

SECTION 3
ENTERPRISES AND INTERNATIONAL
ECONOMIC INTEGRATION

SOME BACKGROUND ANALYSIS OF VIETNAM FDI FROM JAPAN

Masayuki Ida¹

Abstract

There are various merits and attractive points of Vietnam for Japan and Japanese companies. Investments from Japan to Vietnam seem to be increasing and relation is good. To increase the investments, we need quantitative measure to evaluate or assess the investment plan. FDI to South East Asia is an important subject for Japanese companies to carry out. It has close relation with the organizational strategy and the mission, and it is not easy to measure with ROI or NPV. This paper is to discuss some elements behind FDI decisions the people in receiving countries to know, focusing on Vietnam audiences. The key elements addressed here are labor cost comparison and exchange rate. Understanding cultural/social structure of both sides and understanding current technology advancements are also keys to make smooth and successful operation.

Keywords: FDI, Vietnam, South East Asia

¹ Aoyama Gakuin University

1. INTRODUCTION

Japan understands that Japan is a top supporting countries of Vietnam among other nations. The foreign direct investment, FDI, amount from Japan to Vietnam is 2.04 billion US dollars (about 16Million yen) in 2010 according to JETRO. The ODA support with yen loan is 27Million yen for 2011. There are various merits and attractive points of Vietnam for Japan and Japanese companies. Recently, there emerged a rival/competitor nation in South East Asia. That is Myanmar. But not concrete competition yet. Vietnam and Japan has strong economic relation already, such as Japanese export to Vietnam is 7.7 billion dollars while Vietnamese export to Japan is 9 billion dollars. There are 867 Japanese companies in 2011 in Vietnam, resulted the increase of FDI, compared to 327 in 2000. Vietnam is a firm developing country and GDP increase ratio is 6.78% in 2010. Average age is young and attractive for Japanese industry to have production base. Investments from Japan to Vietnam seem to be increasing and relation is good. To increase the investments, we need quantitative measure to evaluate or assess the investment plan. How we can do it?

We always have question on how we can rationalize the FDI? The only way we can judge the adoption of the plan is based on the analysis of the target. If the data obtained in the analysis phase is incorrect or inappropriate or insufficient, the FDI would fail easily. In MBA textbook, investment is one of the key issues to study. As a first step, investment is measured by ROI (Return on Investment) or NPV (Net Present Value) or such modern indexes. Using such indexes, we can compare, evaluate the multiple choices and choose one as the master plan to execute. This is important method for investors to know. But, for foreign direct investment, there are various other considerations to think about. FDI to South East Asia is an important subject for Japanese companies to carry out. It has close relation with the organizational strategy and the mission, and it is not easy to measure with ROI or NPV. This paper is to discuss some elements behind FDI decisions the people in receiving countries to

know, focusing on Vietnam audiences. The key elements addressed here are labor cost comparison and exchange rate. Understanding cultural/social structure of both sides and understanding current technology advancements are also keys to make smooth and successful operation.

This paper is addressing such FDI, mainly for Vietnam, from Japan. The author has ten years activities in South East Asia for promotion of IT deployment, especially in Vietnam. This paper reflects the author’s experiences.

2. OBSERVATIONS 1: CURRENCY EXCHANGE RATE ISSUE

The value of VND against JPN or USD is a very simple but important point to see. The exchange rate between VND and USD seems to be relatively stable now. As of March 19, 2012, 1 US\$ = 20,810 VND and as of Sept 1, 2012, 1 US\$ = 20,843 VND. During the same period JPN is almost stable against USD, in the range of 1 US\$ = 78JPN to 80 JPN. However, the author experiences the drastic change of exchange rate between JPN and VND, which is shown in Table 1. In January 2005, seven years ago, 1 JPN = 144 VND. Now, almost doubles, 1 JPN = 266 VND. It means for Japanese, it became easier to buy Vietnam goods in seven years, since the price is greatly reduced. At the same time, to sell Japanese

Table 1. Personal Experiences on Exchanging JPN to VND

2005	January	144
	August	140
2010	November	234
2011	September	258
2012	March 9th	259
	March 16th	246
	April 6th	252
	August 31st	266

goods in Vietnam, it becomes difficult since Vietnamese needs to pay more money. So, Vietnam becomes not an easy market for Japanese merchandizing to sell Japanese goods. At the same time, to utilize Vietnam as a production base, cost is in general cheaper in seven years I observed. To summarize, Vietnam is in the direction for a production base, not a market, for Japan.

