

Inviting Japanese SMEs in Large Numbers

For mutual industrial development of
Vietnam and Japan

Kenichi Ohno (VDF & GRIPS)
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Summary & Conclusion

- ❑ Inviting a large number of Japanese manufacturing SMEs to Vietnam will greatly benefit the industries of both countries.
- ❑ Governments (central & local), business organizations, and individual firms on both sides show strong interest. Mutual visits are becoming common.
- ❑ However, Vietnam is not alone in trying to absorb manufacturing FDI for industrialization. For Japanese investors, many destinations are available other than Vietnam.
- ❑ At present, many efforts to attract Japanese SMEs are made on both sides; they must be integrated into a coherent policy network.

Summary & Conclusion (cont.)

- To translate strong mutual interest into actual investment, we must go beyond general discussion and start mutual learning and preparation at the operational level.
 - Have regular information sharing and exchange among investment officials and experts of two countries.
 - Linkage with Japanese support organizations (METI, local governments, SME Agency, chambers of commerce & industry, Embassy, JETRO, JICA, etc.)
 - Try new ideas for attracting Japanese SMEs
 - Strengthen local industrial parks as receivers of Japanese investment.
 - Enhance planning and investment-related capabilities of host provinces and cities.
 - Build efficient logistics, etc.

Situations in Japan



- ❑ Problem of ageing and business continuity for manufacturing SMEs
 - ❑ Rise of emerging economies; enhanced technology of Korea, Taiwan, China
 - ❑ Strong pressure for cost reduction
 - ❑ Yen appreciation
 - ❑ Power shortage
 - ❑ Delay in free trade effort (FTAs, EPAs, TPP)
 - ❑ Risk of supply chain disruption (earthquake, Thai floods, etc.)
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- ➔ Japanese large companies are moving abroad
 - ➔ The number of Japanese manufacturing SMEs is declining

Survey of Manufacturing SMEs in Osaka (Regarding Emerging Economies in Asia)

- ❑ Conducted by Osaka Foundation for Trade & Industry; Oct. 2010; 180 firms responded.
- ❑ Already exporting or invested in Asian emerging economies (40.6%), planning or interested (26.3%), no interest or reply (33.2%)
- ❑ Target customers: overseas Japanese firms (53.0%), overseas local firms (46.6%), overseas rich citizens (21.7%)
- ❑ Future marketing strategy: local sales agency (41.1%), Japanese sales agency (35.6%), FDI (14.6%), local OEM (12.6%), JV with local firm (12.3%)
- ❑ Strength of your firm: high quality (56.8%), product development tailored to customer needs (43.2%), only-one technology (31.6%)
- ❑ Problems: finding local partners (52.8%), lack of local information (51.7%), finding local needs (40.0%), local marketing (39.4%)

Survey of Manufacturing SMEs in Osaka (Regarding Vietnam)

- ❑ Conducted by Osaka Chamber of Commerce & Industry; Jan. 2012; 55 firms interested in Vietnam responded.
- ❑ Expected role of Vietnam: production site (75.0%), domestic sales (55.6%), input procurement (27.8%)
- ❑ Future business expansion: Hochiminh City (70.9%), Hanoi (60.0%), Danang (27.3%)
- ❑ Problems: infrastructure (50.9%), securing high-quality staff (45.5%), government policy (40.0%), lack of Japanese staff with local knowledge (34.5%), lack of supporting industries (34.5%)
- ❑ Want to locate in industrial parks designated for Japanese SMEs if conditions are right (38.2%; for small firms, 70%)
- ❑ Demands for designated industrial parks: good infrastructure (30.9%), rental factories (30.9%), good living condition (27.3%), one-stop service in Japanese (25.5%), matching service with local partners (25.5%), on-site customs clearance and bonded warehouses (25.5%)

Policy & Institution building in Japan

Previously, Japanese government and related organizations were reluctant to support overseas investment of SMEs for fear of losing industrial base; however, a few years ago, policy shifted to active support.

