

Vietnam-Japan Trade Relations
in the 1st Decade of the 21st Century

By

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ABSTRACT

Since the early years of the past century, the expansion of integration and economic cooperation has become an inevitable trend for economic development of countries. The globalization has opened up significant economic opportunities to countries that no one can deny. In such context of the international division of labor is going strong, the international economic cooperation has become the best way for states to promote their maximum advantage, as well as fully exploit the benefits of the other countries to serve their country namely, Singapore, Malaysia and Thailand. Vietnam, too, to accelerate the process of industrialization and modernization, the Communist Party and government have been implementing the foreign policy of openness and diversification and multilateral international economic relations, taking the objectives of peace and development as the standard for all external activities.

Unexceptionably, both Vietnam and Japan have found each other in the favorable conditions, as well as the mutual national economic benefits to develop and strengthen bilateral cooperation relationships between the two countries. The pinnacle of this relation was marked by the Vietnam-Japan Economic Partnership Agreement signed in 2008. After over three years of implementation, there have been a significant benefits and opportunities gaining from the Vietnamese-Japanese trade relations. Besides the positive results achieved in the trade relations, there have been some limitations that need to be surmounted, removed to further develop the full potential of the two countries, to strengthen the relationship between the two nations.

The purpose of this research is to evaluate economic effects of Vietnam's accession to Vietnam-Japan Economic Partnership Agreement (VJEPA) by implementing tariff elimination, logistics enhancement, and reduction in service trade barriers. The hypothesis is that two participating countries can benefit from the accession, resulted in higher real GDP and economic development. The research has found out that VJEPA is an important step on a longer journey of partnership between the two countries through the evidences of new opportunities for both but there is still a lot of work to be done on both sides to take full advantage of the relationship.

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ABBREVIATIONS

AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CEPT	Common Effective Preferential Tariff Scheme
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FTAs	Free Trade Agreements
GATT	General Agreements of Tariffs and Trade
GDP	Gross Domestic Products
NAFTA	North American Free Trade Agreement
NIEs	Newly Industrialized Economies (NIEs)
ODA	Official Development Assistance
SAARC	South Asian Association Regional Cooperation
TNCs	Transnational Corporations
VJEPA	Vietnam - Japan Economic Partnership Agreement
WTO	World Trade Organization

CHAPTER ONE

INTRODUCTION

This thesis examines how the Vietnam-Japan Economic Partnership Agreement will change the economic relationship between Vietnam and Japan.

1.1. Rationales to the study

The early integration initiatives as well as the new wave of regionalism that has swept the world have drawn attention to the various possible forms and shapes of regional integration. These range from shallow forms of integration, which place greater reliance on coordination and cooperation, to more traditional forms of free trade agreements and customs unions, to deeper forms of economic integration (common markets, monetary unions) and other types of political, strategic, security, social regional integration and cooperation agreements. In this context, a new wave of regionalism is an important feature of the global political economy. Since the 1990s, the number of bilateral or regional Free Trade Agreements (FTAs) that have been signed has increased dramatically. In the Asian region, for instance, countries like China, Japan, Korea and Singapore have pursued FTAs as one of their trade policy options since the early 1990s. Christopher Dent (2003) has called the sudden proliferation of regional bilateral free trade agreements “one of the most important recent developments in the Asia-Pacific regional political economy” (C. Dent, 2003, p. 2). In East Asia, despite the diffusion of FTAs, known as ‘the third wave’ in the 1990s, the region was characterized by a near absence of formal FTAs and regional institutions.

Three main reasons that Asian countries might want to sign bilateral agreement can be categorized as follows: national welfare via bilateral economic co-operation, domestic politics and geopolitical concerns. Regional states might wish to improve national welfare, subject to the constraints imposed by the international system and the behavior of other states. Particularly, states will seek to make agreements that are beneficial to the domestic economy in general. Secondly, states may be motivated by domestic political considerations when entering into a bilateral agreement; for example, they are sometimes motivated by a belief that a bilateral agreement will be

essential for a specific group with political influence, whereas the country as a whole will not benefit. Obviously, domestic political concerns could also lead states to oppose to bilateral agreements that they otherwise view as having positive interests' effects for a society as a whole. Third, states might be motivated by geopolitical concerns, supporting bilateral agreements that are viewed as being beneficial to national security, and opposing those seen as detrimental to security.

Lying in such a trajectory of development, Vietnam also realized the importance and necessity of entering bilateral agreements with a plethora of countries, especially with regional nations. In its economic development process, Vietnam places importance on developing economic cooperation with developed partners in order to attract their foreign direct investment (FDI) and encourage exports. For Vietnam, FDI contributes to supplementing shortages in capital, technology, and management skills, and simultaneously boosts exports and expands the market for domestic goods.

Reflecting its orientation towards economic growth and development, Vietnam has always recognized Japan as one of its most strategic trade partners. From 2000 to 2012, the economic relationship between Japan and Vietnam has continuously improved and it still has enormous potential for further development. Vietnam and Japan established diplomatic relations in March 1973. Over the last 40 years, the relations of the two countries have developed continuously, particularly trade relations which have grown significantly. Since the Soviet Union and Eastern European bloc disintegrated, Japan has become Vietnam's largest trading partner. It also has an important role for the economic development process of the Socialist Republic of Vietnam. The birth of the Vietnam-Japan Economic Partnership Agreement (VJEPA), which provided a framework for both the governments and businesses of Japan and Vietnam to strengthen cooperation in many areas, signed in 2008 has marked an important milestone for the two countries in their efforts to capitalize on the benefits of their emerging relationship. Most remarkably, the year 2013 is a very important landmark for Vietnam and Japan relations when the two countries are celebrating the 40th anniversary of diplomatic relations (21/9/1973 - 21/9/2013). However, there has been no academic research on the VJEPA in Vietnam in recent years. Hence, there is a rigorous need for investigating and evaluating the impact of the VJEPA in the context of Vietnam-Japan relationship.

Furthermore, Vietnam is considered to be interesting as part of a pattern of Japanese engagement in the region. The process of commercial development between the two countries can be divided into three stages: 1973 - 1986, 1987 - 1992, and 1993 up to now with two decisive landmarks in 1987 and 1992. Before 1987, trade relations between the two countries existed but were generally low level and not stable. During this period from 1973 to 1978, the trade of the two countries increased, but it declined in the period from 1979 to 1982. Then in 1986, trade relations between Vietnam and Japan grew again. Since 1987, Vietnam has entered a new phase with attention turning to the market economy and implementing an open-door policy. This is a turning point in Vietnam's economic development as well as in both the internal and external relations.

Trade relations between Vietnam and Japan have entered a new phase with two characteristics, which are the significant increase in sales volume and a growing interest in the Vietnamese market on the part of Japanese companies and traders. From 1992 up to now, the first years of the 21st century, trade relations between the two countries have continuously grown despite the declining in two years from 1998 to 1999 due to the financial and monetary crisis in the Asian region. The most important cause of improved trade relations between the two countries, was strong economic circumstances in the region and internationally. However, this broad economic change was supported by Japan's internal shift in strategic foreign policy, particularly toward the ASEAN countries in general and Vietnam in particular. Vietnam's attractiveness to Japan has also been increased due to political events such as the U.S. policy of trade embargo against Vietnam (February-1994), and the U.S. normalization of relations with Vietnam (July-1995).

However, Vietnam-Japan trade relations still have room for improvement. For example, the ratio of the total export-import turnover between the two countries has not been compatible with both nations' desire and potential of cooperation. Vietnam has a trade surplus with Japan and there is still scope to improve the structure of exporting commodities between two countries.

Therefore, many issues should be studied, such as whether or not Vietnam-Japan's trade relations are appropriate with the inherent potential of the two countries.

What does Vietnam need to promote and improve the efficiency of Vietnamese and Japanese trade relations? What are the trends of development in Vietnam and Japan trade relations? What are the solutions for Vietnam to improve and enhance the efficiency of Vietnam-Japan trade relations in particular and Vietnam-Japan relations in general?

The above aspects of the setting stimulated the ideas from which this thesis begins. The purpose of this research is to examine the implications of the Vietnam - Japan Economic Partnership Agreement for Vietnam in the context of Vietnamese economic policy.

1.2. Objectives of the study

Generally, this study investigates the effects of the Vietnam-Japan Economic Partnership Agreement in the context of the broader economic relationship between Vietnam and Japan. The target period is in the stage of 2008 to 2012 particularly. I have two objectives in conducting this study. Firstly, I aim to explore the nature of the Vietnam-Japan relationship. The second is to see how the Vietnam - Japan Economic Partnership Agreement reflects and alters that relationship.

Based upon the result of investigating the Vietnam - Japan Economic Partnership Agreement, I will come to conclude that the agreement suggests that the relationship between Vietnam and Japan is flourishing in economic and strategic terms. However, significant economic issues remain. I will end with some recommendations to resolve economic issues in the context of the Vietnam and Japan relationship in coming years.

1.3. Significance of the study

In recent years, the Vietnam-Japan relationship has played an important role for Vietnam. Since 2000, Japan has ranked the one of the biggest aid donors to Vietnam and been the biggest trading partner and largest source of FDI for Vietnam. Therefore, firstly, I hope to identify the nature of the existing economic relationship between the two countries and the reasons why the two countries entered into the VJEPA. Secondly, this study helps to investigate and analyze the Vietnam and Japan trade

relations. Finally yet importantly, there seems to be no academic studies of the Vietnam-Japan economic partnership agreement available in Vietnam. For those reasons, the thesis is an effort to illustrate a range of academic literature relating to this subject and to address the problems and challenges faced by Vietnam concerning promoting or improving existing agencies to improve the effectiveness and productiveness of promoting the economic relations towards foreign countries, which is a premise for enhancing the comprehensive strategic cooperation.

1.4. Methodology and sources

This is the first study on VJEPA and one of very few on Vietnam-Japan economic relationships. Therefore, this thesis draws on a broad range of available literature on the relationship between the two countries.

For the longer-term relationship between Vietnam and Japan, the thesis mainly uses existing secondary literature but some of the statistics on the trade relationship come from the primary sources, collected by the author.

Since there is no pre-existing study of VJEPA, this dissertation has had to rely heavily on primary sources from the Vietnamese government bureau of general statistics, though it also illustrates available commentary from government sources and the press such as the publications of Vietnam's Ministry of Trade and Industries, Ministry of Foreign Affairs, Japan's Ministry of Finance, Vietnam Economy News, Forum of Economic Diplomacy, and Nhandan online.

1.5. Limitations

Akin to an economic partnership agreement, the VJEPA emphasize the features of liberalization, facilitation and cooperation. In particular, it encompasses a wide range of aspects including tariff reduction, removal of non-tariff barriers, cooperation agreements and capacity building projects. The implementation of the VJEPA has been conducted over three years. Hence, the insufficiency of time series data prevents a full evaluation of the actual impact of the VJEPA on Vietnam-Japan's trade relations. Furthermore, my research is conducted in the context of the intervening and

ongoing global financial crisis. In the late of 2008, Japan suffered a recession with a strong yen further eroding exports weakened by falling worldwide demand. Last but most notably, Japan continued witnessing a series of unfortunate events including an earthquake of 9.0 magnitudes and the tsunami on March 11, 2011. These global and local economic conditions have significantly affected Japan's execution of its international commitment and its trade relations.

With reference to the fifteen areas covered by the VJEPA, this study will focus on the progress achieved including trade in goods and services, foreign direct investment and official development assistance. Rather than attempt a thorough review, the research will highlight some main trends in trade and investments and developments in trade facilitation.

1.6. Overview of the thesis

The thesis consists of five chapters. Chapter 1 presents the rationale to the study, objectives, significance, methodology and source then states an overview of the whole thesis. Chapter 2 reviews the rise of bilateral agreements in Asia Pacific and the existing economic relationship between Vietnam and Japan before entering the VJEPA. This review shows that Japan and Vietnam had some positive motives in starting bilateral agreements. In this context, the two countries' national interests fit together as strategic trade and investment partners due to their comparative advantages. Chapter 3 depicts and analyzes the details of the existing Vietnam-Japan trade relationship so as to see how exactly a trade agreement might help bolster economic ties and therefore to cement a political relationship. The results show that the trade between the two countries has been growing strongly, reflecting complementary comparative advantages even though there is potential for further improvements. Chapter 4 describes the Vietnam-Japan Economic Partnership Agreement and key consequences of the agreement. This proves that VJEPA builds on two countries' relationship. These include outcomes, the most important things in the text, the economic impact so far and Japan's evaluation of the Vietnam-Japan trade relation. VJEPA provides Vietnam better access for its most significant exports through tariff reduction and creates a framework for the two countries to engage in wider cooperation to make Vietnam a more attractive destination for Japanese

investors. However, Vietnamese firms encounter some obstacles to be able to benefit fully from the opportunities VJEPA creates. Finally, from what have been discussed in previous chapters, VJEPA has created a closer, more comprehensive legal framework for the development of the economic, trade ties between the two countries. Chapter 5 focuses on recommendations and conclusions of the study and indicates its limitations as well as recommendations for further research in order to promote the relations and cooperation of Vietnam and Japan in as comprehensive strategic partnership.

CHAPTER TWO

THE RISE OF BILATERAL AGREEMENTS AND THE VIETNAM-JAPAN RELATIONSHIP

This chapter encompasses two sections and draws on the rise of bilateral agreements in Asia Pacific and the existing relationship between Vietnam and Japan before entering the VJEPA. Together, the issues provide the background against which we can answer the question “How does the VJEPA affect the economic relation between Vietnam and Japan?”

2.1. The rise of bilateral agreements in Asia Pacific

2.1.1. Definitions of regionalism and regional integration

In order to classify countries’ motives for signing bilateral agreements, it is necessary to review theories of regionalism to define regional integration. Among numerous studies relating to the motivation of regionalism and regional integration, the following definitions have been more popular as follows.

John Ravenhill (2005) has distinguished the two terms of regionalism and regionalization by stating that “regionalism refers to a formal process of intergovernmental collaboration between two or more states” whereas, “regionalization refers to the growth of economic interdependence within a give geographical area” (Ravenhill, 2005, p. 174). Furthermore, regions are considered as social constructions whose members define their boundaries.¹

More specifically, Beeson (2005) argued that “regionalism is not simply a contingent, functional response to the ‘needs’ of international capital, but an essentially political process informed by multidimensional economic and strategic factors.” (Beeson, 2005, p. 2)

¹ RAVENHILL, J. (2005). Regionalism. In *Global Political Economy* (pp. 173–203). Oxford: Oxford University Press.

Fukunari Kimura (Kimura, 2013, p. 52) has pointed out the economic motivation for bilateralism in the Asia-Pacific which has been occurring in Japan, Korea, China, and the ASEAN countries. He stated that “bilateralism is regarded as a transitional tool for “regionalism” even though bilateral FTAs are concluded one by one” (Kimura, 2013, p. 52). As an illustration, one of the motivations of signing bilateral agreements in East Asian countries is the need of gaining experiences of other parts of the world. East Asian countries have been exploring the impact of the new trade agenda that goes beyond tariff removal. They have learned trade facilitation, services, government procurement, investment rules, policy of enhancing competitiveness, standard-setting, dispute settlement mechanisms, intellectual property rights and economic cooperation.

Concerning regional integration, Rumford and Murray (2003) noted that the term “integration” has launched a thousand articles and courses at universities across the globe (Rumford & Murray, 2003). These are concepts that have to be approached with an awareness of the need to avoid normative implications. Thus, regional integration processes are meant to provide a peaceful arena in which sovereign countries voluntarily combine their efforts in areas of mutual concern, creating common regional interests and objectives.

2.1.2. Factors of encouraging the rise of bilateral agreements

Combining the above definitions, we can see that the rise of bilateralism or regionalism in international arena is encouraged by the combination of three main factors. First, national economic welfare is taken in consideration when the two countries build up their relationship (Dent, 2003; Higgot, 2005; Krugman, 1991; Ravenhill, 2003). Second, domestic politics influences the pursuit of establishing trade cooperation (Grossman & Helpman, 1995; Mansfield et al, 2002; Milner & Kubota, 2005; Milner & Rosendorff, 1997; Ravenhill, 2005). Third, national leaders mostly make alliance to ensure their national security and due to its geopolitics (Feridhanusetyawan, 2005; Higgot, 2005).

National Economic Welfare

National economic welfare is a central motivation for bilateral cooperation. As shown by Krugman (1991), countries that are close to each other are more likely to represent “natural” trading partners; particularly if the costs of transportation are high, states can benefit by reducing barriers in respect of such natural partners (C. M. Dent, 2013, p. 22)². For instance, increasing participation in the GATT/WTO gives states an incentive to join bilateral agreements as a way of improving their bargaining leverage in the multilateral regime. Besides, states involved in a dispute in the GATT/WTO are also more likely to join bilateral agreements as a means to improve their bargaining leverage. When two nations sign bilateral agreements, they sometimes reduce barriers to trade. That fosters greater specialization in areas of comparative advantage, yielding increased trade and efficiency gains. Moreover, bilateral agreements can also improve the welfare of member countries by enabling, through increased market size, firms of participating countries to achieve economies of scale. Simply put, states are more likely to join bilateral agreements during rounds of multilateral trade negotiations.

What is more, several studies that have considered the recent heightened interest in bilateral agreements in the Asia-Pacific region have emphasized changes in the regional and global economic environment. In these studies, the regional turn toward bilateral trading arrangements is often implicitly or explicitly viewed as being motivated by national welfare considerations in a more adverse international environment. In particular, the failure of extant regional (APEC, AFTA) and global (WTO) regimes to make substantial progress with trade liberalization at the multilateral level after the late 1990s, led several states in the region to consider bilateral trade agreements as, in essence, a second-best path (Dent, 2003; Higgot, 2005, Ravenhill, 2003). Particularly, Ravenhill (2003) points out that some governments in the region, and in particular Japan, have also been motivated in part by a belief that regional bilateral agreements in other parts of the world have been successful (Ravenhill, 2003). Briefly, economic welfare concerns have clearly been

² Cited in (Dent, 2003, p.22)

salient factors driving the recent increased interest in bilateral formation in both Central and East Asia because through bilateral agreements, individual countries could pursue and promote commercial relations.

Domestic Politics

While economic welfare concerns may at times be an important motivating factor behind the formation of bilateral agreements, it is obvious that other factors are typically highly salient as well. Ravenhill (2005) argues that governments have often entered regional economic agreements motivated primarily by political rather than economic considerations. Bilateral agreements, for example, are often signed by countries that do not in any way appear to be “natural” trading partners, suggesting that the formation of such blocs is primarily trade-diverting (Ravenhill, 2005). For instance, Japan would seem so interested in signing bilateral agreements with countries like Mexico and Thailand, both minor trading partners in order to protect export markets at a time when the global trading regime is in difficulties.

It is important to note that domestic political incentives can heavily influence their decision to pursue or not pursue bilateral agreements. Grossman and Helpman (1995) posit that when interests harmed by trade liberalization hold strong political power, leaders are likely to find it difficult to negotiate trade creating - and net welfare enhancing - trade agreements (Grossman & Helpman, 1995). In relevant to this insight, Milner (1997) contends that countries will be especially likely to pursue regional trade accords when scale economies are important to domestic firms, or when existing tariff rates are low (Milner & Rosendorff, 1997). The political influence of domestic firms with overseas FDI is a key intervening variable in this regard: when these firms are powerful, leaders are more likely to be active in pursuing bilateral agreements with states where those firms have overseas investments. The extent to which narrow industrial or protectionist interest groups is able to influence trade policy likely pivots on a country’s political institution.

Furthermore, Mansfield, Milner and Rosendorff (2002) develop a signaling argument that suggests democratic leaders in particular may have a strong domestic political reason to sign trade agreements with other states (Mansfield, Milner, & Rosendorff, 2002). Then, Milner and Kubota’s study (2005) has found that domestic

institutions can impact substantially on trade policy more broadly and there is good reason to believe that these effects could carry over to the signing of bilateral agreements in particular (Milner & Kubota, 2005). Additionally, domestic institutions could also affect the likelihood of bilateral agreement formation for other reasons: for example, it may be easier for states with similar institutional frameworks to enter into bilateral agreements, especially if the bilateral agreement entails significant harmonization. In essence, trade agreements offer democratic leaders a way to signal to domestic audiences that they are pursuing economic policies geared toward the welfare of the median voter, rather than toward special interests. For illustration, among East Asian countries, Japanese and Korean governments today are actively and strategically pursuing bilateral FTAs with their trade partners. East Asia was engaged in 120 FTAs (including those under negotiation or study) as of 2009, and there are more to come.

