CHAPTER 7

Comparison of Vietnam and East Asia Countries (China, Korea, and Japan) Economic Relations

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Comparison of Economic Relations Between Vietnam and East Asian Countries (China, Korea, and Japan)

Ha Thi Hong Van

INTRODUCTION

Vietnam has carried out an economic renovation for more than twenty years. This process was the result of a shift from central planning to a market-based economy and from an agriculture-based to an industrialized country. Therefore, integrating into the global economy is important for Vietnam. Engaging in foreign trade and attracting foreign direct investment played a key role in Vietnam's economic development. In East Asian, China, Japan and South Korea are very important economic partners of Vietnam.

This paper focuses on trade and direct investment between Vietnam and the three East Asian countries. It also assesses the initial impacts of Vietnam's economic relations with these countries and offers some recommendations.

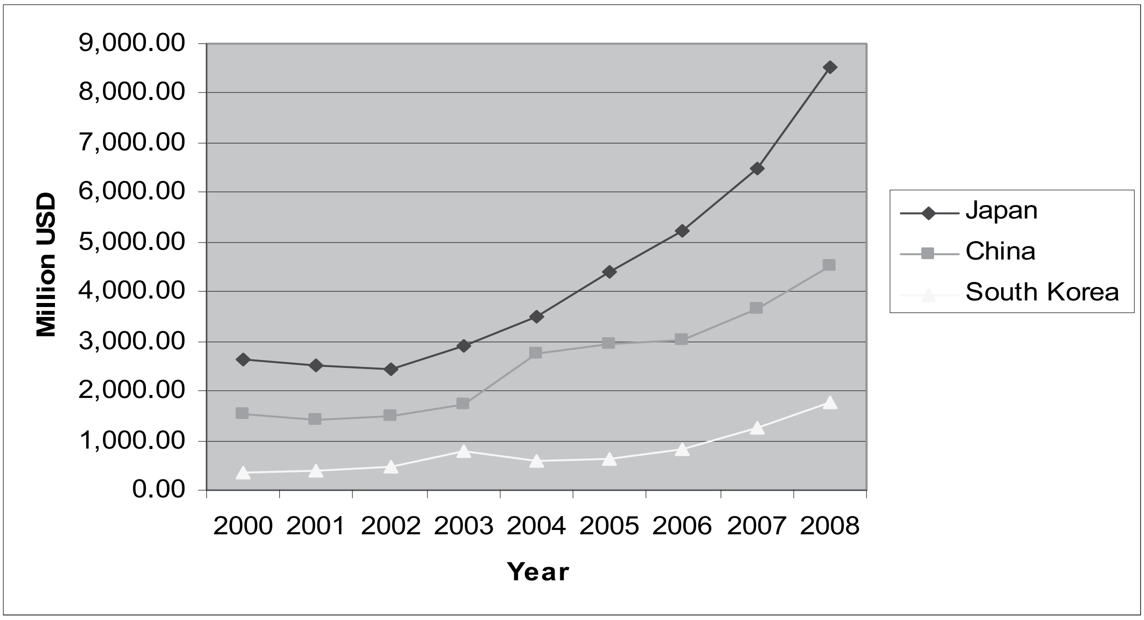
1. TRADE RELATIONS

1.1. Vietnam and China trade relations

1.1.1. Vietnamese exports to China

Between 2001 and 2008, the average growth rate of Vietnamese exports to China was 15.82%. As shown in Table 1, Vietnam's 2000 exports to China were valued at about USD 1.5 billion USD. These rose to USD 1.7 billion in 2003 and to USD 2.7 billion in 2004. By 2004, exports had grown to USD 4.5 billion.

Figure 1: Export trends from Vietnam to China, Korea and Japan



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

From 2000 to 2008, export value increased three-fold, with China becoming the third largest export market of Vietnam, next to the United State and Japan. Vietnam's export value to the United States in 2008 was pegged at USD 11.68 billion. The corresponding figure for Japan during the same year was USD 8.5 billion.

Table 1: Situation of trade relations between Vietnam and China, Korea, Japan (2000-2008)

Country	Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
China	**Export-Import Value**	**2.957,2**	**3.047,2**	**3.654,3**	**4.870**	**7.192**	**8.739,5**	**10.420,9**	**16356.1**	**20187.8**
	Export Value	1,534.0	1,418.1	1,495.5	1,747.7	2,735.5	2,961	3,030	3,646.1	4535.7
	Import Value	1,423.2	1,629.1	2,158.8	3,122.3	4,456.5	5,778.9	7,390.9	12,710	15,652.1
	Trading Balance	*+110.8*	*-211*	*-663.3*	*-1,734.6*	*-1,721.1*	*-2,817.9*	*-4,360.9*	*-9063.9*	*11,116.4*
Korea	**Export-Import Value**	**2,082.1**	**2,299.6**	**2,751.5**	**3,418.6**	**3,931.9**	**4,231.3**	**4,623.5**	**6583.8**	**8850.7**
	Export Value	351,9	406,1	466	794,2	603,5	630,8	842,9	1243.4	1784.4

Korea	Import Value	1,730.2	1,893.5	2,285.5	2,624.4	3,328.4	3,600.5	3,780.6	5340.4	7066.3
	Trading Balance	*-1,378.3*	*-1,487.4*	*-1,819.5*	*-1,830.2*	*-2,724.9*	*-2,969.7*	*-2,937.7*	*-4097*	*-5281.9*
Japan	**Export-Import Value**	**4,872.3**	**4,725.1**	**4,947.7**	**5,903**	**7,055**	**8,704.2**	**9,933.1**	**12278.9**	**16837.9**
	Export Value	2,621,7	2,509,8	2,438,1	2,909,1	3,502,4	4,411,2	5,232,1	6500	8537.9
	Import Value	2,250.6	2,215.3	2,509.6	2,993.9	3,552.6	4,293	4,701	6000	8300
	Trading Balance	*+371.1*	*+294.5*	*-71.5*	*-84.8*	*-50.2*	*+118.2*	*+531.1*	*500*	*237.9*

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

1.1.2. Vietnamese imports from China

Exports from China to Vietnam increased quite roughly in the period 2000-2008. In 2000, the import value from China was US$1.4 billion, and rose to a whopping US$15.6 billion in 2008, or increasing eleven-fold. Between 2000 and 2008, the average growth rate of the import value from China to Vietnam was registered at 35.8%, or three times bigger than the average growth rate of exports from Vietnam to China.

At the present, China is still the export country for Vietnam's goods, accounting for 18.7% of the latter's total import value. China also is the third biggest importing country for Vietnamese exports, next to the U.S. and Japan. Exports from Vietnam to China comprised 6.4% and 6.9%, respectively, of the total goods from in 2007 and 2008.

1.1.3. Balance of trade

Until 2001, Vietnam often had trade surplus with China. This patter began to shift by 2001, with Vietnam started having trade deficit with China, which consequently increased swiftly. In 2001, trade deficit with China was valued at USD 211 million, rising to USD 11 million in 2008. In 2007, Vietnam's trade deficit was valued at US$9 billion, grew to US$5 billion in one year. Vietnam only received 0.78% of the total trade turnover with China in 2008. China holds up to 12% of the total trade turnover with Vietnam.

However, trade deficit with China also has its advantages, because Chinese import goods can easily meet Vietnamese production and consumption needs. Vietnam, in fact, has used Chinese materials, chemicals and machines, among others, in agriculture and industry, and this helps it save on costs. Moreover, trade deficit with China is not a major concern for Vietnam, because this can be offset by substantial exports to other countries.

1.1.4. Border trade

Aside from official trade, border trade between Vietnam and China has grown significantly. Border trade was extremely important to local people living on border areas, as it helped generate income for the local government and the people, resulting in improved standard of living.

Overall, border trade is an important component of Vietnam-China trade relations. As informal trade grows significantly, it helps increase revenue, generate jobs and uplift the lives of the border communities. In addition to informal and formal trade, other services also appear such as transit and temporary export-import activities, to name some.

Border trade goods are very diverse. On top of crude oil, gas and other products that are the subject of formal trade, trade in export or import goods is done through border areas.

