Is Vietnam attractive to Japanese FDI comparing to Thailand and China? An attribute-based and holistic analysis

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Abstract

This paper evaluates the attractiveness of Vietnam as an investment destination through a survey on 1,500 Japanese firms investing in Vietnam, Thailand or China. The results of attribute-based analysis and holistic analysis show that Vietnam is more advantageous than Thailand and China in production cost and labor-related characteristics. The results also suggest that Vietnam should maintain its good work in political stability, low cost and skilled labor, profit opportunity, supporting the company's expansion strategy and low production cost. The weaknesses Vietnam should improve account for 11 out of 16 attributes of the macro-economic and investment environment, in which those related to infrastructure, transparency and raw materials for production need special attention.

Key words: foreign direct investment (FDI), attractive, Japan, Vietnam, Thailand, China, attribute-base, holistic.

Introduction

FDI is an important source of capital and economic growth in developing countries as it provides a package of new technology, management expertise,

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Ritsumeikan Annual Review of International Studies, 2011. ISSN 1347-8214. Vol.10, pp. 19-46

finance and market access for the production of goods and services. However, how to successfully attract FDI is a challenge for developing countries as it is not easy to identify main factors which motivate and affect the FDI decision.

The limitation of past surveys in understanding FDI determinants was described by Dunning (1993). Specifically, he expressed that the investigators rarely state the assumptions underlying the answers given or make any attempt to normalize for the difference in the characteristics of firms (size, age, international experience, regional distribution, etc.). Furthermore, he suggested that most surveys report on the determinants of particular FDI decision when they actually happened, while the primary interest of policy makers is directed to the factors perceived as generally most relevant by firms before they decide to invest.

For the case of Vietnam, though there are annual surveys by JETRO which explores the operation and business outlook of Japanese affiliated firms in Asia and Oceania (including Vietnam), the specific characteristics of Japanese firms in Vietnam as well as their attitudes about the country's investment environment are not fully investigated. Moreover, apart from the surveys of Japanese organizations, there has been no survey conducted by the Vietnamese side on the determinants of Japanese firms in Asia generally and those in Vietnam specifically. Therefore, this research aims to find the Japanese FDI determinants in Asia and assess the attractiveness of Vietnam as an investment destination for Japanese investors by surveying the Japanese companies who actually have or are potential to have investment projects in Vietnam, Thailand or China.

The next section continues with an overview about FDI in Vietnam and Japanese FDI in Vietnam and an understanding about FDI determinants which are fundamental for the authors to formulate the research methodology. The subsequent section specifies the research methodology and sample characteristics. The empirical results are then presented, followed by a concluding section that discusses major findings.

FDI in Vietnam and Japanese FDI

FDI in Vietnam

FDI in Vietnam has a relatively short history of development; however, Vietnam has been quite successful comparing with neighboring countries (Mirza and 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 USD 10.16 billion in 1996 (GSO, 2010 and MPI, 2011) 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.

The period of 1997-1999 experienced a slowdown of registered FDI into Vietnam as a result of the Asian financial crisis, leading to 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 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 3 consecutive years and more than three-fold increase in 2008. This high performance was believed to be the 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 1).

As for investment prospect, Vietnam ranked 11th in the 15 most attractive economies for the location of FDI 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, 2009, pp.54-56).

Japanese FDI in Vietnam

In Vietnam, Japan has been one of the most important economic partners and the top ODA (Official Development Assistance) donor in Vietnam since 1995. 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 (MPI, 2011).

According to a survey conducted by the Japan Bank for International Cooperation (JBIC), Vietnam was the third promising destination for overseas operation by Japanese manufacturing companies over medium term (just behind China and India) and the fifth over the long term (following India, China, Russia and Brazil) (JBIC, 2008).

However, Vietnam was still far behind neighboring countries in attracting

Japanese FDI. According to JETRO (2011), the cumulative Japanese FDI capital into the country from 1996 to September 2010 took only 21% of the Japanese FDI in Thailand, 8% of those in China (Figure 2) and only 2.6% of the total Japanese FDI in Asia.

Understanding FDI determinants

FDI determinants

Each of the theories on FDI tries to point out the main determinants explaining why FDI happens in a certain place. 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. The theory was further developed by Rugman (1979, 1981), Dunning and Rugman (1985), and Casson (1987) who aimed to differentiate the market imperfection of structural type and transaction-cost type.

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 which internal production is not just the transfer of capital but 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.

Comparing 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. 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 localization economies and urbanization 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.

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.

