







VIETNAM – JAPAN POLICY RESEARCH FORUM 2018

Efforts to Foster Vietnam-Japan Investment Cooperation since 2008

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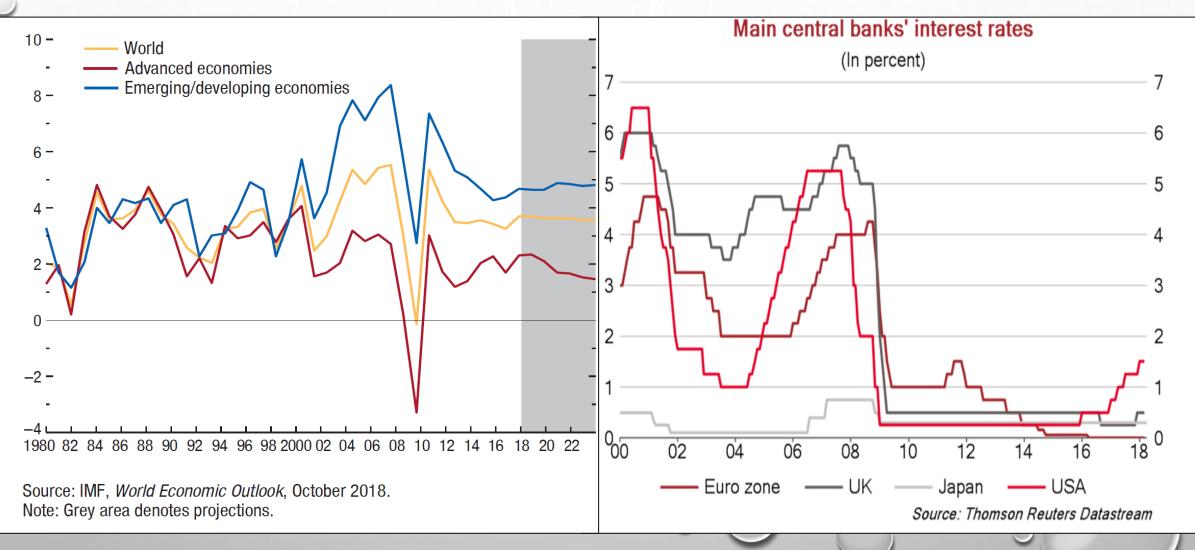
1. Introduction

≻Global economic context exhibits major changes in recent years:

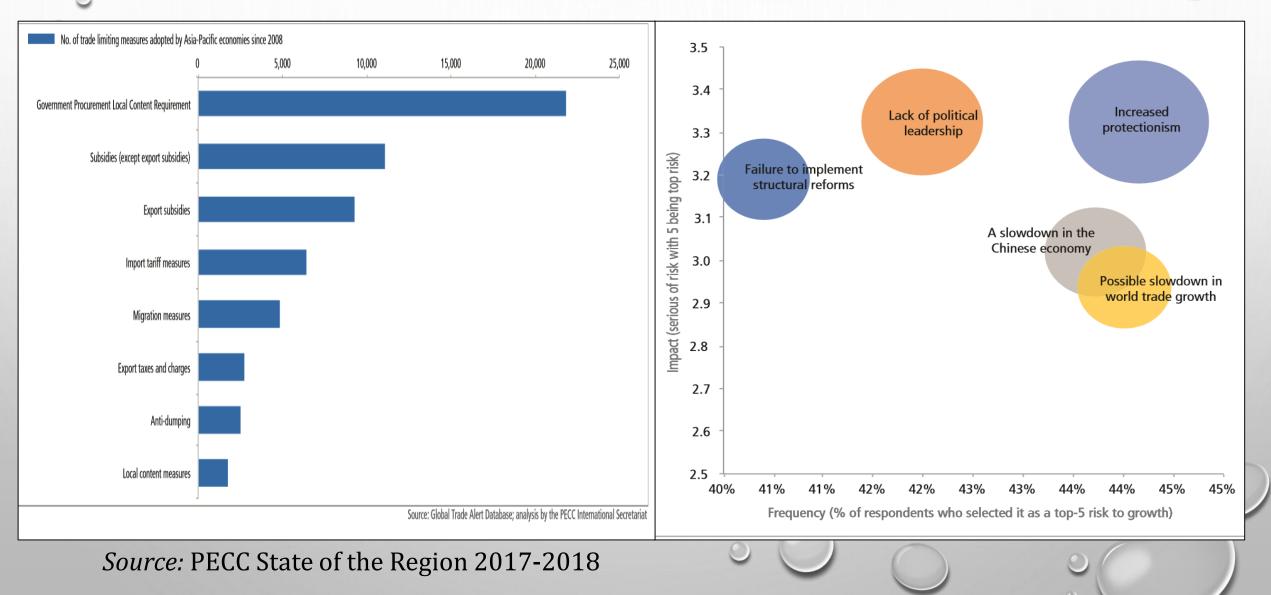
- Recovery from global financial crisis has been more robust, especially in advanced economies (US, EU);
- New normalization of monetary policy in advanced economies (US, EU, v.v.) → impacts on direction of global investment flows.
- Rising protectionism vs. continuous trade growth + attention to trade facilitation.
- High volatility of foreign investment flows, especially in developing and emerging markets (esp. China).