In the 1990s border trade between China and Vietnam was valued at 90% of the total trade turnover between the two countries. Yet in 2005, border trade only held about 10 to 15% of the total export-import turnover balance between the two countries. Although this number may not really capture the extent of border trade between these countries, given the reality of contraband goods, border trade is now on the decline. Therefore, the establishment of ASEAN-China Free Trade Area, which ensures trade goods are tax-free, will reduce the importance of border trade preferential tax mechanism.

Table 2: Border Trade Situation

Unit: US$ million

Year	Quang Ninh	Lang Son	Cao Bang	Ha Giang	Lao Cai	Lai Chau
2001	894.2	618.5	28.66	46.1	209.9	0.9
2002	486	270.4	51.11	80	254.6	14.87
2003	400.7	229.4	59.39	38.1	279.3	38
2004	427.83	303	62.4	70	273	36
2005	-	378.5	81.12	39.77	242.81	56.3

Source: Nguyen Van Lich 2007

1.1.5. Export-import goods from Vietnam to China

Export goods

Vietnam has exported to China more than 100 products, including four main groups: materials and fuel (crude oil, rubber, coal, oil, iron ore, oil-bearing nuts, raw materials for medicines and herbal plants); agricultural products (food, tea, diffrent kinds of vegetables and tropical fruits); fresh and frozen aquatic products (e.g., shrimps, crabs, fishes, snakes, tortoises, trionychid turtles); consumer goods (handicrafts, fine arts, shoes, biscuits and candy products, high-quality household products).[1]

The structure of Vietnam's export goods improved slowly when raw metarials comprised a substantial portion of exports to China. Raw materials account for 60% of the total export value.[2]

Rubber is a major export product, which gives Vietnam absolute advantage over China. To limit exports of rubber, China had some pilot project in planting rubber trees in Hainan and Yunnan provinces. However, the poor conditions of the soil and weather, which are not conducive to growing rubber trees, make planting this tree variety costly and productivity low. Hence, importing rubber helps meet the China's rubbers needs for its automobile industry.

Although China is a large coal exporter in the world, it still imports this resource

[1] Do Tien Sam et al. 2007. *Trade, Investment and ODA Flows between Vietnam and the PRC over the Past 10 Years and the Impacts on Poverty Reduction.* Hanoi: OXFAM report.
[2] Do Tien Sam et al. 2007. *Trade, Investment and ODA Flows between Vietnam and the PRC over the Past 10 Years and the Impacts on Poverty Reduction.* Hanoi: OXFAM report.

from Vietnam. Coal mines are concentrated in northeastern China, and this makes it costly for the southern part of the country to be procuring coal from there. Therefore, importing coal from Vietnam can save the southwest province tranportation costs.

A look at the growth rate of key export goods in China will show some minor improvements in the composition of export goods to China. As Table 3 shows, in the period 2001-2005, raw materials still maintained high growth rates: ore, 77%; rubber and rubber products, 35%; and crude oil, 28%. Significantly, shoes and ecletric goods acchieved high growth rate in this period: 80% and 79%. Athough product turnovers were still small, they nonetheless indicated the potential of exporting these products to China.

Table 3: Import-Export Products to China in 2005

Goods	**Export Values (Unit: US$ million)**	**Average Growth Rate 2001-2005 %**
Aquatic products	26.3	27
Vegetable	50.6	44
Fresh fruits	58.1	-4
Ore	221	77
Crude oil and fuel	1663	28
Rubber and rubber products	170.4	35
Wood and wood products	71.7	78
Shoes	44.6	80
Electronics	102.8	79
Total	**2552.8**	**30**

Source: Nguyen Van Lich, 2007

Import goods from China

Import goods from China to Vietnam are much diversified. Vietnam imports about 200 kinds of Chinese products. The number of Chinese export goods to Vietnam were double the latter's export goods to the former. China export goods to Vietnam fell under five main groups: whole equipments, machinery, materials, agriculture products and consumer goods.

As shown in Table 4, machinery imports were valued at US$ 3.7 billion, accounting for 23% of total import value from China. Steel product value was US$ 2.3 billion, accounting for 15.3%; materials for garment and leather industry: US$ 1.9 billion, accounting for 12.6% of total import value from China.

Table 4: Major Import Goods from China

Unit: US$ million

Product	2000	2005	2006	2007	2008
Gasoline	131.6	884.3	555.3	464,0	446,1
Machinery	166.5	817.6	1200.1	2394	3769,4
Fertilizer	24	264.3	119	588	719,9
Materials for textile and garment	23.3	323.6	304.8	1784	1904,6
Iron	75.1	718.0	1296.2	2335,0	2308,8
Electronic components	20.3	155.4	243.2	517	654,3
Plastic materials	4.1	35.2	-	-	-
Fabric	37.3	661.2	895.6	-	-
Cars, motorcycles, and components	-	118.9	101.3	510	674,1
Chemicals	61.1	169.9	203.8	522	729,2

Source: Vietnam Ministry of Trading and Industry

1.2. Vietnamese and Korean trade relations

Trade relationship between Korea and Vietnam in the period 2000-2008 developed quickly at an average (annual) rate of 20.38%. In 2000, trade between the two countries was valued at US$2.082 million; in 2008 US$8,850.7 million, which was equivalent to a fourfold increase in eight years. Korea was consistently one of the five biggest trading partners of Vietnam during this period.

1.2.1. Exports from Vietnam to Korea

From 2000 to 2008, exports from Vietnam to Korea grew quite steadily, from

US$351.9 million to US$1,784.4 million, or an increase of 5.6 times (Figure 1). Exports to Korea made up 2.4% of the total Vietnam export value in 2000. The corresponding figure by 2008 was 2.8%. The average growth rate of export value to Korea was pegged at a high of 25.7%, much higher than growth rate of export value to China.

1.2.2. Imports from Korea

The value of imports from South Korea to Vietnam increased significantly in the period 2000-2008. In 2000, the import value was US$1,730 million and US$7,066 million in 2008, or an increase of 4.08 times. In 2008 alone, import value from Korea rose to US$2 billion. It is assumed that a significant increase in Korean direct investment in Vietnam accounted for the hefty rise in import value during the 2000-2008 period. Korean import materials, for instance, comprised machinery for investment projects, resulting in increased import value. The average annual growth rate of import value from Korea was 19%.

1.2.3. Balance of trade

Since Korean-Vietnamese trade relation began, Vietnam's import value from Korea was often bigger than the export value to Korea, resulting in trade deficit with Korea. As Table 1 shows, trade deficit in 2000 stood at US$1.3 billion. Since then it had been growing steadily. By 2006, trade deficit with Korea was valued at US$ 2.9 billion, rising to US$ 5 billion in 2008.

Trade deficit between Vietnam and China rose drastically in 2007 and 2008 even if Vietnam had a trade surplus with China in 2000. The value of trade deficit with China was double the value of trade deficit with Korea in 2008. It indicated that the trade deficit with China had increased roughly in recent years.

Vietnam's trade deficit with Korea shows increasing Korean investment in Vietnam. The next section shows the composition of Korean export goods to Vietnam.

1.2.4. Composition of export-import goods

Export goods to Korea

The composition of Vietnam's exports to Korea was limited to certain goods. Still, Korea is a potential market for Vietnamese goods once bilateral trade between the two countries has grown significantly. To date, Vietnam's major export goods to Korea **are**:

Seafood: Vietnam was the fourth biggest seafood exporter to Korea, after the European Union, Japan and the United States in 2007. For this year alone, Vietnam seafood export value to Korea was US$ 270 billion.

Crude oil: in 2007, export value of this product was US$ 110 million.

Clothes and footwear: these export goods to Korea were valued at US$85 billion in 2007. In particular, Vietnam-made socks, along with those of Japan, have found a good market in Korea. In the first quarter of 2008, socks' export value to Korea was US$4.9 million, up 1.2 times compared with previous years.[3] The composition of Vietnamese shoes in Korea was more diversified, with an export value of US$50 million in 2007.