Determinants of Japanese FDI in Asia

Particularly focus on Japanese determinants in Asia, Kojima (1986) found that while Japanese FDI has largely been "trade oriented", American FDI has been "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, which was later emphasized in Hiley (1999) who examined the flying geese model to explain the harmonious process of industrialization in Asia and Hatch and Yamamura (1996) who argued that Japanese business and government are working together to build overseas production zones as an extension of their domestic base. Special features of Japanese firms in Asia could be cited as technology transfer (Williams, 1996), being strongly affected by the exchange rates (Nakamura and Oyama in Bank of Japan, 2008; Baeka and Okawa, 2001), market oriented and heavily influenced by macro-economic conditions (Vogiatzoglou, 2008), being the convergence between firm's advantages as well as home and host countries' endowments (Dunning, Kim and Lee, 2007). Moreover, determinants of Japanese FDI may comprise of research and development (R&D), learning experience and distribution network (Takechi, 2011; Takagaki, 2001). Japanese FDI were also

determined by firm's type and size (Pak and Park, 2005; Urata, 2002; Kinoshita, 1998) and recipient country's conditions (Belderbos and Zou, 2006; Lakhera, 2008).

FDI determinants of Vietnam

As for national FDI determinants of Vietnam, there were some studies exploring the country's specific factors that attract FDI, such as Nguyen and Hauton (2002), Mirza and Giroud (2004), Nguyen, Nguyen and Meyer (2004). However, these studies only focused on the attribute-based determinants, thus missing the holistic features presented in open-ended questions. Furthermore, these researches mentioned only the country's specific advantages without considering the importance level of these factors in the perception of foreign investors. Also, none of the researches focused particularly on the determinants of Japanese FDI in Vietnam. Based on the Dunning's Eclectic theory (1977, 1993) and importance-performance analysis technique, this research is an advance shown in the improved methodology to rectify the shortcomings of the previous studies.

Methodology

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 of 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 consumers 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 level 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). The IPA method has been used by various authors in measuring the customer satisfaction (Mullins and Spetich, 1987) and tourism marketing (Joppe, Martin, and Waalen, 2001; O' Leary and Deegan, 2005). IPA has also been widely applied in economic planning to solve strategic management problems (Tyrrell and 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 this research, IPA is used as the principle technique to evaluate the attractiveness of Vietnam as an investment destination for Japanese investors.

Identifying the attribute-based characteristics of Vietnam

In understanding the characteristics of Vietnam as an investment base, qualitative research techniques as suggested by Dunning (1993) were applied including reviews on previous research in the same or related areas, unstructured personal interviews with managers of 6 Japanese companies in Vietnam, as well as expert consultations with JICA (Japan International Cooperation Agency) experts. Based on qualitative research, 23 potentially important attributes were identified, divided into 3 main categories: including (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), in which the last category was put more attention to (See Table 1). The attributes were only preliminary suggestions and the matter of whether they are truly important in the perception of Japanese investors needs to be empirically tested.

Respondents were asked two questions about these attributes:

1. "How important is the attribute to your overseas investment decision?" and
2. "How is the situation of the attribute in Vietnam?"

The answer choices were based on five (5) point Likert scale from "very unimportant" (1) to "very important" (5) for the first question, and from "very poor" (1) to "very good" (5) for the second one. To analyze the results, the techniques of comparing means, Chi-square test and importance-performance analysis were applied.

Moreover, to identify the unique characteristics of Vietnam, two open-ended questions were used, including:

1. What is/are the most competitive advantage(s) of Vietnam's investment environment comparing to Asian countries? and
2. What is/are the major difficulty (ies) of investing in Vietnam comparing to other Asian countries?

Demographic questions, comprising of years of establishment, forms of business/investment, sectors of business/investment, investment location, number

of employees and total capital were also included at the end of the questionnaire.

After designing the questionnaire, three pilot studies were carried out, including delivering questionnaires in a meeting, sending online and mailing with the recommendation of JETRO office in Oita prefecture, Japan in February, March and May, 2010 respectively. Based on the pilot studies' results, the survey was carried out in six months, from June to December 2010, with the participation of a thousand and five hundred (1,500) Japanese companies, nine hundred (900) of which located in 15 prefectures of Japan while six hundred (600) were operating in Vietnam.

Table 1 – Main influences on FDI decision by Japanese firms

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

Analysis and Results

Sample characteristics

A number of 322 companies participated in the survey. Among 1,500 questionnaires were delivered, 305 (20.33%) usable returns were received. For a mail survey, a response rate of 10 to 50 percent is common (Neuman, 2000, p.268). Sample characteristics are described in Table 2.

