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**Strategic Economic Partnership between Vietnam and Japan:
Current State, Challenges and Measures to Promote Trade and
Investment Relations**

by

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STRATEGIC ECONOMIC PARTNERSHIP BETWEEN VIETNAM AND JAPAN:

Current State, Challenges and Measures to Promote Trade and Investment Relations

Nguyen Thi Bich Ha

INTRODUCTION

With the orientation towards economic growth and development based on export and investment, Japan has always recognized and enhanced the role of ASEAN nations, which include Vietnam. The economic relationship between Japan and Vietnam, although not as extensive as that with other ASEAN member countries, has been continuously improved and has enormous potential for development. The Vietnam-Japan Economic Partnership Agreement (VJEPA) signed in 2008 has opened up new opportunities for the two countries to take advantage of that potential. Nevertheless, the taking advantage of those opportunities is not easy, especially in the context of relative decrease of Japanese economic role in Vietnam due to a fairly rapid development of ASEAN-China economic relationship, as well as the slowdown in Japanese economic growth for many years.

In its economic growth process, Vietnam has attached importance to foreign direct investment (FDI) and export. FDI contributes to supplementing the shortage in capital, technology, management skill, etc. while still boosting export and expanding the market for domestic goods. Therefore, FDI and export growth has contributed to creating more jobs and value added for the economy, thereby boosting the country's economic growth. Thus, Vietnam places importance on developing the economic cooperation with developed partners.

Among them, Japan has been always a strategic partner. Vivid manifestations of this importance are Vietnam's provision of Most-Favored-Nation privileges for Japanese goods although by 2008 the two countries did not have any official bilateral trade agreement, and the active negotiations and compliance of the two countries with the Vietnam-Japan Economic Partnership Agreement. In addition, the exploitation of picky markets such as Japan is much more meaningful. With the improvement of the quality management processes, management skills and production technologies to meet the requirements of Japanese customers, Vietnamese businesses have gradually gained in experience to improve their competitiveness. This is a prerequisite for improving the export growth and quality, as well as economic growth in Vietnam.

1. VIETNAM-JAPAN STRATEGIC ECONOMIC PARTNERSHIP

1.1 What is a strategic partnership?

A strategic partnership is understood as a partner, with which a nation/organization can build up their cooperation relationship in strategic fields that the partner has strength, and the nation/organization is in the need of cooperation. The strategic partner must be a main partner in several fields, with a long-term, stable, sustainable cooperation and mutual trust. Building a strategic partnership is to meet the needs and interests of both parties.

A country can build a strategic partnership with an organization or another country that comes from the desire of both parties and bases on main partnerships in economy and/or politics/diplomacy/security and defense, etc. For each specific partner, it is necessary to select fields of strategic cooperation to build strategic partnership. Generally, the strategic partnership is built based on a main partnership in several fields.

Based on the objectives of both parties desiring to build a strategic partnership and the mutual partnership has developed to major level in one or several fields, the steps in setting up a strategic partnership are as follows:

Step 1: Two nations (or a nation and an organization) agree to build relationship with the motto “reliable partner, long-term stability”.

Step 2: The two parties sign a Joint Declaration “Reaching new heights of sustainable partnership”.

Step 3: The two parties sign the Joint Declaration “Looking forward to strategic partnership”. The joint declaration should state prioritized directions of cooperation of both parties.

Step 4: Develop and implement “Cooperation program towards strategic partnership between the two countries”. During this period, sign and adhere to some bilateral agreements on prioritized fields for cooperation.

Step 5: Sign the Joint Declaration on “Strategic partnership”. Determine strategic directions for developing the relationship between the two countries to a new stage of development.

After becoming strategic partners, both parties should determine the content and roadmap to establish strategic partnership to bring the highest efficiency of cooperation for both parties. The cooperation between the two parties should be developed adequately and should further contribute to the development of the two countries. The cooperation at strategic partnership level can be developed in the directions as follows:

- The fields of strategic cooperation between the two parties should be further strengthened, particularly towards an in-depth development and bring higher economic efficiency for both parties.

- Strategic partners should bring their strengths into full play to support the partner nation in developing the fields in need.

- The two parties should make further efforts in promoting cooperation in strategic fields in order to effectively exploit the potential, advantages of both parties so as to bring about the development and prosperity for both countries and contribute bringing peace and prosperity for the region and the world.

Thus, the strategic partnership represents a long-term vision of a country for its partners. In other words, It is the strategic partnership between the two countries that should be recognized as a long-term process, with the attention to the context of developing that cooperation.

1.2 Vietnam-Japan cooperation relationship

Vietnam and Japan established diplomatic relations on September 21st 1973. In 1992 Japan decided to resume its ODA provision to Vietnam. Vietnam-Japan relations have developed rapidly in various fields and have gradually entered a new stage of nature and in depth. The two countries have also formed a macro-level relationship framework. Economic and political relations, cultural exchange have been constantly expanded, thereby continuously strengthening the mutual understanding between the two countries.

Every year, Vietnam and Japan have held high-level meetings. In 2002, high-ranking leaders of the two countries agreed to build up the Vietnam – Japan relations with the motto "reliable partner, long-term stability." During the visit to Vietnam in July 2004 paid by the Foreign Minister of Japan, the two parties signed the Joint Declaration "Reaching new heights of sustainable partnership". In October 2006, Prime Minister Nguyen Tan Dung conducted an official visit to Japan, opening a new stage "Towards a strategic partnership for peace and prosperity in Asia". Then, on a state-level visit to Japan from November 25th - 29th 2007, President Nguyen Minh Triet and Prime Minister Yasuo Fukuda signed the Joint Declaration "To deepen the relationship between Vietnam and Japan" and "Cooperation program towards strategic partnership". During an official visit to Japan during April 19th – 22nd 2009, Secretary-General Nong Duc Manh and Prime Minister Taro Aro agreed to make "The Joint Declaration on Vietnam-Japan strategic partnership for peace and prosperity in Asia". And the most recent one was the Vietnam - Japan Joint Declaration on the official visit to Vietnam conducted by Japanese Prime Minister Naoto Kan from October 30th – 31st 2010.

Japan has always supported the open-door and transformation way of Vietnam, and has been willing to support Vietnam's integration into the world and regional economic institutions such as Asia-Pacific Economic Cooperation (APEC), World Trade Organization (WTO), Asia-Europe Meeting (ASEM), or advocate the Organization for Economic Cooperation and Development (OECD) to help Vietnam in technology, etc. These efforts demonstrate Japan's respect for the relations with Vietnam, regarding long-term benefits and goals as important. On the other hand, Vietnam supports Japan in becoming a

permanent member of the extended United Nations Security Council, and advocates Japan supporting Vietnam's candidacy as a non-permanent member of the United Nations Security Council in the term 2008-2009.

The establishment of strategic partnership between Vietnam and Japan strictly complies with the 5 steps. Japan has become a strategic partner of Vietnam for the benefit of both nations and the development, stability of the whole region. Vietnam and Japan has made a great effort to promote the strategic partnership. One of the positive moves of this effort is that the two countries have signed the Vietnam - Japan Economic Partnership Agreement (VJEPA) on December 25th 2008 after three years of negotiation and building the economic partnership. VJEPA takes effect as from October 01st 2009.

The Vietnam-Japan *Economic Partnership Agreement* is an agreement to liberalize *trade, services*, to protect *investment* and to encourage *electronic commerce* between *Vietnam* and *Japan*. This is the first bilateral trade liberalization agreement of Vietnam and the tenth economic partnership agreement of Japan, made in accordance with the norms and principles of the World Trade Organization (WTO).

The fields of strategic cooperation between Vietnam and Japan include economy, high technology, construction of large-scale and strategic infrastructure such as high-speed railway, expressway, high-tech industrial zones, education and human resources development, and most recently the construction project of Ninh Thuan 2 nuclear power plant, ... In the field of economy, the cooperation between Japan and Vietnam is manifested in many aspects, from Official Development Assistance (ODA), trade, investment to the cooperation in labor, tourism, culture, education, etc.

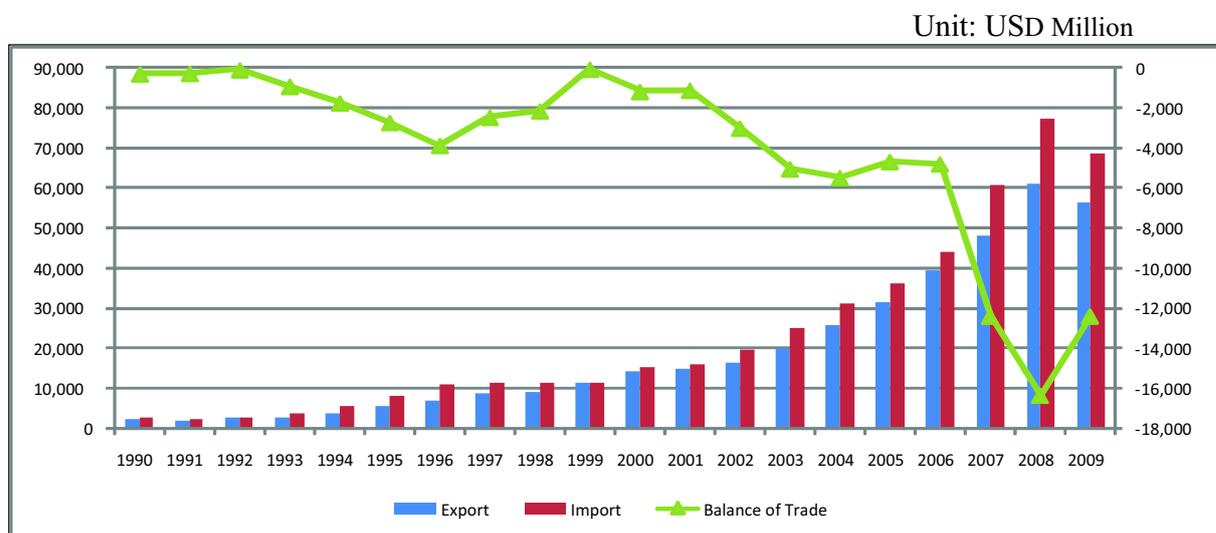
2. VIETNAM-JAPAN TRADE RELATIONSHIP

2.1 Changes in the trade cooperation between Vietnam and Japan

First of all, it should be noted that the trade relations between Vietnam and Japan took place when Vietnam implemented domestic reforms, opened the market and promoted export. Figure 1 depicts the changes in merchandise export and import of Vietnam during 1990-2009. As can be seen, both export and import tended to increase. Total export of Vietnam rose from USD 2.5 billion in 1990 to USD 14.4 billion in 2000, USD 39.6 billion in 2006 and then over USD 61.1 billion in 2008¹. During 1990-2008, export increased by 24 times, i.e. on annual average by 19.4%. The growth of import was even faster. Between 1990 and 2008, import went up from USD 2.8 billion to USD 77.5 billion, with average growth of around 20% per annum. In general, the export and import growth rate has changed positively. It has been taking place quite rapidly from 2002 to now, especially since 2007 when Vietnam became a member of the World Trade Organization (WTO).

¹ For consistency, this analysis uses the data from IMF on Direction of Trade database.

Figure 1: Changes in merchandise export and import of Vietnam, 1990-2009



Note: Export and Import (left scale) , Balance of trade (right scale)

Source: IMF on Direction of Trade database.

However, due to the global financial crisis and economic recessions in Vietnam's major trade partners, both export and import fell in 2009. Export in 2009 only reached nearly USD 56.6 billion, while import even decreased faster, to only USD 68.9 billion. This was the most severe unfavorable impact on Vietnam in her process of opening-up and international economic integration.

