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## **Comparative analysis of Japanese and Korean ODA investment in Vietnam**

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### **Abstract**

Official Development Assistance (ODA) - is an important source of capital for socio-economic development, especially for developing countries like Vietnam. In the past years, Japan and South Korea (according to OECD statistics) have been the two countries with the highest inflows of ODA capital into Vietnam, which has helped the Government of Vietnam realize the objectives of socio-economic development. and contributing to outstanding economic development and social progress, contributing significantly to GDP and reducing poverty over the years. In contrast, among the countries receiving official development assistance capital from Korea and Japan, Vietnam is also the leading country with the amount of ODA far exceeding that of other countries. The study was conducted to clarify and compare the situation of ODA mobilization from Korea and Japan to Vietnam to see clearly the importance of these two sources of capital for economic growth and social development. in Vietnam and solutions to improve the effectiveness of ODA use.

**Keywords:** ODA, Japan, Korea, Vietnam

### **1. Introduction**

In the cause of industrialization and modernization of the country, with the goal of striving to basically become an industrial country by 2020. To achieve that success, besides optimizing the exploitation of domestic resources, taking advantage of contributions from external resources is extremely important. In particular, the ODA package is of great significance. Neoclassical economists argue that developing countries are short of capital because of weak capital accumulation, so external funding is needed to enable them to develop (Nguyen Hoang Tien, 2018) <sup>[12]</sup>. Over the past several years, Vietnam has continuously attracted official development assistance (ODA) from developed countries (Nguyen Hoang Tien & Do Thi Hoai My, 2018) <sup>[14]</sup>. This is the result of the implementation of the renovation policy initiated and led by the Party, the efforts of the entire people and including considerable support from the donor community for Vietnam. In the past 20 years, there have been 19 Consultative Group Meetings for Vietnam held, 5 of which were held abroad. In recent years, the donor community in Vietnam has been continuously expanded and currently has 51 donors, including bilateral and multilateral donors operating regularly in Vietnam. Japan is the largest donor of ODA to Vietnam, besides Korea and many other countries. For Vietnam, in the 2016 fiscal year that runs from April 2016 to the end of March 2017, Japan will increase 2.5 times the amount of ODA to 290 billion yen. Meanwhile, South Korea is the country investing most of its ODA capital into Vietnam. Accumulated to October 2017, South Korea continued to rank 1/120 countries and territories investing in Vietnam with more than 6,300 projects, total registered capital of over 57.1 billion USD (accounting for 18, 2% of total investment). In the first 10 months of 2017, South Korea ranked 1st / 12th among countries and territories having investment projects in Vietnam, with a total investment of 7.62 billion USD, accounting for 27% of total investment capital.

### **2. Theoretical framework**

There are quite a few authors who have studied the topic of ODA but the results achieved almost no consensus, most of them agreed on the following three points of view: Aid has a positive impact on economic growth. To defend this view, the authors demonstrate most clearly with the Marshall Plan. When foreign investors decide to invest in a country, they are primarily concerned with the profitability of invested capital in that country. Therefore, a weak infrastructure such as incomplete transportation system, inadequate and outdated

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means of communication and inadequate energy supply system will discourage investors because of the costs they will incur for the use of facilities. An outdated banking system is also a reason for investors to be afraid, because of delays, congestion in the payment system, and the lack of banking services to support investment. Increased investment leads to a decrease in investment efficiency. According to Burnside and Dollar (2000) [2] the author of the famous work "Aid, Growth and Policy", experimenting on 56 countries using cross-sectional data, concludes that aid has a positive effect on growth and have a close relationship with the recipient country's policy.

