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Research on risks and chances for foreign companies when looking for business opportunities in Vietnam

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Abstract

The article explains the risks and opportunities faced by foreign companies, especially Japanese companies, in expanding investment in the Vietnamese market. After investing in Vietnam, companies face many opportunities and risks. The article uses analytical, comparative and qualitative methods to analyze potential factors and reveal effective solutions. The results show that Vietnam has many factors to attract foreign investment, including some key factors such as political stability, a young and cheap labor force source, low-level economic growth. In addition, the growth model that relies heavily on trade and exports also makes the Vietnamese economy more vulnerable to external shocks. Solutions need to be examined more carefully to attract potential investment sources from all regions of the world. However, the growth of foreign direct investment in Vietnam is one of the main drivers of Vietnam's economic development, but it also has its downsides.

Keywords: risks, investment, potential factors, Vietnam

1. Introduction

The driving force behind Vietnam's economic development is foreign direct investment. This is an important part of the overall capital investment. In Vietnam, it is important to attract direct investment to speed up economic development. So far, Vietnam has attracted many capitals investment projects with a high total investment volume. Capital investment contributes to Vietnam's import and export and industry (Figuié& Moustier, 2009). Mainly direct investments from Japan. As of December 31, 2010, Japan has 1418 investment projects and is one of the largest investment countries in Vietnam. Japan's capital investments have contributed significantly to the economy, creating new products, increasing the proportion of processed products, and particularly increasing exports of electronics and computers (Băbuţ& Moraru, 2018).Japan is a technologically advanced industrialized country and the level of foreign investment is enormous every year (Meyer & Nguyen, 2005). In addition, in recent years the inflow of capital investment from Japan to Vietnam has increased, but in reality, capital investment from Japan is not stable (Edgington & Hayter, 2013). The attractiveness and effective use of capital investments from Japan is the goal of many ASEAN countries. In fact, Vietnam has not yet competed with ASEAN countries and has not become Japan's central manufacturing base. In this context, there is an urgent need to study the advantages, disadvantages, and factors affecting Japanese capital investment in Vietnam so that appropriate solutions can be found to increase the attractiveness of Japanese capital investment in Vietnam.

2. Literature review

As of 2015, Japan had 101 investment projects in Vietnam, ranking third in the region with newly registered capital and additional capital of US$1.8 billion each. In 2016, it ranked second in Vietnam with an investment of $2.1 billion. In particular, Japan's investment capital increased to US$9.1 billion in 2017, making Japan the top investor in Vietnam. Among them, manufacturing is the most common followed by real estate and retail in third place (Meyer & Nguyen, 2005).

In 1986, the Vietnamese government proposed the “Doi Moi” policy. In order to overcome the capital shortage situation, Government of Vietnam started raising capital in

Japan. The Vietnamese government has issued various policies, resolutions, documents, and laws to amend the foreign investment law, develop human resources, complete the banking system and build infrastructure (Băbuţ& Moraru, 2018). In fact, foreign investment, including investment capital from Japan, reformed the economic structure such as technological development, job creation, income growth, and market expansion, making the Vietnamese economy a member of the world economy (Figuié&Moustier, 2009).

While it brings benefits, foreign investment, including capital from Japan, can have a negative impact on Vietnam. If it accepts too much foreign direct investment, it will discourage it and not seek maximum domestic capital, which can lead to an imbalance in the investment structure and result in an economy dependent on foreign investment (Edgington & Hayter, 2013). Therefore, if the weight of foreign investment capital in the total amount of development investment is too large, it will have a negative impact on Vietnam's economic independence, and economic growth may depend on foreign capital. From time-to-time foreign companies sell off, eliminate competitors, and market monopolies to the detriment of domestic companies (Vukovich et al., 2018).

The financial strength of foreign companies adversely affects the political economy by widening income inequality, rural development disparity, and the gap between rich and poor. However, the Vietnamese government will reduce such negative impacts and get much profit from this investment if there is a plan in line with the state of economic development (Kim et al., 2012).

3. Methodology

Approaches such as collecting, comparing, and analyzing topic-related data are used. Research using information and data from books, newspapers, magazines, related documents, and the Internet. The information was selected for inclusion in this research work in consultation with the group members. Then new ideas are discussed, analyzed, and introduced into the analysis of specific data.