- Council on Overseas Business Support for SMEs (chaired by METI minister, estab. Oct. 2010, meets twice a year)
- “Guideline for Overseas Business Support for SMEs” approved Jun. 2011; local governments and related organizations were asked to draft promotion plans.
- JETRO: investment support, seminars, matching services, reverse trade fairs, etc.
- JICA: Survey on SME overseas investment in Vietnam (2011); initiation of business F/S support for SMEs (2012)



Situations in Vietnam

- ❑ Despite high growth in the past, the quality of growth is lacking for Industrialization and Modernization by 2020 (weaknesses in productivity, technology, human resource, investment efficiency, income gap, environment, macroeconomic balance, etc.)
- ❑ Under globalization, AFTA's 2015 deadline and rise of other countries (incl. Myanmar) may erode Vietnam's competitiveness. There is a risk of exodus of manufacturing FDI from Vietnam.
- ❑ Wage increase, shortage of high-quality human resource.
- ❑ Vietnam's policy capability and business competitiveness are much weaker than Thailand, Malaysia, etc.
- ❑ A radical policy reform is required for internal value creation and strong competitiveness. Without policy action, Vietnam is likely to fall into a middle income trap.

Political Decisions & Agreements

- ❑ SEDS, SEDP: “To become an industrial country by 2020”
- ❑ Supporting Industry Development Master Plan (approved 2007, but needs revision)
- ❑ Designation of industrial parks for Japanese supporting Industry firms by the Vietnamese government (Haiphong, Baria-Vungtau)
- ❑ Visit of President Truong Tan Sang to Japan (Jun. 2011)
- ❑ Visit of PM Nguyen Tan Dung to Japan; Vietnam-Japan PM Joint Statement (Oct. 2011)
- ❑ Active mutual visits by local governments and business organizations—Keidanren, Kankeiren, Osaka, Hamamatsu, Baria-Vungtau, etc.

Japan's Industrial Policy Support in Vietnam

- VDF: introduction and analysis of Japanese monozukuri, integral manufacturing, supporting industries, comparison of policies in neighboring countries, etc.
- Vietnam-Japan Joint Initiative (2003-, currently Phase 4)
- “Supporting Industry Promotion Action Plan” (Ambassador HE Sakaba, 2008-2010) and its implementation (many ongoing projects)
- “Vietnam Industrialization Strategy” (Ambassador HE Tanizaki, 2011-): Concentrated promotion of a small number of industries through bilateral cooperation

Neighboring Countries and Japanese Companies

Despite earthquake and Thai flood damage, Japanese FDI in China & ASEAN5 rose sharply in 2011. At present, Japanese manufacturing SMEs are particularly interested in Vietnam and Thailand.

- ❑ Thailand: despite political instability and floods, Japanese firms continue to appreciate Thai advantages in supporting industries, skilled workers, and good policy.
- ❑ Myanmar: as democratization proceeds, foreign investors are greatly interested in Myanmar. Japanese ODA and policy support are resuming.
- ❑ China: Japanese FDI has increased in response to China's new policy to attract high-tech and capital-intensive FDI.
- ❑ Indonesia: FDI in automobile and motorcycle has increased.
- ❑ Cambodia, Philippines, India, etc.: building industrial parks designated for Japanese firms.

Entry Points for Attracting a Large Number of Japanese SMEs

1. Expanding information exchange and discussion
2. Trying new ideas for assisting Japanese SME to come
3. Strengthening local industrial parks as receivers of Japanese SMEs
4. Leveling up of planning and FDI marketing capabilities of host provinces and cities
5. Building efficient logistics
6. Securing power supply

1. Expanding Information Exchange and Discussion

- ❑ For both sides, lack of mutual information is a bottleneck in promoting Japanese SME investment in Vietnam.
- ❑ A regular mechanism for information exchange and discussion should be set up at the operational level (responsible officers at local governments and related organizations).
- ❑ In Japan, a loose network should be created among SME overseas investment support mechanisms available from many organizations (not just policy framework but for implementation)
- ❑ In Vietnam, improve information on good industrial parks, and potential buyers and business partners. Existing databases should be improved and expanded.

