MOTIVATIONS AND DETERMINANTS OF JAPANESE FOREIGN DIRECT INVESTMENT IN ASIA: VIETNAM AS A DESTINATION FOR JAPANESE INVESTORS COMPARED WITH THAILAND AND CHINA

by

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Table of Contents

List of Figures

List of Tables

List of Abbreviations

AFTA:	ASEAN Free Trade Area
ANOVA:	Analysis of Variance
ASEAN:	Association of South East Asian Nations
CIEM:	Central Institute for Economic Management of Vietnam
FDI:	Foreign Direct Investment
IDP:	Investment Development Path
IMF:	International Monetary Fund
IPA:	Importance Performance Analysis
JBIC:	Japan Bank for International Cooperation
JETRO:	Japan External Trade Organization
M&A:	Mergers and Acquisitions
MNEs:	Multinational Enterprises
MPI:	The Ministry of Planning and Investment of Vietnam
NICs:	Newly Industrialized Countries
ODA:	Official Development Assistance
OLI:	Ownership, Location and Internalization
R&D:	Research and Development
SMEs:	Small and Medium Enterprises
USD:	US dollars
UNCTAD:	United Nations Conference on Trade and Development

Abstract

This dissertation explores the motivations and determinants of Japanese FDI in Asia and the perception of Japanese investors on Vietnam as an investment destination, separately and in comparison with Thailand and China from different perspectives.

The background of the dissertation was based on the trends and patterns of Japanese FDI and FDI in Vietnam, followed by the principal concepts and empirical works in the fields of FDI theories, Japanese FDI determinants in Asia, and FDI determinants in Vietnam. Methodologically, the dissertation applied a mixed approach using both qualitative and quantitative methods: content analysis of previous research and expert consultation for the construct of the methodology in the preliminary phase; mail survey with structured and open-ended questions, interviews and case study for data collection phase. The analysis techniques included comparing means, factor analysis, analysis of variance, Chi-square tests, importance-performance analysis, binary logistic regression, content analysis of open-ended questions and case study.

The results indicated that Japanese FDI in Asia was strongly motivated by the political stability, the human capital, the higher profit expectation, the infrastructure condition, and the investment environment of the host countries. The firm's business strategies, the host country's market potential and the rising production cost in Japan were also important attributes driving Japanese firms to invest in Asia. It was also found that the attribute importance varies according to firms' sizes. Motivations of Japanese FDI in Asia were to seek for resource, market, and efficiency, while the evidence of the strategic asset seeking purpose was not clearly seen.

The results revealed that Vietnam in the Japanese perception appeared to be a destination of low production cost and abundant labor force. However, the attribute

performance of Vietnam was differently perceived by Japanese firms with and without projects in Vietnam. Compared to Thailand and China, Vietnam performed better than the other two countries notably in political stability, human capital, low production cost, which promised profit opportunities and supported the expansion strategy of Japanese firms. Most of the negative attributes Vietnam should improve focus on the investment environment, of which urgent actions should be taken to enhance the situation of infrastructure condition, transparency, and access to raw materials. As for specific purposes in Vietnam, Japanese motivations were mainly for resource seeking, efficiency seeking and potential market seeking. Political Stability and Investment Trend was functioned as the positive predictor of Japanese investment decisions in Vietnam, while Investment Environment and Infrastructure Condition, and Production Inputs might negatively influence their decisions. The holistic analysis based on open-ended questions and case study analysis further specified and confirmed the country's image in the eyes of Japanese investors.

Overall, this dissertation emphasizes on political stability, low production cost and human capital as the main advantages of Vietnam, which are recommended to be the three foci of the government's investment promotion campaigns. Moreover, the Vietnamese government should take actions to address the problems regarding the transparency and consistency of investment environment, production inputs, labor characteristics, and infrastructure condition to be more attractive to Japanese investors.

Chapter I - Introduction

This chapter introduces the background of the dissertation by presenting the concept and importance of foreign direct investment (FDI), the FDI determinants from different perspectives, the roles and negative impacts of FDI in Vietnam and the facts and recent trend of Japanese FDI to Vietnam. Based on the background, the chapter raises research issues, goals, significance, methodology and structure of the dissertation.

1.1. Background of the Dissertation

1.1.1. The concept and importance of FDI

Foreign investment is defined as "direct" when the investment gives right to foreign control of the domestic assets. According to the International Monetary Fund (IMF), FDI "reflects the objective of a resident entity (the direct investor) in one economy (the source/home economy) obtaining a lasting interest in an enterprise in another economy (the recipient/host economy)" (IMF, 1993, p.86). As regulated in The 2005 Law on Investment of Vietnam, direct investment is "a form of investment (the use of capital in the form of tangible or intangible assets for the purposes of forming assets to carry out investment activities) whereby the investor devotes its capital and participates in the management of the investment activity" (Article 3).

In the global economic integration, FDI performs as the key element in maintaining stable and long-lasting links between economies. It may also help improve the competitive position of both the recipient and the investing economy (OECD, 2008). With the right policy framework, FDI can provide financial stability, promote economic development and enhance the well-being of societies.

For a developing host country, FDI is an important source of capital and economic growth by providing a package of new technology, management expertise, finance and market access for the production of goods and services. However, how to successfully attract FDI is a major challenge for developing countries, and the most difficult task is to find out the factors that motivate and affect FDI decisions.

1.1.2. FDI determinants from different perspectives

There has been an abundance of economic theories on FDI conditions based on various perspectives. From the strategic management approach, on one hand, FDI is unlikely to occur unless there are some conditional factors, which are firm-specific, industry-specific and/or country-specific. On the other hand, motivations and anticipation circumstances are required as sufficient factors for an investment to success (Boddewyn, 1985). Motivations can occur directly (based on least cost opportunities, monopoly or oligopoly position, etc.), indirectly (risk reduction or diversification) or depend on precipitating circumstances, which include the external and internal conditions influencing the investment decision of an enterprise.

In Hymer (1976), Kindleberger (1969), and Calvet (1981), *market imperfection theory* emphasized on the relationship between firms and the market and argued that FDI exists due to two conditions: (i) foreign firms must have a countervailing advantage over the local firms and (ii) the market for sale of this advantage must be imperfect. Rugman (1979, 1981), Dunning and Rugman (1985), and Casson (1987) afterwards developed the theory in differentiating the market imperfection of structural type and transaction-cost type.

Compared to the other theories on FDI, the *location theory* (Weber, 1929) was more concerned with the supply - oriented variables (production costs and natural resources) influencing the spatial distribution of production processes, R&D activities

and administration of firms. Manufacturing FDI was explained by (i) the production process that moves from decentralization to centralization or agglomeration as market imperfection arises, and (ii) the availability of natural resources.

While the location theory emphasized the supply side, the *international trade theory* explained the FDI activities based on demand approach. Mundell (1957) used the Heckscher-Ohlin-Samuelson model to point out that trade and capital movements are substitutes for each other, and the excise of trade tariffs would induce a flow of FDI towards the protected countries. Vernon (1960) asserted that each product has a life cycle with three phases: innovation, maturity and standardization. The foreign production usually happens in the last phase and depends on the market barriers, efficiency, firm strategy and the type of market structure.

As for *theories of the firm*, the internalization theory convinced that foreign investment activities by multinational enterprises (MNEs) are resulted from the internalization of markets for intermediate products (mostly in the form of knowledge and expertise) across national borders. In this process, internal production is not just the transfer of capital but also the extension of managerial control over subsidiaries (Buckley and Casson, 1976). Firms are usually reluctant to license their propriety knowledge and prefer, where possible, to exploit it themselves through FDI (Casson, 1987). The eclectic paradigm by Dunning (1977, 1993) specified three conditions for FDI to occur, including firm-specific advantage (O: ownership), the (foreign) country-specific advantage (L: location) and internalization (I). In diversification theory, foreign investment is regarded as a means to reduce business risk. Agmon and Lessard (1977) suggested two conditions leading to the financial motivations for FDI over portfolio investment: (1) there exist greater barriers or costs to portfolio capital flows than to capital flows forming part of the direct investment package; and (2)

investors must recognize that MNEs provide a diversification opportunity which otherwise is not available.

It is emphasized that most of the FDI theories identify the conditional factors that can explain FDI activities, either from MNEs' or home country's perspective. Further research is needed to investigate the exogenous factors, especially the political economy, on FDI decisions stemming from both the home and host country. In order to formulating FDI policies, it is important for home country to identify the motivations and determinants of FDI and position itself within the choice ranges of foreign investors. It is even more important for developing country like Vietnam in the severe competition to attract FDI.

1.1.3. The roles and negative impacts of FDI in Vietnam

In Vietnam, since the approval of the first Law on Foreign Direct Investment in 1987, FDI has contributed significantly to the national economic development. From 2005 to 2010, FDI sector accounted for 16% to 18% of the annual national GDP (GSO, 2011a). Recent studies such as those of Freeman (2000), Nguyen (2004), CIEM (2006) and MPI (2007b) pointed out that the FDI sector helps strengthen the production capability and technological innovation in a number of industries, pushing up the international market penetration, raising revenues for the state budget and creating employments. In 2009, FDI sector contributed 43% of the gross industrial output and 22% of the total employments in Vietnam (GSO, 2011a). In three years from 2007 to 2009, FDI companies made up 31.3% of the list of 1,000 biggest taxpayers in the country and contributed a percentage of 23.4 of the total tax revenues to the state budget (Dinh, 2010 September). FDI companies also bring about the managerial expertise and working skills, enable technology transfers, create spillover effects to domestic firms to renovate their technologies and increase the production

efficiency. According to an UNCTAD's report, foreign companies in Vietnam trained approximately 300,000 workers and 25,000 technicians domestically as well as 6,000 managers abroad. Additionally, 60% of foreign companies in Vietnam provided formal training programs for their employees (UNCTAD, 2008).

However, FDI is not without potentially negative or undesired effects. The booming development in attracting FDI to Vietnam has resulted in the deterioration of natural environment and resources, backward technology and lack of capital as most of investment projects were mobilized from the domestic financial institutions (Dinh, 2010 September). As indicated by an expert of the Ministry of Planning and Investment of Vietnam (MPI), one of the reasons for Vietnam to be a good choice for FDI comes from lenient regulations on environmental protection, whereas the neighboring countries are less attractive than Vietnam simply because their environmental standards are much stricter (Hoang Anh, 2011 February). Although manufacturing industry is still the most attractive sector, the proportion of this sector has been reducing since 2005 (GSO, 2011a), concurrently with the increase of FDI in real estate (Dinh, 2011 September). Moreover, FDI capital in manufacturing has heavily concentrated on the assembly industry to take advantage of the low labor cost, thus, brought back a low added value. One of the most concerns to FDI policy makers is the extent to which MNEs are able to shift taxable income from the host country to other locations with lower taxes (UNCTAD, 2008). Transfer pricing within mother companies and their affiliates through appreciating the cost of imported machinery and materials and reducing the selling price of exported finish goods keeps some foreign firms in "heavy debt", which helps them be exempted from corporate taxation and benefit from the value added tax refund for imported goods (Pham, 2011 April).

The most urgent task for FDI policy makers now is how to formulate a FDI strategy toward sustainable development, aiming to attract foreign firms with economic potential, high and environmentally friendly technology, and global integration network (Hong Anh, 2011 November). Changes should be made in the strategy to attract FDI as well as the FDI facilitation elements such as human capital, infrastructure and FDI promotion campaigns.

To prepare for a new FDI strategy in Vietnam for 10 years from 2011-2020, the MPI has been entrusted by the government to investigate the investment trends and strategies of some potential partners, including Japan, to further attract their investment flows and streamline the policies and programs targeting the strategic partners (Hoang Anh, 2011 February). The outcomes of this dissertation will definitely provide an in-depth understanding about the Japanese FDI motivations and determinants in Asia and Japanese investors' perception towards Vietnamese investment environment, which is expected to be a helpful reference for FDI policy makers in compiling a new FDI strategy.

1.1.4. Japanese FDI to Vietnam: facts and recent trends

Japanese investors came into Vietnam since the coming into being of the country's first Law on Foreign Investment in 1988. By the end of 2010, Japanese FDI was amongst the top four prominent investors in Vietnam in terms of investment capital, just behind Taiwan, Korea and Singapore (GSO, 2011a). Japan has also been one of the most important economic partners and the top ODA (Official Development Assistance) donor in Vietnam since 1995.

Over 80% of the Japanese projects in Vietnam were small scale, which range from 5 thousand USD to less than 10 million USD. Japanese FDI in Vietnam was heavily concentrated on the manufacturing sector, which accounted for 87% of the

total FDI capital, and condensed in cities and provinces of developed infrastructure such as Hanoi, Ho Chi Minh City, Thanh Hoa and Dong Nai (MPI, 2011b).

Despite being heavily affected by the 2008 Lehman shock as well as suffering great damages by the tragic earthquake and tsunami in early 2011, Japan remains the country with largest implemented capital in Vietnam. Japanese government asserted that the country would continue to be the biggest ODA donor in Vietnam in spite of the natural disaster and economic crisis (MOIT, 2011). According to a survey conducted by the Japan Bank for International Cooperation (JBIC) in 2010, Vietnam was the third promising destination for overseas operation by Japanese manufacturing companies over medium term (just behind China and India) and the fourth over the long term (following India, China, Russia and Brazil) (JBIC, 2010). In addition, a survey on 130 Japanese giant companies conducted by the Nikkei Weekly revealed that 70% of the respondents believed that within a year, Japan's economy would recover to the level before the disaster; 40% of the surveyed companies would shift production bases to reliable destinations abroad, of which Vietnam was a good choice (Hong Ky, 2011 July).

Vietnam is believed to be an important link in the Japan's value chain and production network in Asia as well as a production base to export to Japan. Therefore, the Japanese government actively assists the country in developing infrastructure, supporting industries and high technology. Vietnam is also considered as a bridge to further promote the role of Japan in the regional politic and economic orders (MOIT, 2011).

The strategy to relocate the production factories to Vietnam has been considered by Japanese companies from the mid-2000s. The labor cost in China had increased, while in Japan, manufacturers were facing with the yen appreciation, the

high labor cost and the natural calamities. Moreover, in April 2005, Beijing allowed a series of massive anti-Japan protests to be staged in many cities, which damaged Japanese establishments and consulates (Kajita, 2005 August). To cope with the SARS (Severe Acute Respiratory Syndrome) epidemic, the Yuan's possible further appreciation and to offset the China's risk, Japanese companies started to look for other places as supplementations or substitutions for China. Moreover, the slogan "China-plus-one", meaning the Mainland and a manufacturing base somewhere else in Asia, began to be common strategy within Japan's firms. Comparing to other neighboring countries, Vietnam is regarded as a politically and socially stable country with little political, religious or ethnic tensions. The country's proximity to China and to fellow members of the ASEAN also makes it an attractive base for exporting to these markets. Nevertheless, on top of those favorable factors, the popularity of the country all comes down to low labor costs (Shimizu, 2007 March 02). As a result, for investors fleeing China's pricey coastal cities, Vietnam was preferred as a low-cost manufacturing base (Wehrfritz, 2005 November 28).

Apart from the companies in China, the economic booming of Vietnam at this time also attracted Japanese companies in Thailand. According to the Chairman of the Economic Research Committee of the Japanese Chamber of Commerce, Japanese companies in Thailand who engaged in labor-intensive businesses were expected to shift to Vietnam to take advantage of the economic growth and inexpensive labor cost (Kittykanya, 2008 January 30).

Vietnam becomes a hotter spot of investment after the political unrests and the serious floods happened in Thailand in 2010 and 2011. The disaster rippled through the supply chains of Japanese auto and electronics makers, causing part shortages, which affected operations across the globe. The Japanese giant carmaker, Honda, had

to reduce output at its plants in the North American markets until November 2011 due to the shortage of parts from Thailand, which forced part production to halt at some facilities in the Southeast Asian nations. Other Japanese giant companies operating in Thailand such as Cannon Inc., Nissan Motor Co., Hitachi Ltd. and Toshiba Corp also halted production at Thai factories because of the floods and planned to flexibly manage the production at factories in neighboring nations (Teso & Kate, 2011). Japanese executives recognized the concentration risk after the floods, cooling the recent trend of accelerating FDI into Thailand (Teso & Kate, 2011).

Though it is undeniable that Japan is an important source of FDI in Vietnam and Vietnam seems to emerge as an attractive place for Japanese FDI compared with China and Thailand, there exist few studies investigating the motivations and determinants of Japanese FDI in the country (See Chapter 2). That leads to a fragile background for policymakers to formulate FDI policies and encouragement measures to attract the targeted home country. Therefore, an in-depth understanding of Japanese motivations and determinants in Asia and Japanese perception on Vietnamese investment environment will contribute to elaborate an appropriate policy framework and suitable strategies to attract and nurture this source of FDI.

1.2. Research Issues

The dissertation attempts to answer the following three questions:

1. What are the motivations and determinants of Japanese FDI in Asia?
2. How does Vietnam perform as a destination for FDI compared with Thailand and China in the perception of Japanese investors?
3. How should the Vietnamese investment environment be enhanced to become more attractive to Japanese investors?

In particular, the dissertation discusses the following three research issues:

Research issue 1 – Motivations and determinants of Japanese FDI in Asia: (1) the importance of selected attributes to Japanese overseas investment decisions; (2) the relationship between firms' sizes and the importance level of selected attributes to Japanese investment decisions in Asia; and (3) the principal factors explaining the motivations of Japanese FDI in Asia.

Research issue 2 – Perception of Japanese investors on Vietnam as an investment destination compared with Thailand and China: (1) the perception of Japanese investors on the performance of the attributes in Vietnam, Thailand and China; (2) the differences in perception of Japanese firms with and without projects in Vietnam; (3) the importance-performance analysis of Vietnam as an investment destination for Japanese investors; and (4) the factors of Japanese firms in Vietnam as well as their correlation to the probability of Japanese FDI decisions in Vietnam.

Research issues 3 – Holistic features of Vietnam as a destination for Japanese FDI: (1) the specific advantages and obstacles when investing in Vietnam in the perception of Japanese investors; and (2) the analysis of three case studies of Japanese companies operating in Vietnam - Kyoei Manufacturing Vietnam, TOTO Vietnam, and Panasonic Vietnam.

Based on the findings on these issues, the dissertation suggests measures for Vietnam to enhance her investment environment and increase the volume of Japanese FDI.

1.3. Research Goals

The first goal of this dissertation is to seek for the motivations and determinants of Japanese FDI in Asia. These motivations and determinants are

investigated by multiple methods including content analysis of secondary data on Japanese FDI, expert consultation, survey and interviews of Japanese companies.

The second goal of this dissertation aims at evaluating the attractiveness of Vietnam as an investment destination compared with Thailand and China in the perception of Japanese investors and pointing out the main factors and determinants influencing investment decisions of Japanese firms in Vietnam. The features of Vietnam are investigated based on surveying and interviewing Japanese firms, econometric analysis and case study analysis.

The third goal of this dissertation is to make suggestions for Vietnam to become more attractive to Japanese investors. The recommendations are withdrawn based on the findings of Japanese FDI motivations and Vietnam's advantages and shortcomings as an FDI destination for Japanese investors.

1.4. Significance

The most significance is that this dissertation comes in time to meet a requirement of a new FDI attraction policy for the period of 2011-2020 in Vietnam, in which the targeted investors' characteristics with their investment trend should be fully investigated. This dissertation is expected to be of great help to MPI in understanding Japanese FDI motivations and determinants in Asia and their perception on the Vietnamese investment environment to formulate appropriate FDI policies and FDI attraction programs.

Moreover, in Vietnam, there has been little comprehensive research of motivations and determinants of Japanese FDI from different approaches (host country, home country and firms). In addition, in Vietnam, investment attraction policies have been mostly based on the subjective experiences without considering

typical characteristics of each targeted home country and the perception of investors on the host country's investment environment. This dissertation is a pioneer in studying the attractiveness of Vietnam in perception of Japanese investors based on the importance – performance analysis method.

Practically, the dissertation could be used as a foundation for establishing FDI attraction programs for Japanese investors. Furthermore, it is expected to lay a framework for further studies of other targeted home countries, assisting policy-makers in Vietnam to have firm and integrated foundations for their decisions.

1.5. Methodology

This dissertation applies a mixed methodological approach combining both qualitative and quantitative methods. The implementation process was carried out through three major phases: preliminary phase for potentially important attributes; data collection phase mostly for primary data; and data analysis phase for results, discussion and conclusion.

The preliminary phase dealt with content analysis of related literature, statements and expert consultation. The result of this phase was a set of potentially important attributes serving as initial assumptions and hypotheses for the empirical phase and important materials for developing the questionnaire for primary data. The data collection phase used mail survey, interviews and case studies as the main strategies. The data analyzing techniques include quantitative methods based on Likert scale values (comparing means, factor analysis, analysis of variance (ANOVA), Chi-square tests, IPA and binary logistic regression) and qualitative methods (researching secondary data, analyzing open-ended questions, observing and consulting with the informants of the related issues and case study analysis).

Accordingly, both attribute-based and holistic analyses were done for each research question.

The recommendations for Vietnam's investment policies were made and discussed based on the treatment of background information and the results from data analysis. The specific methods and process are presented in Chapter IV – Methodology.

1.6. Structure

This dissertation includes nine chapters, of which the major contents are summarized as follows:

Chapter I – Introduction: introduces the background, research issues, research goals and the significance of the dissertation. The chapter also briefly presents the methodology and the structure of the dissertation.

Chapter II – Trends and Patterns of Japanese FDI and FDI in Vietnam: discusses the trends and patterns of Japanese FDI worldwide and in Asia, the economic environment for FDI and FDI attraction in Vietnam, the relationship between Vietnam and Japan, and Japanese FDI in Vietnam, providing a background for the research issues and analysis in the subsequent chapters.

Chapter III – FDI Theories, Determinants of Japanese FDI in Asia and FDI Determinants in Vietnam: reviews the theories and related discussions, which serve as a theoretical framework for conducting the research. Based on the reviewed literature, the chapter presents the distinctive characteristics of the dissertation.

Chapter IV – Methodology: introduces the methods used in the dissertation. The chapter focuses on the process of dissertation implementation and the data analysis methods, of which specific techniques with criteria for the results are also

described in detail. In addition, this charter also presents the research instrument and survey respondents and interviewees.

Chapter V – Results and Discussion on Motivations and Determinants of Japanese FDI in Asia and the Perception of Japanese Investors on Vietnam as an Investment Destination Compared with Thailand and China: presents the results regarding the first and second research issues.

Chapter VI – Holistic Features of Vietnam as a Destination for Japanese FDI: presents the results of the holistic analyses to supplement the outcomes withdrawn by the quantitative methods.

Chapter VII – Conclusion: summarizes the major findings regarding the research issues, analyzes the contributions and the limitations of the research, and make suggestions for further studies.

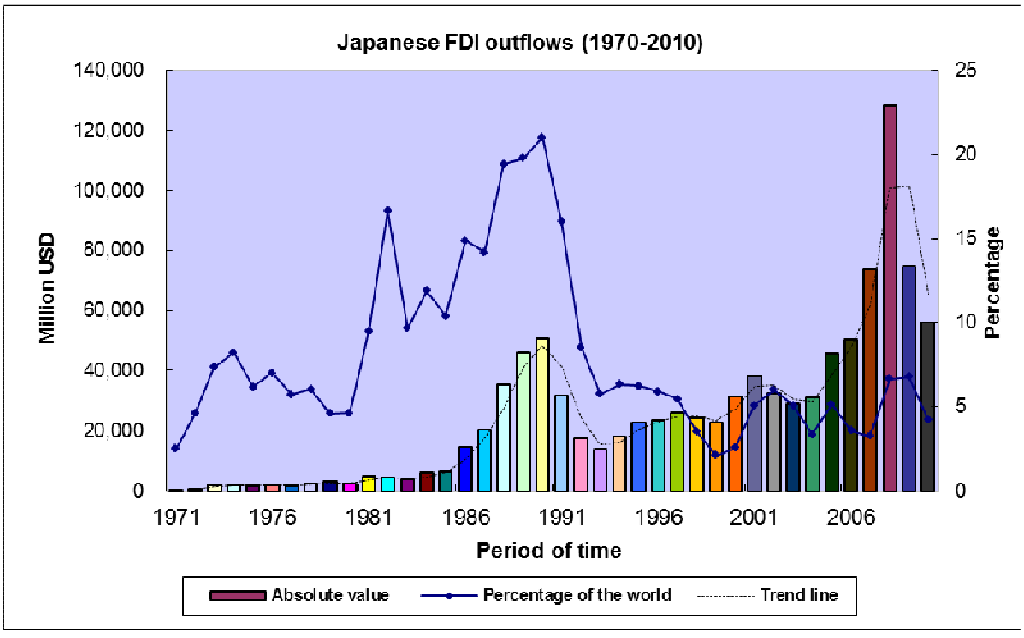
Chapter II – Trends and Patterns of Japanese FDI and FDI in Vietnam

This chapter presents an overview of the trends and patterns of Japanese FDI worldwide, Japanese FDI in Asia and FDI attraction in Vietnam. The overview will provide background information for the research issues as well as the analysis in the subsequent chapters.

2.1. Trends of Japanese FDI Worldwide

Figure 2.1 illustrates the chronological development of Japanese FDI outflows from 1970 to 2010. Accordingly, the development process is divided into 5 phases: 1970-1980, 1981-1985, 1986-1990, 1991-2004 and from 2005 up to now.

Figure 2.1: Japanese FDI outflows from 1970 to 2010



Source: UNCTAD (2011)

The 1970s marked the very first development of Japanese FDI outflows, which was mainly due to the official opening of the country for capital outflows. The removal of fixed rate regime in 1971 led to a stronger yen compared to the US dollar

as well as other currencies in Asia. Following changes in the exchange rate regime, in 1972, the government decided to remove many of the restrictive measures and policies related to capital investment by Japanese corporations, which in turn resulted in an expansion of Japanese FDI. Within 10 years from 1970 to 1980, the investment value increased by eight times, from 355 million USD to 2.8 billion USD. In this period, protectionist policies among developed countries as well as the trade deficit between Japan and her traditional trading partners such as the US and EU drove Japanese companies to expand their international operation overseas, especially in developing countries. As presented in Table 2.1, the majority of Japanese FDI fell into non-manufacturing sector (occupying 60% of the total investment), mostly in exploiting the natural resources (19%) and trading (15.2%). Manufacturing accounted for 35% of the total FDI, heavily focusing on metal industry (7.5%), electrical industry (4.6%) and textile industry (4.5%).

The second wave of Japanese FDI started in 1981. The total investment volume leaped two times from 2.4 billion USD (1980) to 4.9 billion USD (1981). This phenomenal growth may partially be due to the general rise in the managerial and technological capabilities of Japanese firms (Lakhera, 2008) but principally, may have come from the adjusted policy frame work of the government to cope with trade frictions in North America and Western Europe due to the rapid appreciation of the yen (Basu & Miroshnik, 2000). Trade barriers such as import restrictions, anti-dumping duties and demands to introduce export restraints were imposed heavily on Japanese exports. To cope with the frictions, many of Japanese firms started to open plants in these countries, others shifted the investment in Asian countries where there was no trade barriers or moved into the large integrated market of the EU which was about to established (Sheridan, 1995). For the first time, FDI was regarded

strategically important in the "Vision policy for the 1980s" by Japan's Ministry of International Trade and Industry (MITI). The efforts of the government was also supported by the Plaza Accord, which triggered a chain reaction which led to an eruption of overseas Japanese capital flows (Hatch & Yamamura, 1996). With the expansion of international finance and the appreciation of the yen, FDI by financial institutions and insurance companies rose sharply, taking an account of 17% of the total outward capital, surpassing the capital in trade (which made up 15%) and transportation (which occupied 12%). The manufacturing sector saw a decline to 25% of the total investment capital owning to the fluctuation of the exchange rate (Table 2.1). Japan for the first time was among the major source countries of the world, accounting for 17% of the global FDI (UNCTAD, 2011).

During the second half of the 1980 decade, Japanese FDI flow accelerated further thanks to the booming of its economy and the appreciation of the yen. Outward investment by Japanese firms doubled in 1986 compared to that in 1981; FDI volume during the period of 1986-1990 was as over three times as the total FDI of Japan for the entire period from 1970 to 1985 and peaked at 50.7 billion USD in 1990. By the end of this period, Japan overtook other developed countries in outward investment capital and became the dominant source country of FDI, taking 21% of the global FDI (UNCTAD, 2011). This period was regarded as the most spectacular "globalization phase" of Japan as well as its economic superpower position. The majority of Japanese FDI was poured in non-manufacturing sector (73.4%), mostly in finance and insurance industry (23%). For the first time, real estate sector (which includes office facilities, houses, hotels, other accommodation and tourist sites) contributed a considerable proportion to Japanese total FDI with a cumulative 43.3 billion USD, taking an account of 19% of the total Japanese FDI in this period

(JETRO, 2011b). Japanese investors in this sector aimed to exploit rent and capital gain overseas, while at home the real estate industry experienced an explosive increase in price.

Table 2.1: Japanese FDI from 1971 to 2004 by industry based on reports and notifications

(Unit: US$ million)

Fiscal Year	1971-1980		1981-1985		1986-1990		1991-2004	
	Value	(%)	Value	(%)	Value	(%)	Value	(%)
Manufacturing	**11,645**	**35.37**	**11,826**	**25.08**	**57,213**	**25.19**	**264,679**	**36.94**
Food	535	1.63	505	1.07	2,994	1.32	26,480	3.70
Textile	1,449	4.40	446	0.95	1,915	0.84	7,952	1.11
Lumber &Pulp	547	1.66	362	0.77	1,848	0.81	5,722	0.80
Chemical	2,577	7.83	1,356	2.88	6,958	3.06	38,173	5.33
Metal	2,483	7.54	2,571	5.45	5,118	2.25	18,641	2.60
Machinery	827	2.51	1,078	2.29	5,961	2.62	21,113	2.95
Electrical	1,507	4.58	2,166	4.59	16,614	7.31	72,645	10.14
Transport	892	2.71	2,395	5.08	7,507	3.30	44,480	6.21
Others	833	2.53	947	2.01	8,297	3.65	29,474	4.11
Non- Manufacturing	**19,772**	**60.06**	**34,316**	**72.78**	**166,800**	**73.43**	**444,335**	**62.01**
Farming &Forestry	554	1.68	171	0.36	578	0.25	1,864	0.26
Fishery	276	0.84	141	0.30	295	0.13	1,203	0.17
Mining	6,265	19.03	4,683	9.93	4,784	2.11	19,556	2.73
Construction	360	1.09	401	0.85	1,592	0.70	5,299	0.74
Trade	5,027	15.27	7,269	15.42	18,640	8.21	71,399	9.96
Finance &Insurance	2,108	6.40	8,433	17.88	54,460	23.97	141,179	19.70
Service	1,344	4.08	3,293	6.98	29,980	13.20	75,502	10.54
Transportation	0	0.00	5,900	12.51	11,537	5.08	55,690	7.77
Real Estate	0	0.00	2,533	5.37	43,316	19.07	72,478	10.11
Others	3,836	11.65	1,491	3.16	1,617	0.71	164	0.02
Branches	952	2.89	1,009	2.14	3,147	1.39	7,581	1.06
Real Estate	552	1.68	0	0.00	0	0.00	0	0.00
Total	**32,919**	**100.00**	**47,152**	**100.00**	**227,158**	**100.00**	**716,595**	**100.00**

Source: JETRO (2011b)

From 1991 to 2004, Japanese FDI experienced continuous downturns and revivals. FDI plummeted unexpectedly from 1991 to 1993, as the direct result of an overheating asset-bubble price economy, a weakening economic growth and glooming deflationary situation. During this recession period, real estate, services, banking and insurance, and trade remained the four most attractive sectors to Japanese firms, which accounted for 58.7% of the total Japanese FDI. There was a reversal

from 1994 to 1997 with a slight increase in the volume of investment capital, however, the contribution of Japan into the world FDI became modest, around 5% to 6% in the whole period. Japanese FDI tumbled again from 1997 to 1999 owning to the Asian financial crisis, in which Japan had long been acting as a big donor and trading partner of the region. Despite the robust development in two successive years, Japan had lost its position compared to other developed nations in the world FDI map when it fell down again in 2002 and 2003. In 2004, Japan ranked eighth after the United States, United Kingdom, Spain, France, Hong Kong (China), Canada and Belgium (UNCTAD, 2011).

Since 2005, Japan has stably regained its position. Recovering from the bursting of the bubble economy, the low-level corporate debt and high profits provided Japanese firms a huge financial resource for investment (UNCTAD, 2006). Japanese outflows rose to 45.4 billion USD, in which transportation equipment and electronic machinery topped the list of manufacturing sector with 19% and 10% respectively (JETRO, 2011b). The year 2005 also saw a rebound development of Japanese banks, which had once topped the league table of the world's leading banks but then lost financial strength in the decade before that. By spreading into new EU member states and the Russian Federation, as well as to traditional investment locations in Asia, the EU and the United States, finance and insurance sector saw a robust growth in this year, making up one fifth of the total Japanese FDI outflows. Despite the depreciation of the yen, the development trend continued in 2006 and 2007 as the result of high corporate profitability of Japanese foreign affiliates. In 2006, Asia surpassed North America to be the second largest recipient region of Japanese FDI (occupying 35%), following Western Europe (36%). As for single country, the United States was the largest recipient country of Japanese FDI, being

ahead of the Netherlands, the United Kingdom and China (UNCTAD, 2007). The financial crisis in 2007 was foreseen to deeply affect the global FDI flows; however, Japan was one of the only four developed countries that saw a rise in their FDI in 2008 thanks to the appreciation of the yen and a strong increase in cross-border equity investments. Japanese FDI flow reached the highest peak ever with about 128 billion USD, spreading wide across major economies and a range of industries (UNCTAD, 2009b). The majority of Japanese investment was undertaken by firms in finance and insurance sector (taking 39.9%), followed by those in trading (10.2%), chemical and pharmaceutical (8.9%), transportation equipment (8.4%), and mining (8%) (JETRO, 2011b). However, this trend reversed in 2009 owning to the global economic and financial downturn. The rapidly declining sales and profits of Japanese firms were affecting their investment expenditures, both domestic and foreign. Though having its FDI reduced by half to 75 billion USD, Japan was still ranked the third largest home country behind the United States and France (UNCTAD, 2010). The largest proportion of Japanese FDI still fell into the banking and insurance sector (making up 20.7%). The food processing industry the first time took the second biggest share (12%), followed by trading (11.3%), chemical and pharmaceutical (9.9%), and mining (8.8%) (See Table 2.2).

Table 2.2: Japanese FDI from 2005 to 2010 by industry based on balance of payments

(Unit: US$ million)

	2005		2006		2007		2008		2009		2010	
	Value	(%)	Value	(%)	Value	(%)	Value	(%)	Value	(%)	Value	(%)
Manufacturing	**26,146**	**57.5**	**34,513**	**68.8**	**39,515**	**53.8**	**45,268**	**34.6**	**32,934**	**44.1**	**17,803**	**31.1**
Food	1,685	3.7	1,025	2.0	12,776	17.4	3,601	2.8	8,954	12.0	2,017	3.5
Textile	416	0.9	180	0.4	371	0.5	716	0.5	477	0.6	377	0.7
Lumber and pulp	826	1.8	420	0.8	745	1.0	734	0.6	1,207	1.6	1,068	1.9
Chemicals and pharmaceuticals	3,363	7.4	4,413	8.8	3,744	5.1	11,647	8.9	7,407	9.9	7,902	13.8
Petroleum	531	1.2	2,921	5.8	-280	-0.4	652	0.5	-51	-0.1	-837	-1.5
Rubber and leather	831	1.8	1,107	2.2	835	1.1	771	0.6	445	0.6	634	1.1
Glass and ceramics	258	0.6	2,759	5.5	837	1.1	1,417	1.1	2,042	2.7	377	0.7
Iron, non-ferrous and metals	1,331	2.9	1,795	3.6	2,202	3.0	3,152	2.4	3,738	5.0	3,873	6.8
General machinery	1,296	2.9	1,663	3.3	2,642	3.6	3,726	2.8	4,411	5.9	4,385	7.7
Electric machinery	4,377	9.6	7,041	14.0	4,691	6.4	5,675	4.3	2,505	3.4	1,361	2.4
Transportation equipment	8,611	18.9	8,597	17.1	8,671	11.8	10,924	8.4	566	0.8	-3,582	-6.3
Precision machinery	1,419	3.1	1,420	2.8	1,293	1.8	953	0.7	609	0.8	51	0.1
Non-manufacturing	**19,315**	**42.5**	**15,652**	**31.2**	**33,968**	**46.2**	**85,533**	**65.4**	**41,717**	**55.9**	**39,420**	**68.9**
Farming and forestry	23	0.1	42	0.1	93	0.1	59	0.0	10	0.0	145	0.3
Fishery and marine products	-44	-0.1	28	0.1	64	0.1	119	0.1	36	0.0	47	0.1
Mining	1,372	3.0	1,577	3.1	4,053	5.5	10,518	8.0	6,482	8.7	9,061	15.8
Construction	148	0.3	-64	-0.1	490	0.7	389	0.3	499	0.7	302	0.5
Transportation	824	1.8	1,507	3.0	2,133	2.9	2,283	1.7	2,894	3.9	2,294	4.0
Communications	1,712	3.8	-3,368	-6.7	-331	-0.5	1,675	1.3	3,870	5.2	9,899	17.3
Wholesale and retail	4,623	10.2	5,483	10.9	4,792	6.5	13,319	10.2	8,418	11.3	1,946	3.4
Finance and insurance	9,227	20.3	5,562	11.1	19,458	26.5	52,243	39.9	15,463	20.7	11,397	19.9
Real estate	-851	-1.9	-811	-1.6	162	0.2	162	0.1	463	0.6	765	1.3
Services	1,086	2.4	188	0.4	1,406	1.9	2,721	2.1	2,163	2.9	1,596	2.8
Total	**45,461**	**100.0**	**50,165**	**100.0**	**73,483**	**100.0**	**130,801**	**100.0**	**74,650**	**100.0**	**57,223**	**100.0**

Source: Japan Trade and Investment Statistics (JETRO, 2011b)

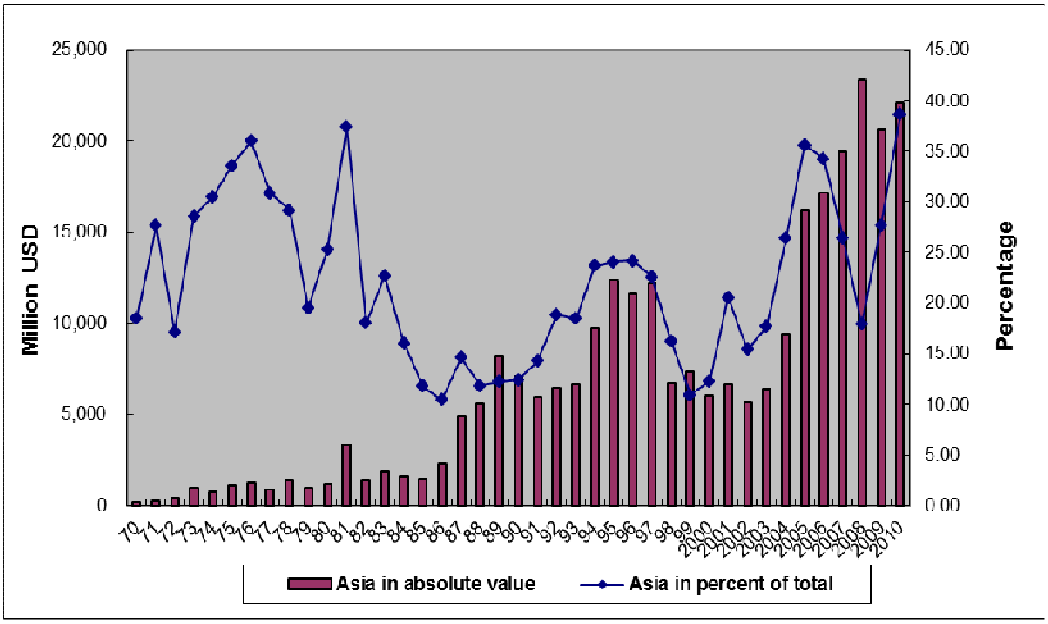
2.2. Japanese FDI Flows in Asia

Japanese FDI started to pour into Asia in the late 1950s, however, mostly to extract raw materials for the home market. Later on in the 1960s and 1970s, due to the increase in domestic wage rate, land prices and environmental regulations, Japanese firms in labor and capital intensive industries such as textiles, chemicals and steel managed to shift their production bases to other countries in the region. In this period, many Asian countries carried out the import substitution industrialization in which consumption goods were imposed high tariff on whereas the tariff on intermediate

goods were low. As the result, Japanese firms started to set up production bases in those countries in order to secure market, but these overseas productions were operated at small volume.

Figure 2.2 describes the development of Japanese FDI in Asia. From 1970 to 1980, while total FDI of Japan had a fivefold increase, those FDI poured into Asia raised seven times from 167 million USD (1970) to 1.186 billion USD (1980), occupying 25% of the total Japanese investment in 1980 (JETRO, 2011b). Among Asian countries, Indonesia was the largest recipient country of Japanese FDI where the mineral resources were abundant. Korea and Hong Kong (China) were the second and third runners in attracting Japanese FDI (Table 2.3).

Figure 2.2: Japanese FDI in Asia from 1970 to 2010



Source: Japan Trade and Investment Statistics (JETRO, 2011b)

The 1980's decade witnessed a new wave of Japanese FDI in Asia. The continent was increasingly attractive to Japanese firms, presenting in the sharply rise of investment volume by Japanese firms. The efforts of many Asian countries in creating a favorable investment climate with high tax incentives, operation of

industrial estates and development of supporting industry motivated Japanese firms to pay more attention to the region. According to Hatch and Yamamura (1996), three factors conspired to create this wave. The first was the efforts of Asian countries to push forward their sluggish economies by formulating policies to attract FDI and stimulating exports. The second factor was the deliberate effort by some of Japan's major trading partners, including the US, to establish new barriers to Japanese exports. In response to these barriers, Japanese companies started to look for other export platforms in Asia, which latter contributes to speeding up the intra-regional trade and investment between Japan and Asian countries. The third was the Plaza Accord, which triggered a chain reaction that ultimately led to an eruption of Japanese capital and became a huge amount of FDI to the US, Europe and Asia.

Before the Plaza Accord of 1985, Japanese FDI reached a peak of 3.3 billion USD in 1981 (two third of which were poured into Indonesia) before plummeting by half in the following year. An unprecedented record of outward FDI in Asia was established in 1989 with 8.2 billion USD, making up 25% of the global Japanese FDI (UNCTAD, 2011). Accordingly, the FDI pattern inside Asia has greatly changed. Hong Kong, Indonesia, Singapore and Thailand, the four leading Asian countries in attracting Japanese FDI during this period, accounted for 67.7% of the total Japanese FDI in the continent. Korea, China, Malaysia and Taiwan experienced a relatively high FDI volume from Japan, between two and three billion USD (Table 2.3). Apart from Hong Kong and Indonesia as the traditional locations, Singapore, for the first time, became a major host country since the rise of the Japanese yen against the US dollar drove Japanese firms to Singapore where electronics industries were concentrated, foreign capitals were allowed to operate with the attractive incentive policies. However, the small population and labor force, and the rising wage rates in

Singapore forced Japanese firms to find new locations. Thailand was chosen as a destination for export where capital from foreign investors was substantially liberalized in 1985. Malaysia followed to relax the regulation of foreign capital participation, paving the way for Japanese firms to come in. Again, when Thailand's and Malaysia's wage rates increased, profits of overseas affiliates as well as their agglomeration force were lowered, resulting in the end of FDI boom.