National Security and Geopolitics

Geopolitical considerations can also influence leaders' decisions regarding bilateral agreements. In particular, bilateral agreements might be more likely to form among formal allies than other states. For instance, since the event of 9/11, leaders may at times choose to sign bilateral agreements with allies primarily as a means to signal commitment to that ally, or to reward an ally for cooperation in some international issues, such as counter-terrorism (Higgot, 2005). In this case, trading arrangements may be designed to help an ally. As Feridhanusetyawan (2005) has put it, "it has been common for trade agreements to be used to cement the political relationship among the countries involved." (Feridhanusetyawan, 2005, p.13)

Finally, leaders of powerful states sometimes establish bilateral agreements with weaker countries as a means to reinforce their influence over the latter. As Ravenhill (2005) argues, "Regional agreements, especially bilateral free trade areas, may also enable more powerful states to bring their weight to bear more effectively on weaker parties" (Ravenhill, 2005, p. 181). In short, bilateral agreements can lead to asymmetric specialization, where the smaller states specialize heavily to interact with the large state, but not vice-versa, which in turn makes the smaller states disproportionately dependent on the bilateral relationship, meanwhile, weaker states

motivated primarily by welfare or domestic political concerns might enter into agreements with stronger states despite these disadvantages.

In such circumstance, Asian countries have been eager for bilateral agreements because they want to bolster intra-Asian trade. For instance, in global supply chains, parts made in one Asian country from raw materials imported from another are re-exported to a third for final assembly. These countries hope that more bilateral agreements will enable more specialization. More to the point, India hopes that its new FTA will allow it to become a hub for Korean electronics companies seeking to exploit lower labor costs to make goods destined for markets in the Middle East.

Therefore, in the light of increasing regionalization and globalization, Vietnam's membership in ASEAN facilitates its economy and accelerates its integration into the world economy. International competition promotes greater efficiency in the allocation of resources. For this reason, as Vietnam's economy is subjected to competition from the other ASEAN countries, resources are pulled towards those activities that generate greater income and welfare of its people. The accession to the Common Effective Preferential Tariff (CEPT) Agreement and Vietnam's participation in many other areas of ASEAN economic cooperation such as intellectual property, services, industrial cooperation and investment also sends a strong signal to foreign investors of the direction of its economic policies. They strengthen the perception that Vietnam is firmly committed to the continuing liberalization of her trade and investment regime. Most importantly, Vietnam's participation in AFTA is also leading to an early adoption of those norms and practices governing the conduct of international trade. This is especially important given Vietnam's application for accession to the World Trade Organization (WTO) and embarked the following bilateral agreements with other countries.

From what have been discussed, three major motives including national welfare via bilateral economic co-operation, domestic politics, and national security, geopolitical concerns have been proved to lead to the bilateral agreement forming between any two countries. These motivating factors influence the rise of bilateral agreements for both developed countries and developing countries. Existing studies have confirmed empirically the significance of many of these causal variables for the formation of bilateral agreements in general and in the Asia-Pacific region in particular.

2.2. Japan's momentum to enter bilateral agreements

A nation's foreign economic policy is not created without any reasons and is in large part driven by changing circumstances both within and beyond its borders. With purposes of evaluating the impact of the Japanese and Vietnamese Economic Partnership Agreement in the recent time, it is necessary to review the motives, approach, and the shift of economic policy of Japan. Recently, Japan's foreign economic policy has experienced a dramatic transformation: a profusion of entering into regional and bilateral trade relations with variety of countries after 1990's. In this section, I am trying to explain the three issues: (1) How does Japan see the Southeast Asian relations? (2) Why did Japan start signing the bilateral agreements recently? (3) Factors defining the innovation of foreign economic relations in Japan.

(1) How does Japan see the Southeast Asian relations?

In examining the role of Japan in East Asian relations, the "flying geese" model has been used to explain the course of development in this region. Based upon his studying in Japan, Akamatsu (1962) used the analogy "flying geese" to apply to the situation in which countries are said to follow one another in a developmental trajectory in which the late comers reproduce the developmental experience of the countries ahead of them in the formation. "The wild-geese-flying pattern of industrial development denotes the development after the less-advanced country's economy enters into an international economic relationship with advanced countries". (Akamatsu, 1962, p. 11) In this model, Japan holds the position of the 'lead goose' as the producer and supplier of high technology whereas the East Asian states use Japanese technologies to produce for exporting to Japan.

In another article written by Bernard and Ravenhill (1995), the authors have proved that there has been a hierarchically interdependent economic relationship between Japan and Southeast Asian countries. Japan plays the leading role in the rapid development which occurred in Southeast Asia via foreign direct investment and official development assistance. Additionally, Japan gains the benefits in rotating their old technologies to East Asian countries, which begins to export low-tech manufactured goods and moves up by producing more sophisticated goods for export in the region and beyond. Hence, through this production cycle, Japanese companies

might save domestic labor cost and Southeast Asian countries have benefitted from foreign direct investment.

It is encouraging to note that Japan has emphasized on the integrated relation to the East Asian region and generated increasingly an East Asian cooperation area with its leading role (Yamashita, 1998). Japan has increasingly recognized the developmental potential of East Asia and is still seeking further involvement in the region economically. The reason for this shifting focus is that East Asian states are considered as low-cost production and export platforms for Japan.

Regarding the first question, (Hook, Gilson, Hughes, & Dobson, 2001)) have an elaborative analysis on the Japan's economic re-penetration and presence in East Asia which is manifest by its Official Development Assistance (ODA) projects and Foreign Direct Investment (FDI). ODA and FDI were functions of rebuilding the links between Japan and the East Asian economies (Hook et al., 2001, p. 195). Consequently, the Japanese Foreign Direct Investment in East Asia increased nearly fourfold. Most recently, in the early 1990s there was a rise of Japanese investment in East Asia. For example, by 1995, Japanese investment towards East Asia countries occupied 23% of the world's Foreign Direct Investment. Especially, the majority of Japanese investment was devoted to the manufacturing industry with between 40 to 60 per cent in the formation of production capital in the electronics, automobile and metallurgy industries. (JETRO, 1999, p. 51)

Furthermore, Pempell and Urata have confirmed that Japan's interest in East Asian is due to the realization that East Asian has become an important economic partner for Japan and for its companies. (Pempell & Urata, 2013, p. 78) Meanwhile the Japanese economy has matured, while East Asia is projected to grow significantly faster. Therefore, Japan is eager to use FTAs to increase its ties, by providing a large amount of economic aid and foreign direct investment, with the fastest growing parts of East Asia. Moreover, the Japanese business people aimed to make the East Asian countries reduce or remove import protection. Japan regarded bilateral agreements with these countries as important to maintaining its influence in East Asia not only in economic activities but also in international relations.

Briefly, this section has described the evaluation and position of Japan in its relations with the Southeast Asia in recent years. On the one hand, Southeast Asian countries always acknowledge Japan to be a leading partner in political, economic and geo-strategic interests. On the other hand, Japan highly values relations with its regional neighbors due to its needs of natural resources, technology transfer, export markets and influence. The Japan-Southeast Asia relationship is typically a hierarchical and interdependent one.

(2) Why did Japan start signing the bilateral agreements recently?

Secondly, in terms of the reason why Japan started signing bilateral agreements recently, there have been some explanations but Solis and Utara's (Solis & Urata, 2007) analytic paper has been the most clear and rationale one. They have claimed that Japan's external economic policy has become increasingly strategic and activist in its orientation in recent years, and that this shift can be seen in its active promotion of economic partnership agreements (EPA). The authors argue that the remarkable degree of policy activism in both trade and ODA in the last decade is not a coincidence, but rather is a response to common challenges: (1) domestically the economic recession, (2) internationally the pressure for policy convergence and (3) competition with China. (Solis & Urata, 2007, p. 3)

First, worries about various domestic financial and economic issues, such as its declining labor force, have led Japan to proactively look for bilateral FTAs in order to open its regional markets and strengthen its gloomy economy. For instance, FTAs have proliferated in the recent decades because the WTO process is too slow, as shown by the lack of progress in the ongoing Doha Round, which is seen to be going nowhere. Bilateral FTAs also provide a convenient tool to slowly tear down domestic resistances to trade liberalization in Japan. Hence, FTA can facilitate Japan in economic development to solve domestic recession.

Second, consolidating partnerships among major democracies, particularly those in the Asia-Pacific region is a necessary motive to engage and hedge against China to protect Japan's role in the region, which serves regional position in the world arena in term of its influence. Nowadays, each country has to join together to tackle not only traditional as well as the nontraditional security issues. In such context, Japan needs to

consolidate an effective mechanism for confidence-building with different countries so that it can win the ability of market access. More importantly, among the ASEAN countries, Japanese MNCs already enjoy duty drawback on the imports of components and parts, not to mention the easier market access for their products within the ASEAN FTA framework. Recently, it has been proved that bilateral trade agreements can help Japan stabilize the reform process. For instance, in 1996 Japan ranked as the main aid donor towards East Asia and the rest of Asia (MOFA, 1998)³. Furthermore, Japanese ODA projects are prepared and awarded by Japanese companies, which aimed to make the requests on behalf of the recipient government. In his article, Soderberg concluded that Japanese ODA can be seen to have supported the penetration of East Asian markets by Japanese TNCs (Soderberg, 1996, pp. 72–88)⁴. Evidently, Japan expects economic returns mainly in the form of market access or non-pecuniary gains in the form of geopolitical mileage in the recipient countries. Japan has used its ODA to promote Japanese business interests. Japan's ODA has helped secure access to raw materials for Japanese industries, gain markets for Japanese exports, and defuse bilateral trade frictions.

Third, of all the explanations given by the authors for Japan's shift in foreign economic policy, the most plausible one is China's activist position. The rise of China is the main external causal variable for explaining the recent shift in Japanese policy. China's "rise" in this case refers mainly to its economic growth and its increasingly activist policy toward bilateral FTA because the enlargement of China's domestic market has created significant trade and investment opportunities for the global economy which becomes a risk for Japan in the regional market. The only rational response is to innovate a policy to engage in different market shares and neutralize other competitors. That can explain the reason why Japan has adopted an equally active EPA policy in the region and focused on the economic growth in South-East Asia in order to counteract the commercial influence of China in this market. This

³ MOFA. (1998). *Japan's Official Development Assistance 1998*. Tokyo: Association for Promotion of International Cooperation.

⁴ Soderberg, M. (Ed.). (1996). Japanese ODA: the business perspective. *The Business of Japanese Foreign Aid: Five Cases from Asia* (pp. 72–88). London: Routledge.

may also have motivated Vietnam's initiative to reach its first bilateral agreement with Japan.

To sum up, this section has drawn on the reason why Japan started signing numerous bilateral agreements, especially with South-East Asian countries. Japanese policy makers are encouraged in improving their bilateral relations with regional countries mainly due to Japan's domestic economic recession, the current demand of innovative convergent policy and its intention of containing China's rise.

(3) Factors defining the innovation of foreign economic strategy relations in Japan

After the Cold War, the face of the world has changed a lot: the place of military confrontation was turned mainly to economic competitiveness. The geopolitical status was significantly replaced by geo-economy in which its main goal was the establishment of the European Community (EU), the North American Free Trade Area (NAFTA), and the arc of economic cooperation in Asia-Pacific Economic Cooperation (APEC), including Japan, China and the U.S. which were the countries playing a critical role. Originally, of three countries, considering only the synthetic strength and global influence, the U.S. was the most superior. In some certain extents, it can be said after the Cold War ended, the United States became the current sole superpower. However, after years of competition for power and influence with the Soviet Union, the United States' real strength, especially in the economy significantly diminished. Even though the American financial oligarchies have gradually realized the importance of the Asia - Pacific region with the fast growth of the economy, they seemed to be so helpless; the U.S. still could not expand more its influence to this region. Meanwhile, the international and the regional context after the Cold War offered Japan a great opportunity to be able to become an economic and political power in the region. The idea of refocusing investment from Europe back to Asia has become increasingly clear in Japanese policy-making leaders as well as business world. For this result, Japan took advantage of every opportunity to expand its influence in the region.

In fact, Japan's idea of economic cooperation in Asia - Pacific region had its germ in the early 1960s, under various names such as "economic arcs of East Asia",

or "economic arc of Asia-Pacific". However, it was not until the early 1990s, this idea really became mainstream thinking in the foreign policy of Japan, and Japan increasingly focused the attention of its interest in this area. Especially the idea of "an Asian Development Corridor" was increasingly evident in the foreign policy of Japan. This is a new concept mentioned after the Cold War, but in fact is deployed from the previous idea of setting a goal of "the Commonwealth of the great East Asia" by Japan. (Rimmer, 1994) Thus, which foundation is Asian Development Corridor set from? And what is the role of Japan in the Asian Development Corridor?

First, in terms of growth motivation, East and Southeast Asia is the place where important changes have happened, also known as the place where the eventful revolutions on the economy are happening. In this place, there exist the most dynamic economies, which are implementing rapid market liberalization, including former command economies such as China, Vietnam and Myanmar.

Second, this region continues the process of a revolution in terms of capital including a range of new policies aiming to maximize the mobilization of domestic and foreign capital sources and to implement a tighter more stable its fiscal regime. This has drastically changed the financial situation of the region. For instance, the rise of inflation has been controlled, the balance of payments is improved. Many newly industrialized countries and former ASEAN states, which previously suffered persistent budget deficits, then in the 1990's, have become countries which are not only sufficient in capital resources but also have abundant capital to invest in other less developed countries (LDCs) in the region.

Third, not long ago, the service, industry, especially the tourism sector of the region was underdeveloped. However, in the 1990s, the domestic and regional services, industrial sectors in general and tourism in particular have become important sectors, and have accounted for an average of 25% to 35% of GDP. (Emmers & Ravenhill, 2011) The revolution in the telecommunications industry, which is happening fast, also concentrated in the payments services and tourism, and is considered an important industry in the Asian industrialized countries.

Fourth, the scientific and technology revolution has completely changed the Asian backward and dependent economies and moved some countries in Northeast

Asia and Southeast Asia from being dependent on the technical techniques imported from the West to applying research and developing the technology application for their domestic market. The Newly Industrialized Economies (NIEs) of East Asia have become the countries exporting the technology resources mainly to the least developed countries in the region.

Fifth, in conjunction with the process of restructuring and liberalization of trade, the Asian region is currently conducting a trade revolution, increasing the ability for exporting of goods and services in a growing number and an advanced quality to the world market.(Ngo Xuan Binh & Ho Viet Hanh, 2002)⁵

Given the above five revolutions, the Asia region created a new attractive motivation. This will not only enhance the stability of economic growth, but also acting as an important condition for increasing the capacity of cooperation and economic regionalization between the Asian developing countries, creating growth connection in trade, transport and communications between Japan and Asia, China and Asia, and between Asia and South Asian Association Regional Cooperation (SAARC).

Through this growth, in the near future, Asia will shape the economic cooperation with the scope of entire regions. In the commercial sector, through this connection, the system of free trade, intellectual property system, the system of international technology transfer, liberalization of capital flow of foreign direct investment as well as sources of ODA will increasingly be intensified. In the transport sector, in the Asian region, there will form a regional system of highways, railway, seaway and airlines to connect the regional nations. In the telecommunications sector, through the modernization measures, the self-motivated internationalization of telecommunications industry in language coding, the center post-telecommunications, telecommunications systems and high frequency processing centers will create.

⁵ Ngo Xuan Binh, & Ho Viet Hanh. (2002). *Nhật Bản năm đầu thế kỷ XXI [translated from Vietnamese] (Japan in the beginning of the XXI century)*. Hanoi, Vietnam: Nhà xuất bản Khoa học Xã hội.

The above trends do not only demonstrate for the trends in increasingly regional integration through economic linkages but also the scientific basis for Japan's idea of establishing Asian Development Corridor as well as the growing role of Japan in the Asia - Pacific region.

Moreover, the above underlying changes do not only influence the international and regional economic environment but also the foreign trade of all countries, including Japan. Innovation in foreign economic policy and overseas economic expansion of Japan in the 1990s, especially in the Asia - Pacific region, also originated from Japanese specific factors as follows:

First, Japan's economy is characterized by an externally-oriented economy. The establishment of economic exchange relations with other countries is an essential condition for the steady economic growth of Japan. On the one hand, the development and prosperity of Japan is heavily dependent on natural resources and markets in Asian developing countries, on the basis of which to create the necessary prerequisites for the economic development of Japan. Realizing this, Japan has increasingly been proactive and aggressive in promoting the development of comprehensive relations with countries in the Asia-Pacific region, especially the NIEs, ASEAN and China.

Second, foreign direct investment by Japan began to increase from the mid-1980s, mainly due to rapid yen appreciation after the Plaza Treaty, 09/1985. Rapid yen appreciation forced Japanese companies to direct foreign investment flows to fully exploit the advantages of cheap labor and housing markets in the country. Especially when the rate of return on total investment costs in European countries and North America decreased significantly, Japanese companies have been investing heavily in Asia. On the other hand, even though the yen has depreciated against the dollar, due to the stagnation of domestic demand it also forced the Japanese corporations to persevere and actively seek foreign partners.

Third, Japanese firms have changed their strategy in Asia in order to implement market mechanisms and technological change in other countries, to pursue export-oriented business models and to create a pattern of "flying

geese" in which Japan is "leading goose" of the flock, exercising and increasingly dominant position over all the other Asian economies. Japanese companies are well aware of the potential of the countries in the region to meet their requirements. It is a source of cheap labor, allowing them to sell products with higher profit margins, purchase raw materials and semi-finished products with relatively low prices, and secure ample and steady supplies of labour.

Fourth, the organizational management of Japanese companies embodies an oriental style characterized by the "koenkai" and kinship, which are the very attributes that countries in the region find easy to accept. This common point shows the high adaptability of the Japanese companies in this area in comparison with the EU and U.S. companies, and so is support for Japanese influence in Asia, where they have advantages compared to Western Europe and America.

In recent years, increasing trade and foreign investment by Japanese companies is also a result of the impact of other factors such as capital investment adjustments and foreign exchange management in Japan, which encouraged capital to move overseas. In some industries, the Japanese companies have to promote trade and investment overseas to deal with the U.S. and EU policies which forced Japan to restrict exports to these countries. Japanese companies have the comparative advantage of strong competition in the world for a number of high-tech products. Based upon improved management towards emphasizing flexibility, quality and cooperation, Japanese enterprises are forced to penetrate deeper into the national services production system in the area.

All in all, this section has discussed Japan's interests in bilateral agreements. Since 1990s, East Asian region has witnessed Japanese effort to engage with these regional countries through providing ODAs, Foreign Direct Investment to prove its leading goose in the model of "flying geese". Moreover, Japan draws on boosting its relations with regional countries to compete with the rise of China as a containment strategy. Finally, Japan highly values relationships with its regional neighbors due to

its need for natural resources, technology transfer, export markets and influence. The Japan-Southeast Asia relationship is typically a hierarchical interdependent one.

When matching up with Vietnam's policy, it is noticeably that Vietnam may fit into these Japanese priorities of its current economic, political policy such as: Vietnam has a potential of natural resources, a highly demand of technological transferring and export markets. Hence, closer ties with Vietnam might look especially desirable in political terms for both Japan and Vietnam when they intend to enhance the two nations' relations to the level of comprehensive partnership in the next few years.

2.3. Adjustment of the foreign policy of Vietnam

In light of the reform of the Communist Party of Vietnam since 1990, the foreign economic relations of Vietnam had an important step of transformation. From an almost closed centralized economy based on administrative subsidies, Vietnam has changed to develop an open economy, strengthened relations and economic exchanges with all countries, economic integration in regional as well as international levels. This has had a huge impact on the relationship between Vietnam and Japan, especially in terms of economics.

