

Czech University of Life Sciences Prague
Faculty of Economics and Management
Department of Economics



Bachelor Thesis

**Attracting FDI from Japan to Vietnam
in economic crisis**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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Faculty of Economics and Management

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Economics and Management

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Attracting FDI from Japan to Vietnam in Economic Crisis

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Analysing current status of attracting FDI from Japan to Vietnam in the global economic crisis and proposing solutions to enhance and improve FDI from Japan to Vietnam

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Declaration

I declare that I have worked on my diploma thesis titled "Attracting FDI from Japan to Vietnam in economic crisis" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any third person.

In Prague on

MAI TIEN HOAN

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**Attracting FDI from Japan to Vietnam in economic
crisis**

**Přiliv Japonských přímých zahraničních investic do
Vietnamu**

Summary

Foreign direct investment (FDI) has important role in developing economics. It acts as the key to development, strategic solution to resolve the conflict between high demand of capital for process of industrialization – modernization and scanty domestic capital. Attracting FDI activities are always focused by Vietnamese government, especially attracting FDI from Japan – the largest FDI investor which invests to Vietnam. The economic crisis in 2008 has impacted significantly in attracting FDI not only from Japan but also from other investors to Vietnam. This bachelor thesis aims to analyse current situation and propose solutions to improve FDI from Japan to Vietnam in the global economic crisis.

Souhrn

Přímé zahraniční investice (PZI) hraje důležitou roli v rozvoji ekonomiky. Je to klíčem k rozvoji, strategické řešení k vyřešení konflikty mezi vysokou poptávkou kapitálu pro proces industrializace - modernizace a sporým domácím kapitálu. Přilákány PZI aktivity jsou vždy zaměřeny pomocí vietnamské vlády a to zejména přilákat PZI z Japonska - největší PZI investora, který investuje do Vietnamu. Hospodářská krize v roce 2008 má významně vliv na přilákání PZI nejen z Japonska, ale z jiných investorů do Vietnamu. Cílem této bakalářské práce je analyzovat současnou situaci a navrhnout řešení pro zlepšení PZI z Japonska do Vietnamu během globální ekonomické krize

Keywords: Vietnam, Japan, Foreign Direct Investment, FDI, global economic crisis 2008, investment, economics

Klíčová slova: Vietnam, Japonsko, investice, ekonomika, Přímé zahraniční investice, PZI

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INTRODUCTION

Nowadays, Foreign Direct Investment (FDI) has an important role in developing economy. Demand for investment of countries is very large, it leads to competition between countries in obtaining for capital. Attracting FDI has become an important mission for all countries, especially for developing countries like Vietnam. FDI has an important role like the key for national economic development, a solution to resolve domestic capital inadequateness problem. After joining World Trade Organization (WTO) Vietnam has attracted large amount of FDI from other countries, especially from Japan. Japan has become the country which invests the largest amount of FDI to Vietnam. As the largest ODA and FDI provider to Vietnam, investment from Japan is especially important for Vietnamese economic development. Japan provides not only capital but also sources of technology and management skills to Vietnam. Because of that, attracting FDI from Japan to Vietnam is always one of the most important focus in attracting FDI strategy of Vietnam. . But the global economic crisis in 2008 was a main reason that affected attraction of FDI not only from Japan but also from other countries to Vietnam. With these reasons, I decided to choose topic: *“Attracting FDI from Japan to Vietnam in economic crisis”* as my bachelor thesis.

A) The aim and mission of the study:

- Proposing solutions to enhance and improve FDI from Japan to Vietnam in global economic crisis
- Analysing current status of attracting FDI from Japan to Vietnam based on that evaluate the advantages and disadvantages, the impact of FDI from Japan to Vietnam on economic – social.
- Analysing opportunities and challenges for attracting FDI from Japan in the context of the global economic crisis, propose solutions to improve FDI from Japan to Vietnam

B) Object, scope and research perspective:

- The object of the study is attracting FDI from Japan to Vietnam.

- The scope of the study is focused on status of FDI from Japan to Vietnam in economic crisis from 2008 to 2012 and impact of the economic crisis in 2008 to FDI from Japan to Vietnam.
- Research perspective: Macro

C) Structure of bachelor thesis:

The bachelor thesis includes: Introduction, conclusion, references and:

- Chapter 1: Theory and reasoning about attracting FDI from Japan to Vietnam
- Chapter 2: Situation of attracting FDI from Japan to Vietnam in the global economic crisis from 2008 to 2012.
- Chapter 3: Solutions to increase and promote FDI from Japan to Vietnam in the global economic crisis context.

CHAPTER 1

THEORY AND REASONING ABOUT ATTRACTING FOREIGN DIRECT INVESTMENT (FDI) FROM JAPAN TO VIETNAM AND THE NECESSITY OF ATTRACTING FDI FROM JAPAN TO VIETNAM

1.1 Definition, characteristics and forms of foreign direct investment (FDI) and definition of global economic crisis.

1.1.1 Definition of foreign direct investment, global economic crisis and attracting foreign direct investment

1.1.1.1 Foreign direct investment (FDI) and global economic crisis

According to Businessdictionary.com, global economic crisis is “a situation in which the economy of a country experiences a sudden downturn brought on by a financial crisis. An economic facing an economic crisis will most likely experience a falling GDP, a drying up of liquidity and rising/falling prices due to inflation/deflation. An economic crisis can take the form of a recession or a depression.”⁽¹⁾

According to Organization for Economic Co-operation and Development (OECD) and International Monetary Fund (IMF)⁽²⁾:

"Foreign direct investment (FDI) is the category of international investment that reflects the objective of a resident entity in one economy to obtain a lasting interest in an enterprise resident in another economy". Lasting interest in this case implies the existence of a long-term relationship between enterprise in hosting country and enterprise on source country.

According to Vietnamese foreign investment law:

¹ Source: Businessdictionary.com

²Source: The Organization for Economic Cooperation and Development (OECD) Glossary of statistical terms

“FDI is that foreign investors invest capital into Vietnam by money or any assets to carry out investment activities according to the provisions of this law". Foreign investors in this case are understood as economic organizations, foreign individuals who invest to Vietnam.

