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Increase FDI Attraction from Japan to Vietnam After COVID-19

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Abstract
Foreign direct investment (FDI) is a particularly important capital flow for growth and international economic integration, contributing to additional capital, technology, management capacity, business ability, organizational ability. and participate in the global supply chain. According to data from the Ministry of Planning and Investment, at present, Japan continues to hold an important position as an important partner of Vietnam in attracting foreign direct investment (FDI) flows. Currently, Japan's FDI inflows focus mainly on processing and manufacturing industries, electricity production and distribution, and real estate business. However, the negative impact of the COVID-19 pandemic and rapid and complicated changes in the world have forced countries in general and Vietnam in particular to readjust their FDI policies. The objective of the article is to analyze the current situation of attracting FDI from Japan to Vietnam in the period of 2020-2022, identify opportunities and challenges, and then propose solutions to enhance the attraction of Japanese FDI to Vietnam. South after the Covid_19 period.

The article uses secondary data collected from the Ministry of Planning and Investment from 2020 to 2022 and primary data from expert interviews taking place in June 2023.

Keywords: Foreign Direct Investment, Foreign Direct Investment Capital from Japan

1. Introduction

The COVID-19 epidemic is regarded as a huge shock, seriously affecting many countries throughout the world, including foreign partners investing directly in Vietnam. In 2020, the amount of registered FDI capital declined by 25% and the value of realized FDI decreased by 2% as a result of the COVID-19 epidemic, compared to 2019.

In 2021, the amount of registered FDI capital increased by 9.2% while the value of realized FDI decreased by 1.2% compared to 2020. In 2022, the amount of registered FDI capital decreased by 11.01% but the value of realized FDI increased to 13.5% compared to 2021. The context of the COVID-19 pandemic creates many challenges and opportunities to help Vietnam become a safe and attractive bright spot in attracting FDI from many developed countries around the world. Many investors still maintain investment activities, of which Japan is the only major investor with investment capital growth. Japan is the second largest foreign investor (FDI) with 4,690 projects with a total registered investment capital of 62.9 billion USD, accounting for about 16% of total foreign investment capital in Vietnam. FDI capital flows from Japan to Vietnam have grown positively despite difficulties, demonstrating the confidence of Japanese FDI enterprises and the attractiveness of the Vietnamese market. However, to retain and increase FDI attraction from Japan, the government needs to improve policies as well as have solutions to create a favorable investment environment. Therefore, the article is based on secondary data to study the current status of attracting FDI from Japan to Vietnam to propose solutions to increase FDI attraction.

2. Theoretical Background

Foreign Direct Investment (FDI)

According to the International Monetary Fund's (IMF) annual balance of payments report, "FDI is a type of investment with long-term benefits of an enterprise in another country (country)." receiving investment), rather than in the place where the firm operates (investing country), in order to successfully manage the enterprise. This point of view emphasizes the long-term character of investment activities, and the investment goal is to develop management and executive power.

Foreign Direct Investment (FDI-Foreign Direct Investment) is a long-term investment activity in which the capital owner directly manages and directs capital use activities.

OECD (2008) also defines "FDI as a form of cross-border investment made by an entity residing in an economy (direct investor) with the purpose of establishing a long-term benefit. in an enterprise (enterprise receiving direct investment) residing in an economy other than the investor's economy". Similarly, according to UNCTAD (2012), "FDI is a long-term investment associated with the interests and long-term control of an investor in this country (foreign direct investor or parent company) into a company in another country (foreign direct investment company or subsidiary). These two perspectives refer to the interests and control rights of investors in foreign enterprises.

In the year 2020, Vietnam's Investment Law defines "overseas investment activities as the transfer of investment capital from Vietnam to foreign countries by investors, using profits earned from this investment capital to implement investment and business activities abroad". As a result, while this Law does not directly reference foreign direct investment, it does introduce the concept of investment activity abroad. As a result, foreign investment encompasses both direct and indirect investment.

As a result, the following points of view are unanimous: Foreign direct investment (FDI) is a type of investment that allows investors to participate in operating investment activities in the receiving country, with the goal of profit. Within the framework of the topic's research, FDI is a type of cross-national investment by an entity residing in one country (foreign investor) to control or have considerable influence over the management of a business residing in another economy. Foreign investors relocate resources (both real and intangible) to the receiving country in order to perform manufacturing and economic activities and reap long-term benefits. This issue investigates the flow of resources, namely investment capital, which includes money and assets.

The Role of FDI

FDI acts as a source of additional capital, a required condition for the positive transformation of a production and business sector, a number of sectors, and a catalyst to promote the effectiveness of potentials development.

Firstly, attracting FDI capital will supplement domestic currency capital to help countries achieve socio-economic development goals. In addition, FDI capital also contributes to increasing the state budget through tax revenues from FDI enterprises and income taxes of employees in enterprises, thereby providing additional financial resources mobilized for development projects. national development.