Table 5: Major Export Goods from Vietnam to Korea

Product	2001	2002	2003	2004	2006	2007
Seafood	110,045,600	116,597,800	127,953,300	142,147,599	210,787,003	274,968,714
Clothes, footwear	104,053,700	92,592,700	67,472,300	63,237,061	82,900,300	85,250,306
Wood products	17,986,100	24,810,700	24,360,700	32,004,579	65,718,820	84,443,640
Crude Oil	12,498,300	11,635,400	-	32,240,701	-	111,403,186
Shoes	9,001,500	13,247,900	20,476,900	20,983,544	37,150,439	50,514,341
Rubber	9,982,300	1,412,000	21,336,600	27,203,666	50,768,510	66,700,412
Handicrafts	12,034,600	11,637,700	9,968,800	18,739,038	4,684,917	5,090,840
Coffee	6,567,200	11,703,200	23,176,900	16,211,542	38,518,925	45,674,063
Vegetables	20,194,300	8,436,900	966,000	4,388,895	6,764,068	10,439,383
Electric wires and cables	4,030,100	2,367,200	3,364,100	3,363,155	8,628,382	43,028,772
Plastic products	2,787,900	4,392,700	8,248,300	11,340,574	12,772,329	12,688,183
Coal	857,900	10,739,500	1,753,000	18,950,684	33,709,303	39,800,728
Export turnover total	406,081,900	466,009,000	492,250,400	603,495,793	842,892,484	1,252,745,109

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

Import Goods from Korea

Overall, in this period, Vietnam imported from Korea materials for textile and garment industry, leather, iron, machinery, transportation equipments, gasoline,

[3] 2009. Vietnam and Korea Relation. *VIETRADE Online*, 03/23/2009. Available at: http://www.vietrade.gov.vn/index.php?option=com_content&view=article&id=69:quan-h-hp-tac-vit-nam-han-quc&catid=46:han-quoc&Itemid=188 (Accessed 5th October, 2009)

chemical products, electronics and electricity products

Table 6: Major Import Goods from Korea to Vietnam

Unit: US$

Product	2004	2005	2006	2007
Vegetable and animal oil	1.462.491	1.416.268	1.520.618	3.964.828
Gasoline	300.216.044	443.304.359	487.200.647	761.808.812
Materials for producing cigarettes	2.327.097	4.507.286	278.045	-
Medicines	52.652.074	58.216.226	68.502.781	82.317.244
Chemical and chemical products	112.029.245	72.522.724	164.753.042	211.784.344
Plastic	197.928.105	213.648.578	254.066.903	348.118.268
Fertilizer	41.898.644	26.609.490	31.611.642	34.536.089
Pesticide	3.808.643	5.440.067	9.154.941	11.726.248
Paper	37.249.000	49.559.139	42.566.707	-
Cotton	4.947.400	4.051.565	1.627.056	3.585.951
Fiber	55.930.240	39.725.346	54.298.665	74.012.200
Fabric	464.464.920	521.005.839	620.717.035	812.692.608
Materials for textiles and garments	514.443.849	445.635.062	384.940.603	389.126.262
Steel	209.408.389	231.017.276	213.733.759	289.819.840
Other metals	74.502.868	125.424.852	239.929.374	329.855.080
Electronic components	97.270.619	113.208.524	103.780.627	-
Computers and components	11.408.298	-	-	135.869.959
Machinery	396.922.340	416.249.777	456.631.464	841.529.338
Automobile	176.326.358	142.132.952	62.775.347	115.089.790
Automobile components	94.928.978	127.999.447	43.434.960	143.639.155
Motor bike components	3.717.773	2.686.405	334.026	-
Wood and wood products	1.713.463	2.738.743	4.128.388	2.039.733
Cattle feed	2.995.400	5.204.811	6.116.636	7.518.915
Rubber	19.271.700	18.698.246	26.107.926	44.655.793
Total	**3.328.439.000**	**3.600.533.872**	**3.870.626.623**	**5.333.980.853**

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

Table 6 highlights the major goods imported by Vietnam from Korea. Raw materials for textile and garment made up the bulk of these goods in 2007 alone; fabric, US$812 million; fiber, US$74 million; cotton US$3.5 million; other materials, US$389 million.

Machinery placed second, with a value of US$841 million; gasoline came third, with a total value of US$716 million. These data show a tight connection between imports and investments from Korea in Vietnam, since such investments concentrated on manufacturing and processing in Vietnam. Importing goods, including machinery from Korea, served this country's direct investment needs in Vietnam.

1.3. Vietnam and Japan trade relations

Japan is a very important trading partner of Vietnam. Before 2000, Japan was the biggest trading partner of Vietnam. Trade turnover between Japan and Vietnam in the period 2000-2008 grew at an average of 14.8 %. Trading value between the two countries was estimated at US$4872.3 million in 2000, US$12.5 billion in 2007 and US$16.8 billion in 2008. By 2007, the total bilateral trade value exceeded the target of US$10 billion for 2010. From 2001 to 2006, Japan was the biggest trading partner of Vietnam. However, from 2007 onwards, China surpassed and displaced Japan as Vietnam's biggest trading partner.

1.3.1. Exports from Vietnam to Japan

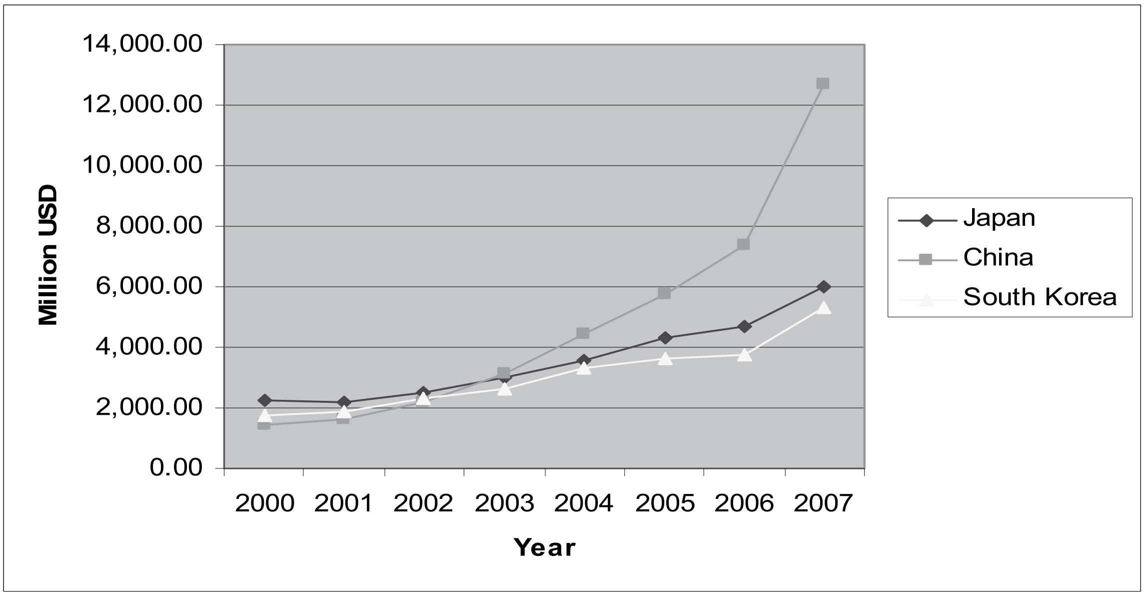
The development of regional cooperation, among ASEAN countries, between ASEAN and Japan, Korea and China (ASEAN + 3) and China joining the World Trade Organization (WTO) has had some impacts. First, it stimulated economic integration and development of trade. Second, it has made competition more intense. 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, among others. To some extent, this has restricted exports of goods from Vietnam to Japan.

Above all, export from Vietnam to Japan in the period 2000-2008 remained at an average rate of 16.5%. Exports in 2000 were valued at US$2621 million and it was US$ 8,537 million in 2008. In Figure 1, the blue line went up right, indicating that Vietnam's export value to Japan was bigger comparing with 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.

1.3.2. Vietnamese imports from Japan

As Figure 2 shows, Vietnam's import value from Japan was US$ 2.2 billion in 2000 and US$ 8.3 billion in 2008. In eight years, import value increased four-fold, growing at an average rate of 18%.