We like to discuss about the jump between 2005 and 2010 in Table 1. And I like to point out there is a continuous ‘cheaper VND’ policy of Vietnam government. Fig.1 shows what happened during 2007 and 2010 for VND and USD currency exchange rate.

During the year 2007 and 2009, there were several times drastic change of exchange rate between VND and USD. It was the reason of drastic change between Yr2005 and Yr2010 in Table 1. Core rate for exchange was cut down three times during 2009 to 2010.1. And, the VND official rate is cut down 5.44% officially introduced by Vietnam Government at the end of 2009. This was a result of mini-currency crisis in 2008.

After that, still government led cut downs were executed during yr2009 and later. Vietnam Government has kept “controlled floating” rate policy, just like China. Vietnam Government policy is for ‘cheaper VND.’ During 2010 to 2011, there are three major cut down of VND, as follows:

3.4% down in Feb. 2010

2% down in Aug. 2010

9.3% down in Feb. 2011, totally 20% in 26 months from 2009.12 to Feb.2011

3. OBSERVATION 2: YOUNG GENERATION IN VIETNAM

Fig.2 has Population pyramids drawn in 2005. Fig. 2 a) is the population pyramid for 2005.

Fig.2 b) is a predicted pyramid for 2020, in 2005. Average age of the country is very young.

Clearly, utilizing younger generations, in other words, giving jobs to them is a most important government due. If human brain to produce value,

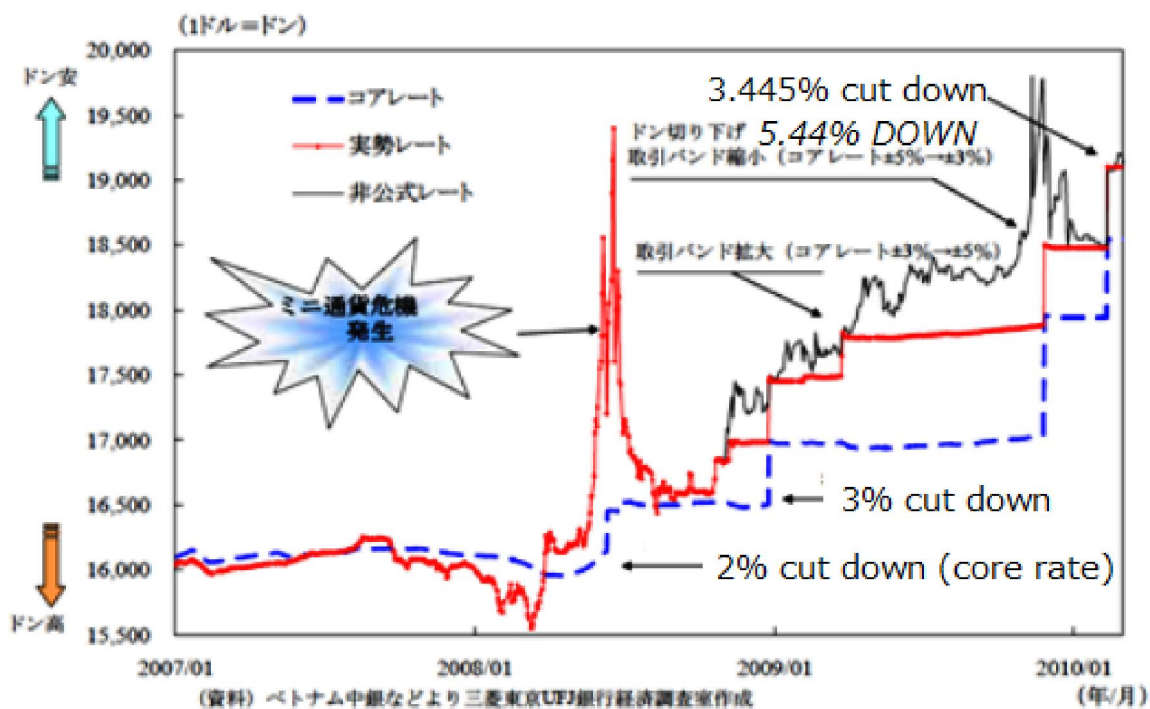


Figure 1. Cheaper VND policy against USD during 2007-2010

not only physical labors nor selling natural resources is enabled, Vietnam domestic production of Value will increase in a very good manner. As a result, the role of universities increases.