From these definitions, we can understand FDI:

“FDI is the movement of capital, assets, technologies or any other assets from source country to hosting country to establish or control enterprise for making business profit".

1.1.1.2 Attracting foreign direct investment

Attracting FDI depending in the world are growing strongly with many methods and forms depend on the characteristics of each country. These methods and forms aim to build a favorable environment in order to create conditions not only for foreign investment but also domestic investment (capital contribution of the hosting country in the joint-venture. Attracting FDI is a form of importing capital (for hosting country) and exporting capital (for source country), a higher level form of import and export goods.

1.1.2 Characteristics of foreign direct investment

FDI is also an investment activity, because of that; FDI has basic characteristics of general investment activities:

- Investment is financing activities, so the first investment decisions are financial decisions.
- Investment activities are long-term activities.
- Investment always has costs and results.
- Investment activities are activities which always are considered between short-term benefit and long-term benefit.
- Investment activities are high-risk activities.

FDI also have specific characteristics:

- Foreign investors directly operate and control capital objects. This characteristic distinguishes FDI with foreign indirect investment (FII)

(for the FII, investors are not involved in business management. Investors only contribute a capital proportion according to law).

- Investors who participate in FDI project have different nationalities, different cultures and speak different languages. Therefore, conflicts occur in FDI enterprise between investors and labour of foreign and hosting countries
- FDI activities are under control by multiple legal systems including the law of related countries and international law.
- Most foreign investments are related to four factors: trade activities, technology transfer, international labour migration, transfer business management skills in many forms and different level.
- FDI associated to the process of international economic integration. Policies about FDI in hosting country express policies and perspectives of international economic integration in that country.

1.1.3 Forms of foreign direct investment

Investors use forms of FDI to switch their capital ownership (in cash or assets) in a country to ownership and management or control an economic entity in another country. All the ways to mobilize FDI from outside hosting country of all the ways investors use their capital to get ownership and management economic entity in other country are considered forms of investment.

In addition to major investment forms has existed for example: In business cooperation based on contract, joint venture enterprise, enterprises with 100% foreign capital; in recent years, because of development of science and technology and the globalization, there are many new forms that have been applied by enterprises in Vietnam. Forms which are allowed to apply in Vietnam are:

- Business cooperation based on contract.
- Joint venture enterprise.
- Enterprise with 100% foreign capital.
- Building – operate – transfer contract (BOT)
- Building – transfer – operate contract (BTO)
- Building – Transfer contract (BT)

- Mergers and acquisitions
- The parent company – subsidiary
- Branch of foreign company

1.2 IMPACTS OF FDI ON HOSTING COUNTRY

1.2.1 Positive impacts:

Nowadays, FDI plays an important role for the economic development of many countries in the world, not only developing country but also developed nation. On developing country, including Vietnam, FDI has been considered as one of the leading resources for economic growth and promotion of export. These goals can be achieved through specific roles of FDI for hosting country:

- FDI supplement capital resources to economic. Domestic capital resources, particularly in developing countries and less developed countries are inadequate to develop industries such as industrial, agricultural,... etc.
- FDI provides technologies for economic development. Technologies can be transfer from parent company to subsidiaries in hosting countries; it makes scientific and technical qualification in hosting country increase. On the other hand, during application technologies from foreign companies, domestic enterprises can get more knowledge and based on that improve technologies to suit condition of hosting country.
- FDI improve human resources development and job creation. These are two important factors for growth and economic stability. Foreign investors are particularly interested in cheap labour in hosting countries. In addition, provision of services activities and processing for FDI enterprises can create jobs and employment opportunities for local residents. FDI also contributes to improvement of quality of human resources in hosting country through education and health investment projects in

- FDI contributes by expanding market and promoting export. Export is an important factor of economic growth. Hosting countries have opportunities to access to the world market through FDI, because most FDI activities are carried out by transnation corporations (TNCs). In developing countries, TNCs play an important role in expanding export due to their position and prestige in production system and international trade.
- FDI promotes process of economic restructuring in hosting country in accordance with the trend of world economy. FDI is reason for appearance of many economic areas and sectors. FDI contributes to improvement in level of technology and labour productivity in many economic sectors.

1.2.2 Negative impacts

- Negative impact on competition. In developing countries, including Vietnam, domestic enterprises are hard to compete with foreign companies because of inferior capital, technology, management level and business capability. Therefore, when hosting country attract FDI much more than capacity into a sector, domestic enterprises have little chance to develop because they can not compete with foreign enterprises in that sector and this leads to bankruptcy or acquired. The economy in this hosting country risks losing the autonomy by having to depend on FDI.
- Negative impact on the national balance payments. FDI flows can increase debt in current balance due to two issues:
 - ❖ Contrary to the capital inflow into country is outflow of income to abroad by company, foreign experts.
 - ❖ Foreign enterprises have to import production inputs such as machines, equipment, raw materials, auxiliary products...
- The issue of technology transfer. Technologies which are transferred are usually not new technologies, they may be outdated. Foreign companies do not transfer new technologies because of competition.

- In addition, FDI has other negative impact on hosting country such as tax evasion, fraud in business, environment pollution...

In summary, FDI can cause economic instability on hosting country. However, no one can deny the important role of FDI for economic development. Its positive impacts are larger than negative impacts. Because of that, all countries in the world are seriously considering FDI as very important factors for national development. The problem is how to promote maximum benefit from FDI and limit its negative impacts on economic – living – society.

1.3 Factors which impact on FDI from Japan to Vietnam in Economic crisis

The economic crisis started in the United States in early 2008 and spreaded globally, leading to simultaneous tumble of many financial institutions, the stock market instability, economy of many developed countries fell into recession. November 2008, Japan announced recession, Economic activities decreased.

1.3.1 The trend of foreign investment in Japan

Japan is a resource-poor country with aging population. These are reasons why abroad direct investment plays particular important role for economic development in Japan. Since 1974, Japan has focused on FDI activities to take advantage of cheap labour and access to abundant raw material in hosting countries. Through FDI activities, Japan can transfer technology to extend product life, increase profit and avoid protectionist barriers in hosting countries.