Figure 2: Import Trends from China, Korea and Japan to Vietnam



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

1.3.3. Composition of Export-import good with Japan

Composition of Vietnam's export goods:

Japan is one of the largest export markets for Vietnam, along with the U.S and EU markets. Vietnam's exports to Japan consisted of three key export products, namely, crude oil, seafood and garment products. Three products account for 40% of the total export value from Vietnam to Japan. As can be seen in Table 7, 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. Other exports from Vietnam to Japan were electric wires and cables, wood products, computers and their components.

Frozen shrimps were a major Vietnamese export product for Japan. Since 2004, Vietnam has ranked first among countries exporting these seafood products to Japan, surpassing Indonesia. Vietnam's average shrimp export value was around US$500 million, accounting for 23% of the shrimp importation of Japan.[4] Vietnam's wood products also make up a large market share in Japan, after Chinese and Taiwanese products. The value of wood exports showed a stable growth rate. It was placed at US$128 million in 2000 and US$302 million in 2008.

The period 2000-2008 was marked by an improved composition of export goods, with several processing products comprising a larger share of the total export value. In 2007 electric wires and cables represented 10% of the export value at US$600 million; garments, 12%; computers and parts, 5%.

However, Vietnam's export products to Japan showed no diversity and consisted mainly of raw materials.

Table 7: Major Export Goods from Vietnam to Japan

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

[4] Tran Anh Phuong. 2008. Boosting Vietnam-Japan Economic Cooperation. In *Review of Vietnam Economic Studies,* 12:57-62.

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**

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

Composition of import goods from Japan

Similar to its imports from China and Korea, Vietnam imported machinery, steel, gasoline, raw materials for textile and garment industry, computers and parts, automobile and automobile components. Significantly, machinery imports were valued at US$1.95 billion, accounting for 30% of the total import value from Japan in 2007. This showed that Vietnam had a great demand for Japan's machinery.

Table 8: Major Import Goods from Japan to Vietnam

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

1.4. Sub-conclusion

To sum up, China, Korea and Japan are very important trading partners of Vietnam. From 2000 to 2003, Japan was the top trading of Vietnam, with a total bilateral trade value of US$5.9 billion. However, since 2004, China has surpassed Japan, thus becoming the largest trading partner of Vietnam. Korea is one of five largest trading partners of Vietnam.

In terms of exports, Vietnam's export value to Japan was higher than those of China and Korea, which was pegged at US$8.5 billion in 2008. Exporting value to China was estimated at US$4.7 billion and to Korea at US$1.7 billion.

In terms of imports, Vietnam's import value from China developed slightly, particularly in 2007 and 2008, with import values of US$12.6 billion and US$15 billion, respectively. Thus China emerged as Vietnam's top bilateral trade partner, resulting in an increasing trade deficit with the former. Japan and Korea came next to China.

In trading with China, Korea and 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 the three countries. 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 each country, with exporting values varying across each country. Raw materials exported to China had the biggest value compared to the two countries, accounting for 60% of the total export value, while raw materials exported Japan made up 16% of the total. China also imported a large amount of ore and coal from Vietnam to meet its huge demand for energy, among others.

In terms of trade imbalance, Vietnam has always had trade deficit with Korea since trade between the two countries began, valued at US$5 billion. Trade deficit with China, which has been existing since 2001 when they became full members of **WTO,** has been increasing sharply. By 2008, trade deficit value with China reached US$15.6 billion, three times the trade imbalance with Korea.

The main reasons for the dramatic increase in the trade deficit with China were low price, similarities of economic conditions, culture and close geographic conditions. Professor Brantley Womack, a expert in international relations from University of Virginia, U.S stated that: "Vietnam is a perfect external market for Chinese goods because of similar economic conditions and consumer cultures and low transportation cost. While Vietnam cannot find a comparably priced source of much of what it buys from China, China can get her fuel and tropical product elsewhere."[5] In contrast, Vietnam often had trade surplus with Japan, which in 2006 reached an unprecedented value of US$531 million.

2. DEVELOPMENT AND CHARACTERISTICS OF EAST ASIA'S DIRECT INVESTMENTS IN VIETNAM

2.1. Chinese direct investments in Vietnam

After the normalization of relations between Vietnam and China in 1991, Chinese investors started to invest in Vietnam. In 1991, the first Chinese direct investment project in Vietnam started – Hoa Long Restaurant on Hang Trong Street, Hanoi. The

[5] Womack, Brantly 2009. Vietnam and China in an Era of Economic Uncertainty. *The Asia-Pacific Journal,* 36:2-09.

following year, enterprises from Guangxi province and other provinces of China came to Vietnam to invest. By 2000, China's investment projects in Vietnam totaled 92, with a combined investment capital of US$148 million. There were 391 projects with a total investment capital of US$774.9 million in 2004. By 2006, the number of investment projects increased sharply to 508, with a total value of US$1.2 billion. In 2001, Chinese investments ranked 22nd out of 89 counterparts (countries and territories). By 2006, their position climbed up to 15th among these counterparts.

Table 9: Situation of FDI in Vietnam

Order	Counterparts	Number of Project	Register Capital (US$)
1	Taiwan	2010	21.288.525.858
2	***South Korea***	***2283***	***20.464.645.116***
3	Malaysia	337	18.061.807.601
4	***Japan***	***1164***	***17.854.632.063***
5	Singapore	758	16.921.706.757
6	British Virgin Islands	452	13.201.350.649
7	United State	479	12.804.088.401
8	Hong Kong	564	7.770.386.135
9	Cayman Islands	44	6.630.072.851
10	Thailand	215	5.744.215.708
11	Canada	91	4.796.206.125
12	Brunei	96	4.693.331.421
13	French	267	3.037.192.268
14	Netherlands	123	2.869.514.313
15	***China***	***661***	***2.699.997.942***
	Total of 89 counterparts	**10.805**	**174.715.338.717**

Note: Cumulative numbers as of October 30, 2009

Source: Foreign Investments Agency and Vietnam Ministry of Planning and Investment

As of October 2009, China had invested in 661 projects in Vietnam, with a total registered capital of US$2.699 billion. Still, Chinese investments in Vietnam are considered small, accounting only for 1.5% of the total FDI capital in Vietnam. The average investment capital per project amounts only to around US$4 million, or 25% of the average capital for every FDI project in Vietnam, which is valued at US$16 million per project.

Table 10: Chinese Investment in Vietnam

Year	Number of Projects	Registered Capital (Unit: U.S. million dollar)
1995	33	60
1998	61	120
2001	110	221
2004	391	774.9
2006	508	1242.3
2008	711	2188.3
October, 2009	661	2.699

Source: Vietnam Statistical Year Books, 2000, 2004 and 2008

2.1.1. Forms of investment

As see in Table 11, Chinese investment projects in Vietnam were implemented through four main forms of investment: 100% foreign-owned capital, joint venture, business cooperation contracts, and stock company.

In 2009, China had 441 projects falling under 100% foreign-owned capital, with a total investment capital of US$1.7 billion, accounting for 67% of all Chinese FDI projects and 63.6% of the total Chinese investment capital in Vietnam. Joint venture companies accounted for 169 projects, with an investment capital of US$149.8 million and comprising 25.7% China's FDI projects and 31.8% of the total Chinese investment capital in Vietnam.

Table 11: Forms of FDI from China, Korea and Japan in Vietnam

Form of Investment	China		Korea		Japan	
	Number of projects	Registered Capital (USD)	Number of projects	Registered Capital (USD)	Number of projects	Registered Capital (USD)
100% foreign-owned capital	441	1,710,938,440	1,912	15,486,002,190	918	7,409,140,199
Joint-venture company	169	849,850,521	283	3,793,293,549	210	9,068,742,650
Business cooperation contracts	38	79,956,967	27	213,087,280	19	447,660,356
Stock company	9	33,196,014	33	534,746,870	17	929,088,858
BTO, BT, BOT	-	-	1	340,000,000	-	-
Total	**657**	**2,673,941,942**	**2,256**	**20,367,129,889**	**1,164**	**17,854,632,063**

Note: Cumulative number by 15th October, 2009

Source: Foreign Investment Agency, Vietnam Ministry of Planning and Investment

2.1.2. Distribution of China's direct investments by sector and industry

Investors concentrated on processing and manufacturing industry. China had 501 investment projects with a registered capital of US$1.7 billion, making up 76.2% of to the total projects in Vietnam. Real estate business was the second largest investment sector for China, with 11 projects falling under this category and with a registered capital of US$392 million or making up 15% of the country's total investment capital.

