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Risk management of Japanese and Korean FDI enterprises in Vietnam Comparative analysis

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Abstract
Within the scope of the thesis, the topic has limited and focused on analyzing the most basic content of foreign direct investment activities of Japan and Korea, the positive and negative impacts of FDI enterprises for Vietnam's economy and society. Evaluating the results of the management process for FDI enterprises as well as analyzing the state management of this type of enterprise in Vietnam in the past time, pointing out the problems that exist in state management. Based on the analysis of that management situation, the thesis has set out specific solutions to further enhance the management of FDI enterprises in the most effective way, while helping businesses operate. In accordance with the law of Vietnam, it has also motivated businesses to further develop their contributions to the socio-economic development of the province in the coming time.

Keywords: FDI, ODA, risk management, Japan, Korea, Vietnam

Introduction

Studies on attracting foreign direct investment (FDI) have long recognized that risk management plays an essential role when doing business abroad. There have been a lot of researches about the types of risks commonly encountered in the host country for FDI enterprises and the specific risk reduction strategies that these businesses often apply. Only by understanding the investor's sensitivity to risk, the local government can improve its competitiveness to attract FDI. Currently, Korea and Japan are the two largest foreign direct investors in Vietnam. FDI from Japan and Korea is considered as the main capital flow, a model for the cooperation between Vietnam and foreign-invested enterprises. Along with activities to promote investment cooperation, Vietnam and Japan as well as Korea also set up a special cooperation model of a common initiative to create a very effective and dynamic policy dialogue forum between foreign investors with relevant ministries and branches of Vietnam. Besides, Japanese and Korean FDI enterprises also received support from the Government and many organizations of these countries in investing in Vietnam such as supporting advertising and information provision costs, connect with Vietnamese investors, create good conditions for their businesses to sell goods in Vietnam. However, the investment environment in Vietnam is also showing limitations and inadequacies which pose potential risks for foreign investors in general and Japanese and Korean FDI enterprises in particular. According to Hironobu Kitagawa, those risks focus on the following factors: rising labor costs; complex taxes and tax procedures; administrative procedures; high rate of employee retrenchment and unclear laws. In particular, legal factors tend to be slow to improve, the legal system has not been completed and operating is not transparent. For example, in some cases of labor recruitment, enterprises do not know what kind of papers to submit, or invest in some localities, enterprises do not have enough information on how to protect policies, especially is with the auto industry. In addition to the above risks, one of the shortcomings of the Vietnamese investment environment made Japanese and Korean FDI enterprises concerned that the supporting industry is underdeveloped. Currently, the localization rate in Vietnam is only 33.2%, much lower than other countries in the region such as Thailand 56.8%; Indonesia 45.2%; Philippines 42.2% and Malaysia 38.2%. The technology of underdeveloped support not only affects the Japanese and Korean FDI inflows into Vietnam but also affects the attractiveness of Vietnam to investors in the world, limiting the spread of FDI inflows into the economy.

2. Theoretical Framework

Foreign direct investment FDI in a country means that investors in another country bring money in cash or any asset into that country to obtain ownership and management or control of an economic entity. in that country, with the goal of maximizing its benefits. Characteristics of foreign direct investment FDI:

- Contribute large enough to be able to manage and coordinate business activities.
- Investing capital in business on the principle of "profit and loss".
- The investor's control depends on the capital contribution ratio.
- Profit sharing ratio depends on the percentage of contributed capital when deduction of contributions.
- High risk calculation, long-term capital recovery.

Forms and nature of foreign direct investment

a) Joint-venture enterprise: an enterprise co-founded by two or more parties in Vietnam on the basis of a joint venture contract or agreement signed between the Government of the Socialist Republic of Vietnam and the Government or enterprises invested by enterprises with investment capital in cooperation with Vietnamese enterprises or joint-venture enterprises cooperating with foreign investors on the basis of joint-venture contracts. Joint-venture enterprises are established in the form of limited liability companies.

For countries directly receiving investment (Vietnam)
- Advantages:Solving capital shortage;Diversifying products;Technological innovation;Create new markets and new job opportunities and create opportunities for workers to work and study management experience of foreign countries.
- Defect:It takes a lot of time to negotiate issues related to investment projects;appearing conflicts in business management;

For foreign investors (Korea - Japan)
1. Advantages:No need to spend time researching the market;Take advantage of the local distribution system of the host country (Vietnam);Invested in areas that are easy to profit, cost less risk.
2. Defect:The difference in cost recognition;It takes a long time to negotiate the problem;Not active in business management, easy to lose business opportunities.

b) Enterprises with 100% foreign investment capital: companies owned by foreign investors, established by foreign investors in Vietnam, self-managing and self-responsible for the results business. Enterprises with 100% foreign invested capital are usually established in the form of one-member limited liability companies, limited liability companies with two members, partnerships or joint-stock companies under the provisions of Enterprise Law.