In recent years, Japanese economy has faced difficulties in many areas, especially in the context of global economic crisis. Abroad investment activities of Japan are certainly affected significantly. The trend of Japanese FDI is:

1.3.1.1 Southeast Asia market

In addition to traditional markets such as North America and European Union (EU), Southeast Asia is also particularly important for foreign investment in Japan.

Maintain and expand the traditional markets trend will be processed in the next period of Japanese FDI plan. Because Japanese investors when invest to hosting countries carry a portion of production capacity, contribute to development of the hosting country market and create a network not only in one country but also on the world.

The FDI flow of Japan into Asia accounted about 23% of total Japanese abroad investment⁽³⁾. In the future FDI flow from Japan into Asia, especially into Southeast Asia will continue increase due to high growth of this region. This trend is a great opportunity of Vietnam to improve attracting FDI from Japan.

1.3.1.2 Exploitation and investment in new industries and areas

Japan advocated exploiting the fields which they has potential and strength. Therefore, the manufacturing sector has always occupied leading position in the structure of FDI of Japan. In the next period, besides exploiting new areas such as information technology, Japan also has plan investing in new sectors such as auxiliary industry in Vietnam.

1.3.2 Political – economic relationship between Vietnam – Japan

Vietnam and Japan have established diplomatic relations since 21/09/1973. But the relationship between Vietnam and Japan has really grown rapidly since 1992 in many fields including economics, politics, and diplomacy when Japan decided to reopen aid to Vietnam.

1.3.2.1 In political relationship:

Every year, senior leaders of Vietnam and Japan have exchanged visits to promote relationship between two countries under the motto: “reliable partnership and long-term sustainability”. Two sides also signed a joint statement: "Reaching new heights of sustainable partnership" in July 2004. The relationship between two countries has grown in stages: from “towards a strategic partnership for peace and prosperity in Asia” to “Deepening the relationship between Vietnam and Japan” and “The cooperation towards strategic partnership”.

Vietnam and Japan have built not only mechanism for dialogue at many levels such as level of foreign ministers, deputy minister of foreign affairs but also mechanism for dialogue in economics, security and national defense. In May 2007, two sides established Vietnam – Japan cooperation committee, the ministers of foreign affairs of two countries are co-presidents. Japan supports the renewal of

³ Source: Japan External Trade Organization

Vietnam and the integration of Vietnam into global economy. Vietnam and Japan support each other in important international forum, including the United Nation.

1.3.2.2 In economic relationship:

The main export products of Vietnam are aquatic products, textiles, oil, wood, etc. The main import products are mechanical, steel, electronics, motorcycles, textile materials, etc. in 2008, total two-way trade reached a record nearly \$17 billion⁽⁴⁾. Vietnam and Japan signed Vietnam – Japan Economic Partnership Agreement (VJEPA) in 25/12/2008. This agreement will create a legal framework for the development of economy both in Vietnam and Japan.

Japan is the largest ODA donor for Vietnam. From 1992 to 2007, Japan had aided to Vietnam about \$13 billion, including non-refundable aid is about \$1.5 billion. Two sides agreed program of aid to Vietnam from Japan on 5 main areas:

- Human resources development and institution building.
- Constructing buildings and electric transportation.
- Developing agriculture and construction of rural infrastructure.
- Developing education and health.
- Protecting environment.

On 06/02/2004, Japan announced a new ODA policy for Vietnam with 3 main objects:

- Promoting growth
- Improving life living – society
- Completing institution

With the good relationship between 2 countries, Japan will undoubtedly continue to be one of the most important partners of Vietnam, especially in the field of foreign direct investment.

1.3.3 Factors from Vietnam

In the context of the global economic crisis, Vietnam has had significant impact. In 2008 when the economic crisis started, GDP of Vietnam was 6.23%, decrease 2.25% from 2007 and was the lowest GDP in recent 20 years. The reason is the decline of

⁴ Source: Vietnam Report

export, foreign investment, tourism, etc. Japan continued to be largest FDI investor to Vietnam because stable investment environment in Vietnam.

❖ The stability of politics, society and legal investment.

This is the condition to reduce the risk of politics and economics when FDI capital is beyond the control of source country. Political and social environment is manifested in:

- The stability of politics
- The stability of social security
- Openness policy
- Fair and equitable treatment
- Good international relationship

Vietnam has been recognized as a country which has high level of political – social stability. Political Economic Research Center (PERC) ranked Vietnam as a country which has the most stable in politic-society in the region.

❖ Attractiveness of policy system to encourage foreign investment.

Vietnam has many incentive policies for foreign investors in tax, financial credit, real estate, etc. Trade policy is gradually more open towards liberalization and decrease purchasing procedures. Vietnam always expresses the interest, particularly for foreign investors.

❖ The quality of cheap labour increases.

This is one of the most important reasons why Japanese investors decide to invest to Vietnam. Hourly labour cost in Vietnam is almost the cheapest compared to other countries in the region. Besides, the quality of labour is also increasingly improving thanks to the efforts of education, health care, and the support of other countries.

❖ The effect of Japanese FDI projects which were implemented.

In fact, Japanese FDI projects in Vietnam are highly effective as compared to many Japanese investment projects in other countries, and compared to the projects of other investors in Vietnam. The reason is efforts from Vietnam and serious working style, dynamic management of Japan.

In summary, with the factors from both sides as presented, although FDI from Japan to Vietnam is affected by the economic crisis, it will continue to increase in the future because of efforts of both sides.

1.4 Necessity of attracting FDI from Japan to Vietnam.

1.4.1 The needs for development of economics in Vietnam.

The needs for development of economics in Vietnam are not only capital but also technology, labour, investment environment and factors driving the restructuring of the economy and help Vietnam integrate to world economic.