Chinese investors were also interested in agriculture, forestry and aquatic sector, to which 25 projects belonged, the combined investment capital of which was US$76.7 million. Other sectors where it also made investments were hotel and restaurant sector, with 13 projects and investment capital US$68.9 million; construction sector, which ranked third out of 18 major investment sectors, with 35 projects and an investment capital of US$ 190 million.

Table 12: Investment by Sector

Order	Sector	Japan		Korea		China	
		Number of Projects	Register Capital	Number of Projects	Register Capital	Number of Projects	Register Capital
1	Processing and manufacturing industry	703	15,505,697,007	1,527	9,087,006,026	501	1,776,652,105

2	Information and communications	151	1,009,168,955	63	81,931,858	5	1,470,600
3	Construction	22	258,420,386	194	2,117,636,542	35	190,842,521
4	Retail and wholesale	44	212,021,942	36	74,695,680	13	11,928,500
5	Real estate	17	163,203,944	61	6,187,291,645	11	392,131,380
6	Finance, banking and insurance	6	160,000,000	7	85,000,000	2	15,300,000
7	Agriculture, forestry and aquatic sector	28	113,023,560	45	87,609,410	25	76,729,461
8	Mineral exploration	5	99,991,626	2	112,000,000	5	40,066,667
9	Hotels and restaurants	22	99,513,914	54	839,441,392	13	68,969,348
10	Transportation and warehouse services	39	94,427,116	45	473,903,800	12	16,234,000
11	Science and technology contracts	87	77,624,458	124	64,471,536	19	21,514,560
12	Art and entertainment	9	34,195,394	22	850,152,665	5	19,870,400
13	Administrative and supporting services	9	7,578,361	11	17,006,000	2	1,650,000
14	Production and distribution of electricity, gas and air condition	3	5,730,000	7	23,250,000	1	28,411,000
15	Other services	3	4,630,000	20	18,652,000	1	8,000,000
16	Education and training	13	4,411,400	17	8,454,500		
17	Water supply and waste disposal	3	3,594,000	4	20,700,000	1	600,000
18	Medical care and social Assistance	2	1,400,000	17	217,926,835	6	3,571,400

Source: Foreign Investment Agency and Vietnam Ministry of Planning and Investment

Chinese enterprises specifically invested in producing and assembling electronics, motorbike; setting up hotels and restaurants; manufacturing footwear, clothes, glass, banking equipment; food processing; aquatic and agriculture sector; producing cattle feed, medicine, cigarettes, among others.

In general, these sectors conform to Vietnam's development demands as part of its pursuit of industrialization. They also give Chinese investors an advantage in terms of cheap production costs. Although the investment sectors are diversified, the scale of individual projects pursued by China is still small. Moreover, the technology applied to these projects is not yet at par with the global standards and investment duration is short, spanning only 5 to 25 years.

2.1.3. China's direct investments by region

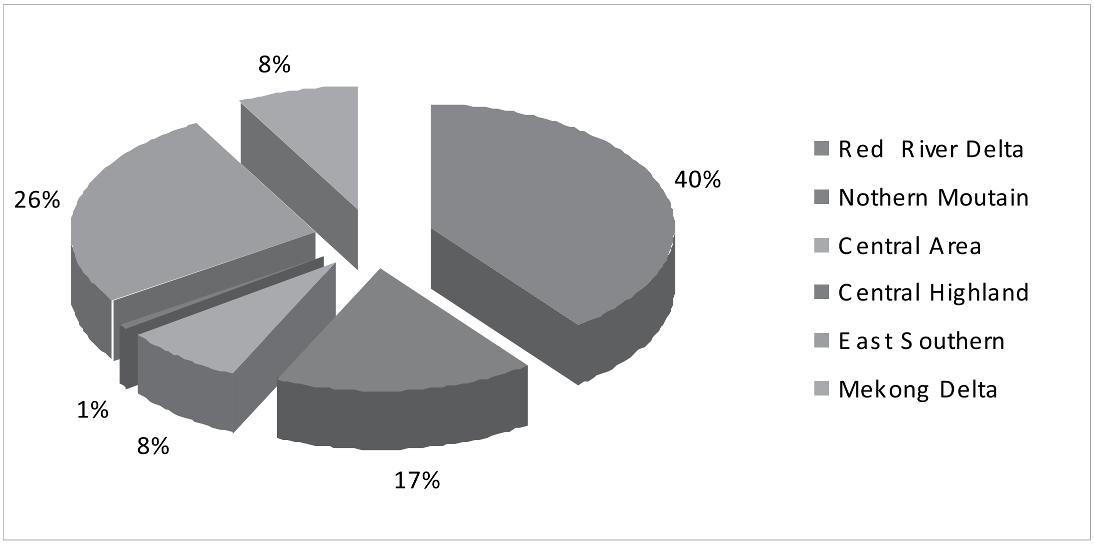
China's direct investments are found in 52 Vietnamese provinces (out of 65 provinces and cities). However, the distribution of its investments across the country is not even. Hai Phong received the largest investment capital of US$349 million, with 43 projects. Lao Cai ranked second with 26 projects and a capital investment of US$307 million. In 2007, Lao Cai received the largest investment capital. Ba Ria-Vung Tau took the third position in terms of attracting Chinese investments, with seven projects whose combined investment capital is US$189 million.

As Figure 3 shows, Chinese direct investments are concentrated mainly in Red River Delta, comprising 40% of the country's total investment in Vietnam. The southeastern area obtained 26% of the total investment capital. These two areas are the most developed parts of Vietnam alongside its biggest cities, Hanoi and Ho Chi Minh City.

The Red River Delta and Southeastern area are known to have good infrastructure, human resources, and other factors vital to investments. Significantly, the northern area received 17% of the Chinese investment capital. It includes provinces bordering on China, so they have geographical advantages.

Overall, China's concentration of investment is found in provinces with good infrastructure and in proximity to the Vietnam-China border.

Figure 3: China's FDI located by Regions



Source: Foreign Investment Agency, Vietnam Ministry of Planning and Investment

2.2. Korea's direct investments in Vietnam

Korean investment officially started in Vietnam in 1993, or shortly after the establishment of diplomatic relations between the two countries in 1992. Based on data from the Vietnam Investment Agency, in 1992 Korea had nine investment projects with a total capital of US$140.6 million. In the period 1993-1996, Korean investments were among the top ten largest FDI counterparts in Vietnam. Between 1997 and 2000, however, when the Asian region was struck by a financial crisis, Korean investments slowed down. But from 2001 onwards, when the economy began to improve across the region, Korean investments in Vietnam started to increase dramatically. In 2007 alone, there were 1,655 investment projects valued at USS$ 1.1 billion.

Table 13: Development of Korean direct investment in Vietnam

Unit: US$ million

Year	1999	2001	2003	2005	2007	2008
Number of Projects	27	75	171	190	1655	2153
Registered Capital	169.5	209.3	343.6	551.6	1,150	16666.3

Source: Vietnam-Korea Investment Relations, Vietnam Statistic **(Statistcal?)** Year Book 2008 and hppt:www.trivietics.com/dautuvietnam/quanhedautuvietnamhanquoc.html (accessed 10/02/2009)

By October 2009, Korea had a total of 2,283 direct investment projects in Vietnam, the combined registered capital of which was US$20.464 billion**,** which in turn accounted for 21.2% and 11.7% of the total FDI projects and the total FDI capital, respectively, in Vietnam.

Of the 89 FDI projects in Vietnam, Korea's investments ranked second, behind Taiwan. In 2008, Korea had 2,153 projects, with a registered capital US$16.66 billion. These ranked fourth among 81 counterparts in Vietnam.[6] This indicated that Korean investors are interested in Vietnam's market.