For countries directly receiving investment (Vietnam)
- Advantages (The State is entitled to rent land and tax); resolving jobs; Encouraging exports; Attracting investment capital, technology and logistics of foreign markets.
- Disadvantages: difficult to acquire foreign management and technology experience to improve the level of managers and technical staff in domestic enterprises.

For foreign investors (Korea - Japan)
- Advantages: Independence of organization and operation of enterprises; not sharing profits; easy transfer of capital.
- Defect:Bear all risks in investment; new market access costs; difficult access to local authorities.

The role of foreign direct investment (FDI) on economic development
- As one of the important sources of capital to offset the shortage of investment capital, contributing to economic growth and development.
- Technical transfer: Easy to transfer obsolete machines to investment recipients; It is difficult to calculate the real value of transfer machinery; Harming the ecological environment; Product quality and production costs are high and therefore products of investment-receiving countries are unlikely to compete in the world market;
- Dependence of the recipient country: The country's companies receive investment to increase their dependence on capital, technology and consumption networks on transnational companies;Easy to create a false, prosperous economy. Prosperity is obtained by others.
- The cost of using FDI in the production process is not reasonable: cost of attracting FDI: the cost of training to improve labor skills, better governance, better wages, higher quality standards to improve the competitiveness of FDI enterprises and domestic enterprises; Inadequate production of goods: production of goods is not suitable for the level of labor, raw materials are not available, technology is not appropriate; causing negative political and social effects: increasing income disparities, causing brain drain, increasing differentiation among people, increasing disparity developed in a region or between regions, pressure on social security policies and safety order for the host country.

3. Research Results and Discussions

If in the past, Japanese investors jumped into the manufacturing and assembly sectors, but now they are moving to finance, banking, retail services and catering. In contrast, Korea boosted its investment in production and large projects such as Samsung have dragged many other small and medium-sized Korean companies into satellites after a period of small business. Two characteristics, two investment trends are posing problems for Vietnam in taking advantage of opportunities to attract investment from these two East Asian countries. Over the past ten years, with an exposed mechanism called "Vietnam-Japan Joint Initiative", Japanese economic experts, with the companions of Japanese businessmen have been doing business in Vietnam, contact continue to negotiate with experts of the Ministry of Planning and Investment on a variety of issues in the investment and business environment. The Japanese are very meticulous; they set out issues such as the need for overpasses for workers in Thang Long Industrial Park across the road, or talk about overloaded bus stations. It seems that Japanese people have the belief that the fundamental, systematic changes, from the legal foundation, the infrastructure to the reform of education are the way for Vietnam to develop, and the Japanese investors will have opportunities and benefits in it. That is probably why, for many years, Japan has still provided huge ODA support for Vietnam, focusing primarily on infrastructure projects. The Japanese still chose to cooperate through this mechanism with the end of July; the fifth phase of the Vietnam-Japan Joint Initiative was launched. Thirteen problem groups with 27 categories and 100 sub-categories related to contents such as policy law, taxes, customs, human resource training, intellectual property, environment, food safety, banks, services, infrastructure development and macroeconomic stability will be discussed further between till the end of 2014. However, according to Mr. Motonobu Sato, Chairman of the Association Japanese enterprises in Vietnam (JBAV), even considering Vietnam as an attractive investment destination, Japan is also expanding its direct investment to other Asian countries. For example, in 2012, Japan invested about US $ 13 billion in Thailand, which is three times the investment in Vietnam. Vietnam needs to clarify its strategy to attract investment through competition with other countries. The legal issues of the investment environment need to be definetively addressed and there is a mechanism to prevent recurrence. If the Government considers these issues common to developing countries, we fear that Vietnam will easily lose its attractiveness and the flow of investment will flow to other more competitive Asian countries.