During 1991-1997, Japanese FDI into Asia increased remarkably with the emergence of China as a huge production base and market for investment. Chinese opening to foreign investors and its generous investment incentives made the country the most attractive destination for Japanese investors who were suffering from the rise of wage rate in some ASEAN countries such as Singapore, Malaysia and Thailand. China the first time topped the list of host countries and territories for Japanese FDI in Asia, followed by Hong Kong and Indonesia (Table 2.3). Japanese investment in Asia peaked at the highest level in 1995 with 12.4 billion USD, then slightly decreased in the next two consecutive years, before sinking deeply in 1998 as the result of the financial crisis (UNCTAD, 2011).

The Asian currency crisis in 1997 strongly affected the patterns of Japanese FDI in Asia. Total investment from Japan to Asia reduced by half in 1998, fluctuating between 6 and 7 billion USD in 1999-2003 before seeing a revival in 2004 (Figure 2.2). China remained an attractive host country, taking roughly 28% of the Japanese FDI in this period and 50% of that FDI in 2003 and 2004 (UNCTAD, 2011). However, since 2005, China has loosened its attractiveness concurrently with the resurgence of ASEAN countries in the "China plus one" strategy. Many of Japanese firms operating in China have plans to shift their production bases into ASEAN countries or open new production sites in ASEAN in addition to China as the result of

increasing wage rate and business risk in the country. The rapid expansion of production activities has raised wages in China, especially in the coastal cities. At the same time, highly concentration of manufacturing in China has increased the production risk in the country. Among the ASEAN, Thailand and Vietnam have been highly favorable as the supplement to China in this strategy.

Table 2.3: Japanese FDI by region and country from 1970 to 2010

(Unit: US$ million)

	1970-1980	1981-1990	1991-1997	1998-2004	2005-2010
Total	33,823	274,310	306,189	298,559	614,322
North America	9,078	126,387	134,135	78,933	269,599
Latin America	5,648	34,315	29,327	44,621	69,290
Middle East	1,953	1,172	2,168	357	5,293
Europe	4,166	54,794	57,764	116,227	116,724
Africa	1,366	4,381	3,015	1,664	8,762
Oceania	2,369	15,574	14,922	8,626	32,865
Asia (in which)	9,246	37,690	64,858	48,131	111,794
China	26	2,798	14,881	13,783	31,487
Asian NIEs	3,418	19,736	19,600	16,004	58,758
Hong Kong	1,075	8,755	7,365	4,151	21,346
Taiwan	310	2,361	2,693	2,350	7,714
Korea	1,121	3,001	2,437	4,418	10,978
Singapore	912	5,618	7,105	5,085	18,721
ASEAN 4	5,733	14,690	27,346	16,387	64,156
Thailand	319	4,026	7,272	6,375	17,992
Indonesia	4,230	7,116	11,974	4,610	27,931
Malaysia	613	2,581	5,063	2,205	10,462
Philippines	570	966	3,037	3,197	7,771
Vietnam	-	-	1,061	487	1,549
India	28	156	1,049	1,274	2,507

Source: Japan Trade and Investment Statistics (JETRO, 2011b)

Moreover, there have been also other reasons leading to the dynamic activities of Japan in the Asian region, of which geographical proximity, promising economic aspect and low production cost could be taken into account. The Japanese government also has a strong strategic interest in promoting the region's economic growth (mainly through Official Development Assistance - ODA), which could in turns be beneficial to its companies that are investing in the region. ODA programs emphasize the economic cooperation through trade credits, investment insurance and loan guarantees

that are analogous to FDI flows (Farrell, 2008). Kimura and Todo (2010) found robust evidence that Japanese aid has a vanguard effect on FDI from Japanese companies, that is, Japanese aid promotes FDI from Japan. Particularly in China, Japanese aid flows had a significant positive impact on private investors location choice, enhancing the development of infrastructures which is one of the pre-requisites for future direct investments (Blaise, 2005). From the Japanese perspective, the economic growth in Asia not only leads to economic, political and social stability in the region but also creates and expands important markets for Japanese exports.

In late 2008, the Lehman shock pushed the global economy as well as the Japanese economy into an unprecedented turmoil. In response to the plummeted economic activity, Japanese investors have curtailed capital spending, cancelling or postponing investment plans domestically and overseas (Iwami, 2009). Those facts heavily affected the Japanese FDI into Asian countries. To cope with the recession, the Japanese government had to execute a series of business support measures to the private sector including emergency financial supports through bank loan and supports for the companies in their efforts to rebuild their business (Komine, 2009). However, according to the JBIC's FY 2009 and 2010 surveys, despite the global downturn, Japanese firms continued to search for new business opportunities overseas, especially in China, India and other emerging markets. In 2010, the profit of surveyed Japanese manufacturing companies showed signs of recovery with cost cut and sale increase domestically and overseas. More companies were willing to strengthen or expand their businesses targeting the emerging countries. Furthermore, following the Senkaku Islands incident, the risk diversification awareness is growing among Japanese firms in doing business with China. It is expected that a trend towards

emerging Asian markets as the supplementation to China will continue in the coming time.

Recently, the tragic earthquake on March 11, 2011 and subsequent tsunami in Japan is expected to cause a vast repatriation of Japanese capital from overseas to reconstruct the economy, which may dent the pace of Japanese FDI in the coming time. However, according to the World Bank (2011), the temporary slowdown in Japan will have a "modest short-term impact" on Asia. The hardest impact could be seen in auto-manufacturing and electronic industry. As Japan is a major producer and supplier of parts and components for Asia's production networks, the disruption to production networks in Japan will definitely pose problems to the manufacturing chain in the region.

2.3. Economic Environment for FDI and FDI Attraction in Vietnam

2.3.1. Economic Environment for FDI in Vietnam

2.3.1.1. Vietnamese economic system

Vietnamese economy has changed enormously since the *Doi moi* (Reforms). Replacing the old central-planned economy, the country has shifted to a new economic model, a socialism-oriented market economy, and gained significant achievements. Today, Vietnam aims to become a basically industrialized country by 2020.

Over the last decade, Vietnam has recorded an average GDP growth rate of 7.3% per annum, ranking second in Asia after China. Though suffering from the 2008-09 economic crisis, Vietnam has recovered rapidly with GDP growth rate of 6.78% in 2010, 5.89% in 2011, expected to be 5.7% in 2012 and 6.2% in 2013 (ADB,

2012). Vietnam became a lower middle-income country in 2010 with the GDP per capita of 1.240 USD (GSO, 2010).

The economic structure in Vietnam has also seen notable changes. From 1990 to 2010, the share of agriculture sector decreased from 38.7% to 20.6%, while that of industry and construction increased from 22.7% in 1990 to 41.1% in 2010. The service sector remained relatively constant: 38.6% in 1990 and 38.3% in 2010. Agriculture still plays an important role in Vietnam's socio-economic life as it generates 57% of total employment and makes important contribution to the expansion of the country's foreign trade. Industry continues to grow rapidly in terms of gross output at an average rate of 10 to 15% per annum. Services are growing at the average of 7-8%. The changes in proportion of industries in the national economy reflect the market-oriented reforms, a gradual reduction in barriers to private sector development, and improvements in physical infrastructure.

As for the international economic integration, following the *Doi moi,* Vietnam signed the economic and trade cooperation agreement with EU in 1995, joined the ASEAN in 1995, adhered to the ASEAN Free Trade Area (AFTA) in 1996 and became a member of the Asia Pacific Economic Cooperation (APEC) in 1998. The Bilateral Trade Agreement (BTA) with the United States was signed in 2000, resulting in a dramatic increase in the trade volume between the two countries. Vietnam also became the 150th member of the World Trade Organization in 2007, which opened the country to the global market for goods and services and established a greater transparency in regulatory trade practices.

At present, Vietnam has established diplomatic relations with 172 countries, trading relations with 165 countries and territories. The country has signed 55 bilateral investment agreements, 58 anti-double-taxation treaty, and hold membership

in 63 international organizations and over 650 non-governmental organizations. Integrating more deeply into the global and regional economies, Vietnam has gradually improved its business environment and was recognized in 2011 as one of the ten most improved economies in ease of doing business with the ranking of 78, higher than those of some Asian countries such as Indonesia, Philippines, China and India (World Bank, 2011).

Table 2.4: Vietnam's ranking according to various indices

Index	2011-2010 rank	2010-2009 rank
World Bank's Ease of Doing Business	78/183	88/183
World Economic Forum's Global Competitiveness Index	59/139	75/133
ATKEARNEY' FDI Confidence Index	12/top 20	12/top 25 (*)

Note: (*) data for 2007

Source: Adapted from World Bank (2011), WEF (2010) by MPI (2012)

Vietnam has gradually become a source of the world's manufacturing goods, especially in garment and textile and a major producer of agricultural commodities such as rice, coffee, and rubber; and has rapidly developed tourism, mining, services and high-technology sectors. In the last decade, the total export volume increased by 18% per year and its import volume saw an increase of 19.2% per year on average (GSO, 2011a). The five biggest trading partners of Vietnam include China, the US, ASEAN, the EU, Japan and South Korea.

Vietnam has also emerged as a promising consumer market. In the past decade, the size of Vietnam's metropolitan middle-to-upper class has grown from 36% to 55% of the urban population. As 60% of the population is under 35, Vietnam promises to be a lucrative market for mobile phones, consumer goods and financial market.

2.3.1.2. FDI policies and strategies

Vietnam has been constantly improving its FDI policies. The first Law on Foreign Investment was issued in 1987 right after the country began its economic reforms. The Law was regarded as "one of the earliest and most liberalized legal framework for FDI in the region" (UNCTAD, 1996, p.56). So far, the Law on Foreign Investment has been revised four times with notable changes each time. The latest 2005 Law on Investment stipulated regulations related to the activities of both domestic and foreign companies (See Table 2.5). Vietnam has made great efforts in enhancing the rights of foreign investors, formulating an increasingly favorable investment environment, gradually filled the gap between foreign investors and their domestic counterparts. Besides, depending on changes in the national economic situation, Vietnamese government also issued special legal documents to improve the efficiency and effectiveness of attracting and using FDI capital.

Table 2.5: Key changes in FDI policies of Vietnam

Policy areas	Law on Foreign Direct Investment 1987 (revised in 1992)	Law on Foreign Direct Investment 1996	Revised Law on Foreign Direct Investment 2000	Law on Investment 2005 and Law on Enterprise 2005
Registration procedure	- Deadline for granting license: within 45 days. - FDI firms are required to register their business after being licensed.		- Issue List of projects permitted to register business without FDI license. - Leave off all kinds of registration fees.	- Projects with capital less than 15 million USD and not in the "conditional sector" are subjected to "investment registration" procedure which takes 15 working days to be granted the Investment Certificate by the Licensing Authority - Projects with capital of 15 billion USD or more and/or falling in the "conditional sector" shall undergo an "investment evaluation" procedure which takes from 30 to 45 days by the Licensing Authorities and other related authorities.
Business forms and areas	- Encourage joint ventures - Restrict 100% foreign capital firms	- Foreign investors are free to choose form of investment, proportion of capital invested, location and domestic partners. - Encouraging export processing firms (especially export over 80% of the production) and high-tech firms.	- Issue List of projects calling for investment for the period of 2001-2005. - Extend business areas, in which housing construction is included. - Diversify investment forms; portfolio investment is accessible to foreigners	- Investors may invest in all sectors which are not prohibited by law. - Forms of investment include: ▪ Economic organizations (wholly owned subsidiary or joint venture); ▪ Business development; ▪ Shares purchasing or capital contribution to participate in management of investment activities; ▪ Contractual forms of BBC, BO, BTO, BT, PPP; and ▪ M&A of enterprises - Foreign companies are allowed to establish corporate group.

Policy areas	Law on Foreign Direct Investment 1987 (revised in 1992)	Law on Foreign Direct Investment 1996	Revised Law on Foreign Direct Investment 2000	Law on Investment 2005 and Law on Enterprise 2005
Land	- Vietnam local authorities are responsible for site clearance. - Foreigners shall rent land for operation, yet shall not transfer the right of land use.	- Local authorities shall undertake site clearance upon the approval of the project in the expense of investors. - Investors shall transfer the right of land use within industrial zones and export processing zones.	- Investors shall mortgage the construction attached to land and the right of land use for financial loans.	- With the "land use right", investors may conduct real estate transactions, including mortgages - Foreign individuals and companies are allowed to purchase apartments in residential projects. - The State is in charge of site clearance and pays compensation to displaced land users when withdrawing land for the use of foreign organizations, and individuals and overseas Vietnamese.
Foreign exchange	- Government shall guarantee foreign exchange balance to FDI projects invested in infrastructure development and import-substitution; Investors shall be responsible for foreign exchange balance in other business fields.	- Self guarantee of foreign exchange balance - Restrict international remittance (up to 80%) due to the regional crisis. - Firms can purchase the foreign currency upon the State Bank's permission.	- Firms can purchase the foreign currency from commercial banks in accordance with the legal framework. - Investors are allowed to transfer capital; Fees on profit remittance abroad is reduced. - International remittance rate shall be reduced gradually from 80% to 0%.	- Foreign investors must open a capital account with an authorized bank in Vietnam to monitor the flow of capital in foreign currency into and out of Vietnam - Except for certain circumstances, residents and non-residents are prohibited from conducting a sale/purchase, making a payment, or granting loans in foreign currency and posting notice of goods and services in a foreign currency - Foreign investors are entitled to obtain loans from (and grant security to) both onshore and offshore lenders. Payment of interest to offshore lenders is subject to withholding tax of 10%.
Importation/ Exportation	- Investors shall abide by export commitment in the investment license.	- Abolish export plan requirement.	- Narrowing the list of business sectors, in which export proportion rate of	- Export duties (0% to 50%) are charged on a few items, primarily agricultural products (e.g. rice, forest products and fish) and

Policy areas	Law on Foreign Direct Investment 1987 (revised in 1992)	Law on Foreign Direct Investment 1996	Revised Law on Foreign Direct Investment 2000	Law on Investment 2005 and Law on Enterprise 2005
	- FDI firms' products are not allowed to sell domestically. - FDI firms shall not be agents for export-import activities.	- Streamline import and export procedures related to certification of origins.	80% is required. - FDI firms shall be agents for export and import services; yet in accordance with Prime Minister's regulations.	natural minerals. Petroleum oil is subject to an export duty rate between 0% and 8%. - FDI firms enjoy 5 year- import-tax exemption for projects in the encouraged field of business and such goods are imported to form the fix assets of the firm.

Source: Le (2006) updated by the author

Table 2.6: Some obstacles in the current FDI framework

Legal document	Obstacle
Law on Investment 2005	- The governing scope is too broad, including both domestic and foreign investment, while foreign investment has its own characteristics, thus need special regulations. - In short of regulations applicable for the liquidation and dissolvent of foreign firms, and the disruption of foreign projects. - Other aspects such as investment warrantee, rights and obligations of investors, conditional sectors and prohibited sectors, temporary stop and delay of project operation, etc. are not stipulated in details, thus reducing the effectiveness of the law.
Law on Enterprises 2005	- Overlap with the Law on Investment regarding some aspect: forms of investment and enterprises, licensing authorities, procedure to grant Investment Registration, convey of projects and shares, etc.
Corporate Income Tax and Export-Import Tariff	- The sectors and geographical areas for investment incentives are differently regulated in the documents.
Environmental law	- The Law on Investment lacks of effective tools to ensure the obligation of the Environmental Law. - Investors shall report on the environmental impact of their projects before applying for investment certificate, which is time consuming and costly to investors as they are not certain whether their projects will be approved or not.
Legal documents on real estates	- Some regulations of the Law on Investment regarding the investment procedure of construction projects and residential complexes are inconsistent with current legal documents on real estates.
Land Law	- The Law on Investment and the Land Law are not consistent in the land leasing time for FDI projects
Law on Security	- The cooperation between investment administration agencies and security administration agencies are not clear, especially on supervising the conformance of foreign investors.

Source: MPI (2012)

In the context of global and domestic economic changes, although amended several times, the Investment Law and related legal documents of Vietnam have shown a number of shortcomings which need to be addressed urgently (See Table 2.6). In the period of 2011-2020, the government of Vietnam puts more priority in the structure and quality of FDI projects, aiming to attract the projects in high technology and value-added sectors as well as low carbon and energy-saving industries. The FDI targets have been shifted from generating employment to upgrading the human capital to satisfy the demands for high labor quality of the FDI sector and increase the technology absorbance and spillover effects to the domestic sector. The new FDI strategy should also emphasize on attracting high technology and value-added FDI projects from developed countries and trans-national companies.

FDI attraction goals include renovating the growth model of the economy; restructuring the national economy; and increasing the competitiveness in three levels - country, firm, and product, contributing to the enhancement of the position of Vietnam in the region and the world. The detailed objectives are shown in Table 2.7. Based on these objectives, the government of Vietnam defines a new FDI strategy with orientations for each economic sector (Table 2.8).

Table 2.7: Targets for FDI attraction to 2020

Index	Target	
	2015	2020
FDI capital/Total social capital	26%	27-28%
Reimbursed FDI capital in industry and construction	60%	62%
FDI sector's contribution to the State budget	20%	62%
FDI sector's export turnover/national export turnover	60%	65%
Reimbursed FDI capital	18 billion USD per annum	

Source: MPI (2012)

Table 2.8: Orientations to attract FDI for specific economic sectors

Economic sector	Orientation
1. Industry and construction	- Attract FDI projects in industries of higher added-value in the global manufacturing chain and FDI projects of high competitiveness. - For FDI in mineral exploitation: prefer FDI investors which could combine exploitation with processing, creating a high value by applying high technology, high-tech equipment and environmentally friendly sewage treatment to effectively use the natural resources - Labor intensive, low value-added, processing and assembling projects are directed to underdeveloped areas - Attract FDI in intermediary inputs and high tech industry
2. Services	- Attract FDI in "intermediary" services and high value added services - Prefer FDI in tourism to diversify the tourist products, developing resorts of international standard - Attract potential investors in finance, banking, insurance and logistics - Attract FDI into science and technology sector, education and training, healthcare, pushing forward the cooperation between domestic centers with the international organizations in developed countries.
3. Agriculture	- Attract FDI into researching and applying science and technology, especially high technology, bio-tech, processing technology, researching new varieties of plants, animals and aquatic products - Prefer FDI in planting and processing rice, coffee, cashew nut and rubber - Attract FDI in milk cow and cattle feeding which apply high technology and create high productivity - Attract FDI in aquatic products for export - Prefer FDI projects in foodstuff for cattle, insecticide, fertilizer, veterinary medicine, agricultural machinery and cold storages
4. Infrastructure	Attract FDI into constructing road, railway, seaports, airports, and electricity manufacturing in the form of Build-Operation-Transfer (BOT), Public-Private-Partnership (PPP) and other necessary forms.

Source: MPI (2012)

As for strategic markets and partners, Vietnam highly appreciates current strategic partners such as Japan, Korea, Taiwan, Singapore, the US, as well as creates favorable environment to attract investors from developed countries and transnational companies from offshore centers. The government also selectively induces FDI from BRICS members, carefully considering the technology transferred from these countries to avoid the backward technology (MPI, 2012).

2.3.2. FDI attraction in Vietnam

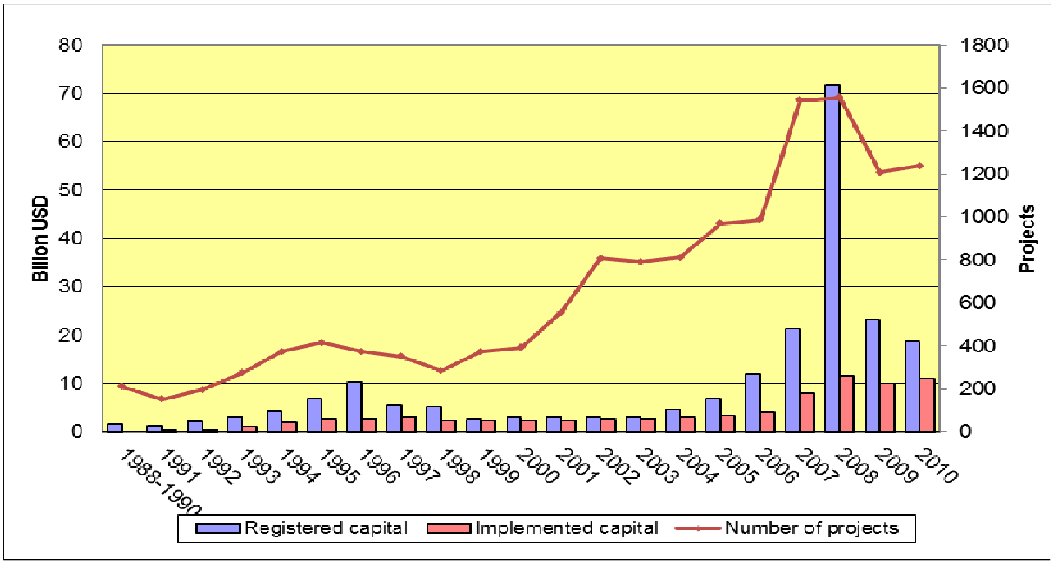
2.3.2.1. Trends of FDI in Vietnam

FDI in Vietnam has a relatively short history of development; however, Vietnam has been quite successful comparing with neighboring countries (Mirza & Giroud, 2004). In the 1980s and early 1990s, FDI inflow into Vietnam was modest. The 'investment boom' period started from 1992 with a peak of 10.16 billion USD in 1996 (GSO, 2011a) as the result of foreign investors' expectation on an emerging economy with a large population, abundant and low cost labor force with high literacy rate (MPI, 2011a.).

The period of 1997-1999 experienced a slowdown of registered FDI into Vietnam owning to the Asian financial crisis, which resulted in the withdrawal of five largest investors including Taiwan, Hong Kong, Singapore, Japan and Korea. The crisis also let to the depreciation of Asian currencies, which discouraged the FDI from regional countries to Vietnam.

The FDI flows started to pick up again from 2000 as countries in the region recovered from the crisis as well as the signing of US-Vietnam Bilateral Agreement in 2001. From 2005 to 2008, the committed FDI capital into Vietnam rocketed, a twofold increase year-on-year in three consecutive years and more than three-fold increase in 2008. This high performance was believed to be a result of "the country's accession to the World Trade Organization (WTO) in 2007, as well as greater liberalization and FDI promotion efforts, particularly with respect to infrastructure FDI" (UNCTAD, 2008, p.48). However, the investment capital plummeted sharply in 2009 and 2010, approximately to the same level of 2007 as the effects of the global downturn (See Figure 2.3)

Figure 2.3: FDI into Vietnam from 1988 to 2010

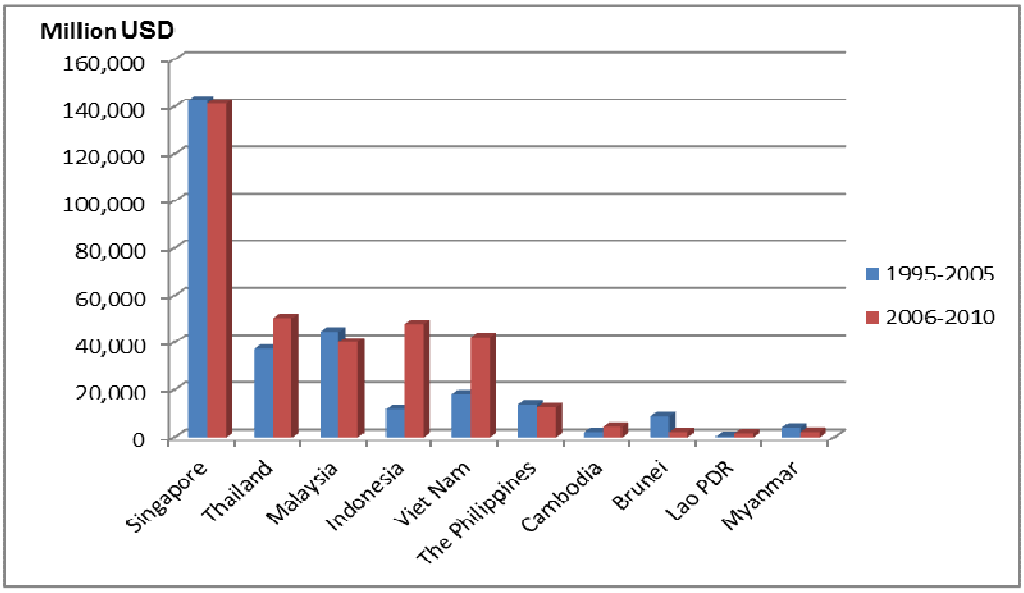


Source: GSO (2011) and MPI (2011a.)

As for investment prospect, Vietnam ranked 11th in the 15 most attractive economies for the location of FDI in 2009-2011 behind China, United States, India, Brazil, Russian Federation, United Kingdom, Germany, Australia, Indonesia and Canada for her market growth, access to regional market, cheap labor and investment incentives (UNCTAD, 2009a).

Thanks to recent efforts in improving the investment environment, the performance gap between Vietnam and some neighboring countries has been steadily reduced. As shown in the Figure 2.4, in the period of 1995-2005, FDI capital into Vietnam was only half of Thailand, 40% of Malaysia and 13% of Singapore. For the period of 2006-2010, the total FDI capital into Vietnam surpassed that into Malaysia, and was about to catch the level of Thailand. It is, however, still less than one third of the FDI into Singapore.

Figure 2.4: FDI into ASEAN countries from 1995 to 2010



Source: FDI flows into ASEAN 1995-2005 (ASEAN Secretariat, 2006) and Foreign Direct Investment Statistics (ASEAN Statistics, 2011)

2.3.2.2. Patterns of FDI in Vietnam

The geographical distribution of FDI in Vietnam is characterized by its concentration on the South East region. As shown in Table 2.9, from 1988 to 2010 the South East region attracted 59.19% of the total FDI projects in Vietnam and accounted for over 88.6 billion USD, followed by the North Central and Central coastal areas and Red River Delta region in terms of investment capital. Notably, these three regions made up 92.17% of the total FDI capital in Vietnam, while the Northern midlands and mountainous areas, Central Highlands and Mekong River Delta attracted only 1.26%, 0.41% and 4.85% of the FDI capital respectively (GSO, 2011a).

Table 2.9: Geographical distribution of FDI in Vietnam from 1988 to 2010

Region	Projects		Capital	
	Number	Percent (%)	Value (Million USD)	Percent (%)
Red River Delta	3,305	26.52	39,099.4	20.10
Northern midlands and mountain areas	323	2.59	2,455.6	1.26
North Central and Central coastal areas	717	5.75	51,620.7	26.53
Central Highlands	133	1.07	791.5	0.41
South East	7,377	59.19	88,610.9	45.54
Mekong River Delta	565	4.53	9,439.9	4.85
Oil and gas	43	0.35	2,554.2	1.31
Total	**12,463**	**100.00**	**194,572.2**	**100.00**

Source: GSO (2011)

Ho Chi Minh City was the most attractive place for FDI in Vietnam with over 3,500 projects worth 29.9 billion USD, taking an account of 29% of the country's total projects and 14.2% of the registered FDI capital. The second runner province was Ba Ria Vung Tau with 26.3 billion USD, making up 14.2% of the total registered capital, followed by Hanoi, Dong Nai, Binh Duong, Ninh Thuan, Ha Tinh, Phu Yen, Thanh Hoa and Hai Phong. These top ten provinces induced 75.6% of the registered FDI capital in the country (MPI, 2011a).

As for economic structures, nearly half of the FDI capital in Vietnam felt into the manufacturing sector. The second most attractive sector was real estate, which occupied 24.7% of the total FDI capital (See Table 2.10). This sector experienced a slowdown in the last two years as a result of the global downturn, barriers to foreign investors such as high inflation rate, shortage of electricity and labor force, administrative procedures, demand for international funds (VnEconomy, 2011) and lack of transparency (CBRE, 2011).

Table 2.10: FDI in Vietnam from 1988 to 2010 by economic sectors

	Number of projects		Capital	
Economic sector	Value	(%)	Million USD	(%)
Manufacturing	7,385	59.3	95,148.3	48.9
Real estate activities	354	2.8	48,043.2	24.7
Construction	707	5.7	11,589.1	6.0
Accommodation and food service activities	302	2.4	11,390.9	5.9
Electricity, gas, stream and air conditioning supply	63	0.5	4,870.4	2.5
Information and communication	656	5.3	4,819.1	2.5
Arts, entertainment and recreation	124	1.0	3,483.1	1.8
Transportation and storage	304	2.4	3,181.5	1.6
Agriculture, forestry and fishing	478	3.8	3,095.8	1.6
Mining and quarrying	68	0.5	2,943.4	1.5
Whole sale and retail trade; repair of motor vehicles and motorcycles	517	4.1	1,649.1	0.8
Financial, banking and insurance activities	75	0.6	1,321.5	0.7
Human health and social work activities	75	0.6	1,093.2	0.6
Professional, scientific and technical activities	991	8.0	707.6	0.4
Other service activities	105	0.8	646.0	0.3
Education and training	136	1.1	342.4	0.2
Administrative and support service activities	99	0.8	182.8	0.1
Water supply, sewerage, waste management and remediation activities	24	0.2	64.8	0.0
Total	12,463	100.0	194,572.2	100.0

Source: FDI projects licensed by kinds of economic activity (GSO, 2011a, p.162)

By the end of 2010, there were 92 countries and territories having investment projects in Vietnam. Top ten biggest FDI counterparts included Taiwan, Korea, Singapore, Japan, Malaysia, British Virgin Islands, the US, Hong Kong SAR, Cayman Islands and Thailand (See Table 2.11).

Table 2.11: Top ten biggest FDI counterparts in Vietnam to 2010

	Country/territory	**Number of projects**	**Registered capital (Million USD)**	**Percent of total FDI capital**
1	Taiwan	2,171	22,981.2	11.8
2	Korea	2,699	22,389.1	11.5
3	Singapore	895	21,890.2	11.3
4	Japan	1,425	20,959.9	10.8
5	Malaysia	376	18,417.4	9.5
6	British Virgin Islands	487	14,513.8	7.5
7	United States	568	13,103.9	6.7
8	Hong Kong SAR	622	7,846.4	4.0
9	Cayman Islands	52	7,432.2	3.8
10	Thailand	240	5,842.6	3.0
	Total FDI	**21,463**	**194,572.2**	**100.0**

Source: GSO (2011, p.163)

2.4. Vietnam – Japan Relations and Japanese FDI in Vietnam

2.4.1. Vietnam – Japan relations

The Vietnam – Japan relations have a long history of development. The early presence of Japanese in Vietnam dated back to the 16th and early 17th century when many Japanese sailors and merchants under the Shogunate rulers coming to Vietnam for trade. Some Japanese even settled in the *nihon machi* (Japanese quarter) in Faifo (presently Hoi An), a town in the central part of Vietnam. The two countries had developed an amicable friendship until 1635 when the Japanese marines and traders stopped to enter Vietnam and some ASEAN countries as results of the seclusion policy adopted by the Tokugawa government (Hiraishi, 1990).

The two countries established an official diplomatic relationship in 1973 after a long time influenced by the wars. Since then, the relations between Vietnam and Japan have strongly been developed, and the two sides have maintained the highest-ranking visits every year.

The first landmark in the two countries' relationship was in 1992 when Japan resumed the ODA for Vietnam and has become the largest ODA donor in the country since then. During 1992-2010, Japan's ODA achieved over 16 billion USD, accounting for 30% of the committed ODA for Vietnam. In 2011, Japan pledged 1.76 billion USD in ODA to help Vietnam develop its infrastructure, combat climate change, eliminate hunger and reduce poverty (Nhan Dan Online, 2011). The two sides have also agreed on the assistance program for Vietnam focusing on five areas: human resource development and institutional building; construction and improvement of transportation infrastructure and electricity; agricultural development and construction of rural infrastructure; educational and health development; and environmental reservation.

Currently, Japan is Vietnam's third largest trading partner. After being negatively impacted by the world economic crisis in 2009, the two-way trade turnover between Vietnam and Japan recovered remarkably in 2010, earning 16 billion USD, a year-on-year increase of 22%. By September 2011, the two-way trade fetched approximately 15 billion USD, including 7.5 billion USD from Vietnamese exports (VOV Online, 2011). Vietnam exports to Japan seafood (fish and shellfish), garment, crude oil, electric cable, coal and wood products, and imports from Japan computers, electronics and spare parts, steel, cloth, automobile spare parts and materials for the textile and leather tanning industries.

Japan is also among the top three countries that have the largest numbers of visitors to Vietnam from 2007-2010 (behind China and Korea) with 1.61 million arrivals, making up 9.33% of total foreign arrivals to Vietnam in this period (GSO, 2011a). By October 2009, there were 9,468 Japanese nationals working and living in Vietnam (The Ministry of Foreign Affairs of Japan, 2010).

For a comprehensive cooperation, the two countries have signed important documents, including: Vietnam – Japan Joint Initiative (2003) to improve business environment, Vietnam - Japan Investment Agreement (2004), Vietnam - Japan Science and Technology Co-operation Agreement (2006), Agenda Toward a Strategic Partnership between Vietnam and Japan (2007) and Vietnam - Japan Economic Partnership Agreement (2008) (The Ministry of Foreign Affairs of Japan, 2011a & 2011b).

As for cultural similarity, Vietnam and Japan share the same Buddhist identity, the Mahayana Buddhism, which is predominant in Vietnam, Japan, China, Korea and some other Asian countries. This tradition of Buddhism is different from the Theravada (Hinayana) which is common in Cambodia, Laos, Myanmar, and Thailand.

There are many cultural similarities between Vietnam and Japan based on this common identity, which serve as one of the fundamental foundations for a friendly and close relation between the two countries (The Ministry of Foreign Affairs of Japan, 2009).

2.4.2. Japanese FDI in Vietnam

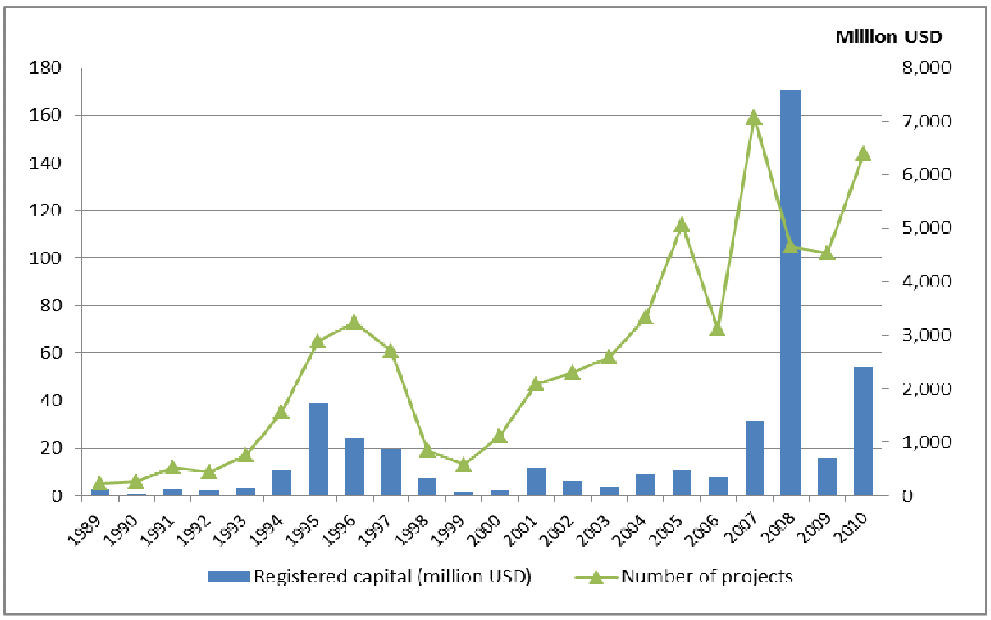
The Japanese corporate expansion into Vietnam started from the early 1990s and the wave of "the Vietnam boom" still continues today. Reasons for this growth could be the improvements in the Vietnam's investment environment since 2003 resulted from the Japan-Vietnam Joint Initiative, and a trend of moving production bases to Vietnam as China's economic growth led to higher labor costs there. As a supplementation for China, Vietnam is advantageous in geographically proximity to Japan and a young, plentiful workforce with low labor costs (The Ministry of Foreign Affairs of Japan, 2009).

2.4.2.1. Trend of Japanese FDI in Vietnam

Japanese companies presented in Vietnam upon the effectiveness of the first law on FDI in Vietnam in 1988, however, before 1992, the number of projects was very limited. The first wave of Japanese FDI in Vietnam started from 1992 when Japan decided to resume ODA for Vietnam and following which, Japanese companies regarded Vietnam as a promising but still unexploited investment place (Tran Van Tho, 2003 September). The increase of the Japanese yen also added motivations for giant firms in cement manufacturing, automobiles, electronics and computers to come to Vietnam. As shown in Figure 2.5, the first wave reached the highest level in 1995 before sloping down under the impact of the Japanese yen's devaluation in 1996, the sluggish economy of Japan and the Asian financial crisis in 1997. Japanese companies

shifted to invest in small-sized projects in metal manufacturing, machinery and apparel.

Figure 2.5: Japanese FDI in Vietnam from 1989 to 2010



Source: Japanese FDI in Vietnam from 1989 to 2006 (MPI, 2007a), GSO (2009, 2010, 2011)

Japanese FDI in Vietnam rebounded in 2001 and fluctuated between 2002 and 2006. The efforts of the two governments in facilitating their investment and business activities presenting in a series of cooperative documents (See section 2.4.1) and the Vietnam's access to WTO actively affected the FDI flows from Japan to Vietnam. Japanese FDI reached the highest record in 2008 (concurrently with the biggest volume of total FDI in Vietnam) before plummeting in 2009 as a result of the global economic recession marked by the Lehman shock in late 2008.

By the end of 2010, Japan had 1,425 FDI projects worth 20.96 billion USD, taking 10.8% of the total registered capital in Vietnam. These figures placed the country amongst the top four prominent investors in Vietnam in terms of investment

capital, just behind Taiwan, Korea and Singapore (GSO, 2011a). Japan also had the highest volume of implemented FDI capital in Vietnam (Chinh Phu, 2011)

2.4.2.2. Features of Japanese FDI projects

According to an MPI report (MPI, 2011b), by May 2011, the average capital of Japanese projects in Vietnam was approximately 14.65 million USD, smaller than the average volume of FDI project nationwide (which was 15.7 million USD). There was also a great disparity between Japanese projects. Small sized projects (from 5 thousand to below 10 million USD) account for 80.8% of the total number of Japanese FDI projects. 17.6% of Japanese projects were from 10 to 100 million USD. Only 20 projects were from 100 million to below 1 billion USD. The two biggest Japanese projects worth 7.2 billion USD account for 34.35% of the total Japanese capital in Vietnam.

As for economic sector, Japanese FDI concentrated heavily on manufacturing area with 962 projects worth 18.3 billion USD, occupying 87% of the total registered capital. Information and communication, and construction were the second and third largest sectors, though they accounted for only 5% and 3% of the Japanese registered capital respectively. Other sectors took the small proportion of 5.17% (MPI, 2011b.).

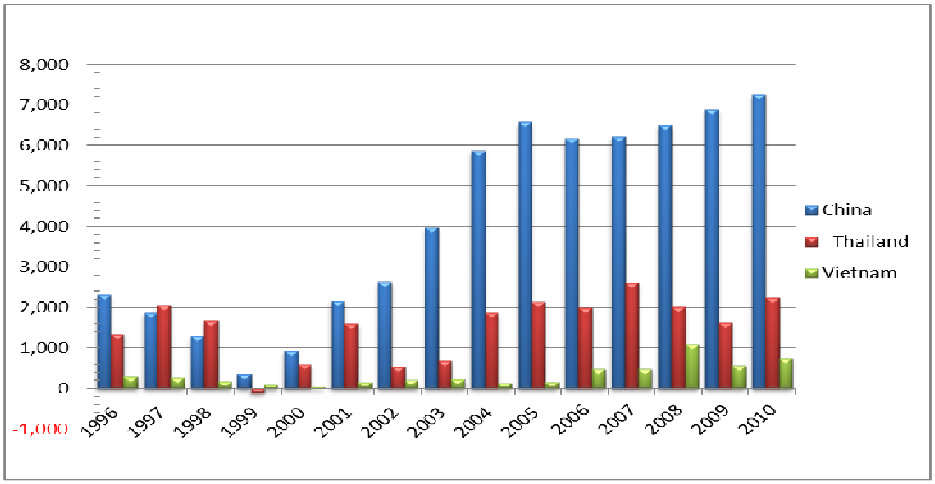
Referring to location, apart from projects in oil and gas exploitation, Japanese projects were scattered in 44 provinces but condensed in provinces of well-developed infrastructure such as Hanoi, Ho Chi Minh City, Thanh Hoa and Dong Nai. These four areas alone hosted 871 projects worth 13.9 billion USD, making up 66.3% of total Japanese FDI in Vietnam (MPI, 2011b.)

An indicated in the 2010 survey report of JBIC, Vietnam was the third promising destination for overseas operation by Japanese manufacturing companies

over medium term (just behind China and India) and the fourth over the long term (following India, China, and Brazil) (JBIC, 2010).

However, Vietnam was still far behind neighboring countries in attracting Japanese FDI. According to JETRO (2011b), the cumulative Japanese FDI capital into the country from 1996 to 2010 took only 22.18% of the Japanese FDI in Thailand, 8.29% of those in China (Figure 2) and only 2.73% of the total Japanese FDI in Asia.

Figure 2.6: Japanese FDI into Vietnam compared with Thailand and China



Source: JETRO (2011b)

2.5. Summary

Despite the fluctuating development of the FDI outflows, Japan remains one of the largest home countries for FDI in the world. Globally, Japanese FDI was more inclined into non-manufacturing areas, especially the finance and insurance sector. Japanese investors really started to pay attention to Asia in 1980 thanks to the efforts of many Asian countries to improve their investment environment in attracting FDI. Despite the recent global economic recession and natural disaster in Japan, the proportion of Asia in the total Japanese FDI kept increasing. China was still the most

attractive place for Japanese FDI in Asia, followed by the ASIAN 4 (Thailand, Indonesia, Malaysia and the Philippines).

Compared to other neighboring countries, FDI in Vietnam has a shorter time of development. Thanks to the comprehensive cooperation between Vietnam and Japan and the recent efforts in improving the policy framework and investment environment, Vietnam has emerged as a potential place for Japanese FDI. Japan ranked fourth in the list of biggest FDI partners and had the highest volume of implemented FDI in Vietnam. Nevertheless, Japanese FDI projects in Vietnam were small-sized, heavily concentrated on manufacturing sector, and condensed in well-developed cities and provinces. Moreover, the ratio of Japanese FDI in Vietnam was rather small compared with the total Japanese FDI in Asia and with other neighboring countries such as Thailand and China. The next chapter will look into the theoretical background of the dissertation.

