03%	0,01%	0,66%	0,32%	0,31%
Philippines	1,12%	1,77%	0,44%	1,46%	8,01%	0,52%	4,15%	-5,44%	1,50%
Cambodia	0,00%	0,00%	0,00%	0,00%	0,03%	-0,01%	0,04%	0,00%	0,01%
Laos	0,00%	0,00%	0,00%	0,00%	-0,03%	0,01%	0,00%	0,00%	0,00%
Myanmar	0,00%	0,02%	0,00%	0,00%	0,03%	0,00%	0,00%	0,00%	0,01%
North Korea	0,00%	0,02%	0,00%	0,79%	-0,08%	-0,04%	-0,85%	0,32%	0,02%

Source: Deutsche Bundesbank, own calculations

Political stability is essential for FDI inflows

Analysing selected Asian countries, there is clear evidence of a substantial increase in German FDI to "Tiger Countries" such as Thailand and Malaysia until the start of the Asian crisis. The Asian crisis then led to a dramatic plunge in net investment to the extent of net capital withdrawal; in 1999 160 million Euros were withdrawn from Malaysia. Indonesia was one of the most important target countries for German investors until the mid-1990s. There has been a loss of trust among German investors, however, due to the political instability there. Following a substantial drop in net investments since the Asian crisis, capital was even withdrawn in 2002. Political unrest in the Philippines has had similar consequences, and a massive reduction in capital also occurred there in 2002. These examples show the importance of political stability for attracting FDI.

In Hong Kong and Singapore, FDI flows are primarily in the financial sector

The table below shows that after Japan and the economic centres of Hong Kong and Singapore, the most important recipients of German FDI in Asia are China, India, Thailand, Malaysia and Taiwan. In the figures concerning Hong Kong and Singapore, it should be kept in mind that the majority of investments there are made within the financial sector. In addition, many German corporations have their Asian headquarters in these cities, from which elements of the investment flow on to other countries in the region.

Sector Analysis of Flows to Asia (in million Euros)

Economic sector	1995	1996	1997	1998	1999	2000	2001	2002	TOTAL	Average
In million Euros										
All sectors	1.548	3.378	2.913	3.502	3.571	7.449	2.578	1.874	26.813	100 %
Agriculture and forestry	X	X	0	X	0	0	0	0		
Fisheries and fish-farming										
Mining and extraction of stones and soils	- 47	- 34	23	82	34	- 43	22	51	89	0,33 %
Processing industries	582	1.837	2.356	1.175	1.394	5.036	1.106	1.056	14.542	54,23 %
Energy and water provision		1	18	5	14	3	4	73	118	0,44 %
Construction	28	- 99	80	- 31	15	- 93	- 36	144	8	0,03 %
Trade, maintenance and repair of motor vehicles and consumer goods	27	- 31	89	105	99	167	73	179	708	2,64 %
Hospitality and catering		0	1	3	- 3	0	X	0	1	0,00 %
Transport and communications	529	75	44	33	255	- 10	167	- 105	988	3,68 %
Credit and insurance companies	228	473	221	919	816	1.198	87	297	4.239	15,81 %
including:										
Banks	196	409	185	795	726	920	115	409	3.755	14,00 %
Other financial institutions		32	3	98	- 39	186	- 90	49	238	0,89 %
Insurance companies	28	32	33	26	121	90	61	- 193	199	0,74 %
Investment companies, real estate, rental of movables, service provision primarily for enterprise	163	1.102	48	1.149	911	1.046	1.004	84	5.507	20,54 %
Provision of other public and personal services	X	3	8	3	1	19	7	1	42	0,16 %
Private households	16	18	5	19	14	54	18	13	157	0,59 %
Economic sector or area unidentifiable	21	34	20	38	22	72	125	81	414	1,54 %

Source: Deutsche Bundesbank, own calculations. X = no figures published

Over 50 % of German FDI in Asia flows into processing industries

A sectoral analysis shows that the great majority of FDI flowed into processing industries, namely an average of over 50% between 1995 and 2002. Second ranks the service sector with an average of 20 %, which is prone to substantial fluctuation, however. The credit industry takes third place with 14 %, followed by transport and communications with 3.7% and trade, maintenance and repair of motor vehicles and consumer goods at 2.6%. The mining, construction and insurance sectors all have less than 1 %. There was some considerable disinvestment in the construction industry in previous years, so that on balance hardly any flows entered Asia between 1995 and 2002. Strong fluctuations and some disinvestment can also be observed in the field of transport and communications.

4.4 German FDI in China

A Look at FDI Flows to China (in million Euros)

Economic Sectors	1995	1996	1997	1998	1999	2000	2001	2002
All sectors	322	750	815	527	556	736	659	650
Agriculture and Forestry		0	X					
Processing industries	245	627	683	358	383	537	415	301
Energy and water provision					X	X	X	
	7	13	11	2	25	0	- 9	25
Trade, maintenance and repair of motor vehicles and consumer goods	13	17	23	6	1	2	29	42
Transport and communications		0	1	0	1	4	- 5	1
Credit and insurance companies	X	2	7	56	16	- 1	- 5	69
including:								
Banks	X	X	X	55	X	X	X	52
Other financial institutions		X	X	1	X	2	X	18
Insurance companies		0	0	0	0	X	0	0
Investment companies, real estate, rental of movables, provision of services principally for enterprise	42	82	81	99	114	171	193	171
Provision of other public and personal services		2	X	0	X	0	X	X
Private households	1	1	3	2	X	2	2	1
Economic sector or area unidentifiable	3	7	7	4	3	16	37	40

Source: Deutsche Bundesbank X = no figures published

322 to 815 million Euros flow annually to China, half of which for processing industries China will be considered briefly here, as it can be considered Vietnam's greatest competitor for German FDI. Over the last few years, German direct investment amounting to between 322 and 815 million Euros flowed annually into China. The majority of this investment - far more than half in almost every year - flowed into processing industries. The proportion of investment in the service sector increased rapidly over these years and now accrues to over a quarter.

Assets by Sector in China, 2001

Assets 2001	In million Euros	Percentage
<i>Total</i>	6.855	100,00 %
Processing industries, of which	4.856	70,84 %
Chemical industries	655	9,56 %
Mechanical engineering	397	5,79 %
Production of equipment for generating and distributing electricity and suchlike	947	13,81 %
Production of motor vehicles and spare parts	2.253	32,87 %
Trade, maintenance and repair of motor vehicles and consumer goods	64	0,93 %

Banks	114	1,66 %
Investment companies	1.407	20,53 %

Source: Deutsche Bundesbank 2003

70 % of assets in processing industries More than 70%, and thus by far the largest share of German direct investment in China flows in industrial production. Over 30% of this flows into the production of motor vehicles, followed by equipment for generating and distributing electricity, chemical industries and electrical engineering.

China is better suited to mass production, Vietnam's strength lies in high quality During interviews with enterprises, a comparison of the investment climates in Vietnam and China was also requested. The survey did not provide a clear picture in this instance, however. A third of the respondents respectively categorised the investment climate in Vietnam as worse, comparable to or better than in China. Nevertheless, comments made on the issue were of interest. Indeed, it seems that China has the advantage regarding production costs for mass production, since the larger market there means that larger quantities can be sold and economies of scale thereby better exploited. Advantages for China are also seen in the supply industry. According to the survey, the high quality of work in Vietnam is the most important factor speaking in its favour. A further point, which was often mentioned with regard to Vietnam, is the issue of risk diversification – not a point against China but rather the idea that one should also invest in Vietnam at the same time as in China, so as not to put all one's eggs in one basket. Also mentioned were the arguments that Vietnam is a suitable entrance gate to the AFTA region, and its higher quality of life and greater openness towards foreigners.

The argument for diversifying risk

5 Expected Future Developments in German Direct Investment

5.1 Expected Trends in German Foreign Investment

A survey of almost 10.000 German firms in May 2003 (DIHK 2003, see Appendix 11) on the subject of foreign investments showed the following interesting trends:

Expected increase in foreign investments Almost a quarter of the industrial firms interviewed have concrete plans to transfer production abroad within the next three years. If one takes the opening of new markets into consideration as well as production transfer, then 38 % of all German industrial corporations are planning foreign investments in the next three years.

Transfer of capital and knowledge-intensive activities While in the past primarily wage-intensive activities which required low-qualified jobs have been the focus of foreign investments, many enterprises are now considering transferring capital and knowledge-intensive functions abroad, such as administration, R&D, etc.

Asia is becoming a stronger focus Even though countries within Europe continue to be at the centre of German firms' investment activities, a clear trend can be identified towards a more global distribution. In this respect, there is a growing interest among German entrepreneurs in Asia in particular. The Fraunhofer Institute confirms this in a survey³.

Planned Production Shift According to Industrial Sector

Proportion of firms that plan to shift production in %	
Clothing	47
Production of electrical equipment	40
Motor vehicle construction	36
Electrical engineering	34
Textile industry	33
Radio, television and communications technology	32
Production of metal goods	28
Mechanical engineering	28
Production of rubber and synthetic goods	27
Medical, measurement, steering and control technology	26
Production of furniture, jewellery, musical instruments etc.	24
<i>Industry average</i>	24
Metal production and processing	24
Logging industry	20
Chemical industry	19
Glass, ceramics and processing of stones and soils	17
Paper industry	14

³ Kinkel et al. p. 4

Printing industry	10
Food industry	9
Publishing industry	8
Extraction of stones and soils	8

Source: DIHK 2003

It should be noted that this table only includes the motive of production transfer and not market entry.

Size of firm influences the tendency towards FDI

Planned production transfer according to company size (in %)	
1 – 19 employees	16
20 – 199 employees	20
200 – 999 employees	28
over 1.000 employees	34

Source: DIHK 2003

SME also planning production transfers

There is obviously a clear link between the size of a firm and its readiness to invest abroad, since smaller firms have less capacity for such a challenge. It can be assumed that this tendency will increase in line with the geographic and cultural distance of the target country, suggesting that few small enterprises will enter difficult and distant markets like Asia. This hypothesis is supported by the consultant's survey of potential investors. Nevertheless, every fifth SME with fewer than 200 staff is planning to transfer production abroad. According to the Fraunhofer study, small and medium-sized enterprises go primarily to Eastern Europe (50% of the small businesses with up to 100 staff and 47% of medium-sized enterprises with up to 500 staff are located there), whilst only 24 % of small and 33 % of middle-sized enterprises have a location in Asia. Of the large corporations with over 500 staff, only 38 % have a place of production in Eastern Europe, but 47 % of them also produce in Asia.