Since the early 1980's, Vietnam has had a series of policies and measures to improve external economic activities in order to encourage exports. However, innovation in the foreign economic policy of Vietnam only really happened basically since the beginning of the 1990's of the 20th century. There are many reasons for this radical innovation, in which, except for the reasons for the impact of the international and regional context as mentioned above, a number of reasons are listed by the Documents of Central Party's Committee as follows (Ngo Xuan Binh, 2009; Pham, 2010; Vietnam Communist Party, 1996a, 1996b, 2011):

- (1) The conditions for economic reform in the direction of the market was ripe, this created a premise and requirements of reforming in the external economic sector because the market economy in this era itself means an open economy.

(2) Declining and eventual end of aid from the Soviet Union and Eastern European countries previously forced Vietnam to find new customers and markets.

(3) The Communist Party and the Government of Vietnam realized that the regional and international economic integration is an inevitable process.

Some of the main contents of innovation in Vietnam's external economic policy are as follows:

*Firstly, the economic policy should be associated with the structure and development of an open economy.

One of the main features of Vietnam's new economic policy has been confirmed in the official documents which are: "Building an open and integrated economy, with effectively domestic products"(Vietnam Communist Party, 1996a, p. 85)⁶; "Adjust market mechanisms for global integration, proper handling of interest between the nation and external partners. Proactively participate in the world trade community, forums, groups, organizations, international institutions, with a selection and appropriate steps" (Vietnam Communist Party, 1996b, p. 92)

This innovation of foreign economic policy of Vietnam has been legally confirmed and stated in the Socialist Republic of Vietnam's 1992 Constitution. Some provisions of the Constitution indicate that "the Government should unify the management and expand external economic activities, develop forms of economic relations with all countries and, international organizations on the principles of respecting for the independence, sovereignty and mutual benefits, protect and promote domestic production". (Article 24 of the Socialist Republic of Vietnam's 1992 Constitution); "The State encourages foreign organizations and individuals to invest capital and technology in Vietnam, how to be accordance with the laws of Vietnam, regulations and rules of international law; ensures the legal ownership on capital, properties and other rights of foreign organizations, businesses and individuals. Enterprises with foreign investment capital are not nationalized. The State of Vietnam

⁶ Vietnam Communist Party. *Official documents of the Sixth Party Congress [Văn kiện Đại hội Đảng toàn quốc lần thứ VI]*. Hanoi: Truth Publishers [Nhà xuất bản Sự thật], 1986.

facilitates all preferential conditions for Vietnam's overseas to invest back in Vietnam" (Article 25 of the Socialist Republic of Vietnam's 1992 Constitution)

Regarding the content, Pham⁷ (2010) summarized basic innovation in the foreign economic policy of Vietnam as follows:

- Remove the regulation of internal rate of claims provisions. Remove subsidies and compensation for loss of export-import business.
- Foreign Trade Bank buys and sells foreign currencies with all subjects belonging to all sectors of the economy. Eliminate the status of monopoly authoritarian in manufacturing and export-import business.
- Strengthen the unified and closed management of the state to all the external economic activities by laws and policies.
- Simplify administrative procedures in obtaining the investment license, business registration, land lease, land clearance, installation of electricity, water, machinery and equipment imported for production.

According to economic experts, since the issuance of the Foreign Investment Law (revised) in 1996, in the legal system of Vietnam there have appeared many new laws and codes, numerous new government decisions directly or indirectly related to the field of attracting FDI. However, in addition to the results of agreement and specification of the legal regulations and rules, there still exist many other variances of rules, which are contradictory or mutually exclusive, thus making the legal environment of investment inconsistent and unstable. Therefore, in order to integrate proactively in the international arena as well as effectively ensure national sovereignty, and positively contribute into the international division of labor, Vietnam still needs to amend, supplement and improve further the law of foreign investment.

Although, in the year of 2000, the National Assembly passed the Law on Foreign Investment which was supplemented and amended, from practical experience in attracting FDI in Vietnam, economic and legal experts stated that the leading current issue is to find solutions to reduce the cost of investment so as to promote the

⁷ H.E. Pham Binh Minh is currently Vietnam's Minister of Foreign Affairs.

comparative advantages of Vietnam and to make Vietnam's investment environment equally attractive in comparison with other countries and narrow gradually the gap between domestic investments and foreign investments. These include the portfolio of investment sections and the areas of investment incentive will continue to be expanded. Additionally, Vietnamese government needs to grant more realistic preferential policies, with high attraction for projects, which need to promote investment. It is urgent to solve issues strictly related to land clearance, land use rights mortgage, real estate, foreign currency and credit support, technology, transfer tax, environmental, investment switching and enabling the foreign experts to participate in the stock market in Vietnam.

In term of attracting official development aid (ODAs), Vietnam has policies and positive measures to achieve greater funds. At the same time, Vietnam has also worked on planning and feasibility studies in economics, while well preparing for incoming capital as well as the supply of other factors of production in countries such as: land, labor, raw materials and equipments manufactured in the country.

*Secondly, positive and proactive prepare to participate gradually in the process of globalization and economic integration with the regions in the world.

Although the world and regional economic situation has become increasingly complex, especially in recent years, Vietnam has gradually implemented policies on economic integration in the region and the world, guided by the principles of maintaining independence, sovereignty, steady integration, exploiting domestic and external resources effectively; taking advantage of the potential of the international division of labor and international conditions favorable to the industrialization and modernization of the country's development towards social orientation; and seeking equal cooperation and mutual benefit.

The Vietnamese Communist Party has recognized the inevitable trend of international integration and has advocated policies of integration with the regional and international economies. Hence, the Eighth Party Congress identified its foreign policy as follows: "Maintaining independence along with the expansion of international cooperation, multilateralization and diversification of external relations

on the basis of mainly domestic resources together with maximizing external ones". (Vietnam Communist Party, 1996b, p. 97)

In order to implement the policies of regional and international integration, Vietnam has actively participated in the activities of ASEAN, introducing compliance with AFTA step by step. In social sectors, such as poverty alleviation, cultural cooperation, the women's and the youth's movements, Vietnam has made specific contributions. Vietnam also took the initiative to establish the joint-nation development projects in poor areas of the Vietnam-Laos-Cambodia along the corridor East - West of the Mekong Delta. Subsequently, Vietnam's participation in ASEAN and AFTA, and being a full member of APEC at the 1998 meeting held in Malaysia, were all further steps in the integration process, reflected the growing role of Vietnam in the region and the world.

Vietnam's task at the moment is to develop a comprehensive strategy to manage its links with international agreements such as AFTA, APEC, ASEAN and the WTO. There is much to be done to raise external awareness of business opportunities in Vietnam

The shift to industrialization strategy oriented towards export markets means that the external markets should be considered as a key momentum for growth, especially when the purchasing power of the domestic market is very small. This aims to attract the potential of capital, science and technology for the process of industrialization and modernization of the country, while promoting comparative advantage in natural resources and manpower of the country.

Resolution of the 7th Congress of the Communist Party of Vietnam Central Committee (VII) has pointed out: "Innovate the export structure, produce export goods with high export turnover towards better exploitation of comparative advantages, especially advantages from human resources, implementing the policies of exchange rate how to encourage export, to adjust imports effectively, to improve procedures for import - export license, especially license granting, etc. Promote organizations which are in charge of marketing, services, and export-import associations. Gradually participate in the associations, regional and international economic and trade organizations, etc." (Vietnam Communist Party, 1991, p. 56)

In the system of economic management of the country, Vietnam has implemented the substitution of the principle of state monopoly in foreign economic relations by allowing manufacturers, business units of all components involved in the international economic cooperation and trade with foreign partners, multilateralizing markets in order to expand trade relations and investment with all countries around the world, in which, the Asia – Pacific, is considered as an extremely important position. At the same time, Vietnam also gradually liberalizes the domestic market by removing quotas, reducing cumbersome administrative procedures and implementing united tariff regimes as per the international standards and practices. Except for the list of prohibits for export - import commodities which are under the management of the state, the remaining items are freely exported and imported under the provisions of the law on export – import tax.

*Thirdly, strengthen and encourage foreign direct investment (FDI) and official development assistance (ODA) with the appropriate policy measures.

To achieve those goals, Vietnam advocates building a stable macroeconomic environment, preferential policies, rules, clear and consistent regulations, strictly implement them so that people can feel sure to invest and develop manufacture and business.

Briefly, from what has been discussed, it can be seen that Vietnam has gradually shifted from the mechanism of state monopoly on foreign economic relations with a unified mechanism into a mechanism of state management of foreign economic through policies, legislation and plans toward building and developing an open economy. In this process, Vietnam has made to remove the monopoly and business franchise, and tyrannical of the companies which are eligible of doing foreign business, develop an open economy with many economic sectors involved, encourage all economic sectors to participate, diversify foreign business units. Furthermore, Vietnam realized the importance of enlarging relationship with ASEAN and pursuing the economic integration and economic strategy. When matching up with Japanese

momentum and criteria of searching for new bilateral relations and Vietnamese renovation policies in terms of regional and global integration, there are some convergences in the necessary and sufficient conditions for the two nations' relations to flourish.

2.4. Relationship between Japan and Vietnam since 1990

2.4.1. Political relations

Vietnam and Japan set up diplomatic relations on September 21st, 1973. Vietnam-Japan relations have occurred for many up-and-down stages and “now the economic, political, cultural relations are continuously extended; mutual understanding and trust between two countries are significantly improved.” (MOFA, 2010)⁸ Relations between the two countries have developed rapidly since 1992 when Japan decided to resume its Official Development Assistance provision to Vietnam. Notably, the year of 2013 is chosen as the 40th Vietnam-Japan Friendship Year. In that light, the relations between the two countries have reached a new level. The two countries have also formed a macro-level framework for their relationship. Through continuous expansion and progress of economic and political relations and cultural exchange activities, the two countries' relation has been strengthened on the basis of mutual understanding into a comprehensive strategic partnership.

Japan has supported Vietnam's ‘Doi moi’ policy and its integration into the region and the world by helping Vietnam to join APEC, WTO, ASEM, and ARF; and campaigning for increased OECD technical aid to Vietnam. The two sides support each other at important international forums, including the United Nations. (MOFA, 2010)

Since “Doi moi” was initiated in 1986, Vietnam's comprehensive economic reform process has brought a period of profound change in the policy environment and institutions for economic development. One of high priorities in Vietnam's

⁸ MOFA. (2010). Vietnam – Japan relations. MLNews. Retrieved August 11, 2013, from http://www.mofa.gov.vn/en/cn_vakv/ca_tbd/nr040818111106/ns070817150104

multifaceted and multi-directional diplomacy has been given to strengthening relationships with developed economies so as to mobilize external resources for the country's development. Economic policies have brought significant achievements to Vietnam, the group policy affecting international trade has played an important role, if not critical. Vietnam's foreign trade operations contribute an important source of income, employment and create the foundation for restructuring the economy. (United Nations Conference on Trade and Development, 2008)

All in all, on the one hand, Japan has contributed to Vietnam's industrialization and modernization process by a great deal of foreign direct investment and official development aid. On the other hand, Vietnam has appropriate conditions that fit with Japan's requirements including the low-priced labor force, abundant natural resources and an attractive business environment with socio-political stability.

2.4.2. Japan is one of the most important economic partners of Vietnam in terms of ODA and FDI

In the context of the East Asian region is undergoing tremendous trends of regional integration, there are important opportunities for Japan and Vietnam to strengthen their relationship. On the one hand, Japan plays a highly significant role in Vietnam's development, offering high levels of Official Development Assistance, supporting capital and technology transfer as well as providing a major source of Foreign Direct Investment. On the other hand, Japan is keen to promote relations with Vietnam as one of its strategic partners to build an East Asia into a region of peace, security and development. Vietnam is an increasingly attractive destination for Japanese traders and investors because the country is known for its abundant natural resources, young, hard working labor force, and socio-political stability which is favorable for business. (Chu, 2003)⁹ Recently, Vietnam has had a more important role in Japanese diplomatic policy due Vietnam's increasingly active role in the international arena. For example, Vietnam's achievements in hosting the ASEM V Summit (2004) and APEC Summit (2006) and its non-permanent membership in the

⁹ Chu Tuan Cap, Vietnam's Ambassador to Japan. (2006). *Japan Times*.

United Nation Security Council (UNSC) during the term 2008-2009. As the largest donor to Vietnam, “from 1992 to 2005, the total Japanese ODA for Vietnam reached about US\$ 11 billion, accounting for over 30% of the total committed ODA from the international community to Vietnam; the said amount includes US\$ 1.4 billion of non-refundable aid” (MOFA, 2010) In the two countries’ cooperation framework, there are a many forms of bilateral cooperation from aid, trade, investment, education, tourism, labour, political-security to culture, and people-to-people exchanges.

It is worth noting that Japan is the one of the biggest aid donors to Vietnam, especially Japan’s regional ODA program for Vietnam. Japan has significantly contributed to Vietnam’s infrastructure building, human resource development, and technological capability building as Vietnam seeks to narrow the development gap with its regional counterparts. (See Appendices for details) Japan’s ODA tremendously assisted for Vietnam’s industrialization and modernization. In particular, the project was financed by the Japanese government known as the East-West Economic Corridor (EWEC). This project builds 1,450 km of highway running through 13 provinces of four ASEAN countries in the Greater Mekong Sub-region namely Laos, Myanmar, Thailand, and Vietnam with an aim to potentials and advantages of the sub-region for further development and development gap reduction. Vietnam has benefited from this project in which the poorest parts of Central Vietnam can make use of their geographical position at the central North-South axis of the corridor and the gateway to the sea. Bilaterally, Vietnam plays an important role in Japan’s ODA diplomatic strategy as one of Japan’s largest ODA recipients. (Tran Van Tho, 2003) As Vietnam has effectively used Japan’s ODA, Japan has been encouraged to increase ODA for Vietnam. To ensure long-term interests for Japanese companies doing business in Vietnam, Japan’s ODA policy emphasizes improvements in living and social aspects, the strengthening of governance and the promotion of economic growth for Vietnam. Vietnam is always highly appreciative of Japanese people for the valuable ODA which assists Vietnam in its industrialization and modernization process for the sake of long-lasting interest of the two countries and peoples, contributing to common peace and prosperity in the region.

Together with Japan's ODA, FDI is beginning to play a vital role in Vietnam-Japan economic relations. Since 2001, being concerned about the risk of concentrating investment in China and the rise of China, more Japanese companies have changed their focus away from China and towards ASEAN countries. In that context, Vietnam is increasingly seen by Japanese companies as a key ASEAN destination for investment. With its WTO accession and having won the Permanent Normal Trade Relations status with the US, Vietnam has drawn in Japanese investors, with up to 160 new projects in 2006. The signing of the Vietnam - Japan Agreement for the Liberalization, Promotion and Protection of Investment in 2004 has helped to sustain the momentum of increasing investment inflows of Japan into Vietnam. FDI from Japan to Vietnam between 2006 and 2007 is 10 times faster than the total FDI during the five years from 2000 – 2005. By 2008, Japan ranked second amongst 82 countries and territories investing in Vietnam with registered capital of US\$ 16.7 billion, and was rank first in term of implemented capital that is US\$ 5.2 billion with Japan's 983 FDI projects under effect in Vietnam. (Cao Viet Sinh, Deputy Minister, Ministry of Planning and Investment, 2008)¹⁰ Vietnam is becoming an increasingly important destination for Japanese companies and a major FDI recipient from Japan. With the lowest labour cost in ASEAN, Vietnam is expected to become a production and export base for shipping commodity products to third countries, primarily in the rest of Asia. (Hisane, 2006)

Since 2003, individual ASEAN countries have been eager to seek better access to Japan's domestic market by concluding bilateral EPAs with Japan. Vietnam's policy makers realized that Vietnam would face discriminatory treatment in Japan's market if Vietnam could not reach agreement with Japan. Therefore, it is important to examine and analyze Vietnam-Japan trade relations through the lense of the Vietnam-Japan EPA.

¹⁰ Cao Viet Sinh, Deputy Minister, Ministry of Planning and Investment. (2008). Vietnam Asia-Pacific Economic Review. *Special Edition on the Occasion of the 35th Anniversary of Vietnam-Japan Economic Cooperation and Cooperation*, 35.

2.4.3. Other bilateral diplomatic ties between Vietnam and Japan

Under the driving forces of regional integration, Vietnam and Japan have established and increasingly strengthened their comprehensive cooperation through a range of multi of bilateral diplomatic ties relating to education, health, and historical and cultural exchanges. For illustration, over the past decade, there have been frequent exchanges of the two countries' leaders and high-ranking officials.

Most significantly, the visit of Japanese Prime Minister Shinzō Abe to Vietnam in January 2013 marked an important milestone in enhancing the strategic comprehensive relations of the two countries. Especially, the year 2013 was chosen to be the time of celebrating the 40th Vietnam-Japan relations as both nations embarking on furthering their strategic partnership. The two nations have held annual dialogues on economic, security and national defence issues. (MOFA, 2013)

Moreover, the similarities in culture with a long history of relations between Vietnam and Japan have facilitated the mutual understanding of the two peoples. The intensified cultural and educational exchanges between the two sides have been consolidated and improved rooting the bilateral comprehensive relations in a much deeper mutual understanding. The establishment of the Japan-Vietnam Cultural Exchange Forum, which aims at discussing and promoting the two nations' various exchanges and strengthening the friendship and cooperation between Vietnam and Japan, serves as a good illustration for the increasingly multifaceted bilateral Vietnam-Japan relationship. In terms of tourism, Japanese ranked fifth in tourists to Vietnam. (Faure & Schwab, 2008, p. 93)

The cooperation between the two countries on training and education are developing in many forms and at various levels, amongst schools and other organizations, and Japan is one of the largest donors providing non refundable education-training aid to Vietnam, with thousands of scholarships of different types. (MOFA, 2010) Vietnam has benefited considerably from this educational cooperation. Recently, in the scope of ODA schemes, Japan committed to support training of 1000 Doctoral students at Japanese universities between 2008 and 2021. (Vietnamnet, 2010)

Regarding labour cooperation affairs, Japan is a potential market for Vietnamese labours. Since 1992, Vietnam has sent over 18,000 trainees to Japan. In 2004, Vietnam set up its Labour Management Office in Tokyo. On November 11th,

2005, Vietnam promulgated Decision 141/2005/ND-CP on the overseas Vietnamese labour's management. (MOFA, 2010)

In short, the cooperation and friendship between Vietnam and Japan is manifested in all fields ranging from political, economic, and educational to cultural spheres. It is essential to note that Japan extended its most favourable assistance to Vietnam. This proves the awareness of Vietnam's importance in Japanese government and people in the context of building the prosperity and security development for its nations and region.

An additional drive for Japanese involvement in regional agreements has been the need to recover from its domestic recession. To do so, Japan needs to implement a shift in foreign policy in order to enhance regional and bilateral relations with different countries. The rise of China is also a risk for Japan's external political and economic influence. Japan has entered into free trade agreements with countries such as Singapore, Canada, Chile and Mexico. In addition, Japan is trying to promote the establishment of the free trade agreements with ASEAN countries in order to expand its role as an economic power in the Asian region. This is a major change in trade policy in Japan because until the late 1990s Japan avoided bilateral agreements. Meanwhile, since 1990, Vietnam has implemented its determined reform policy, called "Doi moi". Vietnam is interested in greater external engagement for the national economic welfare, domestic politics and furthestmost to guarantee national security and its geostrategic position. In this context, the two countries' national interests fit together in the following way: Japan acts as a strategic trade and investment partner, and provides an effective and stable export market for Vietnam. Whereas, Vietnam is a potential market for Japan's companies to invest and it offers comparative advantages of low-price labor and rich natural resources which are limited in Japan.

CHAPTER THREE

ANALYSING THE VIETNAM-JAPAN TRADE RELATIONSHIP

In the previous chapter we saw that the bilateral relationship between Vietnam and Japan makes sense in terms of each country's broad strategic interests including political, economic and geostrategic interests. In this chapter, we turn to the details of the existing trade and foreign direct investment relationship between the two countries to see how exactly a trade agreement might help to bolster economic ties and therefore to cement a political relationship.

