

# 30 Years of Vietnam-Japan Economic Relations Achievements, Challenges and Prospects

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On September 21, 2003, the governments and peoples of Vietnam and Japan warmly celebrated the 30th anniversary of the exchange of diplomats between Viet Nam and Japan. The Vietnam - Japan relations have experienced ups and downs for the past 30 years due to economic and political changes in each period. It has been really revitalized since the Conference on Peace for Cambodia in 1991, starting by a negotiation to initiate Japan's Official Development Assistance (ODA) for Vietnam. The talk round resulted to that in November 1992 the two countries

ment in the trend of globalization and international integration.

## 1. An overview of achievements

### a. Japanese ODA for Vietnam

Japan is the greatest ODA donor to Vietnam and giving active support to the cause of the national construction by specific and effective activities. This is indicated by the following figures:

In 2000, Japan gave an aid of US\$13.6 billion, US\$8.46 billion in 2001 and US\$7.6 billion in 2002. Although Japan's ODA showed a decline in 2002, Vietnam is also one of the most important re-

cluding 6.8 billion yen for the project building the HCMC East-West Highway, more than 5 billion yen for the construction of bridges on the section from Cần Thơ to Cà Mau Province and 21.7 billion yen for the Ô Môn thermo power plant and integrated electricity grids. The credit given to the project of North-South sea optical fiber cable is worth 15.8 billion yen and the fund to the projects of small-size infrastructure 10.5 billion yen.

Japan's ODA-funded programs are mainly focused on:

- Human resource development and construction of schools, especially

The country's evidence of economic renovation and development shows Japan and other investors through their foreign direct investment (FDI) have given significant contributions to the robust growth of domestic industries as well as of Vietnam economy. Japanese private companies increasingly invest in Vietnam. According to a report of the Ministry of Planning and Investment (MPI), from 1998 May to 2002 August, Japan had 369 valid investment projects in Vietnam with total registered capital of US\$4,222 billion including registered capital of US\$3,073 billion. These projects include 11 projects

Table 1: Japan's ODA for Vietnam (US\$ mil.)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Non-refundable aid	15.8	66.8	94.0	105.0	110.0	100.0	121.0		
Soft loans	350.0	470.0	580.0	700.0	680.0	733.4			
Total	365.8	536.8	674.0	805.0	850.0	780.0	854.4	943.43	770.54

signed an agreement on the Japan's aid of US\$365.8 million, this opened a new page of Japan-Vietnam relations.

Over the past years, Japan has become the greatest partner in Vietnam's external economic relations. It topped the list of Vietnam's export markets and ranked the third among those exporting goods to Vietnam. It is also the third foreign investors in Vietnam having the highest number of FDI projects realized in Vietnam. As a result, the Vietnam-Japan economic relation has made significant contributions to the two countries' develop-

cipients of Japanese ODA.

In 2002 many projects with Japanese huge loans have been developed and implemented in Vietnam: purchase of equipment to build the Hồ Chí Minh Highway which is capitalized at 1.454 billion yen, irrigation development in Northern provinces 8.677 billion yen, human resource development 4.63 billion yen, and water supply and management 8.96 billion yen. These are extremely important projects to improve living conditions in Vietnam's urban and rural areas.

In April 2003, Japan offered a soft loan of 79.33 billion yen to Vietnam, in-

building the market economy and legal cooperation.

- Development of economic infrastructure, especially energy and communication and transport.

- Agricultural and rural development, especially construction of agricultural infrastructures and technology transfer in farming.

- Education and health care.

- Environmental protection (forest, urban environment, prevention against industrial pollution).