In 2009 the registered capital of Korea increased to US$4 billion, much larger than the cumulative investment of China in Vietnam over a period of 19 years (1991-2009). The average investment capital per project was around US$8.9 million. Most Korean projects had an investment duration of 10 to 30 years while not many licensed projectshad investment duration of 35 to 70 years. Projects with an investment duration of 40 years often have large capitals, ranging from US$50 to 100 million.[7]

There are a number of reasons why Korean investors are interested in Vietnam. According Professor Hwy Chang Moon, Vietnam's abundant mineral resources were an important factor. Another is that Vietnam has a large domestic market and a stable economy. Infrastructure development in Vietnam will encourage Korean investors, who enjoy modern technology, to explore Vietnam further as an investment site.[8]

Significantly, half of Korean investments in Vietnam were set up by such companies as Samsung, Daewoo, Korean Heavy Industry and Construction Corp., Kumho Corp., Kolon, Huyndai and LG Corp. Daewoo, LG and Samsung invested a total of US$1.275 billion in Vietnam in real estate, construction, electronics, automobile, medicine, among others.[9] Several big projects are believed to be actively contributing to the socio-economic development of the host communities or cities, namely:

[6] Statistic Statistical Year Book 2008, page 103. General Statistics Office.
[7] Tran Duc Huy. 2004. Korean Direct Investment in Vietnam: current situation and prospects, *World Economic Review*, volume 12 **(Page)**
[8] Hwy Chang Moon. 2004. FDI Cooperation between Vietnam and Korea. In: Do Hoai Nam, Ngo Xuan Binh, Sung-Yeal Koo,ed. 2005. Economic Cooperation and the Republic of Korea in the East Asian Integration. Khoa Hoc Xa Hoi Publisher. Page: 88-126
[9] Tran Quang Minh and Vo Hai Thanh. 2004. Korean FDI and ODA in Vietnam: Current Situation and Prospects. In: Do Hoai Nam, Ngo Xuan Binh, Sung-Yeal Koo,ed. 2005. Economic Cooperation and the Republic of Korea in the East Asian Integration. Khoa Hoc Xa Hoi Publisher. Page: 68-88

1. Posco-Vietnam Company, which produces steel in Ba Ria-Vung Tau province and has a total investment of US$1.12 million.

2. Keangnam-Vina Company, which has commercial establisments, including a hotel, in Hanoi and has a total investment of US$500 million.

3. Orion-HANEL Company in Hanoi has a total investment capital US$178.58 million.

4. Deeha Hotel, which runs a five-star hotel in Hanoi, has an investment capital of US$177.4 million.

5. Vietnam-Deawoo Automobile Company in Hanoi has a total investment capital US$32 million.

6. Huyndai-Vinashin Shipyard Company in Khanh Hoa province, with an investment capital of US$149.49 million.[10]

In general, Korean enterprises in Vietnam have been running smoothly. But they were confronted with severe competition owing to a tax cut within the AFTA framework. Moreover, material and equipments supply for their production was still limited. A system for supporting industries did not develop well to meet the demand, prompting the investors to import material and equipment. These factors pushed cost of production to grow. The EU and United States quota system limited the production capacity of Korean textile companies in Vietnam.[11]

2.2.1. Forms of investment

Similar to China, Korean investments in Vietnam are in the form of 100% foreign-owned capital, with 1,912 projects accounting for 84.7% of all Korean FDI projects and 76% of the total Korean investment capital in Vietnam. An estimated 283 projects fell under the joint venture category, with an investment capital of US$3.7 billion, comprising 12.5% of Korean investments and 18.2% of the country's total investment

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[10] 2009. Vietnam and Korea Relation. *VIETRADE Online*, 03/23/2009.
Available at: http://www.vietrade.gov.vn/index.php?option=com_content&view=article&id=69:quan-h-hp-tac-vit-nam-han-quc&catid=46:han-quoc&Itemid=188 [Accessed January 18, 2010]

[11] 2009. Vietnam and Korea Relation. *VIETRADE Online*, 03/23/2009. Available at: http://www.vietrade.gov.vn/index.php?option=com_content&view=article&id=69:quan-h-hp-tac-vit-nam-han-quc&catid=46:han-quoc&Itemid=188 [Accessed January 18, 2010]

capital in Vietnam. Under the business cooperation contract investments were 27 projects with a combined investment capital of US$213 million; stock company form, 33 projects, with an investment capital of US$534 million. A build-operate-transfer project had an investment capital of US$340 million.

2.2.2. Distribution of KDI by sectors and industry

At the beginning, Korean investors concentrated on labor-intensive sectors such as garments, footwear, bagpacks, food and aquatic processing. Recently, investors have tended to move to high-technology industries such as electronics, automobile, construction and services.

As shown in Table 12, the processing and manufacturing industry still forms the bulk of the Korean investments in Vietnam**.** In 2009, Korea had 1,527 projects, with a registered capital of US$9.08 billion and making up 67.7% of the country's investment projects in Vietnam. Investments were mostly in automobile assembly, iron and steel industry, mechanics, electronics assembly, footwear, textile and garment manufacture. Vietnam's strengths lie in its low labor costs and young labor force. Hence, she is in a position to attract investors in the manufacturing and processing industry, including footwear, textile and garment, consumer electronics and electronics assembly.

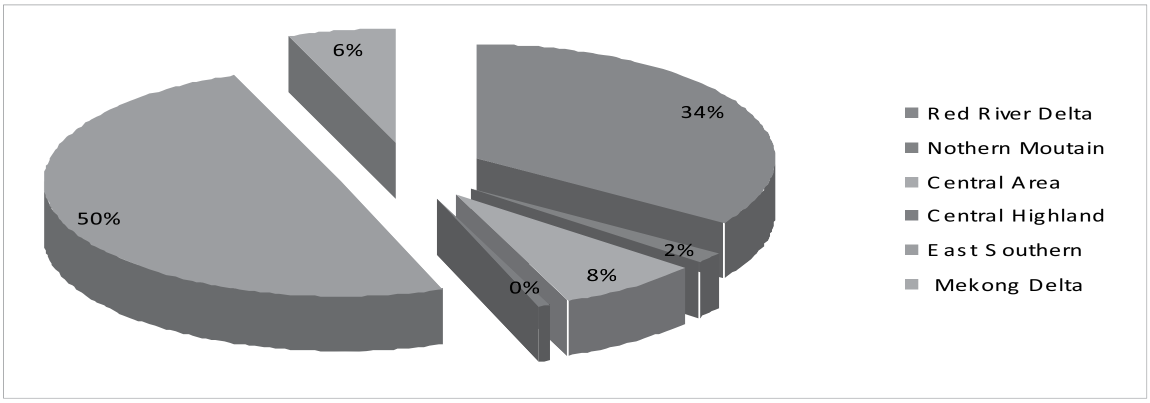
Real estate business was the second largest investment sector in Vietnam. Korea had 124 projects with a registered capital of US$6.1 billion, making up 30% of the total investment capital in Vietnam. The next largest Korean investment sectors in Vietnam were art and entertainment sector, with 22 project and an investment capital of US$850 million; and hotel and restaurants sector, with 54 projects and an investment capital of US$839 million. These data show that Korean investments are suitable to the economic development of Vietnam.

2.2.3. Korean direct investments by region

In the early years, Korean investments were found mainly in southern Vietnam, being larger and having better infrastructure than the northern area. The government has introduced investment-friendly policies and adjusted the state budget to develop the country's infrastructure, thus improving the distribution of foreign direct investments in Vietnam. At present, Korea's investments are found in 42 provinces and cities (out of

65 provinces and cities) in Vietnam.

Figure 4: Korea' FDI Located by Regions



Source: Foreign Investment Agency and Vietnam Ministry of Planning and Investment

As can be seen in Figure 4, by October 2009, 50% of Korean investments were concentrated in the southeastern area, notably Ho Chi Minh City, Ba Ria – Vung Tau and Binh Duong, which received large investments. Ho Chi Minh City has 664 projects with a total capital of US$3 billion. It ranked second among 42 provinces and cities in Vietnam in terms of investment capital. Ba Ria – Vung Tau, host to 32 projects with a total investment capital of US$2.6 billion, ranked the third out of 42 provinces and cities where Korean investments are found. Dong Nai is the site of 240 Korean projects, with a total capital of US$2.4 billion. Binh Duong is host to 397 Korean investments with a total value of US$1.2 billion.