What we will see is that trade between the two countries has been growing strongly, reflecting complementary comparative advantages but there is potential for further improvements. Vietnam's main exports to Japan are agricultural products and to a lesser extent garments. There is also some gradual growth in manufactured products, often produced by Japanese firms manufacturing in Vietnam. Japanese foreign direct investment in Vietnam is on the rise, partly because Vietnam has low labor costs and partly because Japanese investors see investment in Vietnam as part of a China plus 1 strategy, designed to diversify their dependence in the region.

3.1. Introduction

In recent years, Japan became a very important trading partner for Vietnam. Since 1990, Japan has been the biggest trading partner of Vietnam. Trade turnover between Japan and Vietnam in the period 2000-2008 grew at an average of 14.8% per year. Bilateral trade was at US\$ 8.51 billion in 2005, and US\$9.93 billion in 2006, and US\$12.25 billion in 2007 respectively. By 2007, the total bilateral trade value exceeded the target of US\$ 10 billion for 2010. In general, Japan and Vietnam have enjoyed quite well-balanced trade. Import-export turnover has contributed significantly to the bilateral trade relations of the two countries.

3.2. Vietnam and Japan trade relations

3.2.1. Changing tendency in the trade cooperation between Vietnam and Japan

As can be seen in Figure 1, both export and import values for Vietnam and Japan have shown considerable progress. The growth of exports was faster with total exports from Vietnam to Japan rising from US\$ 2622 million in 2000 to US\$ 3502 million in 2004, US\$ 8538 million in 2008 and then to over 13060 million in 2012. Vietnam's exports to Japan increased on average by 19.8 % per annum. The trend of growing trade cooperation has been taking place quite rapidly from 2004 to now, especially since Vietnam joined the World Trade Organization (WTO) and since 2008 when the two countries concluded on the VJEPA.

Nonetheless, both exports and imports decreased in 2009 due to the global financial crisis and Japan's economic recessions. Exports to Japan in 2009 fell from US\$ 8538 million in 2008 to US\$ 6292 million in 2009. Only in 2009, did the trade deficit between Vietnam and Japan fall to US\$ 1176 million. Moreover, the year 2010 showed an additional change in trade figures because of the impact of the earthquake and tsunami in Fukushima, Japan, causing tremendous loss and damage and leading to slower growth of Japanese economy.

Bilateral trade between Vietnam and Japan has shown ongoing progress and the annual average growth has been around 20%-30%, with the exception of the small decrease in 2009-2010.

Since 1990, Japan has been one of Vietnam's leading trade partners. During 2000-2003, merchandise trade between Vietnam and Japan was always higher than that between Vietnam and other major partners such as China, the United States, Singapore and Korea. Since 2004, Japan had become the second largest trade partner of Vietnam.

According to the studies of Multilateral Trade Assistance Project (Multilateral Trade Assistance Project (MUTRAP), 2010), Vietnam's export structure has been increasingly well-matched with Japan's import structure. However, the potential of the Japanese market is still very large. Vietnam is still a very small trading partner of

Japan in comparison with some South East Asian countries. For instance in 2006, Vietnam only accounts for 0.7% of Japan's trade, while Singapore, Malaysia, Thailand, and Indonesia account for 2.9%, 2.7%, 2.6% and 2.3%, respectively. (as reported in (JETRO, 1999))

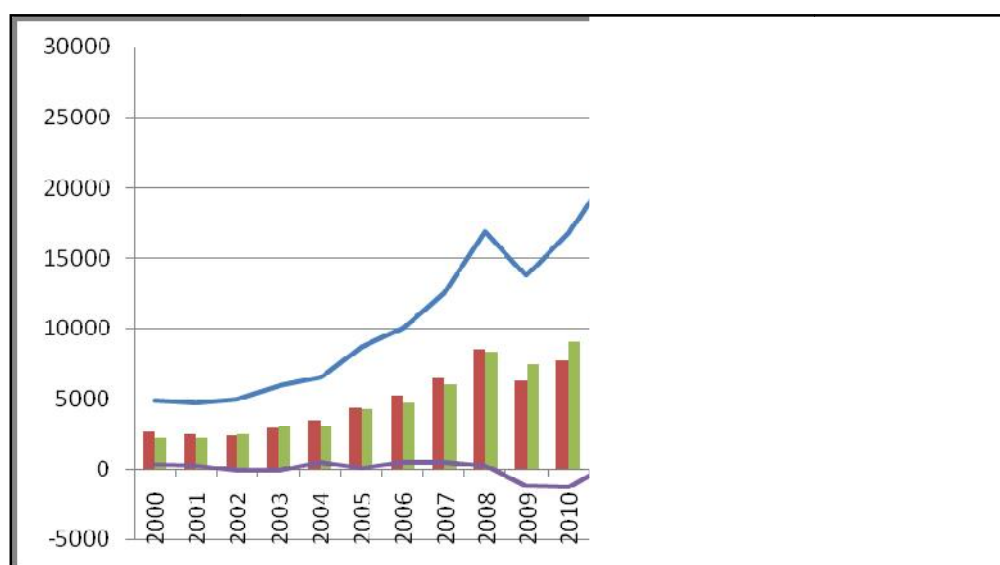
Table 1: Situation of trade relations between Vietnam and Japan, 2000-2012

YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Export-Import Value	4872	4725	4948	5903	6496	8704	9933	12500	16838	13760	16744	21181	24663
Export Value	2622	2510	2438	2909	3502	4411	5232	6500	8538	6292	7728	10781	13060
Import Value	2251	2215	2510	2994	2994	4293	4701	6000	8300	7468	9016	10400	11603
Trading Balance	371	295	-72	-85	509	118	531	500	238	-1176	-1288	381	1457

Source: Author's calculations from database of General Statistics Office of Vietnam. Retrieved July 11, 2013, from http://www.gso.gov.vn/default_en.aspx?tabid=626&idmid=4

Figure 1: Changes in merchandise trade between Vietnam and Japan, 2000 – 2012

Unit: US\$ Million

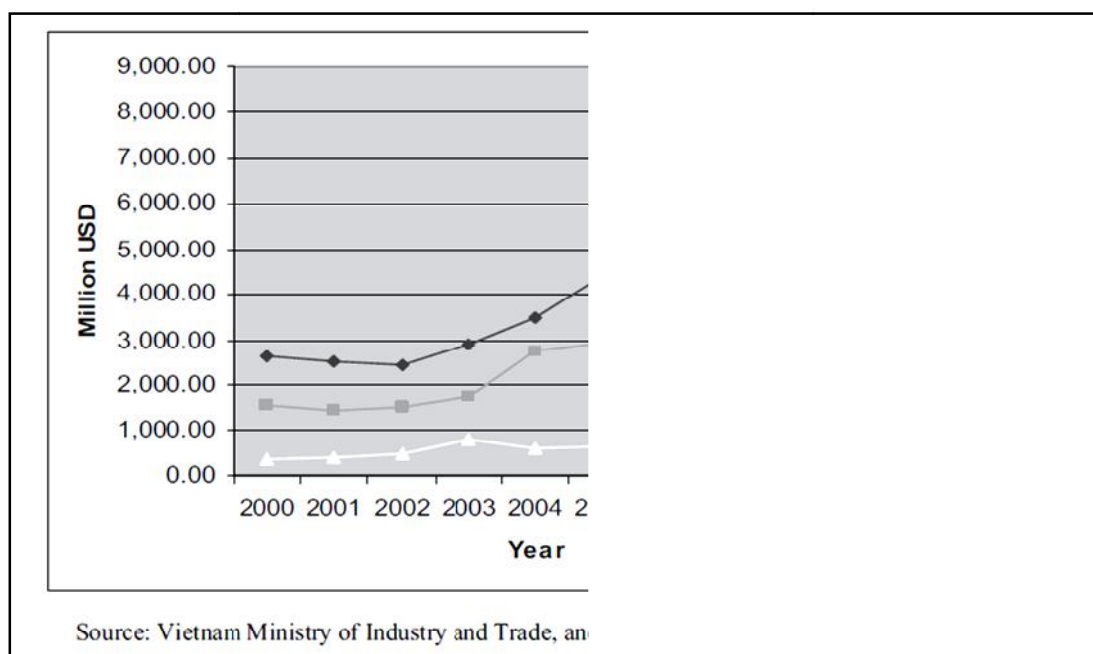


3.2.1.1. Vietnamese exports to Japan

Since 2000, significant changes have taken place in the region, including the development of regional cooperation, amongst the ASEAN countries and ASEAN +3 and China's WTO accession. These changes have stimulated economic integration and the development of trade but they have also made competition more intense. The competitiveness of Vietnamese products in the Japanese market is still low compared with Chinese products and those of other East Asian countries in terms of prices and quality. To some extent, this has restricted exports of commodities from Vietnam to Japan.

Against that general tendency, exports from Vietnam to Japan in the period 2000-2008 increased at an average rate of 16.5%. Exports of the year 2000 were valued at US\$ 2622 million and it was US\$ 8,538 million in 2008. As we can see from Figure 2, the darkest line has a steep gradient, indicating that Vietnam's export value to Japan was larger and grew faster than its export value to Korea and China. In 2008 alone, Vietnam's export value to Japan was five times bigger than that to Korea and twice the export value to China.

Figure 2: Export trends from Vietnam to China, Korea and Japan



3.2.1.2. Composition of export good with Japan

Currently, Japan is Vietnam's largest export market. Exports to Japan are mainly crude oil, seafood, textiles and coal. These four items have regularly accounted for 70% of Vietnam's exports to Japan in recent years.

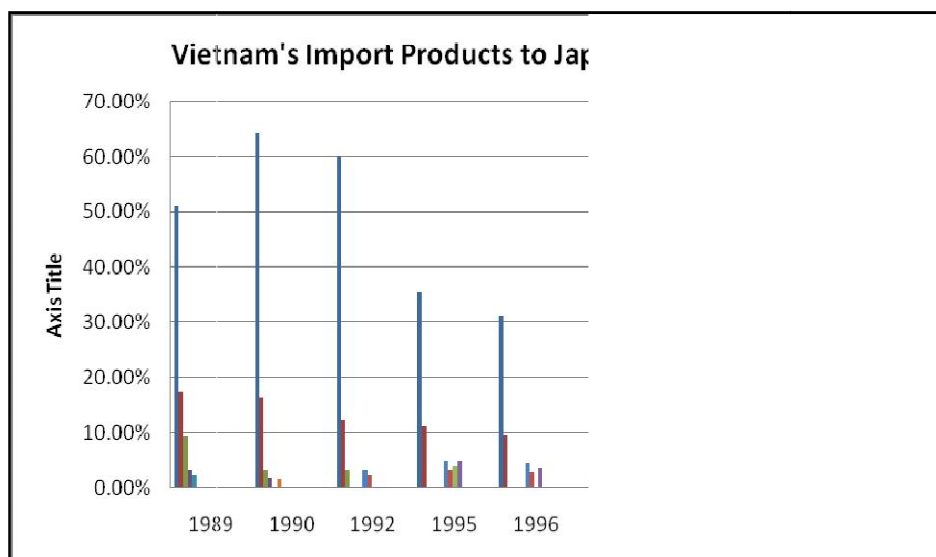


Figure 3: Vietnam's import products to Japan (1989 - 2001)

Since 1989, the volume and value of trade has increased continuously. Imports and exports have both grown but exports have grown faster. The fastest growth rate of imports was in frozen shrimp and squid, garments, coffee and coal. Vietnam's frozen shrimp accounted for approximately 10% of the Japanese market. Japan has become the largest market for textile exports from Vietnam and there is still considerable potential for expansion. Vietnam's coal exports to Japan have recently reached a record high of more than a million tons/year. Equally, the Japanese coffee and footwear markets are promising prospects for Vietnam's exports. There are some Vietnamese that have been highly competitive in both quality and price in recent years, especially garments, handkerchiefs and some seafood, such as shrimp and squid. In 1998, Vietnam was ranked one of the top four exporters to Japan for some commodities such as coal (ranked second), squid (second), shrimp (the fourth), T-shirts made from synthetic fibers or artificial (the fourth), and clothing from 611.49 to 210 (the second). Most of competitors of Vietnam in these commodities are in Asia such as Japan, China, Korea, Thailand, Malaysia, Indonesia, Philippines, India and

some other countries such as Australia (coal), France (on female clothes). Obviously merchandise Vietnam has gradually dominate the Japanese market, a market with strong consumption but also notoriously difficult.

In terms of assessing the quality of the Vietnam's exports to Japan, JETRO's representative office in Hanoi organized a talk with more than 100 Vietnamese exporters in January 2000 on the topic of "Promoting Vietnam's exports to the Japanese market" JETRO's Mr. Matsumoto, a business consultant, assessed the quality of Vietnam's export products of Vietnam to Japan. He said "if based on a scale from 0 to 100 points, Vietnam has some high-quality items such as garments at 80 points, sea food, other food and beverage are ranked 20 out of 120 countries, especially shrimp, squid, octopus stand very well, ranking No. 5, No. 2 pickle after China, the fourth largest pickled ginger. These items are classified assessment point at 70-80. The role of embroidery crafts also is found, especially Japanese lacquer preferred and appreciated." (VEN, 2013a) However, overall quality of Vietnamese export products is lower than many countries in the region, especially the quality of advertising, packaging and information on packaging. These are often monotonous and the length of the warranty period of products is not advertised properly on the packaging of the goods. Meanwhile, Chinese goods dominate the Japanese market, Chinese goods attract Japanese consumers by advertising, packaging introduced on the shell and the quality, appearance and packaging are pretty cheap.

Table 2: Major export goods from Vietnam to Japan, 2002-2007

Unit: US\$

Product	2002	2003	2004	2005	2006	2007
Coffee	15,594,310	18,564,228	20,608,073	25,938,654	44,922,864	76,421,643
Rubber	10,447,056	11,985,982	15,091,520	16,434,213	23,822,887	-
Tea	2,987,807	3,849,867	1,357,427	1,235,139	1,084,457	844,599
Cooking Oil	3,037,392	2,143,636	2,956,781	5,342,298	4,332,353	10,085,236
Crude Oil	249,857,257	319,778,796	321,199,999	572,541,999	719,474,817	1,013,037,945
Electric Wire and Cable	174,101,518	240,794,336	350,648,124	472,728,553	588,543,126	662,810,715
Toys	3,144,445	2,416,884	3,896,689	3,777,857	2,763,863	6,571,616
Shoes	950,766	61,604,693	70,561,779	93,720,958	113,130,304	114,750,420
Rice	950,776	8,109,618	16,064,989	53,424,015	43,095,581	18,718,676
Seafood	555,441,639	651,314,368	796,545,806	819,989,796	844,312,957	753,593,218
Garment products	489,950,293	478,190,534	531,091,911	603,902,005	627,631,744	704,729,715
Vegetables and fruits	14,527,046	16,709,739	22,104,706	28,991,131	27,572,623	26,426,348
Art and crafts products	43,176,397	48,161,999	48,859,733	27,610,589	24,047,274	25,505,591
Cashew	5,138,418	2,853,789	5,117,896	4,127,872	3,257,613	3,920,726
Pepper	635,463	358,992	380,507	793,428	1,657,927	5,816,060
Computers and components	57,110,339	98,850,183	76,120,048	252,965,881	245,918,426	269,329,940
Noodles	183,276	222,132	1,486,274	2,493,423	535,586	657,677
Cinnamon	1,512,838	1,867,005	701,999	688,652	458,787	689,251
Wood products	128,396,330	137,912,952	180,016,167	240,873,378	286,799,143	307,086,222
Plastic products	30,164,962	42,068,886	61,287,499	98,431,213	106,466,209	126,918,465
Coal	48,502,117	58,404,726	103,343,949	16,908,999	164,263,458	133,558,600
Bike and bike parts	9,883,490	2,570,551	1,312,776	877,881	1,344,522	2,020,469
Bags, hats, umbrellas etc.	-	-	-	50,209,829	47,494,855	62,466,960
Jewelry	-	-	-	12,824,408	15,340,592	21,060,607
Potteries	-	-	-	20,120,139	13,465,845	33,293,012
Total	2,438,143,822	2,909,150,945	3,502,361,544	4,411,186,786	5,232,133,722	6,069,757,591

Between 2002 and 2007, Vietnam's export structure has been stable with a limited range of exports. Vietnam's exports to Japan consist mainly of primary products or with little processing including crude oil, seafood, coal, footwear, coffee, household consumer products and garment products. Among these products, crude oil, seafood and garment products are three major export products. As can be seen in Table 2, the value of crude oil exports was US\$ 249 million in 2001. It increased fivefold to US\$ 1.01 billion in 2007. In the same year, seafood export value was US\$

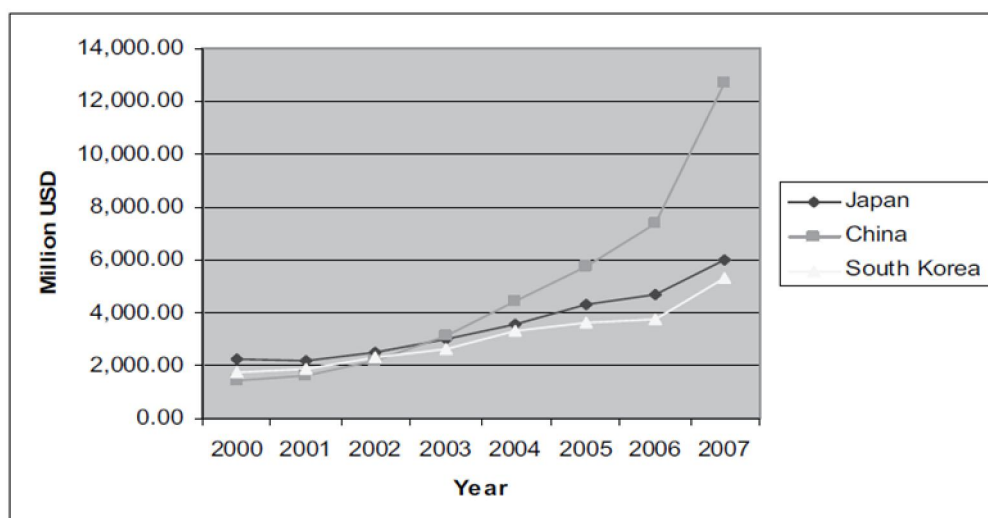
753 million; and garment products, US\$ 704 million. By the end of 2007, the focus has been given to the development of processed exports such as textiles, electric wires and cables, wood products, computers and their components.

To sum up, the export products with high growth rates include rice, frozen seafood, tea, coal, and ceramics. Frozen shrimps were a major Vietnamese export product for Japan. Vietnam's average shrimp export value was around US\$ 500 million, accounting for 23% of the shrimp importation of Japan. Besides, wood products also made up a large market share in Japan. The value of wood exports has shown a stable growth rate. It is worth noting that some Vietnamese products manufactured with Japanese technology have grown rapidly such as electric wire and circuits. In 2007, electric wires and cables represented 10% of the export value at US\$ 600 million; garments, 12% computers and parts, 5%. Notably, the rise of Japanese investment in Vietnam not only contributes to raising the level of technology, it created jobs and generated income, but also promoted trade relations between Vietnam and Japan.

3.2.1.3. Vietnamese imports from Japan

As shown in Figure 4, Vietnam's import value from Japan was US\$ 2.2 billion in 2000 and US\$ 8.3 billion in 2008. In eight years, the value of imports has increased four-fold, growing at an average rate of 18% annually. However, the structure of Vietnam's imports from Japan has not displayed many changes. The main imports from Japan are iron, steel, electronic components, different types of autos and motorcycles, fertilizer and petrol.