Real GDP growth by country group

Normalization of monetary policy



But rising protectionism as a risk to growth



China's balance of payment and exchange rate

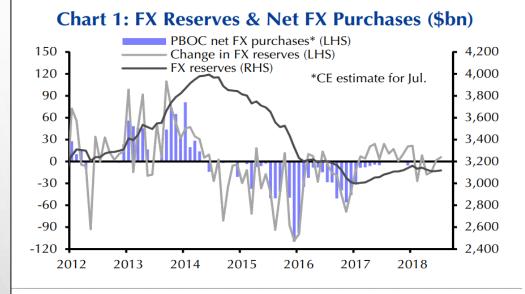


Chart 3: Net Capital Flows & CNH-CNY Spread

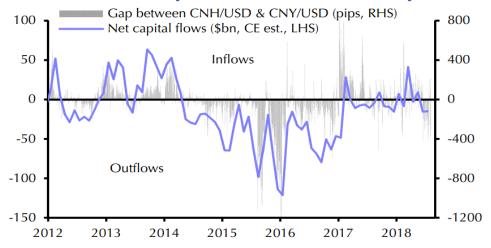


Chart 2: Balance of Payments (\$bn, monthly, CE est.)

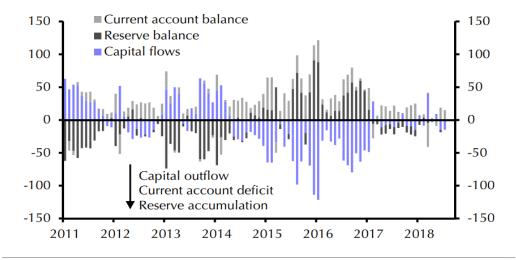


Chart 4: CNY/USD Exchange Rate



Vietnam is undertaking major policy directions since 2016:

- Restructuring of economy and shift of growth paradigm;
- Effective economic integration;
- Promotion of private economic development.
- Foreign investment is still regarded as a major source of exports, economic growth and development
 - New FDI Strategy still emphasizes the importance of FDI, albeit a more "selective" approach is required to address various concerns (FDI-local enterprises linkages; technology transfer; etc.)

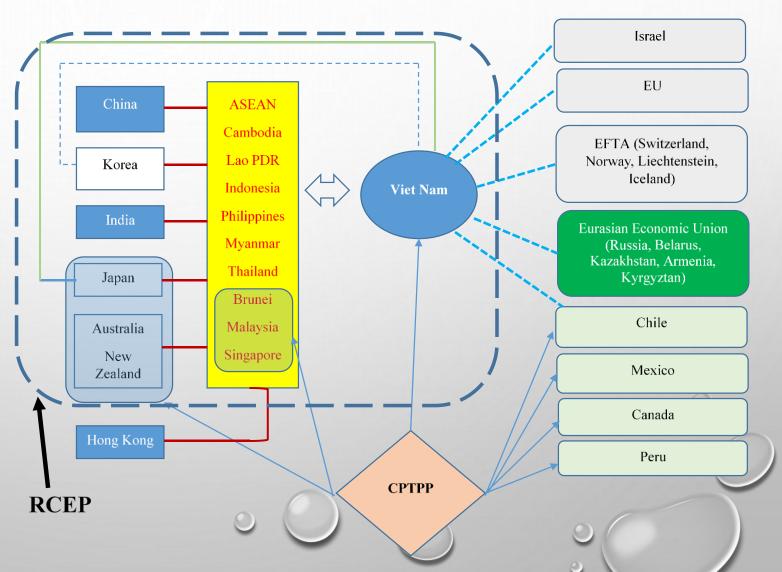
➢ Perhaps, US-China trade war is not all bad

Potential shift of investment towards Vietnam

2. Efforts to foster Vietnam-Japan investment cooperation since 2008

Since 2008, Vietnam has attempted to attract foreign investors largely via:

- FTAs (most new FTAs since 2008);
- Improvement of business environment.