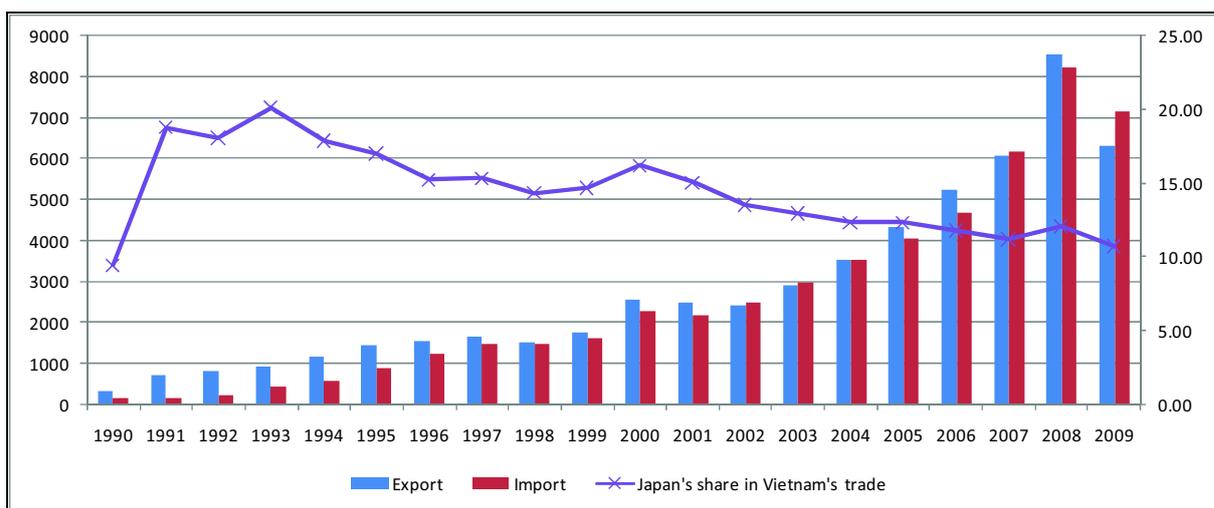
Due to the above changes of export and import, Vietnam's trade deficit tended to widen during 1990-2008 (Figure 1). In the early 1990s, merchandise trade balance suffered from a small deficit, despite an increase to nearly 3.8 billion USD in 1996. In the late 1990s, following the impact of financial crisis in East Asia, Vietnam's trade deficit was reduced. Between 2000 and 2008, as the increase in import was faster than that in export, Vietnam's trade deficit rose continually, from USD 1.1 billion to nearly USD 16.3 billion. Only in 2009, due to the impact of the global financial crisis and economic recession, did the trade deficit fall to USD 12.4 billion.

Following the general tendency of export-import growth, trade relations between Vietnam and Japan also witnessed considerable progresses (Figure 2). Vietnam's export to Japan increased rapidly and almost constantly during 1990-2008, from USD 340 million in 1990 to more than USD 8.5 billion in 2008. As a matter of fact, Vietnam's export to Japan increased on average by 19.6% per annum, a little faster than the pace of export growth of Vietnam in general. At the same time, Vietnam's import from Japan (at CIF prices) also rose considerably, from USD 168 million in 1990 to USD 8.2 billion in 2008. In general,

Vietnam had a trade surplus with Japan during this period (except for a small deficit between 2002 and 2004).

Figure 2: Merchandise trade between Vietnam and Japan, 1990 – 2009

Unit: USD Million, %



Note: Export and Import (left scale) Japan's share in Vietnam's trade (right scale)

Source: Author's calculations from IMF on Direction of Trade database.

Nevertheless, the year 2009 witnessed a shift in merchandise trade between Vietnam and Japan. The global financial crisis and economic recession led to the slow growth of Japanese economy. Therefore, both merchandise export and merchandise import between Vietnam and Japan went down. Vietnam's merchandise export to Japan decreased quite fast, from USD 8.5 billion in 2008 to only USD 6.3 billion in 2009, only slightly higher than the figure in 2007. Vietnam's imports from Japan decreased more slowly, reaching nearly USD 7.2 billion in 2009 compared to USD 8.2 billion in 2008. As a result, Vietnam experienced an excess of imports over exports (trade gap) with Japan of more than USD 800 million, a considerable figure even compared to the merchandise trade deficit during 2002-2004.

The relative importance of Japan in Vietnam's trade also changed considerably. This is depicted in the changes of Japan's share in total merchandise trade of Vietnam in Figure 3. During 1990-1993, this share increased almost constantly from nearly 9.1% to more than 20.1% (except for the slight reduction in 1992). From 1993 onwards, Japan's percentage tended to drop sharply and almost constantly. The figure fell to only 15.3% in 1997, 11.8% in 2006, 10.8% in 2009. Such tendency is not because of the smaller scope of merchandise trade between Vietnam and Japan. Instead, it resulted mostly from the quicker growth in

that between Vietnam and other partners, including China, the US, EU, South Korea, etc. especially in recent years.

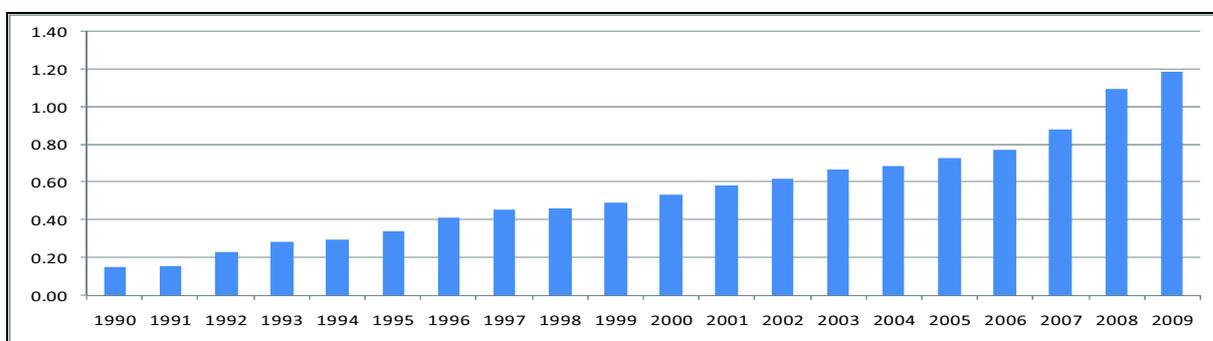
Bilateral trade between Vietnam and Japan since the early 1990s has grown faster and faster, and the annual average growth reached 20%-30%. Such growth was even quite strong during certain years including 1991 (by 72%), 1995 (by 34%), or 2000 (by 43%). Although in some years, total trade dropped or only grew slightly, it did not occur frequently and the decrease was insignificant (except for 2009).

Regarding the value, if in 1990 merchandise trade between Vietnam and Japan only reached around USD 510 million, this figure was nearly USD 4.9 billion in 2000, USD 9.9 billion in 2006 and USD 16.8 billion in 2008, respectively. Because of the sheer impact of the global financial crisis and economic recession, total merchandise trade between Vietnam and Japan dropped to only USD 13.5 billion in 2009. Nevertheless, the figure was still nearly 26.5 times higher than that of 1990.

Since the mid-1990s, Japan has always played an important role in Vietnam's merchandise trade. Merchandise trade between Vietnam and Japan is much higher than that between Vietnam and other partners. Especially during 1998-2003, Japan was the top trade partner of Vietnam. During these years, merchandise trade between Vietnam and Japan was always higher than that between Vietnam and other major partners such as Singapore, China, Taiwan, the United States and Korea by 1.5-3 times. Since 2004, Japan had become the second largest trade partner of Vietnam after China. In 2009, the US surpassed Japan and became the second largest trade partner of Vietnam (with USD 15.3 billion), behind China (USD 22.2 billion). However, as mentioned above, the smaller ranking of Japan in Vietnam's trade relation in comparison with China and the United States was mainly due to more rapid growth in trade between Vietnam and these countries in recent years. This is easy to understand, because in terms of the market scope, both China and the US promise greater potentials than Japan.

Figure 3: Vietnam's share in Japan's merchandise trade

Unit: %



Source: Author's calculations from IMF on Direction of Trade database.

The studies of the Multilateral Trade Assistance Project (2010) also showed that the Vietnam's export structure has been increasingly matching with the Japan's import structure; the potential of the Japanese market has been to some extent exploited. However, the potential of Japanese market remains very large. Exploiting the market in a more active way will significantly benefit both countries. This is clearly illustrated by Vietnam's position among the trade relations between Japan and other nations. The role of Vietnam in Japan's merchandise trade has continuously improved. The former's share in the latter's merchandise has gone up constantly, from 0.16% in 1990 to 0.54% in 2000, and nearly 1.2% in 2009. These figures indicate that during 1990-2008, merchandise trade between Vietnam and Japan had increased faster than merchandise trade of the latter in general. Even in 2009, despite the decrease of the trade volume between the two countries, Vietnam's share did rise. As an implication, the reduction of merchandise trade between the two countries during 2009 was slower than that of Japan's merchandise trade. In other words, the trade relations between Vietnam and Japan have become more sustainable and less subjected to the impacts of global economic crisis.

Although trade relations between the two countries have been enhanced and gained considerable achievements, such a progress fails to correspond to potential, especially the potential of Japan's market. Up to now, Vietnam is still a very small trading partner of Japan. Even when the proportion of the former in the latter's trade has been improved considerably, this proportion is still much lower than that of some South East Asian countries. As of 2006, while Vietnam only accounts for 0.7% of Japan's merchandise trade, those of Singapore, Malaysia, Thailand, and Indonesia are 2.9%, 2.7%, 2.6%, and 2.3%, respectively.

Vietnam – Japan merchandise trade by product

Vietnam's export structure, up to now, has been simple with the range of exports being quite limited. In recent years, Vietnam's exports to Japan consist mainly (90%) of primary products or those with little processing such as crude oil, marine products, coal, footwear, coffee, some other agricultural products, and household consumer products such as household appliances, suitcases, bags, different types of handbags, etc. Since 1995, the focus has been given to the development of processed exports; however, they only account for less than half of export value. By the end of 2007, Vietnam's key processed export products are marine products, electric wire and cable, wood products, and textiles and garments.

The export products with high growth rates include rice, frozen marine products, tea, coal, different types of plastic products, and ceramics. It is worth noting that some products made in Vietnam with Japanese investment for export to Japan have grown rapidly such as electric wire and circuit. In particular, frozen shrimp products continued to make up a stable share in Japan's shrimp import (more than 19%). However, such a share fails to correspond to the consumption and import potential of Japan.

Following is the situation of several key products exported from Vietnam to Japan. This part is extracted from Ngo Xuan Binh (2009). Specifically:

Vietnam's *marine products* are highly appreciated by the Japanese market. Vietnam is one of the leading countries in terms of shrimp and squid export to the Japanese market. In recent years, Vietnam's marine export to Japan reached USD 500 – 600 million/year. According to the forecast by the Ministry of Trade, Vietnam's marine product export value may reach nearly USD 1 billion in 2008 and more than USD 1 billion in 2010 if the annual average growth rate in this market is maintained at 8.5 – 9%.

Shrimp accounts for the highest proportion in marine export, followed by fish, squid, octopus, and dried marine products. The demand for shrimp in Japan is mainly satisfied by import. Therefore, to maintain access to Japanese market, more attention should be paid to food quality and sanitation, particularly getting advance certification of product quality, reducing transport costs, and improving product competitiveness.