At the tenth Party Congress 2006, the Political Report of the IXth Central Committee of the Party, when reviewing 5 years of implementing the Resolution of the IX Party Congress and looking back on 20 years of renewal, drew one of the great lessons is: "Promoting the internal strength, at the same time, trying to enlist external forces, combining national strength with modern strength in new conditions (Nguyen Hoang Tien, 2012) [9]. Promoting internal resources, considering that as a decisive factor for development; At the same time, attaching importance to mobilizing external resources, through international integration and cooperation, taking advantage of external resources to promote internal strength to create a synergy for rapid national development and sustainable, on the basis of maintaining national independence and socialist orientation". The Socio-Economic Development Strategy for the period of 2011-2020, adopted at the 11th Party Congress (2011), has set the development perspective: "Building an increasingly independent and autonomous economy in the context of deeper international integration". This point clearly states: "Promoting internal strength and national strength is a decisive factor, while taking advantage of external forces and era strength is an important factor for rapid, sustainable development and economic development. It is necessary to constantly enhance the country's economic potential and synergy to proactively and actively integrate deeply and effectively international integration". Concretizing above-mentioned guidelines, in recent years, the State has issued and implemented many legal documents and policies to stimulate domestic resources, notably focusing on creating environment. favorable for investment and business activities of various types of businesses and people, developing synchronously and creating smooth operation of all kinds of markets, creating macro-economic stability. Besides, the country has paid much attention to attracting external resources, including foreign investors' capital and ODA capital; diversifying investment forms and mechanisms to strongly attract foreign investors into important industries and sectors of the economy. Continue to make use of ODA capital, concentrate capital on technical infrastructure and regions with difficult socio-economic conditions.

Over the past time, Vietnam has implemented a proactive policy of international economic integration, multilateralization, diversification of international economic relations, and an increasingly comprehensive and extensive integration that took a turning point. It is important that Vietnam joins the World Trade Organization (WTO), contributing to the mobilization of external resources and to the effective combination of internal and external resources for the purpose of national development. As such, government investment in upgrading, improving and

building new infrastructure, financial systems, and banks is essential to make the investment environment more attractive. But the investment capital for infrastructure construction is very large and if relying on domestic investment alone, it cannot be carried out, so ODA will be a very important additional source of funding for the state budget. Once the investment environment is improved, it will attract more FDI inflows. On the other hand, the use of ODA to invest in improving infrastructure will create conditions for domestic investors to focus on investing in production and business projects that are likely to be profitable. Obviously, ODA is not only an important additional funding source for development; it also has the effect of raising the level of science and technology, adjusting economic structure and increasing the ability to attract capital. FDI inflows contributed significantly to the successful implementation of the industrialization and modernization of the country.

### 3. Research methodology

During the research, this paper used several methods of data collection and analysis as follows:

- Collecting, analyzing and processing statistics and documents related to the factors affecting the effectiveness of the contribution of ODA capital to Vietnam's economic growth. The selective collection of documents and data related to the projects implemented in the research is an indispensable step, making the research content more quantitative and reliable.
- For research paper using year data from 1986 - 2017, the authors only use data by year because of ODA data by quarter and by month are not available to collect, and the authors This phase is used for research because since 1986, Vietnam has just implemented an economic reform program, opening up its integration with the world, and from 1986 onwards, the figures of foreign capital and trade in Vietnam have been available to be collected. Therefore, to look at the overall impact of external factors affecting Vietnam's growth, this is a period that should be considered.
- Data is used from international magazines as well as world economic organizations such as World Bank (WB).

### 4. Research results

Currently, there are about 50 bilateral and multilateral donors operating, providing ODA and concessional loans for many economic and social sectors of Vietnam [9]. ODA in Vietnam is implemented in three main forms, including non-refundable ODA (about 10% -12%), concessional ODA (about 80%) and ODA. mixture (about 8% -10%). In recent years, ODA for Vietnam has been constantly increasing both in terms of committed capital and disbursed capital. Besides, Japan and Korea are the two countries with the highest ODA capital in Vietnam, so the role of Japan and South Korea is extremely important in the economic development of Vietnam.

#### Japan

For the key areas of Japan's assistance project program to Vietnam, there are no significant difficulties to achieve the desired results. All results are within a predictable range, typically resulting in the transfer of advanced technologies, operational processes with many advantages, and safety

management methods, etc. ODA loan turnover provided by each donor has been increasing continuously since 2011. In which, the contribution rate of Japan is always the highest. The reason is attributed to the cost of developing roads, ports, electrical power facilities and other large-scale infrastructure necessary for enhancing national competitiveness. Priority areas of cooperation of Japanese ODA for Vietnam are defined as below to promote Vietnam's sustainable growth:

- Promoting economic growth and strengthening international competitiveness (controlling inflation, restructuring SOEs, enhancing industry competitiveness and training human resources, upgrading facilities infrastructure etc)
- Strengthening State governance (reforming laws and the judicial system, strengthening administrative functions and capacities, promoting citizen participation, etc.)
- Supporting vulnerable people (poverty reduction, narrowing development gaps, improving basic social services; policies on environment and climate change, etc.)