4. OBSERVATION 3: FDI TO VIETNAM

Fig. 3 shows the data for FDI to Vietnam from Japan. We can tell from Fig.3 that there are natural increase of investment, and during 2007 and 2008, there was strong interest in Vietnam, in other words, ‘Vietnam investment boom.’ There was a down in 2009, but the executed amount is not down, rather stable increase was kept for now.

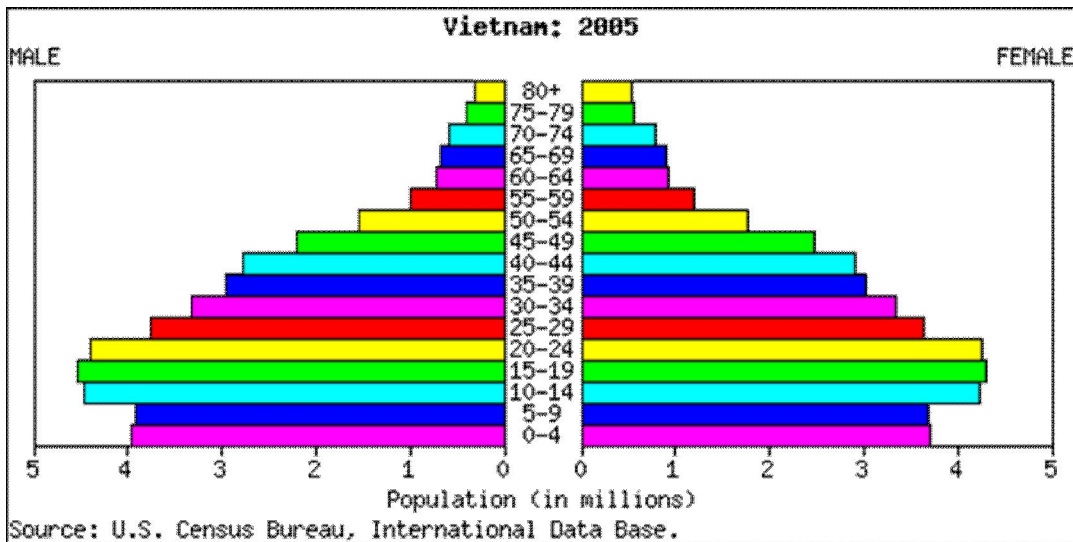


Figure 2. a) Population in 2005

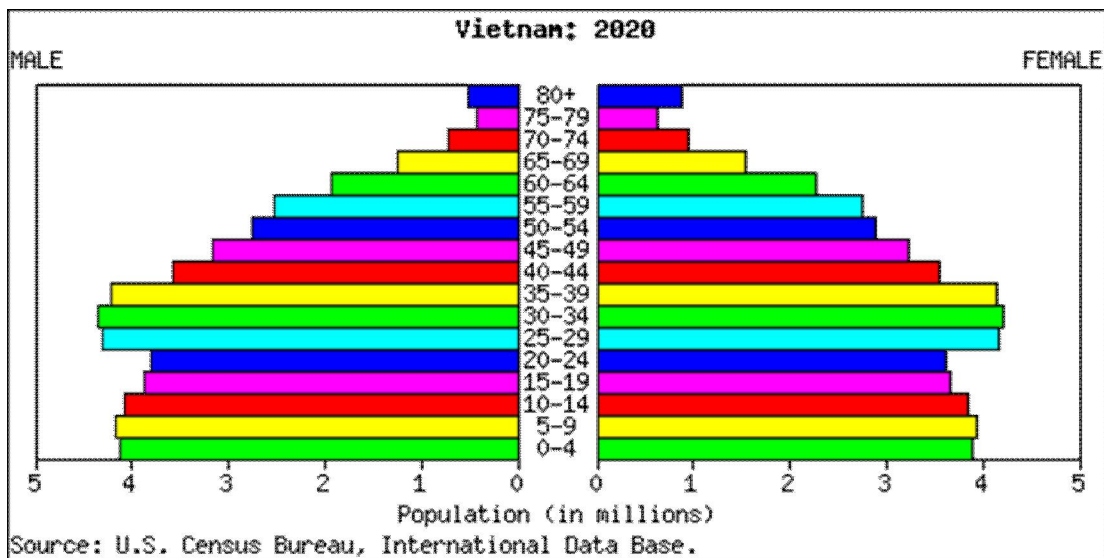


Figure 2. b) Predicted population of 2020, drawn in 2005

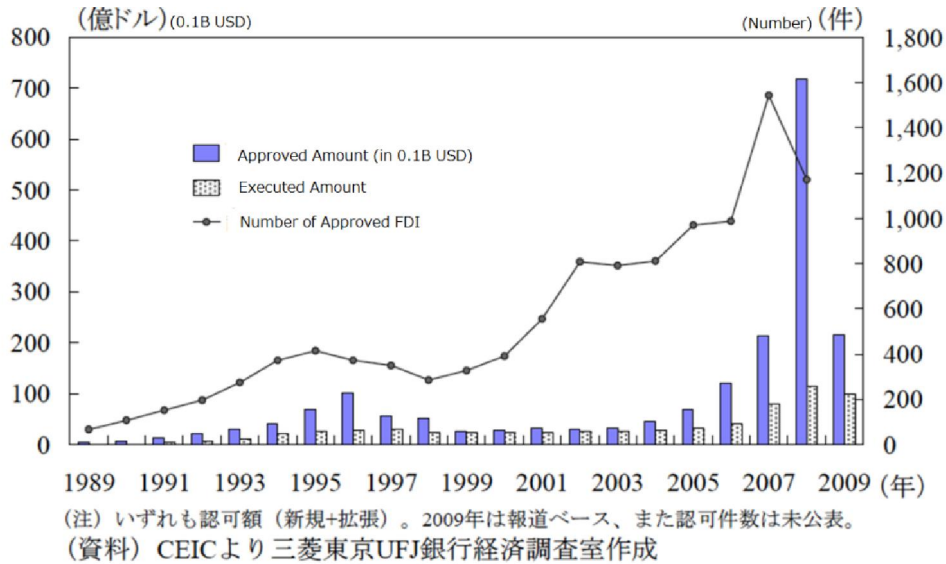


Figure 3. Foreign Direct Investment from Japan to Vietnam during 1989-2009

(based on the CEIC document, composed by Mitsubishi Tokyo UFJ Bank)

5. OBSERVATION 4: VIETNAM LABOR COST ISSUE

If labor cost in Vietnam is thought as an advantage over other countries, investment to Vietnam as a production base increases. At least, it is a good incentive for investors.

Fig.4 shows the comparison of labor costs among six nations. For all three categories, middle class managers, engineers, and workers, Vietnam is most cheap.

If the low cost production is the issue, and Vietnam is the lowest cost country, the advantage of Vietnam over other countries exist.