But Vietnam-Japan investment cooperation stood out as a remarkable feature since 2008:

- 2006: Vietnam-Japan joint statement towards strategic partnership for peace and prosperity in Asia.
- 2008: Vietnam-Japan Economic Partnership Agreement and ASEAN-Japan Comprehensive Economic Partnership were signed.
- 2009: Establishment of Strategic Partnership for Peace and Prosperity in Asia.
- 2014: Vietnam Japan Joint Statement on the Establishment of the Extensive Strategic Partnership for Peace and Prosperity in Asia.
- 2018: Various statements (June; October) to advance extensive strategic partnership.

Vietnam-Japan Joint Initiatives

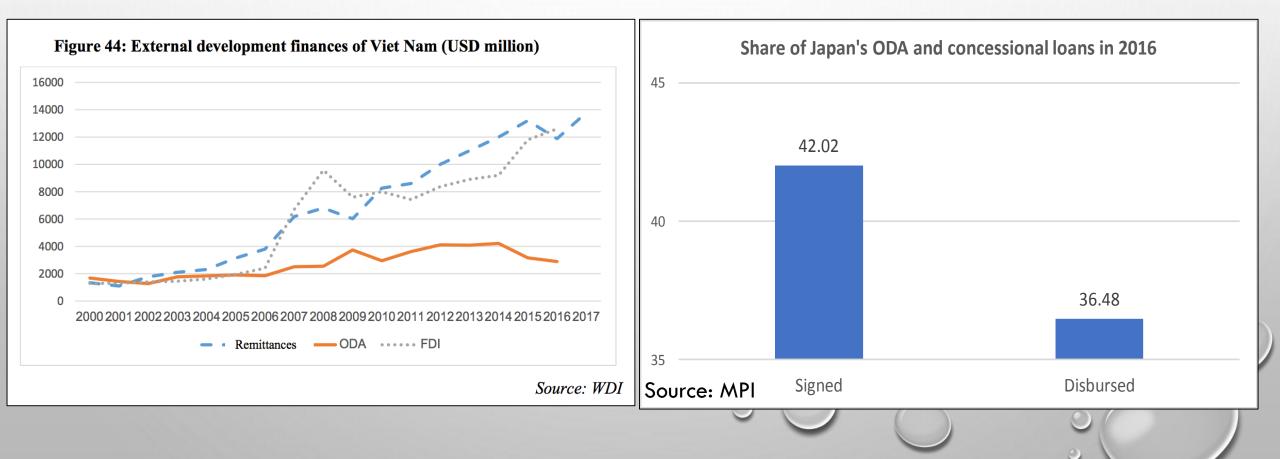
- Since April 2003, but intensified in the last 10 years.
- Aim to improve the business environment in Vietnam, with efforts ranging in various areas (regulatory frameworks; SOEs; industrial cooperation; labour and wages, etc.)
- 7th phase just launched in July 2018, focusing on 9 areas.
- Various dialogues and proposals to improve various aspects of Vietnam's business environment.
- Keidanren (Japan Business Federation), especially its Japan-Vietnam Economic Committee, plays an important role in implementation of Joint Initiatives.

Vietnam's Industrialization Strategy under the framework o Vietnam-Japan cooperation:

- Initiated in 2011 after Sendai/Fukushima incidents and flood in Thailand;
- Aims: To selectively develop industries that Vietnam has potential and Japanese investors have interest.
- 6 Sectors: food processing; agricultural machinery; environment and energysaving; automotive; electronics; shipbuilding;
- By 2015: All Action Plans to develop 6 Sectors were approved by the Prime Minister.
- But few efforts to implement Action Plans till 2017. Only renewed in 2018 as both sides renewed industrial cooperation?