Technology: Technology of Vietnam is now much obsolete when compared to many countries in the region. Although in the period 1993 – 2002 and 2003 – 2012, Vietnam had achieved encouraging results in improving the effects of growth factors (total factor productivity (TFP) including technology) from 18% to 25.5% in the next period, but this rate was still much lower than other countries in the region.

Country	Percentage contribution of TFP (%)
Developing countries	60-75
Thailand	36
Taiwan	35
South Korea	32.2
Indonesia	28
Vietnam	25.5

Table 1 Percentage contribution of total factor productivity (TFP) in economic growth of some countries in East Asia in 2012⁽⁵⁾

Needs for technology development in economic sectors of Vietnam is imperative to complete the industrialization – modernization of the country, maintain high growth.

⁵ Source: Ministry of planning and investment portal

The foreign capital such as FDI, official development assistance (ODA) and efforts of Vietnam in investing and research will play an important role to achieve it.

Labour: The labour source of Vietnam is inherently abundant in quantity, but its quality is not very high, because of that, the contribution of this factor to the growth and development of economics in Vietnam is not large. The shortage of high-quality human resource is increasingly urgent in all economic sectors, causing significant difficulties for the development of these industries.

Investment environment: Vietnam is assessed as one of the most attractive investment environment in the area. According to this criterion, The Japan bank for international cooperation ranked Vietnam in the third place after China and India. However, Vietnam still has a lot of restrictions in the investment environment, they may be significant impediments to economic growth and attraction of foreign investment such as poor infrastructure, the legal system has not been completed, lack of a great support industry.

Economic restructuring: Aiming for modernization and making Vietnam become an industrialized country in 2020, economic structure must be shifted towards industry – service – agriculture first.

International economic integration: This has shown an open economy, trade and investment are towards liberalization. The country's economy is increasingly linked to the world economics. The objective of Vietnam is to gradually engage the international division of labour and international specialization. To achieve this goal, Vietnam should focus on developing industries with comparative advantages, improve technology and production capacity of that sector.

As a poor country, Vietnam has a lot of demands to develop national economics. However, domestic resources can not meet all requirements. It needs to have "poked shots from outside" that can break the "vicious cycle of poverty". Because of that, FDI, especially FDI from Japan occupied important positions which can relay to Vietnam in economic – social development.

1.4.2 The role of direct investment from Japan to Vietnam

FDI source from Japan has particularly important meaning for Vietnam, because it provides a large amount of capital to develop economic sectors and because of following reasons:

- Japan has identified their strengths in industry. Japanese industrial products have high quality. Technological level and capacity management in manufacturing of Japan is leading the world. FDI projects of Japan are usually accomplished by transferring technologies. These technologies are not latest one, but they still contribute to raise technology level of Vietnam. These technologies has been improved to suit with conditions in Vietnam. Thus, they contribute significantly to economic growth in Vietnam.
- Japanese project investment in Vietnam has created jobs for a lot of workers. This not only contributes to reduction in unemployment but also improving the level of Vietnamese employee. Because workers in Japanese factories not only can access to new technology, modern management methods but also to be trained to suit the job.
- Japan invests to Vietnam mostly on industry, they focus on industries which Japan have advantages such as automotive assembly, electronic, chemicals, etc. This is an important factor contributing to economic restructuring in Vietnam towards increasing the proportion of industry.
- Japan is also the country which has many investment projects in infrastructure in Vietnam such as road construction, housing projects, etc. with huge amount of capital. Besides, the trend of Japanese investment in next period is investing to supporting industries in Vietnam. This will help improve investing environment, encourage foreign investors to invest in Vietnam, especially in industry.
- Comparing to the small economies emerging such as South Korea, Taiwan, most of the multinational companies in Japan have worldwide marketing and supply network. Products made in Japan won hearts and trust of consumers, companies and factories around the world.

FDI from Japan is one of the important driving force for economic development of Vietnam. It accelerates the processing of participating in the international division of labour. Attracting FDI from Japan has always been focused, especially in the context of the global economic crisis.

CHAPTER 2

SITUATION OF ATTRACTING FDI FROM JAPAN TO VIETNAM IN GLOBAL ECONOMIC CRISIS

FROM 2008 TO 2012

2.1 Methodology:

My bachelor thesis includes:

- ❖ Data collected from Vietnam Global Statistics Office and Japan external trade organization.
- ❖ Descriptive analysis.
- ❖ Ordinary Least Square Method (OLS method).
- ❖ Regression model analysis.
- ❖ Software using in my bachelor thesis : Microsoft Exel 2010 and Gretl.

2.2 Data analysis:

The table of FDI from Japan to Vietnam, Japanese export and exchange value of USD in VND from 2007 to 2012 you can see in the appendix.

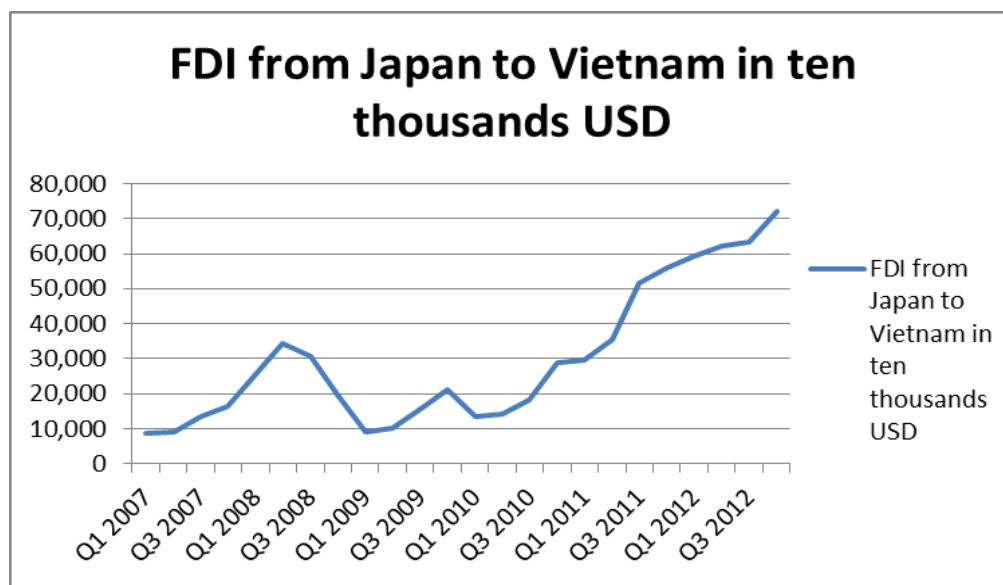


Chart 1 FDI from Japan to Vietnam in ten thousands USD from first quarter 2007 to fourth quarter 2012⁽⁶⁾