Regional differences in willingness to invest:

Planned production transfer by industrial corporations according to economic region in %	
South (Baden-Württemberg, Bavaria)	28
West (Hessen, Nordrhein-Westfalen, Rheinland-Pfalz, Saarland)	24
North (Bremen, Hamburg, Niedersachsen, Schleswig-Holstein)	21
East (Berlin, Brandenburg, Mecklenburg-Vorpommern, Sachsen, Sachsen-Anhalt, Thüringen)	15

Source: DIHK 2003

There is a clear North-South and East-West split in terms of readiness to transfer production abroad.

Some chambers, particularly in Southern and Western Germany, report a great deal of interest in Asia

The DIHK report also contains an evaluation of the survey in individual IHK districts, which also goes into the target regions to some extent. Relevant highlights concerning the investors' interest in Asia are presented in the following (the IHK's detailed estimates can be found in Appendix 11). Information from numerous interviews by the consultant with individual Chambers completes the section. The strongest tendency to invest abroad is to be found among enterprises in the South. One of the focal points in terms of target regions is North and South America, but Eastern Europe and Asia are also mentioned. The IHK in Freiburg, Heilbronn, Nürnberg, Passau and Ulm in particular acknowledge a great interest in Asia.

The Western region, which demonstrates the second-highest willingness to invest abroad, also shows a great deal of interest in the Far East. Asia is even named as the primary objective in the Chamber districts of Bochum, Detmold, Ludwigshafen Wiesbaden and Wuppertal/Solingen/Reimscheid, although China is often mentioned specifically. Much interest is also shown in the Chamber districts Dillenburg/Wetzlar, Duisburg, Hagen, Hanau/ Gelnhausen/ Schlüchtern, Cologne and Münster. In Northern Germany, Asia is the primary target area for foreign investments in the Chamber districts of Hamburg and Kiel as well as in Lüneburg/Wolfsburg in the mechanical engineering sector. Bremen and Osnabrück also consider Asia to be very attractive according to the local chamber.

East German firms tend to go to Eastern Europe rather than Asia

Reports from Eastern Germany point to a low tendency to undertake foreign investments. Among those firms moving abroad, there is a clear trend towards Eastern Europe. Only the Dresden DIHK report mentions that its members are interested in Asia. Traditional links between East Germany and Vietnam seem to be of little relevance, since many firms in Eastern Germany do not dispose of the resources for foreign investments and similar relationships exist with many of the candidates for EU accession or transition countries in Eastern Europe.

Investors' motives for building up production locations abroad

An analysis of motives for building-up locations abroad brings two basic reasons to light; firstly a reduction in costs and secondly entrance into new markets. According to the Fraunhofer study (Kinkel 2002), the cost reduction motive predominates with 65 % of the firms, but is followed closely by the market entry motive with 60 %. 34 % give proximity to large clients as their motive, and 21 % transfer production in order to save on taxes and levies. The DIHK survey essentially confirms these reasons, although it suggests a more important role of lower tax and bureaucracy costs. What is interesting about the Fraunhofer study is the investigation of motives according to region. The predominant motive to invest in Eastern Europe is cost reduction with 85% as compared to market entry with 54 %⁴ and proximity to large clients with 34 %. In Asia, on the other hand, market entry is the most important factor at 77 %, followed by cost reduction with 66 % and proximity to large clients at only 6 %.

⁴ Multiple answers possible.

Functional Focus of Foreign Investment

Functional focus of foreign investment over the next three years in %			
Economic Sector	Production to save on costs	Production for market entry	Sales and customer services
Industry	42	26	32
Construction	16	71	13
Trade	25	21	54
Services	24	28	48

Source: DIHK 2003

The cost saving motive is becoming more important Comparing the DIHK survey of 1999 with that of 2002, it can be seen that the motive of cost reduction plays a much more important role today. For investors aiming mainly at cost reduction low unit labour costs, taxation and transport costs etc. are the most decisive factors. The local market is naturally of major importance among investors aiming to enter new markets (demand and expected economic development, competition, regulation of market entry etc.).

5.2 German Investors' Interest in Vietnam

Disappointment in the mid-1990s This chapter gives an impression of the degree to which potential German investors' are interested in Vietnam. Already in the mid-1990s due to disappointment in the pursuit of political reform foreign investments decreased and then dropped further in the context of the Asian crisis. Since then the worldwide FDI flows sank dramatically as a result of the slowdown of the world economy and stock exchanges which also affected flows to Vietnam. These developments resulted in Vietnam losing much of its attractiveness for German investors. Information events about Vietnam as a business location were rarely offered and poorly attended.

China in German investors' sights Due to the weak development of established markets, German firms began to search for new growth markets. Over the last few years, German firms have set their sights on China in particular, with its dynamic growth and its population of over 1 billion people. Since then, an increasing number of information events are being offered about China as an economic location, which enjoy good attendance. The media has also covered the issue of China as an economic location intensively over the last few years.

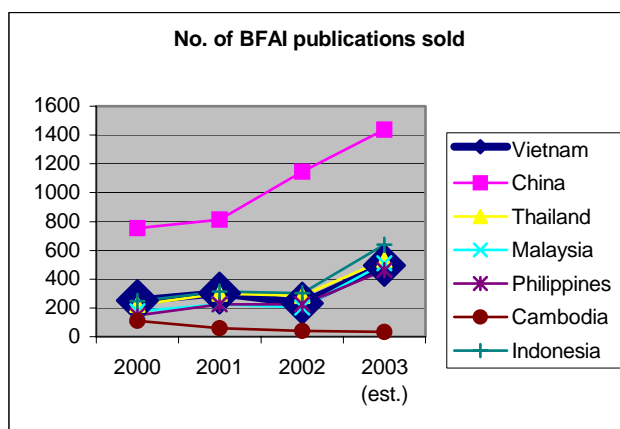
Interest in Vietnam grows from a low level Although Vietnam has similar economic dynamics as China it receives little attention. The interest however is growing. More and more information events are being offered and participation is on the rise. This increasing tendency, even though it sets out from a very low level, was confirmed in discussions with different intermediaries such as IHK, GIC, banks, the German Embassy and Consulate.

Estimation of German Firms' Interest in Vietnam (++ strong increase, + increase, = constant, 0 no interest)	
IHK Cologne	++
IHK Freiburg	++
IHK Hamburg	+
GTZ PPP	+
German Embassy	+
German Consulate General HCMC	+
GBA Vietnam	+
GIC	+
OAV	=
German banks with representatives in Vietnam	=
IHK Stuttgart	0

Source: own survey

**Interest in
China
dominates**

The Federal Agency for Foreign Trade (*Bundesagentur für Außenwirtschaft - bfai*) publishes information about foreign markets and is one of the central points of contact for German enterprises to get information about foreign markets. The number of publications sold for individual countries is surely a suitable indicator for gaining an impression of which Asian countries are of interest to German firms. The following graph provides an overview of the number of publications on selected Asian countries sold by the bfai over the last few years.



	Vietnam	China	Thailand	Malaysia	Philippines	Cambodia	Indonesia
2000	253	755	223	176	146	111	249
2001	303	813	298	227	227	60	315
2002	232	1146	283	205	225	39	302
2003 (est.)	494	1437	531	511	460	34	641

Source: bfai

**Interest in
Asia and
Vietnam
increasing**

These figures clearly show that interest in Asia is greatly increasing again at the moment, although it is also evident that China continues to dominate. Nevertheless, demand for publications on Vietnam, Thailand, Malaysia and Indonesia - each with around a third of the publications sold on China - is significant and also has a strongly increasing trend. This development was

also confirmed in interviews with over 30 managers of German firms planning to invest in Vietnam or Asia.

5.3 Potential Investors' Expectations

What are the most important factors influencing investment decisions? Which factors influence whether companies invest in Vietnam or not? There are in principle two basic motivations for undertaking an investment abroad; firstly the motive of market entry and secondly the motive of cost reduction.

In order to develop a convincing FDI promotion strategy, it is important to know which factors influence investors' choice of location. In its 2002⁵ FDI survey, the Multilateral Investment Guarantee Agency (MIGA) asked firms which factors were decisive in their choice of location. The ten most important factors are shown in the following table. The percentages indicate how many of the firms questioned by MIGA stated each factor to be "very influential". Vietnam's situation with respect to each factor is briefly explained in the second column. The findings for Vietnam come from the consultant's surveys and interviews, the 2003 JICA FDI study as well as different international rankings and evaluation agencies⁶. The red and green evaluations in the left-hand column provide a short evaluation of each respective factor in Vietnam.

The ten most important factors which are decisive for investment decisions (MIGA study 2002)	Situation in Vietnam
1 "Access to customer" (77 %) good	Vietnam has a population of 80 million with increasing per capita income, a quickly expanding private economy and a fast-growing middle class with the desire to catch up on consumption. Access to ASEAN through AFTA as well as the neighbouring country of China.
2 "Stable social and political environment" (64 %) very good	Evaluation of political stability by German investors is "very good". This factor was classified as very important in the JICA survey. Vietnam fares well compared to other countries in the region according to different rating agencies.
3 "Ease of doing business" (54 %) dependent on the target market, access to local markets rather problematic, production for export: good	The German firms interviewed evaluated the general investment climate as good with a grade of 2.4. However, this factor depends on whether the export or local markets are targeted. Vietnam is below average in many international rankings.
4 "Reliability and quality of infrastructure and utilities" (50 %) satisfactory to sufficient	Vietnam's infrastructure is one of the weak points for FDI. German firms' evaluation lay between "satisfactory" and "sufficient", there is a clear tendency towards improvement in all cases.

⁵ MIGA: Foreign Direct Investment Survey 2002, p. 19

⁶ E. g. Political & Economic Risk Consultancy, Ltd (PERC): Business Environment Report for 2003 (PERC 2003)

5 "Ability to hire technical professionals" (39 %) good to satisfactory, but with room for improvement	The Vietnamese education system is regarded insufficient. Nevertheless, German managers judged the quality of their middle management to be "good" (grade: 2.3 with a clear tendency towards improvement) and a good relationship of quality to cost rated 2.4. In addition, Vietnamese staff were said to show a great willingness and ability to learn.
6 "Ability to hire management staff" (38 %) good to satisfactory, but with room for improvement	
7 "Level of corruption" (36 %) contradictory, but room for improvement	Despite poor evaluations by risk analysts and a poor ranking with Transparency International (number 85), Vietnam does not do badly in the survey of German firms with a grade of 3.2 ("satisfactory") with a tendency towards improvement. In general no great problems with corruption were identified.
8 "Cost of labour" (33 %) very positive	This is surely one of the strongest arguments for Vietnam as a location for production. The country does very well in the survey of German investors with a mark of 1.7 (especially combined with the high quality of the work). Vietnam also gains good marks in different rankings concerning the competitiveness of locations.
9 "Crime and safety" (33 %) very positive	This factor is also one of Vietnam's strengths. The German firms interviewed judged the country to have very good conditions in this area, with a negative trend in HCMC, however. International rankings also give Vietnam good marks in this respect.
10 "Ability to hire skilled labour" (32 %) very positive	Even though vocational training is judged to have a great deal of room for improvement, the quality of employees is one of the most important arguments in favour of Vietnam as a location. This is confirmed by the grading of 1.9 (good) from German investors as well as various rankings. A great ability and willingness to learn is also attributed to them.