Vietnam also sought external ODA and concessional loans to improve local economic infrastructures, thereby reducing cost of doing business for foreign investors

Japan's ODA plays an important role, not just a source of finance

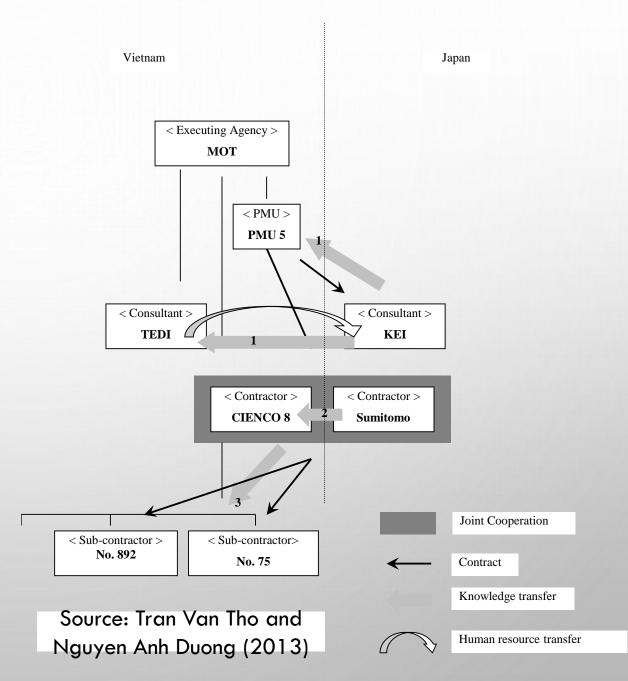


Potential transfer of knowledge (and other intangible assets) to Vietnam can be important:

 From foreign partners to local authorities in Vietnam;

 From foreign contractors to local contractors;

 From contractors to subcontractors



>Japan has been among the two largest investors in Vietnam for years

- Regained top spot at end of 2017, but ranked second again in early 2018
- Previously focused on manufacturing (automotives, electronics, etc.)
- But growing presence in Vietnam's agriculture and services recently.

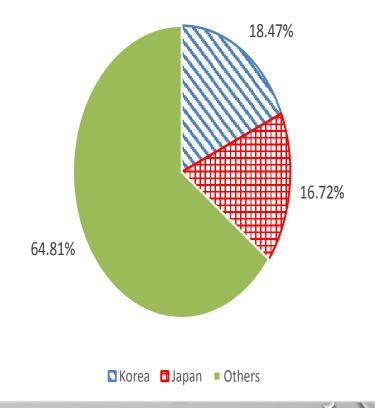
Source: JETRO (2018)

Japan S Ju	twaru r	ward I DI by country/region					(Million USD, %)		
	2015	2016	2017	Share	Percent change	Jan-May, 2018 (P)	Share	Percent change	
Asia	35,057	13,745	38,266	22.7	178.4	19,830	32.1	59.9	
China	10,011	9,453	9,679	5.7	2.4	3,914	6.3	14.4	
South Korea	1,593	1,626	1,700	1.0	4.5	1,061	1.7	153.7	
ASEAN	20,920	-5,340	22,011	13.1	-	12,214	19.8	88.9	
Singapore	7,010	-18,581	9,677	5.7	-	7,326	11.9	305.2	
Thailand	4,057	4,632	4,724	2.8	2.0	2,724	4.4	18.7	
Indonesia	3,213	2,957	3,388	2.0	14.6	1,136	1.8	5.9	
Malaysia	2,918	1,394	935	0.6	-32.9	∆ 347	-		
Philippines	1,531	2,319	1,006	0.6	-56.6	257	0.4	-54.9	
Vietnam	1,446	1,672	2,001	1.2	19.7	888	1.4	8.2	
India	-1,041	4,105	1,060	0.6	-74.2	1,579	2.6	72.5	
North America	51,451	53,327	52,879	31.4	-0.8	302	0.5	-98.6	
US	50,218	52,584	51,981	30.8	-1.1	△ 1,330	-		
Latin America	6,973	27,965	10,950	6.5	-60.8	15,156	24.6	56.7	
Mexico	1,229	1,872	1,201	0.7	-35.9	677	1.1		
Brasil	-193	898	-3,593	-	-	923	1.5		
Oceania	6,669	6,344	3,185	1.9	-49.8	3,030	4.9	1055.3	
Australia	5,676	4,696	2,213	1.3	-52.9	2,568	4.2		
Europe	36,081	72,157	59,536	35.3	-17.5	22,564	36.6	-38.1	
EU	35,785	69,122	56,845	33.7	-17.8	20,328	33.0	-43.5	
UK	13,979	49,983	21,628	12.8	-56.7	12,246	19.9	-2.6	
World	138,428	173,855	168,587	100.0	-3.0	61,692	100.0	-24.0	