Chapter III – FDI Theories, Determinants of Japanese FDI in Asia and FDI Determinants in Vietnam

This chapter discusses the principal concepts and empirical works in the areas of (1) FDI theories; (2) Japanese FDI determinants in Asia, particularly on China, Thailand and Vietnam; and (3) FDI determinants in Vietnam. These discussions serve as a theoretical framework and empirical background for comparing the results of this dissertation to draw new and significant points.

3.1. FDI Theories

The past five decades have witnessed a leap in literature dealing with issues on trends and determinants of FDI. Traditionally, FDI is considered as "an activity to territorially expand the firm's production outside its national boundary" (Dunning, 1993, p. 5). In principle, FDI activity can be distinguished from portfolio investment by the fact that the former gives right to foreign control of the domestic assets while the latter has no significant influence on the operation of the enterprise. In fact, FDI reflects a part of a firm's strategy to become global. Globally expansion is a way for firms to respond to the opportunities and threats in its operating environment, in which firms utilize their tangible and intangible assets to gain competitive advantages over their home country's competitors or their rivalries in the host country's market (Ensign, 1995). There is an abundant of existing theories on FDI such as market imperfection theory, theories of the multinational enterprise, capital theory, international trade theory, location theory and theory of national competitive advantage, etc., representing various perspectives. As the subject of this research is the motivations and determinants of Japanese FDI firms in Asia and their perception on Vietnam as an FDI destination, theories on MNEs, especially the eclectic paradigm

should be a fundamentally theoretical background to investigate reasons prompting firms to invest overseas. This section discusses the major points regarding the theoretical background in terms of motivations, determinants and major features of FDI theories.

3.1.1. Theory of FDI motivations

Borrowing and extending from an earlier taxonomy used by Behrman (1972), Dunning (1993) points out four main types of foreign production as the distinguishable driving forces for firms to engage in FDI.

First, *resource seeker* is the basic type of foreign investors who seeks for physical resources, cheap or/and well-motivated unskilled labor, technology capability, management, marketing expertise or/and organizational skills. This type of investors is driven to engage in FDI by the motives of (i) cost minimization and security of supplying resources, (ii) labor-intensive intermediate or final products for export, and (iii) value-added process. The majority of outputs produced by resource seekers are exported to the developed industrialized countries.

Second, *market seeker* is the investor seeking to sustain or protect existing markets or to exploit and promote new markets. Apart from the market size and prospected market growth, there are four other main reasons for firms to engage in market-seeking investment. These reasons include: (i) the fact that their main suppliers or customers have set up their overseas production facilities, (ii) frequent products need to be adapted to local tastes or needs, and to indigenous resources and capability, (iii) production and transaction costs to locate production bases overseas are less than those to supply the market from a distance, and (iv) the increasing importance of physical presence of MNEs in the leading markets served by their competitors. Market seeking investment aims to supply the domestic market in

avoidance of tariff or other cost-raising barriers imposed by the host country. In some other cases, an investor may seek to replace the direct export to a foreign market by an indirect way, i.e. investing in a third country and exporting to this market from there.

The third type of investor is *efficiency seeker*, who intends to take the advantage of the difference in factor endowments, and the similarity in cultures, institutional arrangements, economic systems, policies and market structures by concentrating production in a limited number of locations to supply multiple markets. Usually, efficiency-seeking investment is performed by experienced and large corporations and mostly in the geographical areas where cross-border markets are well developed and open. The investor of this kind is becoming less attracted by factor endowments and increasingly interested in the availability of supporting industries, characteristics of local competition, consumer demand and macro and micro policies of governments.

The forth type is *strategic asset-seeker*, who seeks to acquire the assets of foreign corporations to promote their long-term strategic objectives, especially those for sustaining or advancing their international competitiveness. The investing firms include both the established MNEs pursuing an integrated global or regional strategy and the first-time investors seeking to buy competitive strength in an unfamiliar market.

Both efficiency seeker and strategic asset seekers are accounting for an increasing share of global FDI, particularly within the major markets of the world, and concentrated in the sectors of technology, capital-intensive manufacturing, and information services. Although the theory of FDI motivations was raised nearly 20 years ago, nowadays it is still commonly cited by many authors (Chandprapalert,

2000; Sethi, Guisinger, Phelan & Berg, 2003; Hiratsuka, 2006; Tahir & Larimo, 2006; Kudina & Jakubiak, 2008; Galan, Gonzalez-Benito & Zuniga-Vincente, 2007; Ramirez, 2009; Manolopoulos, 2010; Carvalho, Duysters & Costa, 2010)

3.1.2. Theories of FDI determinants

3.1.2.1. Market imperfection theory

Until the 1960s, most of the explanation for international movement of capital was based on portfolio theory, which suggested that capital moves in response to changes in interest rate differentials (Ensign, 1995). Particularly, capital flowed between countries to equalize the differentials between the rates of return. Therefore, whether or not the capital movement is associated with the control over an enterprise held little importance for the international economics. Hymer's dissertation (1976), was among the very first works on FDI and MNEs which attempted to explain foreign production activities based on the relationship between firms (MNEs) and the market (market imperfections). According to Hymer (1976), Kindleberger (1969), and Calvet (1981), FDI exists due to two conditions: (i) foreign firms must have a countervailing advantage over the local firms and (ii) the market for sale of this advantage must be imperfect, in which direct investing supersedes licensing and exporting as methods for the firm's exploitation. The countervailing advantages may come from factor costs, production efficiency, distribution system, or product differentiation while market imperfections could be the results of market disequilibrium, distortions imposed by the government, market structure, and market failure. The theory was further developed by Rugman (1979, 1981), Dunning and Rugman (1985) who tried to differentiate market imperfections of structural type and transaction-cost type.

3.1.2.2. Location theory

Compared to the other theories on FDI, the location theory (Weber, 1929) was more concerned with the supply - oriented variables (production costs and natural resources) influencing the spatial distribution of production processes, R&D activities and the administration of firms. The theory provided two explanations for manufacturing FDI. First, production generally moves from decentralization to centralization or agglomeration as market imperfection arises; following which, the economy of scale explains why foreign firms choose to centralize in a location to supply in other locations, whereas the localized and urbanized economies shed light on the follow-the-leader behavior and oligopolistic tendency. Second, the availability of natural resources is of importance, as economic activities often focus on centers of population and sites of natural resources.

3.1.2.3. International trade theories

Product's life circle model provides another way to explain the international production phenomena. Explaining why the US firms invested abroad at a rapid rate, Vernon (1960) argued that each product has a life cycle and will go through three phases: innovation, maturity and standardization. The initial production will be located in the country of innovation and sold there. Export follows as new markets are sought. However, depending on relative exchange rates, and the demand and supply conditions in importing countries, indigenous production may become profitable. FDI occurs in the mature phase when firms from innovating countries shift their production activities abroad. However, whether or not this output will be supplied by local firms or affiliates of firms in the innovating country will depend on the barriers to entry facing the two groups of firms (i.e. market constraints), their relative efficiencies, the strategy of enterprises towards their foreign operations, and the type

of market structure in which they are competing. The model was successfully applied by Singapore in attracting US multinationals in the late 1990s (Yew, 2000).

While the product's life circle model focuses on the product itself, *capital movement approach* emphasizes more on the relationship between FDI and trade. Using the Heckscher-Ohlin-Samuelson model, Mundell (1957) asserted that trade and capital movements are substitutes for each other. In particular, an increase in trade impediments stimulates capital movements; an increase in restrictions to capital movements stimulates trade. The relationship between movements of factors and movements of commodities also depends on the country's protection policies. The excise of trade tariffs would induce a flow of FDI towards the protected countries.

3.1.2.4. Theories of the firm (MNE)

Though the works on market imperfections placed a cornerstone for fundamental ideas about MNEs and FDI, they drew not so much on the theory of the firm. The distinctive shift towards developing a global theory of MNEs started with the *internalization theory*. Buckley and Casson (1976) raised the idea that MNEs carry out many activities apart from the production of goods and services. These activities, including marketing, research and development (R&D), training of labor and so on, are interdependent and related through flows of intermediate products (mostly in the form of knowledge and expertise). However, the difficulty in organizing market for these intermediate products due to their imperfections pushes forwards the creation of internal markets. MNE establishment is resulted from the internalization of these markets across national borders, in which internal production is not just the transfer of capital but also the extension of managerial control over subsidiaries. Later, Casson (1987) clarified that the possession of exclusive knowledge affords the owner the degree of monopoly power from which the owner

wants to extract the maximum producer rent. In principle, this knowledge could be marketed but in practice, it would be difficult to establish a satisfactory system of property rights. In addition, the problem of "buyer uncertainty" suggests that the seller of licensed technology will only be able to command a low price as buyers will require compensation for their uncertainty about the quality of the knowledge. Thus, firms are usually reluctant to license propriety knowledge and prefer, where possible, to exploit it themselves through FDI. Comparing between FDI and licensing, Casson argued that the MNE is particularly effective as a vehicle for the commercial exploitation of knowledge, which is difficult to segment as the transportation costs are low, export restrictions are illegal, etc. Conversely, licensing is a viable alternative to the MNE when patent protection is effective and market segmentation is easy.

Examining the firm's internal markets, Rugman (1981, p.29) considered the MNE as a "remarkable institutional response to both the natural market failure in knowledge and other intangible products; and also the market imperfections erected by governmental institutions and tariffs". As for the intermediate market, Rugman proposed that as there is no proper market for the sale of information created by the MNE, there is no price for it. As the result, the MNE is driven to create an internal (intermediate) market. Comparing between trade and foreign investment, he argued that externalities are reasons to replace free trade with FDI. Country specific advantages, leading to free trade, are replaced by internalized firm specific advantages leading to FDI.

Also expanding on the internalization theory, the *eclectic paradigm* by Dunning (1977) specifies requirements for a MNE to engage in FDI. Accordingly, a firm is likely to invest directly in a foreign country if the three conditions of *firm-*

specific advantage (O: ownership), the *internalization (I),* and the (foreign) *country-specific advantage (L: location)* are satisfied. In details:

(i) The firm processes net *O* advantage compared to firms of other nationalities in serving particular markets. These *O* advantages, largely in the forms of possession of intangible assets or the advantages of common governance, are exclusive or specific to the possessing firms.

(ii) It must be more beneficial to the firm possessing these advantages to use them itself rather than to sell or lease them to foreign firms. It can be done through an extension of its existing value added chains or the adding of new ones. These advantages are called internalization *(I)* advantages.

(iii) Once (i) and (ii) are satisfied, it must be in the global interests of the firm to utilize these advantages in conjunction with at least some factor inputs (including natural resources) outside its home country; otherwise foreign markets would be served entirely by exports and domestic markets by domestic production. These advantages are termed the locational *(L)* advantages of host countries.

The eclectic paradigm offers a basis for the general explanation of foreign production. Nevertheless, "the propensity of firms of a particular nationality to engage in foreign production will vary according to the economic and other characteristics of their home countries and the host countries, the range and type of products (including intermediate products) they intend to produce and their underlying management and organizational strategies" (Dunning, 1977, p.29).

Furthermore, the eclectic paradigm could be expressed in a more dynamic form. "Changes in the outward or inward direct investment position of a particular country can be explained in terms of changes in the *O* advantages of its enterprises in

relative to other nations, changes in its *L* assets relative to those of other countries, changes in the extent to which firms perceive that these assets are best organized internally rather than by the market, and changes in the strategies of firms which may affect their reaction to any given OLI advantages" (Dunning, 1993, p.80).

With the surge of FDI in the 1980s, economists started to implement the OLI framework into models emphasizing different aspects of the three advantages. Helpman (1984), Horstman and Markusen (1987) assumed that different cost structures between export-oriented companies and MNEs were the driving force behind FDI. Brainard (in NBER, 1993) considered a two-country, two-sector model in which exporters are confronted with higher expenses than foreign direct investors because of transportation costs. However, the domestic production expansion for export is associated with scale economies. Therefore, whether a company should serve a foreign market as an exporter or via FDI depends on the trade-off between scale advantages in the domestic country and the proximity advantages in the foreign country. This hypothesis was called the *proximity concentration trade-off*. Based on the hypothesis, a new model of trade theory has recognized that firms can serve foreign buyers through a variety of channels, including exporting products to foreign customers, serving them through foreign subsidiaries (FDI), or licensing foreign firms to produce their products. Helpman, Melitz and Yeaple (2004) built a multi-country, multi-sector general equilibrium model to explain the decision of heterogeneous firms to serve foreign markets either through exports or FDI. Using the data of US affiliate sales and US exports in 38 different countries and 52 sectors, the authors found that only the more productive firms choose to serve the foreign markets and the most productive ones will further choose to serve the overseas markets through FDI. In addition, the level of heterogeneity is an important determinant of relative export and

FDI flows. Helpman, Melitz and Yeaple's findings were a further confirmation of Brainard's, emphasizing that sector/country specific transportation costs and tariffs have a strong negative effect on export sales relative to FDI and more heterogeneity leads to significantly more FDI sales relative to export sales.

Going globalization provides an alternative for firms to diverse risks. The *diversification theory* suggested two conditions leading to the financial motivations for FDI over portfolio investment: (1) "there must exist greater barriers or costs to portfolio capital flows than to capital flows forming part of the direct investment package"; and (2) "investors must recognize that MNEs provide a diversification opportunity which otherwise is not available" (Agmon and Lessard, 1977, p.1049). Compared to domestics firms, MNEs possess certain non-financial advantages that enable them to manage the risks associated with international portfolios more effectively. Rugman (1975, 1979, and 1981) also argued that the MNE provides better benefit for its shareholders than the comparable firm that has few foreign operations. This may be due to the fact that the valuation of firm's shares depends not only on the level of profits but also on the stability of the profit, indicating that if the international diversification increases stability, the firm is better off. Therefore, although foreign investment may yield the similar profit to home investment, there remains an incentive for firms to engage in overseas investment.

3.1.2.5. The interactions among FDI, home country, and host country

Many of the FDI theories and empirical research afterwards have emphasized the influence of inward and outward investment to the economic development of the host country as well as the relationship between foreign firms and the recipient country.

a. The "Investment Development Path"

Base on the eclectic (OLI) paradigm, Dunning and Narula (1996) attempted to explain the association between development level of country and its international investment position (which is called the "investment development path"- IDP). The IDP suggests that countries tend to go through five main stages of development which could be classified based on the propensity of the countries towards inward or/and outward investment. This relationship is presented in Table 2.1.

Dunning and Narula (2004) categorized countries into three broad groups (corresponding to five stages of economic development) and analyzed the utilization of location advantage in attracting FDI. The first consists of wealthy industrialized countries in stage four and five of economic development (the Triad countries for instance), which have adapted most efficiently to changes. The countries of this type possess the comparative advantage in skill-intensive and created assets, and the availability of economic clusters. They also have been the home countries of major MNEs. The second group includes the more advanced developing countries (for example, the Asian NICs) in advantage stage 2 and stage 3 which have invested in location advantage of created asset type. FDI poured into this group are mainly for the purpose of market-seeking, strategic asset-seeking and efficiency-seeking; and almost from the first group. Determinants to attract FDI into the countries of this group have proved to be well-developed infrastructure, intermediate-quality-created-assets and improving "cluster-related" opportunities for investors. However, these countries are relatively disadvantageous in natural assets. The last category is made up of poorer developing countries, which far lagged behind with the first two groups. Having not fully developed created asset location advantage, the countries of this type mainly attracted either resource-seeking or market-seeking investors, as their determinant is limited in the abundant natural resources. Rudimentary infrastructure, limited domestic industry, under-developed supporting sectors and few economic clusters are the main reasons for their less attractiveness in FDI location.

Table 3.1: Relationship underlying the investment development path

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Inward FDI	Limited L advantage (mostly natural assets – i.e. natural resources and unskilled labor); little or no inward FDI	"Generic" L advantage (e.g. local market); growing inward FDI	Created-asset- L advantages (i.e. capital, technology and skilled labor) are developed; rising inward FDI	Strong L advantages in created assets; outward FDI levels exceed inward FDI	As for stage 4 but fluctuating Net zero or positive level of inward and outward FDI
Outward FDI	Few domestic firms with O advantage; no outward FDI Trade is preferable	Growth of domestic industry in support sectors; little outward FDI (mainly market seeking, trade related FDI in less developed countries or strategic asset seeking FDI in more advanced countries)	Strong domestic industry in which domestic firms are competitive to foreign ones; rising outward FDI (especially market seeking, export platform, and strategic asset seeking FDI)	Strong created asset O advantage of domestic firms; rising outward FDI in efficiency seeking and trade barrier avoidance	
Motives for inward FDI	Resource-seeking investment (limited to natural resource endowments)	Resource-seeking FDI; but growing L advantages, particularly unskilled labor and necessary infrastructure Import substituting manufacturing FDI and export-oriented FDI Labor intensive manufacturing Growing presence of market-seeking FDI	Market-seeking FDI Increasing efficiency-seeking FDI in manufacturing, as L advantages become increasingly created asset-based	Market seeking, efficiency seeking and strategic asset seeking FDI Market seeking, trade related and asset seeking by firms in less developed countries	Market seeking and knowledge seeking FDI from less developed countries Efficiency seeking FDI by countries in Stage 4 or 5 Strategic asset seeking FDI (cross border alliance and M&A)

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Government intervention to inward and outward FDI	Providing basic infrastructure and upgrade human capital Market structure interventions through economic and social policies	Tariff and non-tariff barrier Development of support industries Government -induced - pushed factors (export subsidies, technology development or acquisition)	Reducing structural market imperfections in resource-intensive industries Attract inward FDI in sectors of low O advantages and high L advantages Encourage outward FDI in sector of high O advantages and low L advantages	Reducing transaction costs of economic activities and facilitating the market operation due to the increasing competition between countries for FDI	Ensuring a dynamic economic structuring Fostering the regional or/and global integration Maintaining the efficient markets, cooperate with enterprises to reduce structural adjustment and transaction costs
Balance of inward and outward FDI	Net inward FDI	Net inward FDI	Net inward FDI	Net outward FDI and net growth rate of outward FDI	Net zero or positive level of inward and outward FDI
Economic structure	Primary sector → Declining				
	Manufacturing sector → Increasing				Declining
	Service sector →				

Source: Compilation based on Dunning and Narula (1996) and Narula and Dunning (2000)

b. The Diamond theory

The relationship between the home country and outward investment is also illustrated in the *theory of national competitive advantage* (the "Diamond theory"). Examining the competitiveness advantages of a country, Porter (1990) exclusively relied on home country conditions in accessing outward trade and investment levels. Though Porter was most concerned with how countries gain and sustain their competitive advantages in sophisticated industries, his "Diamond theory" placed a specific cornerstone for FDI theories.

Porter considered outward direct investment to be generally a positive contributor to the home country's level of competitiveness. He argued that firms which have nourished in the global market are those that have successfully extended their home-based advantage abroad. Though the benefits accruing from a firm's proper selection of host location is important to international success, home based advantages remain significant. Interdependent 'diamond' parameters can be as follows:

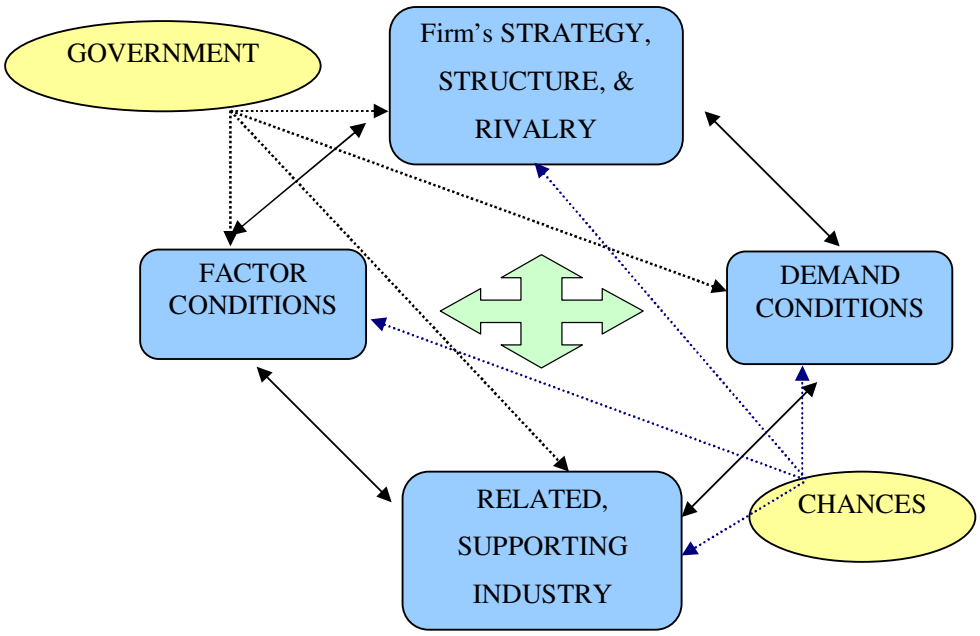
- *Factor conditions* include the nation's position in factor of production, skilled labor and infrastructure, which are necessary to compete.

- *Demand conditions* are the nature of the home demand for the industry's product or service.

- *Related and supporting industries*: the presence or absence of supply industries or related industries that internationally competitive.

- *Firm strategy, structure and rivalry*: the conditions in the nation governing how companies are created, organized and managed, and the nature of domestic rivalry.

Figure 3.1: Relationship between factors in Porter's diamond theory



Source: Porter (1990)

Besides, Porter pointed out the two variables that inevitably affect the diamond: chances and the role of the government. Chances include the events beyond firms' control (such as wars, technological breakthrough or major shifts in foreign market demand). The main impact by the government is the political climate. According to Porter, a national economy is likely to go through three major stages of competitive development, which reflect the country's sources of advantage and its successful industries and clusters: factor-driven, investment-driven and innovation-driven). In a factor-driven stage, the advantage competitiveness mostly comes from favorable factor conditions such as abundant natural resources and semi-skilled labor capital). Firms compete mainly on the basis of price in industries of little products and low technology. In the investment-driven economy, national competitiveness is heavily based on the willingness and ability of a nation and its firms to invest

aggressively using complex foreign product and technology acquired on global markets through licenses, joint venture and other means. Competitiveness then comes from the factor conditions as well as the firm's strategy, structure and rivalry. In the last stage, the innovation-driven, firms compete using the global strategies and possess their international marketing, service networks and brand-name reputation. At this stage, all determinants of the diamond are at work and their interactions are at strongest. Foreign manufacturing develops in those industries whose structure favors a dispersed value chain. This stage, emphasized by Porter, marks the onset of significant outward FDI.

c. Relationship between FDI and the host country

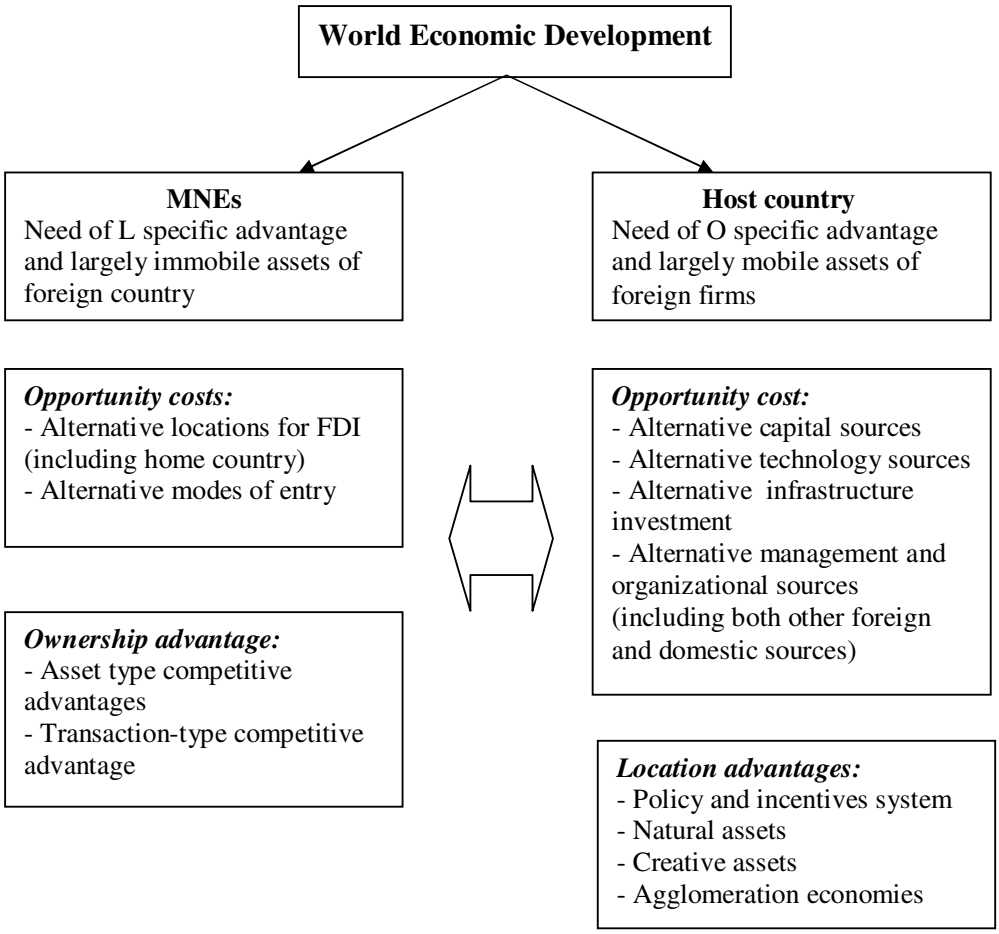
Although the "diamond theory" indirectly emphasizes the impact of MNEs on the host country from their strategy, structure and rivalry, it fails to explain the influences of new resources and intangible assets such as technology and expertise that MNEs bring to the country. As the FDI can influence factor conditions, related and supporting industries and demand conditions, as well as strategy, structure and rivalry, MNEs indeed have influence on each facet of the diamond. Therefore, the relationship between MNEs and the host country is not a one-way influence.

Furthermore, there exists a bargaining relationship between foreign investors and the host country government. Lecraw and Morrison (1991), and Rugman and Verbeke (1998) proposed that the relative bargaining positions of two parties are based on the opportunity costs perceived by the MNEs of their *O* advantage and the *L* advantage offered by the host country; and that of host countries of their *L* advantage and the *O* advantage offered by the foreign investors.

The globalization with new technologies, economic liberalization and appearance of new players in the international scene has brought in dramatic changes

from both foreign firms' and the host countries' perspectives (Narula and Dunning, 2000). As for firms, the *O* advantage is becoming more mobile and tends to shift towards efficiency and asset seeking FDI. The internationalization of markets has been reduced as the result of networking and strategic alliances. New technologies in communication have saved the cost of coordinating cross-border activities. Locational opportunities have widened for market and efficiency seeking FDI, concurrently, enhanced the bargaining power of MNEs (see in Figure 2.2).

Figure 3.2: Relationship between MNEs and the host country



Source: Narula and Dunning (2000)

In order for an FDI activity to occur, there should be a negotiation between benefits of the host country and the MNE. The principal goal of firms is maximize it

benefits while the government aims to do the same for the citizens within its jurisdiction. “The relationship between firms and host country is increasingly more inclined to win-win, in which there is a greater alignment in the interests between the two parties. As both parties seek to upgrade their resources and capabilities, therefore, their only real disagreements concern the distribution of costs and benefits of the inbound FDI” (Narula & Dunning, 2000, p.143). This argument was further confirmed by Chakrabarti (2003) who developed a structural model to access the role of various potential determinants of spatial distribution for FDI to serve both the host country market and the export market.

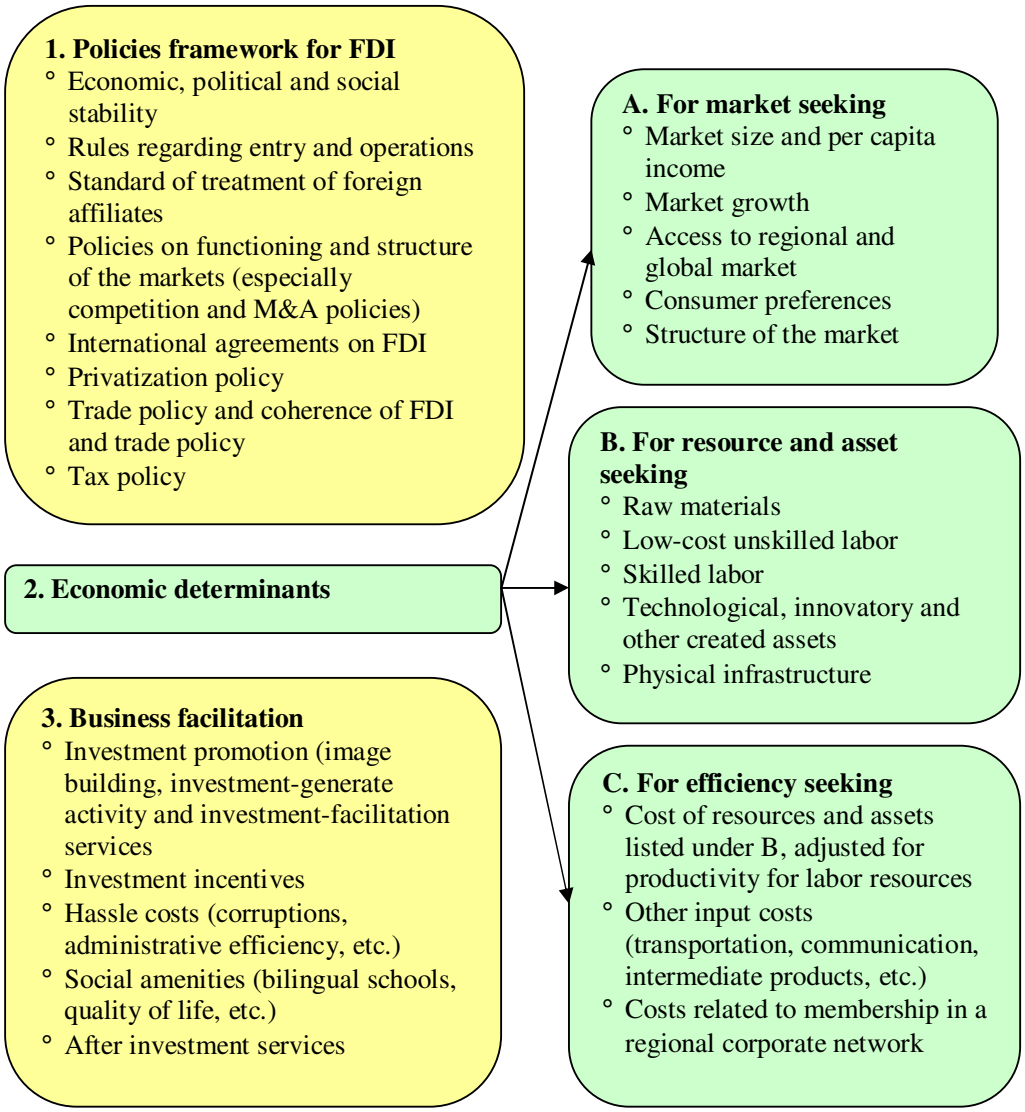
As for developing countries, the development path is strongly dependent on specific resources, institutions, economic structures, political ideologies, and social and culture fabric of countries. However, in the initial phase of development, these countries tend to pursue FDI based development strategies as a source for economic modernization, income growth and social development (OECD, 2002).

Although there has been a growth in global FDI flows, there is also an increase in competition amongst developing countries for such investment. In this fear competition context, it is suggested that a country could stand a better chance in attracting FDI than others of the same geographical area and similar economic development if it offers biggest financial incentives and subsidies to the firms (Narula &Dunning, 2000). However, there is considerable evidence showing that incentives are relatively minor factor in the locational decision of MNEs relative to other locational advantages (UNCTAD, 1996). “Host countries which offer the investment conditions suitable to what the MNEs are seeking and whose business policies are most conducive to MNEs’ activities are more advantageous than others in FDI attraction” (UNCTAD, 1998, p.91). This may be because firms also see locational

determinants in their interaction with its ownership and internalization advantages in the context of its corporate strategies. Host country determinants include: (i) policies framework for FDI, (ii) economic determinants and (iii) business facilitation measures, in which determinants of (i) and (iii) are almost the same for all four types of FDI motivations, while (ii) are different based on what the investors perceive to be important for their modes of penetration (See Figure 3.3).

It is undeniable that the more transparent and predictable the legal framework, the more attractive investment environment the host country likely can offer to foreign firms. However, a liberalized policy framework determines FDI in a sense that it enables firms to get into the host country; nevertheless, it cannot warrantee that FDI will occur. Moreover, under the impact of globalization, which creates a common playground for firms without discriminating between domestic and foreign firms and firms of the different source countries, policy liberalization is increasingly losing its effectiveness as locational determinants of FDI. That is the reason why host countries are now increasingly competing with each other in adopting measure to facilitate business transactions and improving the economic determinants of FDI (UNCTAD, 1998; Wint & Williams, 2002).

Figure 3.3: Relationship between host countries' determinants and FDI motivations



Source: UNCTAD (1998)

3.1.3. Major features of FDI theories

First, most of the reviewed FDI theories identify the conditional factors that could explain the occurrence of investment activities, either from the MNE's, the home country's or the host country's perspective. Compared to other theories, theories of the firm provide a more comprehensive understanding of FDI, especially the eclectic paradigm. The paradigm stresses on the subject of investment activities,

the investor, and takes into account the advantages and strategies of the firm as well as the competitive advantages of the host country for investment location.

Second, despite the fact that the firm, industry or/and the host country context were the focal points for explanations of FDI theories, researchers are putting more attention to FDI determinants from the home country's perspective. However, more efforts are needed to understand the influences of home country context on overseas investment. Furthermore, as FDI explanations need to involve how the changing conditions lead to the subsequent investments not only the initial decision to invest, it calls for further research in influencing factors, which are expected to stem from both the home and host country.

3.2. Determinants of Japanese FDI in Asia

3.2.1. Determinants of Japanese FDI in Asia compared with other regions

In researching the characteristics of Japanese FDI, Kojima (1976) was among the first authors who stressed on the different ownership advantages of Japanese firms. Looking into the relationship between FDI and trade, Kojima suggested that FDI takes place when foreign skills or capital can be combined with host country factors to achieve the low cost production. FDI should occur when a country's comparative advantage in some products is eroded or comparative disadvantages exist. FDI can move production factors (technology, management skills, movable capital, etc.) to foreign locations where total production costs would be the lowest for a particular product. In the case of Japanese FDI, instead of replacing exports, FDI can generate new exports. Sales can be made in the host country, to third countries or even to the home country. Comparing the Japanese FDI and the American FDI in Asia, Kojima (1985) found that while the Japanese FDI is largely "trade oriented", the

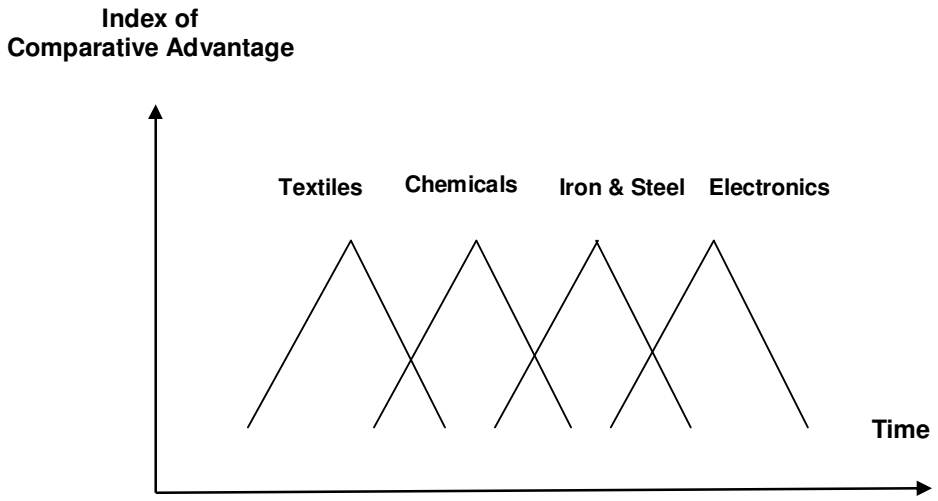
American FDI is “anti-trade oriented”. Besides, Japanese-type FDI would upgrade the industrial structure of both Japan and the host countries; or play the role of initiator and tutor in the industrialization of less-developed countries.

As for the motivations for FDI, Kojima grouped FDI motivations into four categories (i) to seek natural resources (ii) to take advantage of cheap labor cost in the host country, (iii) to avoid tariff and non-tariff barriers, and (iv) to take advantage of oligopolistic power owing to technology and knowledge advantage.

The *Quid pro quo* (something for something) theory of FDI introduces a political element in explaining Japanese FDI activities. Bhagwati (1991, 1992) attempted to explain a large inflow of Japanese FDI in the U.S. in the 1980s and found that FDI is made in anticipation of trade protection and/or to reduce the possibility of trade restrictions invoked at a later time. It is based on the notion that actions in one period are taken to protect the profitability and investment in the next period. FDI stakeholders involving firms and governments may invest directly in a market that is currently being served by exports. Therefore, Japanese FDI is designed to maintain market access (at the firm level) or buy goodwill (at the government level).

Another explanation to Japanese FDI flows into Asian neighboring countries could be found in the theory of the flying geese (Akamatsu, 1962). The paradigm focuses on dynamic changes in a country’s industrial structure (i.e. the rise and fall of different industries) and the shift of industries from one country to another. It is suggested that a change in the industrial structure of a country, which is represented by a set of inverted V-shaped curves, can lead to a change in competitive advantage of individual industries over time (Figure 3.4).

Figure 3.4: Flying geese pattern: A country’s industrial structure



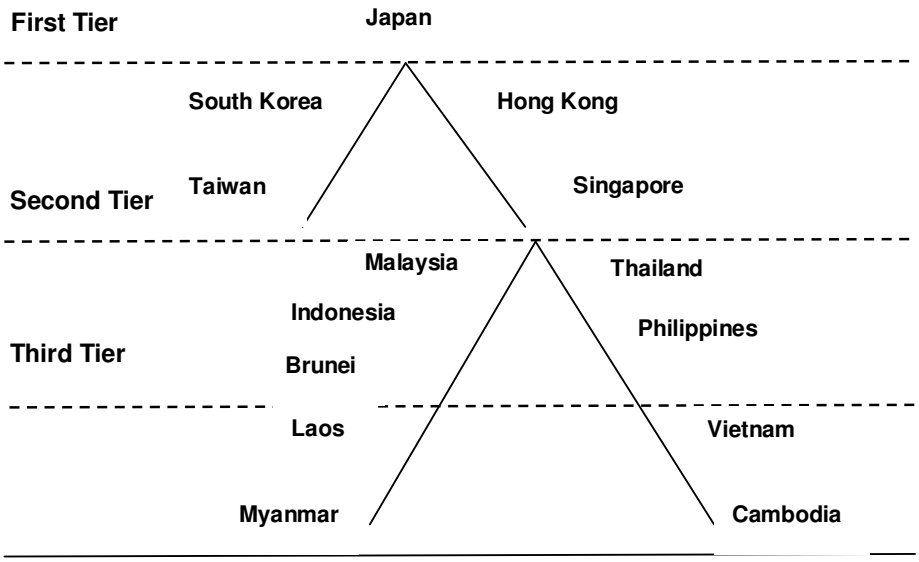
Source: Yamazawa (1990)

Akamatsu uses this theory to explain how Japan as an underdeveloped country can become developed country very quickly. The underdeveloped country, such as Japan in 1950s, adopts suitable labor intensive industries from more developed countries to produce for the home markets and then export overseas as the industries have grown strong enough. In Japanese postwar industry, on one hand, the designated "sunrise industries" were imported from advanced countries and received state supports. On the other hand, the "sunset industries" that lost their competitiveness were no longer supported by the government and were moved to less developed Asian countries. The "sunrise industries" include coal mining in the late 1940s, metal, chemical industries and shipbuilding in 1950s, cars during 1960s, computers and telecommunications in 1970s, aviation, biotechnology and new materials in 1980s; whereas the "sunset industries" comprise of coal mining in 1950s, textiles during 1960s, basic metals and chemical industries during 1970s and 1980s, cameras and old-fashioned petrol power cars in the early 1990s (Korhonen, 1994).

Hiley (1999) later used this paradigm to study the impact of Japanese FDI to the industrial restructuring in ASEAN. He proposed that the leader of the flying geese

is Japan, which is followed by Asian NICs (Singapore, Hong Kong, Taiwan and South Korea), then come the ASEAN-6 (Singapore, Malaysia, Thailand, Indonesia, Philippines and Brunei) and latter are the other countries in ASEAN (Figure 3.5).

Figure 3.5: Flying geese: Japan, NICs and ASEAN-10



Source: Hiley (1999)

Japanese FDI takes an important role in this industrial change within Asia as it could initiate and accelerate the shifting from Japan to less developed countries. For example, investment flows from Japan to NICs in 1960s helped Japan rapidly reduce the size of textile and garment industry and release resources for developing higher technological industries; while initiate textile development in NICs, which was considered the first step to these countries' economic takeoff. In the same process, the Asian NICs then located their labor-intensive industries in ASEAN-6 who in turn are now locating them in the other countries in ASEAN (Hiley, 1999). The flow of FDI from countries of higher economic development to those of lower stages bring about a highly efficient use of product factors as well as a growth and a higher level of industrialization for the region. "That comes from a fact that host countries can make

use of their surplus labor force, at the same time accumulate capital, technology and management skills; whereas host countries can redirect the labor from sunset to sunrise industries and move to a higher level of industrialization" (Hiley, 1999, p.83). However, with the globalization of production networks, the increase in intergovernmental disputes over bilateral economic relationship and the rapid pace of technological changes, the "flying geese" model fails to capture the complexity of the regional political economy, which is increasingly dominated by the regionalization of industrial production (Bernard & Ravenhill, 1995).

Combining the Dunning's IDP and Akamatsu's flying geese paradigm, Ozawa (1996) emphasized on the important contribution of "the nature, direction and magnitude of Japan's technology absorptive efforts" and inward and outward FDI to the country's rapid economic catch-up with the advanced Western countries in the Post-World War II (Ozawa, 1996, p.151). The essential process of Japanese economic development involves a "ratchet-like up-scaling of the industrial structure stage-by-stage, each stage being compatible with the prevailing factor endowments and overall technological sophistication at home" (Ozawa, 1996, p.165). Japanese overseas investment experienced four phases of development in line with four different stages of industrial upgrading, including low-wage labor-seeking investment (since 1950s), resource-seeking and house-cleaning investment (since 1960s), assembly-transplanting investment (since 1970s) and strategically networking (alliance-seeking) investment (since 1980s). In this interaction process between stages of industrial upgrading and overseas investment, advanced technologies which come from licensing or FDI inflows act as an endogenous variable of economic growth, while outward FDI serves as a "resource re-allocative mechanism to assist structural

upgrading at home". MNEs take an important role as the generators or disseminators of industrial knowledge across borders (Ozawa, 1996, p.167).