Source: MIGA 2002, JICA 2003, PERC 2003, own survey

Reasons for German investors' reluctance The table clearly shows that Vietnam is an attractive location for foreign investors. Why are German investors still so hesitant to invest in Vietnam? The interviewees in Germany gave the following reasons:

- Vietnam's image in Germany is not one of an economic location, but rather one of an exotic country.
- Vietnam's strengths are still not known in Germany and many have false preconceptions of investment conditions and Vietnam's economic development.
- Great interest in China overrides other Asian markets.
- Existing interest in Vietnam is stifled by a lack of information and points of contact.
- Many enterprises hesitate to take the plunge in such a geographically and culturally distant country. These doubts increase as the size of the

enterprise decreases.

- There is a lack of know-how in organising the market entry in Vietnam. In particular SME require support and advice when taking such a step.
- The greatest hurdle for many German investors is the search for a suitable partner.

Many German managers do not know Vietnam's strengths

To summarise, one can explain the current lull in German investments by the fact that German firms' inclination to invest was very low over the last few years and that Vietnam's strengths as a location are scarcely known, so that few firms seek information on the issue. Those investors with an interest in the country find it difficult to find sufficient information and to develop a suitable strategy for market entry.

Information is hard to find

Many of the firms interviewed criticised the fact of insufficient access to information about investment conditions in Vietnam. The following were repeatedly mentioned:

- Market studies of specific sectors,
- Reliable information about economic development,
- Overview of investment conditions,
- Comparison of individual locations within Vietnam,
- Opportunities for finding suitable business partners.

Findings and Conclusion from Part A

In short three basic findings and one essential conclusion summarise the results from part A:

1st Finding: German investors are planning to increase foreign investments substantially over the next few years

In addition to enter new markets, a clear increase in production transfer abroad can be expected. Interestingly, many firms not only plan to move labour-intensive job order production abroad, but also more complex and demanding activities. The trend towards transferring production abroad has increased significantly, especially in the industrial sector.

Firms from Southern and Western Germany take a clear lead in their inclination to invest. Asia continues to move towards the focal point of interest in investment. China in particular is high on investors' list of priorities, one could say there is a real "China hype". IHK in some regions explicitly report an increased interest in Asia. In East Germany firms show less inclination towards foreign investments and also tend to be oriented towards Eastern Europe instead of Asia.

There is a clear link between a firm's size and its intention to invest abroad. There is also a tendency for smaller businesses to be more oriented towards Eastern Europe, whereas Asia is of more interest to large corporations.

A clear trend can be seen towards investment locations in which investment conditions allow low-cost production of high quality products. German firms are naturally also looking for new consumer markets. Therefore the demand for advantageous locations with a good investment climate is rising.

2nd Finding: Vietnam's investment climate is good

Despite numerous remaining points of criticism and a significant need for further reform, it can still be concluded that Vietnam's investment climate is good – following improvements over the last few years - and is judged to be good to satisfactory by German investors on site. The decisive strengths are high political stability, the quality of employees, which is estimated by many to be the highest in the region, their relatively low cost as well as a dynamically developing market.

So far the motive of market entry clearly predominated among German investors in Vietnam, whilst the production transfer motive induced relatively few German firms to invest here so far. Vietnam can now be described as a suitable location for export production, for products requiring high quality employees among others. This suitability is also evident in the fact that German export enterprises in Vietnam are very satisfied with the location.

Vietnam as a location should thus be worth to be considered by German firms.

3rd Finding: Vietnam is not in German firms' screen

Although conditions are good, Vietnam remains an exotic destination for many German firms and is often not even considered when debating whether to become active in Asia. They often have a negative image of Vietnam. Neither they nor many intermediaries are aware of the country's strengths. The focus for Asian investments is currently clearly China.

This lack of interest in Vietnam can be explained on the one hand by the fact that conditions in Vietnam have only improved over the last few years. The other reason behind it is obviously also deficiencies in marketing the location.

Particularly inexperienced medium-sized firms without experience in Asia often have difficulties in gathering enough information about Vietnam and getting used to the idea of investing in what seems such a foreign and inaccessible country. Given that there are diverse sources of information on other countries and that numerous countries court interested investors, many firms place possible activities in Vietnam at the bottom of the pile.

Conclusion:

German firms are in search of investment conditions such as those offered by Vietnam, but there is as yet scarcely any demand for Vietnam as a location. It is thus the right time to introduce Vietnam as a location in Germany and to build up FDI promotion in order to stimulate this demand.

Part B: FDI Promotion

How can the above described gap in FDI promotion be closed and more German investors convinced to invest in Vietnam? The following chapter offers a brief description of the relevant institutions and their current role in FDI promotion, thereby indicating their development potential. Chapter 7 then gives an overview of different instruments for FDI promotion and their development potential. To conclude, inputs for possible FDI promotion strategies will be presented.

6 Institutions in the Field of FDI Promotion

6.1 In Germany

The following institutions are either active in the field of FDI promotion in Germany or could play a role in this. The relevant addresses and contacts can be found in Appendix 4.

AHK/ Contact office of the German Business Delegation in Beijing, Shanghai, Guangzhou, Hong Kong and Vietnam

The German Business Delegation offices in Beijing, Shanghai, Guangzhou, Hong Kong und Vietnam (see chapter 6.2) have a contact office in Germany. It offers services for German and foreign companies such as consultancy, information, trade fair management and company pools in co-operation with the delegation offices. It also offers support in the search for business partners. Unfortunately, this service is known by the name "Pro Contact China".

The contact office could be an interesting partner for events on FDI in Vietnam and should also receive information materials about Vietnam.

German Business Asia-Pacific Committee (*Asien-Pazifik-Ausschuss der Deutschen Wirtschaft - APA*)

The APA was established in 1993 by the Association of German Industry (*Bundesverband der Deutschen Industrie - BDI*), the German Chambers of Commerce and Industry (*Deutschen Industrie- und Handelskammertag - DIHK*) and the East-Asian Association (*Ostasiatischer Verein e. V. - OAV*) and since 1999 also counts the German Bank Federation (*Bundesverband Deutscher Banken - BdB*) and the German Wholesale and Foreign Trade Federation (*Bundesverband des Deutschen Groß- und Außenhandels - BGA*) among its members. The APA is committed to creating closer business relationships in both directions and also supports Asian-Pacific firms in entering the German market. Several federal state committees and initiatives have taken over this role, in Vietnam's case it is the Vietnam Working Group. The APA strives to improve economic policy framework conditions for Asian trade both in Germany and in the Asia-Pacific region. One particular focus is securing political support for business activities in Asia.

Above all, APA is a suitable partner for intensifying the Vietnamese-German relations at the political level and that of leading business associations.

Association of the German Trade Fair Industry (*Ausstellungs- und Messe-Ausschuss der Deutschen Wirtschaft e. V. - AUMA*)

AUMA, the German trade fair association, represents the interests of the trade fair business at national and international level. Among other services AUMA offers information concerning trade fairs, which would be suitable for a presentation of Vietnam as a location for investment.

Ministry for Foreign Affairs	The Ministry for Foreign Affairs provides information on the Vietnamese economy on its homepage. It supports German investors through its Embassy and consular services.
Banks and Business Consultancies	<p>Many banks offer services to their business clients in the field of foreign trade and foreign investment. Some of them also organise trips abroad for entrepreneurs. For instance, the Freiburg Savings Bank (<i>Sparkasse Freiburg</i>) offered a trip for entrepreneurs to Vietnam last year and received a good response.</p> <p>Banks with a representative office or a branch in Vietnam also have an evident interest in seeing more German investors in Vietnam, since they can thereby extend their client pool in Vietnamese business. They therefore offer themselves up as partners in FDI promotion and should be integrated into networks. These banks also have access to German firms interested in becoming active in Vietnam. The same is true for German business consultants specialised in Vietnam.</p>
Industry associations and their governing body, the Federation of German Industry (<i>Bundesverband der Deutschen Industrie e. V. - BDI</i>)	<p>German associations represent the interests of their member firms and also support these through numerous services, including foreign business consultancy.</p> <p>These associations and their publications are good partners for addressing and informing their members in a sector approach.</p>
Federal Ministry for Economics and Labour (<i>Bundesministerium für Wirtschaft und Arbeit - BMWA</i>)	<p>The German Federal Government supports the activities of German firms in opening up and securing foreign markets by improving framework conditions for German enterprises and especially in supporting to respect multilateral regulations as well as promoting further dismantling of existing limits on market access. The BMWA, a leader within the German government in promoting foreign business, designs concepts for instruments and further develops specific instruments in close consultation with German business or adapts them to changing requirements.</p> <p>The BMWA works closely together with regional German business initiatives, such as the German Business Asia-Pacific committee (<i>Asien-Pazifik-Ausschuss der deutschen Wirtschaft - APA</i>). It coordinates the different actors in foreign business promotion, such as KfW/DEG, BFAI etc., at the federal and state levels.</p>
German Office for Foreign Trade (<i>Bundesagentur für Außenwirtschaft - bfai</i>)	<p>The bfai supports German firms in their business abroad by providing comprehensive information on world markets. It is one of the main points of contact for German firms wishing to find out about foreign markets. It offers a broad range of services from economic data, project, advertising, legal and customs information to practical business tips, market analyses, contact addresses and an online data bases with business requirements. It also carries out individual research. For bfai-publications and up-to-date information available on Vietnam please refer to Appendix 8.</p> <p>Bfai is not directly suitable as a partner for active FDI promotion. However, up-to-date information about FDI should be forwarded to the bfai.</p>

German Chambers of Commerce and Industry (*Deutscher Industrie- und Handelskammertag - DIHK*)

The DIHK is the umbrella organisation for the 82 chambers of commerce and industry in Germany. All domestic German firms, except handicraft enterprises, freelance professions and agricultural businesses are compulsory members of a chamber of commerce and industry. As a consequence, the DIHK represents over 3 million entrepreneurs. Among other things, it carries out surveys of German firms' inclination to invest abroad (see Appendix 11) and is a co-founder of the APA. The DIHK does not play a direct, active role in FDI promotion.