Table 2 - Characteristics of the sample of Japanese respondent firms

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
	Other	59	21.30
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	

Attribute-based analysis

Performance analysis

Table 3 shows the attribute performance of Vietnam in the perception of Japanese investors. As can be seen, Vietnam had "very good performance" in only 1 attribute (means ≥ 4) and "good performance" in other 6 attributes (4 > means ≥ 3.50), which made up the positive response rate of 30.4%. These attributes were also considered better performed in Vietnam than in Thailand and China (Figure 4).

Japanese investors showed their neutral reactions to 7 attributes about Vietnam (3.50 > means ≥ 3.00). They also felt negative about 9 attributes (3.00 > means), indicating that a proportion of 39.1% of the questioned attributes were considered to have "poor performance" in Vietnam. Among the attributes which received the neutral attitude, Vietnam was believed to outperform Thailand and China in generous investment incentives, better supports from Japanese government and more effective prevention of illegal strikes and union's issues (Figure 4).

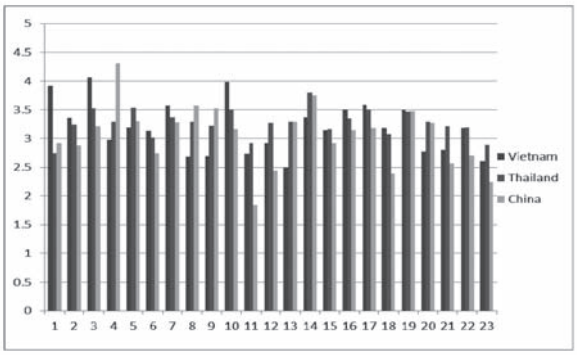
Table 3 – The attributed-based performance of Vietnam in the perceptions of Japanese investors

Attribute	N	Mean	Std. Deviation
Low production cost	266	4.06	.698
Availability of low-cost labor	267	3.98	.808
Political stability	274	3.91	.774
Availability of skilled labor	265	3.59	.925
Profit opportunity	264	3.58	.714
Appreciation of Japanese Yen over the local currency	254	3.51	.758
Supporting the company's expansion strategy	261	3.50	.716
Performance of other Japanese companies in Vietnam	260	3.37	.726
Investment incentives offered in Vietnam	251	3.36	.698
Linkage with regional market	261	3.19	.808
Prevention of illegal strikes and union's issues	261	3.18	1.001
Less business risk	256	3.18	.685
Reduction of customs duties on imported materials and intermediary goods	247	3.14	.638
Supports from Japanese government to invest in Vietnam	259	3.13	.887
Scale of domestic market	264	2.98	.898
Transparency of investment environment	259	2.92	.826
Simplification of administrative procedures	254	2.80	.847
Development of supporting industries	257	2.77	.935

Protection of intellectual property rights	259	2.73	.860
Supplying intermediary goods for the company's production chain	253	2.69	.832
Access to raw materials	260	2.68	.928
Corruption prevention	254	2.61	1.045
Infrastructure condition	266	2.50	.830
Valid N (listwise)	208		

Comparing between Thailand and China, Thailand was appreciated higher in almost all attributes except for domestic market scale, access to raw materials and intermediary goods for production. Even though China was more advantageous in domestic market, the country was not so competitive in regional linkage with other countries (Figure 4).

Figure 4 - Comparing the attribute performance between Vietnam, Thailand and China



Note:

1	Political stability	13	Infrastructure condition
2	Investment incentives	14	Other Japanese companies' performance
3	Low production cost	15	Reduction of custom duties
4	Domestic market scale	16	Appreciation of Japanese Yen
5	Regional market linkage	17	Skilled labor
6	Japanese government supports	18	Prevention of illegal strike and union's issues
7	Profit opportunity	19	Supporting company's expansion strategy
8	Access to raw materials	20	Supporting industry development
9	Intermediary goods for production	21	Administrative procedure simplification
10	Low-cost labor	22	Less business risk
11	Protection of intellectual property rights	23	Corruption prevention
12	Investment environment transparency		

In comparing the opinions of Japanese investors who had investment projects in Vietnam and those who had not, the technique of comparing means (independent samples T-test) was used. In this test, the null hypothesis (H_0) states

Table 4 - Independent Samples Test of comparing means between Japanese companies with and without projects in Vietnam