Proposing a challenge to the neoclassical argument that Japanese investment in Asia is based on the "comparative advantage", Hatch and Yamamura (1996) emphasized that Japan is not creating a 'yen bloc' in Asia, instead, Japanese business and government are working together to build overseas production zones which is an extension of their domestic base. The cooperation between Japanese government and the business sector has domestically nurtured a vertically structured and quasi-integrated production network, in which risks are contained and costs are minimized. The authors also built a model of globalization in which Japan's government and businesses are using the alliance to prolong the life of this system by regionalizing it in Asian economies that are increasingly embraced by Japanese capital and technology.

Other attempts were made to compare investment strategies in Asia between firms from Japan and those from other developed countries. Comparing the Japanese and the US manufacturers in Southeast Asia, Williams (1996) found that US firms aim at retaining core technologies at the home base, whereas Japanese companies are more inclined to transferring technologies to the offshore sites. This finding somewhat contradicts with that of Kim, Lyn and Zychowicz (2003) which emphasizes the less effectiveness of Japanese FDI in transferring technologies to less developed countries compared with the US FDI. Nakamura and Oyama (in Bank of Japan, 2008) asserted that Japanese FDI in East Asia is strongly affected by changes in real bilateral exchange rates and has strong trade expansion effects while those are not always the cases for FDI from the United States. The authors found while Japanese FDI into Taiwan and Korea respond positively to Japanese capacity utilization, those in

Indonesia and Philippines are buoyed up by the Yen's appreciation against the US dollar. Japanese FDI into China, Malaysia, Singapore and Thailand are oriented toward capturing local markets. As for Japanese strategies in AFTA compared with those of the US and the EU, market size was found to be the most important factor, followed by degree of openness to the international economy, market accessibility and macroeconomic stability (Vogiatzoglou, 2008). Dunning, Kim and Lee (2007) found evidences that the rationale behind Japanese manufacturing FDI shifted from "natural resource seeking" in developing countries in the 1970s to "strategic asset seeking" and "horizontal market seeking" in developed countries in the 1990s. On the contrary, the motivations of the US manufacturing FDI changed from "market seeking" and "horizontal oriented efficiency seeking" in the 1970s to "vertically oriented efficiency seeking" in 1990s. This convergence can be accounted for by the converging responses to competitive advantages of the firms as well as the resource endowments of home and host countries.

In Asia and other developing countries, Japanese FDI tends to be in labor intensive sectors where Japanese firms are losing their comparative advantage at home and the main motive is low-cost resource seeking (Park, 2003; Makino, Beamish & Zhao, 2003). Japanese FDI in the US and Europe is more inclined to be knowledge-intensive where Japanese firms attempt to internalize transaction and information costs by globalizing its production. The main motives for FDI into these regions are market-seeking and strategic-seeking (Park; Makino, Beamish & Zhao). Pak and Park (2005) compared the investment behavior of Japanese manufacturing companies in the East and West region and found that the West is preferred by Japanese firms that belong to competitive domestic industries and have aggressive foreign ownership strategies. When China and the US were compared, additional

variables such as initial entry time and an industry's resource-intensiveness are found to influence the geographic choices of Japanese firms.

Factors that determine the Japanese FDI are grouped into three categories: domestic conditions of Japan, firm-specific advantages and host-country specific advantages. Investigating the domestic conditions of Japan, Bayoumi and Lipworth (1998) emphasized the impact of Japan's domestic capital on its outward FDI. An expected depreciation of the real exchange rate was proved to induce a larger amount of Japanese FDI in Asia (Bayoumi & Lipworth) and the US (Lin, 1996). Apart from economic factors, intangible assets of the country such as cultural factors also contribute to the performance of Japanese direct investment, especially in managerial behaviors (Deng, 1997).

Firm-specific advantages are found to be conditional factors for Japanese firms to shift production bases abroad. Takechi (2011) empirically indicated that in addition to productivity improvements, learning experiences from FDI are the primary determinants of the FDI wave. Moreover, the firm's past FDI experiences, the experiences of other firms, and the presence of distribution services are found to encourage manufacturing FDI.

R&D activities and marketing intensity also influence the choice on ownership and the vertical linkage of Japanese firms. Japanese firms in highly R&D competitive industries and/or firms with high marketing intensity tend to prefer wholly owned subsidiaries while joint venture is preferable to firms with little experience of local market, management and the host country's regulations in their early entry (Takagaki, 2001). The evidence could also be found in Japanese FDI in the EU (Cieslik and Ryan, 2002), being a confirmation of Kogut and Chang (1991)'s findings, which indicated that Japanese FDI in the US is drawn to R&D intensive industries and that

joint-ventures are used for the sourcing and sharing of the US technology capability . Nevertheless, it somewhat contradicted the findings of Chen and Hennart (2002), who argued that Japanese firms in R&D home- intensive- business are more likely to form joint ventures with local firms in the US market. Belderbos, Capannelli and Fukao (2001) found the evidence that Japanese affiliates of less R&D intensiveness exhibit more extensive vertical linkage in the host countries. Berry and Sakakibara (2008) argued that there is a relationship between Japanese firms' intangible assets of technological know-how and marketing ability, and their investment abroad. The accumulation of intangible assets would precede the Japanese FDI decisions.

Moreover, the determinants of Japanese firms in Asia vary according to firm's size. For small firms, low labor cost and availability of sufficient infrastructure are the major determinants while medium-size and large-size firms seek to invest in a country with large market size. Strategic considerations (whether competitors invest in the country or not for example) are also an important determinant for medium and large firms and particularly in oligopolistic industries (Kinoshita, 1998).

For host-country advantages, the legal framework, economic indicators, and the market potential are frequently cited as determinants of Japanese FDI in Asia. In understanding the impacts of host country's policies on Japanese FDI, Urata (2002) pointed out two different motives behind two groups of Japanese firms. The first group, represented by the transport machinery sector, is motivated by protectionist policies in Asia. The reason comes from the fact that in protected markets, FDI is the only way that Japanese firms could sell their automobile products. The other group, comprising of several sectors such as electric machinery and precision machinery, is induced by a freer production and trade environment, which enable firms to take advantage of the abundant and low wage labor. The firms of this group have

established production networks throughout Asia and exploited the locational advantages in different economies in Asia. The former type is characterized as market-seeking FDI, while the latter is efficiency-seeking FDI.

Good governance of the host country is also important for Japanese FDI in developing country. Urata and Kawai (2000) stressed on the influence of host country's economic conditions on location choices of Japanese investors, especially to Japanese SMEs due to their limited access to financial and human resources and high dependence on overseas production in their business. Azemar and Delios (2008) concentrated on the interaction effects between Japan's and the host developing countries' tax systems and found that special tax sparing provisions signed with Japan can alter the effect of host country taxes on Japanese firms' location choices.

Japanese firms in developed countries are more influenced by the market demand and the relative labor and capital costs than those in non-developed countries (Ma, Morikawa & Shone, 2000). In details, supply-side factors (low-wage labors, infrastructure and governance) are found to be important for attracting Japanese FDI in developing countries, while the demand factor (local market size) play a role for attracting FDI in developed countries (Urata & Kawai). Also emphasizing on the important role of investment climate, however, on the contrary, Bayoumi and Lipworth found no evidences that Japanese FDI flows to low-wage East Asian countries behave different from flows to high-wage North American and European locations. Another empirical study by Baeka and Okawa (2001) showed that the appreciation of the yen against the dollar and the Asian currencies significantly increases Japanese FDI in Asia while the higher import tariff rate or wage rate in the host country significantly decreases the volume of investment. Siddharthan and Lakhera (2005) emphasized the importance of infrastructure development and the

adoption of Japanese management techniques in Japanese MNEs' decisions to invest in India compared to China and ASEAN and rejected the important role of administrative complexity and controls. Examining the reasons why Japanese divestment and relocation happened in some Asian countries, Belderbos and Zou (2006) found that divestments are much more frequent in higher labor cost countries, leading to the relocation in lower wage country, particularly China. Divestments and relocations are related to the Japanese firms' strategy to reconfigure their Asian production networks in response to the changing competitiveness, the regional integration, and changes in local investment environments.

Beside the economic factors, non-economic factors are increasingly proved to have influences on Japanese FDI, especially policy uncertainty (Delios & Henisz, 2003) and religious diversity (Dolansky & Alon, 2008). To cope with the policy uncertainty, Japanese firms tended to choose an economic-oriented rather than a policy - oriented city as their investment location, especially when comparing between Shanghai and Beijing, China (Ma & Delios, 2007). Avoiding countries where high corruption exists was another way for Japanese investors to reduce business risk and uncertainty. Voyer and Beamish (2004) utilized a sample of 29,546 Japanese investments in 59 countries and suggested that in emerging nations where comprehensive legal and regulatory frameworks do not exist to effectively curtail fraudulent activities, corruption reduces FDI. The difference in culture was found to place challenges to the Japanese FDI in some countries, especially Germany (Lincoln, Kerbo & Wittenhagen, 1995) and the US (Lin, 1996). The cultural distance also affects the investment form of Japanese FDI. The use of joint venture increases when the cultural distance is low; conversely, the use of wholly owned subsidiary rises when the cultural distance is high (Wang & Schaan, 2008).

3.2.3. Determinants of Japanese FDI in China, Thailand and Vietnam

Among Asian countries, China is the most attractive destination for Japanese investment thanks to its huge production base (Xing, 2004), low production and labor cost (Fung, Iizaka & Siu, 2003; Cheng, 2006) and the government's efforts in economic reform and FDI promotion (Lakhera, 2008). Besides, the tertiary education, inland waterways, and the coastal location were also found to be significant determinants of Japanese investment in the country (Cassidy & Andreosso-O'Callaghan, 2006). However, tracing back to the 1980-1990 period, Rong (1999) found political reasons to explain the under-representation of Japanese FDI in China before 1992. He asserted that besides the investment environment problems, the tragic historical experience, the lingering mutual suspicion and the troubled bilateral relationship heavily influenced the growth of Japanese FDI in China in this period. Political distance, which increases uncertainty between the two countries, was found to be an internal risk hindering FDI from Japan to China (Erramilli & D'Souza, 1995). However, Armstrong (2009) statistically proved that an improvement in political relations between Japan and China is associated with an increase in Japanese FDI in China. Specifically, the signing of bilateral investment treaty in 1988 and China's WTO accession in 2001 helped reduce the effects of uncertainty from political tensions between the two countries. Examining the determinants of Japanese firms in China at provincial level from 1998 to 2006, Kawai (2009) stressed the relationship between institutions and organizations. The author identified institutions (such as special economic zones), a greater degree of intellectual rights protection and the weak concentration of state-owned enterprises as crucial determinants of Japanese manufacturing FDI in China. Zhou, Delios and Yang (2002) further clarified the effectiveness of institutions in attracting Japanese FDI into China. The authors'

analysis showed that foreign investment incentives in the form of special economic zones and opening coastal cities have a time-dependent influence on the location decision of Japanese firms. They also suggested that other than policy differentiation, the local market penetration and the development of regional networks are increasingly decisive to international strategies of Japanese firms.

As for Thailand, researching the determinants of Japanese FDI into the country from 1970 to 1990, Pupphavesa and Pussarungsri (1994) found a negative impact of rising costs in Japan (represented by the exchange rate of the Japanese yen over the US dollar) to the FDI. The market factors, tariff barriers and infrastructure were positively related to FDI. The results showed that Japanese FDI in Thailand shifted from market-oriented motive to the cost-reduction or export-oriented motives as Japan and NIEs were faced with the problem of rising production cost in their home countries. Sirasoontom (1997) investigated the determinants of Japanese FDI in Thailand both in the long run and short run. Accordingly, the economic growth, the trade barrier, and the depreciation of the Thai baht stimulate Japanese FDI, whereas the political instability and the relative user cost of capital in Thailand and Japan have negative effect to the volume of Japanese FDI. Among the long run determinants, trade barriers in Thailand, the exchange rate of Japanese yen to Thai baht and the lagged Japanese capital stock were the most important. The results showed that trade barriers, relative efficiency wages of Japan and Thailand and the political instability were main determinants in the short run. Sangiam (2006) used the estimation technique to econometrically analyze the determinants of Japanese FDI in Thailand in manufacturing and service sectors from 1970 to 2003. The results indicated that both in the long run and short run, while market size (GDP) is the most positive determinant, real wage rate significantly and negatively affect Japan's total FDI in

Thailand. In the short run, Japanese exports to Thailand were found to positively and significantly influence her FDI in service sector whereas Thailand's tariff rate negatively affects Japan's total FDI and FDI in service sector. Milner, Reed and Talerngsri (2004) examined the effects of both home country (Japan) and host country (Thailand) characteristics on the inter-industry pattern of FDI. Their findings revealed a positive influence of industry variation in skill intensity and market size in the host country and a negative effect of transport costs on the amount of FDI. The results also provided a strong econometric evidence of vertical integration of production across the countries.

Compared with China and Thailand, the literature on motivations and determinants of Japanese FDI in Vietnam is limited. Nguyen, Nguyen and Meyer (2004) are among only a few authors who investigated the Japanese investors in their research on 171 foreign invested firms in Vietnam from 1991 to 2000. Accordingly, the investment features in Vietnam vary from country of origin. While Taiwanese investors were small but plentiful, often with high export and orientation, Japanese and Korean investors included both multinationals and small firms and had spillover effects in attracting their traditional partners and component makers to invest in Vietnam. ASEAN and Hong Kong businesses appeared to be neighbor expanding into Vietnam, yet the number may include FDI from headquarters of multinational companies from Europe or America.

Most of the research on Japanese FDI in Vietnam comes from the surveys by Japanese organizations such as JBIC and JETRO, which illustrate investment trends of Japanese FDI in different countries.

The JBIC's surveys (JBIC, 2007- 2010) listed the 18 attributes for countries to be promising destination and 22 attributes to be issues for overseas Japanese

manufacturing firms (Table 3.2.a&b). Accordingly, the top reasons for Vietnam to be a promising destination of Japanese overseas operation from 2007 to 2010 included local market, labor cost, bases for assemblers as well as exporters to the third countries. Thailand was not only appreciated for local market (future growth and current size), inexpensive labor cost, but also for the quality of local infrastructure and a base for exporting to third countries. China was more advantageous with its local market (future growth and current size), inexpensive production cost (labor cost, component and raw material cost) and supply base for assemblers. Comparing to China and Thailand, Vietnam was distinguishable from the two other countries by qualified human resources and risk diversification. As for investment issues, Japanese investors showed their worry to the underdeveloped infrastructure, legal system (under-development and unclear execution), labor issues (rising labor cost and difficult to secure management staff) as well as intense local competition in Vietnam. Security/social instability remains one of the serious problems in Thailand, together with labor issues (rising labor cost and difficult to secure management staff and technical/engineering staff), and intense local competition. In China, major concerns were labor issues (labor cost and labor problems), legal system (unclear execution, insufficient protection of intellectual property rights, restrictions on foreign currency and international transfer) and intense local competition the country.

Table 3.2.a: Top five promising reasons for China, Thailand and Vietnam to be destinations for Japanese manufacturing overseas operations

		China				Thailand				Vietnam			
	Promising reasons	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
1	Qualified human resources									●	●	●	●
2	Inexpensive source of labor	●	●	●	●	●	●	●	●	●	●	●	●
3	Inexpensive components/raw materials	●	●	●	●								
4	Supply base for assemblers	●	●	●	●	●	●		●		●	●	
5	Concentration of industry					●							
6	Good for risk diversification to other countries									●	●	●	●
7	Base of export to Japan												
8	Base of export to third countries						●	●	●	●			●
9	Advantages in terms of raw material procurement												
10	Current size of local market	●	●	●	●	●	●	●					
11	Future growth potential of local market	●	●	●	●	●	●	●	●	●	●	●	●
12	Profitability of local market												
13	Base for product development												
14	Developed local infrastructure						●	●	●				
15	Developed local logistics services												
16	Tax incentives for investment												
17	Stable policies to attract foreign investment												
18	Stable social/political situation									●			

Source: JBIC (2007-2010)

Table 3.2.b: Top five issues hindering China, Thailand and Vietnam to be destinations for Japanese manufacturing overseas operations

		China				Thailand				Vietnam			
	Issues	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
1	Underdeveloped legal system									●		●	
2	Execution of legal system unclear	●	●	●	●					●			●
3	Complicated tax system												
4	Execution of tax system unclear	●									●	●	
5	Increased taxation												
6	Restrictions on foreign investment												
7	Complicated/unclear procedures for investment permission												
8	Insufficient protection for intellectual property rights	●	●	●	●								
9	Restrictions on foreign currency/ transfers of money overseas		●	●									
10	Import restrictions/ customs procedures												
11	Difficult to secure technical/ engineering staff					●	●	●	●		●		
12	Difficult to secure management-level staff					●	●	●	●	●	●	●	●
13	Rising labor costs	●	●	●	●	●	●	●	●		●	●	●
14	Labor problems				●								
15	Intense competition with other companies	●	●	●	●	●	●	●	●				●
16	Difficulties in recovering money owned		●										
17	Difficulty in raising funds												
18	Underdeveloped local supporting industries									●			
19	Sense of instability regarding currency and/or costs												
20	Underdeveloped infrastructure									●	●	●	●
21	Security/social instability					●	●	●	●				
22	Lack of information on the country												

Source: JBIC (2007-2010)

Apart from JBIC's research, JETRO also conducts an annual survey on Japanese affiliated firms in Asia and Oceania. According to their latest survey, the major business problems in Vietnam belonged to labor sector (increase in employment wage as well as ability and awareness of local staff), complicated customs clearance procedure, difficulty in local procurement of raw materials and parts, and power shortage/blackout. Japanese companies in Thailand were also facing with labor problems (wage rate, ability and awareness of local staff and recruiting general workers). Moreover, increase in procurement cost and competitor's market share growing were the two other concerns in Thailand. Like Thailand, China was also blamed for labor problems (wage rate, ability and awareness of local staff and worker's capability), procurement cost and competitor's market share growing (JETRO, 2011a).

3.2.4. Major features of determinants of Japanese FDI in Asia

According to the review, Japanese FDI in Asia has received much interest from researchers. With "trade-oriented" characteristics, Japanese FDI had great influence on the industrialization and economic development of Asian countries as well as the intra-trade and investment within the region. Compared to other home countries investing in Asia, Japanese FDI motivations are more inclined to low cost resource seeking and market seeking.

Determinants of Japanese FDI belonged to three groups: domestic conditions of Japan, Japanese firm-specific advantages, and host-country's specific advantages. Little research has been carried out on the domestic conditions of Japan with some determinants such as the domestic capital, real exchange rates, and cultural factors. Specific advantages of Japanese firms received more concerns from researchers, focusing on learning experience, R&D activity, intangible assets of technological

know-how and marketing ability, as well as firm size. Among the three groups, host-country specific advantages were the most abundant field of research. As for economic factors of host countries, the legal framework, economic indicators and market potential were frequently cited as main determinants of Japanese firms. Non-economic factors, which may influence Japanese investment, were proved to be political uncertainty, corruption rate and cultural distance.

In Asia, China remains an attractive investment place for Japanese FDI thanks to its huge production base, low cost, government efforts, education level, infrastructure, special economic zones, and protection of intellectual property rights, market penetration and regional networks. Notably, the political distance between Japan and China is proved to have effects on FDI from Japan to China.

Among the ASEAN countries, Thailand was once the most favored destination for Japanese investors. The advantages of Thailand may come from market factors, tariff barriers, infrastructure, depreciation of the Thai baht and skill intensity, while political instability, relative user cost of capital and transport costs may harm the Japanese FDI in the country.

Compared to China and Thailand, the literature on Japanese FDI in Vietnam is limited. Most of the motivations and determinants of Vietnam come from the surveys made by JBIC and JETRO, in which Vietnam is only one of the studied countries. So far, there have been no study investigating the motivations and determinants of Japanese FDI in Vietnam particularly as well as the attractiveness of Vietnam compared with China and Thailand.

3.3. Determinants of FDI in Vietnam

The research works on determinants of FDI in Vietnam are divided into two groups: those on national determinants and others on regional determinants. As for national determinants, Nguyen and Haughton (2002) empirically estimated the effects of the Bilateral Trade Agreement (BTA) between the US and Vietnam on FDI in Vietnam by using data from sixteen Asian countries from 1990 to 1999. They found that the openness of a country would attract FDI. The real exchange rate, the government budget deficit, and domestic savings are also important factors in attracting FDI. Specially, the research pointed out that for a poor country as Vietnam that was not yet a member of WTO, the MFN status with the US would contribute significantly to the inflow of FDI. In another study, Nguyen, Nguyen and Meyer (2004) argued that foreign investors in Vietnam are often small focused firms with little international business experience whereas large multinational companies have little interest in the country. Producers of basic consumer goods were most likely to export to global markets and deliver products to other affiliates of the parent companies. As for the most important resources, foreign investors reported managerial capabilities and machinery as their most important resources, ahead of technology and networking assets. Mirza and Giroud (2004) conducted a survey on 22 subsidiaries of transnational corporation in ASEAN and found that Vietnam is considered a destination for investment because of its political stability, government policies, and size of local market. The country is also highly appreciated for its relatively high level of education and quality of the labor force.

Referring to regional determinants of FDI, Pham (2002) examined the provincial distribution of FDI in Vietnam during the period 1988-1998 and found that local market, wage rate, labor force, infrastructure and government policies (tax

incentives) are important factors determining the location of FDI in Vietnam. Particularly for the activity of export-oriented foreign firms in Vietnam, government polies, especially tax incentives and domestic market protection, play the decisive role (Pham, 2001). Nguyen and Nguyen (2007) analyzed the impact of four groups of factors related to market, labor, infrastructure and government policies to the FDI in Vietnam. The findings emphasized the positive and significant influence of the GDP growth rate, number of high school graduates, wage cost, number of industrial zones on the FDI volume. Nguyen and Nguyen were also the first to use the Provincial Competitive Index (PCI) to measure local governance's attitudes and policies towards FDI, however, the index's insignificance may imply that either FDI is not influenced by local government policy or PCI is not a good measurement of local governance. Their estimation results indicated that foreign investors from different source countries seem to behave differently in choosing the location of investment. In details, market factors were found to be important for almost main foreign investors in Vietnam except for the European. The availability of skilled labor is proved to be important for the European, Japanese and Taiwanese investors while being relatively less important for the US and Singaporean investors. The labor cost is emphasized to be of importance to the US, European and Taiwanese investors but not seem to be important for Japanese and Singaporean investors. In another study, using a system of equations estimated for provincial level data, Nguyen (2006) found that economic growth, market size, domestic investment, export, human capital, labor cost, infrastructure, labor growth and exchange rate are important determinants of FDI location across provinces. Hoang (2008) explored determining factors of FDI distribution in the different regions of Vietnam by using panel data model across her 64 provinces from 1995 to 2006. Her research revealed that the level of FDI inflow in Vietnam depends on GDP per capita, openness to the world trade, the region's

infrastructure, the level of existing FDI capital and the country's policies on Key Economic Zones. However, the main attractive factors of FDI inflow in sub-regions are different based on their geography and economic development.

In summary, in the national level, determinants of FDI in Vietnam comprise the country's openness, real exchange rate, government budget deficit, domestic savings, international commitments, political stability, government policies, local market size and quality of labor force. In the provincial level, main determinants to locate FDI within Vietnam may include local market, wage rate, labor force and growth, infrastructure, government polices (tax incentives, market protection, key economic zone policies), economic growth, domestic investment, GDP per capita, openness to the world trade and the level of existing FDI. However, these studies only focused on the attribute-based determinants, thus missing the holistic features presented in open-ended questions. Furthermore, these research works mentioned only the country's specific advantages without considering the importance level of these factors in the perception of foreign investors.

3.4. Methods in FDI motivations' and determinants' research

3.4.1. General methods

Dunning (1993) pointed out three main types of empirical research to investigate FDI motivations and determinants:

- Original field study, which is usually conducted on an ad-hoc basis by questionnaires and interviews with a selected group of firms.
- Secondary data analysis, which involves the analysis and interpretation of secondary statistical and other data. Normally, the data is collected and

published by government departments, international agencies, regional authorities and trade association.

- Company information analysis, which comprise the information obtained directly or indirectly from individual company. The information may range from chairman's reports, company statements and articles in trade journals and the financial press, to business histories and detailed case studies.

Based on the particular aspect of the FDI activity, scholars may identify and evaluate the main variables influencing the location of FDI activity and access the importance of specific variables, or explain the sectoral composition of international production, or testing the theories on FDI.

Investigative and statistical techniques to understand the FDI determinants vary from research to research. Authors use a variety of econometric techniques to identify the most explanatory variables from field studies, literature review of existing research or company specific information. The most common rigorous techniques may include multiple regression, variance, factor and discriminant analysis, by which specific hypotheses are expressed as functional relationships and systematically tested.

3.4.2. Survey method

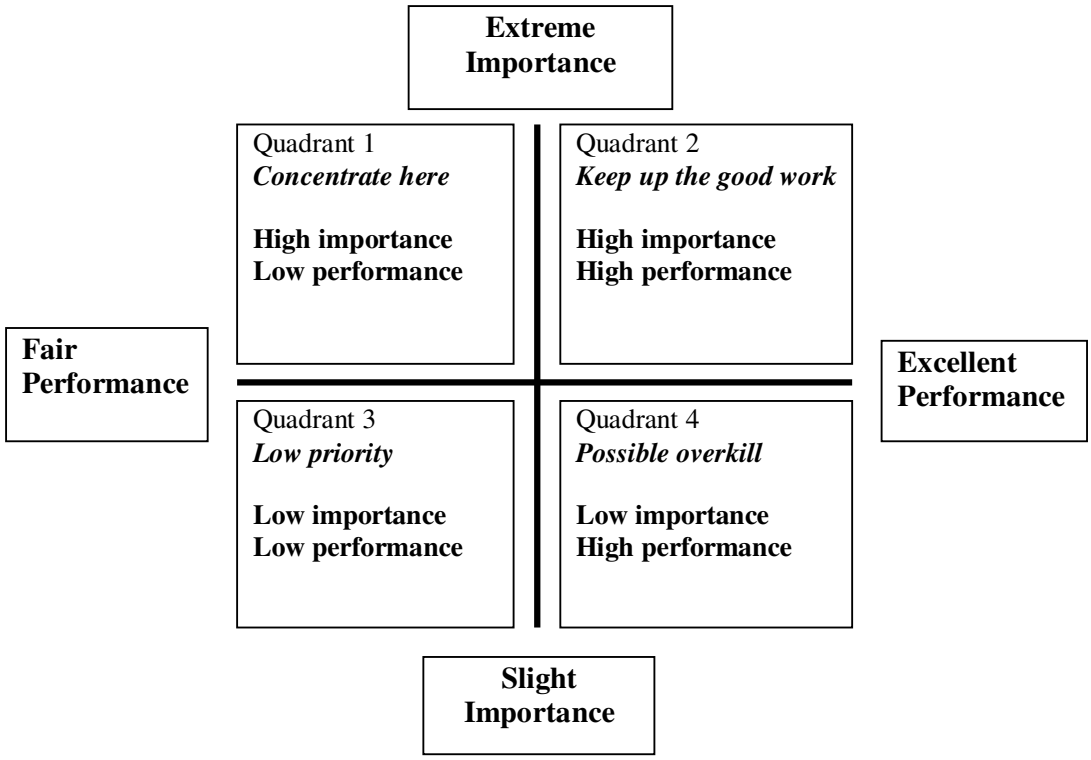
The survey has been widely used as a principal method to understand FDI motivations and determinants in various studies (Zhang &Yuk, 1998; Galan &Gonzalez-Benito, 2001; Bhaumik & Gelb, 2003, Gilmore, O'Donnel, Carson, & Cummins, 2003; Shaukat & Wei, 2005; Slater, Paliwoda, & Slater, 2007; Biglaiser & Staats, 2009) or combined with regression analysis in other research (Meyer, 1998; Chandrapalert, 2000; Hollenstein, 2005; Kudina & Jakubiak, 2008; Hasnah, Sanep &

Rusnah, 2010, Carvalho, Duyster & Costa, 2010) and proved its strength in understanding non-economic determinants of FDI. As for Japanese FDI motivations and determinants, survey method has been also applied by a large number of authors (Hyun &Whitmore, 1989; Dunning, 1990; Taylor, Zhou & Osland, 1999; Nicholas, Grey & Percell, 1999); Urata, 2002; Siddharthan & Lakhera, 2005; Mao & Wang, 2007, Lakhera, 2008; JBIC, 1989-2011; and JETRO, 2007-2010). However, except for the study by Nicholas, Grey and Percell (1999), none of the surveys focused on rating the importance of specified variables to Japanese investment decision overseas, especially in Asia.

3.4.3. Importance Performance Analysis (IPA) method

The IPA technique has long been used in marketing field to organize information about the attributes of a product or service to evaluate an existing strategy, develop a new strategy and set up priorities for potential changes. According to Martilla and James (1977), IPA comprises a three-step process. First, a set of attributes that characterize a product or service is identified through techniques such as literature review or focus group interview. Second, the participants are asked to evaluate the importance of these attributes, and the performance levels of the production or provision of these attributes. Third, the importance and performance are calculated and scaled on two axes of an IPA grid for comparison. The labeling of the quadrants of the grid indicates strategic actions to be taken with respect to each attribute (Figure 3.6).

Figure 3.6: Importance – performance analysis grid



Source: Self-modified based on Martilla and James (1977)

The IPA has been applied by various authors in measuring the customer's satisfaction (Mullins & Spetich, 1987) and tourism marketing (Joppe, Martin, & Waalen, 2001; O'Leary & Deegan, 2005). IPA has also been used in economic planning to solve strategic management problems (Tyrrell & Okrant, 2004) and appraise the service quality of universities (Kitcharoen, 2004), in which the IPA is not only used as an economic planning tool, but as a framework for discussing priorities and changes.

In understanding the attractiveness of a country to FDI, the use of IPA opens a new approach. Extending IPA's role to measure the customer's satisfaction on the quality of products or services, the same grid could be applied to evaluate the importance of a set of attributes that may affect the investors' decisions and their satisfaction on the performance of a country according to these attributes. The grid is

expected to greatly help policy makers in understanding where their country is in the perception of foreign investors and defining which attributes of their investment environment need urgently improving or further promoting to attract more FDI.

In this research, IPA is used as the principle technique to evaluate the attractiveness of Vietnam as an investment destination for Japanese investors compared with Thailand and China.

3.5. Distinctive Characteristics of the Dissertation

This dissertation is distinctive from the FDI literature in its following characters:

First and most generally, as an academic work, the dissertation reviews and corporates specific and relevant features of FDI theories and factual trends in general and typical aspects of Japanese FDI in particular with close regards to Vietnam, China and Thailand. Based on that, its eclectic methodology is formulated covering all the necessary elements for a comprehensive study of FDI particularly focusing on Vietnam as an investment place for Japanese investors in comparison with China and Thailand.

Second, while many studies on Japanese FDI motivations and determinants rely on the secondary data, this research is based on the primary data that are collected from questionnaires and interviews. Compared to other methods to investigate the FDI determinants, the survey research is more advantageous in the ability to identify and evaluate less quantitative explanatory variables. Moreover, except for Nicholas, Grey, and Percell (1999), none of the surveys on Japanese companies focused on rating the importance of specific variables to Japanese investment decision overseas, especially in Asia. Therefore, the research is distinctive from previous studies in a

sense that it uses the Likert scale to quantify the importance level of attributes to Japanese FDI in Asia as well as the performance of Vietnam, Thailand and China on these attributes in the perception of Japanese investors.

Third, as the main purpose of this research is to find the motivations and determinants of Japanese FDI in Asia and the attractiveness of Vietnam as an investment location for Japanese FDI, the eclectic paradigm is chosen as fundamental theoretical background as it provides a more comprehensive understanding of FDI activity than other theories. The interaction between Japan as a host country and Vietnam as a home country will be examined to provide a thorough understanding of the nature of FDI flows between the two countries.

Fourth, in reviewing the literature, it is obvious that the Japanese FDI determinants were generated from both the investors' perspectives and the host country's point of view. However, the determinants of Japan's context received less attention. Therefore, this aspect will be examined in this dissertation. Furthermore, among the four types of investors, whether Japanese investors in Asia belong to one type or the combination of several types will be analyzed based on the features of each investor type.

Fifth, this dissertation is among the pioneers in using the IPA grid to analyze the attractiveness of Vietnam as an investment destination for Japanese FDI.

3.6. Summary

The literature review in this chapter was concerned with the theories of FDI and sought to distinguish the factors driving Japanese FDI into Asia. The theories of FDI include market imperfection theory, location theory, international trade theories (product's life circle, capital movement approach), theories of the firm (internalization

theory, eclectic paradigm, proximity concentration trade-off, and diversification theory) and other theories on the relationship between the home country, FDI, and the host country. This chapter also summarized the literature on Japanese FDI in Asia, especially in China, Thailand and Vietnam. Determinants on FDI in Vietnam was also examined to show the fact that although there have been some surveys and econometric studies of motivations and determinants of FDI in Vietnam, there has been hardly any recent study on motivations and determinants of Japanese FDI in the country. In consideration of its comprehensive methodology based on a broad review of relevant literature with various analysis techniques, this research is an advance in the research world of FDI in general and Japanese FDI in Vietnam in particular. The next chapter (chapter IV) will discuss the methodology in detail with specific implementation strategies and analysis techniques, thus further clarifying the distinctiveness of this dissertation.

Chapter IV – Methodology

This chapter introduces the methods to identify the motivations and determinants of Japanese FDI in Asia, evaluate the attractiveness of Vietnam as a Japanese investment base in Asia compared with Thailand and China, and find specific factors and determinants of Japanese FDI in Vietnam in the perceptions of Japanese investors.

In consideration of the advantage of the survey method in identifying and evaluating less quantitative explanatory valuables (See section 3.5.1), the survey is used in this study as a major method to collect data for the research issues. However, the survey method is formed and used in combination with other methods and analysis techniques such as content analysis, descriptive method, historical comparative method, expert consultations and interviews, econometric analysis based on Likert-scale values, and case studies.

4.1. Selecting the Attributes

A preliminary phase of qualitative research was carried out to identify the principal attributes influencing Japanese FDI in Asia. The result of this phase is a list of attributes, which are potentially important to the investment decision in Asia of Japanese investors and will be tested in the empirical phase.

As an FDI decision is the combination of the home country's context, the strategies of investing firms and the host country's environment, the attributes that potentially influence Japanese investment decision belong to three groups: (i) Domestic conditions of Japan, (ii) Strategies of Japanese companies, and (iii) Host country's determinants. One of the research targets is to compare the investment

environment of Vietnam with those of Thailand and China, therefore, the last category was put more attention to. The attributes were first selected by content analysis of previous research on Japanese FDI determinants, supplemented by statements about Japanese FDI investment trends in Asia from Japan's public sectors (JICA, JETRO and politicians), private sectors (managers and reporters) and Vietnam's government sector, which were obtained in the APU database and other online newspapers.

These attributes were then further supplemented by expert consultation with the Director of the First Southeast Asia Division, Asia and Oceania Affairs Bureau, Ministry of Foreign Affair of Japan, a JICA senior expert who is specialized in overseas investment advisory in ASEAN countries, the Deputy Director of Oita Foreign Trade Association as well as experts of JETRO office in Oita prefecture, Japan. Unstructured interviews were also carried out with a senior manager of Daikin Industries, a Japan-based multinational company in air conditioning systems, chemicals, oil hydraulics and defense systems; the President of Yamato Transport, one of the largest multi-modal logistics and transportation service provider in Japan. Besides, structured interviews were also executed with the participation of managers or vice managers of 6 Japanese companies in Vietnam including Kyoei Manufacturing Vietnam, Vinata International, TOTO Vietnam, Parker Processing Vietnam, Panasonic Vietnam and Sumitomo Heavy Industries (Vietnam).

Based on the findings of this phase, a set of 23 attributes was established as potentially influences on Japanese investment decision overseas. This set is divided into 3 main categories: (i) economic condition of Japan and supports from Japanese government to overseas investment (with 3 attributes), (ii) development strategies of the participating firm (4 attributes), and (iii) macro-economic and investment environment of the recipient country (16 attributes) (Table 4.1.). In the questionnaire,

these attributes were arranged in a random order to reduce the logical predictability of the respondents. The attributes serve as initial assumptions and hypothesis for the empirical phase.

Table 4.1: Potential influences on Japanese FDI in Asia

No.	**Potential influences**
	Economic conditions of Japan and supports from Japanese government
1.	Rising of production cost in Japan
2.	Appreciation of Japanese Yen over host country's currency
3.	Supports from Japanese government
	Strategies of the company
4.	Supplying intermediary goods for the company's production
5.	Higher profit expectation
6.	The company's expansion strategy
7.	Reduction of business risk
	Macroeconomic and investment environment of the host country
	Legal framework
8.	Protection of intellectual property rights in host country
9.	Lowering of customs duties on imported materials and intermediary goods in host country
10.	Uncomplicated administrative procedures in host country
11.	Transparency of the host country's investment environment
12.	Investment incentives offered by host country (Corporate tax reduction, low land rent, etc.)
	Market potential
13.	Access to host country's domestic market
14.	Access to host country's regional market
	Production inputs
15.	Access to raw materials of host country
16.	Development of supporting industries in host country
	Human capital
17.	Abundance of low-cost labor in host country
18.	Availability of skilled labor in host country
19.	Less strike and labor union's issues in host country
	Infrastructure
20.	Adequate infrastructure condition (transportation, electric supply, communications, etc.) in host country
	Political stability and investment warrantee
21.	Political stability of host country
22.	Low corruption rate of host country
	Other influence
23.	Performance of other Japanese companies in host country

4.2. Instrumentation

4.2.1. The questionnaire

The survey questionnaire is used as the main primary data-gathering instrument for this study. The questionnaire comprises of six questions, which can be classified into four main sections (see Appendix 1). Section 1 refers to question 1 and 2, to rate the importance of each of the 23 attributes and the percentages of the global business that the firm's business in Asia accounts for. Section 2 refers to question 3 asking Japanese investors to compare the situation of these 23 attributes in the three countries: Vietnam, Thailand and China. Section 3 includes question 4 and 5 asking about the most competitive advantages and the major difficulties when firms invest or do business in Vietnam. The last section has one question (question 6) asking about the demographic characteristics of participating companies such as: company's name, year of start-up, forms, sectors and locations of their investment/business projects in Asia, total number of employees and total capital.

The question 1 and 3 are structured using the Likert scale, in which five choices are provided for every attribute or statement. The choices range from "very unimportant" (1) to "very important" (5) for question 1, and from "very poor" (1) to "very good" (5) for question 3. Comparing to other commonly used scales, Likert scale is simpler and easier to use for researchers. It also enables the respondents to answer the survey easily (Newman, 2000). Moreover, this research instrument allows the researcher to effectively carry out the quantitative approach by using statistics for data interpretation.

In the questionnaire design stage, great attention was paid to the focus, phraseology, and sequencing of the questions. The questionnaire was first constructed in English and translated into Japanese by a Japanese colleague specializing in

international management, who is fluent in both English and Vietnamese. The questionnaire was then proofread by a Japanese professor whose majors are international trade and management to avoid vague or difficult terminologies. The problems of irrelevant questions, misunderstanding and misinterpretation were minimized through pilot testing and consulting with professors and experts.

4.2.2. Reliability

Reliability means dependability or consistency. "It suggests that the numerical results produced by an indicator do not vary because of characteristics of the measurement process or measurement instrument itself" (Newman, 2000, p.164). For example, if a test is designed to measure the importance level of certain attributes to the investment decision of a Japanese investor, then each time the test is administered to the investor, the results should approximately be the same. There are three types of reliability: stability reliability (across time), representative reliability (across subpopulations or groups of respondents), and equivalent reliability (across various indicators of Japanese FDI determinants or across different experts and professors)

Test and retest method was applied to ensure the stability reliability, in which the survey was re-administered to the same groups of companies in different points of time, which requires approximately the same results. A group of three companies was selected to answer the questionnaire twice within a month. The content of the indicators remained the same, but the order of them was changed. Little difference could be found in the questionnaire feedback, indicating an acceptable stability reliability of the measurement.

In addition, a subpopulation analysis was performed on the three companies' demographic information (such as year of start-up, forms, sectors and locations of investment, number of employees, and total capital). The information was obtained

from the firms' websites and compared to their answers on the filled questionnaires. It was found that the companies were giving their accurate information, which yields the representative reliability of the demographic questions.

To secure the equivalent reliability, multiple indicators were used to explore the research issues. All the items of the questionnaire focus on Japanese FDI motivations and determinants in general and in Vietnam in particular. Moreover, all the constructs are clearly conceptualized according to the theories of FDI. For example, the construct of "legal framework" is analyzed through evaluating its elements regarding "uncomplicated administrative procedures" and "transparency of investment environment". These elements are positioned in separate places in the questionnaire with the expectation that the respondent who rates high level of importance to the first attribute also considers the later attribute at the same importance level. In addition, the Cronbach's alpha test was used to test the internal consistency of the survey or the fact that the 23 questions in the questionnaire all reliably measure the same latent variable (Japanese FDI motivations). The Reliability Statistics (Table 4.2) shows that the Cronbach's alpha was .864, indicating a high level of internal consistency for the survey scale (George & Mallery, 2003). As revealed in Table 4.3, the removal of any question except questions 3, 4, 5, 14 would result in a higher Cronbach's alpha. However, this removal would lead to a small improvement of Cronbach's alpha as the Corrected Item- Total Correlation value was low (below .26). Therefore, the removal of these items were not necessary.

Table 4.2: Reliability Statistics of Cronbach's alpha test

Cronbach's Alpha	N of Items
.864	23

Table 4.3: Item-Total Statistics

Variable	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
1. Political stability of host country	85.16	101.767	.379	.861
2. Investment incentives offered by host country	85.75	97.699	.435	.858
3. Rising production cost in Japan	86.35	100.494	.198	.867
4. Access to host country's domestic market	86.13	98.880	.264	.865
5. Access to host country's regional market	86.54	100.729	.189	.867
6. Support from Japanese government	87.00	91.114	.580	.853
7. Higher profit expectation	85.72	98.822	.380	.860
8. Access to raw materials of host country	85.85	96.921	.408	.859
9. Supplying intermediary goods for company's production chain	86.21	95.067	.477	.857
10. Abundance of low-cost labor in host country	85.46	99.917	.338	.861
11. Protection of intellectual property rights in host country	85.99	93.708	.593	.853
12. Transparency of host country's investment environment	85.76	96.072	.554	.855
13. Adequate infrastructure condition in host country	85.48	100.162	.357	.861
14. Performance of other Japanese companies in host country	86.52	99.476	.259	.865
15. Lowering of customs duties on imported materials and intermediary goods in host country	85.88	95.529	.571	.854
16. Appreciation of Japanese Yen over host country's currency	86.58	95.315	.510	.856
17. Availability of skilled labor in host country	85.42	99.772	.398	.860
18. Less strike and labor union's issues in host country	85.58	96.156	.569	.854
19. The company's expansion strategy	86.01	100.450	.287	.863
20. Development of supporting industries in host country	86.58	95.322	.545	.855
21. Uncomplicated administrative procedures in host country	85.95	94.466	.594	.853
22. Reduction of business risk	85.93	95.519	.563	.854
23. Low corruption rate of host country	85.97	92.656	.636	.851

Moreover, to ensure inter-rater reliability between different professors and experts, the questionnaire went through four drafts before reaching the final version, in which each of the drafts was consulted with APU professors and FDI experts. The problems of irrelevant questions, misunderstanding and misinterpretation were also minimized through this process of consultation.