German-Vietnamese Society (*Deutsch-Vietnamesische Gesellschaft e. V. - DVG*)

The DVG is a non-profit organisation for promoting links between Vietnam and Germany. It is not directly involved in FDI promotion, but could be interesting for networking in Germany, as it has influential members from the business and political realms who are well disposed towards Vietnam. The DVG also organises occasional information events on economic themes.

GTZ - KMB II Domestic Consultancy

The MPI/GTZ project for the promotion of small and medium-sized enterprises (KMB II) has domestic consultancy as one of its components and carried out investment promotion for Vietnam in Germany until the project end in mid-2003.

Chambers of Commerce and Industry (*Industrie- und Handelskammern - IHK*)

The 82 Chambers of Commerce and Industry offer their members numerous services including foreign business consultancy, in the context of which firms are also given assistance on the issue of direct investment. A number of Chambers offer events on themes such as foreign investment or on individual target countries such as Vietnam. There are so-called "focal point chambers" within the IHK network with expertise on a particular country; the focal point chamber for Vietnam is the IHK in Cologne. The Mannheim, Würzburg-Schweinfurt and Freiburg IHK have organised special events on Vietnam recently. A list of further IHK, which reported a growing interest in Asia or Vietnam in their districts, can be found in chapter 8.4 and Appendix 11.

IHK are suitable partners for local events on the theme of FDI and for distributing information materials, especially in the case of focal point chambers.

InWEnt – Internationale Weiterbildung und Entwicklung GmbH (*International Training and Development*)

InWEnt is an organisation dedicated to international human resources development, training and dialogue. It is the result of a merger between the *Carl-Duisberg-Gesellschaft e. V.* and the *Deutsche Stiftung für internationale Entwicklung* (German Foundation for International Development) and builds on its decades of experience in international co-operation. Its praxis-oriented programme is targeted at the skilled and managerial levels as well as decision-makers in business, politics, administration and civil society worldwide. Among other things, InWEnt offers training courses and seminars in the field of investment promotion, which are currently being attended by two members of staff from the HCMC DPI, for instance.

Kreditanstalt für Wiederaufbau - KfW / Deutsche Investitions- und Entwicklungsgesellschaft GmbH - DEG

KfW and DEG are German development banks. They support foreign investments by German firms through development loans and investments. They play a direct role in the field of FDI promotion for Vietnam through their representative office in Hanoi (see chapter 6.2) as well as through information

events about Vietnam, such as in Cologne in October 2003. They should be integrated into an FDI promotion network and kept informed of changes in investment conditions.

**State Banks
(Landesbanken)**

State banks, in other words the German federal state development banks, support firms in building-up businesses abroad. Some use the German Centre concept to this end (*Landesbank Baden-Württemberg - LBBW, Staatsbank Baden-Württemberg - L-Bank, Bayerische Landesbank, Bankgesellschaft Berlin*) located in Jakarta, Mexico City, Moscow, Hong Kong, Peking, Shanghai and Yokohama (see chapter 8.5). The LBBW and the *Hamburgische Landesbank* have a representative office in Vietnam.

The more active state banks in particular, including those who maintain a German Centre, are surely interesting partners for information events about Vietnam as well as in the organisation of trips for entrepreneurs.

**German Asia-Pacific
Business Association
(Ostasiatischer Verein e. V.
- OAV)**

The OAV promotes bilateral economic relations in the Asia-Pacific region and sees itself both as a service provider for its members, which are large corporations, banks, traders and medium-sized enterprises, and as a lobby group for German businesses in Asia. It works together with the leading German business associations and Ministries. Its services include information and consultancy services as well as regular events (on Vietnam among others) as well as a representative office in Asia. The OAV office in Vietnam was closed recently.

The OAV is one of the most active institutions offering information and events about Vietnam in Germany. It is a suitable partner for information events about FDI and for distributing information materials. It also regularly sends out invitations to presentations by Asian delegations and has access to many firms in Germany with an interest in Vietnam through its members and address databases.

**PwC Deutsche Revision
and the Euler Hermes
Kreditversicherungs-AG**

German investment guarantees for foreign investments are processed by *PwC Deutsche Revision* and the *Euler Hermes Kreditversicherungs-AG* as mandated by the German Federal Government. *PwC Deutsche Revision* takes the leading role. The German Government protects German investors from political risks abroad through investment guarantees. Nevertheless, economic risks are not covered. There are similar programmes at the state level.

VietEuroNet

VietEuroNet is a company representing Vietnamese enterprises in Germany and is also supported by various organisations such as VCCI Can Tho, HEPZA and ITPC.

**Vietnamese Embassy and
Vietnamese Consulate**

The Embassy and the Consulate officially represent Vietnam in Germany, including in business matters. Embassy and consular representatives take part in business conferences and similar events on Vietnam and are thereby also active in the field of FDI promotion. They have not yet taken a proactive role in FDI promotion. There have been several reports that the Embassy and Consulate do not consider it their role to function as points of contact for the provision of services and information for interested investors. A consultancy firm requesting a copy of the new Vietnamese FDI law for an

interested client was referred to the German Embassy in Vietnam, for instance.

Since there is no representative office for FDI promotion in Germany, the Embassy and the Consulate are the only official points of contact in Germany for interested German businesses. They should cordially accept requests from interested firms and have up-to-date information materials (investment guide, list of addresses with contact persons, CD-ROMs, FDI law etc.) readily available for distribution. It is also advised that they are enabled to answer easy requests themselves and refer to the competent authority in more complex cases.

In order to put embassies and Consulates in such a position, it would make sense for MPI to produce short guidelines on FDI advice for embassies and Consulates, offer staff training and ensure regular supplies of information materials.

Federal State Business Promotion Agencies

These agencies are mostly organised as limited companies. On the one hand, they support domestic firms in their development by order of the state governments. On the other hand, they promote the state as an economic location and carry out investment promotion to that end. Some of them have representatives abroad. There are also business promotion agencies at the communal and regional levels, which are usually not concerned with the issue of FDI, however. There is a certain contradiction in their goals as regards FDI. While it is in the interests of such business promotion agencies to support the development of those businesses located in their area so that they prosper – including foreign investments in many cases – production transfers abroad generally put their location at a disadvantage. It is thus primarily in their interests to support businesses in opening up new markets and less in production transfer.

Business promotion agencies are suitable partners for organising information events in Germany on FDI in Vietnam. They can support Vietnamese delegations in organising their trip to Germany and sometimes organise their own trips for delegations and entrepreneurs to possible FDI target countries. *Bayern International*, for instance, organised a trip to China and Vietnam for entrepreneurs last November. They are also good points of contact for distributing information materials.

6.2 In Vietnam

Ministry for Planning and Investment (MPI) – Foreign Investment Agency

MPI is the state authority responsible for investment promotion. The Ministry was reorganised in the summer of 2003 and an investment agency established. An FDI promotion strategy is currently being developed. There are also plans to send Ministry representatives to selected countries, such as the USA, in order to attract investors to Vietnam. To date there is no Ministry expert specialising in Germany.

**People's Committees /
Department of Planning
and Investment (DPI)**

The People's Committees and the DPI are responsible for investment promotion at the provincial level. Some delegate this task to subordinate institutions, such as the Investment and Trade Promotion Centre (ITPC) in HCMC, which should inform and advise both local government and foreign investors.

No DPI has yet developed an FDI promotion strategy, but many DPI undertake investment promotion using different instruments. Some have produced CD-ROMs, websites, information brochures and lists of investment projects. The materials are of varying quality, but are often not suitable for convincing foreign investors (see following chapter). In addition, many DPI offer support to investors in the licensing process. Some DPI also offer post-investment services. The DPI in HCMC, Binh Duong and Dong Nai, for instance, regularly invite investors to discuss problems and opportunities for improvement. HCMC's People's Committee is also planning a website on which problems can be raised. Road shows abroad are also organised by some People's Committees; in HCMC they are currently organising a trip to France, the United Kingdom and Germany.

Typical weaknesses in DPI's investment promotion are the low quality of information materials and the insufficient preparation of road shows. There is often also a lack of staff who speak the investor's language (both literally and metaphorically), have experience in the private sector and training or experience in marketing or investment promotion. Two staff members from HCMC DPI are currently undergoing training on the theme of investment promotion through InWEnt in Germany.

**Da Nang Investment
Promotion Center (IPC)**

The recently established Investment Promotion Center Da Nang is still being built up. IPC, supported by MPI, is responsible for investment promotion in the region of Central Vietnam and is already very active. For instance, it organised a conference on Da Nang as a location in the spring of 2003, in order to attract foreign investors.

**Industrial and Export Zone
Administration e.g. HEPZA
HCMC**

The administrators of industrial and export zones have a direct interest in attracting foreign investors and are therefore also active in the field of FDI promotion. Some have websites, inform and advise potential foreign investors and support them in registration and licensing matters. The Ho Chi Minh City Export Processing and Industrial Zone Authority (HEPZA) organised a road show in Europe in 2002 in co-operation with Eurocham, in order to advertise HCMC as a location.

**German Chambers of
Foreign Commerce
(*Deutsche Auslands-
handelskammern - AHK*)**

120 AHK offices in 80 countries with over 1.400 staff advise firms interested in bilateral business exchanges with Germany. The AHK offices have tasks ranging from commercial information services, legislative and administrative services and representing German trade fairs abroad, through market and economic analyses, technology transfer and environmental protection, to trade and investment promotion, public relations and vocational training. The AHK offices also represent company interests and policy concerning the promotion of bilateral business.

The AHK office in Hong Kong is responsible for Vietnam and

maintains the German Industry and Commerce Bureau (GIC) in Hanoi. AHK/GIC offers a wide range of services to German firms in Vietnam and other interested companies. As well as publishing the German Vietnam Business Handbook & Directory, which provides an overview of German companies and institutions in Vietnam, it distributes the Vietnam bulletin ten times a year, a newsletter covering recent developments in the field of Vietnamese business. Further offers include advisory services, the search for business partners, business consulting and support for German delegations as well as various publications such as guidelines and market studies on Vietnam and a company pool. Some of the German firms interviewed recommended that AHK/GIC should play a more active role and establish an office in the South.

Vietnamese-German Centre (Vietnamesisch-Deutsches Zentrum - VDZ)

The VDZ was opened at Hanoi Technical University in 1999. It is a cross-faculty institute dedicated to maintaining Vietnamese-German co-operation in the scientific, economic and cultural fields. The centre is designed to serve scientific and technological exchange and provide a meeting place for German and Vietnamese business and science representatives.

The centre has not been active in the field of FDI promotion to date, and concentrates on university matters.

KfW / DEG

The KfW has an office in Hanoi, which informs interested firms about KfW and DEG services and plays a role in the field of FDI promotion through information of interested companies and delegations.