Wood products are currently among Vietnam's key processed exports. According to Vietnam Trade Counselor in Japan, the market share of Vietnam's wood export has increased to 4.62% in 1999, 5.79% in 2000, 5.77% in 2002, 6.69% in 2003, and 7.2% in 2004. Currently, Vietnam is the fourth largest exporters of wooden furniture and other wooden products to the Japanese market, after China, Taiwan, and Thailand. The market for Vietnam's wood products is relatively large; however, Japan has emerging as a key market that accounts for 21% of Vietnam's exports of wood products. Such export to the Japanese market is considered to be still highly promising as this is the largest consumption market of wood products with about USD 1,000/household/month.

Vietnam's exported wood products are very diverse, including single log fuel wood, wood from trees, wood sawn or chipped lengthwise, sliced laminated wood panels, decorative wood plank floors, wooden fiber boards, wooden picture frames, wooden trunks, boxes, chest, wooden statues, and wooden interior, benches, furniture and parts thereof. Wooden interior products account for the highest proportion. This is also the product that Vietnamese enterprises have the most advantages, especially in terms of design and price. In addition, Japan levies no import taxes on this product, which partly encourages Vietnamese enterprises to boost export.

Currently, Vietnam's wood products have to compete with those from strong competitors such as China, Taiwan, Thailand, and Indonesia. China has the advantages with diverse raw materials, relatively cheap labor; therefore, it has become the largest exporter of wood furniture into the Japanese market with a market share of 41.1%. Meanwhile, Taiwan accounts for 9%, Thailand 8.7%, and Indonesia 6.8%. Meanwhile, Vietnam's source of wood raw materials is limited in terms of types and output, 80% of which has to be imported, resulting in high costs of products and reducing competitiveness. On the other hand, because Japan has very dry climate, wood products usually bends, deforms, and cracks if not processed well. This requires specialized technology, equipment,

especially technological equipment imported from Japan. However, as such processing equipment is very expensive, it is only used in a small number of Vietnamese companies, mainly Japanese joint-ventures, associated companies.

Vietnam's annual *textile and garment exports* to Japan only reached USD 400 million in the 1990s, but have increased strongly in recent years. The figure for 2004 alone is USD 2.5 billion. However, Vietnam's market share in Japan is still rather small in comparison with other countries such as China, Italy, Brazil, and South Korea.

According to the statistics of Ministry of Industry and Trade, Japan, the value of Vietnam's *footwear exports* to Japan has risen continually. In particular, in the period of 2001 – 2004, it increased from JPY 8.4 billion to JPY 12 billion, resulting in the corresponding increase from 2.28% to 3.43% of the market share of Vietnam's footwear products in Japan. The key products of Japan's imported footwear are leather shoes, sports shoes, canvas shoes with leather, rubber, and/or plastic soles.

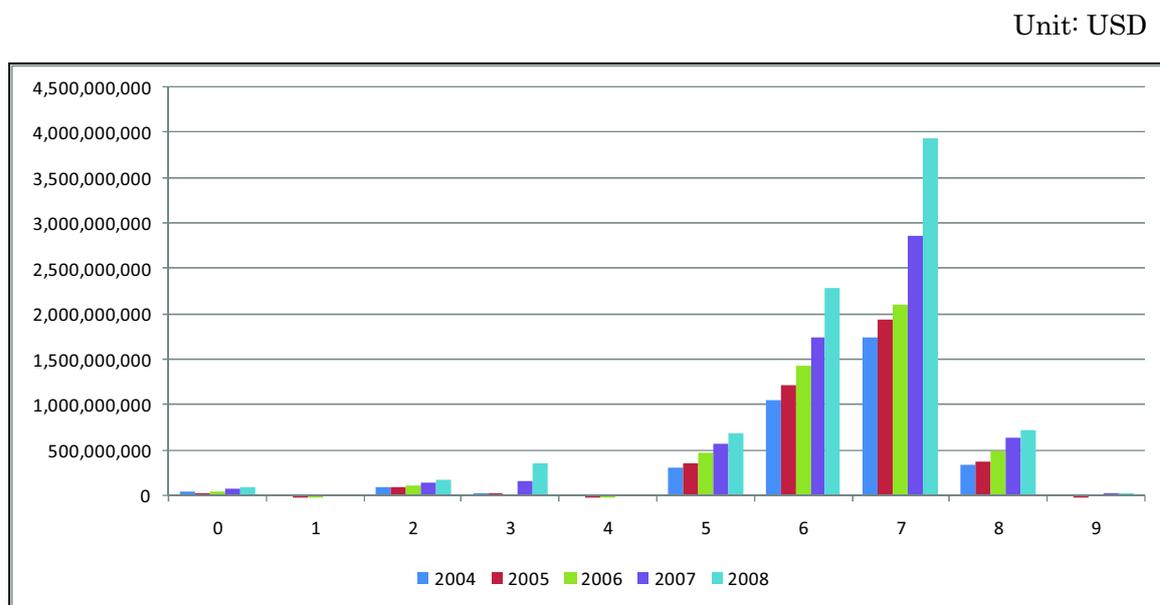
Hence, some export products of Vietnam has become more competitive in terms of both quality and price. However, the developments of Vietnam's export to Japan still show some limitations and insufficiencies. The main limitations are:

- Although some products have steady growth in export value, their market shares in Japan in general is still low. For instance, in 2007, Vietnam's textile and garment products only accounted for nearly 4% compared with that of China (79%); silk yarn accounted for 6% of Japan's total import of the product and is in the fourth position after China, Italy, and Brazil; vegetables, processed food and green tea accounted only for 0.5% of the market.
- Vietnam's exports are not really diverse in terms of design, even too simple (e.g. textile and garment products, shoes), product quality has not gained considerable trust, while there are breaches of the use of antibiotic substances, chemicals in the production and trading of food, agricultural products, vegetable, fruits, etc.
- Research into and collection of information on the Japanese market, partners, and tastes are insufficient. Thus, the competitiveness of many products of Vietnam has not been fully utilized despite of advantages. Vietnam's enterprises themselves have not paid sufficient attention to the establishment of branches, representative offices in Japan to conduct market, partner research and marketing activities.

The structure of Vietnam's imports from Japan exhibited hardly any changes. The main imports from Japan are steel and products thereof, electronic components, different types of autos and motorcycles, fertilizer, and petroleum. It is worth noting that the structure of imports has been more and more diverse in terms of types. The proportion of imports to meet consumer demands has gradually declined while the proportion of machinery, technological equipment, material imports has increased. However, up to now,

high-tech and modern products still account for a very small proportion, if not to say almost none, in the structure of Vietnam's imports from Japan.

Figure 4: Structure of Japan's imports from Vietnam, based on two digit SITC classification, 2004-2008



Note: 0: Food and live animals; 1: Beverages and tobacco; 2: Raw materials (inedible), except for fuel; 3: Mineral fuel, lubricant, related materials; 4: oil, fat, vegetable and animal wax; 5: Chemicals and related products; 6: processed industrial products classified by material; 7: machinery and transport; 8: other processed industrial products; 9: other products and transactions.

Source: Author's calculations from IMF on Direction of Trade database.

Figure 4 shows the structure of Japan's imports from Vietnam by product, which is classified according to the Standard International Trade Classification (SITC). As can be seen, the imports from Vietnam mainly focus on the following groups of products: chemical and related products, processed industrial products classified by material, machinery and transport, other processed industrial products. Import value (at CIF prices) of these product groups increased continuously in the period of 2004-2008, in which the import value of machinery and transport group was the highest, followed by the group of processed industrial products classified by material. Meanwhile, the group of chemical and related products and other processed industrial products has equivalent import value.

2.2 Some remarks on Vietnam - Japan trade relations

First, in trading activities with Japan, Vietnam has enjoyed trade surplus for years. Such trade surplus, however, does not reflect comparative advantages of Vietnamese enterprises but is instead due to import policies (Vietnam exports products to Japan and imports similar products of Japan from a third country with cheaper price). Meanwhile, Vietnam has not build up supply of exports with long-term competitiveness; rather, it mainly focuses on existing products with comparative advantages for export. Hence, it requires building an export strategy in general and for each specific market including Japanese one in the near future. This is big issue for Vietnam. One measure is to speed up economic restructuring process with greater focus on export, and the Government needs policies to develop economic sectors with export potential, and to enhance competitiveness through modernization, etc.

Second, although bilateral trade of Vietnam and Japan exhibited robust growth in recent years, it remains small relative to that between Japan and other nations. It can be seen that Japan plays a very important role for foreign trade of Vietnam; but vice versa, Vietnam has not attained sufficient economic importance in Japan's foreign trade.

Third, export product structure of Vietnam in recent years revealed improvement, with greater share of processed products and smaller share of unprocessed ones. This structural change is a positive sign in the context of increasing export to Japan. However, it can be seen that Vietnam's products are mainly minerals, agricultural and fishery products, light industry products and handicraft products that are labor- and resource-intensive, with low intellectual content. On the contrary, products imported from Japan are manufacturing ones with high intellectual content. Thus, the acceleration of industrialization and modernization to gradually shift the above trade structure is essential not only for trade but also for Vietnam's economic development process.

Fourth, Vietnam needs to seriously look into success, shortcomings, and related reasons so as to have sound policies and measures at both macro and micro levels. This will help overcome current shortcomings to enhance bilateral trade relations, ultimately contributing to industrialization and modernization, regional and international economic integration.

Several issues in Vietnam-Japan trade cooperation

Despite significant recent improvements, especially since 2004, there remain several constraints in Vietnam-Japan trade relations that need to be addressed promptly. Due to its limited scope, the paper only mentions some of the most outstanding issues as follows.

First, the quality of Vietnam's exports to Japan has not been significantly improved. Vietnam has made numerous efforts on this aspect, expanding the list of her exports with more high quality goods. However, the overall quality of Vietnam's products has not been uniform, and inferior to those of many regional countries. Marketing has not been paid

special attention resulting in modest attractiveness of advertisements, and inadequate information on labels and packaging techniques. Furthermore, Vietnam's exports are also simple, less attractive and length of product warranty is not accurate.

Meanwhile, Japan has very high requirements on product quality. Instead of imposing high tariffs or quotas on imports, Japan uses strict technical and quality requirements as a very effective tool to limit imports, including agricultural products or industrial goods. Each specific goods must also meet the food hygiene regulations, quarantine regulations of the authorities concerned before being imported into Japan. Quality standards and technical regulations create a big barrier for developing countries to penetrate into Japan's market because of their outdated production technologies and less investment capital as compared with developed nations.

In trade, price is important but not as important as the quality of goods from Japan's perspective. In recent years, the export enterprises of Vietnam have made great efforts in improving product quality by improving technology, input quality, product design, packaging, etc. However, quality of their export products are not uniform, inferior to other countries especially on the packaging, simple information on packages and preservation techniques, unattractive design, etc. Besides, the products quality inspection before shipment to other markets is not strictly implemented due to outdated checking equipment, inexperienced and losing inspectors, etc. Consequently, many products with poor quality were exported to Japan and then returned, resulting in waste and harming reputation of Vietnam in this market.

Second, Vietnam's approaches to penetrate the Japanese market were too simple and not proactive. Direct approach to the market has not been appropriately paid attention by Vietnamese enterprises. As a reason, market research cost is expensive while scope of most Vietnamese companies is still small as they only starts business for a few years and having limited capacity to make big investment. Most Vietnamese enterprises have no representative offices in Japan, not to mention further activities such as establishment of sales branch, sales agents, setting up a separate distribution system for enterprises in Japan, etc. Therefore, the Vietnamese enterprises can not timely and accurately grasp the demand of goods, consumer tastes as well as regulations on import and export management in Japan, etc. As a result, the export to Japan is completely dependent on our partners in this market.