The Red River Delta on the right bank of Hanoi ranked second out of six main investment areas in Vietnam, accounting for 34% of the total Korean investment capital in Vietnam. Hanoi, the site of 350 investments with a total capital of US$ 4.5 billion, ranked first among 42 provinces and cities receiving Korean investments.

The foregoing shows that Korean investments are found mainly in the southern area and the Red River Delta.

2.3. Japanese direct investment in Vietnam

Japan started to invest in Vietnam in 1993, after international organization restored to provide ODA to Vietnam (ODA from Japan occupied largest portion). At the end of

2008, Japanese investment projects in Vietnam had numbered 1,102, with a total capital of US$17.36 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. Japan ranked fourth out of 89 counterparts that invested in Vietnam, after Taiwan, Korea and Malaysia. The average investment capital per project was around US$15 million.

According to a 2006 survey carried out by the Japan External Trade Organization (JETRO), Japanese investors tended to move their production bases within the ASEAN countries and China. However, investors 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. Similar measures were initiated in China at the time Japanese investors started to invest in this country.[13]

Vietnam's membership in the WTO in 2006 proved to be another attraction to Japanese investors. This also turned out to be the breakthrough year for Japanese investment as it flowed into Vietnam. About 160 projects with a registered capital amount of US$ 1.5 billion were licensed.[14]

Many large and prestigious transnational corporations (TNCs) with investments in the high-technology and manufacture and export sectors are 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 seen as prestigious brands with high quality. With improved standard of living among many Vietnamese, consumers can afford to buy Japanese products.

2.3.1. Forms of investment

Japan investments in Vietnam fall under one of four categories: 100% foreign-owned capital, joint ventures, business cooperation contracts and stock company (see

[12] Vietnam Statistic Year Book 2008, page 103.

[13] http://vietbao.vn/kinh-te/dau-tu-cua-nhat-ban-vao-viet-nam-se-tiep-tuc-tang/65052704/87

[14] Tran Anh Phuong, 2008, To make Vietnam-Japan Economic Relation adequate Strategic Partnership, *Vietnam Economic Review*, Volume 12.

Table 11). 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. This contrasts with Chinese and Korean investments, which were mainly 100% foreign-owned. A total of 210 projects were joint ventures, with a total investment capital of US$37.9 billion, making up 18% of the total investment project and 50% of the total investment capital. There were 19 projects classified as business cooperation contracts and 17 projects under the stock company category.

2.3.2. Distribution of Japan's direct investment by sectors and industry

Similar to China and Korea, 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. This number is much bigger than Korea's and China's investment capitals in the processing and manufacturing sector.

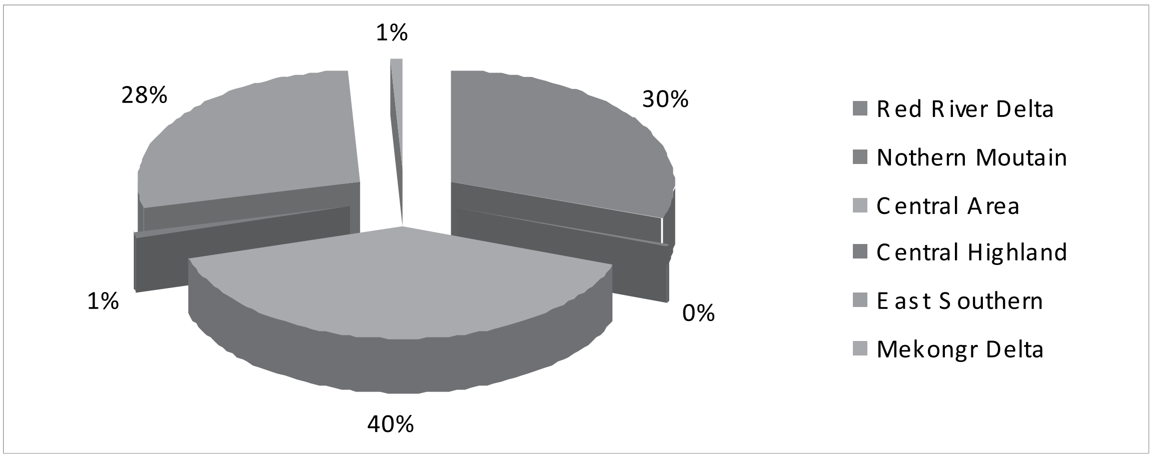
Unlike Korean and Chinese investments in Vietnam, Japan's second largest investment was in the information and communication technology sector, given its high-technology advantage. Japanese investors in Vietnam are increasingly moving to the information and high-technology industry. Within this sector were 151 Japanese projects, with a combined registered capital of US$1billion 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 retail and wholesale services, real estate, finance and banking, agriculture, forestry and aquatic.

2.3.3. 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.

Figure 5: Japan's FDI location by region



Source: Foreign Investment Agency and Vietnam Ministry of Planning and Investment

Of 44 provinces, Thanh Hoa province, located in the central area, was the top site for Japanese investments, with a total capital of US$6.8 billion. Refinery projects accounted for most of Japan's investments in the province. Nghi Son Refining Oil Project in Thanh Hoa was set up in 2009 under a joint venture among Petroleum Vietnam Corp., Kuwait Petroleum Corp., Idemitsu Kosan Co. and Mitsui Chemicals Co. (Japan). Investment capital for this project is US$ 6 billion. Japanese companies accounted for 40% of the investment capital for the project.

Hanoi (Red River Delta area) took the second place among the top investment sites for Japan, with 309 projects valued at US$2.8 billion. Third was Ho Chi Minh City (southeastern area), with 336 projects and a total investment capital of US$2.06 billion. Binh Duong and Dong Nai (southeastern area) took the fourth and fifth places, respectively.

The distribution of direct investments from China, Korea and Japan is essentially the same as most of the other FDI projects in Vietnam. That is, the dominant sector is manufacturing and processing, making up 62% of the total foreign investment projects and 50% of the total investment capital in Vietnam. This is followed by real estate, with

22% of the total investment capital; and hotel, construction and information sectors.[15]

The value of Korean direct investments was the second largest among 89 investment counterparts in Vietnam and the biggest compared to Japan and China. Investors are particularly attracted to the Red River Delta and the southeastern side of Vietnam, which has superior infrastructure and skilled advance human resources. However, the distribution of Chinese investment was more even across Vietnam comparing with investment's distribution of Japan and Korea in Vietnam.

3. IMPACTS OF VIETNAM'S TRADE RELATIONS WITH THREE COUNTRIES

3.1. Positive impacts

3.1.1. Vietnam's economic development

FDIs from the three East Asian countries have been a driving force and an engine of economic growth for Vietnam. According to the Investment Policy Review of Vietnam, the impact of foreign investors on Vietnam's industrial development was still very strong in the period 1996-2006. This sector represented one-fifth of the annual real output growth of Vietnam in this period.[16]

Korea, Japan and China accounted for 32% of the total foreign investment capital in this period.

Export values contributed significantly to Vietnam's GDP, and have been growing each year since then. As can be seen in Table 14, in 2000, the value of exports to these countries represented 55% of Vietnam's GDP, rising to 78.2% in 2008. The value of exports to China accounted for 5% of Vietnam's GDP and Korea, 1.95%. Significantly, exports to Japan contributed 9.42% to Vietnam's GDP in 2000 and 9.2% in 2008. Overall, export values to three countries accounted for 17% of the GDP of Vietnam, or one-third of the total contribution of export values to Vietnam's GDP.

[15] Distribution of FDI by Sector, Report of FDI in Vietnam by 20th October, 2009. *Foreign Investment Agency, Vietnam's Ministry of Planning and Investment.*
[16] United Nations Conference on Trade and Development. 2008. *Vietnam Investment Policy Review.* New York and Geneva: UNCTAD.

Table 14: Contribution of Export Values to Vietnam GDP

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP- VND billion	441,646	481,295	535,762	613,443	715,307	839,211	974,266	1,143,715	1,477,717
Percentage of export value/GDP	55.03	54.61	56.79	59.29	65.74	69.36	73.61	76.90	78.21
China	5.43	4.65	4.45	3.78	6.04	3.74	4.93	4.9	4.87
Korea	1.27	1.33	1.34	2.09	1.34	1.2	1.38	1.68	1.95
Japan	9.42	8.31	7.17	7.56	7.83	8.39	8.54	8.39	9.2

Source: Vietnam General Statistics Office; Author's estimates

3.1.2. Technology

Vietnam, which is in the process of industrialization and modernization, has been transformed from an agriculture-based economy into an industrial one. Foreign trade and FDI have played an important role in this regard. FDIs in particular have helped Vietnam to receive modern technology and enhanced its management capability. Vietnam imported a substantial volume of machinery from Japan, Korea and China for its own production demand, particularly for its own domestic and export products.

