1. vietnamese service industries, and then finally

Business, Industries

1. Introduction ForeignDirect Investment (FDI) has always been an indispensable factor forsocio-economic development in developing countries like Vietnam. Besides thebasic industries, effective development of the service sector is one of theways for the Vietnamese economy to catch up with the development of the worldand encourage sustainable development through effective participation in theglobal value chain. The trend of focusing on investment in services after basicdevelopment of agriculture, forestry, fisheries and industry in developingcountries like Vietnam is indispensable.

With a stable economic growth rate inaddition to the advantages of a large, young, and dynamic population, Vietnamis a potential consumer market attracting the attention of many foreigninvestors. In thecontext of Vietnam, when the internal capital resources are limited, in orderto develop equally in all sectors, especially the service industry, the foreigncapital inflows in general and Japanese FDI inflows in particular is especiallynecessary. Additionally, in recent years, Japan has consistently ranked amongthe top three countries in terms of total FDI inflows into Vietnam, withconsistent and steady growth in registered capital, and also the implementedcapital (MPI-FIA, 2017c and Vietnam Embassy in Japan, 2017). With the currentstrategic partnership between Vietnam and Japan, we must be fully aware of theimportance of taking advantage of Japanese FDI to boost the development of theservice sector.

Indeed, this is a remarkable source of additional funding, andalso a good opportunity for Vietnam to learn and access the science andtechnology, and the advanced management level of foreign countries in general, and Japan in particular, and Vietnam can integrate more deeply into the globaleconomy.

Fromthe demand of service industry development in the new era, the orientation ofJapanese FDI inflows into this sector has become an important task for Vietnamesegovernment. The thesisaims to study the case of Vietnam in attracting Japanese FDI into serviceindustries. The methodologies are literature review, data analysis, and scoremethod. In the second part, we will come to the theoretical framework with thebasic definitions of FDI and service industry, and experiences of some Asiancountries in attracting FDI.

Then, the paper will study the Vietnam-Japaneconomic relationship, brieflydescribes recent developments of Japan’s capital inflows and discovers thefeatures and determinants of Japanese FDI into Vietnamese service industries, and then finally we come to the assessment to understand the reasons that makethe insignificant investment volume in studied country. Finally, there will have some policy suggestions toimprove the quantity and quality of Japanese FDI into Vietnamese serviceindustries. 2. Theoretical Framework2.

1. Service Industry2. 1. 1. Definition Theterm service is very broad, covering a wide range of activities and invisible products. The service sector (or service industry) is an industry that provides consumerswith the final products are services, but it is not involved to the goods’production (Oxford Dictionary of English, 2010).

2. 2. 2. Classification TheWorld Trade Organization (WTO) (2017) lists the sectors included in the servicesector and classifies them into 12 group: Group 1: Business servicesGroup 2: Communication servicesGroup 3: Construction and civil engineeringservicesGroup 4: Distribution

servicesGroup 5: Educational servicesGroup 6: Environmental servicesGroup 7: Financial servicesGroup 8: Social and health-related servicesGroup 9: Travel and tourism servicesGroup 10: Cultural and recreational servicesGroup 11: Transportation servicesGroup 12: Other Services 2. 2. Foreign Direct Investment2. 2.

1. Definition and Classification According to theInternational Monetary Fund (IMF) (Duce, 2003), FDI is an investment out of thenational boundary, in which a direct investor gains part or all long-term ownershipof a direct investment enterprise in another country. The characteristics thattranscend national boundaries and long term ownership are considered as thefocus of the definition. Thus, FDI will form a long-term relationship between aparent company (direct investor) and a dependent company (FDI enterprise)located in a country other than that of the parent company (IMF, 1993).

Theparent company does not necessarily control the entire operation of thedependent company (in case the parent company does not hold a majority of theshares of the dependent company) and the FDI is just counted in the sphere ofownership of the parent company to the dependent company (IMF, 1993). TheOrganization for Economic Co-operation and Development (OECD) (2008) introducedthe concept of FDI enterprises – a legal or non-legal entity in which thedirect investor owns at least 10% ordinary shares or voting power. Accordingly, the outstanding characteristics of FDI is the intention of taking control rightsover the company. The 2005 Investment Law of Vietnam mentions concepts such asinvestment, direct investment, offshore investment... but there is no conceptof FDI. Hence, it is possible to understand FDI as a form of investment byforeign investors investing in and participating in the management ofinvestment activities in Vietnam or Vietnamese investors investing in andparticipating in the management of investment activities overseas in accordancewith the provisions of this law and other relevant provisions of law (The Lawon Foreign Investment in Vietnam and the Guiding Documents, 2005).

Fromthe above concepts, it is generally possible to understand FDI as an investmentthat requires a long-term interest and reflects the long-term interests of themanagement of a business (hereinafter referred as foreign direct investor) inan enterprise residing in another economy (referred as FDI enterprise). Thus, FDI is always a form of economic relations with foreign factor with two basiccharacteristics: international capital movements and direct investors (legalentities) participate directly in capital use and management of investment'sobjects. Based on the different criteria, thereare many ways to classify FDI, such as classifying bases on investment types, investment motivations, intrusion methods, etc. The multinationals divide FDI into vertical FDI (or export-oriented FDI) and horizontal FDI(domestic-market oriented FDI). In the vertical FDI model, the finishedproducts are exported, and the motivation for the FDI inflows is the cheaplabor availability which reduces production costs. This kind of FDI is moreattractive and popular.

On the other hand, the horizontal FDI producesand sells goods in the host market (Demirhan and Masca, 2008). However, in service industry, FDI is oftencategorized by intrusion methods which contains two main types:

GreenfieldInvestment and Mergers and Acquisitions (Harms and Meon, 2012). In GreenfieldInvestment method, FDI is used to build new enterprises or to develop theexisting enterprises in the host country. This is the most preferable way forFDI recipients to create more jobs for the locals, increase productivity, transfer high technology and create exchanged relationship with the worldmarket (Calderón, Loayza, and Servén, 2004). On the negative notes, this method can threaten the existence of the domesticindustry because of higher technology and economic competitiveness from foreignenterprises and the rapid exhaustion of the domestic resources. Additionally, asignificant portion of profits will flow back to the investor (Calderón, Loayza, and Servén, 2004).

Accordingto OECD (2008), Mergers and Acquisitions is the form in which the assets of adomestic enterprise are transferred to a foreign enterprise. The form of transfercan be a merge between a domestic company and a foreign company to form abusiness with a new legal status. This new business started to havemultinational characteristic. In the case of mergers with foreign companies, the FDI portion is calculated as the part of the contribution received by thedomestic company from the foreign company. Another form of transfer could beselling the domestic companies definitively to foreign companies. In this case, FDI is calculated as investments from the parent company to the domesticsubsidiary. This type of intrusion is primarily preferred by service industryinvestors because of its rapid market penetration and high probability ofsuccess (Harms and Meon, 2012).

Inaddition, the 2005 Investment Law of Vietnam also provides forms of FDI allowedin Vietnam as follows:- Establishment of an economic organization with100% capital of foreign investors.- Establishment of a joint venture betweendomestic and foreign investors- Investment in the form of BCC, BOT, BTO and BTcontracts.- Investment in business development.- Participating in the management of investmentactivities by purchasing shares or contributing capital.- Investing in mergers and acquisitions.

– Other forms of direct investment. Accordingly, FDI has been classified by listing activities considered as foreign directinvestment, without any specific criteria for classification. Thisclassification is not sufficient scientific comparing to the aboveinternational classification, only gives the direction to foreign investors inchoosing how to invest in Vietnam.