The typical difficulties facing Vietnamese enterprises when penetrating the Japanese market are as follows:

Distribution system of this market is a complex one with multiple layers, many intermediaries, therefore, when the goods reach the consumer, prices surge. Moreover, a close collusion between the manufacturer and distributor creates an invisible barrier to prevent penetration of foreign goods to Japan (Ngo Xuan Binh 2009). Vietnam's manufacturers are accustomed to passive sale manner, just waiting for orders and sufficing

partner's requirements. Consequently, Vietnam's goods are sometimes sold under the name of a Japanese distributor or trading company. However, as delivered through multiple layers system, the price of goods surges, which creates disadvantage for the Vietnamese enterprises because competitiveness of their products rests mainly on low price.

There is a lack of updated and accurate information. Among Vietnam's major trading partners, Japan is considered a tough market and has many differences from others'. These differences mainly stem from the gaps in geography and culture. Thus, market information is essential. However, in identifying appropriate export strategies, the Vietnamese enterprises often encounter difficulties in understanding consumer needs as well as taste changes. As a cause of information insufficiency, most Vietnamese enterprises have no representative offices in Japan and have limited information about the characteristics and habits of Japanese consumers. Furthermore, the acquired information is often fragmented and overlapping, whereas processed and deep information is still insufficient.

Third, the scale of Vietnamese enterprises is still small, and the collection of goods for export reflects features of small production and fragmentation. Therefore, these enterprises often face difficulty when signing big contracts, or unplanned contracts that the Japanese side requires. As a consequence, some Vietnamese enterprises still entered into supply contracts despite of their insufficient capacity and eventually failed to fulfill contract obligations, which harmed reputation of Vietnam as a whole in export.

3. FOREIGN DIRECT INVESTMENT (FDI) FROM JAPAN TO VIETNAM

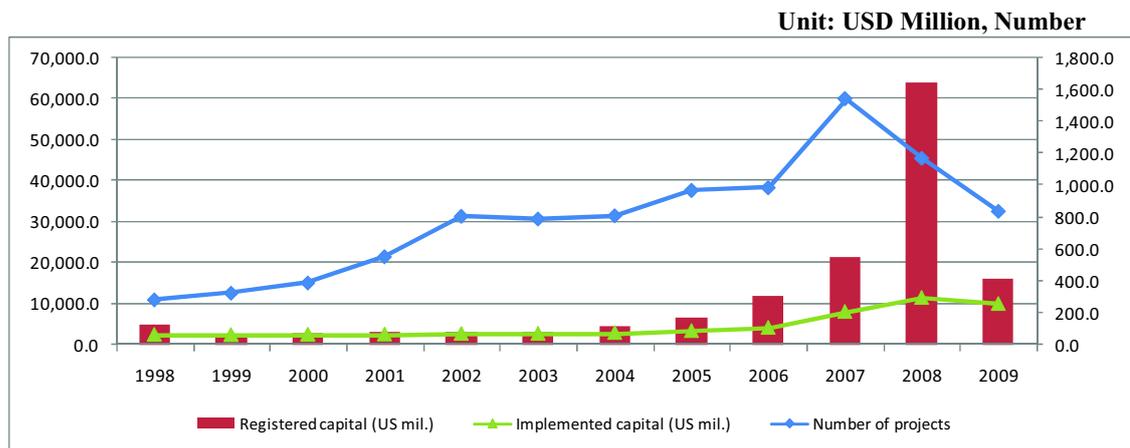
3.1 Current situation of Vietnam's promotion of FDI from Japan

For an accurate assessment of the role of FDI from Japan to Vietnam, we first need to review the trend of FDI inflows to Vietnam in general. Figure 5 depicts the number of projects, registered capital, and disbursed capital of FDI projects in Vietnam in the period of 1998-2009. Apparently, by any criterion, FDI exhibited an increasing trend in the period of 1998-2008. The number of FDI projects increased from 285 in 1998 to 808 in 2002 and to 1,544 in 2007. Meanwhile, total registered capital decreased slightly from around USD 5.1 billion in 1998 to USD 2.6 billion in 1999 and fluctuated around USD 3.0 billion before increasing continuously from 2004 to 2008. In 2008, the inflows of FDI peaked with total registered capital of more than USD 64.0 billion. Notably, this result was achieved even when the number of projects decreased, indicating that many large-scale project were registered and carried out. Total disbursed capital of projects also went up, though more slowly than registered capital.

Total disbursed capital was rather stable, at USD 2.3-2.6 billion in the period of 1998-2003, before increasing continuously and peaking at USD 11.5 billion in 2008. As a result, the share of FDI in Vietnam's total investment increased continuously and reached 31.5% in 2008, before decreasing to 26% in 2009. Thus, we can see a downward trend of

disbursed capital relative to registered capital. This partly shows Vietnam's insufficient capacity to absorb FDI capital, and in some cases shows "achievement disease", when projects are registered and approved with a large scale but carried out very slowly.

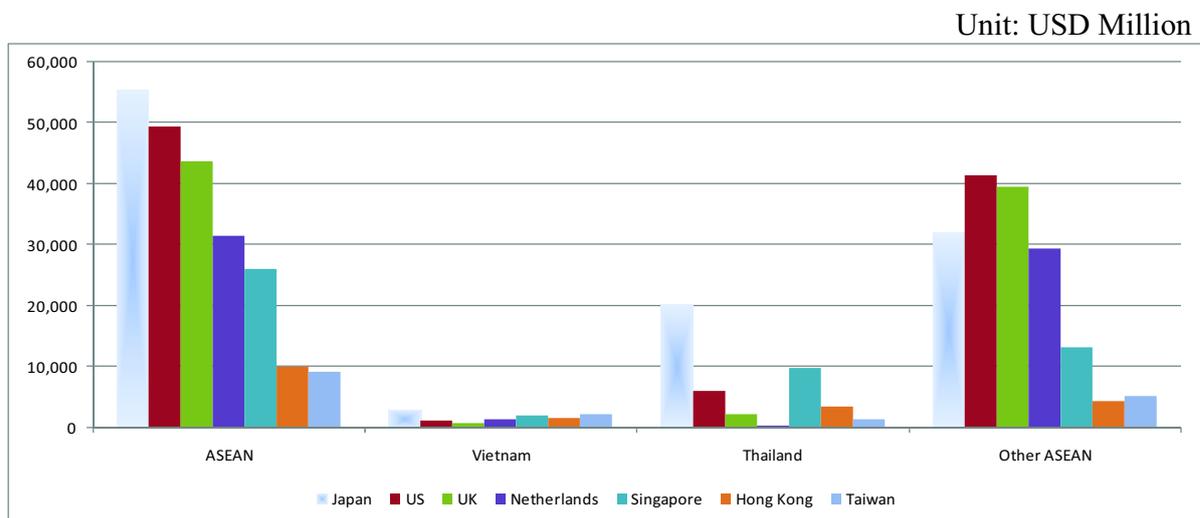
Figure 5: Foreign direct investment into Vietnam, 1998-2009



Note: Registered capital (left scale), Implemented capita and Nubmer of projects (right scale)

Source: The data of the Ministry of Planning and Investment.

Figure 6: Main sources of FDI to Vietnam and other ASEAN countries, 1995-2006



Source: ASEAN - Japan Center (cited in Ueki 2009).

Figure 6 compares FDI flows from Japan to ASEAN countries and from other countries in the period of 1995-2006. As can be seen, Japan provides the largest source of FDI not only for Vietnam but also to ASEAN countries in general. From a regional

perspective, FDI from Japan accounts for more than USD 55.3 billion (more than 15.6%) throughout the period of 1995-2006. For Vietnam, Japan provided more than USD 2.9 billion in the same period. However, in the 3 years of 2007-2009, the investment role of Japan into ASEAN has relatively declined (Appendix 1). In particular, total FDI from Japan into ASEAN in this period (accounting for 11.5%) is ranked thirdly, behind EU-25 (20.1%) and even behind inter-ASEAN investment (15.0%).

However, for the whole period of 1988 - 2009, Japan ranked 4th in terms of registered capital (after Taiwan, Korea and Malaysia), reaching more than USD 17.1 billion (Table 1). Hence, the period of 2007-2009 witnessed a change in rankings of key investment partners of Vietnam. Specifically, investment from Japan did not increase as fast as those from other countries, especially from Korea, Taiwan, and Malaysia. Notably, average scale of FDI projects from Japan throughout the period of 1988-2009 was only USD 13.8 million, much more modest than from other partners such as Malaysia (more than USD 43 million), United States (USD 26 million), not to mention those from other tax havens such as Panama, the Bahamas, etc. This requires a closer look at the changes in FDI from Japan to Vietnam by year and in each area to identify the issues that undermine the importance of this capital source.

Table 1: 10 countries/territories with highest investment into Vietnam from 1988 to 2009

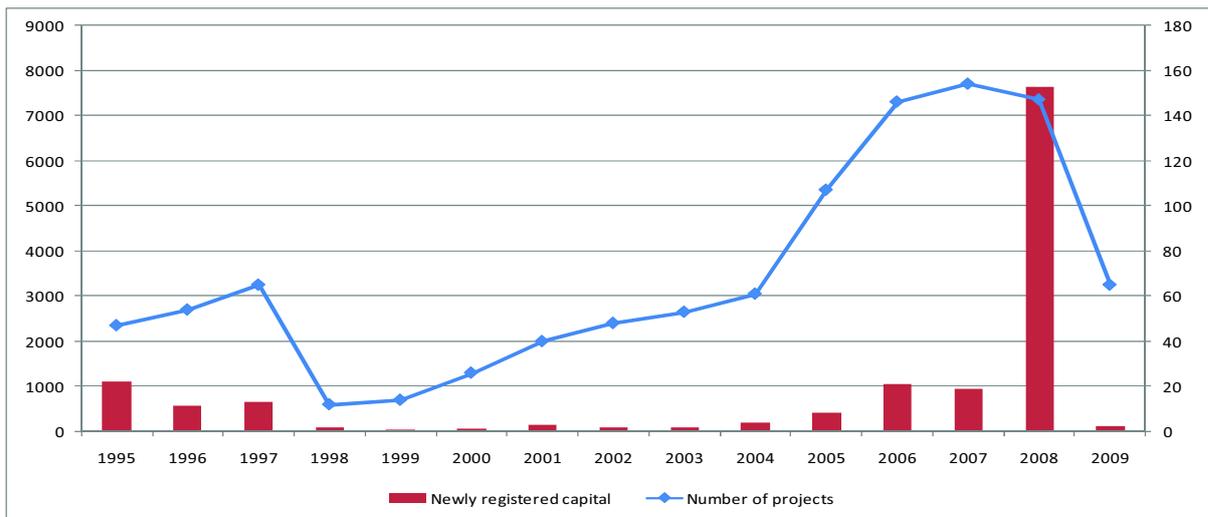
No	Countries/region	Number	Capital (USD Million) (*)	The average project capital scale
	Total	9484	152358.1	
	In which			
1	Korea	2560	26880.4	10.50016
2	Taiwan	2260	22618.8	10.00832
3	Malaysia	395	17202.3	43.55013
4	Japan	1247	17149.6	13.75269
5	Singapore	870	16345.7	18.78816
6	USA	589	15403.1	26.15127
7	British Virgin Islands	495	15261.4	30.83111
8	HongKong	740	8540	11.54054
9	Cayman Island	44	6758.4	153.6
10	Thailand	284	6198.4	21.82535

Note: * Including increased capitals of the projects which have been licensed from the previous years

Source: The data of the General Statistics Office

Figure 7 presents the changes in new FDI projects from Japan to Vietnam. In the period from 1998, due to the impacts of the Asian currency crisis, Japan's FDI capital flow into Vietnam declined rapidly. The number of new investment projects was rather small. In 2000 and 2001, following the revival of FDI inflows back from other countries to Vietnam, Japan's FDI began to show signs of recovery. However, Japan's FDI projects still focused mainly on small manufacturing industries. In 2002, FDI flow from Japan decreased again.