2. Ideas for Assisting Japanese SMEs to come

- ❑ Respond to concrete requests from individual firms or firm surveys. Support measures should be tailored to different needs of firms which may have different investment motives.
- ❑ Generally speaking, SMEs face many problems such as lack of overseas experience, language barrier, anxiety about local policies and regulations, etc. SMEs need stronger support than large firms.
- ❑ An effective supporting mechanism for FDI should be established on the Vietnamese side. Government's role should shift from a policy maker and regulator to a provider of business supporting services.

Examples of Ideas

1. Industrial parks specializing in Japanese SMEs should hire an experienced Japanese expert (for advice on hardware and software, and bringing Japanese firms).
2. Provide rental factories for SMEs (design of area size, loading deck, etc. should be suitable for tenant firms).
3. Strong business support in Japanese language, including matching services with local buyers and business partners.
4. Encourage investment in groups (many SMEs can share information, administration, accounting, worker facilities, interpreter, etc. and minimize risk).

Ex. Two Japanese business leaders, a manager and a consultant, are inviting about 100 IT-related SMEs to come to Long Duc Industrial Park in Dong Nai (being built by Sojitz).

3. Strengthening Local Industrial Parks as Receivers of Japanese SMEs

- ❑ To receive Japanese SMEs, special effort in both hardware and software is required from industrial park management companies.
- ❑ VDF's "Industrial Park Checklist": these items are common sense to Japanese but may be useful for Vietnamese IP developers.
Access to port, airport, large cities; soil quality; power; water; telecom; waste water treatment; rental factories; workers; engineers; professionals; one-stop services; customs clearance; business services (banking, couriers, etc.), high-quality residence, Japanese school, hospital, Japanese restaurants, recreation, green environment, investment incentives, land rent and management fee
- ❑ To receive many supporting industry firms, first attract an anchor firm (large-scale assembler) to produce the Canon effect.
- ❑ ODA may be used to improve local industrial parks. While this may cause conflict of interests with Japanese industrial park developers, the problem will disappear if Vietnam succeeds in attracting a large volume of Japanese FDI.

4. Leveling Up Capabilities of Host Provinces and Cities

- ❑ Strong political commitment of the People's Committees of Haiphong, Baria-Vungtau, etc. to the attraction of Japanese FDI is highly appreciated.
- ❑ However, there is room for improvement in industrial planning, investor support, FDI marketing, and other actions in implementation.
- ❑ Level up capabilities through the following cooperation.
 - Cooperation with operational level in Japan (local governments, business organizations, JETRO, JICA, etc.)
 - Inter-provincial cooperation in North and South (develop many provinces together, not just one)
 - Link with Supporting Industry Action Plan (WT4-1 of Vietnam-Japan Joint Initiative Phase 4)
 - Link with Vietnam Industrialization Strategy

5. Building Efficient Logistics

- ❑ To remain competitive in Asia, Vietnam must have efficient transport infrastructure in both hardware and software, beating other countries in transport time and cost.
- ❑ Lach Huyen Port and Second Hanoi-Haiphong Highway are under construction in the North, and Cai Mep-Thi Vai Port and Southern Highway are being built in the South. These large-scale infrastructure projects will greatly upgrade Vietnam's logistic systems.
- ❑ Using such infrastructure as a core, Vietnam should create integrated and internationally competitive industrial regions in the North and South.
- ❑ For this purpose, drafting of comprehensive regional development plans and setting of concrete logistic targets will be useful.

6. Securing Power Supply

- ❑ Industrialization is impossible without stable supply of electricity.
- ❑ In the long run, development of fire, hydraulic, nuclear, and new-energy power generation, based on a master plan and supported by international cooperation, is indispensable.
- ❑ In the short run, an arrangement should be made to supply power stably to prioritized industrial parks, to reduce the risk of blackouts to zero.