Variable		Levene's Test for Equality of Variances	
		F	Sig.
Political stability	Equal variances assumed	.147	.702
	Equal variances not assumed		
Investment incentives offered by host country	Equal variances assumed	16.221	.000
	Equal variances not assumed		
Low production cost	Equal variances assumed	.033	.857
	Equal variances not assumed		
Scale of domestic market	Equal variances assumed	7.198	.008
	Equal variances not assumed		
Linkage with regional market	Equal variances assumed	2.171	.142
	Equal variances not assumed		
Supports from Japanese government to invest in the host country	Equal variances assumed	12.153	.001
	Equal variances not assumed		
Profit opportunity	Equal variances assumed	1.898	.170
	Equal variances not assumed		
Access to raw materials	Equal variances assumed	9.750	.002
	Equal variances not assumed		
Supplying intermediary goods for the company's production chain	Equal variances assumed	18.794	.000
	Equal variances not assumed		
Availability of low-cost labor	Equal variances assumed	5.377	.021
	Equal variances not assumed		
Protection of intellectual property rights	Equal variances assumed	29.980	.000
	Equal variances not assumed		
Transparency of investment environment	Equal variances assumed	19.381	.000
	Equal variances not assumed		
Infrastructure condition	Equal variances assumed	6.100	.014
	Equal variances not assumed		
Performance of other Japanese companies in host country	Equal variances assumed	.036	.849
	Equal variances not assumed		
Reduction of customs duties on imported materials and intermediary goods	Equal variances assumed	10.134	.002
	Equal variances not assumed		
Appreciation of Japanese Yen over the local currency	Equal variances assumed	16.334	.000
	Equal variances not assumed		
Availability of skilled labor	Equal variances assumed	5.608	.019
	Equal variances not assumed		
Prevention of illegal strikes and union's issues	Equal variances assumed	2.736	.099
	Equal variances not assumed		
Supporting the company's expansion strategy	Equal variances assumed	2.847	.093
	Equal variances not assumed		
Development of supporting industries	Equal variances assumed	21.645	.000
	Equal variances not assumed		
Simplification of administrative procedures	Equal variances assumed	29.616	.000
	Equal variances not assumed		
Less business risk	Equal variances assumed	.191	.662
	Equal variances not assumed		
Corruption prevention	Equal variances assumed	11.613	.001
	Equal variances not assumed		

T-test for Equality of Means						
		Sig	Mean	Std. Error	95% Confidence Interval	
t	df	(2-tailed)	Difference	Difference	Lower	Upper
-4.701	250	.000	-.438	.093	-.621	-.254
-4.699	247.451	.000	-.438	.093	-.621	-.254
-1.594	232	.112	-.148	.093	-.330	.035
-1.599	209.094	.111	-.148	.092	-.330	.034
.245	242	.806	.022	.088	-.152	.195
.245	240.226	.806	.022	.088	-.152	.195
-.695	242	.488	-.082	.117	-.313	.150
-.691	225.660	.490	-.082	.118	-.314	.151
-1.064	239	.288	-.113	.106	-.322	.096
-1.063	234.828	.289	-.113	.106	-.322	.096
-2.122	239	.035	-.244	.115	-.470	-.017
-2.117	228.411	.035	-.244	.115	-.471	-.017
.261	243	.794	.024	.091	-.156	.203
.262	242.891	.794	.024	.091	-.155	.203
2.438	239	.015	.290	.119	.056	.525
2.433	230.778	.016	.290	.119	.055	.526
1.992	235	.048	.217	.109	.002	.431
1.994	217.009	.047	.217	.109	.003	.431
1.035	244	.302	.108	.104	-.097	.312
1.030	228.895	.304	.108	.104	-.098	.313
5.010	238	.000	.534	.107	.324	.744
4.988	218.791	.000	.534	.107	.323	.745
2.460	238	.015	.261	.106	.052	.471
2.448	213.094	.015	.261	.107	.051	.472
4.180	244	.000	.432	.103	.228	.635
4.158	228.030	.000	.432	.104	.227	.636
-.814	240	.417	-.077	.094	-.262	.109
-.814	239.911	.416	-.077	.094	-.262	.109
-.668	230	.505	-.056	.085	-.223	.110
-.665	210.555	.507	-.056	.085	-.224	.111
-3.035	234	.003	-.297	.098	-.489	-.104
-3.049	220.663	.003	-.297	.097	-.488	-.105
2.746	244	.006	.321	.117	.091	.552
2.735	233.459	.007	.321	.118	.090	.553
2.382	241	.018	.306	.128	.053	.559
2.372	226.323	.019	.306	.129	.052	.560
-.100	240	.920	-.009	.093	-.192	.173
-.100	231.631	.920	-.009	.093	-.192	.174
3.869	238	.000	.463	.120	.227	.698
3.847	220.693	.000	.463	.120	.226	.700
2.020	236	.045	.226	.112	.006	.446
2.005	195.240	.046	.226	.113	.004	.448
-.242	237	.809	-.021	.088	-.194	.151
-.242	236.779	.809	-.021	.088	-.194	.151
5.512	235	.000	.711	.129	.457	.965
5.500	226.297	.000	.711	.129	.456	.966

that the means values of two groups of Japanese companies were equal.