Figure 7: Japan's FDI projects in Vietnam, 1995-2009



Note: The 2009 data is for 9 first months.

Newly registerd capital (left scale), Number of projects (right scale)

Source: JETRO (2009).

In the following years, Japan's FDI in Vietnam increased strongly. Specifically, the amount increased from USD 136.02 million in 2003 to USD 913.9 million in 2005. Japanese companies' investment in Vietnam marked a major breakthrough in 2006. This time is also recognized as a starting point for Japan's second investment wave into Vietnam. The number of new projects and projects with increased capital by Japan's leading transnational companies (TNCs) in this period was quite big. Therefore, by the end of 2006, Japan had 735 FDI projects in operation in Vietnam (accounting for 10.8%) with total registered capital of USD 7.4 billion (accounting for 22.2%), ranking number four among countries and territories with investment capital (by registered capital) in Vietnam. However, by disbursed capital, Japan ranked number one with more than USD 4.8 billion (accounting for 16.8% in the country).

Since Vietnam became a member of the World Trade Organization (WTO) in 2007, FDI into Vietnam has increased greatly. Along with this development, Japan's FDI into Vietnam also went up in terms of both the number of projects and total investment capital.

In 2007, the number of newly licensed FDI projects from Japan was 156 with total registered capital of nearly USD 910 million. The number of projects with added capital in the year was 48 with added capital of USD 339 million. In 2008, the number of such projects decreased to 147, however, the total capital rose to nearly USD 7.3 billion (indicating average capital of USD 50 million/project). The number of projects with increased capital in 2008 was 46 with increased capital of USD 290 million. Moreover, despite no longer holding number one position in terms of total registered capital, Japan had the highest total disbursed capital among FDI projects. In the period of 1988-2008, Japan's investment was nearly USD 5.2 billion, much higher than Singapore (nearly USD 4 billion), Taiwan (USD 3.1 billion), and Korea (USD 2.8 billion.). Therefore, contrary to the above-mentioned prediction throughout the period of 1988-2009, Japan's recent projects have much bigger scale, indicating that Vietnam has partly taken advantage of Japanese investors' shift of investment.

Japanese investors are paying more attention to the Vietnamese market and considering our country as the second destination to China. Part of the reason is Japanese investor's measure to spread risk as well as the fact that Vietnam's investment environment has become more attractive. Besides, Vietnam – Japan Investment Agreement began to take effect in December 2004 and Vietnam's membership to WTO in 2007 has consolidated the legal foundation for Japanese investors' investment activities in Vietnam. Japan's TNCs have chosen the formula “China+One (1)” to move part of their production base from China to Vietnam. Japan's small- and medium-sized enterprises, and enterprises desiring to invest abroad for the first time, have decided to invest directly in Vietnam.

By economic sector, Japan's FDI is mainly focused in industry. 80% of the registered capital was poured into industry. Manufacturing industry only makes up 44% of the total registered capital, followed by light industry with 27%; and next, construction, food and oil. With respect to the investment of Japan in the North of Vietnam in service sector, transport is the most invested segment, with 45% of the total FDI in services. Other service segments with the largest FDI are office and hotel construction - tourism, with the proportions being 17% and 11% respectively. The rest of the capital is in agriculture, forestry, fishery and services.

In particular, the trend of increasing FDI in manufacturing industry is closely attached to the relocation of production plants of Japanese TNCs from China to Vietnam. According to the survey of the Japan Bank for International Cooperation (JBIC), the priority toward Vietnam in the manufacturing industry has changed considerably since 2000 (Annex 2).

Specifically, in 2000, Vietnam was ranked eighth. However, during 2003-2005, Vietnam was ranked fourth. In 2006, surpassing Thailand, Vietnam reached the third position. The main reasons for the attention of Japanese manufacturing enterprises toward Vietnam are two-folds: the cheap workforce of Vietnam (71.4%) and the avoidance of risks resulting from the heavy dependence on China (36.4%) (Ngo Xuan Binh, 2009). Above all,

Japanese manufacturing enterprises now regard Vietnam as a very promising destination. Factors which attract Japanese manufacturing enterprises are listed in the survey result in Table 2.

Table 2: Reasons for increase in FDI by Japanese enterprises

No.	Vietnam	China	Thailand	India
1	Future market growth (60.4%)	Future market growth (84.8%)	Future market growth (48.1%)	Future market growth (90.2%)
2	Cheap labor (57.7%)	Cheap labor (44.0%)	Cheap labor (41.7%)	Cheap labor (38.5%)
3	Qualified labor force (21.5%)	Current market scale (32.8%)	Export establishment to third countries (26.9%)	Supply for assembly establishments (19.3%)
4	Risk sharing for other countries (18.8%)	Supply for assembly establishments (20.4%)	Current market scale (25.0%)	Qualified labor force (18.5%)
5	Supply for assembly establishments (14.8%)	Cheap raw materials and components (19.5%)	Complete infrastructure (23.1%)	Current market scale (18.5%)

Source: JBIC, Summarized investigation on FDI in 2009.

Obviously, the most attraction for FDI in Vietnam for Japanese investors is “cheap workforce”. It reflects the investment strategy of Japanese manufacturing enterprises in exploiting low-cost labour to develop labour-intensive production. This is an advantage for Vietnam in attracting the investments of foreign enterprises, especially in labour-intensive fields. The survey on average monthly wage (in JPY) of unskilled workers in Japanese (small and medium sized) enterprises investing in Asia shows that the wage level in Vietnam is much lower than those of other Asian economies (Table 3). In other words, although there still exist certain difficulties such as unsynchronous infrastructures, underdeveloped auxiliary industries and cheap workforce is still an advantage of Vietnam in attracting Japan’s FDI in labour-intensive fields.

Table 3: Average Monthly Wages of unskilled workers in Japan enterprises investing in Asia*Unit: JPY*

Beijing	Shanghai	Guangdong	Malaysia	Thailand	Philippines	Indonesia	Vietnam
17,531	25,694	20,750	30,917	26,890	20,660	17,163	10,693

Source: Small and medium sized enterprise credit fund, Japan, “*Result of the seventh survey into the realities of small and medium sized enterprises investing in China*” (survey in 2006).

Moreover, investing in Vietnam is considered as a good method to “spread risks from other countries”. Therefore, Vietnam holds a strategic position in the “China Plus One” policy of Japanese manufacturing enterprises in order to avoid possible risks resulting from the heavy investment in China. In fact, Japanese manufacturing enterprises are facing certain difficulties due to the increasing labor cost in China and the limited favorable treatment for commercial processing in China. According to JETRO survey on Japanese enterprises investing in China, one of the main reasons for the decreasing profits of these enterprises is the “increasing labor cost” (Table 4). The Chinese government also imposes the limitation on commercial processing for low-value-adding products, which affects FDI enterprises, including Japanese enterprises investing in Guangdong, China – which concentrate on producing low-value-added manufacturing products. Therefore, Japanese enterprises must seek new investment locations and Vietnam becomes a very promising destination.

So far, many large Japanese corporations have arrived in Vietnam with famous, competitive products of high technology content. According to the preliminary statistics of the Foreign Investment Agency, more than 30 corporations of Japan which are ranked in “Global 500” have invested in over 100 projects in Vietnam so far, with total registered capital of over USD 3 billion, in which around USD 2 billion has been disbursed. Valid investment projects have now come into operation, with annual revenue reaching over USD 3 billion, which offers employment to hundreds of thousands of workers either directly or indirectly (Ngo Xuan Binh 2009). Many products of these enterprises have taken over imported ones and played active roles in exportation. For example, in information and technology - electronics, there are joint ventures between the Vietnam Posts and Telecommunications Group and the NTT corporation, the computer production company Fujitsu; or well known corporations such as Canon, Sony, Matsushita, Sumitomo, Sanyo. In the automobile and motorbike industry, there are Honda, Toyota, Isuzu, Suzuki and Mitsubishi. The construction material industry also attracts large projects of Japanese investors such as Nghi Son Cement Company², float glass in Bac Ninh. Most recently, Japanese investors have actively

² Nghi Son Cement Company is a joint-venture company between Vietnam Cement Industry Corporation (Vicem) and two multinational corporations of Japan - (Taiheiyo Cement - TCC and Mitsubishi Material - MMC).

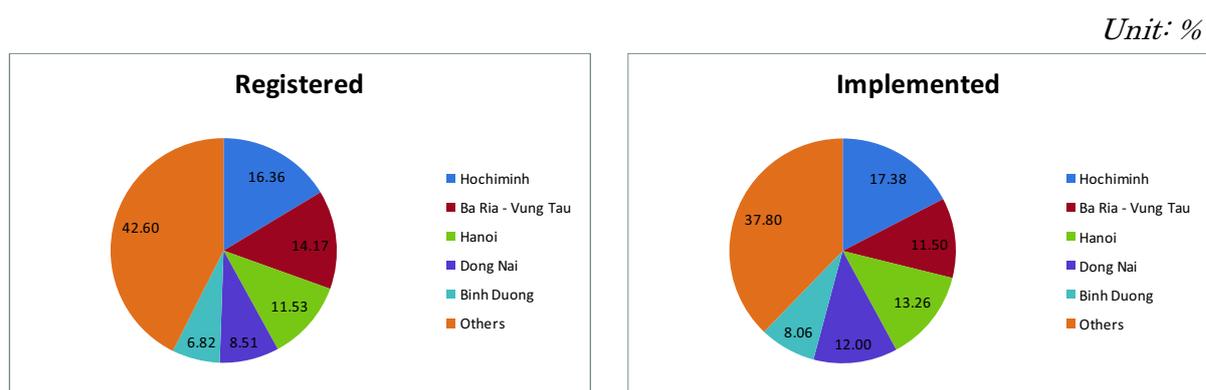
participated in petrochemical projects such as the petrochemical complex in Nghi Son, Thanh Hoa, etc.

Table 4: Reasons for the decreasing profits of Japanese manufacturing enterprises in China

	2004	2005	2006
Fall in revenue due to the fall in export	17.2	18.7	24.1
Falling revenue in home country	14.1	20.9	13.8
Fall in revenue due to fall in price	37.5	50.5	44.8
Increase in material costs	46.9	46.2	51.7
Increase in labor cost	17.2	37.4	48.3

Source: JETRO “The current business situations of Japanese manufacturing enterprises in Asia - China, Hong Kong, Taiwan, Korea” (survey in 2007).

Figure 8: Allocation of Japan’s FDI by province in Vietnam, 1988-2009



Source: Calculated with the statistics of JETRO.

In terms of region, Japan’s FDI enterprises continue to expand their scale and cause a fluctuation of FDI allocation between the North and the South despite the difficulties at hand. Japanese investment projects are mostly found in 40 cities and provinces in Vietnam with the highest concentrations in 5 provinces and cities, namely Hanoi, Ho Chi Minh City, Dong Nai, Binh Duong and Ba Ria - Vung Tau. In terms of registered capital, these 5 provinces and cities altogether account for 57% of the total FDI of Japan in Vietnam during the period of 1988-2009. In terms of implemented capital, the ratio is even larger, reaching over 62% throughout the same period.

Previously, the investment of Japanese TNCs in the South is of greater extent than that in the North because the condition of transport infrastructure in the South is better

than in the North. However, in 2004-2006, Japan's well-known manufacturing enterprises such as Canon, Yamaha, Matsushita, Brother begin to invest in the North. In recent years, Hanoi always attracts most investment from Japanese TNCs. While in 2004, there were only 48 Japan's FDI projects (both new grant and capital increase) in the North of Vietnam, with total capital investment being USD 576 million, the number of projects rose to 180 in 2006 (both newly granted and added capital) with the total capital invested being USD 1.1 billion (Appendix 3). This indicates that the Northern provinces have become highly profitable for Japanese investors. Many large companies in Japan plan to select these areas with long-term strategies (Appendix 4).

