

2nd OECD-Southeast Asia Regional Forum (April 27-28)
Speech by Ambassador Hattori
Experience of Japan-Vietnam Joint Initiative –towards dramatic
changes in the investment climate in Vietnam

Today, it is my great pleasure to have the opportunity to talk about Foreign Direct Investment (FDI) and Vietnam in this session of the OECD-Southeast Asia Regional Forum.

I am currently the Japanese Ambassador to the OECD. Immediately before assuming this post, I served as the Ambassador to Vietnam for more than five years between 2002 and 2008. The foremost agenda in the economic field that I had to tackle as the Ambassador was to enhance Japanese Official Development Assistance (ODA) and FDI to Vietnam.

With regard to ODA, the annual amount of ODA pledged by Japan to Vietnam in 2002 was *USD 750 million*, which represented approximately 30% of the total ODA received by Vietnam for that year. In 2007, I was successful in increasing this figure to more than *USD 1 billion*.

As regards FDI, in 2002 the total amount received by Vietnam was slightly less than *USD 3 billion*, only *USD 100 million* of which originated from Japan. However, in 2008, the total FDI jumped to *USD 60 billion* and the FDI from Japan surpassed *USD 7 billion*. Needless to say, the reason for the twenty-fold increase in FDI over this six-year period is, although not to overlook the positive change in the overall international economic climate, largely due to the significant improvement in the investment climate in Vietnam.

I believe that I have contributed significantly to the improvement of the investment climate in Vietnam, and today I have the pleasure of sharing my experience, in the hope that it could be helpful to other countries in this region.

Nobody would disagree that FDI is the major key for growth in developing countries which lack adequate capital and technology. The utmost role of ODA, in addition to its important humanitarian missions,

therefore, is to create an advantageous climate for FDI by building economic and human infrastructure in developing countries.

First of all, I would like to state some basic viewpoints upon addressing the issue of FDI. The principal motivation for a private enterprise is of course to maximise profit; therefore, it seeks to invest its capital in a market with better conditions even in a minor way compared to those of other markets.

Then, what kind of investment climate is sought by private enterprises when FDI is made?

The investment climate in this context includes not only economic infrastructures such as roads and harbours, but also soft infrastructures varying from regulations and government procedures of investment authorisation, tax-related laws and regulations including corporate taxes, income taxes and customs, to intellectual-property protection. Furthermore, investment climate entails political stability, social security and the quality of the labour force. In short, the investment climate incorporates all of the various factors which are related to the entire society and economy of the receiving country.

Since the launch of the Doi-moi policy, Vietnam has been enjoying hitherto incomparable political stability. However, in around 2002 the investment climate of Vietnam lagged far behind that of other advanced ASEAN economies in both of soft and hard infrastructure.

No matter how much economic infrastructure is created by ODA, or how much human capital is built up through technical assistance, we cannot expect FDI to increase as long as fundamental governmental systems and policies determining economic growth remain unchanged, and thus significant economic development cannot be expected.

Thus, I proposed to the Vietnamese government the '*Japan-Vietnam Joint Initiative*' in 2002, in order to dramatically improve the investment climate for the purpose of strengthening Vietnam's competitiveness.

An orthodox experience tells us that an investment climate could

only be improved incrementally, steadily and step by step, yet usually developing countries have difficulties in making changes by themselves in the investment climate because of various vested interests and political power balances. Especially in the case of Vietnam, it was still in the transition period from a planned economy to a market economy, and a number of 'hard-core' problems remained unresolved despite various reforms the country had undertaken.

Under the '*Japan-Vietnam Joint Initiative*' I proposed the following:

- (1) The work should be carried out jointly by the two countries as equals with the shared goal of attaining the maximum mutual interests.

The important point here is that Japan does not force Vietnam to reform but that Vietnam recognises this as its own problem and addresses it with a sense of ownership.

- (2) The commitments should be implemented through high-level engagement.

Difficult problems cannot be solved without top-down decisions.

- (3) ODA should be used as leverage.

In order to improve the investment climate, furnishing of financial assistance to build up the economic infrastructure and technical assistance for human capital and institution-building were essential. For this purpose, Japan has committed to make the best use of its ODA in all the modalities, and this has given a sense of truly mutual and bi-directional efforts to the whole process of the joint initiative.

In conducting this Initiative, I made it a tripartite project including not only both Governments but also the Japanese business circle, which is the actual foreign direct investors. An in-depth and thorough survey was first conducted on the concrete problems pertaining to the investment in Vietnam. As a result, 125 issues were identified.

Next, the three parties discussed what needed to be done for each of those 125 points and prescribed the responses to all of those problems. At the same time, a deadline of one year for implementation was agreed upon. Opposing pressures we had met from relevant Ministries in Vietnam meant that this was not an easy process. However, in the end,

under strong leadership of the Prime Minister of Vietnam, Mr. Phuc, the Minister for Planning and Investment, coordinated within the Vietnamese government.

This joint work was presided over by myself and the President of Vietnam Economic Committee of Keidanren, a Japanese business association, on behalf of the Japanese side, and by the Minister for Planning and Investment on the Vietnamese side. In its final phase, the outcome of agreed points was elevated to an agreement between the Prime Ministers of Japan and Vietnam in December 2003.

Then, one year later in November 2004, we evaluated the implementation of the 125 items that had been identified and prescribed, and discovered that 85 items had already been implemented or were under implementation. I was quite surprised by the result. To be honest, it was a pleasant surprise that the Government of Vietnam had implemented these items so assiduously and with strong ownership.

Satisfied with this result, Japan and Vietnam proceeded with the second stage of the Joint Initiative, and currently, the third stage of the Joint Initiative is being implemented to try to resolve the remaining problems and any new emerging ones.

The achievements which have been brought about by this process apply not only to FDI from Japan but naturally to FDI from all over the world. As a result, with its political stability and exemplary public security added, Vietnam now can boast that its investment climate is one of the best in this region.

One remark I would like to make drawing on my aforementioned experience is that the reality in developing countries is such that even though the need for reform of the investment climate is understood, it is sometimes difficult for the country to attain the needed improvement and reform on its own initiative. The more the problem is due to internal political reasons, the more this is true. The key to success is the level of urgency perceived by the developing country's government and leadership and how much ownership they have of the reform.

Another outcome of the process was not only deeper confidence between the two Governments, but also a deepened Japanese business confidence in Vietnam. This by-product served as a sustained promoting factor of FDI flows in Vietnam.

The OECD's Policy Framework for Investment serves as an excellent starting tool to clearly recognise what is necessary to reform FDI climate. However, we must recognize the discrepancies which may exist between the theoretically identified problems and the ones that exist on the ground. Hence, tailor-made detailed prescriptions should be made since problems vary from country to country. Above all, what is absolutely necessary is the ownership, determination and a sense of urgency for reform by the developing country itself. It should also be noted here that cheap land and labour force are not in themselves sufficient to attract sustained FDI.

I repeat, FDI is essential for economic development in developing countries. And it would not be an exaggeration to say that the quality and quantity of FDI is the key defining factor for economic success in a developing country. In this time of enormous competition amongst developing countries to attract FDI, their determination will be tested.

Thank you.

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