4. Results and discussion

4.1 Status of Japanese companies expanding into Vietnam

In general, relations between Vietnam and Japan are good. Recently, investments from Japan have tended to shift from China to Vietnam. Southeast Asian countries will be an attractive region for Japanese investors in the future as labor costs in China are high, Chinese are frequent stealers of data and technology, and the United States recently increased tariffs on China. Should be. Japanese companies are always attracted to Vietnamese workers. In addition, Vietnamese consumers have a fairly good impression of Japanese products. Japanese companies are said to pay their workers well and have good social policies. Until now, the Vietnamese have considered that the products manufactured by Japanese companies are of very good quality (Figuié& Moustier, 2009).

Japan's investment funds are focused on the industrial sector, with 1,242 projects with a total investment of US$30.4 billion and 892 projects in the service sector with a total investment of US$4.2 billion. The remaining projects in agriculture, forestry and fisheries are 32 projects with a total investment of 136.2 million. Industry is Japan's main area of investment in Vietnam. Japan's FDI structure is concentrated in the industrial sector, and industry is also Japan's superior sector (Edgington & Hayter, 2013).

Currently, Japanese investment projects in Vietnam are 100% foreign-owned. The form of the joint venture also accounts for a large part of the venture capital. On March 20, 2013, Panasonic Appliances Vietnam opened a new washing machine manufacturing plant in Thang Long II Industrial Zone, Hung Yen Province with an investment ofUS$32 million. The capital of this new factory is 100% from the Panasonic Group of Japan.

4.2 The role of FDI in Vietnam's economic development

Estimated total social investment in 2010 is 800 trillion, up 12.9% from 2009, equivalent to 41% of GDP. In particular, private investment and investment in housing accounts for 31.2% of total social investment, and national investment (government budget, national investment, government bonds, national investment credit and investment capital sources of state-owned enterprises) is increased from22.5% to4.7% by 2009.

Regarding foreign direct investment (FDI), by the end of November, there were 833 new projects with total registered capital of $ 13.3 billion, accounting for 60% of the same period of 2009, of which $ 10 billion was implemented. Estimated to be an increase of 9.9%. The FDI of the registered amount is lower than in 2009, but the ratio of the actual investment amount to the registered amount is higher. This is the focus of attracting FDI in 2010. In 2010, total social investment increased to 41% of GDP, but the growth rate was only 6.7%. In addition, it seems that the use of capital from the government and capital from bonds has been slowed down, often wasting or losing investment capital for project management. These features are vigilant for both short and long term (Edgington & Hayter, 2013).

Economic growth of the host country by creating new jobs, improving the quality of work and increasing the export value ratio. Sustainably develop the economic structure of local governments, adjust the human resource imbalance for the economic restructuring process to market rules, support the domestic economies that are members of the world economy, and invest in the host countries. The position will also be increased. Replenish capital for regional socio-economic development. It is a process of transfer of science and technology together with foreign direct investment (Tien et al., 2020).

It is an opportunity for the host country to acquire new science and technology and advanced experience in foreign enterprise management. It helps increase workers' productivity and income, improve quality of life, and improve the society and environment of the host country. Strengthening domestic management and opening up foreign markets (Figuié& Moustier, 2009).

Since the selection of foreign investors depends on the investment area and field, the initiative to use the investment structure is limited. Foreign direct investment often involves customs and cultural issues affecting the host country (Vukovich et al., 2018). Without a concrete and scientific investment plan, resource depletion, pollution and investment inefficiencies can occur. If this is not strictly regulated, the host country can get outdated technology. Without assessing the capabilities of foreign companies, the use of FDI will be ineffective. The inability to compete with foreign direct investment companies reduces the number of domestic companies and affects the host country's trade balance. Exchange rate risk has a significant impact on the reputation and status of the host country (Cao, 2016).