Ngo Xuan Binh (2009) puts forward two reasons for this trend: (i) the labor cost in the North is lower than in the South, and the workforce in the North is better in both quantity and quality; and (ii) the proximity to Hanoi, the capital, where competent authorities are based. As a result, the North receives largest investment capital from Japanese investors. In particular, this proportion is 74% in 2004; 80% in 2005, before slightly declining to 76% in 2006 (Appendix 3).

However, in 2007-2008, Japanese investment into Northern provinces decreased both in terms of number of projects and total capital (including new grant and capital increase), which fell to only 61 projects with total capital of USD 296 million in 2008. The declination in these years was partly because large Japanese corporations has registered several years before and then focused on project implementation than new registration and/or project expansion. Meanwhile, some Japanese enterprises shifted their investment to the Central Region and the South during this period. Appendix 3 shows that number of projects into the South declined from 113 in 2006 to 66 in 2008, yet the total capital increased from 312 million USD to 847 million USD. Notably, investment capital into the Central Region increased extraordinarily in 2008 to over USD 6.2 billion, which was mainly registration and the disbursement was quite slow.

To sum up, these recent years have seen the trend of increasing FDI from Japan to Vietnam in order to take advantage of the opportunities after the latter joined WTO, along with the efforts to reform the business environment, encourage foreign investment and the growth potential of the economy. Japan's FDI is also heavily poured into labor-intensive industries and manufacturing industries, with huge job opportunities and technological transfer. However, the allocation of Japan's FDI among provinces is uneven, and the FDI is seen more in large cities and provinces with good infrastructures, effective investment promotion policies which are the transport hubs of key economic zones.

3.2 Several shortcomings in the promotion of Japanese FDI to Vietnam

The current situation of Japanese FDI's in Vietnam revealed that apart from such factors positively contributing FDI attraction from Japan to Vietnam (such as political stability and macroeconomic context), several issues still prevent the promotion of Japan's FDI towards Vietnam. Some basic issues are recognised as below:

First, there was unequal allocation of Japan's FDI across regions, areas and sectors. Obviously, Japan's FDI was concentrated into big cities or regions that have advantages in infrastructures and consumption market such as Hanoi, Hai Phong, Vinh Phuc, Hai Duong, etc. (the North); Ho Chi Minh city, Binh Duong, Dong Nai, etc. (the South). Conversely, a limited FDI of Japan was allocated to less attractive regions and industries. The major reasons were that foreign investors focused on high profitability in areas with convenient infrastructure, production conditions, transportation, and investment incentive policies. Ngo Xuan Binh (2009) indicated that mechanisms and policies of various authority levels are not really appropriate in reality, which is one of the determinants for each area's attractiveness towards Japan's FDI. Moreover, weakness of infrastructure system and human resources of highland and midland in three regions have constrained FDI from Japan in particular and other partners in general. Hence, this issue should be recognised not only from local viewpoint as to the improvement of provincial business environment but also at national perspective when socio-economic development polices and investment promotion policies have not created "spillover effects on development" for various areas, regions nationwide.

Second, Vietnam's human resources are not sufficient in both terms of scale and quality. The number of labors with professional training does not meet the requirement. A large number of trained employees haven't been vested with working skills and experience, which increases costs for enterprises in training and re-training. Furthermore, with high science – technology level, Japan's FDI projects features strict labor requirement, and many Vietnamese labors are under-qualified for such demand. This partly explains the uneven allocation of Japan's FDI as most of skilled labors are in large cities. Apart from that, low quality of human resources will create risks for FDI promotion in the long term because it limits the capacity to absorb capital and transfers of technology and management skills from FDI projects.

Third, the connection between Japanese FDI and domestic enterprises remains rather loose, which is reflected clearly by the low cooperation in production and business between Japanese and Vietnamese enterprises. Most of Vietnam's enterprises are still keeping the mindset of isolated business operation and production. Moreover, Vietnam's supporting industries are not sufficiently developed to meet demand of Japan's enterprises. Therefore, main benefits from Japanese FDI such as production-business linkages (both forward and backward) and technology transfer were hardly realized. In the longer term, Japan's FDI projects requiring more enhanced production – business linkages with domestic

enterprises may not be feasible, and there exists a possibility that such projects will be shifted to a more appropriate nation.

Fourth, as mentioned above, Vietnam's supporting industries are mostly underdeveloped and has not met requirement on supplying international standard material and accessories for manufacturing industry for Japan's FDI partnership. This is a serious problem when potential and actual waves of Japan's investment flows into Vietnam have been faster and stronger. Up to now, the products of Vietnam's supporting industries are mainly manufactured by state-owned enterprises with low quality and incompetent prices. Consequently, they can merely be consumed in the state-owned economic sector. Another part of the supporting industries products is manufactured by private households which are featured by small capital scale and poor technology; therefore, their products can hardly meet the strict requirements of Japanese TNCs.

According to JETRO's survey result since early 2006, even in locations with concentration of large FDI projects such as Toyota, Honda, Suzuki, Canon, Fujitsu, etc., it remains hard to find suppliers for reliable and suitable supporting industrial products for enhancing local content.

A survey on domestic electronic enterprises for building Vietnam electronics industry development master plan in early 2006 revealed a less than optimistic result. Vietnam Fujitsu – a large FDI company with annual export turnover of over a half billion of USD has to import all accessories and materials. Canon Vietnam, who has invested nearly 300 USD million to build a factory for Vietnam-origin accessories in Hanoi and Bac Ninh, has their supply chain for accessory and outsourced processing which includes 30 FDI factories (or from other foreign partners), but none of domestic enterprises. Canon Company has assigned its staff to carry out a survey on more than 20 domestic screw-manufacturing factories but they could not find any qualified screw appropriate with their product's requirement. Another survey on Honda Company in Vinh Phuc also confirmed this situation. Although local content of this company increased fairly rapidly from 10% to 60% from 1998 to 2002, however, domestic supporting industry contributes an inconsiderable part to this increase. The nature of the issue is that a majority of parts, accessories and other supporting industrial products are manufactured by Honda Vietnam itself or procured from other FDI companies. In addition, Honda Vietnam carried out surveys on hundred of domestic enterprises manufacturing supporting products for motorbike industry, merely 13 companies that met quality standard of Honda Vietnam were selected. Consequently, manufacturing and assembling factories are dependent on imported accessories.

Obviously, attraction of FDI from high-technology countries like Japan requires Vietnam's supporting industries to be sufficiently and appropriately developed. Nevertheless, Vietnamese auxiliary industries, in reality, are only in early phase. There persists a big gap between foreign customers' demand in product quality, price and delivery time and capacity of Vietnam's enterprises. Furthermore, it is necessary to pay attention to the idea that Vietnam's economic development strategy appeared to incorporate no

comprehensive assessment as well as serious awareness of the importance of national supporting industries. The existing industrial protection of Vietnam revealed lots of problems, as it fails to induce necessary efforts for developing supporting industries.

Finally, increasing infrastructure costs including office lease, executive manager hire, electricity, water, transportation, distribution channel, etc. also raises production and business cost for foreign investors, including Japanese ones. Infrastructure survey revealed weaker performance of Vietnam compared with other ASEAN countries (Table 5), which may drive both existing and new investors towards other Asian countries. On the other hand, there are other “soft” elements such as difficulties in seeking skilled labors, or the increases of unorganized strikes in FDI enterprises including Japanese ones. According to the Survey conducted by Mr. Ngo Xuan Binh (2009), these problems became stressful Japanese investors. In general, the problems may reduce the “attractiveness” of Vietnam to Japanese enterprises.

Table 5: Comparative scores of infrastructure in ASEAN

<i>Nations</i>	<i>Airport</i>	<i>Seaport</i>	<i>Transportation</i>	<i>Electricity</i>	<i>Telecommunication</i>	<i>Average</i>
Singapore	4.9	4.9	4.6	4.4	4.7	4.7
Brunei	3.3	3.0	3.3	3.6	3.5	3.3
Malaysia	3.1	3.1	2.7	2.6	3.2	2.9
Thailand	3.1	2.5	1.6	2.7	3.0	2.6
Philippines	2.3	2.4	1.9	2.2	2.7	2.3
Indonesia	3.0	2.4	2.3	2.6	2.7	2.6
Vietnam	1.9	2.0	1.9	1.9	2.2	2.0
Myanmar	1.6	1.5	1.6	1.4	1.4	1.5
Laos	1.5	-	1.5	1.7	1.5	1.5
Cambodia	1.6	1.5	1.8	1.4	1.4	1.5

Note: The highest score is 5.

Source: <http://news.cens.com>

4. PROSPECTS FOR ECONOMIC COOPERATION AND MEASURES TO PROMOTE VIETNAM - JAPAN TRADE AND INVESTMENT RELATIONS

4.1 Prospects for economic cooperation

ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP) has officially come into effect as from December 1st, 2008. Meanwhile, the Vietnam - Japan Economic Partnership Agreement (VJEPA) is the first bilateral agreement between Vietnam and Japan, which has officially taken effect as from October 1st, 2009. AJCEP and VJEPA basically have similar structure; however, there are some deeper commitments in VJEPA on several fields concerned by both parties which can hardly be attained at regional level. Therefore, VJEPA opens up further development prospects of trade - economic cooperation between Vietnam and Japan, lifting the relations between the two countries to new heights, beyond the cooperation framework of ASEAN and Japan. With these agreements, businesses of the two countries have more favorable conditions to seek business cooperation opportunities, thanks to the legal environment opened to businesses of both countries.

Recently, in the Vietnam - Japan Joint Declaration dated October 31st, 2010 on the official visit to Vietnam conducted by Japanese Prime Minister Naoto Kan, once again, both parties confirmed that *the Vietnam-Japan Economic Partnership Agreement*, along with *the Vietnam-Japan Agreement on Liberalization, Promotion and Protection of Investment* will promote bilateral economic relations to new heights and strengthen economic cooperation through supporting the process of further liberalization of goods, services and investments, beneficial to both countries. The two parties agreed that the strengthening of economic cooperation will expand opportunities and benefits for the business sector of countries, contributing to economic development and promoting the welfare of Vietnamese and Japanese civilians. The two parties confirmed that the above Agreements will actively contribute to achieving objectives of multilateral trading system of WTO. Both parties also affirmed the need to speed up negotiations on physical person movement, in compliance with the Economic Partnership Agreement.

The two parties highly appreciated the Vietnam - Japan Joint Initiative aimed at improving the Vietnamese business environment and agreed that this initiative has worked effectively in enhancing Vietnamese competitiveness and expanding Japanese investment in Vietnam. The two parties also recognized the need to further improve the investment environment for Japanese businesses in Vietnam and honored the intention of relating parties on the implementation of the Forth Stage of the Joint Initiative. The result of the first official visit to Vietnam paid by Japanese Prime Minister Naoto Kan shown by the Vietnam-Japan Joint Declaration has opened a new phase of friendly and multifaceted cooperation relations between the two countries.

For its part, even after joining WTO and signing agreements such as VJEPA an AJCEP, Vietnam actively and proactively continues integrating into the international

economy at regional and international level to seek additional potential for socio-economic development. Located in the dynamic ASEAN region as a center of Eastern Asian economic integration, Vietnam has joined the regional economic cooperation wider and more deeply by each passing day. This trend will continue to develop in the coming time. This is the basis for expanding Vietnam - Japan economic cooperation in the time to come.