Figure 4: Import trends from China, Korea and Japan to Vietnam



Sources: Vietnam Ministry of Industry and Trade, and General Statistic Office

3.2.1.4. Composition of import goods from Japan

The structure of imports from Japan has developed as follows:

Figure 5: Percentage of Japanese products exported to Vietnam (1989 - 2001)

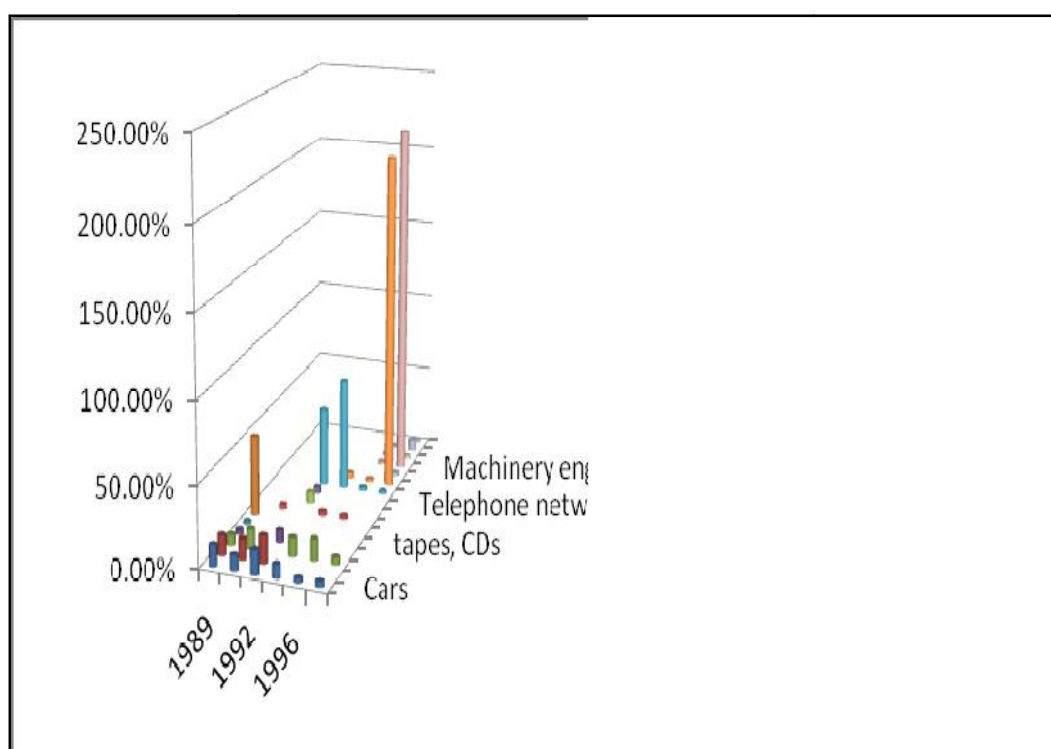


Table 3: Major import goods from Japan to Vietnam, 2004 – 2007

Unit: US\$

Product	2004	2005	2006	2007
Wheat flour	8,759,084	7,494,370	6,447,723	3,650,170
Wheat	-	1,592,030	-	7,042,070
Vegetable and animal oil	-	1,739,903	878,455	3,404,954
Gasoline	10,067,682	23,732,829	6,229,327	146,106,389
Materials for producing cigarettes	5,575,718	11,419,569	9,011,634	14,214,602
Clinker	1,462,879	941,216	2,647,834	2,329,070
Medicine	3,681,579	5,724,189	5,972,802	6,280,445
Materials for medicine	1,258,339	1,289,242	1,204,621	1,258,790
Chemical and chemical products	106,669,268	140,006,332	215,222,255	232,124,905
Plastic	89,281,429	107,669,075	126,425,514	173,076,452
Fertilizer	34,529,341	31,894,661	31,189,176	43,163,849
Pesticide	21,445,844	23,437,865	25,857,218	24,053,566
Paper	13,442,580	12,657,920	22,010,160	27,092,110
Cotton	323,909	-	612,567	1,583,259

Fiber	3,449,026	3,097,624	5,220,159	10,742,464
Fabric	164,082,438	216,881,234	300,292,366	327,426,194
Materials for textile and garment	164,080,918	155,140,600	107,063,285	90,999,476
Steel	437,171,058	480,235,985	473,453,789	655,093,800
Other metals	56,969,593	78,963,106	105,554,338	134,730,664
Computers, components and electronic components	363,951,802	484,868,193	502,565,665	592,492,630
Machinery	933,260,735	1,063,020,838	1,380,561,309	1,945,393,136
Automobile	21,722,822	33,532,795	40,665,534	91,200,294
Automobile components	206,339,101	228,930,292	128,977,247	217,847,943
Motorbikes	-	4,221,483	4,608,845	12,378,328
Motorbike components	25,949,589	60,780,275	40,701,289	42,873,830
Wood products	5,134,999	5,699,858	7,173,848	5,536,082
Cattle feed	4,450,999	8,809,264	10,464,372	9,381,593
Pulp	4,692,499	5,867,396	8,153,740	6,569,369
Rubber	8,848,983	13,172,922	20,378,882	24,861,704
Total	3,552,604,651	4,092,968,021	4,700,963,228	6,177,698,000

Source: Vietnam Ministry of Industry and Trade and General Customs Office

Table 3 shows the major import goods from Japan by product. Similar to its imports from foreign countries, Vietnam imported machinery, steel, gasoline, raw materials for the textile and garment industry, computers and parts, automobile and automobile components. The import value of these product groups increased continuously in the period from 2004 to 2007. Significantly, the import value of machinery and transport groups was the highest at US\$ 1.95 billion in 2007. This shows that Vietnam has a great demand for Japan's machinery. Meanwhile, the group of chemical and related products and other processed products has equivalent import value.

It is also noted that the structure of imports has been more and more diverse in terms of types. The proportion of imports to meet consumer demands has gradually declined while the proportion of machinery, technological equipment, chemical and chemical products has risen. However, the proportion of high-tech and modern products remains very meager in the structure of Vietnam's imports from Japan.

In summary, in trading with Japan, Vietnam's export goods consisted mainly of natural resources and low-skilled labor whereas its imports consisted of machinery, equipment and high-value products from Japan. The ratio of import to export goods reflects the state of trade relations between developing and developed countries. Raw materials made up the largest portion of trade with Japan. Raw materials exported to Japan made up 16% of the total. Vietnam has often had a trade surplus with Japan, which in 2006 reached an unprecedented value of US\$ 531 million. Generally, the structure of Japanese imports remains virtually unchanged, Vietnam still processes goods and raw materials into products of increasingly diverse types. The percentages of consumer goods and machinery, technical equipment and materials have increased in Vietnam, but they do not yet embody the most modern technology.

3.2.2. Foreign direct investment (FDI) from Japan to Vietnam

Japan started to invest in Vietnam in 1993, after international organizations restored ODA to Vietnam. At the end of 2008, Japanese investment projects in Vietnam had numbered 1.102, with a total capital of US\$ 17.36 billion (General Statistics Office of Vietnam, 2008)¹¹ As can be seen in Table 4, for the whole period of 1988 – 2009, Japan ranked fourth out of 89 counterparts that invested in Vietnam, after Taiwan, Korea and Malaysia, reaching more than US\$ 17.1 billion.¹² By the end of October 2009, Japan had 1.164 direct investment projects with an investment capital of US\$ 17.85 billion and which accounted for 10.77% of the total FDI projects and 10.2% of total FDI capital in Vietnam.

¹¹ Vietnam Statistic Year Book 2008.

¹² The data of the Ministry of Planning and Investment.

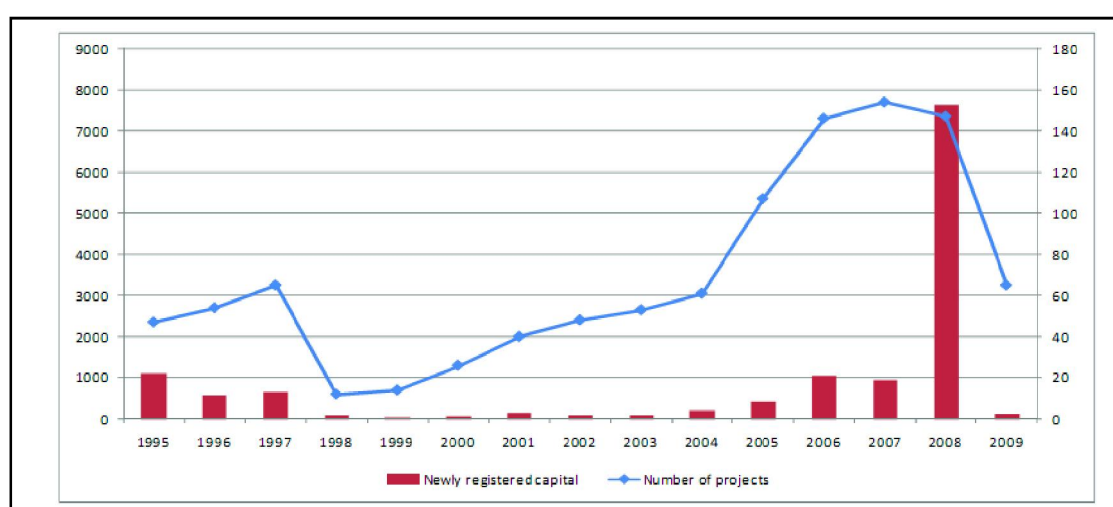
Table 4: Ten countries/territories with highest investment into Vietnam from 1988 to 2009

No	Countries/region	Number	Capital (USD Million) (*)	The average project capital scale
	Total	9484	152358.1	
	In which			
1	Korea	2560	26880.4	10.50016
2	Taiwan	2260	22618.8	10.00832
3	Malaysia	395	17202.3	43.55013
4	Japan	1247	17149.6	13.75269
5	Singapore	870	16345.7	18.78816
6	USA	589	15403.1	26.15127
7	British Virgin Islands	495	15261.4	30.83111
8	HongKong	740	8540	11.54054
9	Cayman Island	44	6758.4	153.6
10	Thailand	284	6198.4	21.82535

Note: * Including increased capitals of the projects which have been licensed from the previous years

Source: The data of the General Statistics Office

Table 4 presents the changes in new Foreign Direct Investment projects from Japan to Vietnam in the period from 1995 to 2009. According to a 2006 survey carried out by the Japan External trade Organization (JETRO), Japanese investors tended to move their production bases to the ASEAN countries and China. However, investor wanted to avoid the risks of concentrating their investments in China, and saw Vietnam as a major investment site owing to its low production costs. About 20.5% of Japanese investors intended to expand their production from China to Vietnam. Japanese investors also took note of Vietnam's ability to maintain its high growth rate of GDP since it pursued economic reforms in 1986.

Figure 6: Japan's FDI projects in Vietnam, 1995-2009

Source: JETRO (JETRO, 2009)

Since Vietnam's accession to the WTO in 2007, Japan's Foreign Direct Investment into Vietnam has increased considerably. This also turned out to be the breakthrough year for Japanese investment in terms of both the number of projects and total investment capital. In 2007, about 156 projects with a registered capital amount of US\$ 1.5 billion were licensed. Totally, in the period of 1988-2008, Japan's investment was nearly US\$ 5.2 billion, much higher than Singapore, Taiwan, and Korea. Therefore, the figure indicates that Japan's recent projects are large scale and Vietnam has benefitted considerably from Japanese investment.

Moreover, many large and prestigious transnational corporations (TNCs) investing in high-technology manufacture for export have a presence in Vietnam. Japanese TNCs in Vietnam include the NTT, Canon, Fujitsu, Sony, Toyota, Mitsubishi, Sumitomo, and Honda, among others. Among Vietnamese consumers, Japanese products are considered prestigious, high quality brands. With improving standards of living amongst Vietnamese, there is a growing market for Japanese products.

Forms of investment

Japanese investment in Vietnam falls under one of four categories: 100% foreign owned capital, joint ventures, business cooperation contracts and company stock. Among 1,164 Japanese investment projects in Vietnam, there are 918 firms classified as 100% foreign-owned, with an investment capital of US\$ 7.4 billion and accounting for 78.8% of the total Japanese investment projects and 41.5% of the total investment capital in Vietnam.

Distribution of Japan's direct investment by sectors and industry

By economic sector, Japan's Foreign Direct Investment is mainly focused on industry. The registered capital invested in industry account for 80%. Manufacturing industry only makes up 44% of the total registered capital, followed by light industry, construction, food and petroleum. Other service segments with the largest FDI are office and hotel construction and tourism. The highest Japanese investment capital was concentrated in the processing and manufacturing industry. This sector had 703

projects during 2009, with an investment capital of US\$ 15.5 billion and making up 86.83% of the total Japanese investments in Vietnam.

Japan's second largest investment was in the information and communication technology sector; reflecting its high-technology advantage. Japanese investors in Vietnam are increasingly moving to the information and high-technology industry. Within this sector were 151 Japanese projects, with a combined registered capital of US\$ 1 billion and which made up 5.6% of the total investment capital.

The construction sector had 22 projects and an investment capital of US\$ 258 million, representing 1.4% of the total Japanese investment capital in Vietnam. Among the other sectors with Japanese investments were in agriculture, forestry, fishery and services.

Japanese investments' location by region

Japanese direct investments were distributed through 44 provinces across the country. In terms of investment by location, the central area had the largest investment capital, which comprised 30% of the total investment capital of Vietnam. The Red River Delta ranked second out of six areas, accounting for 30% of total investment capital. A close third was the Southeastern area, with 28% of the total Japanese investment in Vietnam. The other areas took very small portions of the total Japanese investments across the country.

3.3. Analyzing the relationship

3.3.1. Mutual benefits of Vietnam and Japan trade relations

The trade relation between Vietnam and Japan is based on mutual benefits. On the one hand, the main reasons attracting Japanese manufacturing enterprises toward Vietnam include the cheap workforce of Vietnam and the avoidance of risks resulting from heavy dependence on China. (Ngo Xuan Binh, 2009) This is an advantage for Vietnam in attracting the investment of foreign enterprises. Firstly, surveys of average monthly wages for unskilled workers in Japanese enterprises investing in Asia shows that the wage level in Vietnam is much lower than those of other Asian economies. (Table 5)

Secondly, Vietnam is regarded as “China Plus One” by Japanese enterprises to avoid risks resulting from the heavy investment in China. Furthermore, Japanese manufacturing enterprises are facing difficulties due to increasing labor costs and the limited favorable treatment for commercial processing in China. Hence, recently many large Japanese corporations have arrived in Vietnam with well-known, competitive products of high technology content, namely Canon, Sony, Matsushita, Sanyo, Fujitsu, Honda, Toyota, Suzuki and Mitsubishi, etc.

Table 5: Average monthly wages of unskilled workers in Japan enterprises investing in Asia

Unit: JPY

Beijing	Shanghai	Guangdong	Malaysia	Thailand	Philippines	Indonesia	Vietnam
17,531	25,694	20,750	30,917	26,890	20,660	17,163	10,693

Source: Small and medium sized enterprise credit fund, Japan, “*Result of the seventh survey into the realities of small and medium sized enterprises investing in China*” (surveyed in 2006).

Levels of FDI from Japan to Vietnam have been on an upward trend in recent years, helping with the ‘doi moi’ process and national growth. Japan’s FDI is attracted thanks to the low-labor cost and China-One-Plus policy. This helps to provide job opportunities and technological transfer for Vietnam. It can be concluded that Vietnam-Japan trade relations contribute actively to Vietnam’s economic development.

3.3.2. Limitations and shortcomings still exist in Vietnam-Japan trade relations

Although the Vietnam-Japan trade relationship has been continuously developing, there remains unrealized potential for the two countries’ relationship. Why is there such a judgment? It would be interpreted as follows:

The recent status of trade cooperation has showed that trade between the two countries, including two-way trade, has increased sharply and continuously in both the size and value of sales. The value of Vietnam-Japan trade is increasing relative to Japan’s total foreign trade of Japan but remains relatively small. In particular, if in

2000, two-way trade turnover Vietnam-Japan is only about 0.53% of the total Japan's foreign trade while the corresponding figures for some other Asian countries have trade relations with Japan are China 13.5%, South Korea 8%, Malaysia 4.5%, Singapore 4%, Indonesia 4%, Philippines 2.5% ...

In trade relations with Japan over the years, Vietnam constantly has had surplus in Japan's total import turnover. Vietnam goods occupied only a very small proportion, about 0.6%, while that of China is 14.4%, Malaysia 2.7%, Thailand 2.6% ... Thus, the position and role of Vietnamese trade is a very small part of the Japanese market.

The level of economic - technical development and manufacturing in Vietnam's trade (both imports and exports) is lower than in some other Asian countries. Meanwhile, the Japanese market makes very high demands on standards, quality control and hygiene services. Vietnam products have therefore found it difficult to penetrate the Japanese market. Vietnam's products are not always competitive and have sometimes struggled to outcompete those of rival countries such as China, Thailand, Indonesia, Malaysia, the Philippines etc.

Vietnam's producers need to strive to improve the quality of goods through innovation in design, improvements in quality and further diversification in the types of goods produced. This is a difficult challenge for Vietnam's commodity exports to the Japanese market, particularly as Japan is also entering into bilateral and multilateral trade agreements with ASEAN countries, China, South Korea. Favorable opportunities for export and import of commodities between Japan and other Asian countries are expanding, but that also means the competition between countries with different goods entering the Japanese market will also rise sharply.

In addition, Vietnamese companies lack trade experts who are qualified with foreign language skills, diplomatic and economic expertise. This has limited their ability to successfully negotiate and enforce appropriate business contracts.

In summary, the above-mentioned limitations and shortcomings have shown that, while Vietnam-Japan trade relations have developed, they are still not yet commensurate with the two countries' potential. Hence, there are unfulfilled economic opportunities on both sides in the coming years.

3.4. Summary

Taken all together, this review of the political, economic and security relationships between Japan and Vietnam has revealed some significant strengths to the relationship. There are long-standing historical relations between the two countries. Japan is Vietnam's biggest trading partner, and Japan's government and people have been very generous donors to Vietnam. Japan and Vietnam have made considerable efforts in building trust in a spirit of forgiveness and mutual understanding. The two nations also provide an important example of cooperation for mutual benefit between a major power and a smaller one, striving to take advantages of absolute advantages and comparative advantages to work for peaceful and prosperous regional integration. Japan seems to be succeeding in realizing the potential to use regional integration to increase its influence and balance with China's rise. In this sense, the Vietnam-Japan relationship has served the two nations' best interests and served as a stepping-stone in achieving such goals in the region and the world at large.

In connecting with the awareness of the importance of boosting the two nations' political relations, the economic relations have gained significant achievements. Trade relations of the two nations have improved in recent years. However, there are unfulfilled economic opportunities for both nations. Particularly, Vietnamese agricultural exports could be facilitated through measures such as tariff reduction, reduction of non-tariff barriers and technical assistance to export more this kind of products into Japan's market. In terms of attracting more FDI from Japan to Vietnam, there is an ongoing need for effective solutions and regulations for utilizing the foreign aid for domestic economic development. These two issues were a central driving force in encouraging Japan and Vietnam to negotiate VJEPA.

CHAPTER FOUR

VIETNAM - JAPAN ECONOMIC PARTNERSHIP AGREEMENT (VJEPA)

As we saw at the end of the previous chapter, VJEPA was negotiated in the context of an increasingly important political and economic relationship between the two countries. Vietnam is interested in increasing regional economic integration as part of its broader strategy for growth and development. Japan is keen to expand its links in Southeast Asia, partly for commercial reasons and partly as part of its strategy for dealing with the rise of China. Vietnam is a potential destination for Japanese FDI and Japan provides Vietnam with a large export market, significant inward investment and a large contribution to the ODA budget.

As we will see in this chapter, VJEPA builds on this relationship. It offers Vietnam better access for its most significant exports, through tariff reductions. It also creates a framework for the two countries to engage in wider cooperation to make Vietnam a more attractive destination for Japanese investors. However, there are still questions about whether Vietnamese firms will be able to benefit fully from the opportunities VJEPA creates, partly because of weak marketing capacity of Vietnamese firms and partly because of difficulties in meeting Japan's high quality control requirements.

4.1. Vietnam - Japan Economic Partnership Agreement (VJEPA)

Along with prevailing trends in the region, the Vietnam-Japan Economic Partnership Agreement's negotiations were commenced during Vietnamese PM Nguyen Tan Dung's visit to Japan in October 2006.(MOFA, 2011) The VJEPA was signed by Japanese Foreign Minister Hirofumi Nakasone and Vietnamese Industry and Trade Minister Vu Huy Hoang in Tokyo on December 25, 2008, laying the ground

for stronger bilateral economic, trade and investment cooperation.¹³ Bilaterally, the Vietnam-Japan EPA helps enhance economic relations based on the significant complementarities in the structures of the two economies. VJEPA embodies the highest level of commitment Japan has offered to an ASEAN member state. VJEPA is the 10th free trade agreement that Japan signed with other countries, whereas the agreement is the first bilateral free trade since Vietnam acceded to the WTO.