German Embassy and Consulate General in HCMC

The German Embassy in Hanoi and the Consulate General in HCMC offer help to interested firms by means of advisory services and information, contacts and political support. Their staffs are also actively involved in promoting Vietnam as a location through visits to events in Vietnam and Germany. Information about Vietnam as an economic location is published on the websites of the Embassy and Ministry for Foreign Affairs.

German Business Association (GBA)

The GBA represents German firms' interests in Vietnam. It provides support to potential German investors through information, advice from its members and networking. The GBA actively promotes FDI in Vietnam; its members take part in a range of events about Vietnam, e.g. supporting a road show in Germany by the HCMC People's Committee in November 2003.

Vietnam Chamber of Commerce and Industry (VCCI)

The Vietnamese Chamber of Commerce and Industry is as yet scarcely active in the field of FDI promotion. It could play a future role in the search for business partners for German investors. It also published a business guide for foreign firms and information on Vietnam on its website.

Vietnamese sector associations

Vietnamese trade associations have as yet barely been active in the field of FDI promotion. This could change, as they are expected to gain more freedom of action in the future and develop further institutionally in the coming years. Numerous donor programmes designed to support the development of these associations are currently in planning stage.

Eurocham HCMC / Hanoi Eurocham represents European firms in Vietnam. It offers potential investors services such as information, advice, events and networking opportunities. A range of activities in the field of FDI promotion have been organised through the EU Commission's Asia Invest Programme, such as the Asia Invest Forum in HCMC in October 2003.

6.3 Evaluation of the Institutional Landscape

Many institutions, little coordination The current institutional landscape for FDI promotion in Vietnam can be characterised as follows: There are many institutions concerned with this issue *among others*, but as of yet no Vietnamese institution is clearly responsible for the issue and having the matter in one hand. The current reorganisation of MPI in the area of FDI promotion, which brought together the different departments in charge of FDI into a single *Foreign Investment Agency* (FIA) under MPI is a great step forward. FIA is currently developing and FDI promotion strategy.

Many information opportunities, but a lack of transparency The problem is somewhat different on the German side. The focus here lies less on marketing Vietnam as a location, and more on supporting German firms willing to invest there. There is a whole range of institutions providing information and support to investors via various services. Nonetheless, many managers also lament the fact that the situation for entrepreneurs is somewhat confusing and that it only becomes clear where which information and service can be found after some research has been carried out. Better networking among individual institutions as well as the exchange of available information materials with Vietnamese organisations would be helpful here.

Only 1/3 of all email requests were answered A business consultancy firm currently advising a German enterprise in its investment strategy for Asia emailed requests for information on investment conditions in Vietnam to 38 different institutions in both countries. Only 12 replies were received altogether. The quality of the information varied greatly and ranged from a short indication of other information sources to detailed responses. No organisation followed up the request and hardly any information materials were dispatched. It is problematic that a request by a firm obviously interested in an investment in Vietnam receives replies from less than a third of the organisations contacted, despite the fact that all of these institutions are competent in the field of FDI promotion. When extensive marketing activities succeed in interesting potential investors in Vietnam, and these are then disappointed in their search for further information, the question arises as to whether the marketing effort was worthwhile.

Contacts responsible for FDI are hard to find in web searches An internet search on investment conditions in Vietnam is also informative. On entering search criteria with internet search engines on the subject of foreign direct investment in different countries, one usually gains an overview of those institutions in charge of FDI promotion in a country and where to find further information relatively quickly. Unfortunately, searches on Vietnam do not give the interested investor a clear picture of who to contact in Vietnam. Instead, many links to private internet sites containing information on investment and business in Vietnam appear, all of widely varying quality. Only if one uses search criteria in a more inventive manner does one gain access to official sites, on which the information flow often quickly dries up. Interested readers are recommended to try this for themselves online, since it is highly symbolic of the situation in the field of foreign direct investment promotion for Vietnam. There are many organisations concerned with FDI promotion among other things, but which consider this as a sideline. However, there is no clearly discernible and competent focal point for potential investors at the

official level. Naturally, with some effort, one can find the necessary information on the issue. Other countries make this much easier, though. Some potential investors surely draw the conclusion that it is also much easier to implement an investment project in these countries than in Vietnam.

The following table provides an overview over information points for German investors and their utilization. The first column shows which institutions were contacted by managers in Germany to get information on Vietnam. The second column indicates which institutions were recommended by managers of German investors in Vietnam to interested companies for information on Vietnam:

	Used by the potential investor	Recommended by German investor in Vietnam
IHK in Germany	6	0
AHK / GIC	5	1
German Embassy or Consulate	4	5
BFAI	3	0
Eurocham / EBIC	2	6
German Sectoral Association	2	0
GBA	0	10
KfW, international banks	0	4
IMF, ADB, World Bank	2	0
Vietnamese Embassy or Consulate	0	0
IZ / EPZ Management	0	3
VCCI	0	2
MPI / DPI / ITPC	0	1

Source: own data

Great discrepancy between the sources of information used and those recommended It is interesting to note that potential investors in Germany do not seem to be aware of important points of contact recommended by experienced investors in Vietnam, such as the GBA and Eurocham. At the same time it is highly surprising that organisations such as the German system of Chambers together with AHK/GIC and IHK were used by several potential investors but were not recommended by the firms already operating in Vietnam. Only the German Embassy and the Consulate General were both recommended by German investors in Vietnam and used by interested firms. The fact that Vietnamese institutions are scarcely taken into account by both groups is also informative. The rare mention of Vietnamese institutions by German firms in Vietnam points to a lack of trust in the quality of these organisations' advice. That potential investors should also not use them is a sign of their deficient public image.

7 Instruments for FDI Promotion

Which measures are suitable for convincing potential German investors to become active in Vietnam? The following instruments for FDI promotion fulfil the requirements of stimulating interest in Vietnam as an economic location, developing a positive image and providing information and services to potential investors.

Information brochures, CD-ROMs and DVDs

In principle information and advertising materials have two different functions:

1. *Eye-catcher* or general information for first contact; these materials should summarise the most important features and advantages of the location at a glance and stimulate interest in pursuing the Vietnamese theme in a visually attractive way. It is therefore important to offer contact addresses for further information. They should not contain too many details, but summarise the most important information in a compact manner and include a few teasers to increase interest. CD-ROMs and DVDs have sufficient capacity to provide detailed information. It is important not to overload the format and make sure that it is clear and easy to navigate, so as not to drown preliminary interest in a flood of information.

2. *Detailed information* on Vietnam as a location for entrepreneurs with specific information needs. Some of the contents could be available market surveys, relevant legal texts (official translations!), necessary forms, foreign investors' success stories, lists of addresses of information sources and business consultants as well as information about individual IZ/EPZ, specific Vietnamese locations, the tax system, investment incentive programmes etc. To keep costs low and information up-to-date, it would certainly make sense to provide comprehensive information in digital form, as this can be updated more easily and at lower cost than paper publications.

Professional, attractive design, good quality writing and ease of navigation are imperative in all cases, since those interested are otherwise likely to be deterred. Badly produced information materials can have a counter-productive effect. The situation in Vietnam should be portrayed in a positive but realistic light. That is, the location's advantages should be emphasised but it is also necessary to describe existing weaknesses rather than to hide them. This increases credibility and avoids disappointment. A German language version would be a positive step but not absolutely necessary, if a good English version were available.

Numerous information brochures and CD-ROMs of very variable quality currently exist. It is recommended that an international marketing company, which "speaks the language of business", produces such materials. Even the best information material is of no use when it does not reach the addressees. This is one of the weaknesses of the information materials produced hitherto. The consultant did

receive copies of existing materials from individual institutions on request. However, a business consultancy in Germany, which is currently advising a medium-sized enterprise on choosing a production location in Asia, did not receive a single one of the existing CD-ROMs or brochures, despite writing to all the relevant offices by email and fax, requesting information about Vietnam as an investment location.

Before producing such information materials, it is necessary to be informed of the target group and its information requirements, as well as being clear about distribution and ways of reaching the target group. Possible forms of dissemination are the distribution of information materials at road shows and similar events, direct mailing, visits from German delegations and through intermediaries in Germany and Vietnam such as Eurocham, AHK/GIC, the German Embassy and Consulate General in Vietnam, the Vietnamese Embassy and Consulate in Germany, OAV e. V., interested IHK (the IHK in Cologne is the focal point chamber for Vietnam), associations as well as to interested firms on request.

Websites

The same principles regarding the contents and design of CD-ROMs and DVDs also apply to websites. The internet has the great advantage of enabling information to be continually updated. This advantage is an obligation at the same time: websites must always be maintained and have the latest updates. Professional design, good quality writing and ease of navigation are imperative here too. Further components of internet sites should be current news on the issue of FDI and business in Vietnam and so-called FAQ (frequently asked questions). These are pages on which questions from firms are answered and continuously collated for public view. This is informative for the interested reader and also shows concrete information needs.

Unfortunately, many websites are of poor quality (links do not work, the English version is badly written, out-of-date information etc.) or cannot be found as they are neither listed in search engines nor linked to other sites (on the MIGA Investment Promotion site, for instance <http://www.ipanet.com>). Positive exceptions are the websites of the HCMC ITPC (<http://www.itpc.hochiminhcity.gov.vn>) and the HCMC DPI (<http://www.dpi.hochiminhcity.gov.vn>), which provide much information, are relatively user-friendly and up-to-date. Nonetheless, it should be noted that the legal texts sometimes do not correspond with the official translation. None of the firms interviewed had visited these sites.

Success stories

Examples of successful investments are convincing arguments for potential investors. The institutions responsible should collect various successful investment projects by German/international investors. These can then be used in brochures, CD-ROMs or websites to illustrate the good investment conditions. However, this should only be done with the consent and co-operation of the firms portrayed, in order to avoid conflict and misunderstandings. Since such

stories also have a PR effect, it should be possible to find willing firms. The GBA could help in the search for companies.

List of projects calling for investment

Foreign firms are hardly aware of these lists, which are produced and published by MPI and many DPI. They are not very suitable for investment promotion, as they give the impression that investors will thereby be integrated into a command economy, in which they have no decision-making autonomy.

Newsletters

A further means of regularly informing interested managers about Vietnam are emailed newsletters, which are distributed monthly or quarterly and report news and focal themes concerning economic development and investment possibilities. Such a service is quite labour-intensive, since professional editing and production are necessary. Furthermore, newsletters only make sense when the email addresses of interested firms are available (see data base creation). The GIC already offers a newsletter about Vietnam with a circulation of 1.500. The OAV e. V. provides information about East-Asia within Germany in its OAV newsletter. State authorities are only of limited suitability for such a service. A partnership with a business newspaper like the Vietnam Economic Times, Vietnam Investment Review or even the Far Eastern Economic Review, for instance, might be a possibility. It is also true to say for this service that quality is decisive.