4.2.3. Validity

Measurement validity suggests the "truthfulness" and refers to the match between the conceptual and operational definitions. Four types of measurement validity include: face validity which shows the judgment by the scientific community that the indicator really measures the construct; content validity which states that measures should sample or represent all ideas or areas in the conceptual space; criterion validity which stresses on the comparison between an indicator and the other measure of the same construct from an external source; and construct validity which aims at the consistent manner of the measure with multiple indicators.

The research methods were designed to resolve all the research issues, thus the validity was secured at least on the face. The content validity was also ensured when the author carefully selected various attributes that are highly relevant to a domain of content. More specifically, the attributes belong to three domains of content: the home country's conditions, the firm's specific advantages and the host country's conditions. However, it should be noted that these three domains only served as a platform for the methodology to proceed, the results of attribute importance and performance measurement might be grouped in a different way. Moreover, the methods were also qualified in terms of criterion validity as they were designed based on learning from and improving the methods applied in previous studies conducted by various authors including JBIC and JETRO. The methodology also relied on the various theories on FDI, the empirical findings of Japanese FDI determinants in Asia, the survey approach in researching Japanese FDI determinants and other techniques such as factor analysis, important – performance analysis, which all in combination ensure the construct validity of the research methodology.

4.3. Approaching Participants

In order to investigate the Japanese FDI motivations and determinants in Asia and the perception of Japanese investors on the investment environment of Vietnam compared with that of Thailand and China, 1,500 companies were asked to participate. To reduce the bias and get sufficient power in some statistical tests (such as factor analysis), the number of respondents should be at least as four or five times as the number of variables. The preliminary test to 150 companies in Oita prefecture resulted in a return response rate of 12%; therefore, to attain a sample size of over 100 respondents, the questionnaires should be sent to at least 1,000 participants. According to such analysis, the author managed to approach 1,500 companies to enable a sufficient number of respondents.

To obtain pertinent information, certain criteria were imposed. The participating companies must satisfy two conditions. First, the selected companies should be SMEs or large scaled firms, which have over 20 employees for manufacturing firms or 5 employees for trading and servicing firms according to the Small and Medium Enterprise Basic Act of Japan (see Table 4.2) in order to exclude the micro firms which are not likely to involve in the overseas investment activities; Second, they must have overseas subsidiaries or representatives in at least one country: Vietnam, Thailand or China to ensure that the participants understand the investment conditions of at least one of the three countries. Moreover, the author targeted those who are located in Japan's economic regions such as Kanto (Yokohama, Saitama, Kawasaki or Chiba), Kansai (Osaka, Kobe or Kyoto) and Kyushu (Fukuoka, Kitakyushu).

The JETRO Oita office and JETRO website provided a list of companies in 14 prefectures of Japan, including Kobe, Kita Kyushu, Miyagi, Toyama, Kagawa,

Tokushima, Chiba, Kochi, Kagoshima, Okinawa, Ehime, Kanazawa, Gifu, and Fukuoka. Based on the two criteria, 1,000 companies were found to be satisfied. Excluding the companies whose contact addresses were not clear or had been changed, a number of 900 Japanese companies were finally selected as the participants in the survey in Japan.

One of the research goals is to measure the attractiveness of Vietnam as a destination for Japanese investors. Therefore, investigating the perceptions of Japanese companies operating in Vietnam plays a crucial role in the research. By the end of 2010, there were approximately 1,200 Japanese companies in Vietnam. Simple random sampling was utilized to list 600 out of 1,200 companies. The sampling followed the principle set by Newman (2000), according to which each member of the population has an equal opportunity to become part of the sample. In particular, the researcher selected the sample at random from a sampling frame using random number tables, a table of numbers chosen in a mathematically random way, by SPSS.

4.4. Implementation Process

The implementation process was carried out from October 2008 to March 2012, divided into 3 stages: research design (from October 2008 to May 2010), empirical research (June 2010 to March 2011) and data compilation and analysis (April 2011 to July 2012).

4.4.1. Research design stage

In the design stage, the attributes of Japanese FDI in Asia were identified through analyzing the content of written information, reviewing the literature of Japanese FDI in Asia, consulting with Japanese professors and FDI experts, and conducting the pilot test. Various studies on FDI theories, Japanese FDI determinants

in Asia and FDI determinants in Vietnam were obtained from the APU's library and online databases such as EBSCO Host, Emerald Fulltext, Elsevier ScienceDirect, and JSTOR from October 2008 to November 2009. Expert consultation was conducted with APU professors, PhD fellows, and FDI experts of JICA in December 2009 and January 2010. Unconstructed interviews with Japanese companies were carried out concurrently in January 2010. The structured interviews with six Japanese companies in Vietnam were executed in February 2010. The result of this phase is a list of 23 attributes potentially important to Japanese overseas investment decisions, which is the core of the questionnaire.

In this stage, the author also needed to decide the strategy to deliver the questionnaire to Japanese firms. At first, direct contacts, e-mailing with online questionnaire, and mailing with the introduction letter of JETRO office in Oita prefecture and official recommendation letter from APU were conducted in February, March and May 2010. The results showed that direct delivery of the questionnaire yielded a 100% response rate; however, it was much costly and time-consuming than mailing, which had 12% returning rate. Sending online received the least feedback rate of 7.1%.

Based on the results of the above approaching strategies, it was decided that online questionnaire is not suitable for researching Japanese investors. Moreover, Japanese people might consider online contact unimportant and reluctant to answer the questionnaire online. Though having the highest rate of response, face-to-face interview has its own disadvantages such as high cost and interviewer bias. It is also difficult to access to Japanese firms without having the introduction or some kinds of relationship in advance. The most suitable and feasible form for the research is mail survey as it is more cost effective than face-to-face interviews and could yield the

higher response rate than online survey. Mailing could help the researcher reach respondents in a wide geographical area, offers anonymity and avoid interview bias. The biggest problems of mailing are (possible) low response rate and the fact that the researcher cannot control the conditions under which the questionnaire is completed. However, the response rate of the mail survey can be increased if the target population is well educated or has a strong interest in the topic or the survey organization (Newman, 2000). To increase the response rate, besides the content of the questionnaire, the researcher paid much attention on the mail sending techniques. The questionnaire was attached by a recommendation letter of an APU's professor, a recommendation letter of JETRO experts, a carefully written cover letter that clearly states the sponsors (the APU and the MPI of Vietnam), and a postage-paid and addressed return envelope. Mails were sent at the middle of the week and not in a holiday period.

4.4.2. Empirical research stage

The empirical stage lasted 9 months, from June 2010 to March 2011. In Japan, the questionnaires were firstly sent to 300 companies selected from the JETRO databases of Kobe, Kita Kyushu, Miyagi, Toyama, and Kagawa prefectures in June 2010. Later on, 250 questionnaires were delivered to companies in Tokushima, Chiba, Kochi, Kagoshima and Okinawa prefectures in August 2010. The last sending was done in December 2010 to 350 companies located in Ehime, Kanazawa, Gifu, Fukuoka prefectures, some of which belonged to the Kyushu Economic Federation. All the contact information of the respondents was obtained from the JETRO databases in Oita prefectures, JETRO's website, and Kyushu Economic Federation's website and was re-checked in each company's website to assure that the questionnaires could reach the targeted respondents. The required time for sending

feedbacks was within 2 weeks, however, a large number of answer sheets came back within one month later, especially some completed questionnaires returned within 2 months because the managers or the persons in charge went on business trip at that time.

The fieldwork in Vietnam took place in between the second and third sending of questionnaires in Japan, from October to November 2010. Having worked for the MPI, the researcher took her advantages to collect data and information related to Japanese FDI in Vietnam from the MPI's database of Japanese companies in Vietnam as well as to meet some managers of Japanese companies in the country. 600 Japanese companies were randomly selected from the database of more than 1200 Japanese companies in Vietnam. All the contact information was double checked via the companies' websites and/or their information on the "Vietnam Yellow Page".

Both in Japan and Vietnam, the respondents who answered the questionnaire showed very constructive cooperation as most of the question items were filled carefully. Some of the respondents tried to contact the researcher to ask for further information, which showed their real interest in the topic and their serious attitude in filling the questionnaire.

4.4.3. Data compilation and analysis stage

The quantitative data was input for draft analysis right upon the receipt of the questionnaire feedback. However, the final analysis was decided only when the data was thick and deep enough to secure the validity of the results. As for the holistic information provided by the open-ended questions, the researcher asked one of her Vietnamese fellows who was fluent in Japanese to help translate. The translation was proofread by her Japanese professor to assure the meanings of the technical terms. This stage took place from April 2011 to July 2012.

4.5. Data Analysis Technique

After gathering the completed questionnaires from the respondents, total responses for each question were obtained and tabulated for analysis. Each research question was treated by different analysis techniques.

4.5.1. Measuring the attribute-based importance

The motivations and determinants of Japanese FDI in Asia were studied by measuring the importance level of the attributes to Japanese overseas investment decisions, comparing the importance level of these attributes between Japanese companies of different sizes by ANOVA, and applying factor analysis to point out the principal components among the attributes explaining the motivations of Japanese FDI in Asia. Data for analyzing the motivations and determinants of Japanese investors come from the feedback of question 1.

4.5.1.1. Benchmarks for attribute importance

According to the mean values, the benchmarks for judging the attribute importance to the overseas investment decisions of Japanese companies are set as follows:

$4 \leq mean \leq 5$:	very important attribute
$3.5 \leq mean < 4$:	important attribute
$3 \leq mean < 3.5$:	not really important attribute
$1 \leq mean < 3$:	unimportant attribute

4.5.1.2. Analysis of variance

Analysis of variance (ANOVA) is a commonly used technique for comparing means of groups of measurement data. In a one-way ANOVA, there is one

measurement variable and one nominal variable. Multiple observations of the measurement variable are made for each value of the nominal variable. In this research, ANOVA is used to compare the perceptions of Japanese companies on the importance of some selected attributes to their investment decisions in Asia. The Japanese companies were divided into 3 groups based on their total number of employees, including (i) companies of 50 employees and below, (ii) companies of 51 to 300 employees and (iii) companies of over 300 employees.

According to the Small and Medium Enterprise Basic Law of Japan, Japanese companies could be categorized generally based on capital or number of regular employees (Table 4.2).

Table 4.4: Company sizes based on industry, capital and number of employees

Industry	**Small and medium enterprise (meet one or more of the following conditions)**		**Of which small enterprises**
	Capital	No. of regular employees	No. of regular employees
1. Manufacturing, construction, transport and other industries	Up to ¥300 million	Up to 300	Up to 20
2. Wholesale	Up to ¥100 million	Up to 100	Up to 5
3. Services	Up to ¥50 million	Up to 100	Up to 5
4. Retail	Up to ¥50 million	Up to 50	Up to 5

Source: Small and Medium Enterprises definition (JSBRI, 2009)

Company sizes may differ between business sectors; however, the author basically divided the respondent companies into 3 groups regardless of their business sector:

- Companies of 50 employees and below (representing small enterprises)
- Companies of 51 to 300 employees (representing medium enterprises), and
- Company of over 300 employees (representing large enterprises)

Based on the results of ANOVA, Chi-square test was then used to examine whether the perception of Japanese firms towards the importance level of main influential attributes have correlation with firm sizes or not. The significant level to reject the null hypothesis (H_0) was set to be 5% and the number of cells having expected counts less than five (5) was not higher than 20 %.

4.5.1.3. Factor analysis

The factor analysis method covers the (i) reduction of numbers of variables and (ii) classification of variables to detect structure in the relationships between these variables. Analysis of the factors can explain a set of variables that are less known factors. Each factor could explain the correlation of the original set of variables (Thomas & Pawell, 2006). Based on this method, the attributes that might have significant influence on the investment decisions of Japanese firms would be grouped into some major factors, which help to explain the motivations and types of Japanese investors in Asia. The conduct of factor analysis followed the instructions of SPSS Base 15.0 user's guide (2006). The principal criteria for factor analysis were set as follows:

- Kaiser-Meyer-Olkin (KMO): from 0.50 to 1.00;
- Eigenvalue: greater than 1.00;
- Significant level: less than 0.01;
- The cumulative percentage of variance: at least 60.0 %

The result presents the component/factor matrix, which is a table reporting the factor loadings for each variable on the un-rotated components or factors. However, there might be items with large loadings on several of the un-rotated factors, which make interpretation difficult. Therefore, to obtain a clearer pattern of loadings, a rotated solution was used to categorize variables having a large loading on one factor

and considerably smaller loadings on the other factors. To maximize the variance of the factor while minimizing the variance around the factor, a variance maximizing rotation (*varimax*) strategy was also applied.

4.5.2. Measuring the attribute-based performance of Vietnam as an investment destination compared with Thailand and China

4.5.2.1. Benchmarks for attribute performance

According to the mean values, the benchmarks for judging the attribute performance of three countries in the perception of Japanese investors were set as follows:

4≤mean≤5: very good performance

3.5≤mean<4: good performance

3≤mean<3.5: neutral performance

1≤mean<3: poor performance

4.5.2.2. Independent samples T-test

Comparing means (independent samples T-test) was employed to compare the opinions of Japanese investors who had investment projects in Vietnam and those who had not. In this test, the null hypothesis (H_0) states that the means values of two groups of Japanese companies are equal. The Sig. value of T-test allows us to reject or accept the null hypothesis. If this value is smaller than .05, the null hypothesis is rejected, showing that the means of two groups of Japanese companies are significantly different. The results of T-test for equality of means are based on the results of Levene's test for equality of variance. Accordingly, if the sig. value of the Levene's test is smaller than .05 (suggesting that the variances of the two groups are

different), the sig. of T-test in “equal variances not assumed” is used. Otherwise, the sig. of T-test in “equal variances assumed” is used.

- If the group with investment in Vietnam reacted positively to an important attribute (mean ≥ 3.50) while the other group did negatively (mean < 3.50), Vietnam should be recommended to correct the perception of those without investment in Vietnam;
- If both of the groups reacted positively to an important attribute (means ≥ 3.50), that attribute is a strength that Vietnam should further promote to attract Japanese FDI;
- If the group with investment in Vietnam reacted negatively to an important attribute (mean < 3.50) while the other group did positively (mean ≥ 3.50), Vietnam needs to improve its performance in that attribute; and
- If both of the groups reacted negatively to an important attribute (means < 3.50), Vietnam really has problem on that attribute performance.

4.5.2.3. Chi-square test

Chi-square test was then conducted to explore whether there was a correlation between the company’s investment in Vietnam and its perception on the attribute performance of the country. The significant level to reject the null hypothesis (H_0) was also set to be 5% and the number of cells having expected counts less than five (5) was not higher than 20 %.

4.5.2.4. Importance performance analysis (IPA)

Based on the findings of importance analysis and performance analysis, an IPA grid was established. The mean value of 3.50 is set as the point differentiating

low and high importance/performance, following which the mean value under 3.50 is considered low and the mean value from 3.50 and above is regarded as high. Accordingly, the importance and performance scores are respectively scattered in the vertical and horizontal axes. The attributes are classified into four groups according to each quadrant of the grid (See Figure 2.5).

A. *Concentrate here* (importance means ≥ 3.50, performance means < 3.50): In this quadrant, Japanese investors considered the attributes very important but felt negative about the performance of these attributes in Vietnam.

B. *Keep up with the good work* (importance and performance means ≥ 3.50): Japanese investors evaluated the attributes as important and were satisfied with the country's performance.

C. *Low priority* (importance and performance means <3.50): Vietnam's performance was rated low in these attributes but Japanese investors did not perceive these features to be important.

D. *Possible overkill* (importance means < 3.50 and performance means ≥ 3.50): The country was assessed to be well performing in this attribute; however, Japanese investor attached little importance to it.

4.5.2.5. Binary logistic regression

Binary logistic regression is commonly used to measure the relationship between the function of a dependent variable that is qualitatively dichotomous and independent variables that are either quantitative or qualitative. This process is carried out after identifying the principal factors and giving a new name on each factor, and then the factors will be included in the logistic regression model. This model shows

the impact of each factor on the outcome of the dependent variable, thus, is also used to predict the outcome of an event.

In this research, the binary logistic regression was applied to quantify the impact of each of the factors that may influence the Japanese investment decisions in Vietnam as well as to find out the most influential factors. The outcome of this analysis supplemented the IPA results and contributed suggestions for FDI policy makers in Vietnam.

Factor analysis was first applied to identify the major factors of Vietnam as an investment destination for Japanese investors based on the attribute performance of the country. The same criteria for factor analysis technique in 4.5.1 were used.

It is considered that the propensity to invest in Vietnam as the dependent variable which has two categories: 1 = "invested in Vietnam" and 0 = "did not invest in Vietnam". The logit model is formed as follows:

Logit (ρ) = Log [$\rho_i/(1- \rho_i)$] = $\beta_0 + \beta_1 F_1 + \beta_2 F_2 + \beta_3 F_3 + \ldots + \beta_n F_n$, of which:

ρ_i = the probability of a firm to invest in Vietnam;

β_0= log odds of firms which did not invest in Vietnam (when $F_i = 0$)

β_i= log odds of firms which had invested in Vietnam (when $F_i = 1$)

The fit of the model is shown in the value of -2 log likelihood (which presents how well the model explains variations in the outcome of interest) and the classification table (which suggests the percentage correct of the model).

The Omnibus tests of model coefficients evaluate the significance of an overall hypothesis containing multiple sub-hypotheses. Chi-square value (significant level is smaller than 0.05) is used to reject or the hypothesis that whether the linear

regression combination of these coefficients is significant enough to explain the dependent variable.

In binary logistic, the logistic regression coefficients are assumed not to be equal to zero (0). The Ward chi-square is used to test the null hypothesis that $\beta=0$. The null hypothesis is rejected if Ward's significant value is smaller than 0.5.

4.5.3. Identifying the holistic features of Vietnam as a destination for Japanese FDI

Holistic features of Vietnam were illustrated in question 4 and 5 as follows:

Question 4 - What is/are the most competitive advantage(s) of Vietnam's investment environment comparing to Asian countries? and

Question 5 - What is/are the major difficulty (ies) of investing in Vietnam comparing to other Asian countries?

The answers were compiled and categorized according to principal sectors of macro-economic and investment environment of the host country (as mentioned in Table 4.1) to be comparable to the statistical results. The case studies of Kyoei Manufacturing Vietnam, TOTO Vietnam, and Panasonic Vietnam were then examined to find out how they illustrate the attribute-based and holistic findings.

The following chapters 5 and 6 present the results and discussion found by carrying out the methods described above.

Chapter V – Results and Discussion on Motivations and Determinants of Japanese FDI in Asia and Perception of Japanese Investors on Vietnam as an Investment Destination Compared with Thailand and China

This chapter firstly describes the characteristics of the sample of respondents participating in the survey. Then it expresses the survey results regarding the motivations and determinants of Japanese FDI decisions in Asia by presenting the importance of the attributes in the perception of Japanese investors, and the principal factors explaining the motivations of Japanese FDI in Asia. The perception of Japanese investors on Vietnam as an investment destination compared with Thailand and China was revealed through the results of the attribute-based performance of Vietnam compared with Thailand and China, and the IPA of Vietnam as an investment destination for Japanese investors and the major factors affecting the investment decisions in Vietnam of Japanese investors. The chapter also discusses implications inferred from the empirical results.

5.1. Characteristics of the Sample of Respondents

From 1500 delivered questionnaires, 305 valid completed ones returned. The survey achieved a response rate of 20.33%, a common and acceptable rate for a mail survey (Neuman, 2000).

The completed questionnaires are regarded as "valid" as they are carefully filled in most of the items of the question. Because there is quite a large number of items to be filled in on the questionnaire (100 items), if there are a few items left blank, this feedback is still considered "valid". However, if a whole important question (for example, the question asking about the importance of listed attributes to

Japanese overseas investment decisions with 23 items, or the question concerning the demographic background with 7 items) is left blank, the questionnaire is regarded as "invalid". In fact, for question 1, about 300 of 305 respondents answered each item of the question (see the counted number of responses for each item – N of Table 5.4) and about 272 respondents answered all the items of the question (see the Valid N - Listwise of Table 5.4) are high numbers of answers if a large number of items of the questionnaire are considered.

Table 5.1 indicates the characteristics of the sample regarding the years of operation, the forms and sectors of investment, the location of investment projects, the number of employees, and the capital volume.

Table 5.1: Characteristics of the sample

Category		Total	
		Absolute Number	Percentage (%)
Operating years	Over 50 years	95	32.87
	50 years and below	194	67.13
	Mean	38.51	
	Minimum	2	
	Maximum	207	
	Standard deviation	30.56	
Form of investment	Wholly owned subsidiary	145	52.35
	Joint venture	72	25.99
	Mergers & Acquisitions (M&A)	1	0.36
	Others	59	21.30
Location of investment projects	In one country of Vietnam, Thailand and China	174	63.97
	In one country of Vietnam, Thailand and China	51	18.80
	In all the three countries	47	17.30
Location of investment projects by country	In China	153	31.20
	In Thailand	88	17.90
	In Vietnam	176	35.80
	In other countries	74	15.10
Sector of investment	Manufacturing	208	68.20
	Non-manufacturing	97	31.80
Number of employees	50 employees and below	71	25.45
	From 51 to 300 employees	125	44.80
	Over 300 employees	83	29.75
	Mean	1,190	
	Minimum	3	
	Maximum	39,583	
	Standard deviation	4,574	
Capital	3 million USD and below	119	48.77
	Over 3 million USD	125	51.23
	Mean	204,730,560.1	
	Minimum	1100	
	Maximum	23,000,000,000.0	
	Standard deviation	1,588,549,446.6	

5.1.1. Years of operation, forms and sectors of investment

Referring to the time of operation, responding firms were evenly distributed into three groups. 33.11% of the respondents were penetrating firms, which were established from 20 or less years ago. Experienced firms operating from 21 to 50 years took the biggest account of 35.00% of the total respondents. Firms with more

than 50 years of operation occupied 31.10% of the sample size. The youngest firm has only 2 years of operation, whereas the oldest one has been operating for 207 years.

For the forms of investment, 52.30% of the firms were in the form of wholly owned company; joint venture accounted for 26.00%; M&A and other forms took up a proportion of 21.70%.

As for the sectors of investment, 68.20% of the survey participants were in the manufacturing sector. The non-manufacturing sector accounted for only one third of the sample but involving a wide range of business sectors, such as agriculture, forestry, fishing, mining and quarrying, electricity and water supply, construction, whole sale and retail trade, hotels and restaurants, transport, storage and communications, finance and banking, real estates and consultancy activities, education and training, healthcare and social work, recreational, cultural and sporting activities, personal and public services and others.

5.1.2. Company size

According to the number of employees, medium-sized firms with 51-300 employees took up the largest proportion of the sample with 44.80%. Small-sized firms with 50 employees and below, and large-sized firms with over 300 employees occupied 25.45% and 29.75% of the respondents respectively. The smallest firm employs only 3 persons while the biggest one has up to 39,583 employees.

As expected, the question for investment capital received less feedback from Japanese firms as this type of information is usually regarded as confidential by respondents. However, 245 respondents (about 80% of the sample) which provided information for this question can also be considered a high number. Among them,

48.70% had a capital of 3 million USD or less, and rather even proportion of 51.23% of respondents owned over 3 million USD of capital.

5.1.3. Location of investment

Among 305 respondents, 64% had affiliates in only one country; 18.8% had affiliates in two of the three countries; and 17.3% had affiliates in all the three countries. For each country in details, the percentages of investment projects in Vietnam, Thailand, and China are 31.2%, 17.9% and 35.8% respectively.

5.2. Motivations of Japanese FDI in Asia

5.2.1. Important attributes to Japanese FDI decisions in Asia

Table 5.2 shows the perception of Japanese firms on attributes affecting their investment decisions in Asia. Accordingly, 18 attributes were regarded as "very important" and "important" to Japanese investment decisions.

Most of "very important" attributes belonged to the investment environment of the host country, except for the firm's expectation on higher profit. Political stability of the recipient country was rated as the most important attribute, followed by the skilled labor force and infrastructure condition of the country.

As for the "important attributes", Japanese firms were likely to agree that the firm's business strategies, the host country's investment environment and market, and the rising production cost in Japan were of importance to their FDI decisions in Asia. Attributes related to the firm's strategies included the reduction of business risk, the company's expansion strategy, or supplying intermediary goods for the company's production chain. Table 5.2 also emphasizes the importance of the host country's investment environment and market (such as low corruption rate, uncomplicated

administrative procedures, protection of the intellectual property rights and host country's domestic market) to Japanese FDI in Asia.

To Japanese investors, the performance of other Japanese companies, the access to regional market, the appreciation of the Japanese Yen, and the development of supporting industries are "not really important" to their decisions. Supports from Japanese government were considered the "least important attribute" to the firms' investment decisions.

Table 5.2: Descriptive statistics of the attribute importance to Japanese FDI decisions

Factor	N	Mean	Std. Deviation
Political stability of host country	303	4.75	.485
Availability of skilled labor in host country	303	4.44	.682
Adequate infrastructure condition in host country	304	4.42	.685
Abundance of low-cost labor in host country	302	4.42	.763
Less strike and labor union's issues in host country	304	4.32	.767
Higher profit expectation	301	4.17	.817
Investment incentives offered by host country	303	4.15	.835
Transparency of host country's investment environment	297	4.14	.824
Access to raw materials of host country	304	4.06	.946
Lowering of customs duties on imported materials and intermediary goods in host country	302	4.03	.843
Reduction of business risk	300	3.95	.843
Low corruption rate of host country	300	3.94	.964
Uncomplicated administrative procedures in host country	303	3.94	.895
The company's expansion strategy	301	3.91	.789
Protection of intellectual property rights in host country	303	3.85	.993
Access to host country's domestic market	303	3.78	1.058
Supplying intermediary goods for company's production chain	301	3.66	.988
Rising production cost in Japan	298	3.56	1.031
Performance of other Japanese companies in host country	303	3.39	.980
Access to host country's regional market	303	3.35	.995
Appreciation of Japanese Yen over host country's currency	301	3.32	.948
Development of supporting industries in host country	303	3.31	.897
Support from Japanese government	302	2.89	1.149
Valid N (listwise)	272		

5.2.2. Relationship between firms' sizes and their perception on the importance of selected attributes

ANOVA was applied to 11 attributes, including the 10 most important ones (political stability, skilled labor force, infrastructure condition, low cost labor force, less strike and labor union issues, firm's expectation on higher profit, transparency of investment environment, raw materials, low customs duties) and 1 unimportant one (supports from Japanese government).

Table 5.3 shows the descriptive analysis of each group as well as the total sample for the ANOVA test. It seems that except for the attributes of "availability of skilled labor in the host country", "adequate infrastructure condition in the host country", "abundance of low cost labor in the host country", and "less strikes and labor union's issues in the host country", the mean value of tested attributes decreased when the company size increased.

Assuming that (i) the dependent variables (the tested attributes) are normally distributed and (ii) the three company groups have approximately equal variances on the dependent variables, the hypothesis was set as follows:

H_0 (null hypothesis): There is no significant difference in the perception on importance level of selected FDI attributes between the three groups of Japanese companies.

The Levene test of homogeneity of variances (Table 5.4) reveals that apart from "political stability"[1], the variances of the three groups were approximately equal (as "Sig." values are greater than .05). Therefore, the second assumption was satisfied to continue One-way ANOVA.

[1] For the case of "political stability", Levene test is significant ("Sig." is less than 0.05) showing that the variances are significantly different. For that reason, ANOVA test was not applied for this variable.

Table 5.3: One-way ANOVA test for the relationship between firms' size and their perception on the importance of selected attributes

Variable		N	Mean	Std. Deviation	Sig. value between groups
1. Political stability of host country	Small firm	71	4.82	0.425	
	Medium firm	123	4.77	0.440	
	Large firm	83	4.64	0.531	0.041
	Total	277	4.74	0.469	
2. Availability of skilled labor in host country	Small firm	71	4.46	0.714	
	Medium firm	124	4.42	0.651	
	Large firm	82	4.44	0.687	0.903
	Total	277	4.44	0.676	
3. Adequate infrastructure condition in host country	Small firm	71	4.35	0.776	
	Medium firm	124	4.43	0.665	
	Large firm	83	4.39	0.659	0.757
	Total	278	4.40	0.692	
4. Abundance of low-cost labor in host country	Small firm	70	4.47	0.696	
	Medium firm	124	4.40	0.806	
	Large firm	83	4.43	0.752	0.835
	Total	277	4.43	0.761	
5. Less strike and labor union's issues in host country	Small firm	71	4.28	0.831	
	Medium firm	124	4.44	0.701	
	Large firm	83	4.13	0.777	0.019
	Total	278	4.31	0.767	
6. Higher profit expectation	Small firm	69	4.29	0.788	
	Medium firm	124	4.14	0.849	
	Large firm	82	4.10	0.764	0.309
	Total	275	4.16	0.810	
7. Investment incentives offered by host country	Small firm	71	4.18	0.915	
	Medium firm	124	4.11	0.798	
	Large firm	82	4.07	0.843	0.719
	Total	277	4.12	0.841	
8. Transparency of host country's investment environment	Small firm	69	4.30	0.754	
	Medium firm	119	4.11	0.831	
	Large firm	83	3.99	0.876	0.064
	Total	271	4.12	0.832	
9. Access to raw materials of host country	Small firm	71	4.21	0.940	
	Medium firm	124	4.04	1.015	
	Large firm	83	3.83	0.838	0.045
	Total	278	4.02	0.954	
10. Lowering of customs duties on imported materials and intermediary goods in host country	Small firm	70	4.13	0.815	
	Medium firm	123	4.06	0.852	
	Large firm	83	3.80	0.838	0.029
	Total	276	4.00	0.846	
11. Support from Japanese government	Small firm	69	2.99	1.243	
	Medium firm	124	2.86	1.143	
	Large firm	83	2.67	1.083	0.241
	Total	276	2.84	1.153	

The results of One-way ANOVA are incorporated in Table 5.3. If the significant level of .05 was accepted (by which we have the confident level of 95% to reject the null hypothesis), there were statistical differences between three groups of Japanese companies on their importance level of "less strikes and labor union issues in the host country", "access to raw materials of the host country" and "lowering of customs duties on imported materials and intermediary goods in the host country" when they decided to invest overseas. If we accepted the significant level of .1 (which means to lower the confident level to 90%), the importance level of "transparency of host country investment environment" was also different between the three groups of companies.

Table 5.4: Levene Test of Homogeneity of Variances for the relationship between firms' size and their perception on the importance of selected attributes

Variable	Levene Statistic	df1	df2	Sig.
1. Political stability of host country	9.723	2	274	.000
2. Availability of skilled labor in host country	.189	2	274	.828
3. Adequate infrastructure condition in host country	.444	2	275	.642
4. Abundance of low-cost labor in host country	.092	2	274	.913
5. Less strike and labor union's issues in host country	1.171	2	275	.512
6. Higher profit expectation	.141	2	272	.868
7. Investment incentives offered by host country	.644	2	274	.526
8. Transparency of host country's investment environment	.062	2	268	.940
9. Access to raw materials of host country	.528	2	275	.591
10. Lowering of customs duties on imported materials and intermediary goods in host country	.017	2	273	.983
11. Support from Japanese government	.151	2	273	.860

The Dunnett test was applied to find out exactly which pairs of groups were significantly different. The test result reveals that with the significant level of .05, considerable differences could be seen between companies of medium size and companies of large size on the importance of "less strike and labor union's issues in the host country". In addition, there were significant differences between small-scaled

and large-scaled companies on “transparency of the host country’s investment environment”, “access to raw materials of the host country” and “lowering customs duties on imported materials and intermediary goods in the host country”. If the significant level of .1 was accepted, the difference in importance level of “lowering customs duties on imported materials and intermediary goods in the host country” could also be seen between medium sized and large sized companies (Table 5.5).

Based on the results of One-way ANOVA, the Chi-square test exploring the relationship between the company size and the perception of firms showed that four attributes had significant differences between three groups of companies. It seems from the Table 5.6 that if we accepted the significant level of 90% (equivalent to p value smaller than .1), the results for “less strike and labor union’s issues in the host country” (Sig. = .091) and “access to raw materials of the host country” (Sig. = .014) were satisfactory. However, as the use of the Chi-square test is inappropriate if the expected frequency is less than 5 in more than 20% of the cells, the application of the Chi-square test to both the two attributes are not appropriate. Therefore, even though there were differences in the perception on the importance level of some attributes within certain groups of firms, there was no significant relationship between the companies’ sizes and their perception on the importance level of these attributes.

Table 5.5: Post Hoc Multiple Comparisons for the relationship between firms' size and their perception on the importance of selected attributes

Dunnett t (2-sided)

Dependent Variable	Firm size (I)	Firm size (J)	Mean Difference (I-J)	Std. Error	Sig.
Less strike and labor union's issues in host country	Small firm	Large firm	.149	.123	.368
	Medium firm	Large firm	.303(*) (**)	.108	.010
Transparency of host country's investment environment	Small firm	Large firm	.316(*) (**)	.135	.036
	Medium firm	Large firm	.121	.118	.484
Access to raw materials of host country	Small firm	Large firm	.380(*) (**)	.153	.025
	Medium firm	Large firm	.209	.134	.207
Lowering of customs duties on imported materials and intermediary goods in host country	Small firm	Large firm	.333(*) (**)	.136	.028
	Medium firm	Large firm	.262(*)	.119	.053

* The mean difference is significant at the .1 level.
** The mean difference is significant at the .05 level
a Dunnett t-tests treat one group as a control, and compare all other groups against it

Table 5.6: Chi-Square test for the relationship between firms' size and their perception on the importance of selected attributes

		Value	df	Sig. (2-sided)
Less strike and labor union's issues in host country	Pearson Chi-Square	10.925(a)	6	.091
	N of Valid Cases	278		
	(a) 3 cells (25.0%) have expected count less than 5. The minimum expected count is 1.79.			
		Value	df	Sig. (2-sided)
Transparency of host country's investment environment	Pearson Chi-Square	6.365(a)	6	.384
	N of Valid Cases	271		
	(a) 3 cells (25.0%) have expected count less than 5. The minimum expected count is 2.55			
		Value	df	Sig. (2-sided)
Access to raw materials of host country	Pearson Chi-Square	19.072(a)	8	.014
	N of Valid Cases	278		
	(a) 6 cells (40.0%) have expected count less than 5. The minimum expected count is 1.79.			
		Value	df	Sig. (2-sided)
Lowering of customs duties on imported materials and intermediary goods in host country	Pearson Chi-Square	8.596(a)	6	.198
	N of Valid Cases	276		
	(a) 2 cells (16.7%) have expected count less than 5. The minimum expected count is 3.30.			

5.2.3. Motivations of Japanese FDI in Asia

Tables 5.7 - 5.11 show the results of the factor analysis in exploring the motivations of Japanese FDI in Asia.

The correlation matrix (Table 5.7) shows that the correlation coefficients above or equal to .3 took an account of 28.81% of the total coefficients. Specially, strong correlations could be seen some pairs or groups, including 4 (domestic market) and 5 (regional market); 8 (raw materials) and 9 (intermediary goods for production); 11 (intellectual property rights protection) and 12 (investment environment transparency); 10 (low cost labor) and 17 (skilled labor); 21 (uncomplicated administrative procedures), 22 (business risk reduction) and 23 (low corruption rate). Moreover, in the anti-image correlation matrix (Table 5.8), the majority of the off - diagonal were closer to zero, indicating a good factor model.

The value of Bartlett's test of sphericity indicates the strength of the relationship among variables. As the observed significant level was .000, the null hypothesis assuming un-correlations between variables in the population correlation matrix (Table 5.9) was rejected. It revealed that the relationship among variables was strong enough to proceed the factor analysis for the data. Moreover, the KMO value of .825 indicated a high appropriateness of the use of the factor analysis method (Table 5.9).

The numbers of factors are determined based on their Eigen values. As indicated in the Table 5.10, when the default Eigenvalue was set higher than 1.00, seven factors were identified. The cumulative percent of these factors could explain a significant height of 64.368 % of the total variance.

Table 5.7: Correlation Matrix for factor analysis of Japanese FDI motivations in Asia

Correlation	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
1. Political stability	**1.000**																						
2. Investment incentives	.209	**1.000**																					
3. Rising production cost in Japan	.154	.060	**1.000**																				
4. Domestic market	.079	.087	-.114	**1.000**																			
5. Regional market	-.111	.159	-.078	.561	**1.000**																		
6. Japanese government supports	.191	.466	.070	.205	.187	**1.000**																	
7. Higher profit expectation	.171	.146	.240	.078	.020	.258	**1.000**																
8. Raw materials	.364	.136	.074	.084	-.024	.154	.162	**1.000**															
9. Intermediary goods for production	.261	.153	.164	.071	.097	.287	.362	.614	**1.000**														
10. Low-cost labor	.207	.172	.350	-.160	-.134	.069	.383	.240	.219	**1.000**													
11. Intellectual property rights protection	.210	.302	.125	.339	.261	.410	.125	.273	.305	.079	**1.000**												
12. Investment environment transparency	.325	.288	.005	.194	.024	.340	.274	.360	.291	.199	.503	**1.000**											
13. Infrastructure condition	.259	.178	-.075	.131	.045	.227	.035	.219	.149	.117	.307	.351	**1.000**										
14. Other Japanese companies* performance	.078	.084	.033	.322	.164	.286	-.089	.117	.047	-.030	.245	.044	.216	**1.000**									
15. Lowering of customs duties	.226	.453	.104	.112	.153	.482	.169	.204	.270	.255	.351	.400	.183	.186	**1.000**								
16. Appreciation of Japanese Yen	.140	.299	.292	-.040	.032	.452	.280	.195	.296	.292	.240	.300	.100	.160	.407	**1.000**							
17. Skilled labor	.152	.200	.180	-.026	-.028	.222	.252	.225	.243	.539	.283	.232	.194	-.091	.322	.293	**1.000**						
18. Less strike and labor issues	.306	.234	.148	.066	.047	.319	.127	.296	.239	.336	.355	.387	.375	.228	.408	.438	.391	**1.000**					
19. Company's expansion strategy	.044	.113	.092	.164	.159	.131	.285	.056	.110	.060	.179	.138	.049	.071	.182	.186	.048	.079	**1.000**				
20. Supporting industries	.184	.346	.111	.291	.283	.381	.205	.254	.305	.112	.345	.338	.225	.244	.312	.300	.114	.270	.296	**1.000**			
21. Uncomplicated administrative procedures	.326	.217	.100	.131	.008	.365	.252	.277	.370	.186	.438	.449	.344	.117	.335	.260	.248	.472	.249	.363	**1.000**		
22. Business risk reduction	.183	.265	.142	.172	.119	.427	.297	.155	.190	.244	.292	.346	.140	.153	.373	.398	.237	.420	.310	.271	.488	**1.000**	
23. Low corruption rate	.351	.274	.201	.087	-.041	.409	.272	.262	.289	.316	.474	.432	.315	.179	.415	.332	.352	.468	.177	.351	.636	.574	**1.000**

Table 5.8: Anti-image Correlation Matrix for factor analysis of Japanese FDI motivations in Asia

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
1. Political stability	**.871***																						
2. Investment incentives	-.108	**.860**																					
3. Rising production cost in Japan	-.125	.039	**.716**																				
4. Domestic market	-.124	.075	.070	**.656**																			
5. Regional market	.146	-.076	.036	-.485	**.601**																		
6. Japanese government supports	-.022	-.252	.060	-.002	-.009	**.863**																	
7. Higher profit expectation	-.031	.018	-.094	-.135	.032	-.167	**.757**																
8. Raw materials	-.190	-.016	.068	-.050	.107	.089	.129	**.747**															
9. Intermediary goods for production	-.006	.086	-.048	.091	-.139	-.081	-.264	-.562	**.751**														
10. Low-cost labor	-.026	-.087	-.223	.133	.002	.200	-.280	-.095	.041	**.752**													
11. Intellectual property rights protection	.060	-.093	-.171	-.125	-.167	-.103	.116	-.021	-.078	.131	**.851**												
12. Investment environment transparency	-.071	-.003	.158	-.121	.161	.016	-.156	-.164	.088	-.043	-.329	**.844**											
13. Infrastructure condition	-.092	-.042	.130	.022	-.028	-.051	.045	-.013	.019	-.026	-.024	-.158	**.861**										
14. Other Japanese companies' performance	.038	.101	-.031	-.272	.093	-.189	.142	-.089	.057	-.094	-.116	.211	-.147	**.627**									
15. Lowering of customs duties	-.037	-.229	.027	.041	-.101	-.172	.111	.056	-.087	-.071	.037	-.181	.090	-.086	**.904**								
16. Appreciation of Japanese Yen	.070	-.035	-.186	.148	.008	-.224	-.050	.026	-.103	-.012	.043	-.107	.081	-.080	-.077	**.872**							
17. Skilled labor	.075	.017	.042	-.073	.048	-.089	-.006	-.036	-.024	-.419	-.183	.112	-.073	.255	-.105	-.053	**.789**						
18. Less strike and labor issues	-.101	.046	-.003	.059	-.078	.063	.093	-.078	.077	-.088	-.025	-.052	-.182	-.133	-.101	-.241	-.163	**.891**					
19. Company's expansion strategy	.020	.020	-.013	-.012	-.037	.136	-.223	-.016	.076	.055	-.081	.071	-.019	-.010	-.101	-.076	.020	.102	**.736**				
20. Supporting industries	.024	-.171	-.062	-.092	-.163	-.081	.013	-.059	-.070	-.020	.055	-.106	-.028	-.092	.029	-.083	.061	-.002	-.189	**.900**			
21. Uncomplicated administrative procedures	-.059	.045	.033	-.010	.097	-.042	.001	.083	-.204	.053	-.090	-.077	-.104	.079	.019	.101	.037	-.201	-.128	-.097	**.891**		
22. Business risk reduction	.063	-.030	.003	-.092	-.091	-.160	-.051	-.021	.083	-.062	.127	-.069	.125	.006	-.003	-.127	.043	-.140	-.197	.111	-.151	**.865**	
23. Low corruption rate	-.114	.030	-.053	.047	.146	-.025	-.042	.017	.031	-.066	-.221	.015	-.069	-.058	-.098	.038	-.081	-.003	.083	-.119	-.315	-0.339	**.886**

(*) Measures of sampling adequacy

Table 5.9: KMO and Bartlett's Test for factor analysis of Japanese FDI motivations in Asia

Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy.		.825
Bartlett's Test of Sphericity	Approx. Chi-Square	2179.207
	Df	253
	Sig.	.000

Table 5.10: Total Variance Explained for factor analysis of Japanese FDI motivations in Asia

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.352	27.616	27.616	6.352	27.616	27.616	3.100	13.480	13.480
2	2.276	9.897	37.513	2.276	9.897	37.513	2.679	11.646	25.126
3	1.541	6.702	44.215	1.541	6.702	44.215	2.016	8.766	33.892
4	1.360	5.912	50.127	1.360	5.912	50.127	1.997	8.681	42.573
5	1.161	5.047	55.174	1.161	5.047	55.174	1.945	8.458	51.031
6	1.077	4.683	59.857	1.077	4.683	59.857	1.845	8.024	59.055
7	1.037	4.511	64.368	1.037	4.511	64.368	1.222	5.313	64.368
8	.846	3.679	68.047						
9	.803	3.492	71.539						
10	.742	3.228	74.767						
11	.705	3.066	77.833						
12	.652	2.836	80.668						
13	.628	2.730	83.399						
14	.581	2.526	85.925						
15	.504	2.193	88.118						
16	.501	2.177	90.295						
17	.425	1.846	92.141						
18	.367	1.596	93.737						
19	.344	1.496	95.233						
20	.324	1.410	96.642						
21	.276	1.200	97.842						
22	.256	1.112	98.954						
23	.241	1.046	100.000						

Extraction Method: Principal Component Analysis

Table 5.11: Rotated Component Matrix for factor analysis of Japanese FDI motivations in Asia

Variable	Component						
	1	2	3	4	5	6	7
Uncomplicated administrative procedures in host country	.688					.393	
Adequate infrastructure condition in host country	.675						
Low corruption rate of host country	.666					.338	
Less strike and labor union's issues in host country	.591		.365				
Transparency of host country's investment environment	.562	.315		.302			
Protection of intellectual property rights in host country	.496				.399		
Investment incentives offered by host country		.782					
Support from Japanese government		.729					
Lowering of customs duties on imported materials and intermediary goods in host country		.683					
Appreciation of Japanese Yen over host country's currency		.580					.327
Development of supporting industries in host country		.378			.328		
Abundance of low-cost labor in host country			.801				
Availability of skilled labor in host country			.788				
Access to raw materials of host country				.820			
Supplying intermediary goods for company's production chain				.801			
Political stability of host country	.429			.466			
Access to host country's regional market					.846		
Access to host country's domestic market					.819		
The company's expansion strategy						.730	
Higher profit expectation			.349			.610	
Reduction of business risk	.436	.329				.529	
Performance of other Japanese companies in host country							.745
Rising production cost in Japan			.452				.509

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 8 iterations.