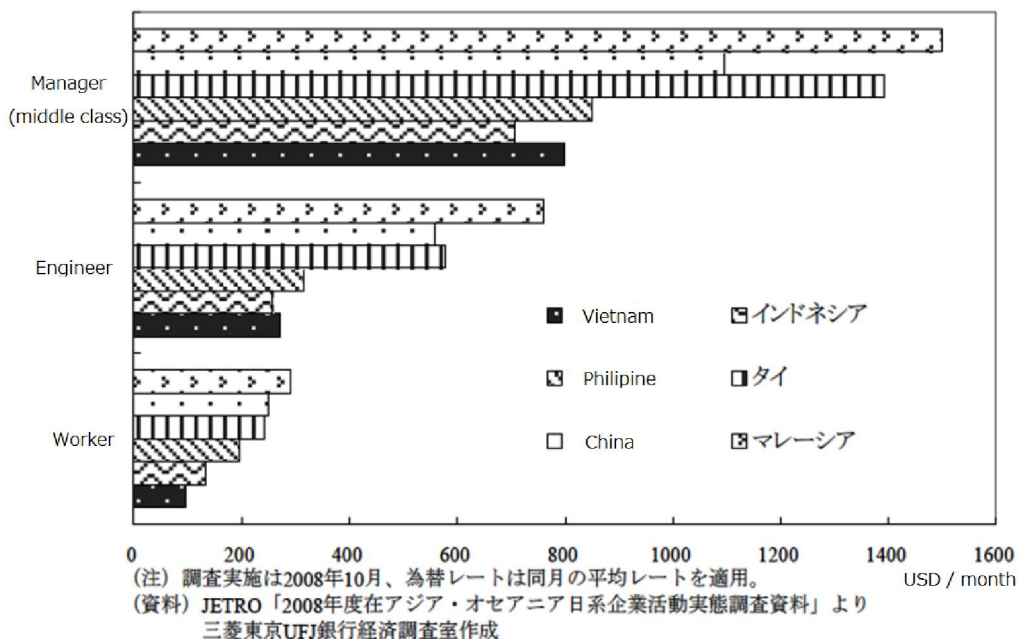


Figure 4. Comparison of Labor Costs among 6 Asian Nations

(based on the JETRO document, composed by Mitsubishi Tokyo UFJ Bank)

6. OBSERVATION 5: MYANMAR ISSUE

In April 2012, Myanmar, as a last un-settled country, exposed to be the front line. At least in February, Japanese companies started to investigate and explore the business chances in Myanmar. Still there are try and error attempts to enable the country as a stable production base.

Because of the historical contexts, China was the top ‘friend’ for Myanmar. According to the data of JETRO, the 34% of FDI to Myanmar during 1989 to 2011 was from China. (then 23.5% Thai, 15.5% HongKong, 7.2% Korea, 6.8% UK, 4.4% Singapore, 2.5% Malaysia, 1.1% France, then 0.5% Japan)

Now, Japan money is expected to be a top one. In April 2012, Japan decided to restart Yen loan to Myanmar. The current government of Myanmar wants to have a real fruit from the current democratize move, since in 2015, there will be a president election facing with the challenge by NLPD party which is lead by Aung San Suu Kyi. Since social infrastructure is weak and some other issues to overcome in Myanmar. But for Japanese and other countries investors are watching Myanmar first. Because, the labor cost in Myanmar is so low. The comparison of monthly wage is in Table 2.

7. ‘CHEAPER VND’ POLICY: MIX OF GENERAL OBSERVATION AND VIETNAM SPECIFIC ISSUE

According to a Japanese analyst, the following is pointed out as the reasons why Vietnam government takes ‘cheaper VND’ policy.

- 1) Deficits of Vietnam Economy, for Domestic and International Trade
- 2) Lack of domestic production capability, while there are increasing demands
- 3) Natural resources to sell is short to cover the trade deficit
- 4) Recent Inflation trends, like 10% annually

Table 2. Myanmar as a lowest labor cost country (from JETRO)

Singapore	1285
China	538
Malaysia	344
Philippine	325
Thai	286
Indonesia	209
Laos	118
Vietnam	111
Cambodia	82
Myanmar	68

(Unit US\$ a month)

I understand the above are the popular phenomenon among newly industrialized countries. And not specific to Vietnam.

How bankers in Japan understand the situation? Mitsubishi Tokyo UFJ bank says in March 2010 as follows:

“1) Vietnam as a market, not as a 2nd China for production. Because, GDP per capita of Vietnam grows up to 1600 in 2014. And this Vietnam era is similar with 60s in Japan when consumer electric appliances were widely introduced to home. 3) 75% of the population is under 40 years old.” Their remarks are to consider Vietnam as a market, not as a production base. Furthermore, they also say as follows.

“Meanwhile, there are several risk factors for Vietnam Business. They are 1) complicated governmental process for FDI, 2) Inflation and exchange rate instability, 3) labor cost may be going up.”

Besides the above analysis, we understand there are two reasons:

- 1) Cheap labor utilization to attract foreign companies’ factories in Vietnam (for foreign companies can understand the labor cost in Vietnam factory is decreasing),
- 2) Ultimate goal is international trade in black (there is an accumulated trade deficits in Vietnam for long years)

Even if economic growth in Vietnam can give profits to foreign countries, there will be a risk of currency exchange rate. Investment consultants, hedge funds are having negative evaluation for investment in Vietnam. Say, In October 2010, the rate for Japanese yen is around 200. Now in March 2012, Japanese yen rate is 250. (It's good for travelers like myself, though) And, labor cost is going up in Vietnam, and high inflation goes on.