Japan's outward FDI by country/region

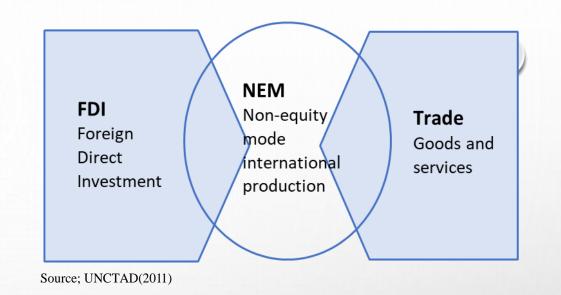
Note: 1) The yen-based value is converted to dollars by quarter, using the average quarterly Bank of Japan interbank rate.

2) For after 2014, figures reflect the annual revision. 3) The cumulative total for 2018 is a preliminary figure. Source: "Balance of Payment Statistics" (Ministry of Finance, Bank of Japan). Share in registered FDI (valid till 20/10/2018)

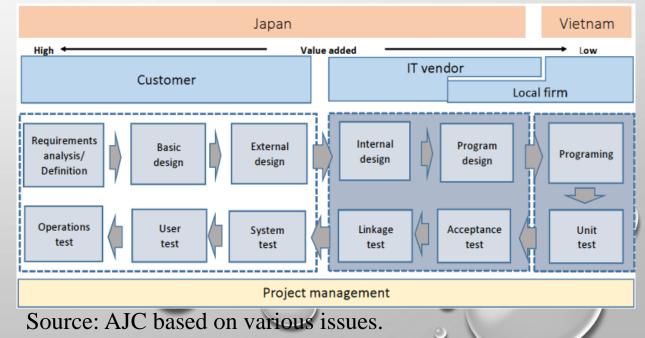


Non-equity modes (NEMs) of
 trade emerge, which shows that
 Vietnam-Japan investment
 cooperation was somehow
 underestimated.

- In various sectors (electronics, garment, IT-BPO, agriculture, infrastructure, retail, education, etc.)
- NEMs offer test cases before fullscale entry of TNCs in Vietnam
- NEM can play a major role in engaging VN in international production networks



Offshoring to Viet Nam IT firms from Japan



Description of selected non-equity modalities, including examples of typical industries, in Viet Nam

Modality	Description (in the international context)	Typical industries	Company examples	
Subcontracting	Agreement whereby a TNC contracts out to a host- country firm one or more aspects of product design, processing or manufacturing. Includes contract manufacturing and design, outsourcing in the case of services or business processes.	 Electronics Garments Automotive IT 	ASTI Elec. AGV NGK EVOLABLE Asia Vitalify Asia	
Contract farming/ contract mining	Agreement between a TNC buyer and host-country farmers/miners (including governments), which establishes conditions for the production and marketing of farm/mining product or products	AgricultureFishery	CCL Products CP Group	
Licensing	Contractual relationship in which a TNC (licensor) grants to a host country firm (licensee) the right to use an intellectual property (e.g. copyrights, trademarks, patents, industrial design rights, trade secrets) in	o Foodo IT-BPO	Chikaranomoto Qualcomm (PCB Graph Tech)	
	exchange for a payment (royalty). Includes brand licensing, product licensing, process licensing. [Nb. Cross-licensing, intra-firm licensing.]	• Pharmaceutical	Innovus (Densmore)	
Franchising	Contractual relationship in which a TNC (franchisor) permits a host country firm (franchisee) to run a specified business modelled on a system developed by	RetailEducation	Family Mart/JUMBO Cohas Kids	
Management contracts	the franchisor in exchange for a fee.Agreement under which operational control of an assetin a host country is vested in a TNC contractor thatmanages the asset in return for a fee.	 Tourism and hospitality 	Regent Hotel (BIM), Hilton (BRG)	
Other e.g. build-operate- transfer (BOT) and the like	Includes concessions, lease agreements, BOT arrangements, etc., in the context of public-private partnerships.	o Infrastructure	JEXWAY, NPC EVN	

Source: AJC.