4.3 Chances of investing in Vietnam

Located in Southeast Asia, Vietnam is one of the regions where the economy is developing. With stable politics, favorable economic conditions, a younger population and a growing middle class, it's an ideal place to grow your business. Vietnam is a market economy, a member of the WTO and participates in many international organizations including Free Trade Agreements (FTAs). Vietnam in particular is involved in the negotiations on the Trans-Pacific Partnership (TPP). This is an attractive perk for investors. Then it is possible to have the opportunity to look at the promise for foreign companies to invest in Vietnam (Edgington & Hayter, 2013).

Vietnam is regarded as the second attractive investment destination of theComprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) after Brunei because of its low labor cost. Vietnam has a population of 92 million and is the 14th largest in the world, accounting for 60% of the population under the age of 35. Therefore, Vietnam has many labor benefits. This is a young workforce that can receive new knowledge that meets the demands of the knowledge economy, especially when the Industrial Revolution is exploding. Vietnam has solicited foreign investment funds because of its low labor costs of about $ 1 an hour, especially lower than those in other developing countries (Figure 1). This is Vietnam's competitive advantage, especially in the production of labor-requiring commodities (Nguyen et al., 2022).

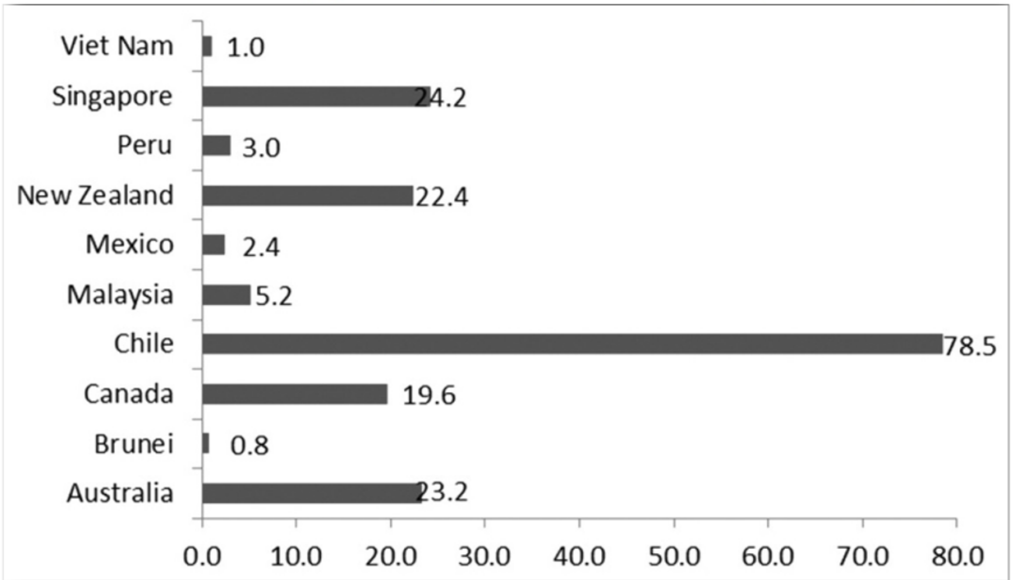

Figure 1. Vietnam's labor costs (USD / hour) compared to CPTPP countries

Investors believe that the productivity of the Vietnamese workforce is lower than that of other developed countries. Considering the correlation with Vietnam's labor costs, the cost of each product is still low. The International Labor Organization (ILO) states that Vietnam's wages are lower than those of developed countries in Southeast Asia and Northeast Asia. In 2013, the average monthly salary of Vietnamese workers was US$300 (equivalent to VND7 million). This salary is only half of the average monthly salary in China ($600, which is VND14 million). On the other hand, the average monthly salary of Japanese workers is about $12 to $1,500 (equivalent to 34 million Dong). Therefore, Vietnam's cheap labor is expected to become a country that attracts international investors. Human resources have increased exponentially in all areas and the structure has changed positively (Vukovich et al., 2018). The number of human resources in industries that use the sources of highly qualified human resources is increasing. Human resources in fields such as transportation, information technology, medicine, construction and machinery are converging on experiences from developed countries. Human resource training has changed and improved the quality of training according to workers' conditions and circumstances (Băbuţ& Moraru, 2018).