- Workshops on the female role in the national development.

b. Japan-Vietnam investment relation

of business cooperation contracts with registered capital of US\$394.468 million and realized capital of US\$699.726 million; 225 projects with 100% Japanese capital with US\$1,647.331 million and US\$831.007 million, 133 joint venture projects with US\$2,181.178 million and US\$1,543,029 million. Among FDI projects given green light in the first 9 months of 2002, Japan owned 37 with total investment of US\$ 85,140,631, ranking fourth behind Taiwan, South Korea, and Malaysia. Until the end of the first five months of 2003, Japan has invested in Vietnam with



385 projects capitalized at US\$4,353,199,897, ranking third behind Singapore and Taiwan. The two countries are making negotiations on signing an agreement of investment encouragement and guarantee to boost Japanese investment in Vietnam. Japanese projects have been implemented in 28 provinces of Vietnam. Hà Nội and HCMC alone have 200 Japanese projects with total investment capital of US\$1.6 billion, accounting for 42% of total investment of Japan in Vietnam. Many Japanese giants are investing in Vietnam such as Honda, Toyota, Sony, Matsushita Denki, Yamaha, Nippon, and Seiko... Japanese investors, on the whole, see a higher rate of successful projects than that of others.

c. Regarding Vietnam-Japan trade relation: in recent years, the two-way trade value continues to grow. This trend is proved by the following table:

**Table 2: The trade value between Vietnam and Japan (100 million yen)**

Year	Export	Import	Total value	Change (%)	Trade surplus or deficit
1994	1,379	659	2,038	7.6	720
1995	1,615	864	2,479	21.64	751
1996	2,195	1,240	3,435	38.56	955
1997	2,695	1,549	4,194	22.10	1,096
1998	2,289	1,738	4,027	-3.98	551
1999	2,230	1,851	4,081	1.34	379
2000	2,846	2,129	4,975	21.98	717
2001	US\$2,509 bil.	US\$2,215 bil.	US\$4,724 bil.	- 4.3	US\$294 million
2002	US\$2,234 bil.	US\$2,358 bil.	US\$4,592 bil.	-11	- US\$76 million

## 2. Challenges in Vietnam-Japan economic relation

- Generally, the Japanese investment scale has not seen an increase and the investment structure faces a few changes. Its investment projects in heavy industries also take a lion share, following are service and light industries. Hà Nội topped the list of Japanese investment in

2002, the next were HCMC and Đồng Nai Province. A new feature of 2002 is over 30 provinces attracting Japanese projects including mountainous provinces such as Cao Bằng, Thái Nguyên, and Hoà Bình...

- In 2002, Vietnam made great efforts to improve its investment climate, especially in licensing. Many provinces issues incentive and liberal policies for investment attraction. However, investors still express their complaints and do not really feel assured of production and business in Vietnam.

- The costs of infrastructure remain very high (land rent, telecoms fees, costs of goods transport...)

- Vietnam still applies the system of dual prices where foreign investors pay higher prices of airway transport, electricity, water...even double that paid by local businesses.

- Vietnam's personal income tax on foreigners is high, often accounting for

50% of their income while this rate of Hong Kong is only 15%, Singapore 28% and Malaysia 30%...

- According to new provisions of the Amended Labor Code, since January 1, 2003, when labor contracts expire but the laborers still continue working, within 30 days after their expiry, the two parties must sign new contracts; if new labor contracts are not signed, the old con-

tracts shall become labor contracts with indefinite terms. Where the two parties must sign new labor contracts which have a definite term, such labor contracts shall last for only one more term, and then if the laborers continue working, the two parties must sign labor contracts with indefinite terms. These regulations will restrict foreign companies' rights of recruiting labor and making agreements with laborers.

- Vietnam has a few concentrated industrial parks, so it cannot develop support industries. In the meantime, state-owned enterprises enjoy monopoly in supply of raw materials.

In a conference on Vietnam-Japan cooperation, Mr. Kenji Miyahara, President of the Vietnam-Japan Joint Economic Committee underlined that to boost foreign investment in the following years, Vietnam was re-

difference between samples and goods on sales, restricted use of native language for communication, etc.

- The export structure of Vietnam and Japan did not see a lot of change in 2002 as compared to previous years. Vietnam's major exports to Japan include aqua products, garments, crude oil, electricity wire and cable. These categories account for 60% of total export earnings from this market. Especially in 2002, several Vietnamese competitive products began to appear in the Japanese market, including pepper, crystallized sugar...In spite of small quantity, if these items gain a firm market share in Japan, this is a good sign of Vietnam export.