The chart 1 shows Vietnamese FDI from Japan to Vietnam from 2007 to 2012. In first quarter 2007, FDI from Japan to Vietnam was \$86 million and in fourth quarter 2007 was \$162 million, average FDI in 2007 was \$118.75 million. In first quarter 2008, The FDI was \$254 million, increased \$168 million compared to first quarter 2007. In second quarter 2008, the FDI increased to \$342 million and after that decreased quickly to \$92 million in first quarter 2009, decreased \$162 million compared to the same quarter 2008. The reason for this decreasing is influence of economic crisis had started from 2008. Average FDI decreased from \$274.5 million in 2008 to \$104.75 million in 2009. In first quarter 2010, the FDI was \$ 135 million, lower than \$221 million in fourth quarter 2009 but increased \$43 million compared to the same quarter in 2009. Average FDI increased to \$187 million. FDI from Japan to Vietnam increased quickly in 2011. In first quarter 2011, FDI was \$ 296 million, higher than fourth quarter 2010 (\$289 million) and increased \$161 million compared to first quarter 2010. Average FDI in 2011 was \$431.25 million increased \$224,25 million compared to 2010. FDI from Japan to Vietnam continued increase in 2012, in fourth quarter 2012, FDI was \$720 million, higher than total FDI in 2009 (\$563 million).

⁶ Source: Vietnam general statistics office

FDI from Japan to Vietnam decreased in 2009 because of influence of global economic crisis in 2008. But from 2010, FDI has increased and grew quickly in 2011. In 2012, FDI still keeps increasing.

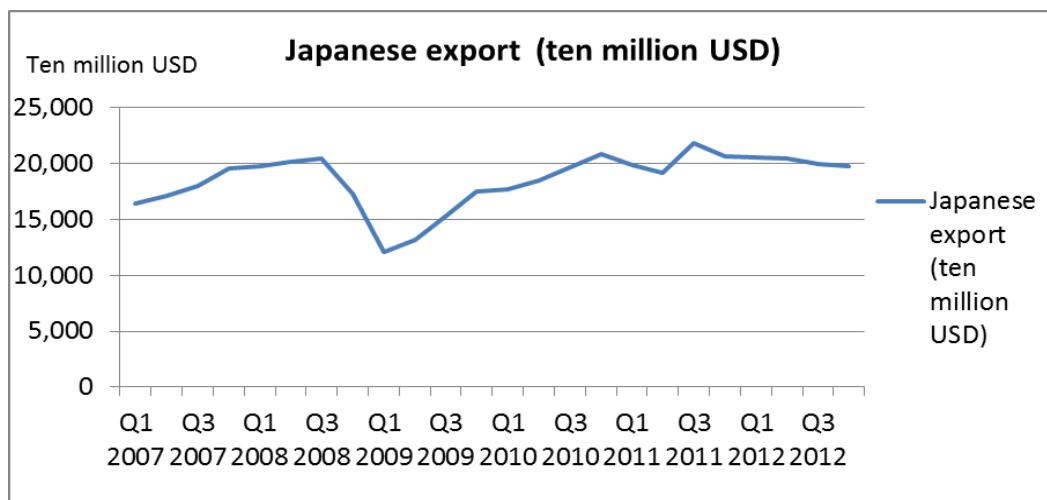


Chart 2: Japanese export from first quarter 2007 to fourth quarter 2012⁽⁷⁾

In first quarter 2007, Japanese export was \$163,950 million, it increased to \$195,910 million in fourth quarter 2007. It was \$197,150 million in first quarter 2008, increased \$33,200 million compared to the same quarter in 2007. Japanese export continued increase to \$204,440 million in third quarter 2008, after that decreased quickly to \$120,870 million in first quarter 2009 (lowest since first quarter 2007). Meanwhile, global economic crisis has started and spreaded globally. In second quarter 2009, the export increased back to \$131,280 million. It was still lower than the same quarter in 2008 but higher than first quarter 2009. Japanese export continued to increase \$208,630 million in fourth quarter 2010. This export index was highest since 2007 and increased \$333,200 million compared to the same quarter in 2009. In third quarter 2011, the export index was \$218,340 million. From fourth quarter 2011 to fourth quarter 2012, Japanese export had kept stable, the export index was around \$200,000 million.

From first quarter 2007 to third quarter 2008, Japanese export had increased year by year. But global economic crisis in 2008 had impacted on Japan had make it decrease

⁷ Source: Japan external trade organization

in a period of early 2009. But from the second quarter 2008, Japanese export has started to increase gradually.