The results of the rotated component matrix are shown in Table 5.11. As, the explanation of each factor is based on the variables having large loadings, the seven factors were identified as follows:

Factor 1 - *"Macro-economic Environment and Infrastructure Condition"* comprised six variables: uncomplicated administrative procedure, infrastructure condition, low corruption rate, less strike and labor union's issues, investment environment transparency, and protection of intellectual property rights. Except for infrastructure condition, the variables in the factor all belong to the macro-economic environment. As the variable of infrastructure condition has the second largest loading on the factor and well correlated to the two other variables in the factor (Table 5.9), the factor 1 was named as macro-economic environment and infrastructure condition.

Factor 2 - *"Home and Host Country Supports"* included five variables namely investment incentives, Japanese government supports, lowering customs duties, appreciation of the Japanese Yen, and supporting industry development, of which the last variable had a factor loading much smaller than other variables.

Factor 3 - *"Human Capital"* consisted of two variables: low cost labor and skilled labor, which were well related to each other.

Factor 4 - *"Production Inputs"* was the combination of three variables, including raw materials, intermediary goods for production, and political stability, of which the first two variables had very large factor loadings.

Factor 5 - *"Market Access"* contained the variable of regional market and domestic market.

Factor 6 - *"Company Investment Strategies"* was composed of the company's expansion strategy, higher profit expectation and reduction of business risk

Factor 7 - *"Japanese Investment Trend"* included the performance of other Japanese companies in the host country and rising production cost in Japan.

5.2.4. Discussion on the motivations of Japanese FDI in Asia

As revealed in the descriptive statistics, political stability was the most important attribute to the Japanese FDI decisions in Asia. The finding is similar to the results by many other surveys, typically MIGA (2009) stating that political risk remains a major concern for FDI in emerging markets. Other studies such as Jun and Singh (1996) and Busse and Hefeker (2005) also proved the negative and significant effect of political instability to the volume of FDI in developing countries. However, there has been hardly any research confirming the impact of political stability or political risk to the Japanese FDI. The empirical study by Deseatnicov and Akiba (2011) was among the rare that investigated the influence of political risk on Japanese FDI, yet whether this impact is positive or negative was not clear. This dissertation proves that political stability is the most important element in Japanese FDI decisions in Asia.

However, it should be stressed that in many cases, the host country's political instability cannot deter Japanese investors from targeting foreseeable and sizeable profits by exploiting the country's competitive advantages such as low labor cost, natural resources, market size, etc. However, generally stated, political stability facilitates Japanese FDI and political unrests negatively affect the Japanese FDI activities. The Japanese FDI flows in Asia since the 1970s proved that one of the necessary conditions for Japanese firms to invest in Asia is the stability of the recipient country. For Indonesia, the country became the largest recipient of Japanese FDI in Asia during the 1970 – 1980 period under the government of President Suharto's (1967-1998) which was marked by political stability, economic

development, a new investment law, and massive deregulation measures to attract FDI. However, Indonesia lost its attractiveness to Japanese investors in the final years of the Suharto era due to the growing disenchantment and rising street protests, the severe impact of the 1997 financial crisis and the collapse of the rupiah. After the political unrest and economic turmoil, there was a striking drop in Japanese FDI to Indonesia, from 308 billion yen in 1997 to 46 billion yen in 2000 (Urata, 2002 August).

For the case of Thailand, before the political crisis in 2008, the country was well known for political and economic stability. The Japanese FDI booming in this country started from 1986 when the Thai government implemented industrialization strategies and a series of FDI liberalizing measures. The growth followed thanks to the diversity of the Thai economy, a good macro-economic management and a political structure in which technocrats played a key role. The appreciation of the yen over the period also opened the way for significant Japanese FDI flows into the country. Thailand soon became the manufacturing center of Japanese firms, especially in the automotive industry. Nevertheless, the 1997 financial crisis deeply impacted the Thai economic system as well as its society. The country's sluggish recovery from the crisis was the result of its shaky political structure and factional fighting which prevented the formation of a coherent policy (BBC News, 1998). Thailand suffered from a chronic instability with the departure of numerous finance ministers and governors, and many wrongdoings in the election. As a result, the country experienced a substantial decline in Japanese FDI, from 229 billion yen in 1997 to 91 billion yen in 1999 (Urata, 2002 August). The recent political unrests in Thailand also illustrate how the political uncertainty hampers the belief of Japanese FDI investors. As a result of the political turmoil, Thai economic growth rate fell down to 1.6% in

2008; the average year on year economic growth plummeted to minus 1.1% in 2009 (Bank of Thailand, 2012). Political uncertainty, which was only the fifth concern hindering Thailand's prospect for overseas operation of Japanese firms in 2008 (JBIC, 2008), has topped the first position of issues affecting the prospect of the country in the two recent years (JBIC, 2010 & 2011).

Regarding the case of China, the actual takeoff of FDI began in 1985 when all the special economic zones in the country's coastal regions went into full operation, together with favorable regulations and provisions of the central and regional government to attract FDI. FDI in China increased from 260 million USD (1981-1985) to 3.1 billion USD (1986-1990), making the country the hottest destination for global as well as Japanese FDI. However, the China's domestic political turbulence in 1989, the Tiananmen Square incident, had an adverse impact on the FDI flow. Japanese FDI into China in 1989 sunk to 51.3 million USD, being 10 times lower than the previous year, experiencing the hardest drop during the 1984-1996 period (China Ministry of Foreign Economic Relations and Trade, 1998). In addition, Tokyo also imposed economic sanctions on Beijing after the incident, which hampered the Japanese FDI activities in the country (Zhang, 1998). Although the Tiananmen incident had a negative short impact on Japanese FDI in China, it was an evidence showing that how the political uncertainty could hamper the belief of Japanese investors and slow down their activities in the country.

The finding that human capital and higher profit expectation were very important for Japanese investors in Asia is a confirmation of the JBIC's result (JBIC, 2010), in which inexpensive labor cost was one of the five reasons for Vietnam, Thailand and China to be a promising destination for Japanese manufacturing firms. The high importance of the two attributes also supports the hypothesis that Japanese

firms are looking for locations of inexpensive labor cost in Asia, which bring about the lower cost of production and the higher profit. Indeed, after the Asian financial crisis, Japanese firms have been shifting its production to some Asian countries such as Thailand, Indonesia, Philippines, Malaysia, China, and Central and Eastern Europe to exploit cheaper labor opportunities and serve the host as well as neighbor countries markets, especially in electrical and transport machinery sectors. Such examples include some Japanese automakers who moved the production from Japan to Thailand for further export to third countries such as the US, Australia and Mexico.

The dissertation also emphasizes on the high importance of infrastructure condition and transparency of the investment environment to Japanese companies, supporting the results by Belderbos, Capannelli and Fukao (2001), and Siddharthan and Lakhera (2005). Investment incentives, though being statistically proved to have little effect on locational decisions of MNEs (in section 3.1.2.5), was highly meaningful to Japanese decisions to invest in Asia. The reason may come from the fact that 70.25% of Japanese firms who participated in the survey are small and medium enterprises (having 300 employees or less). This finding also proved that while the large firms pay more attention to the transparency and stability of the legal environment, the infrastructure condition and human capital of the host countries, small and medium sized firms are more attracted by investment incentives.

The availability of raw materials and the low customs duties on imported materials and intermediary goods were very important to their investment decision, possibly because of the dominance of manufacturing firms in the sample (68.2%). Another explanation for the importance of raw materials comes from the fact that as Japan is a country with limited natural resources, the motivations of Japanese FDI aim to “gain access and maintain access markets around the world for manufactured goods

while ensuring as stable supply of raw materials and energy to Japan" (International Labor Office, 1999, p. 23). Though the motivation to seek for natural resources has declined over time, the role of access to raw materials remains important in the decision making process of Japanese investors. The importance of low customs duties on imported materials and intermediaries may be resulted from the "difficulty in local procurement in Asia countries" (except for the NICs) (JBIC, 2010, p.39) and the underdevelopment of host countries' supporting industries, which forces Japanese companies to import materials from third countries. Moreover, some kinds of intermediaries for production are required to be made in Japan and imported to the host countries, mainly because "Japan is the only nation which meets the demanded quality and technical level", and "the company's client specifies the materials/parts and it is impossible to replace them" (JETRO, 2011a, p.41).

As for the "important attributes", the dissertation's findings support the argument that firm's business strategies, the host country's investment environment and market potential, and the rising production cost in Japan were of importance to Japanese FDI decisions in Asia.

Attributes related to the firm's strategies include the reduction of business risk, its expansion strategy, and seeking intermediary goods for its production chain, of which the reduction of business risk was slightly more important than the two other attributes. In fact, the slogan "China-plus-one", meaning the Mainland and other manufacturing bases in China's neighboring countries, has become common among Japanese firms since the mid-2000s. China is still an attractive FDI base; however, to cope with the increasing labor cost in China, the political unrest and natural calamity in Thailand, and to offset the risk of putting too much capital on a place, Japanese firms start to look elsewhere for supplementing places. It does not necessarily mean

that Japanese firms will withdraw investment assets from China or Thailand and transfer them elsewhere. Conversely, firms in the global competition must establish links with China. Manufacturers of consumer goods find China an essential profit center thanks to the cost reduction and a growing consumer market of the country; part suppliers and contractors need to make a presence in China as most of their customers are already there; service firms will enjoy a higher profit with the increasing high-income customers in China. Therefore, the migration of FDI into China by firms that have not established a platform in China will likely to continue. Countries neighboring China may interest Japanese investors, but cannot replace the role of China. However, to prepare for potential risks, firms are prompted to seek for additional places apart from China, or risk diversification.

Apart from the firm's strategies, the dissertation lays stress on the importance of the host country's investment environment and market (such as a low corruption rate, uncomplicated administrative procedures, the protection of intellectual property rights and the domestic market) to Japanese FDI in Asia. The results support the findings by Urata and Kawai (2000) and Voyer and Beamish (2004), who appreciated the importance of good governance and a low corruption rate to Japanese FDI, and those by Ma, Morikawa and Shone (2000) who insisted on the market demand to the investment decisions of Japanese firms.

Regarding the less important attributes, the finding on supports from Japanese government, which was considered "unimportant" attribute, is somewhat contrary to other studies on the relationship between ODA and FDI by Farrell (2008), Kimura and Todo (2010) and Blaise (2005). This contradiction may stem from the fact that most of the surveyed participants were manufacturers who usually consider the host country's factors more important. For those in the construction sector, for instance,

ODA provided by the Japanese government may be more important because their FDI activities could benefit from potential contracts from Japanese ODA projects.

The results of the comparing means analysis suggest that the perception of Japanese companies on the importance of some attributes varied according to their sizes. Among the ten most important attributes, the company size affected Japanese perception on the following situations of the host country: less labor strikes and union's issues, access to raw materials, lowering customs duties, and transparency of the investment environment.

Specifically, on the importance level of reducing strikes and labor union's issues, significant differences could be found between the medium sized and large sized companies, in which the attribute was more meaningful to the medium companies. This result may partially be due to the fact that large companies have better human resource policies and could manage the labor issues with the social responsibility better than companies of smaller sizes. The case of Kyoei Manufacturing Vietnam points out the weakness of a small company when facing labor issues whereas the case study of Panasonic clearly demonstrates this strength of a large company (see more in 6.3.1 and 6.3.3). While Kyoei Manufacturing Vietnam could not address the reluctance of Vietnamese labor in team working and job rotating within different parts of the company, Panasonic global as well as Panasonic Vietnam have their own communication methods to manage labor problems. By using feedbacks from employees via the satisfaction survey system, Panasonic could regularly evaluate the core elements of its human resources policies and activities. The company also discusses in advance important management issues with labor unions and establishes Management Labor Committee forums for labor union members to express their opinions on these issues. These methods tighten the

relationship between employers and employees and help raise the responsibility of employees in maintaining the substantial development of the company (Panasonic Corporation, 2011).

About the importance of the investment environment's transparency, the access to raw materials, lowering customs duties on imported materials and intermediary goods, the results indicate that these attributes were more important to small companies than to large ones. As the company size determines its capital (financial, physical or human) and capabilities, the larger firms are supposed to be in a better position in expanding globally than smaller ones as they have a better access to financial resources and a higher ability to maintain an abundant source of human capital. Therefore, large companies were less concerned about the situations of these attributes. On the contrary, the attributes were more important to small companies as they need more facilitation from the host country's government. In fact, small companies are always more sensitive to and heavily affected by the changes of the recipient country's investment environment. However, it should also be noted that though there were significant differences between three groups of companies on these four attributes, the relationship between the company's size and the importance level of these attributes was not statistically confirmed. Therefore, the Vietnamese government does not necessarily need to be serious about looking for strategies to treat companies of different sizes separately regarding these four attributes.

In the perception of Japanese companies, there were seven principal factors affecting their decisions to invest in Asian countries: (1) Macro-economic Environment and Infrastructure Condition, (2) Home and Host Country's Supports, (3) Human Capital, (4) Production Inputs, (5) Market Access, (6) Company Investment Strategy, and (7) Japanese Investment Trend.

Among the factors, Macro-economic Environment, Infrastructure Condition of the host country, and Home and Host Country Supports are the general factors which influencing all types of investment. The other factors clarify the motives of Japanese FDI in Asia: Human Capital and Production Inputs motivates resource seeking companies; Market Access drives the decision of market seekers and efficiency seekers; Company Investment Strategy is the priority of strategic asset seeking companies.

According to the results of the importance of specific attributes to Japanese investment decisions, human capital and raw materials were among the most important attributes. It can be inferred that the strongest motivation of Japanese FDI in Asia was resource seeking to exploit the host country's comparative advantages in human capital, natural resources or low production cost. Moreover, it was found that one of the typical features of resource seeking FDI is to produce goods for export to the third countries. According to the latest survey by JETRO, for Japanese companies in Singapore, Vietnam and Philippines, exports accounted for more than 50% of the total sales. Particularly in Myanmar, Vietnam, Cambodia and Bangladesh, the firms that produce exclusively for export accounted for more than 30% of the total Japanese firms investing in these countries, mostly in textile and electric machinery industries. The most popular destinations for export were Japan and intra-ASEAN (JETRO, 2011a). Also in JBIC's 2010 survey, being a base for exporting to third countries was found as one of the five reasons for Vietnam and Thailand to be promising countries for the Japanese overseas operation (JBIC, 2010).

The second important motivation of Japanese FDI in Asia is market seeking as Market Access was found as one of the main factor. Moreover, the attribute importance also shows that "access to the host country market" was important to

Japanese investment decisions. Also, the case study of TOTO Vietnam and Panasonic Vietnam (see more in 6.3.2 and 6.3.3) clarifies that the local market where their products have been adapted to the local tastes remains equally important to export markets. The two companies also highly expect the development of demands in Vietnam in the coming time. This finding was further confirmed by the surveys of JBIC (2010, 2011), which insisted on the extremely high importance of "future growth potential of local market" for China, Thailand and Vietnam found to be a promising destination for the Japanese overseas operation.

As the regional market access is "not really important" to Japanese respondents, they may consider Asian countries with their own advantages and disadvantages separately rather than looking at Asian region as a whole. Therefore, to attract Japanese investors in the regionalization process, countries needs to compete with each other to maximize their advantages regarding each motivation of Japanese investors.

Despite the low importance of regional market access, there is clear evidence showing that Japanese investors in Asia aim to seek for efficiency. This type of FDI frequently occurs as a follow-on form of investment when a Japanese company first takes resource or market-seeking investments, then consolidates these operations on a product or process basis thanks to the facilitation of open and well developed cross-border markets. This form of investment is common in regional integrated markets, the ASEAN for instance. The case study of TOTO may illustrate this argument (see more in section 6.3.2). For example, products of TOTO plants in ASEAN countries (Thailand, Indonesia, Malaysia and Vietnam) are mainly supplied intra-ASEAN to take advantage of AFTA, and partially exported to the US, EU, Japan, and Middle East to utilize the bilateral trade agreement between these countries and the export

markets. Each of the TOTO's affiliates produces a few specialized products for the targeted markets and imports products from other sister affiliates in neighboring countries. Therefore, the region has access to a full spectrum of products, but each affiliate is responsible for the production of only a small segment.

The evidence revealing the strategic asset seeking purpose of Japanese FDI in Asia is ambiguous as the M&A firms took only 0.36% of the respondents. Nevertheless, the Company Investment Strategy was one of the main factors of Japanese FDI in Asia and the attribute of company's expansion strategy was "important" to its investment decisions. In fact, the motive of strategic asset seeking is prevalent in Japanese FDI into developed countries of the same or higher level of technology skills than Japan, rather than in Asian countries. Therefore, it calls for a deeper research to clarify whether the strategic asset seeking purpose is common to Japanese FDI in Asia.

Noticeably, Japanese Investment Trend was considered an independent factor influencing the investment decisions of Japanese firms, which further clarify the recent "China-plus-one" strategy in Asia. This trend was also illustrated in the case of Kyoei Manufacturing Vietnam, which came to Vietnam primarily under the requirement of Yamaha Motor. However, Japanese Investment Trend was less decisive to the majority of Japanese investors compared to other factors and the "performance of other Japanese companies" was "not really important" attribute to Japanese FDI decisions in Asia.

5.3. Perception of Japanese Investors on Vietnam as an Investment Destination Compared with Thailand and China

5.3.1. Performance analysis of Vietnam compared with Thailand and China

Table 5.12 presents the attribute performance of Vietnam in the perception of Japanese investors.

Table 5.12: The performance of Vietnam compared with Thailand and China in the perceptions of Japanese investors

Attribute	Vietnam			Thailand (mean)	China (mean)
	N	Std. deviation	Mean		
Low production cost	266	0.70	4.06	3.53	3.21
Low-cost labor	267	0.81	3.98	3.51	3.16
Political stability	274	0.77	3.91	2.74	2.92
Skilled labor	265	0.93	3.59	3.51	3.18
Profit opportunity	264	0.71	3.58	3.37	3.28
Appreciation of Japanese Yen	254	0.76	3.51	3.35	3.14
Supporting company's expansion strategy	261	0.72	3.50	3.47	3.48
Other Japanese companies' performance	260	0.73	3.37	3.80	3.75
Investment incentives	251	0.70	3.36	3.24	2.88
Regional market linkage	261	0.81	3.19	3.54	3.30
Prevention of illegal strike and union's issues	261	1.00	3.18	3.07	2.39
Less business risk	256	0.69	3.18	3.19	2.70
Reduction of customs duties	247	0.64	3.14	3.16	2.92
Japanese government supports	259	0.89	3.13	3.01	2.74
Domestic market scale	264	0.90	2.98	3.29	4.31
Investment environment transparency	259	0.83	2.92	3.27	2.44
Administrative procedure simplification	254	0.85	2.80	3.21	2.57
Supporting industry development	257	0.94	2.77	3.29	3.27
Protection of intellectual property rights	259	0.86	2.73	2.92	1.84
Intermediary goods for production	253	0.83	2.69	3.22	3.53
Access to raw materials	260	0.93	2.68	3.29	3.58
Corruption prevention	254	1.04	2.61	2.89	2.24
Infrastructure condition	266	0.83	2.50	3.29	3.29
Valid N (listwise)	**208**				

Accordingly, Vietnam had "very good performance" in only one attribute, and "good performance" in other six attributes, which made up the positive response rate of 30.4%. The advantages of Vietnam came from low production cost, low-cost labor, political stability, skilled labor, profit opportunity, appreciation of the Japanese Yen

and supporting the company's extension strategy, in which Vietnam also outperformed Thailand and China.

Japanese investors showed their neutral reactions to seven attributes about Vietnam, including the performance of other Japanese companies in Vietnam, investment incentives, regional market linkage, prevention of illegal strike and union's issues, less business risk, reduction of customs duties and the supports from Japanese government.

Japanese investors felt negative about nine remaining attributes, indicating that a proportion of 39.1% of the attributes were considered to "poorly performed" in Vietnam. The situation in Vietnam was worse than Thailand in all of these nine attributes; however, Vietnam was assessed to be better than China in maintaining the investment environment transparency, simplification of administrative procedure, protection of intellectual property rights and corruption prevention.

Compared among the three countries, even though Thailand did not have a "very good performance" in any attribute, the country outperformed Vietnam in 13 attributes and was appreciated higher than China in almost all the attributes except for the domestic market scale, the access to raw materials and the provision of intermediary goods for production. Thailand has proved its long history in attracting Japanese FDI as investors believed that among the three countries, Thailand had the best performance of other Japanese companies, the strongest regional market linkage and reduction of customs duties, most transparent investment environment and simplified administrative procedure, as well as the highest development of supporting industries and protection of intellectual property rights.

As for China, the investment situations were especially worse in protection of intellectual property rights, corruption prevention, investment environment

transparency and prevention of illegal strikes and union's issues, whose mean values were below 2.50. The most competitive advantages of China were believed to be its domestic market scale and inputs for production such as intermediary goods and raw materials. Nevertheless, despite having the largest domestic market scale, the country was not so competitive in regional linkage if compared to Thailand.

5.3.2. Differences in perception of Japanese investors with and without projects in Vietnam

The results of comparing means (independent sample T-test) reveal significant differences between Japanese investors with projects in Vietnam and those without projects in 13 variables (Table 5.13).

Table 5.13: Independent Samples Test of comparing means between Japanese companies with and without projects in Vietnam

Variable		Levene's Test for Equality of Variances		T-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval Lower	95% Confidence Interval Upper
Political stability	Equal variances assumed	.147	.702	-4.701	250	.000	-.438	.093	-.621	-.254
	Equal variances not assumed			-4.699	247.451	.000	-.438	.093	-.621	-.254
Investment incentives offered by host country	Equal variances assumed	16.221	.000	-1.594	232	.112	-.148	.093	-.330	.035
	Equal variances not assumed			-1.599	209.094	.111	-.148	.092	-.330	.034
Low production cost	Equal variances assumed	.033	.857	.245	242	.806	.022	.088	-.152	.195
	Equal variances not assumed			.245	240.226	.806	.022	.088	-.152	.195
Scale of domestic market	Equal variances assumed	7.198	.008	-.695	242	.488	-.082	.117	-.313	.150
	Equal variances not assumed			-.691	225.660	.490	-.082	.118	-.314	.151
Linkage with regional market	Equal variances assumed	2.171	.142	-1.064	239	.288	-.113	.106	-.322	.096
	Equal variances not assumed			-1.063	234.828	.289	-.113	.106	-.322	.096
Supports from Japanese government to invest in the host country	Equal variances assumed	12.153	.001	-2.122	239	.035	-.244	.115	-.470	-.017
	Equal variances not assumed			-2.117	228.411	.035	-.244	.115	-.471	-.017
Profit opportunity	Equal variances assumed	1.898	.170	.261	243	.794	.024	.091	-.156	.203
	Equal variances not assumed			.262	242.891	.794	.024	.091	-.155	.203
Access to raw materials	Equal variances assumed	9.750	.002	2.438	239	.015	.290	.119	.056	.525
	Equal variances not assumed			2.433	230.778	.016	.290	.119	.055	.526
Supplying intermediary goods for the company's production chain	Equal variances assumed	18.794	.000	1.992	235	.048	.217	.109	.002	.431
	Equal variances not assumed			1.994	217.009	.047	.217	.109	.003	.431
Availability of low-cost labor	Equal variances assumed	5.377	.021	1.035	244	.302	.108	.104	-.097	.312
	Equal variances not assumed			1.030	228.895	.304	.108	.104	-.098	.313
Protection of intellectual property rights	Equal variances assumed	29.980	.000	5.010	238	.000	.534	.107	.324	.744
	Equal variances not assumed			4.988	218.791	.000	.534	.107	.323	.745
Transparency of investment environment	Equal variances assumed	19.381	.000	2.460	238	.015	.261	.106	.052	.471
	Equal variances not assumed			2.448	213.094	.015	.261	.107	.051	.472
Infrastructure condition	Equal variances assumed	6.100	.014	4.180	244	.000	.432	.103	.228	.635
	Equal variances not assumed			4.158	228.030	.000	.432	.104	.227	.636

Variable		Levene's Test for Equality of Variances		T-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval Lower	95% Confidence Interval Upper
Performance of other Japanese companies in host country	Equal variances assumed	.036	.849	-.814	240	.417	-.077	.094	-.262	.109
	Equal variances not assumed			-.814	239.911	.416	-.077	.094	-.262	.109
Reduction of customs duties on imported materials and intermediary goods	Equal variances assumed	10.134	.002	-.668	230	.505	-.056	.085	-.223	.110
	Equal variances not assumed			-.665	210.555	.507	-.056	.085	-.224	.111
Appreciation of Japanese Yen over the local currency	Equal variances assumed	16.334	.000	-3.035	234	.003	-.297	.098	-.489	-.104
	Equal variances not assumed			-3.049	220.663	.003	-.297	.097	-.488	-.105
Availability of skilled labor	Equal variances assumed	5.608	.019	2.746	244	.006	.321	.117	.091	.552
	Equal variances not assumed			2.735	233.459	.007	.321	.118	.090	.553
Prevention of illegal strikes and union's issues	Equal variances assumed	2.736	.099	2.382	241	.018	.306	.128	.053	.559
	Equal variances not assumed			2.372	226.323	.019	.306	.129	.052	.560
Supporting the company's expansion strategy	Equal variances assumed	2.847	.093	-.100	240	.920	-.009	.093	-.192	.173
	Equal variances not assumed			-.100	231.631	.920	-.009	.093	-.192	.174
Development of supporting industries	Equal variances assumed	21.645	.000	3.869	238	.000	.463	.120	.227	.698
	Equal variances not assumed			3.847	220.693	.000	.463	.120	.226	.700
Simplification of administrative procedures	Equal variances assumed	29.616	.000	2.020	236	.045	.226	.112	.006	.446
	Equal variances not assumed			2.005	195.240	.046	.226	.113	.004	.448
Less business risk	Equal variances assumed	.191	.662	-.242	237	.809	-.021	.088	-.194	.151
	Equal variances not assumed			-.242	236.779	.809	-.021	.088	-.194	.151
Corruption prevention	Equal variances assumed	11.613	.001	5.512	235	.000	.711	.129	.457	.965
	Equal variances not assumed			5.500	226.297	.000	.711	.129	.456	.966

As illustrated in details in Table 5.14, Japanese investors who had projects in Vietnam more appreciated the country for political stability, supports from the Japanese government to invest in Vietnam and appreciation of the Japanese Yen over the Vietnamese Dong. Those who had no investment project in the country were more optimistic about the transparency of Vietnamese investment environment, availability of skilled labor, prevention of illegal strikes and union's issues (with means ≥ 3). They also showed their higher positive reaction to access to raw materials, supplying intermediary goods for the company's production chains, protection of intellectual property rights, infrastructure condition, development of supporting industries, simplification of administrative procedures and corruption prevention efforts of the country, however all at low level (means ≤ 3).

Out of the 13 attributes with significant differences between the two groups of investors, 12 attributes were regarded as "very important" or "important" to Japanese investment decisions. Three attributes that were rated from "unimportant" to "not really important" to Japanese FDI decision include: supports from the Japanese government, appreciation of the Japanese yen over the country's currency, and development of supporting industries.

Table 5.14: Comparing the perception of Japanese firms with and without projects in Vietnam on attribute-based performance of the country

Attribute statement	Import-ance Level	Firms without projects in Vietnam			Firms with projects in Vietnam		
		N	Means	Std. deviation	N	Means	Std. deviation
Political stability	4.75	132	3.71	.737	120	4.15	.741
Investment incentives offered by host country	4.15	116	3.28	.572	118	3.43	.821
Low production cost	3.56	125	4.07	.674	119	4.05	.699
Scale of domestic market	3.78	125	2.95	.812	119	3.03	1.016
Linkage with regional market	3.35	122	3.15	.779	119	3.26	.868
Supports from Japanese government to invest in the host country	2.89	122	3.00	.803	119	3.24	.974
Profit opportunity	4.17	126	3.60	.739	119	3.57	.684
Access to raw materials	4.06	122	2.81	.846	119	2.52	.999
Supplying intermediary goods for the company's production chain	3.66	118	2.79	.702	119	2.57	.953
Availability of low-cost labor	4.42	126	4.02	.726	120	3.91	.898
Protection of intellectual property rights	3.85	122	2.99	.710	118	2.46	.930
Transparency of investment environment	4.14	122	3.04	.685	118	2.78	.944
Infrastructure condition	4.42	126	2.70	.719	120	2.27	.896
Performance of other Japanese companies in host country	3.39	124	3.34	.742	118	3.42	.720
Reduction of customs duties on imported materials and intermediary goods	4.03	118	3.11	.551	114	3.17	.728
Appreciation of Japanese Yen over the local currency	3.32	116	3.35	.636	120	3.65	.847
Availability of skilled labor	4.44	126	3.74	.841	120	3.42	.992
Prevention of illegal strikes and union's issues	4.32	124	3.32	.888	119	3.02	1.105
Supporting the company's expansion strategy	3.91	124	3.52	.668	118	3.53	.770
Development of supporting industries	3.31	123	2.98	.814	117	2.51	1.031
Simplification of administrative procedures	3.94	121	2.89	.656	117	2.67	1.034
Less business risk	3.95	121	3.17	.675	118	3.19	.679
Corruption prevention	3.94	120	2.93	.905	117	2.22	1.076

Within the “important” and “very important” attributes:

- Both the two groups reacted positively to the political stability of Vietnam, suggesting that this attribute is a strength that the country should further promote to attract Japanese FDI.

- Japanese investors with projects in Vietnam responded negatively to the availability of skilled labor while the other group considered it positive, the country needs to improve the performance of this attribute.
- Both the two groups reacted negatively to eight attributes, including: access to raw materials, supplying intermediary goods for the company's production chain, protection of intellectual property rights, transparency of investment environment, infrastructure condition, prevention of illegal strikes and union's issues, development of supporting industry, simplification of administrative procedures, and corruption prevention. The results show that Vietnam really has problems on those attributes and needs urgent actions to address these situations.

Among 13 attributes that showed significant differences, the Chi-square test confirmed that the company's location in Vietnam had affected its perception on the performance of 11 attributes. These attributes include supports from Japanese government, access to raw materials, supplying intermediary goods for the company's production chains, protection of intellectual property rights, transparency of the investment environment, infrastructure condition, availability of skilled labor, prevention of illegal strikes and union's issues, development of supporting industry, simplification of administrative procedures and corruption prevention (Table 5.15).

Table 5.15: Chi-square test of the correlation between the perception of Japanese firms with and without projects in Vietnam on some attributes

1.Political stability		Value	df	Sig. (2-sided)
	Pearson Chi-Square	21.466[a]	3	.000
	[a] 2 cells (25.0%) have expected count less than 5. The minimum expected count is 2.86.			
2. Supports from Japanese government to invest in the country		Value	df	Sig. (2-sided)
	Pearson Chi-Square	11.607[a]	4	**.021**
	[a] 0 cells (.0%) have expected count less than 5. The minimum expected count is 6.91.			
3.Access to raw materials		Value	df	Sig. (2-sided)
	Pearson Chi-Square	10.659[a]	4	**.031**
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 2.47.			
4. Supplying intermediary goods for the company's production chains		Value	df	Sig. (2-sided)
	Pearson Chi-Square	12.479[a]	4	**.014**
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is .50.			
5. Protection of intellectual property rights		Value	df	Sig. (2-sided)
	Pearson Chi-Square	31.591[a]	4	**.000**
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 1.97.			
6. Transparency of the investment environment		Value	df	Sig. (2-sided)
	Pearson Chi-Square	16.744[a]	4	**.002**
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 2.46.			
7. Infrastructure condition		Value	df	Sig. (2-sided)
	Pearson Chi-Square	23.315[a]	4	**.000**
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is .49.			
8. Appreciation of Japanese Yen over the country currency		Value	df	Sig. (2-sided)
	Pearson Chi-Square	15.666[a]	4	.004
	[a] 4 cells (40.0%) have expected count less than 5. The minimum expected count is .49.			
9. Availability of skilled labor		Value	df	Sig. (2-sided)
	Pearson Chi-Square	10.396[a]	4	**.034**
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 1.95.			
10. Prevention of illegal strikes and union's issue		Value	df	Sig. (2-sided)
	Pearson Chi-Square	14.051[a]	4	**.007**
	[a] 0 cells (.0%) have expected count less than 5. The minimum expected count is 8.33.			
11. Development of supporting industry		Value	df	Sig. (2-sided)
	Pearson Chi-Square	19.719[a]	4	**.001**
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 2.93.			
12. Simplification of administrative procedure		Value	df	Sig. (2-sided)
	Pearson Chi-Square	26.241[a]	4	**.000**
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 3.93.			
13. Corruption prevention		Value	df	Sig. (2-sided)
	Pearson Chi-Square	39.065[a]	4	**.000**
	[a] 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.92.			

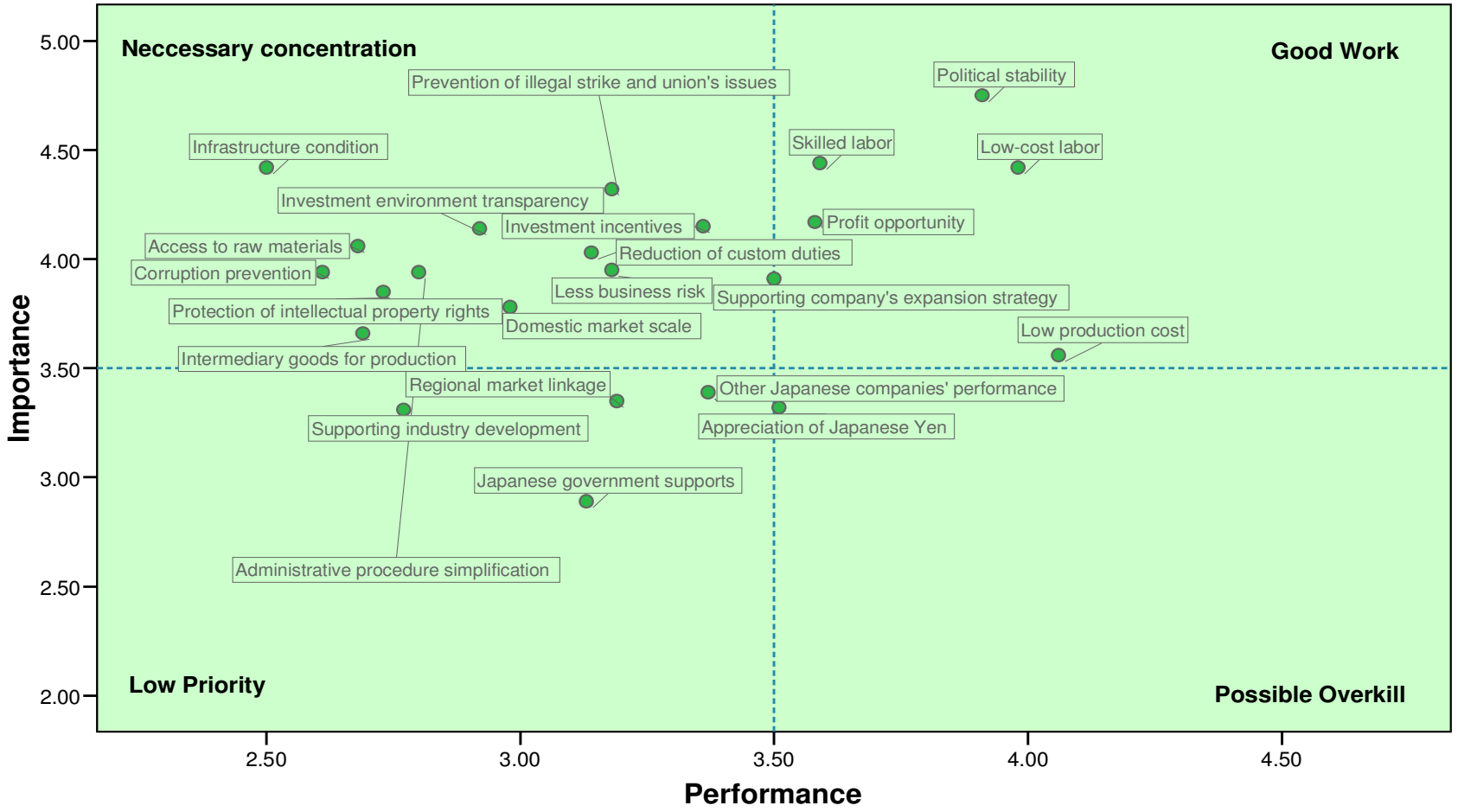
5.3.3. Importance – Performance Analysis (IPA) of Vietnam as an investment destination in the perception of Japanese investors

As the mean value of 3.50 is set as the point differentiating low and high importance/performance, following which the mean value under 3.50 is considered low and the mean value from 3.50 and above is regarded as high, the grid of importance-performance analysis is indicated in Figure 5.1. Accordingly, the importance and performance scores are respectively scattered in the vertical and horizontal axes. The attributes were classified into four groups according to each quadrant of the grid:

A. **Concentrate here** (importance means ≥ 3.50, performance means < 3.50) includes 12 attributes: infrastructure condition, prevention of illegal strikes and union's issues, investment incentives, investment environment transparency, access to raw materials, reduction of customs duties, administrative procedure simplification, less business risk, corruption prevention, protection of intellectual property rights, domestic market scale, and intermediary goods for production. In this quadrant, Japanese investors considered the attributes very important but felt negative about their performance in Vietnam.

B. **Keep up with the good work** (importance and performance means ≥ 3.50) consists of six attributes: political stability, skilled labor, low cost labor, profit opportunity, supporting the company expansion strategy, and low production cost. Japanese investors evaluated the attributes as important and were satisfied with the country's performance.

Figure 5.1: Importance – performance analysis of Vietnam as an investment destination in the perception of Japanese investors



C. **Low priority** (importance and performance means <3.50) comprises four attributes: other Japanese companies' performance, supporting industry development, regional market linkage, and Japanese government supports. In this quadrant, Vietnam was rated low performance in these attributes but Japanese investors did not perceive these features to be important.

D. **Possible overkill** (importance means < 3.50 and performance means ≥ 3.50) contains only one attribute: appreciation of the Japanese Yen. The country was assessed to be well performing in this attribute; however, Japanese investor attached only slight importance to it. Nevertheless, if the situation continues, the Japanese investors still benefit from investing in Vietnam.

5.3.4. Determinants of Japanese FDI decisions in Vietnam

5.3.4.1. Major factors affecting the Japanese investment decisions in Vietnam

The results of factor analysis in investigating factors of Japanese investment decisions in Vietnam were illustrated from Table 5.16 to Table 5.18. With the significant level of Bartlett's test of sphericity almost equal to 0 and the KMO value of 0.822, the use of factor analysis method was appropriate in this case (Table 5.16).

When the default Eigen value was set higher than 1.00, six main factors were identified. These factors could explain 63.54% of the total variance (Table 5.17).

Table 5.18 shows the results of rotated component matrix, by which the components of six factors were described as follows:

- Factor 1 includes six attributes: simplification of administrative procedures, protection of intellectual property rights, corruption prevention, transparency of investment environment, infrastructure condition and prevention of illegal

strikes and union's issues. The factor could be named as *Investment Environment and Infrastructure Condition*.

- Factor 2 comprises of five attributes: political stability, performance of other Japanese company in the country, supporting the company's expansion strategy, linkage with regional market and less business risk, in which the first two attributes load higher on the factor than the other attributes. The factor is, therefore, named as *Political Stability and Japanese Investment Trend.*

- Factor 3 contains four attributes: low-cost labor, low production cost, profit opportunity and availability of skilled labor. The factor should be labeled as *Human Capital and Production Cost.*

- Factor 4 is the combination of four attributes, including access to raw materials, supplying intermediary goods for the company's production chain, development of supporting industries and scale of domestic market, in which the first two attributes have far larger loadings than the other two attributes. Thus, the factor should be named as *Production Inputs.*

- Factor 5 consists of two attributes: reduction of customs duties on imported materials and intermediary goods, and investment incentives offered by host country. The factor could be labeled as *Customs Duties and Investment Incentives.*

- Factor 6 includes two attributes: appreciation of the Japanese Yen over the local currency, and supports from Japanese government to invest in the host country, which both belong to the home country's side. The factor is named as *Japan's Economic Conditions and Supports*.