The Sig. value of T-test allows us to reject or accept the null hypothesis. If this value is smaller than 0.05, the null hypothesis is rejected, showing that the means of two groups of Japanese companies are significantly different.

As shown in Table 4, significant differences between two groups of company could be seen in 13 variables, which are illustrated in details in Table 5. Accordingly, Japanese investors who had projects in Vietnam appreciated the country for political stability, supports from Japanese government to invest in Vietnam and appreciation of Japanese Yen over the Vietnamese Dong, which partially promoted the FDI flows. 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 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).

Table 5 – Comparing the perceptions on attribute statements about Vietnam of Japanese firms with and without projects in Vietnam

Attribute statement	Firms without projects in Vietnam			Firms with projects in Vietnam		
	N	Means	Standard deviation	N	Means	Standard deviation
Political stability	132	3.71	.737	120	4.15	.741
Investment incentives offered by host country	116	3.28	.572	118	3.43	.821
Low production cost	125	4.07	.674	119	4.05	.699
Scale of domestic market	125	2.95	.812	119	3.03	1.016
Linkage with regional market	122	3.15	.779	119	3.26	.868
Supports from Japanese government to invest in the host country	122	3.00	.803	119	3.24	.974
Profit opportunity	126	3.60	.739	119	3.57	.684
Access to raw materials	122	2.81	.846	119	2.52	.999
Supplying intermediary goods for the company's production chain	118	2.79	.702	119	2.57	.953
Availability of low-cost labor	126	4.02	.726	120	3.91	.898
Protection of intellectual property rights	122	2.99	.710	118	2.46	.930
Transparency of investment environment	122	3.04	.685	118	2.78	.944
Infrastructure condition	126	2.70	.719	120	2.27	.896
Performance of other Japanese companies in host country	124	3.34	.742	118	3.42	.720
Reduction of customs duties on imported materials and intermediary goods	118	3.11	.551	114	3.17	.728
Appreciation of Japanese Yen over the local currency	116	3.35	.636	120	3.65	.847
Availability of skilled labor	126	3.74	.841	120	3.42	.992
Prevention of illegal strikes and union's issues	124	3.32	.888	119	3.02	1.105
Supporting the company's expansion strategy	124	3.52	.668	118	3.53	.770

Development of supporting industries	123	2.98	.814	117	2.51	1.031
Simplification of administrative procedures	121	2.89	.656	117	2.67	1.034
Less business risk	121	3.17	.675	118	3.19	.679
Corruption prevention	120	2.93	.905	117	2.22	1.076

Among 13 attributes that showed significant differences, Chi-square test was conducted to explore whether there was a correlation between the company's location in Vietnam and its perception on the attribute performance of the country. If the significant level to reject the null hypothesis (H_0: There is no correlation between the company's perceptions on attribute performance of Vietnam and its location in Vietnam) is set to be under 5% and the sample is large enough (20% of the cells and below have expected count less than 5), the results confirmed that the company's location in Vietnam had affected its perception on the performance of 10 attributes, including 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 6).

Table 6 – Chi-square test of the correlation between the perceptions of Japanese firms who have investment projects in Vietnam and who have not on some attributes

		Value	df	Asymp. Sig. (2-sided)
1.Political stability	Pearson Chi-Square	21.466[a]	3	.000
	Likelihood Ratio	22.168	3	.000
	Linear-by-Linear Association	20.383	1	.000
	N of Valid Cases	252		
	[a] 2 cells (25.0%) have expected count less than 5. The minimum expected count is 2.86.			
		Value	df	Asymp. Sig. (2-sided)
2. Supports from Japanese government to invest in the country	Pearson Chi-Square	11.607[a]	4	.021
	Likelihood Ratio	11.768	4	.019
	Linear-by-Linear Association	4.437	1	.035
	N of Valid Cases	241		
	[a] 0 cells (.0%) have expected count less than 5. The minimum expected count is 6.91.			