3. Opportunities

Investment cooperation with Japan helps build productive capacity for Vietnam's exports via:

Direct exports;

- Spillover to domestic firms (Nguyen et al 2018: 1% increase in implemented FDI raises export growth of domestic firms by 0.15 percentage point in short term and 0.69 percentage point in long term);
- Engagement in international production networks;
- Improved trade-related infrastructures (road, port, etc.)

•Opportunities from FTAs that involve both Japan and Vietnam:

• Satisfaction of ROO requirement for preferential tariff.

>In current context of trade war:

- Foreign investors consider switching away from China to Vietnam
- ... But Japanese investors already have advantages compared to others (Japanese business connections, acknowledged Vietnam-Japan collaboration, etc.)



Improving capacity for industrial policy

- Vietnam is yet to have a national industrial policy (Decree 23 of Politburo only sets out "directions to formulate national industrial policy");
- Approach and process to identify and formulate action plans to develop 6 industries under Vietnam's Industrialization Strategy under the framework of Vietnam-Japan cooperation: still a good example for industrial policy formulation in Vietnam.
- But also need cooperation in action...



Momentum to improve business
Output

- Leverage support to on-going reform initiatives of the Government (e.g. Resolution 19).
- Inputs/comments from Japanese investors on areas of business environment that can be improved.

 Various publications/surveys over Japanese enterprises operating in Vietnam and other Asia-Pacific countries: can also be practical benchmark for Vietnam to consider actions.



2017 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

December 21, 2017

Asia and Oceania Division

China and North Asia Division

Overseas Research Department

4. Issues

Still room for improving linkage between Japanese and Vietnamese enterprises...

• Vietnam not so active (often see identified actions as project-driven).

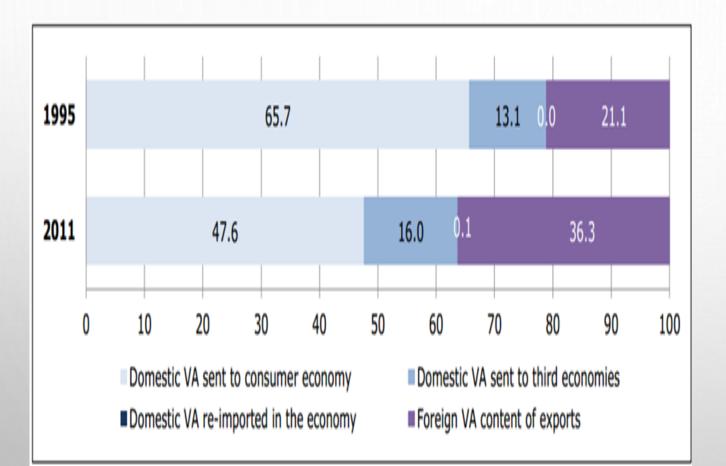
➢Vietnam's business environment still has some issues commonly recognized by both Vietnamese experts and Japanese business community (e.g. increase in wage, etc.).

Investment collaboration may be beyond Vietnam-Japan framework

• Eg. recent improvement in China-Japan economic relations.

In plurilateral FTAs (e.g. CPTPP)

Various complaints about share in export, but what does Vietnam actually gain?



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➤"During 1995-2011:
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 Foreign VA contents of Vietnam's exports rose from 21.1% to 36.3%;

But Viet Nam's exports rose by 17.8 times.

5. Recommendations

➢Fostering linkages between Vietnamese and Japanese enterprises

- Not just for Vietnam's local capacity, but also for economic benefits and social image of Japanese investors in Vietnam.
- Non-equity modes of trade should be encouraged.
- But Vietnam must be more active (not just seeking projects to implement identified actions).
- And Vietnam must change attitude in global value chains (not the share; only the growth in values matter) – "Smaller share of a bigger pie"

Cooperation in multilateral mechanism to promote and facilitate investment

- WTO and plurilateral FTAs (CPTPP, RCEP, etc.)
- APEC, ASEM, etc.
- Sub-regional initiatives (e.g. GMS)

Continuous and meaningful dialogues on investment-related matters

- Reforms of business environment;
- Vietnam's need for capacity building;
- Need for developing economic infrastructures in Vietnam?
- Possibility of Vietnam engaging in triangular development cooperation led by Japan?

THANK YOU