Table 5.16: KMO and Bartlett's test of factor analysis of Vietnam as an investment destination for Japanese FDI

Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy		.822
Bartlett's Test of Sphericity	Approx. Chi-Square	1865.631
	df	253
	Sig.	.000

Table 5.17: Total variance explained of the factor analysis of Vietnam as an investment destination for Japanese FDI

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.990	26.042	26.042	5.990	26.042	26.042	4.000	17.389	17.389
2	3.113	13.533	39.575	3.113	13.533	39.575	2.652	11.532	28.921
3	1.659	7.211	46.786	1.659	7.211	46.786	2.544	11.062	39.983
4	1.557	6.772	53.557	1.557	6.772	53.557	2.396	10.416	50.400
5	1.236	5.373	58.930	1.236	5.373	58.930	1.528	6.645	57.045
6	1.061	4.612	63.542	1.061	4.612	63.542	1.494	6.497	63.542
7	.926	4.025	67.567						
8	.806	3.506	71.073						
9	.757	3.292	74.365						
10	.669	2.910	77.275						
11	.632	2.748	80.023						
12	.572	2.487	82.509						
13	.516	2.243	84.753						
14	.499	2.168	86.921						
15	.492	2.141	89.061						
16	.427	1.856	90.917						
17	.406	1.767	92.684						
18	.380	1.651	94.335						
19	.307	1.337	95.672						
20	.288	1.253	96.924						
21	.259	1.125	98.049						
22	.236	1.026	99.075						
23	.213	.925	100.000						

Extraction Method: Principal Component Analysis

Table 5.18: Rotated component matrix of factor analysis of Vietnam as an investment destination for Japanese FDI

Attribute	Component					
	1	2	3	4	5	6
Simplification of administrative procedures	.787					
Protection of intellectual property rights	.770					
Corruption prevention	.757					
Transparency of investment environment	.728	.365				
Infrastructure condition	.653			.366		
Prevention of illegal strikes and union's issues	.600	.325	.314			
Political stability		.703				
Performance of other Japanese companies in host country		.631				
Supporting the company's expansion strategy		.619	.403			
Linkage with regional market		.585		.426		
Less business risk	.353	.431				.319
Availability of low-cost labor			.836			
Low production cost			.797			
Profit opportunity			.626			
Availability of skilled labor	.392		.604			
Access to raw materials				.843		
Supplying intermediary goods for the company's production chain	.414			.748		
Development of supporting industries	.543			.545		
Scale of domestic market		.465		.532		
Reduction of customs duties on imported materials and intermediary goods					.815	
Investment incentives offered by host country		.351			.796	
Appreciation of Japanese Yen over the local currency						.749
Supports from Japanese government to invest in the host country						.693

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 10 iterations.

5.3.4.2. Determinants of Japanese investment decisions in Vietnam

The factor score of each factor identified by the factor analysis technique was used to run binary logistic regressions. The binary logistic regression was performed to evaluate the impact of the six factors found in 5.3.4.1 on the likelihood that the Japanese firms would invest in Vietnam. The model contained six independent variables, including: investment environment and infrastructure condition (F_1), political stability and Japanese investment trend (F_2), human capital and production cost (F_3), production inputs (F_4), customs duties and investment incentives (F_5), and Japan's economic conditions and supports (F_6).

Table 5.19 illustrates the fitness of the full model. The test of the full model against a constant-only-model was statistically significant, indicating that the predictors reliably distinguished between the invested firms and non-invested firms (Chi-square = 38.463; df=6 and Sig.= 0). With the 0.00 Sig. level, the hypothesis H_0: $\beta_1 = \beta_2 = \beta_3 = \ldots = \beta_6$ was rejected.

As a whole, the model explained between 17.7% (Cox & Snell R Square) and 24.2% (Nagelkerke R Square) of the variance of the firms having investment projects in Vietnam (Table 5.20) and correctly classified 66.2% of the total cases (Table 5.21). The results indicated a relatively weak relationship between the predictors and the prediction.

As the significant level for Ward's test was set smaller than 0.05, only three of the six independent variables made a unique statistically significant contribution to the model, including Factor 1, Factor 2 and Factor 4 (Table 5.22). The value of Exp(B) presents how a change of raising the corresponding measure influences the odds ratio. If the value exceeds 1, then the odds of an outcome occurring increase;

otherwise, if the figure is less than 1, any increase in the predictor leads to a drop in the odds of the outcome occurring. The regression model could be written as follows:

$$Logit\ (\rho) = Log\ [\rho_i/(1-\rho_i)] = 0.737 - \mathbf{0.765F_1 + 0.640F_2} - 0.170F_3 - \mathbf{0.401F_4} + 0.246F_5 + 0.272F6$$

According to Table 5.22, the odds ratio by the three factors are interpreted and discussed as follows:

Firstly, the 1.897 odds ratio for Factor 2, *Political Stability and Japanese Investment Trend* indicates that the odds of having investment in Vietnam for a firm is increased by 1.897 times for each one point increase in Factor 2. Inverting this odds ratio for easer interpretation, for each point increase on the Political Stability and Japanese Investment Trend, the odds that a Japanese firm has invested in Vietnam will increase 1.897 times. This result once again confirms the fact indicated in Table 5.14 that the firms having invested in Vietnam show higher appreciation to the attributes forming this factor, particularly political stability, performance of other Japanese companies in host country, supporting the company's expansion strategy, linkage with regional market and less business risk. In other words, the higher appreciation a company expresses to those attributes or this factor, we can predict the higher chance that company has invested in Vietnam. This fact also once again stresses that Vietnam should keep up its good work or advantage in this factor.

Secondly, the 0.645 odds ratio for *Factor 1 - Investment Environment and Infrastructure Condition* indicates that the odds that whether a company has invested in Vietnam or not are cut by about 35 % for each point increase in this factor. In other words, for each point increase in the assessment by a firm regarding Investment Environment and Infrastructure Condition in Vietnam, the odds that the firm has invested in Vietnam will decrease. This result seems very strange on the face, but

there are some explanatory facts revealed when we look at the attributes of this factor in the perception of Japanese firms with and without projects in Vietnam as illustrated in Table 5.14. Specifically, in comparison with Japanese firms without projects in Vietnam, Japanese firms that have invested in Vietnam showed more depreciation to the attributes forming this factor, including simplification of administrative procedures, protection of intellectual property rights, corruption prevention, transparency of investment environment, infrastructure condition and prevention of illegal strikes and union's issues. The result stresses the weakness of Vietnam in Investment Environment and Infrastructure Condition that require improvement.

Thirdly, the 0.669 odds ratio of Factor 4 – *Production Inputs* means that the odds that a firm has invested in Vietnam is reduced by more than 30 % for each one point increase in this factor. For easier interpretation, when the investor's evaluation on this factor increases, there is less likelihood that the investor has projects in Vietnam. Similar to the analysis for Factor 1, this result comes from the fact that three of four attributes forming Factor 4, including access to raw materials, supplying intermediary goods for the company's production chain and development of supporting industries were more depreciated by Japanese firms with projects in Vietnam than those without projects in Vietnam. Only scale of domestic market is an exception when the firms with projects in Vietnam showed a little more appreciation than those without projects in Vietnam (3.03/2.95) but cannot reverse the trend of the odds ratio for the whole factor. The result emphasizes another weakness of Vietnam in production inputs, especially intermediary goods and supporting industries which the government should focus on for improvement.

Table 5.19: Omnibus tests of model coefficients on six factors of Vietnam as an investment destination for Japanese FDI

		Chi-square	df	Sig.
Step 1	Step	38.463	6	.000
	Block	38.463	6	.000
	Model	38.463	6	.000

Table 5.20: Model summary of six factors of Vietnam as an investment destination for Japanese FDI

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	221.108(a)	.177	.242

a Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Table 5.21: Classification table of six factors of Vietnam as an investment destination for Japanese FDI

Observed			Predicted		
			In Vietnam		
			Not in Vietnam	In Vietnam	Percentage Correct
Step 1	In Vietnam	Not in Vietnam	35	37	48.6
		In Vietnam	30	96	76.2
	Overall Percentage				66.2

a The cut value is .500

Table 5.22: Variables in the equation of six factors of Vietnam as an investment destination for Japanese FDI

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1(a)	FAC1_V	-.765	.193	15.732	1	.000	.465
	FAC2_V	.640	.198	10.513	1	.001	1.897
	FAC3_V	-.170	.165	1.061	1	.303	.843
	FAC4_V	-.401	.179	5.018	1	.025	.669
	FAC5_V	.246	.172	2.031	1	.154	1.279
	FAC6_V	.272	.171	2.521	1	.112	1.312
	Constant	.737	.177	17.398	1	.000	2.090

a Variable(s) entered on step 1: FAC1_V, FAC2_V, FAC3_V, FAC4_V, FAC5_V, FAC6_V.

5.3.5. Discussion on the perception of Japanese investors on Vietnam as an investment destination compared with Thailand and China

Generally, the results strongly support the argument that Vietnam was an investment base of low production cost and abundant labor force, which assured profit opportunity and supported the expansion strategy of Japanese investors in Asia. Compared to Thailand and China, Vietnam was far more cost-saving and politically stable. Moreover, the devaluation of the domestic currency over the Japanese Yen was beneficial to the investment flows from Japan to Vietnam. Vietnam was also believed to be more abundant of skilled labor than the two other countries. These findings are similar to those by JBIC (2010) which cited the "inexpensive source of labor" and "qualified human resources" among the reasons for Vietnam being promising to Japanese FDI.

Furthermore, the findings indicate that Japanese investors did not express a clear support for: the good performance of other Japanese companies in Vietnam, investment incentives offered by the country, its linkage with the regional market, the prevention of illegal strikes and union's issues, the less business risk in the country, the reduction of customs duties on imported materials and intermediary goods, as well as supports from Japanese government to invest in Vietnam. Among those attributes, Vietnam was believed to outperform Thailand and China in providing generous investment incentives and more effective prevention of illegal strikes and union's issues, as well as receiving better supports from Japanese government.

While Thailand was considered the least risky place to invest, Vietnam was believed to be far safer than China. However, Vietnam was lagged behind Thailand and China in its regional market linkage and the performance of Japanese firms in the country.

Referring to the negative images of Vietnam, it is suggested that the situation of domestic market, transparency of the investment environment, simplification of administrative procedures, development of supporting industries, protection of intellectual property rights, supplying intermediary goods for production, access to raw materials, corruption prevention and infrastructure condition were poor in the country. In these aspects, China was more advantageous than Vietnam and Thailand with a huge domestic market scale, a better provision of raw materials and intermediary goods for production. Thailand performed a little better than two other countries in developing supporting industries, simplifying administrative procedures and maintaining a transparent investment environment. China and Thailand received the appreciation on infrastructure development, whereas infrastructure condition was believed the weakest point of Vietnam. Japanese firms were very disappointed with the protection of intellectual property rights and corruption prevention in the three countries, of which the situations were worst in China.

The latest survey of JBIC also cited the "underdeveloped infrastructure" and the "unclear execution of legal system" as the two biggest issues of Vietnam (JBIC, 2011), which further confirmed the weak points of Vietnam. Notably, regarding the situation of Vietnam's domestic market, the dissertation's finding contradicts to that of JBIC surveys, which pointed out the "future growth potential of domestic market" the first reason (JBIC, 2011) and the second reason (JBIC, 2010) for Vietnam to be promising to overseas operation of Japanese firms. This difference may be resulted from the higher proportion of respondents without projects in Vietnam, who rated the scale of domestic market in Vietnam as "poor performance". The firms with projects in Vietnam occupying a smaller share in the surveyed sample considered this attribute more positively, but only as "neutral performance". This result reveals that the

domestic market of Vietnam is still small in the perception of Japanese investors. Therefore, Japanese investors may be investing in the future potential of Vietnam's domestic market or/and seeking for other advantages of the country such as the cheap labor cost, raw materials and favorable conditions for exporting to third countries rather than the domestic market. As a result, it is a hard work for Vietnam to promote the country as a market for Japanese investors' products.

In comparing the differences in the perception of Japanese investors with and without projects in Vietnam about the country's investment environment, the dissertation finds that investors who had projects in Vietnam were very optimistic about the country's political stability and the appreciation of the Japanese Yen over the Vietnamese Dong. They also showed their high positive reaction to the supports from Japanese government to invest in Vietnam. Possibly, most of the investors perceived that political stability is a long-term condition while the exchange rate is a temporary situation. While the political stability was "very important" to Japanese FDI decisions, the appreciation of the Japanese Yen and supports from Japanese government were "not really important" to Japanese investors when they decide to expand overseas. The results show that even though the current exchange rate and Japanese supports were the two indirect influences on promoting FDI flows, their situations in Vietnam were above the expectation of Japanese investors.

The Japanese firms who had projects in Vietnam showed their most negative reactions to the situation of corruption prevention and infrastructure condition which implies that these attributes are the most serious problems facing Vietnam's investment environment. As these attributes are not the problems to be solved in a short time, they may become the bottleneck for Japanese FDI, especially in high technology sectors that require a good technical infrastructure and official facilitation.

Japanese firms without investment projects in Vietnam were more optimistic about the Vietnamese investment environment, believing that the country well performed in providing skilled labor. It may suggest that the practical investment environment in Vietnam was not as good as Japanese investors had expected. Even though in the perception of Japanese firms, Vietnam surpassed both Thailand and China in providing skilled labors, the country still needs to enhance this attribute further to meet the demand of firms. Moreover, the prevention of illegal strikes and union's issues and the transparency of investment environment were considered neutrally performed in the country. Possibly, Japanese investors were more concerned about other fundamental factors and advantages of the country such as political stability, labor cost and domestic market.

Surprisingly and unfortunately for Vietnam, the firms without investment in Vietnam felt more positive about the country's access to raw material, supplying intermediary goods for production, protection of intellectual property rights, infrastructure condition, development of supporting industry, simplification of administrative procedures and corruption prevention, however, they rated these attributes at "poor performance" level. The fact indicates that Vietnam really has problems and needs urgent actions to address various aspects of its investment environment. As a result, political stability and labor cost are still the two most prominent advantages of Vietnam.

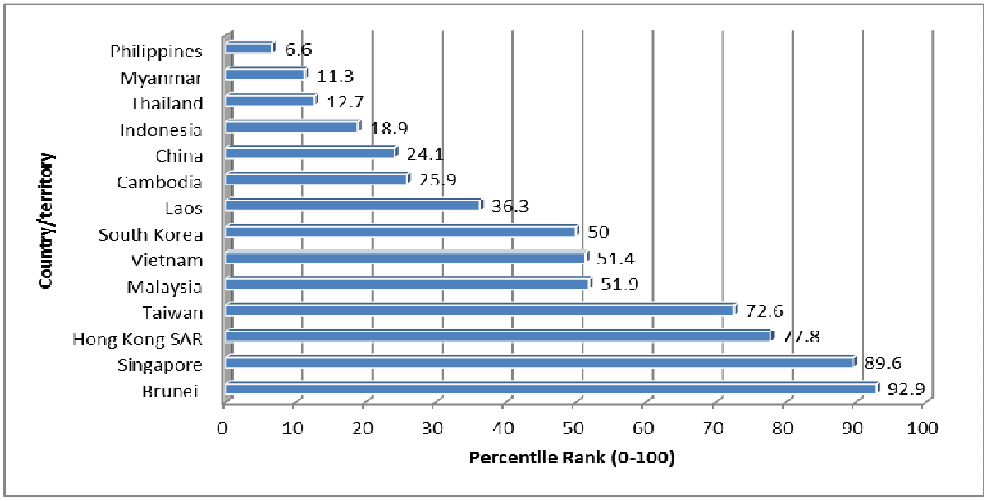
Among the attributes which reveal differences between the perception of two groups of firms, except for the political stability and the appreciation of the Japanese Yen over the local currency, Japanese firms' perception on the country's performance on the other attributes were well correlated with their location in Vietnam. Accordingly, those without projects in Vietnam showed more appreciation. As

Japanese firms who had projects in Vietnam knew the situation of the country better than those who did not have projects, but reacted significantly more negatively about the attributes, it could be, once again, confirmed that the attraction of Vietnam as an investment destination regarding these attributes did not meet the expectation of Japanese investors.

The outcomes of the importance-performance analysis reveal that the beneficiary attributes Vietnam should keep up its good work included political stability, human capital (both low cost labor and skilled labor), profit opportunity, supporting the company's expansion strategy and low production cost. It is suggested that Vietnam should further emphasize and promote these advantages in formulating strategy to attract Japanese FDI.

The first major strength of Vietnam was its political stability. Vietnam scores highly on the World Bank's indicator of "political stability" in 2010 while China, Thailand and some ASEAN countries score much lower (Figure 5.2). The Director of the First Southeast Asia Division of the Ministry of Foreign Affairs of Japan also confirmed that the risk of political instability in Thailand was a factor limiting the country's competitiveness for FDI and creating opportunities for neighboring countries that were more politically stable. Political stability is currently an obvious strong point of Vietnam. However, Vietnam should be aware that when the problems regarding administrative procedures and corruption are still there, this advantage may be also lost with time. Political stability is not enough for the efficient operation of a firm, other internal issues are even more important.

Figure 5.2: Political stability by country's percentile rank



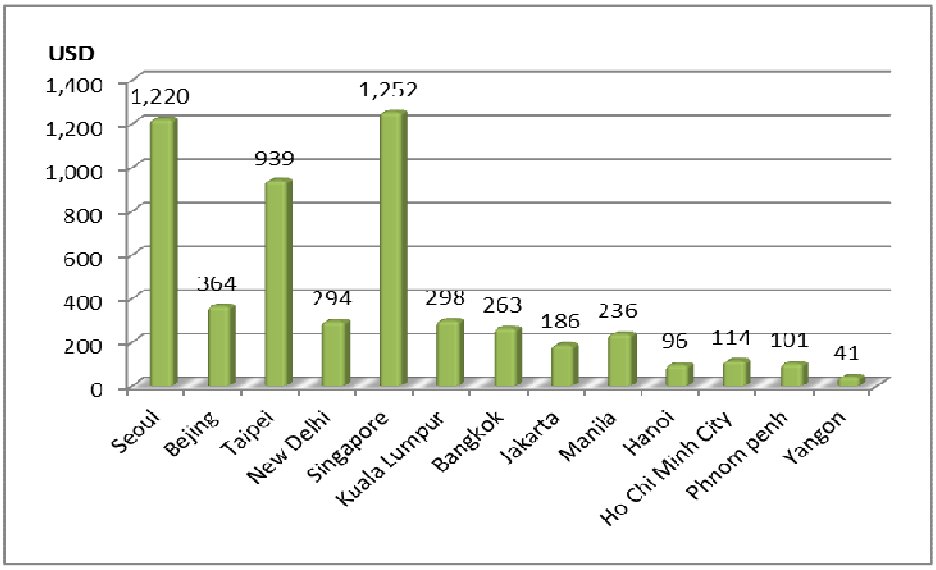
Source: World Bank (2011)

The country's second strength lies in its human capital. Vietnam's workforce was estimated at around 50 million, of which 45% were younger than 35 years of age. The labor force was growing at an average of 3% a year, faster than the average population growth of 1%. Every year, around 1.2 million new workers enter the domestic labor market (GSO, 2011a).

Based on the Vietnam Household Living Standard survey in 2010 (GSO, 2011b), the average wage in Vietnam was about 1,387,000 Vietnamese Dong per month (roughly 693 USD). Although the figure was admittedly crude as in-kind benefits were not likely estimated, it confirmed that the labor cost was cheaper in Vietnam than in neighboring countries. Comparing the investment-related costs in 31 major cities and regions in Asia and Oceania, JETRO (2011c) revealed that the wage rates of general workers in Vietnam (Hanoi and Ho Chi Minh City) were slightly higher than Cambodia (Phnom Penh) and Myanmar (Yangon), but much lower than China (Beijing), Malaysia (Kuala Lumpur), Thailand (Bangkok), Philippines (Manila), and twelve times lower than the average wage in Korea (Seoul) and

Singapore (See Figure 5.3). Obviously, low labor cost is a main competitive advantage of Vietnam. However, this strength may be lost with time if the emergence of Cambodia and Myanmar is considered. Moreover, when the living standard of Vietnam is improved, the current low cost will be set higher than other more newly-emerged countries.

Figure 5.3: Wages of general workers in some Asian countries



Source: JETRO (2011c)

The Vietnamese people are known for their eagerness to improve their lives through hard work, their commitment to education and entrepreneurship, and their willingness to seize emerging opportunities. Foreign investors have praised Vietnamese workers for being quick learning and industrious. This strength may stem deeply from the Vietnamese culture and characters. However, though this character is durable and demonstrated in many places, it is not always recognizable and cannot be a fundamental element for the decision of Japanese investors.

Referring to the low production cost, a majority of Japanese projects in Vietnam are in labor-intensive sectors such as manufacturing, processing, hotels and

hospitality, and construction. Moreover, more than two third of responding firms were labor intensive (44.8% were hiring from 51 to 300 employees; 29.8% had the labor force of more than 300 workers). That presents a fact that Japanese firms are taking advantage of the low labor cost to cut down their production cost and increase the business efficiency. Similarly, the low production cost and the low-cost labor were regarded as the first and second advantage of Vietnam compared to Thailand and China. In open-ended questions, labor characteristics and production inputs were also the most frequently cited advantages of Vietnam as an investment destination, which proved that the human capital (especially the low cost labor) and low production cost remain the main strengths of Vietnam.

With political stability, qualified labor force, and low production cost, Vietnam could be a good choice for substitution and/or supplementation of Japanese companies who are operating in Thailand and China. While Thailand is a maturing investment place that is now facing an unstable political situation, China is a huge but risky market resulting from political disputes between Japan and China, Vietnam is emerging as a destination for Japanese investors' consideration. Moreover, the country's proximity to China and membership of ASEAN also make it an attractive base for exporting to these markets.

Among the attributes Vietnam should improve, a majority were related to the macro-economic and investment environment (infrastructure condition, prevention of illegal strikes and union's issues, investment incentives, investment environment transparency, access to raw materials, reduction of customs duties, administrative procedure simplification, corruption prevention, protection of intellectual property rights, domestic market scale, and intermediary goods for production). The special attention should be paid to upgrade the infrastructure condition, the investment

environment transparency and the access to raw materials, which Japanese firms considered highly important but their situations were rated as "very poor" in Vietnam. Holding regular direct dialogues with the business circle is one way to listen to their comments on the government policies and address their difficulties in doing business. Infrastructure could be upgraded thanks to the government finance, ODA, or the public private partnership capital. To address the shortages of materials and vertical linkages within business circle, the government should have a long-term strategy to develop the domestic supporting industries. Business relations could be generated through the local investment board, especially the FDI promotion department, as well as consulting firms. To increase the labor quality and disciplines, it calls for the collaboration between universities/ vocational schools and companies, in which the students should be trained based on specific demands of the industry.

Surprisingly, it is found that the supporting industry development and regional linkage were in the low priority group, which was partially because of their low importance in the perception of Japanese investors comparing to other attributes when they decided to expand overseas.

The factor analysis of performance of Vietnam shows that there were six principal factors affecting the Japanese investment decisions in Vietnam, comprising of (1) Investment Environment and Infrastructure Condition; (2) Political Stability and Investment Trend; (3) Human Capital and Production Cost; (4) Production Inputs; (5) Customs Duties and Investment Incentives; and (6) Japan's Economic Conditions and Supports. These results suggest that the major purposes of Japanese FDI in Vietnam were resource seeking and efficiency seeking as resources and production inputs took important parts in their investment decisions. It also reveals that Political Stability and Investment Trend was an important condition for attracting Japanese

investments. Investment Environment and Infrastructure Condition was pointed out as an independent factor, but as its elements have been analyzed, this factor has poor performance.

Noticeably, human capital and production cost were classified as two elements of an independent factor, which was different from the results of major factors influencing the Japanese FDI decisions in Asia (see section 5.2.3) separating them into two independent factors. This may be because in Vietnam, the low cost labor results in the low production cost as discussed in the previous sections.

Overall, the most important motivations of Japanese investors in Vietnam are resource-seeking and efficiency-seeking. Although other major investors in Vietnam such as Taiwan and Korea are not the focus of this dissertation, it could be seen that there were some similarities and differences between Japan and other countries in terms of motivations.

First, most of the investors coming into Vietnam for human capital, mostly to take advantages of low cost labor cost, and other inexpensive production inputs, which allow them to cut down on production cost and increase the manufacturing efficiency. These motivations could be seen in the fact that 50% of FDI projects in Vietnam were in the manufacturing sectors, especially in labor-intensive industries.

Second, when looking into the investment structure of each investing country in Vietnam, it could be seen that their motivations varied. While Taiwanese investors focused on foot-ware industry, textile and garment, electronics and house-whole equipment, Korean firms poured their investment capital in manufacturing and processing industry, real estate and construction, as well as textile industry. Japanese and Taiwanese investors are similar to each other as both of them aim at exporting their products to other markets rather than exploiting the Vietnamese market; while

Korea pays more attention to the Vietnamese market with a large number of projects in real-estate, construction, and retail sectors recently;

Third, Japanese firms with projects in Vietnam are likely to think more about the trend and the potential future of Vietnam rather than immediate outcomes. Nowadays, a majority of Japanese projects in Vietnam are of small and medium scales with the capital below the average level in Vietnam.

Among the six principal factors that affect Japanese investment decisions in Vietnam, three had a statistically significant contribution to the chance that Japanese firms had projects in Vietnam. The strongest predictor came from Political Stability and Investment Trend, suggesting that the more confident the investors felt about this factor, the more likelihood that they had projects in the country. This result was supported by the outcome of attribute importance, which indicated the most important role of "political stability" to Japanese investment decisions in Asia. In addition, this attribute was considered one of the most advantages of Vietnam compared to Thailand and China. In fact, Japanese firms with projects in Vietnam showed higher appreciation to this factor than those without projects in Vietnam. Therefore, in order to attract Japanese FDI into Vietnam, it is suggested that the country should further promote its image as a politically stable destination for investment. On the contrary, Investment Environment and Infrastructure, as well as Production Inputs are once again confirmed as the weaknesses of Vietnam when an increase in the valuation of these two factors by Japanese firms would not lead to an increase in the odds that Japanese firms has projects in Vietnam.

5.4. Attitudes of Non-reply Japanese Firms in the Survey

The survey statistical results are the major part of this dissertation. It is found that 20.33% of the participating firms who answered the questionnaire were those who had some interests in the topic and had information about the business environment of at least one country out of Vietnam, Thailand and China, especially those who had the business relationship with partners in the countries. A number of 1.13% (17 feedbacks) sent formal replies without filling in the questionnaire stating that they had no project or business relationship in Asia and/or had no time to answer that questionnaire.

The remaining 78.54% Japanese companies who were requested to answer the questionnaire without feedback had one or more of the following characteristics:

(1) Being unlikely to participate in any survey;

(2) Being not ready to fill in the questionnaire as it may be time-consuming for them;

(3) Having no interest in the topic of Vietnam as an investment base; and

(4) Having no information about business and investment environment in Vietnam, Thailand and China

For those who belong to the first and/or second group, it is difficult to predict their opinions of the investment environment in Vietnam as they may be interested in doing business in Vietnam or may not. For those who have the third or/and four characteristics, their perception of Vietnam as an investment destination is predicted to be unclear or likely to be negative.

Being aware of the above possible characteristics before conducting this dissertation, the author has combined other qualitative methods including analyses of

open-ended questions, direct interviews, contacts, observations, and case studies. The next chapter focuses more on the holistic features of Vietnam as a destination for FDI in the perception of Japanese investors and typical case studies as a supplementation to the quantitative statistical findings.

Chapter VI – Holistic Features of Vietnam as a Destination for Japanese FDI

This chapter describes the holistic features of Vietnam as a destination for FDI in the eyes of Japanese investors. The features include the major competiveness of Vietnam as an investment place and the most difficulties while investors do their business in Vietnam. The holistic features of the country are also illustrated through the case studies of three typical Japanese companies in Vietnam: Kyoei Manufacturing Vietnam, TOTO Vietnam and Panasonic Vietnam.

6.1. Advantages of Vietnam to Attract Japanese FDI

In answering the question of major competitive advantages of Vietnam, more than half (50.57%) of the respondents emphasized the characteristics of labor in Vietnam. Macro-economic conditions held the second position with the agreement of 19.62% of the Japanese investors; the advantages in production inputs followed with the mentioning of 16.98% of the respondents. The advantages stemming from an emerging market, strategic location and infrastructure condition were also mentioned. However, they were all at a small proportion of respondents (less than 10%) (Table 6.1).

The frequently cited characteristics of Vietnamese labor were diligent and hardworking, which accounted for 16.23% of total responses, followed by the skillfulness as well as kind and trustworthy, which accounted for 9.43% and 8.30% respectively. Nineteen cases pointed out the similarity in thinking and characteristics between Vietnamese and Japanese labor as the advantage for Vietnam to be an investment destination for Japanese FDI. Other positive features of Vietnamese labor

came from a dense and young population, a high literacy rate compared to neighboring countries, and the fluency in foreign language.

Table 6.1: The most frequent responses to the open-ended question on advantages of Vietnam as an investment destination

	Advantages	Count	Percentage
Labor characteristics		**134**	**50.57**
1	Diligent and hard working	43	16.23
2	Kind and trustworthy	22	8.30
3	Abundance of skilled labor	25	9.43
4	Similarity in thinking/characteristics with Japanese	19	7.17
5	Dense population and young labor	15	5.66
6	High literacy rate	6	2.26
7	Good at foreign languages (English/ Japanese/ French/)	4	1.51
Investment environment		**52**	**19.62**
1	Political stability and safe	29	10.94
2	Business secure policies	6	2.26
3	Good relationship with Japan; appreciate the Japanese/Japanese products	8	3.02
4	Stable macro-economic policies	4	1.51
5	High economic growth rate	3	1.13
6	International commitments (WTO, ASEAN)	2	0.75
Production inputs		**45**	**16.98**
1	Low cost labor	36	13.58
2	Low production cost	6	2.26
3	Natural resources	3	1.13
Emerging market		**18**	**6.79**
Strategic location		**12**	**4.53**
1	Geographical location	8	3.02
2	Supplementation/Substitution for China	4	1.51
Adequate infrastructure condition		**4**	**1.51**
Total		**265**	**100.00**

About investment environment, nearly half of the responding cases cited the political stability and safety as the prominent feature of Vietnam. The remaining half specified other characteristics, such as a good relationship with Japan, business secure policies, stable macroeconomic policies, high economic growth rate and international commitment as the country's main advantages.

The advantages of production inputs mainly came from low cost labor, making up 13.58% of the total responses. The availability of low production cost and natural

resources were also indicated as the strong points of Vietnam. However, they were at a very small proportion.

6.2. Difficulties in Investing in Vietnam

When being asked about the most difficulties in investing Vietnam, 32.88% of the Japanese firms agreed that the hardest obstacle comes from the less favorable investment environment. The shortcomings from characteristics of Vietnamese labor and shortage of production inputs were the second and third concern of the respondents with 23.87% and 23.42% respectively. Investors were also worried about the underdevelopment of infrastructure condition, which may harm their investment activities in the country (14.41%). Linkage with Japan and market potential were stated as obstacles by 3.6% and 1.8% of the respondents respectively (Table 6.2).

The main less favorable features of Vietnamese investment environment involved the lack of administrative transparency and consistency, the complex administrative and customs procedures, as well as the communist political regime, which made up 8.11%, 6.31% and 5.41% of the total responses respectively. Other respondents also cited the lack of consulting business information and guidance, the corruptions and bribes as disadvantages of the investment environment. Besides, obstacles might come from the inconsistent financial regime, the higher costs and restricted sectors applied to foreign sector as well as the low competitiveness according to GDP.

Japanese investors' main concerns of labor characteristics concentrated on the lack of skilled labor and middle managers, and the difficulty in keeping skilled labor to work for the company, which occupied 9.91% of the responses. Concerns about the labor's language accounted for 5.86% of the answers. Other investors also referred to

labor union's issues, the lack of business senses and trustworthy, the lack of time management, teamwork skills and work aspirations, and the small population as main disadvantages related to labor.

Table 6.2: The most frequent responses to the open-ended question on disadvantages of Vietnam as an investment destination

	Disadvantages	Count	Percentage
Investment environment		**73**	**32.88**
1	Lack of administrative transparency and consistency	18	8.11
2	Complex administrative/ customs procedures	14	6.31
3	Political regime/trends	12	5.41
4	Corruption and bribes (Gov. and taxation sector)	10	4.50
5	Lack of consulting information/business guidance	11	4.95
6	Financial regime/Exchange rate/Inflation	4	1.80
7	Low competitiveness according to GDP	2	0.90
8	Higher cost and restricted sectors applied to foreign investors	2	0.90
Labor characteristics		**53**	**23.87**
1	Lack of skilled labor/middle-managers/ difficult to keep skilled labor	22	9.91
2	Language	13	5.86
3	Labor union issues	7	3.15
4	Lack of business senses and trustworthy	5	2.25
5	Low skill of time management/ teamwork/lack of work aspirations	4	1.80
6	Small population	2	0.90
Production inputs		**52**	**23.42**
1	Lack of materials/difficult to establish vertical production chain or suppliers	14	6.31
2	Lack of/ Time consuming of transportation and logistics services	12	5.41
3	Shortage of electricity supply	8	3.60
4	Rising labor-related costs (salary, training fees, etc.)	8	3.60
5	Lack of supporting industries	6	2.70
6	Low technological level/ quality management level	3	1.35
7	High office rental fees	1	0.45
Poor infrastructure condition		**32**	**14.41**
Linkage with Japan		**8**	**3.60**
1	Long distance from Japan	3	1.35
2	Lack of cultural and business linkage with Japan/other neighboring countries	5	2.25
Low domestic market potential for Japanese products		**4**	**1.80**
Total		**222**	**100.00**

As for production inputs, investors were much worried about the lack of materials and suppliers, and time-consuming transportation and logistics services which occupied 6.31% and 5.41% of the answers respectively. They also showed their concerns to the shortage of electricity, the rising labor related costs (for example

salary and training fees), the lack of supporting industries, the low technology and quality management level, and the high office rental fees.

6.3. Case Studies

6.3.1. Kyoei Manufacturing Vietnam

Kyoei Manufacturing Vietnam is an affiliate of the Japan-based Kyoei Manufacturing Co., Ltd. Established in 1953, the parent company specializes in manufacturing transportation equipment and locates in Hamamatsu, Shizuoka prefecture, Japan. Its main products include motorcycle related parts, ATVs (all-terrain vehicles), and automobiles; shinkansen seats; water locks and game-related equipment. The parent company has a total capital of 4,000 million Yen (more than 40 million USD), a domestic sale of 8.8 billion Yen (88 million USD) and a workforce of 276 employees (March 2011). Kyoei Manufacturing Co., Ltd has long been a supplier of many Japanese famous companies in automotive industry such as Yamaha Motor Corporation, Yamaha Motor Power Products, Co. Ltd, Bridgestone Corporation, etc. Apart from a subsidiary in Vietnam, the parent company also has a 20% joint venture in technology licensing in Indonesia.

In Vietnam, its wholly owned subsidiary was named as Kyoei Manufacturing Vietnam (KMV). The affiliate company was established in 2004 in the Noi Bai Industrial Park, Hanoi, financed with 3.65 million USD and employs 700 local workers. Its main products include press and welding for motorcycles, all of which are supplied to Yamaha Motor Vietnam. The second plant was installed in October 2008, increasing its manufacturing products by 50%, attaining the output of 700.000 units per year.

Explaining about the motivations for Kyoei Manufacturing to invest in Vietnam, Mr. YAMADA Masuya, Deputy General Director of the KMV, revealed that one of the main reasons for the parent company to place its investment in Vietnam was the operation of Yamaha Motor in the country. Yamaha Motor Corporation is the second largest producer of motorcycle (after Honda) in Japan in terms of market share and one of the most important and strategic trading partners of Kyoei Manufacturing Co., Ltd. The company is famous for applying the intensive research of lightweight, yet sturdy and reliable metal alloys for acoustic pianos in producing the metal frames and motor parts for motorcycles. Yamaha Motor came to Vietnam in 1998, taking the second biggest domestic market share of motorcycles with 1 million units sold in 2010, following Honda Vietnam with 1.9 million units (Khanh Huyen, 2011). As Mr. ISHIKAWA Yasuhiro, President of Kyoei Manufacturing Co., Ltd. and Chairman of the Yamaha Motor Supplier Association indicated, the company has been collaborated with Yamaha for more than 30 years in a wide range of fields. “As supplying chains globalize, it is becoming increasingly important to make sure that the understanding and implementation of Yamaha Motor’s procurement policies are spread throughout the domestic and overseas supply chains” (Yamaha Motor Group, 2009, p.38). For that, the purpose of KMV is more inclined to market seeking as its main customers, the Yamaha Motor, has set up the facilities in Vietnam and KMV needs to follow to retain its strategic business.

The presence and operation of Yamaha Motor Vietnam warrantee the production of KMV regardless of the fluctuation of the global as well as the Vietnamese economy. As a manufacturer, KMV’s leaders do feel worried about possible risks caused by the heavy dependence on Yamaha Motor Vietnam’s operation; however, they have a strong belief in their long-term strategic partner with

the company. To assure that all its outputs are supplied to Yamaha Motor Vietnam, KMV has reached a quality agreement before signing any contracts with the company. KMV has also carried out subcontract work for Yamaha EU and Yamaha US to reduce the dependence on Yamaha Motor Vietnam.

Talking about the determinants to invest in Vietnam, Mr. YAMADA insisted on the labor cost as the main competitive advantage of the country. However, he added that the cheap labor cost did not help the company to reduce its total production cost as they have to bear numbers of non-production expenses in Vietnam.

The most troublesome labor problem to KMV comes from a lack of loyalty of employees. According to the company's statistics, 30% of their workers quit their jobs after several years working for the company. From the employees' viewpoint, they blamed the company for low salary (around 1,200,000 to 1,400,000 VND/month, equivalent to 7,000 Yen or 70 USD/month), which was three times lower than other assembling companies in the same area. From the employer's perspective, the employees who quit jobs will not be employed by any other companies in the Yamaha's production chain for at least 7 years.

KMV's managers also found it difficult to overcome the cultural gap between the two countries as they explained that Japanese business style is very different from that of Vietnam. While the Japanese highly appreciate teamwork, the cooperation between different departments in a company in Vietnam is poorly performed. That fact reduces the productivity of the whole manufacturing process. Moreover, the company could not carry out the job rotation as Vietnamese employees prefer not to work in the manufacturing sites, especially the administrative staffs. In addition, as Vietnam education system does not provide workers with training courses

in and after high school, the company itself has to train employees step-by-step, especially by on-the-job training, which creates a burden to the company.

Material procurement also poses obstacles to the operation of KMV. As indicated by Mr. YAMADA Masuya, the main input for production of KMV is steel pipes; however, this material is basically imported from Japan, Taiwan and other ASIAN countries. As the quality of steel pipes manufactured in Vietnam is below the quality standards set by the company, its local procurement remains lower (22% in 2004) than the material imported from Thailand (48%) and other ASEAN countries (38%).

6.3.2. TOTO Vietnam

Established in Japan in 1917, TOTO Ltd. has globally expanded to become a famous multinational company, specializing in sanitary wares, plumbing accessories, and bathroom facilities. Apart from the traditional products, the company has started new business in eco-friendly materials (title and hydro-coating materials) and ceramics (precision ceramics and optical components). Additionally, TOTO was a pioneer in researching and applying the construction method for prefabricated bathroom model in 1963 and has also been a leader in eco-friendly sanitary products such as a water-saving toilet that uses only 4.8 liters per flush and hydrotect air purification technology used in tiles and coating products (TOTO, 2011).

TOTO's headquarters are located in Fukuoka prefecture, Japan. The headquarters have a total capital of 35,579 million Yen (more than 355.79 million USD) and employ 24,159 permanent workers (by March 2011). A number of 70 companies have involved in TOTO's production chains, of which 62 companies are subsidiaries and affiliates. The manufacturing sites of TOTO spread out from Asia to Americas and Europe, but they are mostly condensed in Asia with 10 manufacturing

sites in China, 9 factories in Japan, 2 in Thailand, 1 in Malaysia, Indonesia and Vietnam. The overseas net sale of TOTO reached 55.73 billion Yen (over 557.3 million USD), of which 50% came from China's market; Americas took a proportion of 28% whereas Asia-Oceania and Europe make up 19% and 3% respectively (TOTO, 2011).

The affiliate of TOTO Ltd. in Vietnam, TOTO Vietnam Co., Ltd., was officially established in 2002, financed with 23 million USD. Starting from being an exporter to Vietnam's market, TOTO has rapidly become a manufacturer in the country to export to third markets as well as to serve the local market. The first factory of TOTO Vietnam was situated in an area of 29,000m^2 in the Thang Long Industrial Park of Hanoi, employed 759 workers, and reached the capacity of 400,000 units per annum. Its products are exported mostly to Japan, the US and China and highly favored in these markets. Since July 2004, the company has launched its products to the local market and become one of the two most famous producers in high-class sanitary wares together with INAX. To expand its production capacity, TOTO Vietnam installed the second factory worth 52 million USD in September 2006. This was the first factory of TOTO Ltd in South East Asia that was equipped with a modern and large-scale production chain using plastic mold and had the capacity of 750,000 units annually.

TOTO Vietnam now has 20 wholesale shops (with showrooms) and 300 shops distributing products of TOTO together with those of other sanitary ware brands. With the recent booming of offices and high-qualified apartments in Vietnam, TOTO is aiming at the luxury sanitary wares market in which INAX is the main competitor. For overseas markets, while TOTO products made in Thailand are exported to EU, those made in Indonesia are exported to the Middle East, products made in Indonesia

and Vietnam are exported to the US. Though TOTO has a large number of manufacturing plants in China, the products made in China are not exported to other ASEAN countries. The company has supplied the ASEAN markets with the products made in ASEAN countries such as Thailand, Indonesia and Vietnam to take advantage of AFTA (ASEAN Free Trade Area).

The principal motivation prompting TOTO to Vietnam was supposed to be market seeking as Mr. HIDENORI Maya, former General Director of TOTO Vietnam revealed that the parent company was attracted by the potential of Vietnam's market as well as its advantages in exporting to third markets such as China, the US and Japan's markets (Luu Huong, 2004).

As for the determinants of Vietnam as an investment destination, Mr. HIDENORI unveiled the reasons for TOTO to choose Vietnam instead of other neighboring countries. First, Vietnam was a market with real potential and the one in which they have a strong foothold. Second, TOTO's strategy was to turn Vietnam's factory into a large-scale manufacturing base to export to the region and the rest of the world. With the country's high economic growth rate and strong international integration commitments, TOTO was very confident that their business would succeed in the country. Comparing the potential of Vietnam to China of 12 years ago, he remembers that when they decided to build their factory in China, the local demand for high-quality ceramic sanitary wares had been still low. However, they were confident of the company's prospect in China and the fact has proved the decision right as China became one of TOTO's largest markets. Now they came to Vietnam with a similar feeling of China, but Vietnam was changing faster and more vigorously than China 12 years ago. If TOTO failed to keep up with market trends in Vietnam, they would lose opportunities.

Third, Vietnam has the advantage of human capital compared to neighboring countries. Expressing the assessment on Vietnamese worker's qualifications, Mr. HIDENORY recalled the difficulties of TOTO's factory in the US, in which TOTO US got into trouble because US workers often changed jobs and had low qualifications. Since a large number of Vietnamese-American workers were recruited, the factory started to run more smoothly. This proved that Vietnamese workers have high qualifications wherever they are. For the case of its first factory, TOTO Vietnam recruited 500 employees, some of whom had been trained in its factories in Japan, China and Indonesia. According to TOTO's Board of Directors, Vietnamese workers had high working skills and ability in accessing to new technology compared to those of other countries in the region.