3.1.3. Jobs for local people

Economic relations between Vietnam and three East Asia countries have generated jobs for many Vietnamese people and helped them to increase their incomes. By 2007, Korean direct investments projects had recruited about 500,000 labors.[17] In the case of Japan, one factory alone, owned by Canon, had recruited 15,000 Vietnamese laborers.[18] Chinese investments in Vietnam, though small, also created jobs for the local folk, as the following case study shows:

Lifan Joint-Venture Company Case: China's FDI Projects in Vietnam

> Lifan Company was founded in 2002 to produce motorbikes and engines in Hung Yen province, with capital funds of over US$ 4.5

[17] Ha Le. 2007. FDI Enterprises: Half of Laborer is still not Be Trained. *VnEconomy Online* , 03/13/2007
[18] KT (2007) "Japan is increasing investment to Vietnam." *247 Information Online,* 12/03/2007. Available at: http://www.tin247.com/lan_song_dau_tu_nhat_ban_dang_dang_cao_tai_viet_nam-3-21216206.html [Accessed January 18, 2010]

> million (70% of the invested capital, Vietnam holds 30% of the total.) From 2002 to 2007, Lifan Company has over 2,000 employees, of whom about 1,600 came from Hung Yen province. One hundred percent of the employees had social insurance. Moreover, the company hired many students with university and college education. Lifan contributes taxes amounting to about US$5 million each year (US$20 million in four years). The company is considered a successful case with respect the combination of poverty reduction and economic development in Vietnam.[19]

Major investment projects were concentrated in the export-oriented manufacturing sector. This sector focused on consumer electronics, electrical equipment and others. Labor is concentrated in these industry branches. Based on the case study above, the majority of Vietnamese export goods to China, Korea and Japan consist of textile, agricultural, aquatic and forestry products, all of which form part of labor-intensive sectors. Export values, labor force and incomes are all expected to increase as a result of trading with the three countries for these products. This in turn should help in poverty alleviation, especially among Vietnam's low-income groups.

3.2. Problems to address

3.2.1. Trade relations

Unbalanced trading between Vietnam and China and Korea, particular with China, is a concern. More so, since it compounded Vietnam's trade deficit. Vietnam's trade deficit value in 2008 was about US$18 billion.[20] China accounted for US$16 billion or 88% of the trade deficit.

Still another concern confronting Vietnam is its reliance on exports for some of its raw material needs such as crude oil, coal and ore. As this issue is already being addressed by the government, the imbalance should be corrected as natural resources are explored

[19] Do Tien Sam, Ha Thi Hong Van, et.al (2007) *Trade, Investment and ODA Flows between Vietnam and the PRC over the Past 10 Years and the Impacts on Poverty Reduction.* Hanoi: OXFAM report.
[20] CafeF (2009) "Vietnam Economics: Export and Import Situations in Vietnam in 2008." *VNTRADES.COM Online, 01/07/2009.*

The linkage between trade and investment and technology transfer is not tight. Vietnam imported a huge number of machines and equipment from China, notwithstanding the latter's low investment capital in the former. Vietnam has not taken advantage of China's investments to beef up its exports.

3.2.2. FDI relations

Distribution of FDI projects

Investment mainly focuses on big cities, which have better infrastructure and consumption market. In contrast, remote highlands and provinces have not received much investment, resulting in lopsided development that favors urban areas.

Infrastructure and supporting industries

Infrastructure such as roads and electricity in midland and highland areas in Vietnam remains underdeveloped and does not satisfy the minimum requirements of investors. For example, according to JBIC, 47.9% of Japan's enterprises consider lack of infrastructure as a main barrier to doing business in Vietnam.[21] Moreover, logistical systems and expenses are costlier compared to other countries in the region. These make the investment environment in Vietnam and products less competitive in the international market.

Vietnam also lacks high-quality human resources. For instance, among workers in for FDI enterprises, only 40% of them have undergone vocational education. The rest of them have low skills.[22]

Vietnam's supporting industry has not developed even with the wave of investment from Japan. Until now in Vietnam, supporting industry products are supplied by state companies, most of which are of low quality and marked by very costly operations. As a result, supporting industry products are only used by state companies. Other supporting products, which are made from private enterprises, are hampered by low capital and poor technology.

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[21] Hai Ninh. 2008. "A development path in Vietnam-Japan economic relationship". *Review of World Economic and Political Issues* Vol.8 (148): 35-40.

[22] Ha Le. 2007. FDI Enterprises: Half of Laborer is still not Be Trained. *VnEconomy Online* , 03/13/2007. http://vneconomy.vn/71658P5C11/doanh-nghiep-fdi-qua-nua-lao-dong-chua-qua-dao-tao.htm (Accessed 15th October, 2009?)

According to the June 2006 report of the Vietnam Development Forum (VDF), Japanese producers found Vietnam's supporting industry still underdeveloped. Therefore, domestication rate of Japanese producers only reached 22.3% in 2003, way behind Malaysia's and Thailand's 45%.

A 2006 survey by JETRO indicated that many Japanese FDI companies such as Toyota, Suzuki, Canon and Fujitsu tended to concentrate in one investment area, where they wanted to increase supporting products' rate and reduce operating costs. However, they had difficulty finding good suppliers of supporting products. 35.2% of Japanese enterprises said that the supporting industry's development was crucial to the growth of Vietnam's investment environment[23]. Therefore, Vietnam should address the barriers to harnessing the supporting industry.

3.3. Recommendations to stimulate economic cooperation between Vietnam and three East Asia countries

In terms of exports, Vietnam should stimulate the comparative advantage of its export goods and develop potential ones. There should also be efforts to increase the composition of export goods from the processing and manufacturing, high-technology sectors while decreasing exports of raw materials.

Vietnam should also push export activities and develop products so these can replace some of those it is currently importing. Among others, this can be achieved by attracting investments from China and Korea.

In terms of investment, Vietnam should redirect FDI flow into the services sector, particularly infrastructure construction and human resource training.

Domestic enterprises should take advantage of the presence of big TNCs in Vietnam from these countries by participating effectively in their production chains. In this regard, the government should enforce supportive policies to encourage these enterprises to help develop the supporting industry.

[23] [23] Hai Ninh. 2008. "A development path in Vietnam-Japan economic relationship". *Review of World Economic and Political Issues* Vol.8 (148): 35-40.

4. CONCLUSION

Economic relations between Vietnam and China, Korea and Japan developed significantly during the period 2000-2008. Of the three, China became the largest trading partner of Vietnam. But such trading relationship was marred by Vietnam's trade deficit with China. It is only with Japan that Vietnam has trade surplus.

Vietnam imports machinery, equipment, and materials for finished goods like garments, textiles, automobiles and motorbikes. Her major export products are raw materials, agricultural, forestry, aquatic products and wood products.

Where direct investments are concerned, Korea ranked second and Japan fourth among 89 counterparts. Investments from China are still small.

The inflow of Japanese investments has been a welcome opportunity for Vietnam. Ten years ago, Vietnam missed this big opportunity, which China had seized. Japan's choice of Vietnam as a new investment site was born of a desire to disperse their investments to other countries and avoid the risks of investment.

Korea is an important investment partner to Vietnam. Korean government is stimulating their enterprises to invest in Vietnam. That is, by extending supportive policies to Korean enterprises and increasing official development assistance for Vietnam. This has brought about increased Korean investments in Vietnam.

With its high economic growth and unprecedented accumulation of foreign currency reserves, China is more than poised to invest in other countries. In fact, its government is encouraging the country's enterprises to go out and invest. This is an important opportunity that Vietnam should take full advantage of, among others, by introducing investment-friendly economic policies that will make it even more attractive to not only to but also Korean and Japan.

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