4.2 Measures for promoting trade relations between Vietnam and Japan

To address the shortcomings in trade relationship between Vietnam and Japan, Vietnam needs to implement some key measures as below:

The analyses in Part 2 show that the trade cooperation between Vietnam and Japan, though achieved many achievements, but there remain some specific shortcomings. To overcome these shortcomings, for its part, Vietnam needs to implement some key measures as follows:

a) For the Government of Vietnam

At the macro level, the Government's policies play a very important role in guiding, supporting and providing necessary market information to effectively promote trade activities of enterprises. Specifically, the Government needs to pay attention to and guide the following policy directions:

First, the Government should continue to innovate and fine-tune economic policies system and trade management mechanism to dynamic orientation, compliance with international practice, the Japanese market and economic development benefits of Vietnam. Such an improvement is essential not only for facilitating more open and dynamic trade activities but also to respond to the external requirements, such as complying with international practice of the world market economies and meeting specific rules of various markets and customers.

In fact, Vietnam has made many amendments and improvements to her economic policies and trade management mechanism. Especially, since Vietnam joined the WTO and implemented relevant commitments, the above polices and mechanisms become more relaxed, flexible and appropriate. Accordingly, they encourage both domestic and foreign economic sectors to conduct investments, production, business and import-export. Regarding the outstanding issues, both Vietnam and Japan must have close cooperation in quickly solving obstacles related to their trade policies. The former country should have sound policies and measures to improve business environment, so as to make it more dynamic and appealing to Japanese investors and partners.

Simultaneously, Vietnam should seek proactive solutions to take advantages of the enormous potential of the Japanese market. To do this, the Government should formulate policies on economic cooperation and reasonable trade development with each market and region, which pays special attention to the Japanese market. Of necessity is a research on Japanese business culture, consumption system, the statutes on importation and product

quality management, Japanese consumption taste. Such a research should be widely disseminated to enterprises to help them comprehend the market, grasp favorable opportunities to do business effectively.

Second, the Government should formulate more concrete and positive policies to facilitate participation of Japanese investors in exploiting and processing industries in Vietnam for further export to the Japanese market. Such participation not only ensures the presence of Vietnamese goods in the Japanese market, but also helps Vietnam effectively utilize her existing potential. To rapidly boost the volume of processed goods to Japan, the Government of Vietnam should develop an effective policy, encouraging the participation of Japanese firms in the export production process in Vietnam. This is the best way to both ensure the quality of exports and increase the share of Vietnamese goods in the Japanese imports. The Government should identify preferential areas to attract FDI in the manufacturing of industrial goods for export, building processing and packaging factories for agricultural, forestry and marine products to be exported, etc. so as to improve the quality and diversification of Vietnamese exports, most effectively use comparative advantages of Vietnam for the production and processing of exports. Parallel to this process, Vietnam should take effective measures to develop supporting manufacturing industries commensurate with the requirements of foreign investors.

Meanwhile, Vietnam should continue to take advantage of the industrial groups with existing comparative advantages. These groups include: (i) labor-intensive sectors (mainly unskilled-labor-intensive ones) such as textile, footwear, travel tools, tourism devices, etc.; (ii) labor-intensive industries, which combine unskilled labor and skilled labor such as household electronic appliances, electronic parts, electronic components, etc.; and (iii) labor-intensive industries with the use of many materials from agriculture, forestry and seafood such as foods, beverage, etc. Nevertheless, to create a momentum for stronger steps in the long term, it is necessary for Vietnam to combine the utilization of available competitive advantages, the diversification of exports with the improvement in non-price competition.

Third, the Government of Vietnam should establish or further strengthen their trade promotion office to further boost Vietnam's exports. Vietnam's export enterprises themselves make small or no investment in the research and exploration trips or the organization of seminars abroad to promote their products – which are conducted aggressively by foreign firms in Vietnam. Therefore, the country should establish a governmental trade promotion office which is responsible for organizing and funding the costs of these market research and exploration trips. This helps Vietnamese enterprises and organizations to exhibit their products in Japan.

It is essential for Vietnam to strengthen trade promotion functions of governmental bodies to facilitate enterprises (especial small- and medium-sized ones with disadvantages in capital and human resources) to expand their market relations. To do this, in addition to continuing to complete and boost existing activities performed by the newly-established

Trade Promotion Agency, Vietnam needs the officers with professional competence and knowledge of the Japanese market.

Fourth, the Government of Vietnam should hold intensive training programs of trade for leaders and trade experts of enterprises involved in trade activities, especially the officers and trade experts specializing in the Japanese market. The training purpose is to improve professional knowledge for Vietnamese officers and trade experts so that they can make smart and timely decisions, shortening long and unnecessary time for negotiations.

Fifth, the Government of Vietnam should make specific plans to renovate and upgrade the infrastructure of the trade industry commensurate with the international level, to ensure that trade with the world outside steadily grows. This is also the biggest concern of Japanese enterprises over trade with Vietnam. Only when this matter is handled will the business environment of Vietnam become more attractive for Japanese enterprises and the Vietnamese market will attract more attention from Japanese enterprises.

Sixth, together with the market expansion strategy, Vietnam should formulate an appropriate product strategy and select a suitable penetration method to Japanese market. The direction for such efforts should be to export goods of high processing content, and to limit the exportation of raw materials and low processed products. In parallel with these measures, Vietnam needs to adopt policies to encourage business investment and application of scientific and technical advances in the production process, thereby improving the qualities and non-price competitiveness of the products. As above-mentioned, Japanese consumers are willing to pay with high prices, but they require the products' qualities must be commensurate. Therefore, improving the qualities and non-price competitiveness is the sustainable and appropriate way to effective exploitation of Japanese market.

In order to avoid "selling natural resources at cheap price", Vietnam must take advantage of foreign currency flows from export activities, call for foreign investment, etc. to import machinery, new technology, and modern production line. After that, Vietnam can quickly develop manufacturing and processing industries for timely manufacturing and processing of exports. Even with raw agricultural and forest products such as rice, grains, seafood, etc. Vietnam must advance to export of processed products, therefore gaining a higher export value.

Besides, Vietnam can utilize comparative advantages of many types of services related to trade relations with Japan such as: recycling, processing services, assembling, export and import services, transfer and foreign currency collection services such as tourism, transport, insurance, banking, labor export, information technology, advertising, etc.

b) For business associations

First of all, the business associations should continue coordinating with enterprises and trade commissioner network in Japan to promote trade, facilitating enterprises' access and penetration into this market. It is essential to actively cooperate with professional and

social organizations, at both regional and international levels, to maintain a reliable multi-dimensional information system and to lobby policymakers to create favorable conditions for enterprises and goods of Vietnam upon penetrating international market. This helps create a good reputation in the Japanese market. To do this, the associations should cooperate with relevant bodies to learn market needs, trade policy and regulations on technical standards, etc. and then disseminate them to enterprises.

The preparation for negotiations should incorporate dialogues with enterprises. However, with a large number of import and export enterprises as now, holding a dialogue and exchanging information with all enterprises are almost impossible. Conversely, if the dialogue is held with several large enterprises, it will cause concern over inequality in information access among enterprises. Thus, the main role of associations should be taken through seeking information and needs of enterprises to make proposals to the negotiating body, and finding out the information of relevant policy changes to disseminate them to enterprises.

c) For enterprises

To further penetrate the Japanese market effectively, the enterprises should promote export of traditional commodities with a view to diversify products in combination with enhancing non-price competitiveness. This helps take the most advantage of 'what is available' and prepare conditions for the new competition. Low-labor-cost exports products are currently competitive in the Japanese market. However, this must be accompanied by efforts to minimize possible risks. For example, the enterprises must accept and improve capacity to meet Japan's technical barriers. Instead of dealing passively, the enterprises should proactively control their products from the beginning. Information on policies, markets provided by the Government and the association are the essence for such control.

In the long term, the enterprises should recognize that only diversification of export products (including differentiation) and enhancement in their non-price competitiveness can help ensure sustainable export growth. In essence, this is the process of increasing value added content in exports through effective investment in human resources, capital and technology. This process takes time, but the enterprises need to immediately start with specific actions. Long-term export competitiveness of the enterprises only can be strengthened when they correctly identify themselves and makes efforts in 'learning by doing' through competition, coordination, and understanding the market.

The scope of understanding is first of all the Generalized System of Preferences (GSP), anti-dumping regulations, and Japan's non-tariff barriers (especially standardized provisions and requirements). The enterprises should get access to high quality information channels, learn from past lessons of other countries and of Vietnam herself when exporting goods to Japan.

4.3 Some policy solutions for the promotion of Japan's FDI into Vietnam

Recognizing positive trends and outstanding issues regarding the promotion of Japan's FDI inflows to Vietnam, we need to have proactive solutions not only to deal with outstanding issues but also to encourage Japanese investors to increase such inflows. The solutions include:

First, Vietnam should deal with the issue relating to the development of supporting industries. Many experts even consider this the key for Vietnam to take advantage of Japan's new wave of investment. Supporting industries play an important role in attracting FDI capital flow because Japan's assembly companies only maintain research and development for important products. When formulating policies for developing supporting industries, Vietnam should focus on key areas that require early development as well as to attract FDI capital from Japan's enterprises including automobiles, electric machinery & equipment, electronics and information technology, textile, and consumer goods. However, apart from the determination of the Government, it is necessary to make greater efforts in linking, bringing together enterprises, and conducting specialization properly. The effort not only requires the determination of the Government in issuing supporting policies but also the endeavour of enterprises to produce components and accessories that meet the requirements of Japanese partners.

To foster the development of supporting industries, the Government of Vietnam should have an appropriate policy framework combined with sufficient support for Japanese partners. Besides, the willingness of enterprises, both State-owned and private, in the development of new technology, suitable to the demand of supporting products required by new investment is an extremely important factor. First of all, it is necessary to review State-owned enterprises to find out potential producers in providing parts, components, and accessories with quality and competitive prices. To strengthen the support of capital and technology so that potential translates into reality, the Government should then have satisfactory incentives for enterprises, both domestic and FDI ones, to facilitate successful and effective production and supply of high quality supporting products.

According to Ngo Xuan Binh (2009), a long-term and comprehensive policy on the industries of automobile, electronic devices, household electronic devices, etc. should be formulated with consistency. In particular, a program on attraction and development of production bases, supply of components and materials should be designed. In development stages of these sectors, policies on domestic industrial development are extremely significant. Nevertheless, as an official WTO member, Vietnam's room for using assistance measures has been significantly narrowed. Meanwhile, Vietnam has potential in the development of supporting industries relying on advantages on human resources, natural resources. More and more foreign investors, including Japanese ones, are interested in investing in Vietnam, thereby creating a big opportunity for those in supporting industries. According to Japan Bank for International Cooperation, about 32% of Japanese companies

see potential to expand production in Vietnam, and express clearly their determination on this issue in the country.

Second, Vietnam should support and encourage Vietnamese enterprises to take part in the linkages with Japanese ones through the building of a consistent standard system. First of all, regulatory agencies should promote the development of an industrial measurement and standard management system. This direction bears close relation with the enhancement of competitiveness via the gradual improvement in product quality and labor productivity of Vietnam's outsourcing enterprises. Over the past time, in fact, the development of industrial standard, quality management, control and measurement system have not been implemented consistently, yet to meet the requirements of integration and globalization process. The majority of Vietnam's outsourcing enterprises is not or hardly equipped with devices for testing and controlling quality standard. The industry sector, in general, has insufficient modern testing facilities. Thus, the development of industrial measurement and standard management system should be fostered to strengthen supporting industries, as an important factor in attracting Japanese investors, especially in the manufacturing sector.