		Value	df	Asymp. Sig. (2-sided)
3. Access to raw materials	Pearson Chi-Square	10.659[a]	4	.031
	Likelihood Ratio	10.899	4	.028
	Linear-by-Linear Association	5.824	1	.016
	N of Valid Cases	241		
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 2.47.			
		Value	df	Asymp. Sig. (2-sided)
4. Supplying intermediary goods for the company's production chains	Pearson Chi-Square	12.479[a]	4	.014
	Likelihood Ratio	13.510	4	.009
	Linear-by-Linear Association	3.917	1	.048
	N of Valid Cases	237		
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is .50.			
		Value	df	Asymp. Sig. (2-sided)
5. Protection of intellectual property rights	Pearson Chi-Square	31.591[a]	4	.000
	Likelihood Ratio	32.894	4	.000
	Linear-by-Linear Association	22.803	1	.000
	N of Valid Cases	240		
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 1.97.			
		Value	df	Asymp. Sig. (2-sided)
6. Transparency of the investment environment	Pearson Chi-Square	16.744[a]	4	.002
	Likelihood Ratio	17.446	4	.002
	Linear-by-Linear Association	5.927	1	.015
	N of Valid Cases	240		
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 2.46.			
		Value	df	Asymp. Sig. (2-sided)
7. Infrastructure condition	Pearson Chi-Square	23.315[a]	4	.000
	Likelihood Ratio	25.014	4	.000
	Linear-by-Linear Association	16.371	1	.000
	N of Valid Cases	246		
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is .49.			
		Value	df	Asymp. Sig. (2-sided)
8. Appreciation of Japanese Yen over the country currency	Pearson Chi-Square	15.666[a]	4	.004
	Likelihood Ratio	17.183	4	.002
	Linear-by-Linear Association	8.898	1	.003
	N of Valid Cases	236		
	[a] 4 cells (40.0%) have expected count less than 5. The minimum expected count is .49.			

		Value	df	Asymp. Sig. (2-sided)
9. Availability of skilled labor	Pearson Chi-Square	10.396[a]	4	.034
	Likelihood Ratio	10.790	4	.029
	Linear-by-Linear Association	7.343	1	.007
	N of Valid Cases	246		
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 1.95.			
		Value	df	Asymp. Sig. (2-sided)
10. Prevention of illegal strikes and union's issues	Pearson Chi-Square	14.051[a]	4	.007
	Likelihood Ratio	14.333	4	.006
	Linear-by-Linear Association	5.568	1	.018
	N of Valid Cases	243		
	[a] 0 cells (.0%) have expected count less than 5. The minimum expected count is 8.33.			
		Value	df	Asymp. Sig. (2-sided)
11. Development of supporting industry	Pearson Chi-Square	19.719[a]	4	.001
	Likelihood Ratio	20.456	4	.000
	Linear-by-Linear Association	14.144	1	.000
	N of Valid Cases	240		
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 2.93.			
		Value	df	Asymp. Sig. (2-sided)
12. Simplification of administrative procedures	Pearson Chi-Square	26.241[a]	4	.000
	Likelihood Ratio	29.754	4	.000
	Linear-by-Linear Association	4.027	1	.045
	N of Valid Cases	238		
	[a] 2 cells (20.0%) have expected count less than 5. The minimum expected count is 3.93.			
		Value	df	Asymp. Sig. (2-sided)
13. Corruption prevention	Pearson Chi-Square	39.065[a]	4	.000
	Likelihood Ratio	40.647	4	.000
	Linear-by-Linear Association	27.020	1	.000
	N of Valid Cases	237		
	[a] 0 cells (.0%) have expected count less than 5. The minimum expected count is 5.92.			

Importance – performance analysis

Table 7 illustrates the perception of Japanese firms on the importance of the attributes when they decided to invest in an Asian country. As can be seen, "very important determinants" to Japanese investors included 10 attributes (mean ≥ 4). A number of 8 attributes were regarded as "important determinants" (4 > means ≥ 3.5). Four attributes were justified as neutral (3.5 > means ≥ 3) and only 1 attributes was considered "unimportant determinants" to Japanese investment

decision (3 > means).

Table 7 - Descriptive statistics of influences on Japanese FDI decisions based on the whole sample

Attribute	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		

If 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 high, the grid of importance-performance analysis is indicated in Figure 6. Accordingly, the importance and performance scores are respectively scattered in the vertical and horizontal axes. The attributes are classified into 4 groups according to each quadrant of the grid:

A. Concentrate here (importance means ≥ 3.50, performance means <

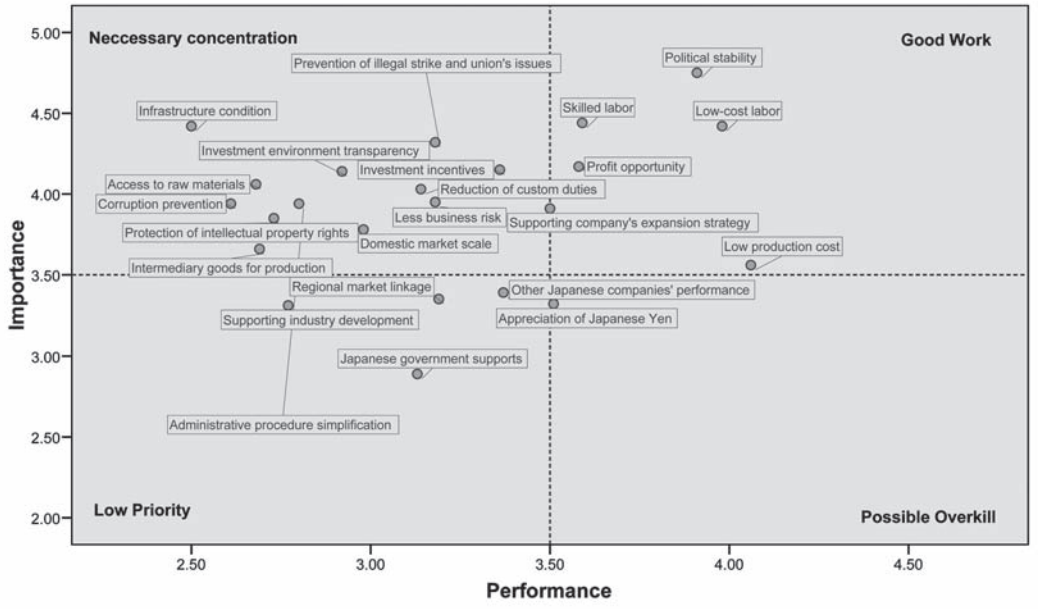
3.5) includes 12 attributes: infrastructure condition, prevention of illegal strikes and union's issues, investment incentives, investment environment transparency, access to raw materials, reduction of customs duties, administrative procedure simplification, less business risk, corruption prevention, 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 the performance of these attributes in Vietnam.

B. Keep up with the good work (importance and performance means ≥ 3.50) consists of 6 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.

C. Low priority (importance and performance means <3.50) comprises 4 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.

Figure 6 – Important – performance analysis of Vietnam as an investment location



Holistic analysis

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 topped the second position with the agreement of 19.62% of the Japanese investors, followed by the advantages in production inputs (16.98%). The advantage of an emerging market, strategic location and infrastructure condition were also mentioned by the respondents, however, at a small proportion (below 10%) (Table 8).

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 activity 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 9)

The attitudes of non-reply investors

20.33% of the participating firms who answered the questionnaire were those who had some interests in the topic and had information about 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 projects/ 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 investment environment in Vietnam; 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 are predicted to be unclear or likely to be negative.

Discussion and Conclusion

Generally, the research strongly supports the argument that Vietnam is the investment base of low production cost and abundant of labor force which assures profit opportunity and supports the expansion strategy of Japanese investors in Asia. Comparing to Thailand and China, Vietnam is far more cost saving and politically stable. Moreover, the devaluation of the domestic currency over the Japanese Yen is beneficial to the investment flows from Japan to Vietnam. Vietnam is also believed to be more abundant of skilled labor than the two other countries.

Furthermore, this research indicates 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, prevention of illegal strikes and union's issues, less business risk in the country, reduction of customs duties on imported materials and intermediary goods as well

as supports from Japanese government to invest in Vietnam. However, when comparing these situations with Thailand and China, Vietnam may even be better for investment incentives, prevention of illegal strikes and union's issues and supports from Japanese government. While Thailand is considered the least risky place to invest, Vietnam is believed to be far safer than China. However, the country is lagged behind Thailand and China in regional market linkage and performance of investing Japanese firms.

Referring to the negative images of Vietnam, the research suggests that the situation of domestic market, transparency of investment environment, simplification of administrative procedure, development of supporting industries, protection of intellectual property rights, supplying intermediary goods for production, access to raw materials, corruption prevention and infrastructure condition are poor in the country. In these aspects, China is considered more advantageous than Vietnam and Thailand with huge domestic market scale, better provision of raw materials and intermediary goods for production. Thailand performs a little better than two other countries in supporting industries development, administrative procedure simplification and transparency of investment environment. China and Thailand share the same appraisal on infrastructure development, whereas infrastructure condition is 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, in which the situations are worst in China.

In comparing the differences in perception of Japanese investors with and without projects in Vietnam about the country's investment condition, the research finds that investors who had projects in Vietnam were very optimistic about the country for political stability and appreciation of the Japanese Yen over the Vietnamese Dong, which further confirms the strength of the country in these attributes. They also showed their high positive reaction to the supports from Japanese government to invest in Vietnam. However, it is noticeable that the political stability is considered the very important factor when Japanese firms decided to invest in Asia, the appreciation of Japanese Yen over the local currency is of neutral importance and the support from Japanese government is regarded as unimportant factor to Japanese investment decision.