One of the main contents of the agreement is to strengthen economic cooperation in various fields such as agriculture, industry, trade and investment, human resource development, tourism, the environment and transport between Vietnam and Japan. VJEPA brings a balance of interests, taking into account the sensitive sectors of the two countries as well as differences in levels of development. According to the Agreement, within 10 years after entry into force, Japan will remove taxes on 94% of Vietnam's trading exports to this market, including 86% of Vietnam's exports. Tax reduction and incentives committed by Japan in the bilateral EPA with Vietnam would create good conditions for Vietnam's exports to enter Japan's market. However, whether Vietnam can make use of the advantages offered by the bilateral EPA will depend on Vietnamese companies' competitiveness and their adjustments in a dynamic and competitive environment.

Specifically, Vietnam and Japan agreed to cooperate on several fields such as high technology goods, the construction of large-scale and strategic infrastructure (i.e. high-speed railway, expressway, high-tech industrial zones), education and human resource development, and especially the construction project of Ninh Thuan 2 nuclear power plant, which is one of the two first nuclear power plants of Vietnam. Beside, this cooperation also covers a wide range of fields and is manifested in many aspects including Official Development Assistance, trade, labor, tourism, culture, education, etc. (Nguyen, 2011)

¹³TBT Danang. (2009). Nhật thông qua Hiệp định đối tác kinh tế với Việt Nam. [translated from Vietnamese], (Japan approved its economic partnership agreement with Vietnam). *TBT Danang Notification Authority*. Retrieved June 3, 2013, from http://www.tbtdanang.gov.vn/index.php?option=com_content&view=article&id=168:Nhat-thong-qua-Hiep-dinh-doi-tac-kinh-te-voi-Viet-Nam&catid=16:thong-tin-ve-wto&Itemid=31

The signing of VJEPA also testifies to the long-standing friendship and strong economic and political ties between Vietnam and Japan, marking the 40th anniversary of the two countries' diplomatic relations, and is expected to open a new area for the relationship between the two sides.(MOFA, 2009)¹⁴

4.2. Negotiations

4.2.1. Practical benefits for Vietnam in signing an EPA with Japan

VJEPA significantly helps Vietnamese exporters in Japan. Foremost, Japan's tariffs on Vietnamese exports to Japan's market will be lowered sharply. In particular, as per the VJEPA, 86 percent of Vietnamese exports to Japan will be subject to a zero percent tariff in the first year of VJEPA enforcement and the agreement sets out a longer roadmap that will take 10-15 years to complete. This means that Vietnamese businesses can gain benefits when they trade products to Japan. Moreover, Japan will also create more favorable conditions for agricultural products made in Vietnam including seafood. The export goods to this market have to meet strict requirements, regarding food quality, hygiene and safety. Vietnamese exporters will be able to meet Japanese administrators to learn how to access the Japanese market more easily. These are practical benefits for Vietnamese businesses to create their prestige for their products to conquer other markets such as the EU and USA.

Furthermore, on the sideline of VJEPA, Vietnam and Japan will launch several important projects to create many other benefits. These include a Ministry of Agriculture and Rural Development project to establish a food hygiene and safety center, which will examine Vietnamese goods before they go to Japan. The Vietnamese Ministry of Industry and Trade and the Japanese Ministry of Economics, Trade and Industry have signed an agreement to develop an assistance project towards the support industry in Vietnam. There has also been a human resource-training project for Vietnam with a priority on the health industry.

¹⁴ MOFA: Japan-Viet Nam Economic Partnership Agreement. (n.d.). Retrieved July 12, 2013, from <http://www.mofa.go.jp/policy/economy/fta/vietnam.html>

To sum up, Japan is an economic partner with much potential for Vietnam because it can help Vietnam to advance and make progress in the socio-economic development process. Signing VJEPA is one of the essential steps to accelerate the trade and investment cooperation between the two countries and bringing many benefits to Vietnam, not only in foreign currency inflow from exports, ODA, FDI, but also in improving export competitiveness as well as the production level.

4.2.2. Why did Japan want an EPA with Vietnam?

Japan's economy after the war may not operate normally without external trade. Japan is limited of natural resources so Japan must import most of the raw materials and fuel from the foreign countries. Uncertainty and vulnerability of the Japanese economy even more severe due to the importation of petroleum and energy of Japan focused on a number of major areas such as the Middle East, which was the region that supplied Japan 76% of total oil demand. This is the, Southeast Asia which provided Japan 16.5% of oil demand, 30% of copper, 35% of bauxite, 12% of nickel, 37% of wood, 100% of higher natural rubber and pewter. Therefore, any changes occurring in this area might be vulnerable to Japanese economy. For those reasons, Japan has always been awareness of export promotion, use the incomes to cover the expenditure and as a motive power for economic development.(Ngo Xuan Binh, 2009)

Due to such domestic situations, on the one hand, Japan continued the attitude of export restraint. On the other hand, Japan implemented the strategy of opening its domestic market by reducing its nation's tariff barriers, simplifying non-tariff barriers, increasing import quotas and encouraging agencies to consume and purchase imported products. Thus, imports from major trading partners such as the U.S, EU, China and Southeast Asia increased strongly, but the most notable is imported from the NIEs, ASEAN and Asia. For example, Korea's imports into Japan fiscal year 1987 increased 53% over the previous year, an increase of 43% compared with Thailand, Singapore up 48%, Hong Kong up 58%.

In short, Japan wanted an EPA with Vietnam due to its domestic demand for natural resources which Vietnam can supply in the most part. Moreover, Japan wished

to vary the sources of its imports to avoid dependence on particular trade partners. In the scope of EPA with Vietnam, Japan can obtain agreements on reducing its own tariff barriers on agricultural products and increase the opportunities for Japanese companies to enter and invest in Vietnam, which has low-price labor and a large amount of consumers for Japanese hi-technological products.

4.2.3. Which issues were difficult to negotiate? What kind of compromises did each side have to make?

As presented in the research on the Strategic Economic Partnership Agreement of Vietnam and Japan, Nguyen (Nguyen, 2011) has stressed several issues in Vietnam-Japan trade relations. “First, the quality of Vietnam’s exports to Japan has not significantly improved. Vietnam has made numerous efforts on this aspect, expanding the list of her exports with more high quality goods. The overall quality of Vietnam’s products has not been uniform, and remains inferior to those of many regional countries.” Marketing has not been paid special attention resulting in modest only modestly attractive advertisements, inadequate information on labels and poor packaging techniques. Furthermore, Vietnam’s exports are also simple, less attractive and with inadequate product warranties.

Meanwhile, Japan has very high requirements on product quality. Instead of imposing high tariffs or quotas on imports, Japan uses strict technical and quality requirements as a very effective tool to limit imports, including agricultural products or industrial goods. It is worth noticing that Japan has a reputation for protectionism on agricultural products in order to guarantee its farmers’ interests.

Additionally, Japanese food hygiene regulations, and quarantine regulations for imports into Japan are the most difficult that Vietnam’s companies encountered when exporting their agricultural products.. Quality standards and technical regulations create a big barrier for developing countries like Vietnam to penetrate into Japan’s market because of their outdated production technologies and less investment capital.

Second, Vietnamese companies’ approaches to enter the Japanese market were too simple and not sufficiently proactive.. Vietnamese enterprises have struggled to timely and accurately grasp the demand of goods, consumer tastes as well as

regulations on import and export management in Japan. As a result, the export to Japan is completely dependent on partners in the Japanese market.

Furthermore, according to Ngo (2009), the distribution system in the Japanese market is a complex one with multiple layers, many intermediaries, therefore, when the commodities reach the consumer, prices surge. Moreover, a close collusion between manufacturers and distributors creates an invisible barrier to prevent penetration of foreign goods to Japan. (Ngo Xuan Binh, 2009)

Last but not least, the integration between Vietnamese business and government during the process of negotiation seems to have been limited. As a result, many business lack information on the tariff schedule in Japan, preventing them from utilize the advantages and gaining the welfare effects of government trade policy. Not to mention the cooperation among the governmental agencies in the negotiation process of proposed EPAs. It is important to solicit comments from the business and government institutions in all spheres to avoid disadvantages and risks.

4.3. The agreement

4.3.1. Basic contents of the VJEPA

According to Japan's commitments, the average tariff on goods imported into Vietnam from Japan fell 2.8% in 2018. Japan committed to reduce tariffs on 95% of tariff lines, including several thousand tariffs to 0%. If this Agreement is signed and in effect, at least 86% of agricultural, forestry, fishery and 97% of industrial exports from Vietnam to Japan will be entitled to tax incentives. Mineral commodities will enjoy 0% tariffs immediately after the agreement takes effect. The shrimp tax rate will be reduced by 1% - 2% import immediately, items made from shrimp fell 3.2% -5.3% immediately, and frozen squid is reduced to 3.5% within 5 years. (MOFA, 2009)¹⁵

Meanwhile, the average tariff on goods imported from Japan to Vietnam will fall to 7% by 2018. Approximately 88% of the total tariff lines imported from Japan

¹⁵ MOFA. (n.d.). Japan-Viet Nam Economic Partnership Agreement. Retrieved July 12, 2012, from <http://www.mofa.go.jp/policy/economy/fta/vietnam.html>

to Vietnam will decrease within 10 years and 93% of the total tariff lines will be reduced in the last 16 years. Components for manufacturing flat screen and DVD import duty will be reduced to 3% within 2 years, digital cameras will be reduced to 10% within 4 years, and color TVs will be reduced to 40 % within 8 years. Import tax from Japan to Vietnam for the production of automotive components such as gearboxes will be reduced to 10% -20% within 10 years. Engines and engine parts for manufacturing automobiles will be reduced to 3% -12%, brakes to 10% in 10-15 years and, building will be reduced to 5% within 2 years. The steel sheets are also subject to import tax reduction to 0% -15% within 15 years. (MOFA, 2009) According to the calculations of Mr. Phan The Rue - former Deputy Minister of Commerce and Chief of VJEPA negotiation delegation, as per Japan's commitment to Vietnam in VJEPA, the tax reduction is much higher than that of Japan's commitment to ASEAN countries in the ASEAN- Japan comprehensive economic partnership agreement.¹⁶

However, since this is an agreement on comprehensive economic cooperation, not merely a free trade agreement, in addition to goods, services will also be liberalized and each country's investment in the other country will be protected. Hence, the agreement contains a wide range of other economic cooperation on issues such as health, human resource training and technology. Regarding the training of human resources, Japanese regulations are generally very tight around receiving foreign workers in the health sector and other service sectors. According to the VJEPA agreement, in the future, the two sides will standardize training for nurses, orderlies and other service workers. In addition, there will be harmonized standards and technical cooperation for industry certified professional so Vietnam can send technicians and skilled engineers to work in Japan. Vietnam is trying to rise to the level of the region can cooperate well with the Japanese.

The coverage of VJEPA is summarized into the following areas: trade in goods, emergency measures, rules of origin, customs procedures, paperless trading, mutual

¹⁶ (“Cắt giảm thuế quan theo Hiệp định Đối tác Kinh tế Việt Nam - Nhật Bản: Cánh cửa lớn cho xuất khẩu đã mở,” n.d.) [Translated from Vietnamese] (*Tariff reduction as in VJEPA: the big door for exports is open*)

recognition, trade in services, investment, movement of natural persons, intellectual property, government procurement, competition, improvement of the business environment, cooperation and dispute. (VEN, 2012)

4.3.2. Which parts of the final agreement did the Vietnamese government think would bring most benefits to Vietnam?

According to Mr. Le Trieu Dung, the official of Multilateral Trade Policy Trade and Industry, VJEPA would bring most benefits for Vietnam's agricultural products. With its commitment to eliminate taxes for 83.8% of Vietnamese agricultural trade within 10 years, the agreement contains Japan's most significant commitment to any ASEAN country. In particular, Japan has committed 24 tariff lines that reflect some of Vietnam's most important products, including honey, ginger, garlic, fabric, durian, shrimp and crab. Shrimp, crab and several kinds of fish products enjoyed a zero percent tariff immediately following VJEPA coming into effect. Because Japan is Vietnam's leading seafood export market, the commitment is fundamental for Vietnam to achieve its export growth target. The agreement also commits Japan to zero rate tariffs on 23 of Vietnam's 30 highest value agricultural, forestry and seafood exports either immediately or by the end of the 10 year phase in period. (Dong Nai Economics, 2012)

For honey, the current Japanese quota for Vietnam is 100 tons/year, it is annually increased up to 150 tones, tax of quota with a tariff on the excess of 12.8%, the tax rate of durians is now 0%, Japan will gradually eliminate the tax for pepper and sweet corn within 5-7 years; the tax rate for coffee and tea reduced to 0% within the next 15 years, and for processed fruit, the tax rate remains 0%. For some seafood namely shrimp, the tax rate is 0% immediately after the agreement takes effect, squid and octopus to 0% after 5 years ... For items such as fresh fruit, Japan, is phasing out its ban on importing Vietnamese dragon fruit to Japan. This will provide opportunities to penetrate the Japanese market in the near future. In addition, Japan has a huge demand for imported pork, processed foods and fresh, raw vegetables, mechanical products, plastic household ...

4.3.3. Which parts will cause the most problems?

Though more opportunities for Vietnamese exporters will be brought about by the Agreement, it would not simply promise any breakthroughs in exporting Vietnamese goods to Japan. Japan is a demanding market with many severe conditions on origin rules, food safety and hygiene, which constitute formidable challenges for Vietnamese exporters.(Citinews, 2012)

To date, positive changes in tariffs have not yet created changes in trade that meet both sides' expectations; and Vietnamese enterprises have not taken full advantage of the VJEPA. The reason is they still face obstacles in approaching the Japanese market. Mr. Huynh Khanh Hiep, deputy director of the Ho Chi Minh City Department of Industry and Trade, stated that since May 2006, Japan has applied its revised Food Sanitation Law, which strengthened regulations and complemented some of the residues of chemicals, which are not allowed in food production. While most Vietnamese businesses (excluding joint-ventures and 100 percent Japanese businesses) comply with international rules and standards, Japanese Industrial Standards (JIS) have many differences from these rules, making it is harder for Vietnamese businesses to meet JIS's requirements. (VEN, 2013a)

Production cost for goods exported to Japan are also higher than usual as Japanese consumers have higher expectations about the product's quality, durability, comfort and post-sale services, and due to greater requirements in production stages, including design, technique, preservation and transportation. In addition, the distribution system in Japan is complicated. Goods are transported through intermediate parties before reaching consumers so their prices are often higher than the imported prices. As a result, Japanese enterprises are under pressure to satisfy the importer's requirements that push most of the product costs higher. Vietnamese businesses, especially small and medium enterprises still lack information and experience about doing business with the Japanese and therefore, they still struggle in approaching and studying the Japanese market.

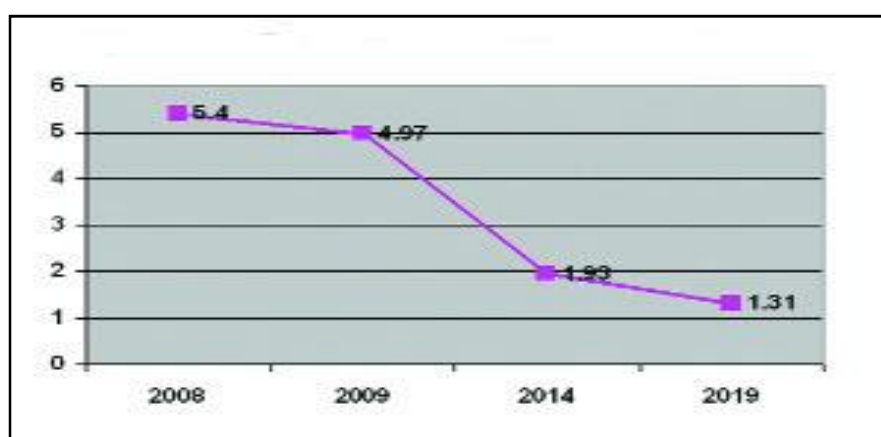
4.4. Consequences of the agreement

VJEPA is a comprehensive bilateral agreement, which includes commitments on the liberalization of trade in goods/services, investment and other kinds of economic cooperation between the two countries. In this section I will review both its impact on trade so far and some other wider effects.

4.4.1 Japan's Tariff reduction or elimination under VJEPA

Japan, has committed to cut the average tariff on industrial products from 6.51 percent in 2008 to 0.4 percent in 2019 (10 years after VJEPA took effect). Notably, Vietnamese textile-garment exports to Japan have paid a zero percent tariff since VJEPA took effect on October 1, 2009, compared with an average tariff of seven percent previously. Leather products and footwear will also pay a zero percent import tariff for 5-10 years. As for farm products, which are Vietnam's main export advantage and also Japan's most strongly protected sector, Japan has pledged to lower the average tariff from 8.1 percent in 2008 to 4.74 percent in 2019. Following this commitment, Vietnamese fresh vegetable/fruit exports to Japan will pay a zero percent tariff in 5-7 years after the agreement took effect. In addition, Japan has provided annual 150 tonnes tariff quota on Vietnamese honey. This has been Japan's highest commitment to this kind of product so far in comparison with other ASEAN partners.

Figure 7: The itinerary of Japan's tax reduction on Vietnamese seafood as in VJEPA



Before the VJEPA came into force, a number of Vietnamese agricultural products already accessed into the Japanese market despite the high tariffs imposed on

goods from this sector. Significantly, since VJEPA implemented, Vietnam has most benefited on seafood exports. As per VJEPA itinerary of tax reduction, Japan will lower the tariff on Vietnamese seafood from an average of 5.4 percent in 2008 to 1.31 percent in 2019. (Figure 7) Shrimp, crab and several kinds of fish products have enjoyed a zero percent tariff immediately following VJEPA coming into effect.

As for Vietnam, the tariff reduction commitment itinerary under VJEPA is fairly consistent in terms of the scope and principles of commitments under other FTAs that Vietnam has signed. Immediately after VJEPA became effective, Vietnam terminated the tariff on 2,586 product lines, mostly for chemicals, pharmaceuticals, machinery and electronics. In 2019 after VJEPA has been in place for 10 years, the tariff on an additional 3,717 items will be terminated, increasing the total number of tariff-free items to 6,303, accounting for 67 percent of the tariff lines on the committed table.

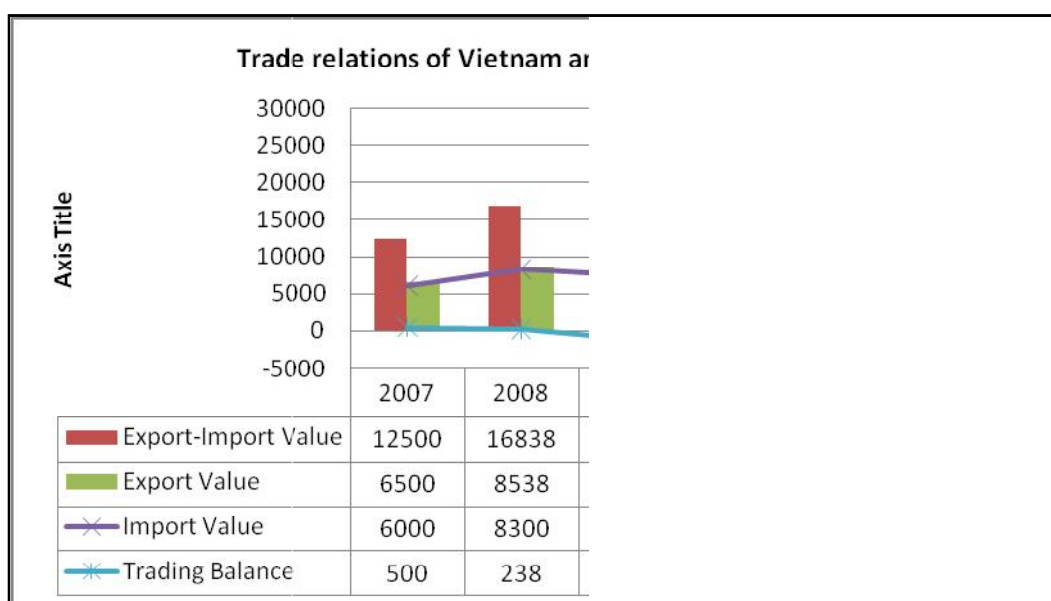
Overall, those figures indicated some early evidence of a positive signal for Vietnam's agricultural products and seafood under the effect of VJEPA.