Second, projects involving foreign direct investment assist governments in making the best use of domestic resources such as land and natural resources, while also contributing to the improvement of domestic resource quality. technology level and labor quality. The application of modern technology provided by foreign corporations, particularly MNCs, through FDI investment is the quickest approach for FDI-receiving countries to raise their technological level (Nguyen Quynh Tho, 2017). Furthermore, FDI companies help to improve labor qualifications in the host country.

Third, FDI assists countries and regions in receiving capital to develop export markets and drive economic restructuring. Furthermore, increasing the proportion of industry and services is not only a result of the receiving country's and locality's own efforts, but also of the trend of economic globalization.

Fourth, FDI is a realistic and highly effective form of investment that has no political limits and does not impose a direct debt load on the economy. Because FDI transfers all investment capital into the recipient country, it can foster the growth of new sectors, particularly those needing large amounts of capital, innovative processes, and technology. FDI is seen as an essential source of developing the receiving country's technological capabilities. This responsibility is manifested in two ways: the transfer of available technology from the outside world and the development of technological capabilities of research and application facilities in the recipient country.

Fifth, FDI is associated with the transfer of science, technology, advanced techniques and management experience. FDI plays an important role in science and technology transfer, which is carried out by transferring available technology from outside and researching, applying, improving and developing technology suitable to economic conditions. Our country's society. FDI enterprises create linkages to provide technology services from domestic technology research and application facilities. From there, domestic businesses have the opportunity to conduct research and development by learning how to design, manufacture, and absorb source technology, then improve to suit actual conditions and transform them into your technology. Along with technology transfer is the process of receiving advanced management experience from around the world and training a highly qualified workforce capable of using modern technologies. In addition, technology transfer also contributes to creating jobs for workers and improving domestic technological capacity. This is a characteristic that other capital sources such as ODA; international commercial loans; Issuing bonds, international stocks... is not possible.

Factors Affecting FDI attraction

(1) Infrastructure and service provision

One of the most essential things that can assist investors lower indirect costs in production, business, and possibly investment operations is good infrastructure. As a result, balanced and comprehensive infrastructure development in a country or location is advocated as a top need in attracting investment capital. An investment area has a complete infrastructure system that includes both technical and social infrastructure development.

(2) Natural conditions

Natural conditions are one of the main factors in agricultural production including geographical location, land, natural resources, and climate.

Natural resources and land are the main factors constituting raw materials to serve the production activities of enterprises. Therefore, if a country with rich resources will help businesses cut raw material costs and improve business efficiency, it will have a good impact in attracting FDI inflows (Nauro F. Campos and Yuko Kinoshita, 2003).

(3) Macroeconomic environment

The macroeconomic environment is reflected in the macroeconomic stability, growth potential, and profitability of the economy. This is a country-specific factor. Foreign investors are aware of the favorable macroeconomic environment factors that will affect their behavior and decision to choose an investment location.

(4) Social environment

The advantages of social environmental factors are reflected in the level of education, attitudes and beliefs and social moral values, religion, customs, language and communication; number of workers, skill level of workers; worker discipline.

(5) Policies and institutions

Institutional and policy factors are expressed in regulations of the central government, ministries and branches. In recent years, awareness of the huge role of FDI inflows in economic growth has caused many governments to change national policies towards this important capital flow, with the main trend being to create favorable conditions. Benefits of opening up this source of capital to flow into the country. Most governments have issued preferential policies to attract more FDI along with adjusting the legal framework system, preventing corruption, creating a transparent investment environment.

3. The Current State of Soliciting FDI from Japan

According to the Foreign Investment Agency (Ministry of Planning and Investment), Japan ranks second out of 141 nations and territories with foreign investment in Vietnam as of the end of October 2021, with 4,765 remaining projects. The entire registered capital is 63.94 billion USD. The average project scale in Japan is 13.4 million USD/project, which is higher than the national average of 11.7 million USD/project.

Analyzing the movement of FDI capital flows of Japanese investors into Vietnam, in the first 10 months of 2020, Japan is the 4th investor with a total newly registered capital of nearly 472 million USD and about 50 new level projects.

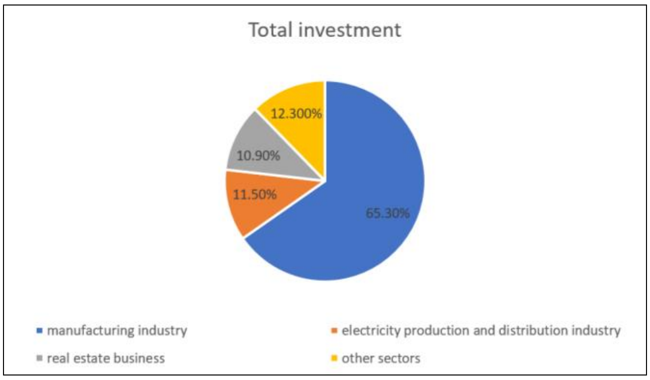
However, entering 2021, in 10 months alone, Japanese investors have invested in 150 new projects (3 times more than the same period last year), adjusted 105 projects and contributed 170 projects. Capital, buying shares with a total registered capital of 3.38 billion USD, ranking 3rd out of 97 countries and territories investing in Vietnam (just behind Singapore and Korea).

