

The Japan-Vietnam Joint Initiative to Improve Business Environment

Following an agreement in the meeting between the Vietnamese Prime Minister Phan Van Khai and Japanese Prime Minister Jun-ichiro Koizumi in April 2003, the Japan-Vietnam Initiative to improve the business environment strengthen competitiveness was launched. The Initiative is a joint action based on a high-level dialogue between the two countries, aims at boosting foreign investment. Since this is an indispensable driving force for bringing Vietnamese economy on a faster growth path.

If Vietnam is to realize faster econom-

ic growth, it must give priority to addressing the following challenges: strengthening competitiveness and promoting foreign investment inflows, crucial factors for increasing competitiveness. In this Joint Initiative, both countries are to draw up a concrete action plan and implement it focusing on these challenges. One of the characteristic of this Joint Initiative is that it tries to have that a comprehensive perspective on the question of investment and business environment in addressing the question of both institutional and policy as well as economic infrastructure.

Issues Considered by Japan-Vietnam Joint Initiative

The Initiative will address the following issues.

- Drawing up a strategy to attract foreign investment in Vietnam
- Considering specific measures to realize major improvements in investment climate
 - * Reviewing regulations on foreign investment
 - * Capacity building of FDI related authorities of central and regional government
 - * Strengthening of the business related institutions
 - * Identifying development needs of economic infrastructure

Comparison of Vietnam with Guangdong Province of China

Although Vietnam and the Guangdong Province of China respectively have a population of about 80 million, the per capita GDP differs greatly between them: \$410 in Vietnam and \$1,571 in Guangdong Province. This difference in the economic level is in line with the amount of foreign direct investment received by them. This comparison shows the importance of improving the investment and business environment in both the physical and intangible aspects.

The Japan-Vietnam Trade and Investment Working Group

In the meeting between Prime Ministers of Japan and Vietnam in 1999, an agreement was reached for holding exchanging of views to identify and resolve problems on trade and investment with participation of the private sector, as the two countries aim at taking further steps in their trade and investment relations. Three meetings have been held to date to consider improved measures for trade and investment.

Issues improved through discussions in the Japan-Vietnam Trade and Investment Group

The Trade and Investment Working Group has met three times to date in September 1999, November 2000, and April 2002. Examples of improvements resulting from these meetings are as follows:

- * Investment in export requirement for new investment
- * Reduction in products subject to restriction in investment

- * Liberalization of direct employment by foreign affiliate companies
- * Establishing accounting standards to harmonize domestic accounting rules with the international accounting system
- * Adoption of a sample screening system by the customs

Also important is the role of the Business Forum which provides a mechanism for transmitting to the Vietnamese authorities opinions of the private sector to encourage institutional and policy reforms.

Toward a Japan-Vietnam Investment Agreement

In parallel to the effort to improve investment and business environment, in the Japan-Vietnam Initiative, Japan also aims at liberalization and promoting investment in the legal framework. The minimum condition for overseas investors to have confidence in making investment in Vietnam is to ensure predictability and transparency of investment rules. In addition, to attract the maximum amount of investment from abroad, it is important to treat overseas investors in a way not inferior relative to other countries or domestic investors.

From this perspective, the Japan-Vietnam Investment Agreement is to set forth most favored nation and national treatment, in principle, for investment licensing and business activities after it is granted, thereby laying down a substantive legal framework for protecting investors rights and promoting investment.

After a series of discussions, the two countries reached a basic accord for the signing of the agreement at the Japan-Vietnam summit in April 2003. It is expected that progress in the remaining work will lead to the signing and entering into effect of the treaty. It is expected that this agreement will establish the principle of the liberalization of investment, thereby improving investment and business environment and accelerate foreign investment.

Problems on Imports of Motorbike Parts and Tariffs on Motor Vehicle Parts

The measures taken by the Vietnamese government in 2002 pertaining to imports of parts of motorbikes caused damages to foreign firms with investments in this sector and generated considerable concern among foreign firms operating in other sectors as well as potential investors abroad. The problem with imports of parts for automobiles also raised similar concerns. The Japanese government discussed with the Vietnamese government ways to resolve these issues. In these discussions, the appropriateness of institutions and policies and the need to have a sound investment and business environment were the standpoint the Japanese Government placed importance.

New Miyazawa Initiative

A loan was provided in September 1999 in support of economic reform. This involves a policy action plan committed by the Vietnamese government. The policy action plan consists, among other themes, of private sector development, state-owned enterprise reform, and reforms of trade

regime. Amid difficulties in the external balance after the Asian currency crisis, and talks with the IMF and the World Bank on the reform program in limbo, this loan provided a momentum for advancing reforms. The loan served as a turning point as the Vietnamese government brought to the forefront

private sector development even if official reference to it had rarely been made until then. It was also unprecedented that the government made a stronger commitment to trade reform at a time when domestic discussions then were still revolving around possible choices on the trade regime.

Policy Action Plan under the New Miyazawa Initiative

- Private sector development program
- * General rules on developing the private sector
- * Improving the financial environment
- * Improving the business environment
- * Strengthening organizational capacity for developing the private sector
- Auditing 100 major SOEs based on the international accounting standards
- Tariffication of non-tariff barriers