- Vietnam's imports from Japan are still preferred goods including machinery, equipment, electronic components, computers, steel and CKD, SKD automobile...These main categories represent 55% of total import value. The trade between Vietnam and Japan, on the whole, has not seen a sudden change in 2002. Japan remains one of Vietnam's traditional, potential and stable markets. Nevertheless, the evidence shows Vietnam finds it hard to increase its export volume to Japan. The trade value between the two countries is rather modest and equivalent to 18% of total import and export value between China and Japan last year.

In trading with Japanese partners, Vietnamese businesses often face the following shortcomings:

First, local companies have not been accessible to large orders from Japanese partners. If they reject, they may lose their trade relation in the long run.

Second, Vietnamese businesses often violate the provision on time of delivery. Many Vietnam-



ese commodities sold in Japan do not have consistent quality, especially handicraft, so many shipments are rejected before entering the Japan market.

Third, local businesses still face perplexity in sales and advertisement. Japanese are not competent in English while Vietnamese who want to sell goods in Japan cannot speak Japanese fluently. Furthermore, the travel costs, rent of space, accommodation and meal are very expensive in Japan, thus making local businesses disappointed...

### 3. Measures to boost Vietnam-Japan economic cooperation

a. The two countries should make detailed discussions (the best within the bilateral framework due to Vietnam's long road to WTO membership) to reach an agreement in which Japan grants full MFN status to Vietnamese exports.

b. Besides giving detailed instructions to commercial counselors in information collection, Vietnamese Trade Ministry should cooperate with JETRO representatives in Vietnam in order to gather and diffuse information about the Japan market to local businesses, especially the data concerning distribution mode, application for JIS, JAS and Ecomark as well as certification of food imports. This is very important and decisive to the export of agro products and food to a highly demanding market like Japan.

Japan Industrial Standards (JIS) is applicable to industrial commodities and Japan Agricultural Standard (JAS) to farm produce and food. Those commodities which meet requirements of JIS and JAS will be easily sold in the Japan market because consumers put great trust in the quality of JIS or JAS-marked products. For-

eign producers may apply for the certification mark to their products at the Japan Ministry of Industry and Commerce and Ministry of Agriculture, Forestry and Fisheries. In the process of consideration, Japan allows the use of accreditation of foreign organizations whose tasks are approved by the Japan Ministry of Industry and Commerce, and Ministry of Agriculture, Forestry and Fisheries since March 1994. Manufacturing factories may be inspected previously to give certificates for the products satisfying regulations of the Law on Food Hygiene. If the food product has been certified, its consumption becomes easier in the Japanese market and the import procedure faster (within one day instead of seven days). At present, Thai businesses pay much attention to this system and eight Thai exporters have been granted certificates for their 27 categories of food, behind the U.S., Australia and Taiwan.

Ecomark is granted to the products not harming the ecology, it is applied since 1989. Vietnamese companies should be encouraged to apply for this mark, especially for wood-working companies.

c. In the process of improving the investment cli-

mate and boosting FDI, the Government should pay full attention to Japanese investment. Japanese investors' proposals and comments should be carefully considered and satisfied. The Government, to a certain extent, may surpass non-discrimination principles to settle Japanese investors' requests.

d. The Government should have assistance policies for imports from Japan to increase exports. As such, the value of imports from Japan will rise fast and affect the competitiveness of exports as well as rapid growth in export.

e. The Government should encourage Japanese investors to manufacture goods in Vietnam for export to Japan. This is the best way to secure product quality and enhance Vietnamese import value to Japan. At present, Japanese companies are pursuing this practice.

### 4. Prospects in the time to come

In 2004, the world and regional economies will obviously see unexpected changes in terms of negative and positive meanings. Therefore, there is not significant progress in Vietnam-Japan economic relations although this year marks the 30th anniversary of the exchange of

diplomats between Vietnam and Japan. Trade activities, investment cooperation and ODA are still stable as in 2002. The implementation of AFTA and the signing of Vietnam-Japan agreement on investment guarantee and Vietnam's full membership to economic institutions will boost economic cooperation with other countries including Japan.

In the trend of globalization, the development core of Vietnam-Japan relations is that the two countries must become their real important partners. This requires Vietnam's more efforts because Japan has already been an important partner of Vietnam. The problem is how Vietnam also turns into an important partner of Japan in the immediate future. ■

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