The latest report of the Ministry of Planning and Investment on investment cooperation between Vietnam and Japan points out that, as one of the most important investment partners of Vietnam, Japan has currently invested in 57/ 63 provinces and cities of Vietnam. Thanh Hoa is the locality attracting the largest foreign investment in Japan with a capital of 12.5 billion USD, accounting for 19.59% of total investment capital.

Japanese businesses assess that Vietnam has a particularly important position in forming supply chains and high-quality human resources at competitive costs, so the investment of Japanese businesses in Vietnam continues to expand despite the COVID-19 epidemic had complicated developments in the second and third quarters.

Currently, Japanese investment capital flows in Vietnam are most concentrated in the field of processing and manufacturing industries; electricity production and distribution; real estate business. Large Japanese enterprises are currently present in Vietnam such as Toyota, Honda, Canon, Panasonic, Yamaha, Suzuki, Mitsubishi, Marubeni, Sojitz, Idemitsu, Mitsui.

Currently, Japanese investment projects in Vietnam focus on 19 industries and fields, but are most concentrated in the processing and manufacturing industry with 1,842 projects with a registered capital of 41.79 billion USD. Signed, accounting for 65.3% of total investment capital. The field of electricity production and distribution ranked second with 19 projects, total investment capital of 7.4 billion USD, accounting for 11.5% of total investment capital. Next is real estate business with a capital of 6.97 billion USD, accounting for 10.9% of total investment capital.



Source: Ministry of Planning and Investment

Fig 1: FDI-attracting industry structure

Some typical projects of Japanese investors in Vietnam include: Nghi Son Refining and Petrochemical Company Limited Project, total investment capital of 9 billion USD; Smart City Project, total investment is 4.13 billion USD with the goal of investing in building a smart urban area with synchronous technical and social infrastructure including a financial and commercial center, kindergartens, flower gardens, parks, and housing investment projects in Hanoi; Investment project to build BOT Nghi Son 2 thermal power plant, total investment is 2.79 billion USD in Thanh Hoa.

There are four types of Japanese FDI into Vietnam: The form of 100% foreign capital from Japan is the most common, accounting for up to 3,916 projects (83.67% of the total number of projects); this form poses little risk to investors if the enterprise operates inefficiently and will assist Japanese investors in mastering technology and becoming self-sufficient in production and business without relying on joint venture partners. The second is joint venture form with 735 projects (15.7% of total projects); Joint venture cooperation is a type of joint venture cooperation between Japanese and Vietnamese enterprises in the method of jointly exploiting products and services based on the principle of alternating use of the parties' brands or trademarks and sharing profits. The remaining forms of investment account for a very small proportion of total FDI capital from Japan (Table 1).

Table 1: Direct investment structure in the form of Japanese investment in Vietnam *(Current calculation till the end of December 2020)*

Đơn vị: Triệu USD

Investing phrases	Project number	Total investment
100% foreign capital	3.916	35.841,62
Venture	735	21.996,73
BOT, BT, BTO	3	3.374,25
Contract for Business Cooperation	26	1.693,55

Source: Foreign Investment Agency, Ministry of Planning and Investment, 2020

Factors Affecting FDI Attraction in Japan

(1) Infrastructure and Services

Infrastructure is one of the factors that foreign businesses evaluate before deciding to invest. With the main purpose of maximizing profits, Japanese FDI enterprises always try to take advantage of the host country's available resources, resources, and infrastructure to minimize transportation costs and production costs. It can be said that having developed infrastructure is a plus point in the eyes of foreign investors. However, Vietnam is not a country with strengths in infrastructure. Heterogeneity, connectivity between regions, and weak infrastructure quality are negative points in attracting Japanese FDI. Transportation routes, such as waterways, roads or airways, are increasingly being given more importance and investment, but there is still a lack of connection between these forms of transportation.

(2) Natural Occurrences

Vietnam is regarded as a country with a particularly advantageous geographical location, dealing not only with rapidly rising Southeast Asian countries but also with Asian countries such as Japan. Vietnam is also an important stop on the maritime shipping route. Minerals are rated as varied, having numerous resources, huge deposits, and a big delta area. This is a plus for Japanese FDI firms looking to invest in Vietnam.