The information material described above must be accompanied by other promotional activities. It will not be sufficient in itself to attract new investors.

Trips for entrepreneurs

Such trips to Vietnam for interested German entrepreneurs are suited to providing more detailed information about Vietnam as a location, preparing for an investment or helping to find suitable business partners for entrepreneurs with a concrete interest in becoming active by opening up new markets, establishing a representative office or a subsidiary in Asia. Trips for entrepreneurs are organised by federal state business promotion agencies (see the list of addresses in Appendix 4), Ministries for the economy at the federal or state level, banks, the OAV or German chambers. Such trips are often accompanied by high-ranking politicians. Vietnamese institutions can naturally also offer those trips for entrepreneurs, although co-operation with a German partner institution would be highly recommended here, in order to find the right participants. Massive subsidies for such a trip are neither necessary nor sensible, since the interest of firms that are not prepared to cover these costs must be low to start with. The Bavarian business promotion agency *Bayern International* reported an interesting experience last year. It organised a trip for entrepreneurs to China, which continued on to Vietnam for the final two days. Discussions with participants and organisers revealed that none of the participants would have booked such a trip to Vietnam only. Nevertheless, many of the entrepreneurs interviewed were surprised by Vietnam in a very positive sense and some made interesting

business contacts, despite the short stay. It should be considered whether this model of combining target countries should be repeated. This would give German firms the opportunity to gather information about several locations. The current “China boom” in Germany could thus possibly be exploited for Vietnam’s benefit.

Media trips

Inviting journalists on a media trip to Vietnam is a relatively low-cost means of informing the international media about new developments in Vietnam and its qualities as a business location, as well as building up a network of journalists who have experienced Vietnam. When the right journalists are invited and the trip is carried out professionally, the chances are good that reports will appear in newspaper, radio and television programmes. Such a contribution exerts more influence than an expensive advertising campaign. Professional preparation by an expert with experience in international media is critical for such an event, since otherwise there is a risk of negative reporting.

Road shows in Germany

Vietnamese delegations of high-ranking politicians combined with a business delegation to present Vietnam as a location to Germany are suited to informing entrepreneurs interested in Asia about the location and to convince them of the professionalism of administration and enterprise. Appropriate German institutions such as IHK, banks, German businesses, associations, OAV, newspapers and so on should support the events. They increase credibility vis-à-vis German companies, provide opportunities to contact a suitable group of entrepreneurs and are able to support the preparations professionally in Germany. Besides the Vietnamese delegation it is advisable that a representative of a Western firm or a German expert who knows Vietnam’s situation well gives a presentation. German managers are interested to hear of other German entrepreneurs’ experience there. A European consultant can present the investment climate in Vietnam from a different perspective and fulfil a bridging function between the delegation and the visitors. Such road shows can present Vietnam as a location in general as well as concentrating on specific locations or sectors. According to intermediaries who organise such events in Germany, interest in events about Asia and Vietnam has recently increased substantially.

The quality of past events organised by Vietnamese institutions in Germany was unfortunately lacking in most cases. Professional presentation and thorough preparation by the participants is imperative at such events, starting with the choice of participants. They should speak German or English if possible and the participating firms should be selected so as to ensure they are recognised by German business partners. Unfortunately, the choice of participants was not according to their qualifications in some cases. Someone with sound knowledge of the German market should support the preparations. Such events should also be used to involve the press, in order to have media reports on Vietnam both before

and after the event.

Information seminars

Information seminars about Vietnam on certain themes are the road shows' "little brother", so to speak. Such events inform experts about specific themes, such as certain sectors in Vietnam. They can be prepared in conjunction with German organisations such as OAV, IHK or professional associations and are suited to presenting new sectoral studies, for instance.

Market studies and sector overviews

Market studies are an appropriate instrument in order to sensitise investors from individual sectors as to the opportunities an investment in Vietnam represents, and offer them detailed information about individual markets and sectors in Vietnam. Studies already exist for certain sectors (see appendices 7 and 8), of which many intermediaries are unaware, however. Better co-ordination amongst the individual institutions would be helpful here.

Establishing a representative office in Germany

The role of a representative office for Vietnam in Germany would be public relations and the offer of services to interested German and perhaps Vietnamese firms as its main role. Possible activities in the field of public relations are establishing contacts with the press, regular dissemination of press releases, information events about Vietnam and preparing trips by Vietnamese delegations to Germany, establishing and maintaining contacts with associations, chambers, business promotion agencies and other intermediaries such as banks and advisors as well as directly with firms, active visits and perhaps presentations at information events about Asia at relevant trade fairs. The office could serve both as a point of contact for German firms interested in Vietnam as well as Vietnamese firms wishing to build up business relationships with Germany. Possible services for companies are: organisation of trips to Vietnam and Germany for entrepreneurs, support in preparing individual business trips, supplying market surveys, the search for location and business partners and general information about Vietnam or Germany. Examples of such offices are, among others, the representatives of German federal states abroad, such as Hessen (<http://www.wirtschaft.hessen.de>) and Bavaria: (bayern-international.de/information/repraesentanzen.htm).

Such a representative office could either be located within the Vietnamese Embassy or Consulate or be established as its own bureau. The latter has the advantage that the office could be located not in Berlin or Bonn but in one of Germany's business hubs. The disadvantage of such a representative office in Germany is the costs involved. Possible alternatives to a representative office are: training of Embassy and consular staff in the field of FDI promotion, the transfer of individual services to professional external agencies or sending a skilled member of staff to present Vietnam as an economic location to Germany and build up or intensify contacts to the relevant authorities in Germany over a number of months. The representative responsible should know Ger-

many and Vietnam well and have sound experience in public relations. Transferring these tasks to an external service provider has the advantage that a German organisation or firm knows its way around and can use its existing contacts. This could at the same time be the most economical solution, since remuneration could be covered by a basic payment and bonuses for good performance e.g. for each new investor.

Database of potential investors

Those institutions responsible for FDI promotion should build up a database in which they gather and evaluate information on potential investors. All potential investors with which the institution is in contact – for instance through requests for information materials or inquiries, participation in an information event etc. – should be included in this database. Furthermore, specific databases should be built around target sectors once these have been identified. This can be through staff research or the purchase of databases. Creativity and a good sense of the many opportunities that exist to find suitable addresses are necessary to build up such a database. If, for example, a certain sector is under consideration, it makes sense to include the big German investors in this sector who have invested in countries such as China, Korea, Thailand etc., but are not yet represented in Vietnam. These firms' addresses are to be found on the internet sites of the German Business Association in the countries concerned or in handbooks of German business delegations.

Direct mailing

Certain groups of potential investors can be addressed directly via direct mail and informed about Vietnam as a location. A prerequisite for this is a data base of interested investors or the purchase of address lists. Such mailings could be relatively low cost if included in existing newsletters or carried out in conjunction with German trade associations or chambers, which dispose of their members' addresses. These are suitable instruments for drawing attention to new publications, such as sector studies.

Arranging/Supporting the search for business partners

One of the biggest problems reported by interested companies and which corporations SME in particular, is finding suitable business partners in Vietnam. The great distance as well as linguistic and cultural barriers also make it difficult for large medium-sized enterprises to find appropriate business partners in Vietnam. If these barriers could be reduced, more SME – the backbone of the German economy – could be attracted as investors to Vietnam. Experience from many countries shows that a state authority cannot efficiently provide this service. Chambers and associations are best in this case, or private consultants and banks.

Advertising campaigns

Two different types can be distinguished: image campaigns and specific advertisements for Vietnam as a location. In the case of image campaigns, the main objective is to influence the image of Vietnam in Germany. Such image campaigns are expensive, so that it would be an idea to carry out general image campaigns jointly with trade and tourism promotion.

Advertising campaigns for Vietnam as an investment location are more specific, since the target group is smaller in this case and can be addressed in a direct way. Suitable media are those that reach the managers of relevant firms. For example, these include the news and economic television station "ntv", Financial Times Deutschland, Frankfurter Allgemeine Zeitung, Manager Magazin, Harvard Business Manager etc. Other media should also be considered, such as advertisements in German airports, Lufthansa's in-flight magazine or suchlike. Also media such as the Vietnam Airlines in-flight magazine Heritage should be utilized since almost all travellers to Vietnam are exposed to it on domestic flights. A sector approach (see chapter 8.3) should include trade associations and chambers' specialist journals in the advertising campaign. This improves targeting and the cost of advertising in these media is significantly lower than in the mass media.

Advertising campaigns should generally be carried out by professional advertising agencies that know the German market well.

Tax relief for investors

The extent to which tax relief for foreign investors is an appropriate instrument for attracting foreign investors is very controversial. Empirical studies⁷ seem to show that such tax relief hardly has any influence on investors' investment decisions. This is confirmed in interviews by the consultant. 75 % of the investors interviewed stated that tax relief or other incentives had no influence on their decision to invest in Vietnam. Interviews with entrepreneurs in Germany painted a similar picture. The majority in this case also said that tax incentives have hardly any influence on their investment decisions.

The most important instruments for promoting investment are ...

... satisfied investors in Vietnam

All interested firms will make a trip to Vietnam before investing and inquire with foreign investors located there about investment conditions. These investors' judgement will have a significant influence on the decision whether to invest. As such, satisfied investors who feel that the government is responding to their problems and supporting them are imperative for promoting investment. Besides on-going improvements in framework conditions, so-called post-investment services are an appropriate instrument in this case; that is, contact persons or regular government meetings with investors (at the national, provincial and municipal levels), to discuss current problems. The Vietnam business forum (VBF) is a successful example.

⁷ I.e. Wells, Louis; Allen, Nancy, Morisset, Jacques and Pirnia, Neda (2001): Using Tax Incentives to Compete for Foreign Investment – Are They Worth the Costs? FIAS Occasional Paper 15, 2001

**... further improvements
in the investment
climate**

First and foremost, this entails respecting the basic principles of good governance such as the transparency of political decision-making, government credibility, simple and non-contradictory regulations and their implementation, legal security, guarantees of fair competition, dismantling of corruption, qualified administrative staff etc. All of these principles do not only apply to German investors and are sufficiently explained in numerous publications. Consequently, this report will not expand upon this in detail. Further information can be found in the following publications, for instance:

- Scott Jacobs (2003): The Importance of Institutions in Determining the Investment Environment, FIAS
- Jacques Morisset (2003): Does a Country Need a Promotion Agency to Attract Foreign Direct Investment? World Bank Policy Research Working Paper 3028, April 2003
- Lois T. Wells and Alvin G. Wint (2002): Marketing A Country: Promotion as a Tool for Attracting Foreign Investment (revised edition), FIAS Occasional Paper 13, 2002

**... and the avoidance of
unforeseen state
intervention in the
market, which can have
a threatening effect on
foreign investors**

Unexpected action by the state, such as changes in legislation which threaten investors' existence, retroactive tax increases, new import limitations which endanger the business base or unexpectedly reduce profits significantly, all put investors off. Whenever state intervention detrimental to FDI takes place repeatedly, it has an absolutely counter-productive effect on FDI promotion, lastingly endangering trust in Vietnam as a location and with that destroying efforts to attract more foreign direct investment.