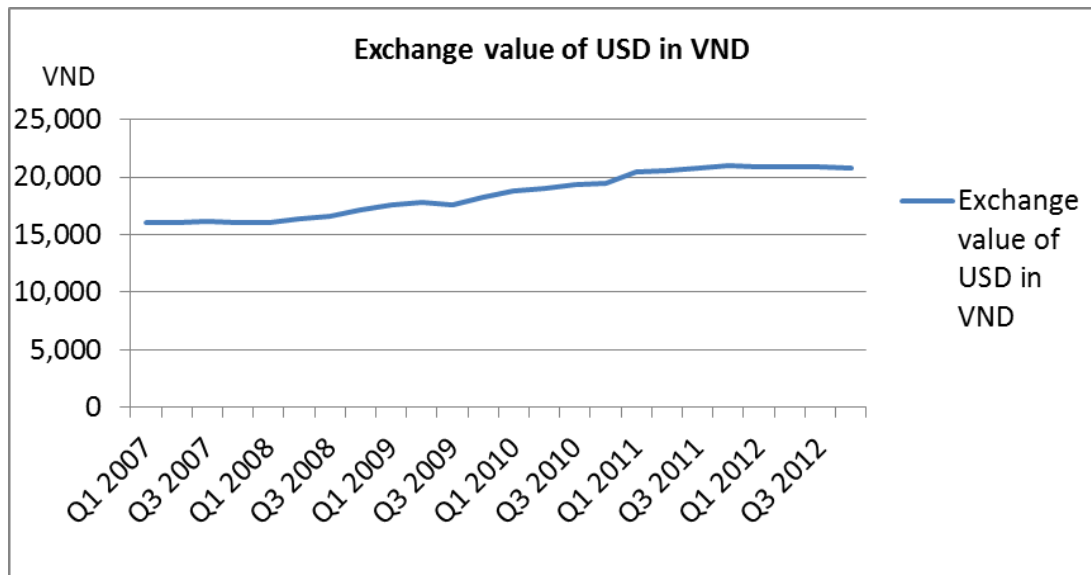


Chart 3 Exchange value of USD in VND from 2007 to 2012⁽⁸⁾

Exchange value of USD in VND increased year by year. In first quarter 2007, exchange value of USD in VND was \$1 = 16,008 VND. The value of USD in VND increased gradually to 16,632VND in the third quarter 2008 and after that went up rapidly to 17,136 VND in the fourth quarter 2008. The exchange value of USD in VND continued to increase year by year. In the first quarter 2011, The exchange value of USD in VND was 20,410 VND and in the fourth quarter 2012, the exchange value was 20,821 VND.

2.3 Hypothesis:

H_0 : The economic crisis in 2008 has had significantly negative impact on FDI from Japan to Vietnam.

2.4 Regression analysis

Supposing that FDI from Japan to Vietnam per quarter depends on Japanese export value and exchange value of USD in VND. We will have the model formulation:

⁸ Source: XE.com Inc.

FDI from Japan to Vietnam quarterly	Japan export value	Positive
	Value of USD in VND	Positive

The Regression model:

$$y_t = \beta_0 + \beta_1 x_{1t} + \beta_2 x_{2t} + \varepsilon_t$$

With:

y_t : FDI from Japan to Vietnam in ten thousand USD	β_0 : Constant value
x_{1t} : Japanese export value in ten millions USD	β_1, β_2 : Coefficients
x_{2t} : Value of USD in VND	ε_t : Random error

After calculation using GRETL program, we have OLS method results:

Model 1: OLS, using observations 2007:1-2012:4 (T = 24)
Dependent variable: FDI_from_Japan_to_Vietnam_in_ten_thousands_USD

	coefficient	std. error	t-ratio	p-value

const	-141281	25365.7	-5.570	1.58e-05
Japanese_export_~	3.26955	1.12232	2.913	0.0083
Value_of_USD_in_~	5.97005	1.41698	4.213	0.0004
Mean dependent var	29912.50	S.D. dependent var	20021.28	
Sum squared resid	2.88e+09	S.E. of regression	11714.89	
R-squared	0.687403	Adjusted R-squared	0.657632	
F(2, 21)	23.08959	P-value(F)	4.98e-06	
Log-likelihood	-257.2989	Akaike criterion	520.5979	
Schwarz criterion	524.1320	Hannan-Quinn	521.5355	
rho	0.980920	Durbin-Watson	0.237815	

According to this result, we have the estimate model:

$$y_t = -141281 + 3.26955x_{1t} + 5.97005x_{2t}$$

That means :

- If the value of Japanese total export per quarter increases by 10 million USD, FDI from Japan to Vietnam will increase by 32,700 USD.
- If the exchange value of USD in VND increases by 1 VND, FDI from Japan to Vietnam will increase by 5.97 USD.

2.5 Hypothesis testing of parameters:

- H_0 : The parameter x_1, x_2 are not statistically significant. (FDI from Japan to Vietnam does not depend on Japanese export and exchange value of USD in VND).
- H_1 : The parameter x_1, x_2 are statistically significant. (FDI from Japan to Vietnam depends on Japanese export and exchange value of USD in VND).
- Conditions to accept or reject H_0 :
 - Two – tailed t-test: Reject H_0 and accept H_1 if:
 - $|t\text{-stat}| \geq t\text{-critical}$, otherwise accept H_0 with $t\text{-critical} = t_{\alpha/2}(n-p)$
 - P-value examination: Reject H_0 and accept H_1 if the parameter's p – value $\mu_t \leq \alpha$ otherwise accept H_0 .
- Statistical verification:

Two – tailed t-test:

Parameter	t-stat ($\alpha=0.05$)		T-critical ($t_{\alpha/2}(n-p) = t_{0.025}(24-3)=2.080$)
$\beta_1 = 3.26955$	2.9132	>	2.080

Verification: Reject H_0 parameter significantly affects the value of y_t or Japanese export value affects significantly negative FDI from Japan to Vietnam.

Parameter	t-stat ($\alpha=0.05$)		T-critical ($t_{\alpha/2}(n-p) = t_{0.025}(24-3)=2.080$)
$\beta_2 = 4.66336$	4.2132	>	2.080

Verification: Reject H_0 parameter significantly affects the value of y_t or exchange value of USD in VND affects significantly negative FDI from Japan to Vietnam

P-value examination:

Parameter	μ_t		α
$\beta_1 = 3.26955$	0.00831	<	0.05

- Verification: Reject H_0 , parameter significantly affects the value of y_t or Japanese export value significantly affects negative FDI from Japan to Vietnam

Parameter	μ_t		α
$\beta_2 = 4.66336$	0.00039	<	0.05

- Verification: Reject H_0 , parameter significantly affects the value of y_t or exchange value of USD in VND significantly affects negative FDI from Japan to Vietnam.

The hypothesis proved with two statistical verification processes, with 5% rate of making a type I error.

The statistical data shows that FDI from Japan to Vietnam depends on Japanese export value and exchange value of USD in VND. If Japanese export decreases or exchange value of USD in VND increases, FDI from Japan to Vietnam will decrease.