We understand that giving jobs for young generations by introducing foreign companies is the most important factor. For foreign countries, cheaper VND shall mean labor cost is cheaper, while it also needs to evaluate FDI risk (profits or stock rise can get shrink because of decreasing value in foreign currency). We should understand the Vietnam government is encouraging economic growth through the policy. The rest is how Vietnam local industries can cope with this

8. CONCLUSION: NEEDS TO CLARIFY THE BASIC FACTORS FOR FDI DECISIONS

The author understands the decision on FDI from Japan requires the considerations on the following issues.

1. Short term performance
2. Long term effectiveness
3. Advantage of choosing the country

Even if there is no clear quantitative analysis possible, any investments cannot be starting without a clear view for short term performance evaluation. It does not mean the business needs to be profitable so soon. Rather, typically, the new business might be not profitable for several years. It's very common. The reason we say short term performance is important is, for the first phase of the business, sometimes no clue to judge the status of business without any numerical log. Most bad thing is the company cannot tell the business is going to be profitable or no

Sometimes, we need to close the operation and retire from the operation. But without the data it cannot be done. It means deficit can be increasing and no one can control it. So, the roadmap to success needs to be drawn.

It needs various considerations around the business, such as

- Cultural analysis, including the difference and gap analysis
- Advancement of the technology itself related with the product obsolescence (chinpuka) issue
- Local labor situation and management situation change
- Political consideration for international and domestic policies.
- International economics consideration.

This also makes a power balance shift from Singapore to Bangkok.

The country like Vietnam, which is in the middle of industrialization, requires more analysis on how investors think the country and how they judge. The purpose of this paper is to describe some backgrounds of FDI decision processes. For a concrete comparison, currency and labor cost is making quite visible index. But there are several issues behind, especially from the view point of receiving country. Such as, how we polish up 'quality of labor' and raise the unit value of labor? Or, how we line up development projects resulting from FDI in a right order? How we make national finance status in healthy situation?

To carry out advices for such FDI decisions, as described in this section, more analysis based on higher level considerations: short term issue, long term issue, and advantage analysis. The author likes to extend this paper to include further remarks on the choice. Vietnam is a definitely land of opportunity. The author hopes the country will grow well. Thank you.

HANOI UNIVERSITY OF SCIENCE & TECHNOLOGY

School of Economics and Management

-----oOo-----



International Conference

**ENTERPRISE CHALLENGES: HOW TO OVERCOME
ECONOMIC CRISIS**

Proceedings of ICECH2012

**KỶ YẾU HỘI THẢO QUỐC TẾ CÙNG DOANH NGHIỆP THÁO
GỖ KHÓ KHĂN – VƯỢT QUA KHỦNG HOẢNG (ICECH2012)**

Hanoi, 9/2012

INTERNATIONAL CONFERENCE ON ENTERPRISE CHALLENGES: HOW TO OVERCOME ECONOMIC CRISIS

September, 2012

Hanoi, Vietnam

ORGANIZERS:

Hanoi University of Science and Technology, Hanoi, Vietnam

HOSTED BY:

School of Economics and Management, Hanoi University of Science & Technology, Hanoi, Vietnam

CONFERENCE CHAIR:

Nguyen Dai THANG, Dean, School of Economics and Management, Hanoi University of Science & Technology, Hanoi, Vietnam

CONFERENCE ORGANIZING COMMITTEE:

<i>Dr. Nguyen Dai Thang</i>	Hanoi University of Science & Technology, Vietnam
<i>Dr. Nguyen Danh Nguyen</i>	Hanoi University of Science & Technology, Vietnam
<i>MBA. Nguyen Quang Chuong</i>	Hanoi University of Science & Technology, Vietnam
<i>Assoc. Prof. Nguyen Ai Doan</i>	Hanoi University of Science & Technology, Vietnam
<i>Assoc. Prof. Nghiem Si Thuong</i>	Hanoi University of Science & Technology, Vietnam
<i>Assoc. Prof. Tran Van Binh</i>	Hanoi University of Science & Technology, Vietnam
<i>Assoc. Prof. Nguyen Van Thanh</i>	Hanoi University of Science & Technology, Vietnam
<i>Prof. Do Van Phuc</i>	Hanoi University of Science & Technology, Vietnam
<i>Dr. Nguyen Van Nghien</i>	Hanoi University of Science & Technology, Vietnam
<i>Dr. Pham Thi Thu Ha</i>	Hanoi University of Science & Technology, Vietnam
<i>MBA. Nguyen Tien Dzung</i>	Hanoi University of Science & Technology, Vietnam
<i>MBA. Nguyen Hoang Lan</i>	Hanoi University of Science & Technology, Vietnam