8 Strategy Approaches to FDI Promotion in Germany

Three different approaches to an FDI promotion strategy will be presented in what follows.

1. Institutional approach
2. Improving Vietnam's image
3. Sector approach

Combinations of the different strategies are possible and sensible, and should be incorporated into the FDI promotion strategy currently being developed by MPI.

8.1 Institutional Approach

- | | |
|---|--|
| Creation of a focal and information centre for FDI promotion | MPI is officially responsible for FDI promotion and currently in the process of developing an FDI promotion strategy. Its newly established Foreign Investment Agency (FIA) will take over responsibility for FDI promotion. It should be developed as a centre of expertise and the main information authority. Such a centre of expertise should first and foremost have an overview of possible partners for co-operation in FDI promotion, existing information resources, legal bases, external experts and advisors, those administrative authorities responsible as well as current FDI developments in Vietnam. These resources should also be made available to other institutions which carry out investment promotion among other things. |
| Creation of a network in Germany and Vietnam | As the main co-ordinator responsible for FDI promotion, FIA will also co-ordinate investment promotion for Germany. This should be carried out by a member of staff with good knowledge of the country and experience in the private sector. A range of institutions are active in this area, but there is no overall strategy and little co-ordination. Besides, in principle no Vietnamese institution for investment promotion is represented in Germany. The investment agency should have an overview of which institutions at home and abroad are suitable as partners in which activities. It should build up an extensive network of relevant institutions and supply these with information and materials. Such a network is also useful for gathering information. The most important institutions are described in chapter 6 and a list of addresses for these institutions can be found in Appendix 4. |
| Points of contact in Germany | It is necessary to have a presence in Germany in order to build and maintain such a network as well as undertake more effective FDI promotion. Possible tasks and functions of such a representation are presented in chapter 7. The following options are possible: <ul style="list-style-type: none"> • Establishment of a permanent representation in Germany, either by opening an office for investment promotion, a joint office with trade and/or tourism promotion, or attached to the Embassy or Consulate. • Temporary representation via "Zebra Missions". That is, the representative responsible for Germany is not always in Germany but visits regularly, in order to carry out his or her tasks. It would be possible in this case to look after other countries in the same way or commute to Vietnam. However, this solution has the disadvantages of lack of continuity and high travel costs. • Function taken over by the Embassy and Consulate. • Transfer of tasks to an external agency or consultancy firm. |

High Demands for VIPA	With respect to establishing a Vietnam Investment Promotion Agency (VIPA), investors made clear that they would welcome it if the bureaucracy for investors were thereby reduced and life became easier for them. It was emphasised further that staff qualifications are decisive for the quality of service from all institutions in the field of FDI promotion. These qualifications would ideally include very good foreign language skills (German or English for Germany), experience in the private sector, knowledge of the country and overseas experience as well as training and experience in marketing or investment promotion. It should be considered whether foreigners from the most important target regions should be employed or involved as external advisors. Match-making activities should not be conducted by a government agency.
Staff qualifications are decisive	
Institutional networking	Networking amongst the institutions concerned with the issue of FDI promotion is important. It makes no sense for each of the many institutions to produce information materials and an FDI homepage, which hardly anyone will then use. It would be better further to develop existing materials and exploit synergies between individual actors. A round table might be sensible here, at which all Vietnamese actors could meet, inform each other and perhaps agree to co-operate. Co-operation and co-ordination with tourism and trade promotion activities could also be useful, since an image campaign for Vietnam, for instance, corporations all three areas and there are also overlaps in target groups and instruments.

8.2 Improving Vietnam's Image in Germany

Image: Vietnam is not seen as a business location	Vietnam's problem in Germany is that it is perceived as a very exotic country about which many Germans know very little. Discussions about Vietnam often contain references to the Vietnam war, agent orange, boat people or poverty and flood disasters. Vietnam is still primarily perceived as an exotic tourism destination. It is not the case that Vietnam suffers from a negative image in Germany; rather it is exotic and not associated with a business location. This is unfortunately also the case among a large number of German managers, as became evident from interviews with companies which had not yet concerned themselves with Vietnam.
Increase Vietnam's coverage in the media	The media significantly influences this image. Vietnam has altogether poor coverage in the German media. This also and especially applies to business publications. Whilst reporting on China has recently risen dramatically and an increasing number of business reports can be found, reporting on Vietnam tends to look at natural disasters or tourist sights. It is necessary to increase coverage of Vietnam in the media significantly in order to stimulate discussion about it as a potential location for investment. This can change public perception of Vietnam and specifically the perception among entrepreneurs. Examples of characteristics with which the country should be associated are: dynamic economic development, 80 million consumers and a rapidly growing middle-class, a secure country with minimal risk of terrorism located in the heart of Asia, Vietnam as the "South-East Asian Prussia" ⁸ , production location for large German corporations such as Mercedes-Benz, Metro, Siemens, etc.
Creation of professional media	In order to change the public impression of Vietnam in Germany, public relations work must be adapted accordingly. There are two principal

⁸ This term was repeatedly mentioned during discussions in Vietnam about the work mentality of Vietnamese staff, since their qualities were often described in terms of so-called "Prussian virtues" such as correctness, punctuality, reliability, hard work and so on.

**relations for
Vietnam in
Germany**

approaches here, which can and should be combined:

- Firstly, advertising campaigns in which Vietnam's positive features are highlighted in the media
- Secondly, more intensive co-operation with the German media and attempts to increase coverage of Vietnam as a business location in media reporting.

Interesting occasions in the business domain, such as the opening of new Metro Cash & Carry markets in Vietnam, high-ranking visits or German business delegations in Vietnam and vice-versa, should be used for press conferences and press releases. The fact that Vietnam was the first country to control the SARS epidemic could have been far better exploited in public relations work, for instance. Since there are seldom highly newsworthy developments or events, it is important to build up a network among the media to achieve greater media coverage.

Since many business journalists do not know Vietnam as a business location, they should be provided with information about Vietnam. For instance, a media trip could be organised on the theme of "Vietnam as a business location", thereby providing the opportunity to build networks among journalists.

***Develop a
concept for
a complete
image
campaign,
work with a
professional
advertising
agency***

To sum up, it is recommended that an image-building campaign for Vietnam be carried out in Germany. This would involve developing a public relations concept. If an advertising campaign is to be conducted, this should definitely be executed in cooperation with an international or German public relations agency. The development of a public relations strategy should also be carried out by a German media expert / consulting firm. The contents of such a strategy also depend on the institutional set-up of FDI promotion in Germany. Implementing the image campaign in conjunction with trade and tourism development should also be considered, since all three areas could profit from such a campaign.

An improvement in Vietnam's public image is essential. The most important points are:

- Professional design and maintenance of information materials and websites representing Vietnam, as well as accurate and precise information.
- Improved inquiry management, meaning a professional response or forwarding of requests from interested companies. This applies to all relevant organisations, whether they are officially responsible for FDI promotion or not. Inquiries should be used to build up a data base on interested investors and replies to inquiries should be followed-up to find out if the replies have been satisfactory and if the investors' needs more information. There is no sense in making great efforts to stimulate interest in Vietnam as a location, only to dampen this interest through a lack of or unsatisfactory responses to requests.
- In general investors are also influenced by general impressions they are confronted with. They will thus draw conclusions about the treatment of investors by the authorities from the behaviour and appearance of the officials they meet during a business trip, for instance applying for a visa, on arrival at the airport or at the post office.
- Presentation of the progress and reforms achieved and implemented in the last few years, as well as plans for further reforms.
- Involving satisfied German investors in Vietnam in public image-making.

- Involving high-ranking politicians in investment promotion can have a significant positive effect on Vietnam's public image as an investment location. Trust in the pursuit of efforts towards reform can be demonstrated in the commitment of high-ranking politicians to attracting investors, during trips to Germany for instance. At the same time, those events provide an opportunity for press coverage.

In addition, Vietnam's most important advantages as a location should naturally be presented. These include ...

... in the field of production for export:

- Political stability,
- High quality labour force, ability to learn and working morale, low failure rates,
- Low wage costs,
- Relatively uncomplicated location and licensing in EPZs,
- Many Vietnamese decision-makers educated in Germany and with links to the country,
- Satisfied German investors in Vietnam.

... for entry into new markets:

- A population of 80 million with rising per capita income,
- Fast-growing middle class with the desire to catch-up on consumption,
- Dynamically growing private business sector,
- Strategically good location in the middle of ASEAN / AFTA,
- Knowledge of and demand for German brand products.

Vietnam's comparative advantages to China and other countries

Since many German firms are interested in investing in China, it would surely be beneficial to determine sectors/areas in which Vietnam has comparative advantages to China. Preliminary approaches here are:

- Long-standing German-Vietnamese friendship and attachment,
- Many Vietnamese who know Germany well and speak German,
- Greater acceptance of European brands,
- Higher quality of the labour force,
- Vietnam as the "Prussia of South-East Asia".

In addition, detailed country rankings such as those of the Political & Economic Risk Consultancy Ltd. (PERC) can be studied, in order to identify Vietnam's advantages vis-à-vis its competitors. Some examples follow from PERC 2003, in which Vietnam does better than China or is one of the best placed in an Asia-wide comparison.

Examples of comparative advantages of Vietnam within Asia (China , India, Indonesia, Malaysia, Philippines, South Korea, Thailand, Taiwan)	Grade VN / China 0 = very good 10 = very weak	Rank in Asia
Government stability	2,35 / 3,33	1
Political system risk	4,00 / 7,00	2
Threat of labour unrest	2,86 / 4,00	1
Overall social stability	3,43 / 4,57	3
Foreign investors variable	6,16 / 5,34	4
Discrimination against new FDI	3,86 / 5,00	2
Cost of production labour	2,75 / 1,5	2
Overall productivity of labour force	4,38 / 4,75	2
Work ethic	3,38 / 5,13	2
Labour turnover	3,13 / 4,00	2

Source: PERC 2003

8.3 Sector Approach

**Search for
win-win
situations**

A sector approach identifies suitable industries for investment in Vietnam. There should be a win-win situation that is industries which have a clear economic advantage in investing in Vietnam and at the same time offer advantages to Vietnam, such as technology and capital transfer as well as jobs.