CHAPTER 3

SOLUTIONS TO INCREASE AND PROMOTE FDI FROM JAPAN TO VIETNAM IN THE GLOBAL ECONOMIC CRISIS CONTEXT

3.1 Opportunities and challenges from the global economic crisis

3.1.1 Opportunities:

Vietnam has suffered significant impacts from the global economic crisis such as the decline in GDP growth, foreign capital investment, increasing of unemployment, etc. However, Vietnam still has opportunities to attract FDI, particularly FDI from Japan:

- Vietnam has officially joined World Trade Organization (WTO) since January 11, 2007. The opportunities and benefits of joining WTO for attracting FDI have been captured by Vietnam. This is a great opportunity for Vietnam to improve investment environment, increasing the attractiveness for investors.
- The efforts of Vietnam in completing law, improving quality of infrastructure, human resources and incentive for projects with foreign investment in auxiliary industry such as: tax incentive, supporting land, etc. It has created new opportunities to attract FDI from Japan to auxiliary industry in Vietnam.

3.1.2 Challenges from the global economic crisis:

- The global economic crisis has made many economies including Japan fall into recession. A lot of enterprises, corporations reduced the scale of production. Therefore, it would be shrunk FDI source and directly affect Vietnam in near future because Japan is one of the biggest partners which invest to Vietnam. Japanese transnation corporation (TNCs) has been adjusting business strategies to cope with the economic crisis. The

strategic adjustment of TNCs impacted on both the potential projects and the project which have been licensed.

- Besides, the real income of major population was reduced by impact of high inflation in 2008. A part of employees lost their jobs because a lot of companies downsized production due to the difficulty of product output. This will be difficult to solve employment problem in the future.

3.2 Orientation for attracting FDI from Japan to Vietnam:

In near future, attracting FDI from Japan to Vietnam will be difficult. Therefore, orientation of attracting FDI should be changed appropriately in subjects, project size and form of investment, professions and fields of investment:

- **Objects:** The focus of attracting FDI is still traditional partners such as Japan. Vietnam should work directly with specific enterprises, economic groups to encourage them to invest to Vietnam with larger size and faster disbursement. In addition, Vietnam needs through economics groups to participate deeply to international cooperation and division of labour.
- **Sectors:** In the future, Vietnam should focus attracting FDI from Japan on high technology projects and sectors: information technology, electronics, chemicals, construction of industrial infrastructure, food processing. Transferring technology and advanced techniques.
- **Investment forms:** Conducting investment mobilization under new forms such as mergers and acquisitions, parent company – subsidiary, etc. Choosing key projects to mobilize particular economic group of Japan to invest. Promoting and supporting large Japanese projects which are currently in negotiation. Solving problems of Japanese companies when they invest and operate in Vietnam to create more confidence for Japanese investors.
- **Investment areas:** The photography of Vietnam is divided into different regions. Each region has specific advantages. In order to promote advantages of each region, government should have orientations of development for each region based on strengths and challenges of each local restriction. To attract more FDI from Japanese TNCs, Vietnam

needs to continue attract and expand FDI projects of TNCs into regions that have advantages to promote role of export processing zones, industrial parks and open economic zones. Encouraging development of cooperation in industry and service. Besides, we also need to promote Japanese TNCs to invest to areas that have difficult socio-economic condition such as Son La, Lai Chau, Cao Bang, Bac Kan, Nghe An, Ha Tinh, Quang Binh, Quang tri, etc.

In order to overcome challenges in global economic crisis, maintain stability in attracting FDI from Japan, Vietnam should follow orientations of attracting FDI which were proposed.

3.3 Solutions for improve attracting FDI from Japan to Vietnam:

3.3.1 Solutions related to policy:

Inadequate policies have caused a lot of difficulties for Japanese investors to access markets, regions with new forms of investment in Vietnam. Improving legal system is urgent, but if legal system is changed too rapidly without gradual steps it may cause confusing for investors. Because of these reasons, the solution related to policy should be done carefully and efficiently.

Continue to review laws and policies about investment and business in order to modify asynchronous and inconsistent contents. Supplementing incomplete contents and remove inconsistent things with WTO commitments:

- Issuing guidelines on post-inspection, supervision, FDI project management.
- Researching and promulgating legal documents related to new forms of investment in Vietnam to help investors be easy in application. These are rules of buying shares, shareholders management, etc. and forms of investment: Merger and acquisition, parent company and subsidiary, etc. Based on that, foreign investors will invest with greater capital, in variety of new forms. It also encourages new investors to invest to Vietnam.
- Management always needs coordination, harmonization of agencies in foreign investment management. However, the actual coordination

between ministries is still inadequate, due to lack of specific legislation on this issue. The immediate thing that needs to be done is to build legal documents on mechanism of coordination between agencies which are involved in specific sector.

Continue to complete phase II and preparation for phase III of Vietnam – Japan joint initiative to improve investing environment in Vietnam. In particular, there are some issues related to investment that needs to be noted such as:

- About the route for establishment of commercial presence and foreign trade company: Vietnamese government will follow the route of the agreement on promotion and protection of Japan-Vietnam investment in allowing to establish enterprise with foreign investment in manufacturing sector, trade and distribution, credit, insurance, telecommunication and advertising. Vietnamese Government also eases restrictions on functions of branch trading company, expands categories of imported-exported goods and reduces restrictions relating to import-export turnover according to route for regional and international integration.
- Improving competence of implementing agencies: ensuring transparency, uniformity and reliability. Improving management of intellectual property rights. Fighting against corruption and limiting frauds in import.

Disbursement and implementation capital of Japanese projects is very high compared to other investment partners. However, promoting of disbursement should be focused to ensure real capital sources for national development. Vietnam should continue to study and apply incentive policy, supporting and creating favorable conditions for disbursement of projects.

3.3.2 Solutions related to infrastructure:

Infrastructure of Vietnam is severely degraded. Transportation systems, electricity and water did not meet the demand of production and export of enterprises. That made business activities of enterprises face difficulties. This could discourage foreign investors, thus improving the infrastructure is extremely urgent.