(3) Macroeconomic Environment

The stability of the macroeconomic environment is one of the important factors promoting FDI attraction. Vietnam is a country considered to have a stable macroeconomic environment with the inflation rate in recent years always under control, fluctuating around 3.5%. Exchange rates and foreign exchange markets fluctuate within levels controlled by the State Bank.

According to the General Statistics Office, the impact of the Covid 19 pandemic has caused a global economic recession, affecting people's lives and income. However, Vietnam's economy still achieved positive results, with a positive growth rate. In particular, in 2022, GDP will increase by 8.02%, the highest in the period 2011 - 2022. GDP per capita in 2022 at current prices is estimated to reach 95.6% million VND/person, equivalent to 4,110 USD, an increase 393 USD compared to 2021.

(4) Social Environment

The social environment in Vietnam is considered stable and healthy. Vietnam is considered a country with low labor costs, a strong point to attract Japanese FDI. Japanese FDI enterprises take advantage of cheap labor to reduce costs in the production process. However, cheap labor is not a factor in attracting long-term FDI, when most countries in the world are turning to professional, refined labor. This is considered a significant challenge in attracting Japanese FDI, especially when Japan is a very developed country in science and technology, with artificial intelligence (AI) gradually replacing unskilled labor. This requires Vietnam to have policies to support and train to improve labor qualifications to increase the attraction of Japanese FDI.

(5) Policies and Institutions

Vietnam is a country with stable state management agencies for a long time, and policies are always improved to ensure the rights of foreign investors. Policies to attract foreign investment at the macro level are increasingly attractive to investors, but documents guiding law enforcement and implementation decrees are issued too slowly and lack detail, causing difficulties for operations invest.

Although the legal system on foreign investment in Vietnam is not yet complete and synchronous, it is somewhat attractive to investors. The Investment Law and many legal documents on foreign investment have been issued. The provisions of Vietnamese law on investment promotion, forms of foreign investment and investment assurance measures are considered open and attractive compared to other countries.

However, some policies have not been clearly defined, so they have not been institutionalized or there are policies as a basis, but legal documents are issued slowly, with cross-fertilization and contradictions between some documents.

4. Conclusion

As a result, in order to attract Japanese FDI, the Vietnamese government has implemented a number of initiatives at the same time. The results obtained in terms of capital size, project scale, investment type, FDI structure by industry, and FDI structure by area are quite encouraging. However, in light of the world's intricate developments, the author proposes the following alternatives based on the preceding study and evaluation:

First, focus on improving infrastructure. In addition to promoting public investment projects to improve infrastructure and help industrial parks benefit in the long term, it is necessary to transform investment needs to expand and modernize Vietnam's infrastructure. Nam Thanh has an opportunity to attract high-quality FDI projects in this field. At the same time, it is necessary to proactively overcome challenges in attracting high-quality FDI, such as the limitation of clean land funds and infrastructure-seaports, road transport systems, waterways, warehouse systems. Vietnam needs to focus on preparing premises, especially in industrial parks, to be ready to welcome FDI projects in addition to synchronization of transport infrastructure, ability to supply electricity, water, and communications.

Second, in order to attract, preserve, and screen effective investments, regulations and conditions must be reviewed and supplemented. Because the supporting industry sector remains weak, the government must encourage and create conditions for FDI projects to invest and produce in Vietnam in the form of joint ventures with domestic enterprises so that Vietnamese businesses have direct access to technology, modern management skills, and reliable business knowledge in the period 2021-2030. Prioritize major investors, projects with advanced technology, new technology, high technology, clean technology, modern management, high added value, with spillover effects, connecting production chains, and global supply.

Third, prepare the necessary conditions to attract investment such as reviewing and supplementing clean land funds, reviewing electricity planning and urging the implementation of power projects, and enhancing human resource training. high-quality resources, additional policies and measures to develop supporting industries, improve administrative procedures. Continue to improve the investment environment. Continue to improve institutions and policies on foreign investment. Improve the synchronization of the legal system; amend and supplement regulations on investment procedures and conditions. Continue to reform administrative procedures, streamline the apparatus, clearly define the responsibilities of each department and each stage, especially in areas related to business licensing, work permits, and management. visas, customs procedures, taxes.

Fourth, encourage research and development, creativity, and technical improvements in the process of using technology. Training and developing high quality human resources. Proactively select appropriate technologies, prepare conditions for receiving and promoting technological levels when approaching FDI projects.

Fifth, the government must create regulations and criteria to serve as a new filter for selecting foreign investors who have advanced technology, are environmentally friendly, capable, and can handle pressure from the outside in order to ensure the country's national security and long-term growth.

Sixth, work with diplomatic agencies, business groups, consulting firms, legal firms, banks, and investment funds to approach and list corporations interested in investing. Investment in Vietnam to approach, exchange, and invite investment in Vietnam proactively.

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