**Possible co-
operation
with German
trade
associations**

The advantages of Vietnam presented in the previous chapters should be taken into consideration in selecting sectors. A market study or overview should then be prepared for the chosen sectors, clearly stating the current situation and expected development of this sector in Vietnam. The next step would be to inform German firms of opportunities in the Vietnamese market. This could take place in co-operation with the corresponding trade associations and/or IHK among others (an overview of important German trade associations is provided in Appendix 4). Appropriate instruments are newsletters (i.e. to trade association members), advertisements and articles in specialist journals and association magazines, participation in trade fairs (perhaps at a joint Vietnamese stand), information events and perhaps a business delegation to Germany or a trip to Vietnam for German entrepreneurs. The FDI promotion network should also be involved.

**Suitable
industries**

There follows a short analysis of the particular industries whose interest in Vietnam could be stimulated. The following German industries have shown the strongest tendency to undertake (further) production transfers abroad.

Industrial sector	Percentage (%) of firms prepared to transfer
Clothing	47
Production of electrical equipment	40
Motor vehicle construction	36
Electrical engineering	34
Textiles	33
Radio, television and communications technology	32
Production of metal goods	28
Mechanical engineering	28
Production of rubber and synthetic goods	27
Medical, measurement, steering and control technology	26
Production of furniture, jewellery, musical instruments and suchlike	24
<i>Industry average</i>	24
Metal production and processing	24
Logging industry	20
Chemical industry	19
Glass, ceramics and processing of stones and soils	17
Paper industry	14
Printing industry	10
Food industry	9
Publishing industry	8
Extraction of stones and soils	8

Source: DIHK 2003

Since there are currently few highly qualified staff but a great supply of low cost workers in Vietnam, labour intensive industries seem to be appropriate. The quality of workmanship, the labour force's willingness to learn and the high working morale are good features for attracting investors who produce high quality but labour intensive products. This includes sectors from the **mechanical engineering, electrical equipment production, medical, measurement, steering and control technology as well as radio, television and communications technology industries** among others. The greatest hurdle is the lack of trained staff in Vietnam, since most of the firms in these industries require not only skilled workers but also well-educated specialised staff. Industry studies for Vietnam, which also analyse the training requirements, should nevertheless be prepared for these fields.

Foreign investors in the domains of **furniture, jewellery and musical instrument production** as well as the **logging industry** are already very active in Vietnam and manufacture high quality furniture and upholstered furniture there. These industries are certainly well suited to investment promotion in Germany. The same goes for the very labour-intensive industries of **shoe and clothing** manufacture, where some German industries are already engaged in production and are very satisfied with the

investment conditions.

There is currently significant over-capacity among manufacturers in Vietnam from the **car manufacturing** sector, and the establishment of further manufacturers makes little sense. There are as yet hardly any supply industries in Vietnam, however, and most of the vehicles are therefore manufactured from CKD kits, in other words complete assembly kits. If a supply industry could be successfully built up in Vietnam, the local added value could increase significantly. The small quantity of cars produced represents a problem for car manufacturers in this case. Strategies should be developed in co-operation with the manufacturers in order to persuade suppliers to invest in Vietnam. Labour intensive preliminary products requiring high quality processing suggest themselves here.

In **rubber processing**, Vietnam has the great advantage of being a supplier of high-quality rubber, so that the raw materials for rubber manufacture are available. The local industry for the **manufacture of synthetic goods / plastic** has developed dynamically over previous years. There are as yet only a few firms producing high quality synthetic goods, however. Despite the existence of oil fields in Vietnam and their exploitation, raw materials must be imported, as no refineries yet exist. Refineries have been in planning for a long time, but it is still unclear when they are to be operational.

The industries corresponding to government strategy should be selected as a next step. Sectoral studies should then be produced for Vietnam, in order to identify the investment conditions and recognise the location's strengths and weaknesses. The prerequisites for an information and advertising campaign in this sector will then be given. The strengths can be used as arguments in favour of Vietnam as a location. Strategies should be developed to eliminate the weaknesses. These strategies should be formulated in actions plans and incorporated into information material for potential investors. The training capacity for specialist staff should be increased and qualitatively improved in the focal sectors. This can also be carried out with the support of foreign investors. Programmes such as the German government's public-private partnerships (PPP) can underpin such measures (see 8.4).

In order to attract foreign investors to enter the domestic market, it makes sense to produce market studies first of all and then analyse which countries are most suitable for the promising sectors. Some sector surveys are already available (see Appendix) Many suggestions were made by German investors and intermediaries, who could serve as a source of ideas (see Appendix 1, question 30).

8.4 Further Recommendations

Support for investment promotion measures

Measures for promoting investment can be supported to some extent by development co-operation programmes. Examples of these are:

- **Asia Invest Programme** of the European Commission. Further information can be requested from:

European Commission
Europe Aid Co-operation Office
Asia-Invest Programme
Loi 41, 3/164
B-1049 Brussels, Belgium
Tel: +32-2-298 7240
Fax: +32-2-296 5833

E-Mail: Europeaid-asia-invest@cec.eu.int
<http://Europa.eu.int/comm/Europeaid/projects/asia-invest/>

Or from Eurocham Vietnam
or the European Commission Delegation in Hanoi.

Public-Private Partnership (PPP) Programme of the German federal government.

Further information can be requested from;

GTZ PPP Office Vietnam
Mr. Thomas Finkel
97, Tran Quoc Tuan
Hanoi, Vietnam
Tel: +84-4-8224901/-2/-3
Fax: +84-4-8224889
E-mail: thomas.finkel@gtz.de
Internet: <http://www.gtz.de/vietnam>

Consider regional differences in Germany

In organising events in Germany, it should be considered that the inclination to invest and interest in Asia as a location is not equally distributed across Germany. According to DIHK data and interviews of the consultant, the following IHK reported their member companies to have a particular interest in Asia:

Southern Germany:

IHK Freiburg
IHK Heilbronn
IHK Nürnberg
IHK Passau
IHK Ulm

Western Germany:

IHK Bochum
IHK Detmold
IHK Ludwigshafen
IHK Mannheim
IHK Wiesbaden
IHK Wuppertal/
Solingen/Remscheid
IHK Dillenburg/Wetzlar
IHK Duisburg
IHK Hagen
IHK Hanau/Gelnhausen/
Schlüchtern
IHK Cologne
IHK Münster

Northern Germany:

IHK Hamburg
IHK Kiel
IHK Lüneburg/Wolfsburg
IHK Bremen
IHK Osnabrück

Interest in investing in Asia is generally lower in Eastern Germany.

8.5 A German Centre in Vietnam?

The objective of a German Centre is to support German firms and particularly medium-sized enterprises in entering foreign markets and building up a base abroad.

They offer a range of services under one roof in various foreign markets, i.e. :

- Flexible and low-cost offices in the German Centre,
- Event and conference facilities,
- Advice from German Centre staff,
- Business centre services,
- Existing networks for business development services,
- Chamber of foreign trade services,
- Networking opportunities at tenant meetings and events,
- Price discounts in hotels, with airlines etc.

The establishment of such a German Centre would be of great benefit to German firms wishing to expand their activities to Vietnam. By providing a point of reference for preliminary contacts, helping to reduce reservations associated with the foreign country, making the necessary advisory and information services available and promoting exchanges with other German firms, it would facilitate the first forays into a new market. It could serve to avoid the main hurdles facing medium-sized enterprises in particular.

German Centres were established on the initiative of the German Business Asia-Pacific Committee (*Asien-Pazifik-Ausschusses der Deutschen Wirtschaft - APA*), as supported by the Federation of German Industries (*Bundesverband Deutscher Industrie - BDI*), the German Chambers of Industry and Commerce (*Deutsche Industrie- und Handelskammertag - DIHK*) and the East-Asian Association (*Ostasiatische Verein - OAV*). The German Centres are organised and financed at the federal state level by the respective state banks - currently *Landesbank Baden-Württemberg (LBBW)*, *Staatsbank Baden-Württemberg (L-Bank)*, *Bayrische Landesbank* and *Bankgesellschaft Berlin* – which maintain the German Centres as non-profit subsidiaries. There are currently German Centres in Jakarta, Mexico City, Moscow, Hong Kong, Peking, Shanghai and Yokohama.

Interviews with some of the financing bodies made it clear, however, that no plans or funds are currently available for opening a further centre. For such a centre to at least cover its costs, there must be demand for this service from a critical mass of tenants. Whether such a demand could actually be built up in Vietnam at the moment is questionable.

In principle, two problems currently beset the establishment of a German Centre in Vietnam; firstly, too little demand and secondly overly high costs, so that operations could not be organised as to cover costs. Nonetheless, in order to offer comparable services to German firms in Vietnam, the following two alternatives could be discussed:

1. Cost reduction through the creation of a 'virtual' German Centre

The main cost factors of a German Centres are premises, administration and the availability of services from personnel as well as management of the centre. The following solution is suggested to reduce these costs:

- a) Co-operation with a professional business centre provider (i. e. Regus), which would provide the premises for offices and conferences on the one hand and offer classic business centre services such as ICT, secretarial and translation services etc. on the other. This could minimise the fixed costs and risks for these services.

- b) A network of German institutions and service providers carries out specific services. This would take advantage of the networking, information and advisory services of the German Embassy and Consulate, AHK / GIC, GBA and professional service providers such as consultancies, legal firms etc.
- c) The only factor giving rise to fixed costs and financial risk are personnel costs and premises for the administration and management of the 'virtual' German Centre, i.e. personnel costs for a (German) manager, a secretary and an office. These costs must be subsidised in the start-up phase and could later be covered by a fee from the German Centre tenants. Possibly German service providers located in Vietnam would be prepared to make a financial contribution in this instance, as they could use it as a marketing instrument for attracting new clients.

According to this set-up, the rental costs for the firms might be somewhat higher than in a conventional German Centre. One can assume, however, that this would not be an obstacle for interested German firms. The reasons for using what a German Centre has to offer presumably lies rather in its services, the reduction of barriers to entry into a foreign country and the networking opportunities, which such a centre offers.

2. European approach

The problem of a lack of demand for a *German Centre* in Vietnam could be avoided by establishing a *European Centre* instead. Potential partners in creating such a centre could be: Eurocham, the Delegation of the European Commission, German Embassy and Consulate, AHK / GIC, GBA and the embassies, Consulates, chambers of foreign commerce and business associations of other European states.

Further information on German Centres can be found at: <http://www.germancentre.com>

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