Korean investors, on the other hand, have a more realistic view. Instead of trying to "policy advice" for Vietnam, they realized that opportunities and benefits can be found in the current conditions. And in the context of Vietnam's decentralization of strong investment in the provinces, they found that the relationship with local authorities is very important. An example is still remembered by those who are interested in foreign investment: the race between Keangnam Group (Korea) and the Riviera Group to gain the right to develop the land plot of X2 in Hanoi in 2007. Resolve and "play better" when increasing investment capital and increasing the "support" for the budget of Hanoi City, Keangnam is finally chosen. To the story of Samsung, it can be seen that the "reality" of Korean people is clearly expressed. Samsung has been investing in Bac Ninh since 2008 and since then, "over-frame" incentive offers have been continuously offered by this investor. Samsung's argument is simple, because they are investors with large-scale projects, the government cannot impose a preferential mechanism mechanically. Samsung's rapid success in the smart phone market, thus contributing significantly to export turnover, job creation and taxation has contributed to their argument. From Bac Ninh, Samsung "cloned" its model to Thai Nguyen with favorable conditions and higher support. Even the negotiation story with Samsung's government has been successfully applied by a "fellow countryman" of LG Group when implementing a US $ 1.5 billion investment project in Trang Due Industrial Park. Regardless of the approach, the flow of investment capital from Japan and Korea will still have a very important role for Vietnam for many years to come.

In the 1990s, Japanese investors brought to Vietnam very basic industrial production projects, including the automotive, electronics and other industries. But the fact is, there are investment projects after 20 years are still just assembly. The Japanese admitted they had difficulty creating a system of ancillary businesses, since Vietnam itself did not have the necessary policies for this. Mr. Takahashi Kyohei, Chairman of the Vietnam-Japan Economic Committee, said at the launching ceremony of the 5th Vietnam-Japan Joint Initiative that Japan has pledged to support Vietnam in delivering supporting industry development but there are not many results. For supporting industries, most are small and medium enterprises. Therefore, in this phase 5 initiative, it will go into each specific industry of this supporting industry. However, while Japanese investors complained about the lack of supporting businesses, Korean investors are actively creating their own auxiliary enterprise system, typically the story of Samsung. Mr. Ngo Sy Bich, Head of Bac Ninh Industrial Zones Authority, said that as of June 2013, the agency has granted investment certificates to 140 industrial enterprises supporting in the electronics industry, computers, cars, motorcycles, and mechanics with a total registered investment of nearly US $ 1 billion. Of these, more than half are supporting businesses for the electronics industry, mainly serving Samsung.

+ Japan

Japanese businesses are still concerned about some risks in the Vietnamese market. According to the results of the survey on the operating situation in 2017 of Japanese enterprises in Asia and Oceania published by Japan Trade Promotion Organization (JETRO) in early 2018, labor costs increased. High is one of the top concerns. Meanwhile, the domestic supply rate did not see a big change compared to the previous year. Other concerns related to administrative procedures, tax policies, legal systems as well as infrastructure. Despite many concerns, most Japanese businesses in Vietnam still want to expand their business in Vietnam. According to JETRO survey, about 70% of Japanese enterprises operating in Vietnam think they want to expand their operations to increase revenue. This is the highest rate compared to other companies investing in 19 countries and other territories. According to Mr. Takimoto Koji, JETRO Representative in Ho Chi Minh City, this is the highest rate of businesses that want to expand in the last 3 years, while in 2016 it was 66.6% and in 2015 was 63.9%. Currently, electricity production and consumer goods industry attract the attention of Japanese businesses. However, Vietnam needs to further develop supporting industries to increase efficiency. Japanese businesses are also very interested in developing the tourism and real estate industry, but there are not many projects actually due to procedures related to procedures. Vietnam has many regulations on long-time procedures, which makes enterprises wondering whether they really want to invest. In the agricultural sector, many Japanese enterprises are in the process of researching investment in Vietnam, as well as considering supporting Vietnam to develop fisheries because they are very interested in Vietnam's rich aquatic resources. The profit of Japanese enterprises in Vietnam is one of the basis for nearly 70% of businesses in the sunrise country to continue to expand their investment in our country. This information is Mr. Kitagawa Hironobu - Head of Office Representative office of Japan Trade Promotion Organization (JETRO) in Hanoi shared at the announcement of the survey results "About the status of production and business activities of Japanese enterprises in Vietnam", by JETRO done, on the morning of March 4, 2019, in Hanoi. According to Kitagawa Hironobu, the turnover of Japanese enterprises in Vietnam with profits is the basis for Japanese businesses and investors to expect future prospects and potentials of Vietnamese investment market ". Meanwhile, market size, growth potential is considered to be favorable conditions for Japanese enterprises to have confidence in the business and investment environment in Vietnam. In the domestic market, the localization rate of 36.3% is also considered by JETRO as favorable conditions for Japanese enterprises to continue investing in Vietnam. Judging by the level of risk and difficulty in the investment environment, Japanese businesses said that 4/5 items were good. Difficulties in the pressure of increasing salary for employees, purchasing raw materials, accessories in the host country, quality management or localization rate are said by more than 50% of Japanese enterprises. more positive changes than the previous survey. Customs clearance time for export goods has improved. The ratio of 100% export of Vietnam compared to the previous year tends to narrow and gradually shifted to domestic consumption.

