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# **Vietnam – Japan Economic Partnership Progress and Prospects**

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# **Vietnam – Japan Economic Relations: Progress and Prospect**

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Hanoi, 15/11/2018



- 2018: 45 years of diplomatic relations; 10 years of signing the Vietnam-Japan Economic Partnership Agreement. Upgradation of Vietnam – Japan relation.
- Both Vietnam and Japan need to transform themselves to adapt to the rapidly changing world and the region (Financial Crisis, Impacts of IR4.0 and Digital Transformation, collision between trade liberalization and protectionism, etc.)
- Japan-Vietnam Economic Relations: The cooperation path is long enough to look backward and forward with due consideration of the aforementioned context.

## **Presentation outline**

1. Progress and issues
2. Looking forward



## Progress and issues



- Vietnam – Japan trade “flourished” since the **16<sup>th</sup> century** (Hoi An old town)
- 1973: diplomatic relation established; 1970s-1980s: suspicions; Early 1990s: specific progresses; Late 1990s-early 2000s: Promoted and enforced Vietnam – Japan initiatives; 2008: VJCEP (together with AJCEP); Up to now: Comprehensive strategic partnership + Industrial/sectoral cooperation + TPP/CPTPP
- Economic relation: Win-Win, producing very positive impacts to Vietnam’s development. However, not all were going smoothly.