Vietnam is located in the center of Southeast Asia, close to areas with many dynamic economies. Furthermore, Vietnam's position not only gives it an advantage in international economic transactions, but also creates opportunities for Vietnam to connect with economic regions such as the Asia-Pacific region and western Indochina Peninsula (Edgington & Hayter, 2013).

Over the years, Vietnam has introduced many tax incentives for foreign investors to attract foreign direct investment and develop its economy. The Foreign Investment Encouragement Act (FIPA) in Vietnam was amended by the state legislature in June 1990 and December 1992. These are specific provisions related to policies that create favorable conditions for foreign investors (e.g., cost of services and electricity), preferential treatment of land and taxes, and investment protection (Kim et al., 2012).

Tax exemptions or tax reductions due to national foreign investment control decisions. The import and export duty reduction and exemption applies to import and export goods from foreign subsidiaries and foreign companies that have signed business cooperation contracts.

Foreign companies that have signed business cooperation agreements with foreign companies pay 15% to 25% of the profits they make, with tax exemptions for up to two years from the year they first make profits, and 50% tax cuts for the next two Years. When transferring profits abroad, the investor pays a transfer pricing tax of 5% to 10% of the amount transferred abroad (Cao, 2016).

The Vietnamese legal system has been gradually integrated and reformed worldwide, which allows investors not only to create the conditions for long-term activities, but also to participate in global supply chains and global value chains. With economic reform policies since the early 1980s, Vietnam has transformed from a low-income country to a middle-income country. Vietnam has achieved great results after more than 30 years of innovation by applying market economy. The economy is growing relatively fast compared to the average of the world and the regions surrounding it (Băbuţ& Moraru, 2018).

In fact, political instability has always been a major concern for foreign investors. Vietnam has maintained its socio-political stability for many years. According to Vietnamese foreign investors, Vietnam's economic and political stability is an important factor in attracting investors, which is an important condition for long-term investment in Vietnam. French economist Philippe Delaland claimed that political stability would bring peace and prosperity to Vietnam (Figure 2).

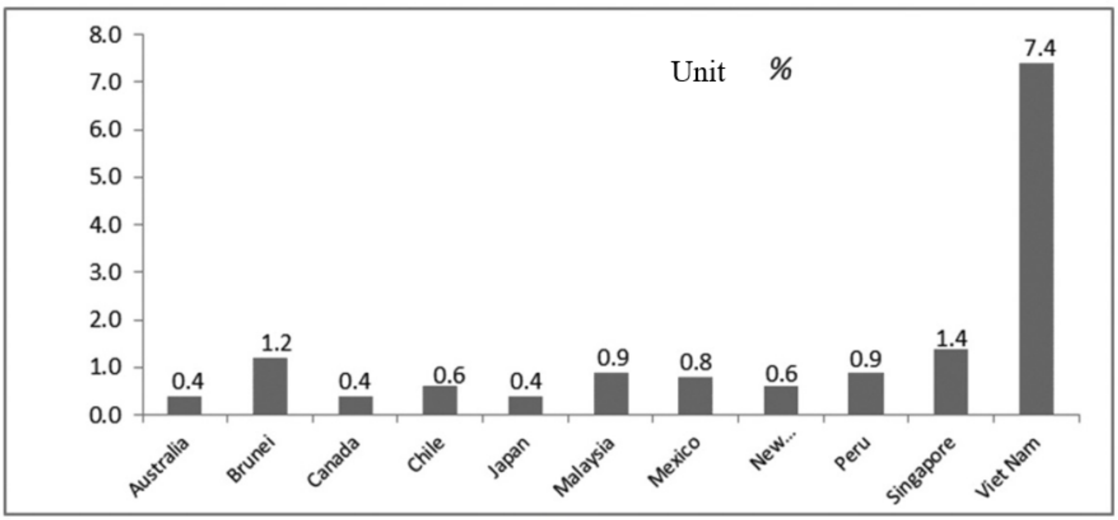

Figure 2. Fourth quarter economic growth in CPTPP countries

Due to the troublesome and unclear administrative procedures and the bad attitude of civil servants, companies are very expensive and have trouble with sales activities. In addition, administrative procedures in specific fields often annoy companies. For example, customs procedures, import / export procedures, customs clearance procedures, procedures for reporting financial statements for manufacturing / processing / export, etc. In addition, companies are also troubled by the provision that certain products must be approved by many ministries and agencies at the time of customs and customs registration. There are many things that are not needed in the tax return form (Sharma, 2014).