4.4.2. Some indicators of Impact on Bilateral Trade

As the remarks of Vietnam's Ministry of Trade and Industry, Japan offers huge potential, and cooperation between Vietnam and Japan has grown robustly for the last 30 years. It is worth noting that two-way trade reached almost US\$24.7 billion in 2012, about six times that of 2000. Japanese direct investment in Vietnam is also prospering. Japanese companies including many reputable industrial groups are increasing their presence in Vietnam, with growing investment. By the end of 2011, Japan's total Foreign Direct Investment (FDI) exceeded US\$20.7 billion, taking third place among foreign countries investing in Vietnam. In the context that several major export markets like the US and the EU have been affected by economic difficulties, reducing barriers for Vietnamese exports to Japan through VJEPA is facilitating the country's export promotion goals.

Table 6: Imports and exports by country group, country and territory in 2012*Unit**1000US\$*

Group/ country	Prel. 2012	
	Export	Import
<i>EU</i>	102348930	103519395
<i>ASEAN</i>	52432381	70790576
United States	19667940	4827258
Japan	13059811	11602798
China, PR	12388227	28785858
Korea	5580436	15535904
Malaysia	4496103	3412469

Figure 8: Trade relations of Vietnam and Japan, 2007-2012

After three years of VJEPA's implementation, several Vietnamese items have made use of the preferences under VJEPA to increase exports to Japan, particularly textiles and garments, seafood, machinery and equipment. Vietnamese exports to Japan were valued at US\$13,060 billion in 2012, a 100.1 percent increase from 2007,

making Japan the second largest export market for Vietnam, following the US.

(Table 6 and Figure 8)

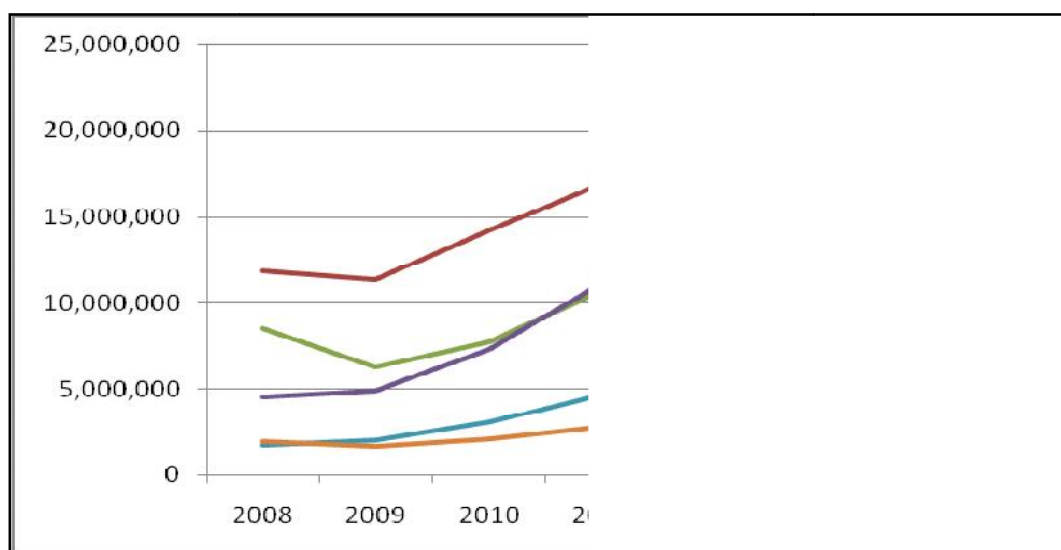
Before the VJEPA came into force, a number of Vietnamese seafood and agricultural products (namely coffee) were already making inroads in the Japanese market despite the high tariffs imposed on goods from this sector. After the implementation of the tariff reductions provided for the VJEPA, there is some early evidence to show that there has been an improving market share of Vietnamese agricultural exports.

4.4.3. Export indicators

As can be seen in Table 7 and Figure 9, Vietnamese exports to Japan declined in 2009, the year VJEPA was implemented and then increased steadily from 2010 to 2012. This indicates that the global economic crises affected the two countries' trade relations considerably. This tendency manifests a progressive bilateral trade, which can give an evidence to support for the practical application of the agreement.

Table 7: Vietnam export by country of destination, 2007-2012

Countries	2008	2009	2010	2011	2012
United States	11,868,509	11,355,757	14,238,132	16,927,763	19,667,940
Japan	8,537,938	6,291,810	7,727,660	10,781,145	13,059,811
China, PR	4,535,670	4,909,025	7,308,800	11,125,034	12,388,227
Korea	1,784,442	2,064,491	3,092,225	4,715,447	5,580,436
Malaysia	1,955,265	1,681,601	2,093,118	2,832,413	4,496,103
Germany	2,073,424	1,034,099	2,372,736	3,366,901	4,095,247
Hong Kong SAR (China)	877,190	1,034,099	1,464,178	2,205,716	3,705,592
Australia	4,225,188	2,276,716	2,704,004	2,519,098	3,241,146
United Kingdom	1,581,045	1,329,234	1,681,884	2,398,191	3,033,586
Thailand	1,348,937	1,266,058	1,182,842	1,792,249	2,832,233

Figure 9: Vietnam export by country of destination, 2007-2012

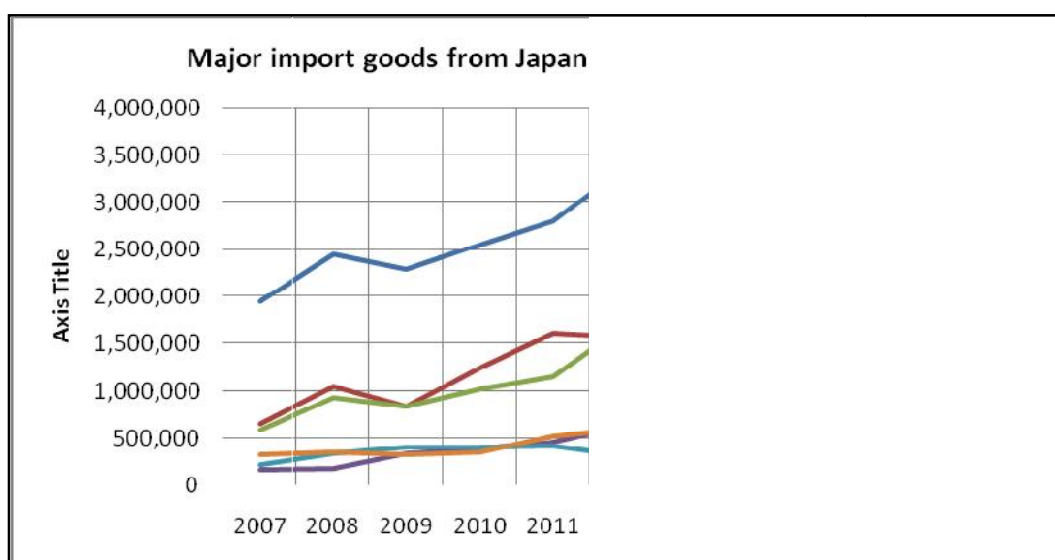
As for major exports to Japan (Figure 10 and Appendices 1 to 4), textiles and garments (with revenue at US\$1,974 million in 2012) experienced a 107 percent increase against 2009 and 180.2 percent against 2007, seafood (US\$1084 million, up 42.6 percent), crude oil (US\$2516 million, up 424.1 percent against 2009) and wooden products (US\$671 million, up 89.1 percent against 2009, up 118.8 percent against 2007). These figures show early gainers among non-agricultural product sectors that have benefited from the lower tariff rates accorded by the VJEPA, among them crude oil, seafood and textile and sewing products. *(See Appendix 4 & 5 for details)*

Figure 10: Major export goods from Vietnam to Japan (2007-2012)

4.4.4. Import indicators

As for major imports from Japan (Figure 11), machinery, instrument, accessory (with revenue at US\$3,374 million in 2012) witnessed a 47 percent increase against 2009 and 73 percent against 2007; iron, steel with revenue at US\$1,552 million, up 85 percent against 2009, 137 percent against 2007), computers, electronical products and parts (US\$1,690 million, up 101 percent against 2009, 185 percent against 2007) and articles of plastics (US\$646 million, up 91 percent against 2009, up 274 percent against 2007).

Figure 11: Major import goods from Japan to Vietnam, 2007-2012



In 2011, at a conference of reviewing two years of the VJEPA, Mr. Bui Huy Son, director of the Asia-Pacific Market Department-Ministry of Industry and Trade (MoIT) said that trade between Vietnam and Japan has increased significantly over the past years, especially after the VJEPA took effect in 2009. After the economic slowdown in 2009, Vietnam's export turnover to Japan recovered in 2010 despite natural disasters in the country.

With the consumption power of 126 million people and being close to Vietnam geographically, Japan remains a market of high purchasing power to Vietnamese businesses, particularly for agriculture products. At present, Japan only meets 40 percent of its domestic food demand, so it has to import the remaining from other

countries, including Vietnam. According to statistics of The Japan External Trade Organization (JETRO), agriculture products such as corn, soy-beans, fruits and processed agro-products accounted for 70 percent of its imports and fishery imports accounts for 20 percent, in which the key product is frozen shrimp. In 2009, despite an economic slowdown, Japan's imports still totaled US\$64 billion, so it remained lucrative to Vietnamese businesses

4.4.5. Foreign Direct Investment

Japan is the leading source of foreign investment in Vietnam, in terms of FDI flows. Table 8 shows Japanese FDI to Vietnam were at 5.2 billion in 2006-2010, increases of 510% from 2001-2005. This significant grow rate indicates the positive impact of the Vietnam - Japan Economic Partnership Agreement's implementation since 2009. Even though there was a fall in 2009 at US\$ 563 million from US\$1098 million of 2008, Foreign Direct Investment has rebounded again in 2011 to 1.8 billion. It is likely to be even higher in the coming years. This appear promising for improvement of Vietnam-Japan's trade relations

Table 8: Japanese outward FDI to ASEAN, 2001-2011

	Thailand	Indonesia	Malaysia	Philippines	Vietnam
2001	1,594	481	570	275	139
2002	528	307	257	1,074	203
2003	678	484	-504	114	230
2004	1,867	498	163	6	128
2005	2,125	1,185	524	442	153
2006	1,984	744	2,941	369	467
2007	2,608	1,030	325	1,045	475
2008	2,016	731	591	705	1,098
2009	1,632	483	616	809	563
2010	2,248	490	1,058	514	748
2011	7,133	3,611	1,441	1,019	1,859
2001-2005	6,793	2,955	1,010	1,910	853
2006-2010	17,621	7,089	6,573	4,461	5,210

Source: Japan Ministry of Finance

4.4.6. Cooperation and Capacity-building projects

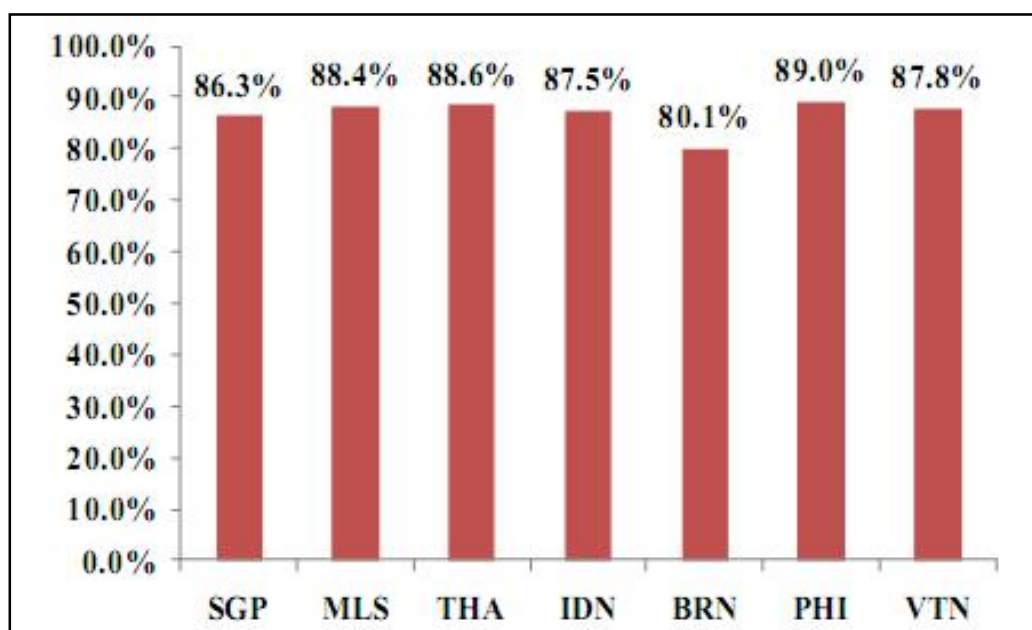
Under the terms of the VJEPA, Vietnam and Japan have engaged in cooperation in ten fields of cooperation. The implementation of these cooperation activities is contributed depending on the availability of appropriated funds, with cost to be paid by the two partners. Capacity building in the form of cooperation and technical assistance programs support domestic policy towards implementing reform. This organization is called JICA which is abbreviated of Japan International Cooperation Agency. In recent years, JICA has trained and transferred technology and skills to Vietnam for its more sustainable basis for development. JICA works in fields such as eco-tourism, environmental protection and disaster risk management, improvement and integration of Cargo transport in the Asian region. There are still some on-going projects undertaken by Japan in Vietnam as of 2012. (See Appendix 6).

4.5. Some comparison with other Japan Bilateral EPAs

During the public discussions surrounding the Vietnam's ratification of the VJEPA in late 2008, some critics denounced what they perceived to be the country's disadvantaged position in the negotiations. There was widespread belief that Vietnam was unable to secure as many concessions as other partner countries of Japan in similar EPAs.

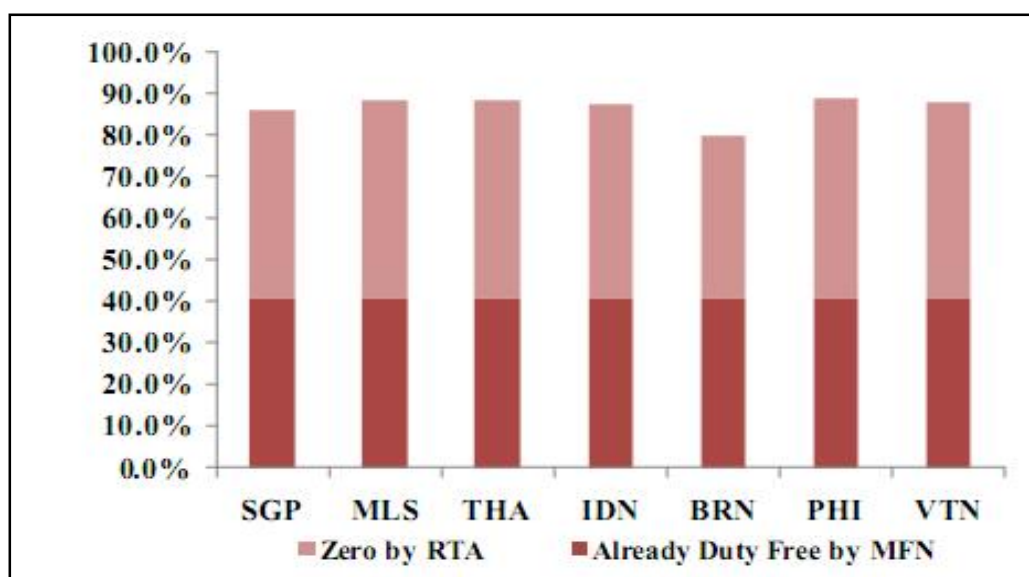
In terms of tariff reduction on the part of Japan vis-à-vis its bilateral partners, Figure 12 shows that Vietnam was able to obtain the most tariff concessions among six other ASEAN countries. At the completion of these bilateral agreements, Japan would have brought down to zero its tariffs on 87.8 % of its tariff lines, ordering the fourth among the ASEAN bilateral partners. For around 40% of these tariff lines, Japan's Favored Nation (MFN) applied tariffs would already be zero. Figure 13 compares MFN and zero tariff concessions among Japan's bilateral EPA partners in ASEAN. Figure 14 makes the same comparisons separately for agriculture and manufacturing. The tariff concessions from the Japanese bilateral FTAs are thus still substantial, even outside these tariff lines. For tariff lines already with zero MFN rates, the benefit lies in locking in these rates and providing more tariff stability.

Figure 12: Comparison of Japan's liberalization in Bilateral EPAs

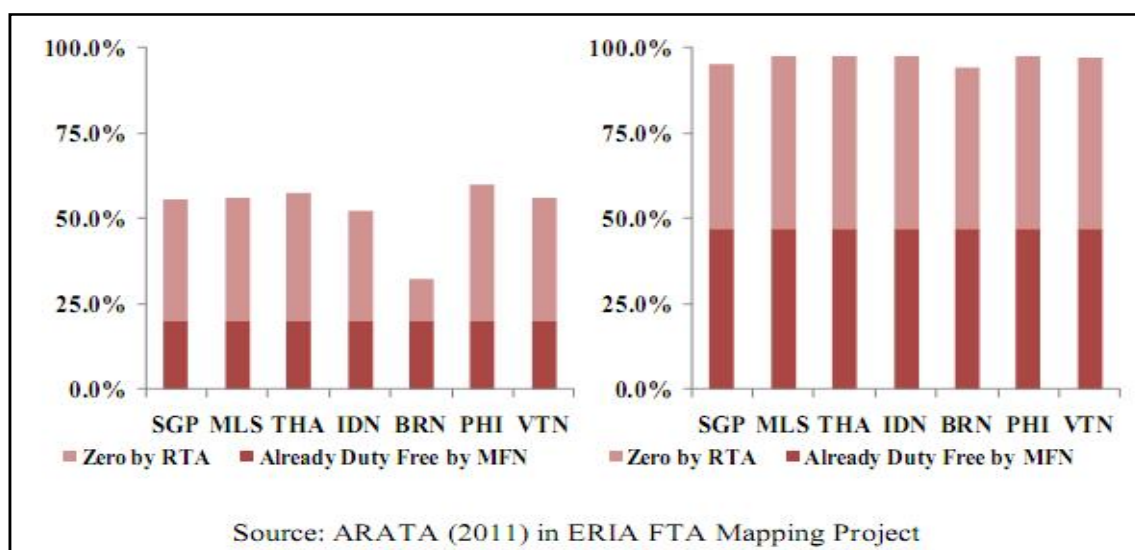


Source: ARATA (2011) in ERIA FTA Mapping Project

Figure 13: Comparison of MFN and Zero Tariff Concessions



Source: ARATA (2011) in ERIA FTA Mapping Project

Figure 14: Comparison of MFN and Zero Tariff Concessions

In short, it can be seen that, in comparison with other ASEAN states, VJEPA is more generous to Vietnam.

4.6. Summary

The overall expectation of VJEPA has been fulfilled. On the whole, even just four years since implementation began, the indicators are positive. In particular, export volumes of agricultural products and seafood to Japan have increased in volume. The trade indicators of the two nations are increasing steadily. Additional, I have shown that, VJEPA is more generous to Vietnam than the Japan-ASEAN partnership and Japan's trade deals with other ASEAN states.