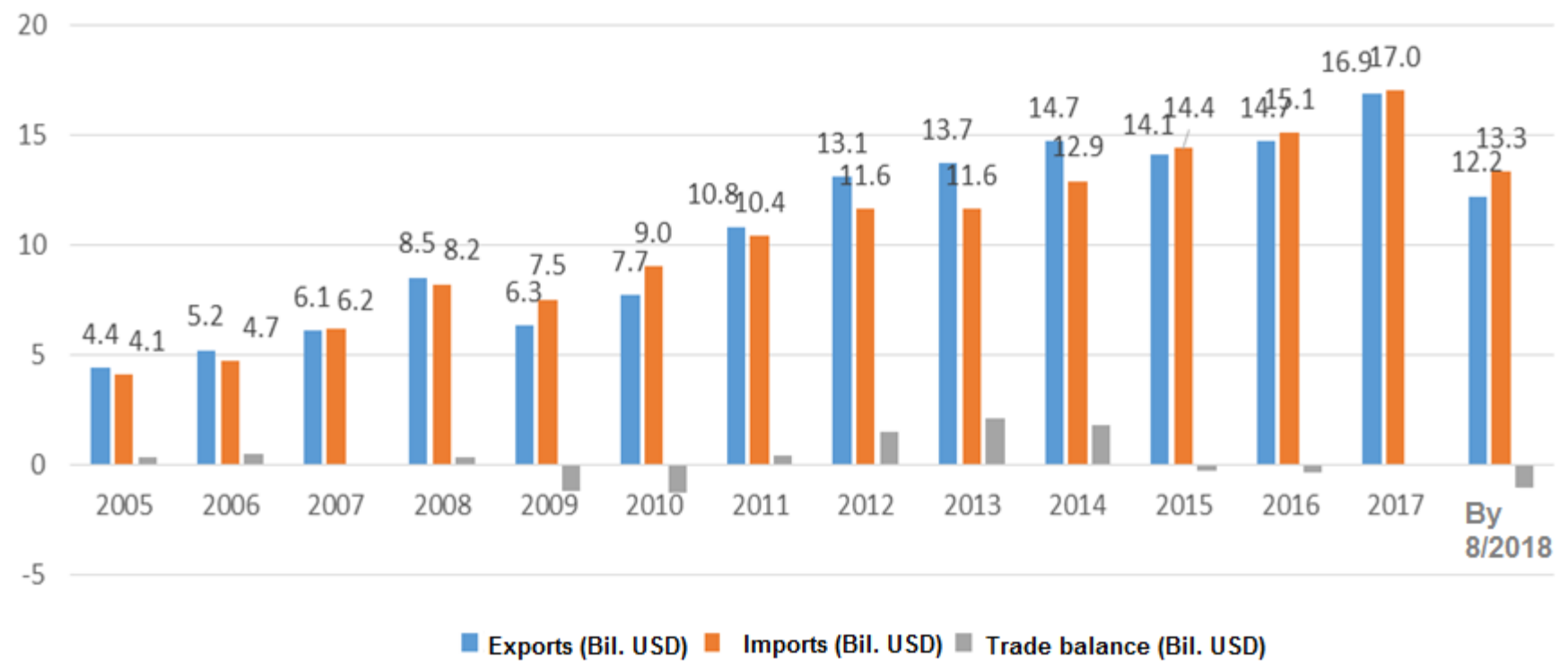


## ***Vietnam – Japan trade***

- The fourth largest partner, relatively balanced + Highly complementary + High correlation to Japanese FDI (associated with regional production networks and GVCs)
- Issues
  - The utilization rate of preferential tariff is not high (AJCEP 2017: about 33%, which is significantly lower than ACFTA and AKFTA) and low VA
  - Low growth rate compared to Vietnam - Korea; Vietnam - China; Vietnam - EU and Vietnam - US  
(Markets, including other economies? Intermediaries and Suppliers?)
  - Trade associated with sectors/areas of deeper cooperation? Trade in service (not just tourism)?



### Vietnam - Japan Trade of Goods





## ***FDI from Japan***

- Always in Top 4; currently No.2 (with  $\approx$  3700 projects, the committed capital of over USD52 billion); Leading in manufacturing industry (Vietnam has comparative advantage) and important in energy sector + the shift of Japanese investors in recent years to high-tech agriculture, real estate, logistics and finance, retail, aviation, IT (both through M&As)
- Issues
  - VN is always an attractive destination of Japanese investors. But the core weaknesses of Vietnam (according to JETRO) still persist: institutions, infrastructure; labor (skills, intermediate-level management)
  - Dominated and GVCs-led FDI: Participation of Vietnamese enterprises?
  - FDI SMEs also participated in GVCs: cooperation with Vietnamese SMEs?
  - Vietnam-Japan cooperation sectors: Relevance to the perspective and selection of the market?



## ***ODA of Japan***

- The largest supplier of ODA to Vietnam,  $\approx$  30% of total international commitments; contributing very important impacts to infrastructure development; Many projects have shown high spill over effects on socio-economic development, transfer of skills, know-how and technology transfer (such as National Highway No.5, etc.)
- Issues
  - ODA and human resources development (Vietnam – Japan University; Technology incubators, startup?) and improvement of social institutions (Japan: Society 5.0)?
  - Support to incentivize Vietnamese SMEs to cooperate with Japanese SMEs and participate in regional production networks and GVCs
  - Integrating ODA into the PPP framework in infrastructure development
  - Coordination in mobilizing resources to implement regional connectivity programs (MPAC; APEC Blueprint; BRI,...)?





## Looking forward

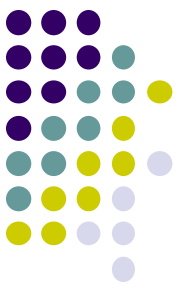
### ***Foundation and potentials***

- Sharing traditional and cultural values
- Sharing similar views and supports of the two fundamental issues of the world and the region: (i) Peace, stability and security (including non-traditional security), and (ii) Economic and trade integration on the basis of open, free, fair, and rules-based principles (WTO, APEC and FTAAP, etc.)
- There is no "conflict" of strategic interests
- High reliability and good image in people's minds
- High complementarity in terms of level of development, technological level, trade structure, and population structure



## ***Challenges***

- Development needs and policies of each country
  - Vietnam: Creating foundations “to overcome the middle income trap”; shifting the growth paradigm toward more contribution of productivity and innovation; deepening integration toward “multilateralization and diversification”; adjusting the FDI attraction policy (optimization of FDI quality associated with technology diffusion and spillover effects, skills, green growth and sustainable development).
  - Japan: improving competitiveness, sustaining the leading role of innovation, ensuring growth and creating Society 5.0; strengthening the role of maintaining regional security with the active foreign policy and the traditional security alliance
- Behavior with major countries / regions: Sharing of common and some different concerns



## ***Improvement of the economic cooperation framework?***

- Foundation: The comprehensive strategic partnership framework
- Principle: Trust, respect, coordination and sharing
- Trade:
  - To integrate trade, investment, and advantages of markets in the Vietnam - Japan FTAs, particularly in relation to the need for intensive research in cooperation areas.
  - Focus on developing services (tourism, aviation, logistics, IT services, banking and finance, social insurance, etc.)



## ■ Investment:

- To review focus areas / sectors of cooperation: relevance and priority? (for example, the health sector in Japan has made a number of technological breakthroughs recently and is also related to the shift of skilled labors)
- To make breakthrough in encouraging SMEs to participate and cooperate in regional production networks and GVCs, not only in industrial production but also in supporting services (role of ODAs?)

## ■ ODA:

- To integrate ODA into the PPP framework in infrastructure development
- To develop human resources and technology incubators, startup and improve social institutions (Japan: Society 5.0)
- To coordinate in mobilizing resources to implement regional connectivity programs



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