Japanese firms who had no investment project in Vietnam were more optimistic about the Vietnamese investment environment, believing that the availability of skilled labor is of good performance in Vietnam; the prevention of illegal strikes and union's issues and the transparency of investment environment

are fairly performed in the country. They also thought that the country better performs in 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, still at "poor performance" level. That fact opens some limited hope for Vietnam to be able to change these poor conditions. 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 Vietnamese investment environment.

Among the attributes which differ between two groups of firms, the results of Chi-square test prove that except for political stability and appreciation of Japanese Yen over the local currency, Japanese firms' perception on the country's performance on 11 other attributes, including 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 are well correlated with their location in Vietnam. It is understandable that Japanese firms who had projects in Vietnam know the situation of the country better than those who do not have projects. In fact, the Japanese companies in Vietnam are receiving more supports from Japanese government indirectly through the relationship between the two countries' governments as well as through ODA projects. Also, the Japanese firms in Vietnam were more pessimistic about the situation of the country as they rated the investment environment attributes poorer than those who did not have projects.

The outcomes of importance-performance analysis reveal that the beneficiary attributes Vietnam should keep up its good work include political stability, low cost labor and skilled labor, profit opportunity, supporting the company's expansion strategy and low production cost. With political stability, low production cost and qualified labor force, 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 which is now facing an unstable political situation, China is a huge but risky market resulting from a series of violent anti-Japan demonstration in 2005, Vietnam is emerging as

a destination to put into consideration. Moreover, the country's proximity to China and to fellow members of the ASEAN (Association of Southeast Asian Nations) also makes it an attractive base for exporting to these markets.

The importance-performance analysis also suggests that Vietnam should improve the majority of attributes related to the macro-economic and investment environment (11 out of 16 attributes), comprising of 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, investment environment transparency and access to raw materials, which Japanese firms considered highly important but their situations were rated as "very poor" in Vietnam. Surprisingly, it is found that the supporting industry development and regional linkage are in the low priority group, which is partially because of their low importance in the perception of Japanese investors comparing to other attributes when they decided to expand overseas.

The results of 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, in which Japanese investors appreciate Vietnamese employees' diligence, hard-working, skillfulness as well as their kind and trustworthiness. The country is also advantageous in a dense and young population with high literacy rate. Moreover, it is noteworthy that Vietnamese labor could share the similarity in thinking and characteristics with Japanese employers which contribute to facilitate the Japanese business activity in the country.

Beside the employees' characteristics, investment environment and production inputs are also cited as the advantages when investing in Vietnam, in which political stability and/or safety and low cost labor are 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 such as ASEAN or WTO may add value to the attractiveness of Vietnam in the eyes of Japanese investors.

Adequate infrastructure condition and emerging market are also mentioned as the competitiveness of Vietnam, however, at a very small proportion. In the perception of Japanese investors, Vietnam can benefit from its strategic location to be a supplementation or substitution for China.

The results of the open-ended question analysis also confirm and specify the disadvantages of Vietnam in investment environment, inputs for production, labor characteristics and infrastructure condition. Investors were much concerned with the investment environment in a sense that it lack of administrative transparency and consistency, the administrative and customs procedures are bureaucracy, corruption and bribes are common in the governmental organizations and taxation sector and the consulting information and business guidance are not always available. Noticeably, investors were somewhat worried about the political regime in Vietnam, in which all the socio-economic development directions are decided by the ruling communist party.

Mentioning about production inputs, Japanese investors stated that lack of materials, vertical suppliers, supporting industries and the time - consuming of transportation and logistics services are two main concerns. They also felt negative about the rising labor-related cost and rental fee recently which applied to the foreign investment sector. Some of the surveyed investors mentioned about the shortage of electricity supply and the heavily effects of electricity cutoff to their production activity.

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 after recruiting the employees in Vietnam, Japanese firms have to bear all the cost for training labor; however, when the workers are skillful enough, they want to move to another places with better paid rather than staying loyally in the company. Japanese investors also doubted about the language ability, labor union issues, ability of time-management and doing teamwork of labor, as well as the business senses and trustworthiness of Vietnamese partners.

To conclude, the research finds that Vietnam still has a long way to go to become an attractive destination for Japanese investors. However, comparing to Thailand and China, Vietnam has more attributes with good work than the two countries. At present, Vietnam should take advantages of her political stability, low production cost, abundance of low cost and skilled labor force, as well as the Japanese companies' strategies of profit seeking and expansion seeking in Asia to induce more FDI flows from Japan. To become more attractive to Japanese investors, Vietnam should upgrade its investment environment, especially the infrastructure condition, investment environment transparency and access to raw materials.

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