According to the Vietnam Bureau of Statistics as of December 27, the labor productivity of the economy as a whole is about 932 million dongs per worker (equivalent to $4,159 per worker), calculated from the current 2017 price. Compared with 2010 prices, the labor productivity of the overall economy increased by 6% in 2017 compared to 2016 and by an average of 4.7% annually from 2011 to 2017. Vietnam's labor productivity has increased remarkably in recent years, and although it is a country with a high labor productivity growth rate in the ASEAN region, Vietnam's labor productivity growth rate is currently lower than that of countries in the region. Calculated from 2011 purchasing power, Vietnam's labor productivity reached $9,894 in 2016, with Singapore 7.0%, Malaysia 17.6%, Thailand 36.5%, Indonesia 42.3%, the Philippines 56.7%

and Laos. It corresponds to 87.4% of gender. In particular, the labor productivity gap between Vietnam and other countries is widening (Meyer & Nguyen, 2005).

5. Recommendations

It should be a politically stable and safe country (no foreign kidnapping or terrorism). At present, however, the Vietnamese government has issued stable long-term policies and regulations so that companies can be sure that they will make future business plans and expand investments and apply them equally to foreign countries. Sought after by investors. Investors also suggest not applying new policies in the short term that have not been prepared in advance. Now that we have opted for free market development, we should respect market rules and free trade agreements. Therefore, ministries and regions should take care of investors and review, revise and supplement economic policies and legal documents that do not comply with international conventions. It is also expected to be removed when necessary (Nguyen et al., 2022).

Currently, Vietnamese workers lack specialization, IT is developing slowly. In order to be able to further develop IT and industry, we need workers with modern technology, expertise and knowledge. Education in Vietnam must conform to international standards (Kim et al., 2012). The recruitment of joint ventures is clear. A concrete personnel development strategy that Vietnamese partners do not recruit voluntarily is important for industrialization and modernization (Cao, 2016). Currently, Vietnam's education system is still theoretical. Do not focus on students' creativity and independent thinking. If this situation continues, Vietnam's technology should be subordinated to foreign countries. Because of the poor quality of education, the national education system requires the government to be responsible for educating many people, not just the best. To improve teaching and learning. There is a renovation of modern educational institutions and a good student recruitment plan. If it is not about learning and application, there is a lack of human resources in this area, but it escapes the situation of additional human resources in other areas. Think about the field of study and the quality of the education. Although there is a need to encourage study abroad, the government will control the fields and subjects of study and establish policies in order to attract human resources to return to the country from abroad and contribute. In this way we escape the brain drain and create trained human resources (Băbuţ & Moraru, 2018).

One of the reasons for the declining competitive quality in attracting foreign capital in Vietnam is the weak infrastructure (Tien et al., 2020). There were many shortcomings related to foreign investment in Vietnam's infrastructure. Since 2001, the Vietnamese government has requested ODA investment in construction and projects, including many important projects in irrigation, energy, transportation, clean water supply and urban sanitation, health education development, post, telecommunications, etc. The list has been published. In Vietnam, all genre departments and regions had a 2001-2010 development plan approved by the prime minister. It is a great effort to build and develop an economic and social infrastructure that promotes future economic development.

6. Conclusion

The financial strength of foreign companies adversely affects the political economy by widening income inequality, rural development disparity, and the gap between rich and poor. However, the Vietnamese government will reduce such negative impacts and get much profit from this investment if there is a plan according to the state of economic development. Industrialization and modernization are Vietnam's aspirations, but Vietnam is still poor and its infrastructure is poor. Therefore, foreign investment in Vietnam plays an important role. Instead of adding capital, Vietnam and Japan will do fine with diplomatic relations. Transfer technology, create jobs, improve income, develop infrastructure, create new professions. Previously, Vietnam's investment capital was mainly the Soviet Union, but thanks to expanded diplomatic relations. The number of foreign investors in Vietnam, especially from Japanhas increased.

Conflict of interests

None

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