The above finding is also posited by the research conducted by Nguyen Anh Thu (Nguyen Anh Thu, 2012) about assessing the impact of Vietnam's Integration under AFTA and Vietnam - Japan Economic Partnership Agreement on Vietnam's Trade Flows with gravity model approach, tariff reduction under Vietnam - Japan Economic Partnership Agreement and other Vietnam - Japan Economic Partnership Agreement's regulations will have substantial effects on Vietnam's industries. Particularly, Vietnam agricultural products will have more access to Japan's market because of sharp reductions in tariffs and many other favorable conditions. The coefficient for Vietnam - Japan Economic Partnership Agreement is found to be insignificant positive impacts on the export volumes of Vietnam to Japan. Although

the dummy Vietnam - Japan Economic Partnership Agreement has unclear impacts on trade flows of Vietnam, impacts are expected in the future as the tariffs will be significantly reduced along with the VJEPA itinerary.

CHAPTER FIVE

RECOMMENDATIONS AND CONCLUSIONS

Vietnam and Japan are driving towards the goal to create a strategic partnership for peace and prosperity in Asia following the policy adopted in 2006 by leaders of the two countries. Political and diplomatic relations between the two countries are developing positively. Vietnam is the biggest recipient of Japanese Official Development Assistance (ODA). In this situation, VJEPA has created a closer, more comprehensive legal framework for the development of the economic, trade ties between the two countries, thus contributing to strengthening Vietnam's position in the region and the world.

5.1. Conclusion

Vietnam's trade relations with Japan are based on a sound theoretical basis and had been developed in the context of East Asia and Asia-Pacific regionalism. Exploiting comparative advantages and mutual complementarities is essential for the development of the two countries. The process of exploiting these advantages has created increasingly strong foundations for Vietnam-Japan relations, including trade relations. This is also fully consistent with current trends in economic development and international trade including globalization and regionalization. In addition, Japan's adjustment of foreign policy towards Asia and Doi moi in Vietnam has created conditions to boost Vietnam-Japan relations to a new level and height. The international context, especially in East Asia, is increasingly complicated and that has made the Japanese government acutely aware of the need to become more active in efforts to improve its position and influence in Asia through numerous activities of economic cooperation, particularly focusing on the South East Asian. Currently 82% of imports and 78% of exports from Japan are due to trade relations with the Asia-Pacific. Most imported goods, especially Japan's oil go through the South China Sea. Therefore, the economic security and national security of Japan is heavily dependent

on the stability in this area. In such a situation, Vietnam is a tropical country which is rich in natural resources, with many rare minerals, with abundant sources of cheap labor and is located at the geopolitical, economic, military strategy, gateway pearling routes and sea traffic in Southeast Asia, the Western Pacific ... That explains why Japan sees Vietnam as an important economic and strategic partner in its broader Asian strategy. Vice versa, Vietnam always identifies Japan as one of the most important partners taking a prominent role in Vietnam's foreign policy and foreign trade policy in particular. The relationship with Japan is a key for the sustainable pursuit of industrialization, modernization and economic development in Vietnam.

However, Vietnam-Japan trade relations are not yet commensurate with the needs and potential of two countries. The signing and implementation of VJEPA shows that Vietnam-Japan trade relations have continued to develop over the years and now with a total value of exports and imports between the two countries continuing to increase, the relationship is contributing to the increase economic growth and development of Vietnam and further the economic interests of Japan. Despite the disparity in levels of development between the two countries, the trade and exchange of goods between the two sides still has the ability to develop further in the future. In order to do so, though, a great deal needs to be done. Vietnam needs to seek positive solutions to further change state policies on import and export mechanisms and finance, credit, tax, customs, technology, strict implementation of the state law on investment, land tenure reform and other issues in order to create a favorable environment for investment and attract further ODA.

It is important for Vietnam to change the export structure towards reducing the proportion of primary products, to increase the proportion of processed products and industrial products, to improve efficiency and to be consistent with sustainable economic development and market orientation. Vietnam also needs to work on information provision and trade promotion as well as to further strengthen cooperation with Japan. With these considerations, the relations with commercial operations and other economic activities such as FDI, ODA between Vietnam and Japan will develop more robustly and fruitfully.

5.2. Recommendations to stimulate economic cooperation between Vietnam and Japan

In order to make Vietnamese goods more robust in the Japanese market, it is important for both sides to trust and get to know each other thoroughly. In the beginning, Japanese enterprises usually study their partners carefully and make small orders so Vietnamese should be patient and pay attention to the quality of the products, especially agriculture products, as it is the foundation to establish a long-term partnership.

At the conference reviewing VJEPA, Tadashi Kikuchi, the economic attaché at the Japanese Consulate General in Ho Chi Minh City, told that three factors leading to success when doing business in Japan are: (1) Gather information, (2) Participate in seminars and conferences about the Japanese market and (3) Understand the Japanese business culture. In the future, many Japanese enterprises will survey the Vietnamese market, and pay visits to Industrial Zones; these will be good opportunities for local business to have direct meetings with Japanese partners.

The issue of what Vietnam should do to receive Japanese investment flow was discussed in the article (VEN, 2013b) as follow: Despite ample potential, Japanese experts and investors said that the investment environment in the country still had major problems, which lie in inadequate infrastructure, insufficient power, high inflation, local currency devaluation and sudden changes in legal regulations, which together made it difficult for businesses.

Hideo Naito, the director of Power and Water Finance of the Japan Bank for International Cooperation (JBIC), said that infrastructure remains the most important problem that has hindered opportunities to draw investment to Vietnam. For this reason, Vietnam in the short term will need to solve the problem to become an attractive destination for many investors.

At the same time, Professor Ta Ngoc Tan, the director of the Ho Chi Minh City National Academy of Politics and Public Administration, said that to draw investment capital from Japan, Vietnam needs to seriously observe the socioeconomic development strategy for 2011-2020, effectively launch the fourth phase of the

Vietnam-Japan Joint Initiative, promote projects that are under negotiation with Japan, solve problems, and look to apply particular incentive policies and mechanisms to attract Japanese investment capital.

What is more, to find Japanese buyers, Vietnam food producers should often study Japanese market to capture its demand for agricultural, forestry and fisheries, and should be involved in the specialized exhibition of food sectors in Japan such as Foodex Japan has held annually. In Japan's Foodex, in addition to the participation of Japanese companies are also many other countries around the world, so most buyers are visiting Japan. This is an opportunity for Vietnam to introduce its products. The Government of Vietnam has all the strategies in support of enterprises wishing to export to Japan, but the company also actively involved, especially focusing on the products of high added value and expanding the variety of items.

Besides, it also increases the link-exchange trade cooperation between the two countries' businesses in every industrial sector. Specifically, the two fisheries industries can increase the exchange relationship between each other's businesses. Japanese companies are looking to export Sanma fish to Vietnam and invited Vietnamese companies to visit their places of origin and fish processing with the hopes Vietnam's companies will participate in the processing. Vietnamese enterprises should also attract Japanese experts to cooperate and work in the field of seafood processing, or a mechanism to attract Japanese companies to invest in Vietnamese seafood processing.

Additionally, to increase the sale of goods to Japan, Mr. Tadachi Kikuchi, Economic Attaché Consulate General of Japan also said that although Vietnamese quality goods are increasing to export to Japan, they could not enter deeply and strongly due to weak advertising. Therefore, Vietnam should have a few strong commercial enterprises, professionals, leading exports to Japan. He warned that "if Vietnam's business did not increase the presence in Japan right now, then they will have be out-competed by Laos and Cambodia ..." (Ngoc Long, 2012)

Furthermore, Mr. Vu Van Trung, Commercial Counselor, Head of the Vietnam Trade Office in Japan pointed out the two sides' effort to promote the practical values of the VJEPA. (VOV News, 2012) In the field of commerce, Japan is the second

largest export market for Vietnam following the United States. In recent years, exports have been growing but not as much as both parties would like. We believe that, in order to take advantage of the preferential agreements, Vietnam must endeavor to find multiple sources of export quality, low cost, meet the tastes and demands of the Japanese market, changing the structure and diversity of exports to Japan.

The Japanese market is one of the most difficult markets to please with high demand for quality, especially quarantine issues, food safety and hygiene. Although Vietnam has made great efforts with these issues for some time, it needs further efforts to minimize such abuses of antibiotic residues in export of frozen shrimp. As for the grain commodity fruits and vegetables, they are not allowed to be imported into Japan in the fresh form due to quarantine issues. At this point, Vietnam should focus on doing well from production to ensure proper quarantine requirements concerning quarantine. Thus, Japan can exploit the full potential of fruits and tropical fruits of Vietnam. Japan and Vietnam have agreed to build the center and quarantine inspection exports to Japan.

All in all, the VJEPA is a milestone agreement for Vietnam and Japan relations in many respects, with early positive indicators in the two nations' trade relations, there are still untapped opportunities and issues to be addressed. Further research is needed to review and point out the weakness and strengths of the agreement so as to further the national interest.

In the trend of stability, cooperation and development of the Asia-Pacific region with positive signs of economic reforms in both countries, with the close coordination of the implementation of the basic solution above, we expect the basis to further increase Vietnam-Japan trade relations in particular and the broader relations of the two nations in the near future. This expectation is shown in the slogan of the 40th Anniversary of Vietnam-Japan Diplomatic Relations which is "Moving together toward the future: sharing understanding."

5.3. Recommendations for further research

This research focused on the impact of the VJEPA on Vietnam-Japan relations in the short period of 2008 to 2012. It is suggested that further research with a long time would be necessary to provide a full picture of the effects of the VJEPA in the two nations' relations. In addition, recently Vietnam prepares to sign on some more bilateral agreements with other countries, it would be useful to open the research on several agreements to get the reliability and stable indicators in the similar contexts. Last but not least, as mentioned in the limitation section, in terms of the fifteen areas covered by the VJEPA, this study focused on three parts including trade in goods and services, foreign direct investment and official development assistance. Hence, a thorough review on the rest areas should be considered later in other research.

APPENDIX (OR APPENDICES)

Appendix 1: Major export goods from Japan to Vietnam in 2010 (in 1000US\$)

	Major export products	Value
1	Chemical and chemical products	695571
2	Computers, electronic products and parts	1026610
3	Auto, motor and parts	659841
4	Steel, iron and products	1595078
5	Machinery, instruments, accessories	2558895
6	Plastics and plastic products	711062

Source: Vietnam's General Office of Customs

Appendix 2: Major export goods from Vietnam to Japan in 2010 (in 1000US\$)

	Major export products	Value
1	Crude oil	214.114
2	Fishery products	894.005
3	Agricultural products	289.556
4	Articles of apparel and clothing accessories	1.154.491
5	Coal	233.824
6	Footwear	171.963
7	Wood and wooden products	454.575
8	Electronic wires and cables	920.053
9	Computers and computer parts	410.799

Source: Vietnam's General Office of Customs

Appendix 3: Major export goods from Vietnam to Japan (2008-2012)

MAJOR EXPORT GOODS FROM VIETNAM TO JAPAN (2008-2012)

						UNIT: 1000 US\$	
	PRODUCTS	2007	2008	2009	2010	2011	2012
1	Crude oil	1,013,038	2,177,391	480,117	214,115	1,579,576	2,516,411
2	Seafood	753,593	830,154	760,725	894,055	1,015,887	1,084,988
3	Textiles, sewing product	704,730	820,056	954,076	1,154,492	1,690,339	1,974,696
4	Electrical wire and cable	662,811	727,261	639,502	920,053	987,645	181,893
5	Wood and wooden products	307,086	378,839	355,366	454,576	597,496	671,982
6	Computers and their parts	269,330	375,696	380,971	410,801	412,356	337,870
7	Coal	133,559	305,134	145,559	233,825	279,360	164,426
8	Articles of plastics	126,918	193,890	193,284	255,580	293,736	362,231
9	Footwear	114,750	137,576	122,474	171,963	248,885	328,339
10	Coffee	76,422	127,432	90,312	85,457	128,252	171,233

Source: Vietnam's General Statistic Office

Appendix 4: Average tariff rates of Japan under VJEPPA

	Products	Average tariffs of Japan			MFN tariff rates
		2010	2015	2019	
1	Textile and garment	0.00	0.00	0.00	0.00
2	Crude oil	0.01	0.00	0.00	2.60
3	Aquatic products	5.36	3.77	0.00	6.00
4	Footwear	1.51	1.20	1.07	3.40
5	Computers, electronic products and parts	x	x	x	MFN
6	Precious stones, metals and products	3.33	3.33	3.33	6.00
7	Rice	0.00	0.00	0.00	8.80
8	Wood and wooden products	0.00	0.00	0.00	1.70
9	Machinery, instruments, accessories	0.00	0.00	0.00	0.00
10	Coffee	0.00	0.00	0.00	0.00
11	Coal	9.73	9.05	8.50	10.40
12	Petroleum	0.00	0.00	0.00	1.20
13	Rubber and rubber products	0.00	0.00	0.00	0.16
14	Transportation equipments	19.63	19.26	18.97	21.50
15	Electronic wires and cables	4.25	1.89	0.00	10.90
16	Cashew nut	0.07	0.02	0.00	3.70
17	Plastics and plastic products	9.19	7.33	6.16	11.80
18	Bags, wallets, suitcases, hats and umbrellas	0.00	0.00	0.00	1.30
19	Steel, iron and products	3.02	1.34	0.00	7.10
20	Cassavas and products	x	x	x	0% or ¥341/kg
21	Vegetables and fruits	0.00	0.00	0.00	0.40
22	Pepper	0.00	0.00	0.00	0.00
23	Minerals	0.24	0.01	0.00	5.80
24	Confectionary and cereals products	0.00	0.00	0.00	2.70
25	Paper and paper products	0.00	0.00	0.00	0.00
26	Glass and glass products	¥252.41/kg	0.00	0.00	¥385.14/kg
27	Chemicals and chemical products	0.17	0.07	0.00	1.30
28	Pottery	0.00	0.00	0.00	0.30
29	Tea	0.00	0.00	0.00	0.00
30	Rattan and bamboo products	4.84	3.74	3.41	5.71

Source: Vietnam's Ministry of Industry and Trade

Appendix 5: Average tariff rates of Vietnam under VJEPPA

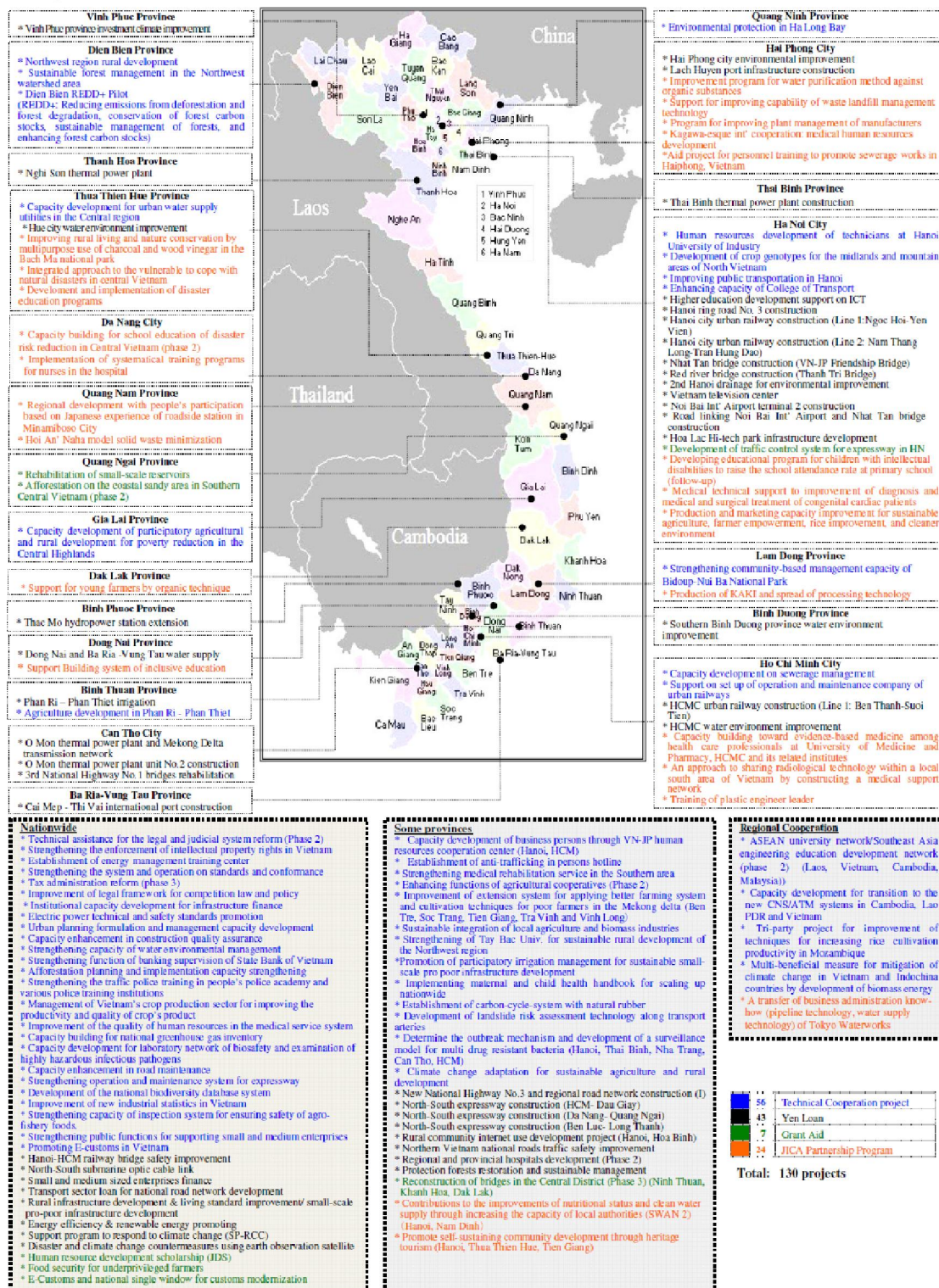
	Product	average tariff rates (%)	2010	2011	2016	2019	2024
1	Articles of apparel and footwear accessories	9.3	7.3	5.9	2.8	0.6	0.0
2	Oil products	3.7	2.5	2.2	0.6	0.0	0.0
3	Aquatic products	30.6	26.5	24.4	14.2	8.1	0.4
4	Computers, electronic products and parts	9.4	7.5	5.7	3.1	1.9	1.0
5	Precious stones, metals and products	10.8	9.3	8.6	5.0	2.9	0.0
6	Rice, wheat	31.0	27.1	21.1	15.4	9.5	0.0
7	Wood and wooden products	5.2	6.2	5.6	3.0	1.4	0.0
8	Other electronic products and parts	22.0	18.7		9.7	5.4	0.4
9	Vegetable and animal oil and fat	19.3	16.7		8.6	4.6	0.0
10	Machinery, instruments, accessories	12.1	11.8		10.9	10.8	10.8
11	Petroleum		x	x	x	x	x
12	Rubber and rubber products	8.9	7.6		3.9	2.1	0.5
13	Automobiles		x	x	x	x	x
14	Electronic wires and cables	10.7	8.7		3.8	2.0	1.3
15	Pharmaceutical products and materials	3.6	2.9		1.0	0.1	0.0
16	Plastics and plastic products	11.1	9.2		3.5	0.7	0.1
17	Cloth	12.0	9.8		3.2	0.9	0.9
18	Steel and iron	9.0	7.1		1.6	0.2	0.1
19	Milk and milk products	22.0	19.0		10.0	5.5	0.7
20	Vegetables and fruits	31.5	25.9		14.4	8.6	0.0
21	Foodstuffs and materials	8.7	7.1		2.5	0.1	0.0
22	Transportation equipments	8.6	7.1		2.4	0.0	0.0
23	Confectionary and cereals products	35.1	30.3		15.6	8.3	0.0
24	Paper and paper products	20.0	16.2		5.0	0.3	0.3
25	Other metal	5.2	4.2		1.4	0.0	0.0
26	Chemical	5.5	4.6		1.6	0.2	0.1
27	Tobaccos and materials		x		x	x	x
28	Fertilizers	5.9	4.9		2.0	0.6	0.0
29	Textile fibers	2.5	1.9		0.0	0.0	0.0
30	Chemical products	13.1	11.0		4.7	1.6	0.0

Source: Vietnam's Ministry of Industry and Trade

Appendix 6: On-Going Projects Map of JICA in Vietnam



As of October 2012.



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