- ❖ Transportation system:

- Vietnam needs to have plan to repair and upgrade new construction of roads, railways, etc.
- Besides roads and railways, Vietnam should pay attention on improving system of seaports and river ports. In fact, the current ports in Vietnam are mostly small harbour.
- Attracting actively FDI into transportation sector to supplement capital, technology for the construction of high quality buildings.

❖ Electricity system:

To build a competitive electricity market, Vietnamese government should gradually remove barriers to market entry for enterprises, especially foreign enterprises. Electricity pricing policy need to be adjusted to compete with other countries in the region, decline electricity price for production activities. Vietnamese government should coordinate with Japan to build power plants according to the route to ensure stable power source for production and life.

❖ Water system:

Vietnam should have properly policies about wastewater treatment and industrial waste:

- Building planings for recycling and disposing waste.
- Improving infrastructure of environmental companies that have responsibility to treat industrial waste.
- Checking and punishing fairly violating enterprises.

In fact, water resources of Vietnam have been polluted in different levels. Domestic technology cannot thoroughly treat waste water and provide a guaranteed water quality for production and daily life. Therefore, attracting FDI into water supplying sector is urgent.

3.3.3 Solutions related to human resources:

The quality of human resources of Vietnam is the weakest point causes hesitation in to foreign investors, because they have to pay additional training cost in total labour cost of project. They can hire foreign workers if they don't want to train, but this cost will be higher. Vietnam needs to improve human resources issues to attract effectively FDI from not only Japan but also other countries.

Vietnam should focus to improve quality of education and training sector. Universities, colleges and vocational schools in Vietnam have received more preferential treatment. However, more important issue is innovating teaching method, invest to infrastructure and help students access to new technology. This cannot rely only on national budget but also on private capitals, FDI, etc. to support and develop education. Vietnam should strengthen promoting investment from Japan in education and vocational training, because Japan is country with highly trained education, their enterprises also require highly both in skilled and unskilled labour discipline. Therefore, vocational schools and universities which have teaching methods or investment from Japan will be human resources that meet the requirements of Japanese enterprises.

Vietnam should encourage enterprises to organize training course for Vietnamese labour to enhance absorptive capacity as well as technological application. Government should have preferential policies for enterprises that organize labour training such as tax incentive, fees and charges, etc.

3.3.4 Solutions to develop auxiliary industry

Products of auxiliary industry are important input and indispensable in process of industrial production. Therefore, developing auxiliary industry is extremely imperative in Vietnam. It has crucial role for the industrialization and modernization of Vietnam. There are some solutions to develop auxiliary industry in Vietnam:

- National agencies should have clear concept and determine the importance of auxiliary industry; select key sectors for investment. Completing, releasing technical standards for industrial products and building technical barriers for each sectors and product category.
- Reducing or abolishing taxes on imported components to reduce assembling product cost. Expanding market in other countries to increase scale of product. Promoting small and medium-sized company to invest to auxiliary industry.
- To develop auxiliary industry toward modernization, the support from Japanese partners is essential. Developed countries, including Japan have programs to promote technology transfer to small and medium –

sized enterprises in developing countries. Vietnam should quickly receive that assistance to increase ability to provide auxiliary items, especially items which are manufactured in domestic enterprises.

Above are some for activities promoting attraction of FDI from Japan to Vietnam in global economic crisis. In addition, each location can also apply other solutions which suit real situation of that location.

Conclusion

With over 35 years of construction and development of diplomatic relationship, 20 year of cooperation in field of investment, FDI from Japan to Vietnam is growing both in quantity and quality. In quantity is growth in numbers of projects and total registered capital. In quality is deeply investing of FDI from Japan to high technology area, services which have high added value, industries that increase the localization ratio in products and contribute to improving investment environment in Vietnam.

In context of global economic crisis, economics and the relationship about FDI of both Vietnam and Japan has been affected. The content of topic: “Attracting FDI from Japan to Vietnam in global economic crisis” gave an overview of attracting foreign investment in Vietnam and proposed solutions to overcome difficulties posed by the economic crisis. The bachelor thesis analyzed current situation of FDI from Japan to Vietnam, thus proposed solutions, orientations to enhance attracting FDI not only from Japan but also from other foreign investors. Hopefully the thesis has contributed to clarify relevant issues. It includes comments, opinions and suggestions in construction and implementation policy to attracting FDI in new conditions. In future, ensuring that economic relationship between Vietnam and Japan will increase more and more. FDI from Japan to Vietnam will be stable, efficient and increase. We can say that Japan has been an important factor in promoting economic development of Vietnam towards industrialization- modernization.

Appendix

	Vietnamese FDI from Japan to Vietnam in ten thousands USD	Japanese export (ten million USD)	Exchange value of USD in VND
Q1 2007	8,600	16,395.00	16,008
Q2 2007	9,200	17,085.40	16,077
Q3 2007	13,500	17,957.73	16,120
Q4 2007	16,200	19,590.81	16,046
Q1 2008	25,400	19,714.66	16,019
Q2 2008	34,200	20,179.99	16,400
Q3 2008	30,600	20,439.55	16,632
Q4 2008	19,600	17,257.55	17,136
Q1 2009	9,200	12,086.88	17,540
Q2 2009	10,200	13,127.86	17,775
Q3 2009	15,800	15,332.51	17,544
Q4 2009	21,100	17,531.40	18,227
Q1 2010	13,500	17,694.80	18,834
Q2 2010	14,200	18,498.03	18,970
Q3 2010	18,200	19,646.96	19,328
Q4 2010	28,900	20,862.72	19,455
Q1 2011	29,600	19,899.48	20,410
Q2 2011	35,300	19,195.82	20,532
Q3 2011	51,700	21,833.90	20,743
Q4 2011	55,900	20,669.49	20,985
Q1 2012	59,300	20,551.69	20,855
Q2 2012	62,300	20,401.27	20,858
Q3 2012	63,400	19,930.86	20,850
Q4 2012	72,000	19,730.27	20,821

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