Fourth, the company has a strong belief in the macroeconomic situation and investment environment of the host country. According to Mr. TAKESHIMA Koji, the acting General Director of TOTO Vietnam, with the belief that the economic growth rate and the increasing living standard of the country would lead to a high demand for high-class sanitary wares, the company decided to further expand its production. Moreover, the country's accession to WTO in 2007 would pave a way for made-in-Vietnam products to penetrate into the global market. In addition, a number of bilateral agreements between Japan and Vietnam would make the countries a favorable place for investment compared to other ASEAN countries.

Apart from the advantages of doing business in Vietnam, TOTO Vietnam is facing some difficulties related to the labor and the production network.

The labor turnover rate of the company now is reaching about 4% per month or about 48% a year. There are several reasons leading to this situation. First, as most of the employees come from other provinces, in order to work for TOTO Vietnam,

they have to live far away from their home towns. Moreover, as there are no living apartments provided by the company, the workers have to rent houses near the factory, in which about four of them have to share a room to reduce cost. In addition, even though the Thang Long Industrial Park provides apartments for rent, their regulations are somewhat stricter than the employees expect (such as apply a specific curfew, ban the opposite sex, require 6 employees in a room, etc.). High living expenses compared to the low salary (around 2.5 million VND, equivalent to 140 USD per month) are driving them out of the company. Some of the employees who gave up their jobs in TOTO Vietnam said they would rather be back to their hometowns with their family to enjoy lower living costs than continue working in the company.

In an effort to reduce the turnover rate, the company has improved its working environment and increased the productivity. TOTO has installed four lifts for carrying heavy machinery and products to reduce the transportation time. Anti-heat facilities such as air-conditioners and wind fans have also been equipped to cope with the sultry weather of the Hanoi's summer. Workers are also encouraged to take part in Japanese language course after working hours in the company to increase their understanding of Japanese culture. Moreover, skilled workers are selected for training courses in Japan for 3 months annually. The company also has strategy to promote Vietnamese middle managers to higher positions such as Vice President of Internal Affairs and Communication Director.

The second difficulty of TOTO comes from procurement. Only 50% of the clay used for making sanitary wares could be purchased locally; whereas 50% are imported from other Japanese subcontract companies in the region. In detail, molds for mass production, rubber, and resin are imported from Japan, while plaster molds

are produced in Thailand and then imported to Vietnam. Metal parts and electronic components are imported from Malaysia, whereas 50% of the bathtubs consumed in Vietnam are manufactured by Japanese OEMs (Original Equipment Manufacturers) in Nanjing, Taiwan. To reduce the production and transportation cost, TOTO Vietnam has the strategy to shift some of the plants in its production chain located in Thailand to Vietnam. The company also expects that the development of supporting industries in Vietnam will provide more materials substituted for import, thus helps save the production cost.

6.3.3. Panasonic Vietnam

Panasonic Corporation is a worldwide leader in the development and manufacture of electronic products for a wide range of consumer, business and industrial needs with headquarters in Osaka, Japan. Founded in 1918 under the name of Matsushita Electronic Industrial Co., Ltd., the company has rapidly developed and become one of the three giant Japanese companies in electronics together with Toshiba and Sony. By March 2011, the company recorded a net sale of 8.692 trillion yen (approximately 105 billion USD), employed 366,937 persons and had 633 affiliates globally (Panasonic, 2012). Panasonic also ranked 50th in the Fortune Global 500, the 500 world largest corporations in terms of revenue (Fortune, 2011), being one of the Worldwide Top 20 Semiconductor Sales Leaders (IHS iSuppli, 2011). By March 2011, Asia made the biggest proportion of Panasonic's global sales revenue, attaining at 26%, as more than two times as the ratios of Americas and Europe (see Figure 8.7). China remained the largest market in Asia, taking an account of more than 50% of the company's sale revenue in the region. The remaining half of the revenue was contributed by all other Asian countries (Panasonic, 2011).

Panasonic (or more precisely Matsushita Electronic Industrial Co., Ltd.) has presented in Vietnam since 1971 in Ho Chi Minh City; however, not until 1996 did the company establish its first manufacturing plant of Panasonic AVC Networks Vietnam (PAVCV), which is in charge of manufacturing and sales of audio visual products such as color TVs. The second affiliated company, Panasonic Home Appliances Vietnam, was founded in Hanoi 8 years later, responsible for manufacturing and selling home appliance products. In the 2000s, in response to the rapid market growth for electronic products in Vietnam, Panasonic searched for ways to increase imports and accelerate its local production. One initiative was to establish a holding company that would effectively place both factories under one umbrella. Panasonic had to persuade the Vietnamese government as it was an unprecedented case of a foreign company to establish a holding company in the country.

The approval that was given by the MPI of Vietnam in August 2005 paved the way for Panasonic to harmonize its organizational, market, financial as well as technological structure between the various projects of an investor. The establishment of Panasonic Vietnam enables Panasonic to integrate its existing management resources and facilitate an optimum allocation of investment in future projects. The holding company also handles marketing, sales, service and export of locally manufactured products (by Panasonic Home Application Vietnam and Panasonic AVC Networks Vietnam), as well as products imported from other Panasonic manufacturing companies worldwide. Panasonic Vietnam's marketing and sales of imported finished goods allow it to expand on the availability of product lineups for the Vietnamese market.

About the factors that motivate Panasonic to Vietnam, the company managers insisted on the market seeking and resource-seeking (mostly to seek for the human

capital) purposes. According to the Panasonic's Executive Director of Corporate Management Division for Asia and Oceania at this time, Mr. KAWABE Tomio, the ultimate strategy of Panasonic was to make Vietnam one of its major production bases in Asia, which accounts for a quarter of Asia's total products. The establishment of the very first model of 100% foreign owned holding company in Vietnam would present the strong effort of the Vietnamese government to diversify investment types in Vietnam, as the holding company model has been widely adopted by developed countries to provide investors with flexibility for market expansion as well as business development. As Panasonic considers Vietnam to be a highly attractive country with a promising market and rich human resources, the company was undertaking feasibility studies for other investment projects to make further contribution to the development of Vietnam.

Since then, the company has rapidly expanded across Vietnam with six companies, employing a total workforce of 8,200. Panasonic Vietnam is developing rapidly to become the second largest overseas subsidiary of Panasonic Corporation in terms of sales. One of the reasons for its success in the Vietnamese market comes from the understanding of local needs and buying behaviors. For example, the Panasonic washing machines use less water than other competitors' products; its refrigerators are more power saving, thinner with a bigger freezer to meet the Vietnamese needs; moreover, all of its products are carefully instructed in Vietnamese in user's guides. Panasonic also takes advantage of the retail system in Vietnam by supplying small electronic stores with its products for the buyer's convenience.

Over the years, Panasonic has made a good reputation in Vietnam. In the concept of the majority of Vietnamese consumers, Panasonic means good quality, high tech and special features compared to the similar products in the market.

According to Mr. ABE Shinya, the General Director of Panasonic Vietnam in 2010, the main determinants for Panasonic to choose Vietnam as an investment destination aim at two points: market potential and labor force.

First, as a manufacturing company, market plays an important role. Vietnam is a potential market for sale. With more than 86 million people and young population (aims at the 27-28 year old market segment), those people will buy the products in a very near future. In addition, as Vietnam is enjoying a high economic growth, the future rate of consumer products is expected to be high. Therefore, the company will have more opportunities to sell products in this market.

Second, as for the manufacturing chain, Vietnamese workers are diligent and eager to learn. Vietnamese and Japanese are sharing many similarities in culture and the way of thinking, thus the Japanese managers and Vietnamese workers can well cooperated.

Moreover, political stability, reasonable labor cost, and safety are additional advantages of Vietnam compared with other neighboring countries. The geographical position also adds value to Vietnam as an investment place. From Vietnam, the company can connect many countries in the region by logistics way. Domestic and international transportation is also easily accessible.

The biggest difficulty that Panasonic Vietnam is facing is to find supporting companies as supporting industries in Vietnam are underdeveloped. That reduces Vietnam's advantages in attracting FDI in the manufacturing field. Most of materials for production are made overseas and imported to Vietnam for assembling only.

Besides, the company also meet obstacles resulted from the inconsistency of Vietnamese policies, especially those in the manufacturing industry. Any changes in

business policies affect all operating companies. As suggested by Mr. ABE Shinya, it is better for Vietnam government to amend its policies step-by-step and make it predictable to the business circle.

6.4. Discussion

The results of the holistic analysis add some specific descriptions to the advantages and disadvantages when investing in Vietnam. Accordingly, the most attractive feature of Vietnam lies in the country's labor characteristics, of which Japanese investors appreciated Vietnamese employees' diligence, hard-working, skillfulness as well as their kind and trustworthiness. The country was also advantageous with a dense and young population with a high literacy rate. Moreover, it is noteworthy that Vietnamese labors had comparable characteristics with Japanese employees and could share the similarity in thinking with Japanese employers, which contributed to facilitating the Japanese business activity in the country.

Beside the employees' characteristics, a favorable investment environment and production inputs were also cited as the advantages when investing in Vietnam, of which political stability and low cost labor were the two main cores. It is noticeable that the good relationship between the two country's governments, the appreciation toward Japanese people and Japanese products from the Vietnamese side and the country's international commitments to such organizations as ASEAN and WTO added value to the attractiveness of Vietnam in the eyes of Japanese investors.

An adequate infrastructure condition and an emerging market were also mentioned as the competitiveness of Vietnam, however, at a very small proportion. In fact, manufacturers that were located in industrial parks could enjoy the adequate infrastructure provided by the park's developers. However, a majority of Japanese

investors complained about the situation of infrastructure in Vietnam. The problems of traffic jam, electricity shortage, poor quality roads, etc. as bottlenecks for Japanese investors were still rampant. In addition, in the perception of Japanese investors, Vietnam can benefit from its strategic location near China and its long coastline. However, this geographical advantage could only add value to the investment activities rather than being a main advantage to induce investors.

The results of the open-ended question analysis also confirm and specify the disadvantages of Vietnam in its investment environment, inputs for production, labor characteristics and infrastructure condition. Investors were much concerned with the investment environment in a sense that it lacked administrative transparency and consistency, the administrative and customs procedures were bureaucracy, corruption and bribes were common in the governmental organizations and taxation sector, and the consulting information and business guidance were not always available. Noticeably and surprisingly, investors were somewhat worried about the political regime in Vietnam, in which all the socio-economic development is directed by the ruling communist party. Perhaps, Japanese investors may highly appreciate the political stability but were not very happy with the operation of the communist regime. In a context of an unrest world, Vietnam may emerge as a safe and stable country. However, when the situation of the region has been stabilized, it cannot be ensured that this advantage can maintain its strength. For example, when Thailand was suffering from the political upheavals and unrests, Vietnam could immediately benefit from its neighbor's problems. However, when Thailand has overcome its difficulties, pressure will be put on Vietnam in attracting more Japanese investment.

Regarding production inputs, Japanese investors stated that the lack of materials, vertical suppliers, supporting industries and the time - consuming of

transportation and logistics services were two main concerns. It can be inferred from this negative fact that there are visible limits to the development of Vietnam in general and to the attraction of Japanese FDI in particular. Because of the above mentioned fact, Japanese investors only put money in Vietnam for resource seeking, efficiency seeking, or a base to export their products the third countries.

They also felt negative about the recent rising labor-related costs and rental fees, which were applied to the foreign investment sector. Once again, there will come a future when the living standards of Vietnamese people have reached a certain level, the demand for increasing salary will make the labor cost become less competitive. Besides, the shortage of high quality human resource will hinder high-tech companies to invest in Vietnam. As a result, Vietnam will be only a base for manufacturers who seek for low cost labor, thus far from become a center of modern technology.

Apart from many advantages of Vietnamese labor characteristics, Japanese investors were still worried about the lack of middle managers in Vietnam and difficulty in keeping skilled labor to continue working for the company. It is a fact that after recruiting the employees in Vietnam, Japanese firms have to bear all the labor training costs; however, when the workers are skillful enough, they want to move to other places with better paid rather than staying loyally in the company. That contradicts to the business culture of Japanese firms, in which loyalty is strongly demanded as the companies have invested large amounts of money training their workers. This fact shows that the Japanese traditional recruitment policies that reduce job-hopping and ensure long-term employment seems to be unsuitable for the Vietnamese labor market. As job changing is prevalent in Vietnam, Japanese companies operating in the country need to adjust their human resources policies to retain their key experts and crucial skilled workers.

The three case studies of Japanese firms operating in Vietnam provide a deep look into firm's evaluations on Vietnamese investment environment as well as their investment strategies in Vietnam. Though the statistical results show that market seeking was not clearly the main purposes of Japanese investors in the country (as analyzed in section 5.3.5), case study analysis pointed out that there was evidence that Japanese firms in Vietnam were seeking for domestic market, more specifically the "future market growth". The KMV invested in Vietnam because its main customer, the Yamaha Motor, had already been in the country. As for TOTO Vietnam and Panasonic Vietnam, the domestic market was as important as export markets because both the two companies found potential opportunities brought about by the young and middle-income population of Vietnam. However, it could be explained that as a globally experienced firms, TOTO Vietnam and Panasonic Vietnam foresee the future development of Vietnamese market, thus, have their own expansion strategy in the country, which is not necessarily applied to other firms investing in Vietnam.

All the three companies found that Vietnam was advantageous than neighboring countries in political stability, human resources, and potential market with young consumers. However, the competitiveness from low labor cost is fading out, while other production costs and even non-production costs are increasing, therefore the total production cost become more expensive than before. For TOTO Vietnam and Panasonic Vietnam, the international commitments and market potential play important roles. In their investment strategy, they first established manufacturing bases in Vietnam for exporting to the third markets, for that the international commitments and trading relations of Vietnam and other countries remain important to them. Moreover, Vietnam presents a huge population with an increasing middle class, promising a potential consumption of their products. For the case of Kyoei

Manufacturing Vietnam who came to Vietnam under the requirement of Yamaha Motor Vietnam, its investment strategy heavily depends on the operation of Yamaha Motor Vietnam.

The three case studies also point out the obstacles when doing business in Vietnam, which basically belong to three groups: procurement of production inputs, labor disciplines and loyalty, and inconsistency of investment policies. The import of materials and parts increase the production costs of firms, thus, reducing the competitiveness of Vietnam as a manufacturing base. The shortage of production inputs may stem from the underdevelopment of supporting industries in the country and the low quality of domestic materials and parts. According to the Ministry of Industry and Trade of Vietnam, in 2010 the country imported 80% of raw materials, spare parts and components. For example, the localization rate of the automobile industry was just 5 to 10% while for motorbike industry it was 40 to 70%. In addition, part suppliers for foreign firms were also foreign as there was a wide gap in quality standards between domestic and foreign companies. Vietnam supporting industry did not create value chains by business linkages; the country even had little information about linkages of supporting industries and database about companies in supporting industries. To improve the competitiveness of Vietnam's manufacturing industry, further develop the country's supporting industries, and meet the demands of Japanese buyers for standardized accessory and equipment, Vietnamese manufacturing firms need to be equipped with modern machines and have skillful workforce to operate these machines (Vietnam Business Forum, 2011 September 10). As these requirements are big hindrances for Vietnamese SMEs who always face with the lack of capital or experienced technicians and professionals, Vietnamese government should have facilitation measures to support the SMEs.

Labor working disciplines and disloyalty were cited as the main problems of the Vietnamese human resource. It is a fact that every year, many of Vietnamese workers have not returned to foreign companies after long holidays such as the Lunar New Year. Statistics cited by a report of Nguoi Lao Dong (the Laborer) newspaper in 2010 said that companies based in Ho Chi Minh City's export processing zones and industrial parks need to recruit around 10,000 workers after the holiday, mostly in labor intensive industries such as electronics, mechanics, garment and food processing. The demand for manual labor accounted for 60% of the post-festival recruitment and the rest are workers with high professional skills ("Vietnam's labor problems", 2011). To make up the shortage of workers after long vacations, many companies had a plan to recruit immediately after the vacation and some began doing so even before the holiday. Many companies contacted the provincial authorities and agencies directly in the hope of recruiting workers. In addition, the skills and productivity of Vietnamese employees are lower than neighboring countries. According to statistics by the Ministry of Labor, Invalids and Social Affairs of Vietnam, in 2010, the labor productivity of Vietnam was 50.4 times lower than that of Japan, 18.6 times lower than Korea, 1.96 times lower than Thailand and 1.5 times lower than Indonesia. In 2011, Vietnam ranked only 65th out of 141 in the World Economic Forum's list of labor market efficiency.

Interestingly, cultural elements receive much controversy among case studies. While Kyoei Manufacturing Vietnam experienced difficulties dealing with the differences in business culture of Japan and Vietnam, Panasonic Vietnam's managers cited the cultural similarity as one of the advantage for them to do business in the country. Possibly, as discussed before, large corporations usually find it easier to manage labor issues than small companies. Moreover, in case of Panasonic, it has

demonstrated as a socially responsible corporation. Believing that the people are the foundation of their business, the company paid much intention to invest in their people before making products to meet the business goals (Panasonic Corporation, 2011). To do that, Panasonic provided opportunities for all employees to learn, engage, collaborate and reach their full potential. In detail, the company offered training opportunities and rotation programs to encourage employees to learn about and contribute to different parts of the company. The company also tightened the relationship with educational organizations to generate the new source of human capital and deepen the community impact. The human resources policy of Panasonic Corporation could be a reference for other smaller companies to consider as the policy places employees as the pivotal elements to the company's success.

In the final chapter, this dissertation will conclude by summarizing all the major results found and discussed.

Chapter VII - Conclusion

This chapter concludes the dissertation by summarizing the major findings of the three research issues: (1) the motivations and determinants of Japanese FDI in Asia; (2) the perception of Japanese investors on Vietnam as an investment destination compared with Thailand and China; and (3) the holistic features of Vietnam as a destination for Japanese FDI. In the final part, the chapter articulates the contributions, analyzes the limitations of the dissertation and gives recommendations for further studies.

7.1. Major Findings

7.1.1. Motivations and determinants of Japanese FDI in Asia

Generally, this dissertation supports the argument that Japanese investment decisions in Asia were strongly motivated by the political stability, the skilled labor force, the infrastructure condition, the low cost labor force, the context of less strikes and labor union's issues, investment incentives, the transparency of investment environment, raw materials, and low customs duties on imported materials and intermediary goods of the host country. With the above-mentioned advantages of Asian countries, Japanese firms expected for higher profit when investing in Asia.

In addition, in the perception of Japanese investors, the business risk reduction, the firm's expansion strategy matching, and intermediary goods provision for its production chains were important internal attributes driving them to Asia. The host country's investment environment concerning low corruption rate, uncomplicated administrative procedures and protection of intellectual property

rights, the host country's domestic market, as well as the rising production cost in Japan were important external influences on Japanese FDI in Asia.

Referring to the less important attributes, the dissertation indicates that the performance of other Japanese companies, the access to regional market, and the development of supporting industries of the host country were less decisive to Japanese FDI in Asia. The appreciation of Japanese yen and supports from Japanese government also held little importance to their investment in the region.

The dissertation also reveals that the perception of Japanese firms on the importance of some influential attributes varied according to their size. While the medium-sized companies considered the situation of less strikes and labor union's issues in the host country more important than the large-sized ones, the small companies put more weight on the importance of the transparency of the investment environment, the access to raw materials, and the customs duties levied on imported materials and intermediary goods than the large sized companies.

The factor analysis describes the motivations of Japanese FDI in Asia in seven factors, comprising of: (1) Macro-economic Environment and Infrastructure Condition; (2) Home and Host Country's Supports; (3) Human Capital; (4) Production Inputs; (5) Market Access; (6) Company Investment Strategy; and (7) Japanese Investment Trend. While these results contributed to clarifying the three motivations of Japanese FDI in Asia including resource seeking, market seeking and efficiency seeking, the strategic asset seeking purpose of Japanese firms was not clearly seen in this research. Noticeably, the Company Investment Trend was regarded as an independent factor, modeling the emergence of the recent "China – plus – one" strategy on Japanese FDI flows within Asia.

7.1.2. Perception of Japanese investors on Vietnam as an investment destination compared with Thailand and China

The dissertation confirms that in the perception of Japanese firms, Vietnam was popular as an investment destination of low production cost and abundant labor force. These characteristics promised to bring about profit opportunities to Japanese investors and were well in line with their expansion strategy in Asia. In comparison with Thailand and China, Vietnam was considered more cost saving, more abundant of human capital and more politically stable to invest. Japanese firms also believed to benefit more from the exchange rate between the Japanese Yen and the domestic currency in Vietnam than in the two other countries.

The dissertation also reveals that the Japanese investors were likely to disagree that Vietnam performed well on providing investment incentives, preventing illegal strikes and union's issues and receiving supports from Japanese government. However, Vietnam still performed better than Thailand and China on these aspects. Moreover, the fair performance of Vietnam in the perception of Japanese investors was also indicated in the operation of other Japanese firms, its linkage with the regional market, of which the situations in Vietnam were worse than both Thailand and China, and in business risk reduction, of which China was assessed to be the most risky place to invest among the three countries.

Japanese investors also felt negative about the domestic market, the transparency of investment environment, the simplification of administrative procedures, the development of supporting industries, the provision of intermediary goods for production, the access to raw materials, the corruption prevention and the infrastructure quality in Vietnam. Alarmingly, the country was rated poorer than Thailand and China in these attributes, especially in the infrastructure condition.

This dissertation further unveils that Japanese investors with projects in Vietnam were very optimistic about the country's political stability and appreciation of the Japanese Yen over the Vietnamese Dong more than those without projects, which confirms the strengths of Vietnam in these attributes. Japanese firms with projects in Vietnam also had a more positive attitude on Japanese government supports, possibly because they understood and could take advantage of the benefits and opportunities from Japanese ODA or the diplomatic relation between the two countries better than their partners who did not have projects in Vietnam. However, Japanese firms with projects in Vietnam showed more negative expression on the situation of attributes related to production inputs, infrastructure condition, labor force and domestic investment environment. The most negative attitudes were expressed to the situation of corruption prevention and infrastructure condition, implying that the most serious problems of Vietnamese investment environment came from these two attributes.

The results of importance – performance analysis show that Vietnam should keep up its good work in political stability, human capital (low cost labor and skilled labor), low production cost, and being a destination of profit opportunity and expansion strategy of investing firms. Most of the negative attributes Vietnam should improve focus on its investment environment. Among these attributes, urgent actions should be taken to upgrade the infrastructure condition, investment environment transparency and access to raw materials, which Japanese firms considered highly important but very poor performed in Vietnam.

The factor analysis of performance of Vietnam shows that there were six principal factors affecting the Japanese investment decisions in Vietnam, comprising of (1) Investment Environment and Infrastructure Condition; (2) Political Stability

and Investment Trend; (3) Human Capital and Production Cost; (4) Production Inputs; (5) Customs Duties and Investment Incentives; and (6) Japan's Economic Conditions and Supports. These factors indicate that Japanese investors aimed to seek for resources, either the natural resources or the human capital, and to pursue the efficiency purpose in Vietnam. The market seeking and strategic asset seeking purposes were not proved by the statistical test.

Among the six factors, the binary logistic regression shows that only three had a statistically significant effect to the probability that Japanese firms would invest in Vietnam. The strongest predictor comes from Political Stability and Investment Trend, suggesting that the more confidently the investors perceived this factor, the more likely that they had projects in the country. On the contrary, Investment Environment and Infrastructure as well as Production Inputs did not have positive impact on the chances that Japanese firms invested in Vietnam.

7.1.3. Holistic features of Vietnam as an investment destination for Japanese FDI

The results of the holistic analysis confirm and further clarify the competitiveness and drawbacks of Vietnam as an investment destination. The most attractive feature of Vietnam was said to be the labor characteristics, including diligence, hard-working, skillfulness, kind and trustworthiness. Vietnam may also present a densely and young populated country with a high literacy rate. Other investors were interested in the similarity in characteristics between Japanese and Vietnamese employers.

The advantages of Vietnam as an investment destination also came from a favorable investment environment and the availability of production inputs. Efforts of the Vietnamese government in maintaining the political stability, a good diplomatic relation with the Japanese government, and in increasing the country's international

commitments contributed to improving the image of Vietnam in the eyes of Japanese investors. Respondents also cited the low labor cost as the main core of production inputs in Vietnam, which confirms that the major competitiveness of the country still stems from the labor cost. The adequate infrastructure, the emerging market and the strategic geographical location were also considered the advantages of Vietnam, however within a small proportion of respondents. Together with the IPA model, these findings suggest that the political stability, the low production cost, and the human capital should be the three foci of investment promotion programs for the Vietnamese government.

The drawbacks of Vietnam as an investment destination for Japanese investors included the lack transparency of investment environment, the shortcomings of labor characteristics, the lack of production inputs, and the poor infrastructure condition. These results were well in line with the attributes Vietnam necessarily concentrated in the IPA grid, suggesting that the Vietnamese government should take measures to improve the investment environment and upgrade the quality of infrastructure condition.

The three case studies point out that the motivations of Japanese investors in Vietnam were to seek for resources and the potential market. The case studies also reconfirm that the advantages of Vietnam as an investment destination included the political stability, human resources and the potential market. The competitiveness of Vietnam as a manufacturing base of low production cost was reducing when the low labor cost could not compensate for other expensive production and non-production costs. Each company in the case studies had its own difficulties when doing business in Vietnam, however, the three main problems they were all facing came from the

procurement of production inputs, the labor disciplines and loyalty, and the investment policy inconsistency.

To conclude, the dissertation finds that although having drawn attention from Japan over the past years, Vietnam still has many things to do to become a really attractive destination for Japanese investors in the long term. Compared to Thailand and China, for the time being Vietnam has demonstrated its better performance than the other two countries concerning the political stability, the low production cost, the abundance of low cost and skilled labor force, as well as meeting the Japanese strategies of resource seeking, market seeking, and efficiency seeking in Asia. That helps the country induce more FDI flows from Japan. However, to become more attractive to Japanese investors in the long run, Vietnam should pay much attention to upgrading its overall investment environment, especially the infrastructure condition, the access to production inputs, and the investment policy's transparency and consistency.

7.2. Contributions, Limitations and Recommendations for Further Studies

7.2.1. Contributions

Compared to other research in the academic world of FDI in general and Japanese FDI in particular, the dissertation applied a mixed methodological approach combining both qualitative and quantitative methods. The implementation process included three phases: preliminary phase for potentially important attributes, data collection phase for primary data, and data analysis phase for results and discussion. Furthermore, the multi-angle views – qualitative and quantitative survey, interviews, and case studies supplementing each other - help reduce biases or weaknesses of a single method. Therefore, the results as a combined evaluation of the mixed

methodological approach can ensure its validity and reliability at a high level. Specifically, as illustrated in Chapter III, the dissertation is distinctive from other studies in following points:

First, the dissertation incorporated relevant features of FDI theories and factual trends in understanding the Japanese FDI in Asia with close regards to Vietnam, Thailand and China. The eclectic methodology of the dissertation allowed it to cover all necessary elements for a comprehensive study of Japanese FDI in Asia and Vietnam as an investment destination for Japanese investors compared with Thailand and China.

Second, the dissertation was mainly based on the primary data collected from surveys and questionnaires, which are more advantageous in evaluating the less quantitative explanatory variables.

Third, the dissertation measured the importance of attributes to Japanese FDI decisions in Asia by scaling it on a five-point Likert scale. The attribute performances of Vietnam, Thailand and China were also scaled to compare the situations of the three countries and to carry out the attribute importance-performance analysis of Vietnam. The dissertation also used binary logistic regressions to identify the most influential factors and attributes to Japanese investment decision in Vietnam.

Fourth, the dissertation explored the holistic features of Vietnam based on the open-ended questions and three practical case studies of Japanese firms investing in Vietnam to discover the specific advantages and drawbacks of the country as an investment destination in the eyes of Japanese investors. These qualitative studies supplemented the quantitative analysis to reduce the possible biases or weaknesses of the merely quantitative methods.

Fifth, the suggestions for Vietnam to be more attractive to Japanese investors were made based on the combined findings of Japanese FDI motivations and determinants, the IPA of Vietnam, the binary logistic regression of Japanese FDI decision in Vietnam and the holistic features of Vietnam as an investment destination for Japanese FDI.

To Vietnamese policy makers, the dissertation clearly pointed out the strengths and weaknesses of Vietnam as an investment destination for Japanese investors, as well as suggested specific directions to address the problems and promote the strong points. Moreover, the relative comparison with China and Thailand helped policy makers evaluate the competitor of Vietnam and learn about the position of Vietnam as an investment destination in the region.

To the Japanese government, they can know more about the attitudes of Japanese firms about Vietnam as an investment destination, which suggest them FDI and ODA orientations and policies with the specific guidance for Japanese companies. To the Japanese firms, the dissertation provided a comprehensive evaluation of the favorable conditions and difficulties they should expect while investing in Vietnam, and also in China and Thailand.

To researchers, this dissertation may suggest further research of FDI or Japanese FDI in general, and FDI or Japanese FDI in Vietnam in particular. Many specific aspects covered in this dissertation could be focused more deeply.

7.2.2. Limitations and recommendations for further studies

Firstly, the dissertation did not make comparison of Japanese motivations between different groups of Japanese investors based on such criteria as the experience of international operation, the form of investment, and the business sector,

which are significant to understand the motivations of different types of Japanese investors.

Second, there might be a sectoral bias in the statistical results as the manufacturing companies made up 68.2% of the total respondents. This limitation could be rectified by seeking more respondents who are in the non-manufacturing sector. However, the lack of time and budget did not allow for an increase in those respondents. Moreover, as the Japanese FDI in the manufacturing sector accounted for between 30% and 69% of the global Japanese FDI from 2005 to 2010, and in Vietnam, Japanese FDI in manufacturing industry occupied 87% of its total registered capital, the sample may be suitable for investigating Japanese FDI at present. Besides, other qualitative methods such as expert consultation, interviews with Japanese managers, and case studies in different business sectors were applied to reduce this shortcoming.

Third, the proportion of Japanese firms having projects in Thailand was relatively smaller than that in Vietnam and China. Among 305 respondents, 64% had affiliates in only one country; 18.8% had affiliates in two of the three countries; and 17.3% had affiliates in all the three countries. If each country was considered separately, the firms having investment projects in Vietnam, Thailand and China accounted for 56.3%, 32.4% and 64.7% of the sample respectively (it should be noted that the sum of percentage is higher than 100 % because there were firms having investment projects in more than one country). Therefore, with nearly one third (32.4 %) of the firms having investment projects in Thailand, it was still suitable to include Thailand as a representative country of the sample together with China and Vietnam.

Forth, only three countries Vietnam, Thailand and China were included for the evidences of Japanese FDI motivations and determinants in Asia. In fact, the three

countries play important roles in Japanese FDI strategies in the region. Thailand has long been the Japan's traditional investment place with approximately 40,000 Japanese firms, and remains an important link in the Japan's global manufacturing chain. Any disruption in Japanese firms' operation in Thailand due to the political uncertainty or natural calamities seriously affected the Japanese operations across the globe (see section 1.1.4). Also, it is hard to deny the importance of China as the country is the largest recipient of Japanese FDI in Asia and is forecasted to continue to be the hottest place for Japanese FDI over years. For the case of Vietnam, though having a relatively short history of attracting Japanese FDI, the country is emerging as a promising supplementation for China and Thailand. Moreover, as the second principal purpose of this dissertation was to compare the perceptions of Japanese firms on Vietnam, Thailand and China as their investment destinations, only firms from the three countries were selected for the survey. Considering the motivations and determinants of Japanese FDI in Asia alone, it is suggested that firms from other countries in Asia should be added to the sample to supplement the results.

Finally, in consideration of the limitations, this dissertation suggests that further research should be done to shed more lights on the results, focusing on the following points:

(1) Japanese firms should be categorized into different groups to compare their FDI motivations and determinants in Asia and their perception on the three countries as Japanese investment destinations.

(2) More Japanese firms from the non-manufacturing sector and Japanese firms investing in Thailand should be surveyed to supplement the statistical results.

(3) To investigate the motivations and determinants of Japanese FDI in Asia alone, Japanese firms from other Asia countries should be put into the sample to reduce its possible locational bias.

(4) Lastly, research should be done to look into the individual aspect or the attribute more deeply based on the overall and comprehensive evaluation described in this dissertation./.

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Appendix – The questionnaire for Japanese firms

Dear Sir/Madam,

You are invited to participate in our survey designed for a research in the field of Japanese foreign direct investment in Asia and Vietnam, supported by the Ministry of Planning and Investment of Vietnam. It will take approximately 10 minutes.

No individual company information will be publicized as your answers will be dealt as statistical figures. However, if you feel uncomfortable answering any questions, you can withdraw from the survey at any point. It is very important for us to learn your opinions.

Once you have completed answering the questionnaire, please kindly send us by using the attached envelop. If possible, we do wish to receive your answer by 2010.

If you have any questions regarding the survey or the procedure, you may contact:

Ms. VUONG Thi Minh Hieu
Tel.: 080-6406-2953
E-mail: thivuo08@apu.ac.jp

Thank you very much for your time and support.

QUESTIONNAIRE

This questionnaire is designed for a research in the field of Japanese Foreign Direct Investment in Asia and Vietnam, supported by the Ministry of Planning and Investment of Vietnam. The researcher would be very grateful for your assistance in answering the following questions:

1. How important is the following factor to your decision to invest overseas? (Please circle the appropriate number from 1 to 5 representing the scale from "very unimportant" to "very important")

No.	Factor	Very unimportant			→	Very important
1	Political stability of host country	1	2	3	4	5
2	Investment incentives offered by host country (corporate tax reduction, low land rent, etc.)	1	2	3	4	5
3	Rising of production cost in Japan	1	2	3	4	5
4	Access to host country's domestic market	1	2	3	4	5
5	Access to host country's regional market	1	2	3	4	5
6	Supports from Japanese government	1	2	3	4	5
7	Higher profit expectation	1	2	3	4	5
8	Access to raw materials of host country	1	2	3	4	5
9	Supplying intermediary goods for your production	1	2	3	4	5
10	Abundance of low-cost labor in host country	1	2	3	4	5
11	Protection of intellectual property rights in host country	1	2	3	4	5
12	Transparency of the host country's investment environment	1	2	3	4	5
13	Adequate infrastructure condition (transportation, electric supply, communications, etc.) in host country	1	2	3	4	5
14	Performance of other Japanese companies in host country	1	2	3	4	5
15	Lowering of customs duties on imported materials and intermediary goods in host country	1	2	3	4	5
16	Appreciation of Japanese Yen over host country's currency	1	2	3	4	5
17	Availability of skilled labor in host country	1	2	3	4	5
18	Less strike and labor union's issues in host country	1	2	3	4	5
19	Your company's expansion strategy	1	2	3	4	5
20	Development of supporting industries in host country	1	2	3	4	5
21	Uncomplicated administrative procedures in host country	1	2	3	4	5
22	Reduction of business risk	1	2	3	4	5
23	Low corruption rate of host country	1	2	3	4	5

2. How many percent of the global activities does your business in Asia account for?

Approximately _____ % of your company's global assets
Approximately _____ % of your company's global turnover

To be continued in the next page

3. How do you evaluate the situation of the investment environment in Vietnam, Thailand and China? (Please circle the appropriate number from 1 to 5 representing the scale from "very poor" to "very good")

No.	Factor	Vietnam					Thailand					China				
		Very poor → Very good					Very poor → Very good					Very poor → Very good				
1	Political stability	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
2	Investment incentives offered by host country (corporate tax reduction, low land rent, etc.)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
3	Low production cost	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
4	Scale of domestic market	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
5	Linkage with the regional market	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
6	Supports from Japanese government to invest in the host country	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
7	Profit opportunity	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
8	Access to raw materials	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
9	Supplying intermediary goods for your production	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
10	Availability of low-cost labor	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11	Protection of intellectual property rights	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
12	Transparency of the investment environment	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
13	Infrastructure condition (transportation, electric supply, communications, etc.)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
14	Performance of other Japanese companies in host country	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
15	Reduction of custom duties on imported materials and intermediate goods	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
16	Appreciation of Japanese Yen over the local currency	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
17	Availability of skilled labor	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
18	Prevention of illegal strike and union's issues	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
19	Supporting your company's expansion strategy	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
20	Development of supporting industries	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
21	Simplification of administrative procedures	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
22	Less business risk	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
23	Corruption prevention	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5

4. What is/are the most competitive advantage(s) of Vietnam's investment environment comparing to other Asian countries?

To be continued in the next page

5. What is/are the major difficulty (ies) of doing business in Vietnam comparing to other Asian countries?

6. Please tick (√) or write in the information about your company:

1. Name of your company: _____
2. Year of start-up: _____
3. Form of your investment/ business projects in Asia (you can tick more than one choice):

   □ Wholly owned subsidiary □ Joint venture
   □ Mergers and Acquisitions (M&A)
   □ Others (please specify) _____

4. Sector of your investment/business projects in Asia (you can tick more than one choice):

   □ Agricultural and forestry □ Fishing
   □ Mining and quarrying □ Manufacturing
   □ Electricity, gas and water supply □ Construction
   □ Wholesale and retail trade □ Hotels and restaurants
   □ Transport, storage and communications □ Finance and banking
   □ Real estates and consultancy activities □ Education and training
   □ Health care and social work □ Recreational, cultural and sporting activities
   □ Personal and public service activities □ Others

5. Location of your investment/business projects in Asia (you can tick more than one choice):
   □ Vietnam □ Thailand □ China
   □ Other countries (please specify): _____

6. Total number of employees: _____ persons

7. Total capital: _____ US dollars

Thank you very much for your kind assistance!

If you are interested in further information about the research, please e-mail to thivuo08@apu.ac.jp

(The Japanese version)

今回ご協力していただく皆様へ

今回、ベトナム国家計画投資省の支援による、「日本からベトナムを中心とするアジア地域への FDI(海外直接投資)に関するアンケート」にご協力いただければ幸いです。なおアンケートのご回答には 10 分ほどの時間を要しますことを予めご了承願います。

統計調査に用いられる本アンケートの回答を公表することは一切ありません。しかし何らかの理由で回答するのが難しい質問がございましたら、回答されなくて構いません。

アンケートにご回答いただきましたら、添付しました封筒にてご投函ください。もし可能でしたら、2010 年　　月　　日までにいただければ幸いです。

このアンケートに関するご質問等がございましたら、下記までご連絡ください。

Ms. VUONG Thi Minh Hieu　（ヴォン ティ ミン ヒエウ）
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ご多忙中にもかかわらず、ご協力いただきありがとうございます。

アンケート

このアンケートは計画投資省に支援による、日本のベトナムを中心としたアジアへの FDI(海外直接投資)に関するものです。下記の質問にご回答をしていただければ幸いです。

1. 海外への投資を決定する際に重要だと思われる要素は何ですか？(1〔最も必要のない〕～5〔最も必要〕の中から選び、該当するものに○をつけてください。)

No.	要素	必要ない		→		必要
1	投資先の国の政情が安定していること	1	2	3	4	5
2	投資先の国からの優遇があること(法人税の減免、土地を安く借りられる等)	1	2	3	4	5
3	日本での生産コストの増加	1	2	3	4	5
4	投資先の国内市場の状況	1	2	3	4	5
5	投資先の近隣国の市場	1	2	3	4	5
6	日本政府からの援助	1	2	3	4	5
7	収益性の改善	1	2	3	4	5
8	投資国の原材料の調達	1	2	3	4	5
9	製品の中間財の供給	1	2	3	4	5
10	投資先の安くて豊富な労働力	1	2	3	4	5
11	投資先の知的財産権に関する保護	1	2	3	4	5
12	投資先の投資環境の透明性	1	2	3	4	5
13	投資先の十分なインフラ環境の整備(交通、電力、情報コミュニケーション等)	1	2	3	4	5
14	投資先での他の日本企業の活動	1	2	3	4	5
15	輸入品、中間財にかかる税金が安い	1	2	3	4	5
16	投資先に対して円高である	1	2	3	4	5
17	投資先で優秀な労働力が確保できる	1	2	3	4	5
18	ストライキや労働組合による問題が少ない	1	2	3	4	5
19	企業の市場、生産等の拡大戦略のため	1	2	3	4	5
20	投資先における裾野産業の開発	1	2	3	4	5
21	投資先での行政手続きが簡単	1	2	3	4	5
22	経営リスクの減少	1	2	3	4	5
23	投資先の国での賄賂・汚職が少ない	1	2	3	4	5

2. 海外事業の中でどのくらいアジアビジネスが占めていますか？

海外事業の資金の約 _____%

海外事業の営業利益の_____%

次のページに続きます。

3. ベトナム、タイ、中国における投資環境の状態をどう評価していますか？(1〔とても悪い〕～5〔とても良い〕の中で最も当てはまると思うものに○をつけてください。)

No.	要素	ベトナム					タイ					中国				
		とても悪い				→とても良い	とても悪い				→とても良い	とても悪い				→とても良い
1	政情の安定	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
2	投資先の国からの優遇の度合(法人税の減免、土地を安く借りれる等)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
3	生産コストが安い	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
4	投資先の市場規模	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
5	近隣国の市場との繋がり	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
6	日本政府からの援助	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
7	期待できる利益	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
8	原材料の調達	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
9	製品の中間財の供給	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
10	安い労働力の確保	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11	知的財産権の保護	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
12	投資先の国の投資環境の透明性	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
13	インフラの整備状況(交通、電力、情報コミュニケーション等)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
14	投資先での他の日本企業の活動	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
15	輸入品、中間財にかかる税金の減免	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
16	投資先に対して為替市場が良好(円高)である	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
17	投資先で優秀な労働力が確保できる	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
18	ストライキや労働組合による問題の防止	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
19	企業の市場、生産等の拡大戦略のため	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
20	投資先における裾野産業の開発	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
21	投資先での行政手続きが簡単	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
22	経営リスクの減少	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
23	賄賂・汚職の防止	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5

4. 他のアジア諸国と比較してベトナムの競争優位に立っている点は何ですか？自由にお書きください。

次のページに続きます。

5. 他のアジア諸国と比べてベトナムでビジネスを行う際最も難しいと思われる点は何ですか？自由にお書きください。

6. 貴方の会社の情報に関してお書きください。

1. 会社名: _____

2. 設立年: _____

3. アジアへの投資／ビジネスプロジェクトの形態は次のうちどれですか (最も当てはまるもの一つに√ 印をつけてください。):

□ 子会社　□ 合弁会社・ジョイントベンチャー
□ M&A
□ その他(具体的にお書きください) _____

4. アジア投資・ビジネスの対象は次のうちどれですか(当てはまるもの全てに √ 印をつけてください。)

□ 農業・林業　□ 漁業
□ 鉱山・採石業　□ 製造業
□ 電力・ガス・水道業　□ 建設業
□ 卸売・小売業　□ ホテル・レストラン業
□ 交通・大規模卸売問屋・情報コミュニケーション業　□ 金融・銀行業
□ 不動産・コンサルタント業　□ 教育業
□ 医療　□ 娯楽業・アミューズメント業・スポーツ施設
□ その他(具体的にお書きください) _____

5. アジア投資・ビジネスプロジェクトの拠点(当てはまるもの全てに√ 印をつけてください。)
□ ベトナム　□ タイ □ 中国
□ その他の国(具体的にお書きください): _____

6. 全従業員数: _____ 人

7. 総資本 _____ 米ドル

ご協力いただきありがとうございました。

この調査に関する詳細については、thivuo08@apu.ac.jp までご連絡ください。