Third, Vietnam should give priority to address issues related to "bottlenecks" in economic infrastructure of Hanoi and Ho Chi Minh City. A survey with many Japanese investors showed that Vietnam's economic infrastructure is arguably degraded and lags behind the economic growth. The improvement of Vietnam's current economic infrastructure includes the upgrade of urban traffic capacity and urban functions, the improvement of transport and circulation efficiency, electricity supply, international communications, disposal of waste water and industrial hazards, etc. Therefore, it is necessary to focus the solutions to improving urban traffic and urban functions. In large cities like Hanoi and Ho Chi Minh cities, so many problems have arisen such as complicated street network, poor traffic security and highly likely congestion due to extreme overload, yet to mention the ignorance of traffic participants and the limitations of means of transport, etc. The rearrangement of urban functions is another pressure. Urban planning and overall architecture lacks a long-term vision or a diligent concern. Improving the efficiency of transportation is a necessary direction, for example, decreasing the high costs of container transportation from Vietnam to other countries, as well as North-Southern inland transportation.

Besides, Vietnam should stabilize the electricity supplying capacity for production at industrial zones. Most Japanese investors assume that the pressure on electricity supply is an existing problem. The prevalent problems of electricity price and instability of electricity supply have weakened their competitiveness. Consequently, attention to electricity development plans to meet increasing demands is one of the measures to attract and retain existing and potential investors. Similarly, Vietnam should continue to further upgrade international communication infrastructure with an aim to cut down service costs for production. The majority of Japanese enterprises investing in Vietnam have expressed their

concerns about the reliability of Internet service quality and high international communication price which make Vietnam less competitive than other countries in the region. Parallel with the process of investment attraction, Vietnam should be serious and fair in the issues of waste water and industrial hazard disposal. In general, these issues in Vietnam are superficially concerned and not invested considerably, which clearly has a negative impact on Japanese enterprises doing business in Vietnam. Thus, it is necessary to strengthen the responsibility of state agency in charge of industrial hazard disposal, as well as the development of recycling and treatment facilities. Vietnam should promptly eliminate the discrimination between foreign-invested enterprises and State-owned enterprises in the compliance of regulations on waste treatment.

Forth, it is essential to attract Japanese potential investors. For attracting potential investors, first of all, the government should notice “spillover” between existing investors and new ones. The fact shows that many Japanese potential investors usually take advice from those who have actually invested in Vietnam before reaching a decision whether they should make a new investment or not. Potential investors not only get advice from other investors but also study successful lessons and difficulties, even failures of predecessors. Hence, a positive support to resolve difficulties which Japanese investors complained is one of necessary steps that the Government of Vietnam should implement to put them at ease and attract more new investors.

In addition, the Government of Vietnam should prove the consistency in policy implementation. Sudden changes and an inconsistency in carrying out policies in Vietnam are big obstacles and risks in the attraction of potential investors. Therefore, the policy transformation process should be publicized so that foreign investors can anticipate changes and mitigate negative impacts. Although the Government of Vietnam has made a lot of efforts to improve the potential investment environment, it is not proactive enough to provide suitable information to the public and enterprises, especially to potential investors with thirst for official information. This initial connection step is very important because it will propagate widely the information on investment environment to other potential investors.

In the strengthening dialogue on policy with Japanese investors, the Government should: (i) build effective implementation program for the Joint Initiatives Vietnam - Japan in phase III; (ii) consolidate organizational structure and personnel workforce for foreign investment management at all levels so as to be responsive to new demands, simultaneously, enhance the anti-corruption, economical practice and anti-overspending activities; (iii) maintain regular dialogue between heads of the government, ministries, sectors with investors in order to identify and timely address the difficulties, shortcomings of ongoing projects, to ensure that projects are operating effectively, on schedule and continue to enhance the confidence of investors in Vietnam’s business and investment environment, that produces domino effects and positively impacts new investors; strengthen the cooperation between state agencies and enterprise associations; and (iv) boost the collection

of FDI information and improve the management on investment promotion in the new context.

5. CONCLUSION

Japan is an economic partner with much potential for Vietnam. The efficient utilization of this potential will set the prerequisite for Vietnam to make huge steps forward in the socio-economic development process. In fact, the economic cooperation in general, and trade and investment cooperation in particular with Japan have brought many benefits to Vietnam, not only in foreign currency inflow from exports, foreign direct investment but also in improving export competitiveness as well as the production level. Nevertheless, the Government, business associations, and Vietnam businesses should make greater efforts to realize this potential. To do this, a deep understanding of Japanese investors and market, and the proactively taking advantage of the cooperation with Japanese party are first important steps.

In the new context, the increasing international competition with China and other ASEAN countries is an extremely enormous pressure on Vietnam. Therefore, Vietnam should promote further reform and improve the business-investment environment to raise the business competitiveness, and attract external resources for the development, particularly through Japanese investors. To do this, the crucial issue is that the Vietnamese Government should enhance the confidence of investors and entrepreneurs in general, and of Japanese partners (investors, customers) on the benefits of economic cooperation in Vietnam. Therefore, measures to further improve the business-investment environment and to strengthen dialogues with Japanese investors and businesses are one of the necessary solutions. Solutions themselves mentioned in Section IV are prerequisite steps so that Vietnam can take advantage of opportunities from the economic cooperation with Japan for the socio-economic development process at home.

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Appendix 1: 10 countries/territories with highest investment into ASEAN countries

Countries/region	Value (USD million)				Proportion (%)			
	2007	2008	2009	2007-2009	2007	2008	2009	2007-2009
EU-25	17,765.5	9,520.1	7,297.2	34,582.8	23.9	19.2	18.4	21.1
ASEAN	9,682.0	10,461.5	4,428.9	24,572.4	13.0	21.1	11.2	15.0
Japan	8,828.7	4,657.8	5,308.4	18,794.9	11.9	9.4	13.4	11.5
USA	8,067.6	5,132.6	3,357.7	16,557.9	10.8	10.4	8.5	10.1
Cayman Island	1,595.4	4,605.4	3,015.2	9,216.0	2.1	9.3	7.6	5.6
Korea	2,715.5	1,583.5	1,421.8	5,720.8	3.7	3.2	3.6	3.5
China	1,684.3	2,109.5	1,509.5	5,303.3	2.3	4.3	3.8	3.2
HongKong	1,495.6	1,447.3	1,582.1	4,525.0	2.0	2.9	4.0	2.8
Bermuda	3,259.2	58.6	1,164.4	4,482.2	4.4	0.1	2.9	2.7
Taiwan	784.8	1,745.1	687.9	3,217.8	1.1	3.5	1.7	2.0
Total investment of top 10 countries/territories	55,878.6	41,321.6	29,773.1	126,973.3	75.1	83.5	75.1	77.7
Investments from other sources	18,516.7	8,178.3	9,849.9	36,544.8	24.9	16.5	24.9	22.3
Total FDI into ASEAN	74,395.3	49,499.8	39,623.0	163,518.1	100.0	100.0	100.0	100.0

Source: ASEAN Homepage. (2007-2009)

Appendix 2: Japan's investment priority in manufacturing industry in Asia

No.	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1	China	China	China	China	China	China	China	China	China	China	China
2	U.S.	U.S.	Thailand	Thailand	Thailand	India	India	India	India	India	India
3	Thailand	Thailand	U.S.	U.S.	India	Thailand	Vietnam	Vietnam	Vietnam	Vietnam	Vietnam
4	Indonesia	Indonesia	Indonesia	Vietnam	Vietnam	Vietnam	Thailand	Thailand	Russia	Thailand	Thailand
5	Malaysia	India	Vietnam	India	U.S.	U.S.	U.S.	Russia	Thailand	Russia	Brazil
6	Taiwan	Vietnam	India	Indonesia	Russia	Russia	Russia	Mỹ	Brazil	Brazil	Indonesia
7	India	Taiwan	Taiwan	Korea	Indonesia	Korea	Brazil	Braxin	U.S.	U.S.	Russia
8	Vietnam	Korea	Korea	Taiwan	Korea	Indonesia	Korea	Indonesia	Indonesia	Indonesia	U.S.
9	Korea	Malaysia	Malaysia	Malaysia	Taiwan	Brazil	Indonesia	Korea	Korea	Korea	Korea
10	Philippines	Singapore	Brazil	Russia	Malaysia	Taiwan	Taiwan	Taiwan	Taiwan	Malaysia	Taiwan/ Malaysia

Source: JBIC “Survey Report on Overseas Business Operations by Japanese Manufacturing Companies (annuals).”

Appendix 3: Summarised Japanese FDI into Vietnam by areas in 2004 – 2008

Areas	2004		2005		2006		2007		2008	
	Number	Capital (USD Million)								
The Northern Region		576		743		1,075		924		296
New grant	25	131	57	352	70	812	71	662	48	238
Capital increase	23	445	50	391	42	263	20	262	13	58
The Central Region						25		8		6,246
New grant					10	17	7	6	7	6,224
Capital increase					2	8	2	2	3	22
The Southern Region		206		184		312		318		847
New grant	32	91	50	99	66	227	78	242	50	826
Capital increase	40	115	56	85	47	85	26	76	16	21
Whole Country		782		927		1,411		1,249		7,578
New grant	57	222	107	451	146	1,056	156	910	105	7,288
Capital increase	63	560	106	476	91	355	48	339	46	290

Source: Summarisation from MPI (Vietnam) reports.

Appendix 4: Some Japanese FDI enterprises in the North

Since the end of 2005, Canon Company had opened Laser printer factory at Que Vo industrial zone (Bac Ninh) with investment capital of USD 50 million, and capacity of nearly 8.5 billion products per annum. In 2006, exported goods of the factory accounted for 30% of the whole world market. Canon becomes the FDI enterprise with the biggest export volume in Vietnam. Thanks to that, a wide range of Canon satellite companies from other countries and territories like Japan, Taiwan, China have come to this industrial zone to learn the investment market, some of which have registered for land lease in order to build factories producing components for Canon. Thus, in the North, two factories of Canon have entered into production at the industrial zones of Thang Long – Noi Bai and Que Vo – Bac Ninh. In 2006, Canon reached the total revenue of nearly USD 700 million. At present, the third factory of this Corporation is under construction at the industrial zone of Tien Son – Bac Ninh.

Japanese FDI has successfully invested and operated the infrastructures at the two Northern industrial zones of Thang Long – Noi Bai and Nomura – Haiphong. Nomura industrial zone having an investment capital of USD 163 million with an area of 153 ha have completed a high quality infrastructure. Thang Long IZ Infrastructure Development Company has started its operations with total investment capital of USD 76.6 million.

The expansion of production trend in Japanese electricity and electronic device companies is other evidence. Panasonic Company Ltd, Vietnam (PCV) with the total investment capital of USD 76.36 million which produces high-tech electric and electronic devices and Panasonic Electronic Devices Company Ltd (PEDV) with the total investment capital of USD 50 million which produces electronic devices are all located at Thang Long industrial zone, Dong Anh, Hanoi. At the inauguration ceremony of these two new factories, Panasonic announced that as from April 2007 they would kick-off and put into operation some of their subsidiaries namely Panasonic Research & Development Company Ltd, Vietnam (PRDCV), located in Hanoi. With the total capital of USD 500,000, PRDCV will increase the number of research and development centers (R&D) of Panasonic Corporation in ASEAN countries. PRDCV will conduct R&D for electronic products, household digital electronic products, design and develop software, as well as strengthen growth capacity in the global market from ASEAN region. The launch of two factories and one R&D center has lifted the total investment capital of Panasonic in Vietnam up to USD 78 million, with the number of employees of nearly 1,000 people. Panasonic has focused on electronic and high-tech electronic products like telephone central operator, optical drive, control set, code set, volume, etc. All these products are for export. Panasonic has attempted to expand its production scale to increase its total investment capital to USD 100 million in 2010.

Source: Author's compilation from many sources.