CONFERENCE SECRETARIATSTAFFS

<i>Pham Thi Thanh Hong</i>	Hanoi University of Science & Technology, Vietnam
<i>Pham Thi ThanhHuong</i>	Hanoi University of Science & Technology, Vietnam
<i>Tran Thi Huong</i>	Hanoi University of Science & Technology, Vietnam

PREFACE

Welcome to the International Conference on Enterprise Challenges (ICECH2012). This conference is co-organized by Hanoi University of Science and Technology (Vietnam) and Aoyama Graduate University (Japan); and hosted by School of Economics and Management, Hanoi University of Science and Technology.

As we all know, with the economic environment changing, all enterprises was challenged with a number of risks. The International Conference on Enterprise Challenges (ICECH2012) is aiming to bring together both Vietnamese and international researchers in the field of management and economics to share ideas, problems and solutions, especially with regard to use of new and emerging technologies to address socio-economic challenges. Thus, creating an opportunity both for academics and practitioners from industry to discuss recent progress in this area is also a main purpose of ICECH2012.

The conference has received generous support and help from many people and organizations to make this event possible. Firstly, I would like to express my sincere thanks to all the authors for their excellent contributions and to all the paper referees for their time and expertise regarding paper review, particularly, to the invited speakers, Prof. Chiaki Iwai and Prof. Masayuki Ida from Aoyama Graduate University for delivering plenary talks at the conference. Specially, I would also like to extend my appreciation to all the program committee members for their efforts and support to the conference. Most specially, I would like to thank all the conference secretariat staffs for their outstanding work for the conference.

Welcome to Hanoi, the city of peace and green. Wish all of you have a productive conference.

Dr. Nguyen Dai Thang

Conference Chair, ICECH2012

CONTENTS

Section 1: STRATEGY ORGANIZATION & MANAGEMENT

1. A comparative study of corporate culture, leadership competencies, job satisfaction, job commitment, and job performance in Vietnam companies in 2006 and 20122..
 Nghiên cứu so sánh văn hóa, năng lực lãnh đạo, lòng trung thành và cam kết của nhân viên và hiệu suất công việc của các doanh nghiệp Việt Nam tại thị trường năm 2006 và 2012
 Duong Manh CUONG (*Hanoi University of Science and Technology*)
 Fredric William SWIERCZEK (*Thammasat Business School, Thailand*)
2. Review on LEAN Practices in Vietnam Small and Medium -sized Enterprises21.
 Thực tiễn ứng dụng LEAN tại các doanh nghiệp nhỏ và vừa Việt Nam
 Nguyen Dat MINH (*Hanoi University of Science and Technology*)
 Nguyen Danh NGUYEN (*Hanoi University of Science and Technology*)
3. Các nhân tố / nhân tố ảnh hưởng đến lòng trung thành của nhân viên ngân hàng29
 Factors Influencing Loyalty of Bank Employees
 Nguyen Quoc NGHI (*Can Tho University*)
4. Market Orientation and its Effects on Business Performance of Software Companies in Hanoi38.
 Định hướng thị trường và tác động của nó tới hiệu suất kinh doanh của các công ty phần mềm tại Hà Nội
 Nguyen Thi Mai ANH (*Hanoi University of Science and Technology*)
 Ly Dieu LINH (*Hanoi University of Science and Technology*)
5. **Thực trạng nghỉ việc và đề xuất giải pháp giữ chân nhân viên tại Tổng đài 1068..... 56**
 Job Leaving and Employee Retention Solutions in Call Center 1068
 Phan The VINH (*Hanoi University of Science and Technology*)
6. Quản trị nguồn nhân lực và vượt qua thách thức thiếu hụt nhân lực trong các doanh nghiệp dệt may64
 Human Resource Management and how to Overcome Labor Shortage in Garment Enterprises
 Nguyen Ha HUU (*Thanh Do University*)
7. Các nhân tố ảnh hưởng đến quá trình xây dựng và phát triển (các) doanh nghiệp mới ở Thành phố Hồ Chí Minh72.
 Factors Influencing the Process of Building and Developing (New) Business Firms in Ho Chi Minh City
 Nguyen Quoc NGHI (*Can Tho University*)
 Tran Binh Diem THUAN (*Can Tho University*)