+ Korea

South Korea's chaebol (major corporations) are investing in corporations in Southeast Asia, but this time they ignore the signs of market weakness. Bloomberg reported that South Korean chaebol are betting on large Vietnamese corporations. They are even willing to ignore signs of market weakness. Samsung Electronics is currently the largest employer in Vietnam. Since Vietnam joined the World Trade Organization (WTO) in 2007, one-third of direct investment in Vietnam has its roots in South Korea. Private investment funds are also mobilizing capital. In 2018, South Koreans are foreign buyers buying second-grade high-end apartments in Ho Chi Minh City and they are also rushing to centralized stock funds in Vietnam, although this trend unintentionally causes markets to Other emerging worse. The presence of Korean businesses is showing everywhere in Vietnam. In March 2019, SK Group of South Korea announced a $ 1 billion investment plan in Vingroup JSC. This is SK Group's biggest bet on a Vietnamese corporation. Earlier, in September 2018, SK Group acquired 9.5% stake in Masan Group, a smaller group, for $ 470 million. Even so, that calculation is still not closed. With a minimum price of VND 100,000 (US $ 4.31) / share, SK is valuing Vingroup 43 times higher than the profit of 2019. If the Korean corporation is interested in Vingroup's real estate portfolio,they can buy 18.3 times higher than Vinhomes JSC real estate developer. Currently, Vinhomes JSC accounts for two-thirds of Vingroup's parent company's revenue. Or if SK is interested in Vingroup's retail center operation, Vincom Retail JSC can be purchased 26.2 times higher than its profit. Of course, the new SK Group has the right to decide the amount of money they will invest. Increasingly, the Vietnamese market starts to look more like Seoul and you don't know who is in the maze of cross owners. Vietnam Investment Group JSC (VIG), a private equity fund with 27.5% of the founder and chairman Pham Nhat Vuong, is the largest shareholder of Vingroup blue-chip. But who owns the investment company? Bloomberg has not learned much information since this company was structured as a private equity company. All information announced as Vingroup Chairman owns more than 10% of VIG's charter capital, according to a file of this company in 2016. VIG is not a passive investor. In 2016, Vingroup paid the company more than US $ 17 million for a land transfer contract and other office leasing and infrastructure use fees in 2018. The role of this anonymous shareholder for Vingroup's business is still a question mark. Perhaps this is not a big problem for Korean retail investors who have to deal with nearly 100,000 ownership of crossover chaebol in 2013. However, for others, this is a warning signs. So far, Vietnam is increasingly favored and helps promote Korea's production capacity. However, if Vietnam allows the stock market to operate as Seoul, the stock market will soon decline as in Korea.

4. Conclusions and Recommendations

We are in an increasingly globalized world and no country can develop comprehensively in economic isolation. Investors are becoming more active and always comparing the investment and business environment between regions and countries to determine their investment activities. In order to attract effectively FDI from Japan and Korea, it is necessary to synchronize different solutions but must be closely linked. On the one hand, Vietnam needs to create an attractive investment environment, on the other hand, to build trust and understanding of investment in Vietnam for foreign investors. All that requests us to:

- Continue to improve the legal system and policies on FDI
- Diversify types of foreign direct investment to exploit more channels to attract new investment
- Expand the field of attracting FDI in accordance with the commitment in the process of international economic integration
- Innovate and complete monetary policy
- Continue to reform the tax system
- Promote import and export process and investment protection
- Promptly deal with land problems and land clearance to speed up the progress of the project
- Implement the project of completing legal documents on foreign investment
- Improve state management efficiency for FDI activities
- Promote the management of business activities: decentralize and authorize localities to manage the operations of enterprises so that they can promptly handle arising problems.
- Promoting the investment promotion

When foreign investment activities in Vietnam are at an early stage, foreign investors also have access, exploration and selection, then investment promotion will shorten time, enabling them to quickly do eat together. It can be said that investment promotion directly affects FDI, is a tool to transfer favorable factors of the investment environment through effective mechanisms of the system, encouraging impacts on potential investors. Overseas, while promoting investment there are many investment opportunities in the world. Competition for FDI attraction is also competition in the field of investment promotion. Investment licensing agencies must regularly review and classify fishing projects which have been granted investment licenses in order to take appropriate measures and promptly remove difficulties for enterprises. In production and business, it is necessary to encourage and reward in time to encourage enterprises to operate better, and at the same time take appropriate measures to solve the most difficult problems, such as the market of products and taxes.

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