**South Korea**

In recent years, ODA supported by Korea has increased and in many areas and aspects. Previously, Korean support was used effectively by Vietnam and created many reliable things to continue to receive large aid from Korea. Vietnam is gradually trying to improve in the country and increase the mobilization of extremely important ODA capital from Korea. The Government of Vietnam is determined to make efforts in reforming administrative procedures, creating a favorable business and investment environment for investors.

Vietnam is the top priority partner that Korea provides development assistance (receiving about 20% of Korea's total aid). Currently, the Korean Government is developing a Development Partnership Strategy (CPS) with Vietnam for the period 2016-2020 with 70% of the total aid expected for 4 priority areas: transportation, water and health, state management, education. Non-refundable aid is mainly administered by the Korea International Cooperation Agency (KOICA) under the Korean Ministry of Foreign Affairs and is prioritized in the areas of administrative reform, human resource development, and climate change, poverty reduction, information - communication, science and technology and urban development. In addition, Vietnam also has access to refundable loans from the Korean Government through the Korea Economic Development Cooperation Fund (EDCF) to contribute to economic development in developing countries like Vietnam. Comparing these two organizations, the amount of capital granted by EDCF is remarkable over the years.

The total amount of ODA mobilized from Korea into Vietnam in the period of 2005-2015 is 2,172.8 million USD for 9 sectors, of which the largest ODA capital for the transport sector is 1,078.62 million USD (accounting for 49.64%) and at least for emergency relief with US \$ 0.83 million (0.038%). In addition, the amount of ODA signed by Korea for Vietnam was also focused on technology, environment and energy with 395.55 million USD, equivalent to 18.2%, followed by the fields of medicine, pharmacy and healthcare (10.65%), public management (7.93%), education (7.62%), water supply and sewage

treatment (5.02%), agriculture - forestry - fishery (0.65%) and other fields (0.24%).

It can be seen that ODA from Korea to Vietnam in the first two years of the period was low, averaging over US \$ 30 million per year, but by 2007, this capital began to soar by about 8 times with the value of capital. The total revenue reached 250 million USD, although the figure decreased slightly in 2008 (18.86 million USD, equivalent to 7.38%) but also recovered in the following year (305.13 million USD) and continued to fluctuate. Continuously until 2012 and maintain the downward trend till 2015. In general, in the period of 2005-2015, the committed ODA capital of Korea was always larger than the signed capital, especially in 2015, which witnessed the biggest difference (336.33 million USD, equivalent to 75.01%) and it was the year with the lowest rate of ODA mobilization with only 24.99%. Total ODA mobilized from Korea to Vietnam in the period of 2005-2015 accounted for 75.32% of the total committed capital (US \$ 2,884.67 million). This shows the ability of Vietnam to mobilize this capital. In the period of 2016-2020, several areas will be prioritized: Rural development, health care, infrastructure (transport, urban, water supply and drainage), climate change response and green growth, energy quality, state management. In addition, KOICA will continue to devote part of its resources to financial cooperation between the two countries, firstly providing technical assistance for urban railway and transport projects. In 2016, total aid budget KOICA for Vietnam is 31.5 million USD, of which 22.4 million USD is for 24 projects under implementation.

**5. Research results discussion**

It can be seen that the large contribution of ODA from Japan and Korea to Vietnam's economic growth and development through the proportion of these capital sources in the national GDP. GDP is considered a health scale of an economy. When this indicator increases, it shows that the economy has grown and ODA has contributed to promoting this development.

**Table 1:** Japanese and Korean ODA in GDP of Vietnam

Year	GDP (in million USD)	ODA in GDP (%)	Japanese ODA in GDP (%)	Korean ODA in GDP (%)
2005	57663,26	4,86	1,05	0,05
2006	66371,66	4,44	0,85	0,05
2007	77414,43	5,05	0,83	0,33
2008	99130,30	4,40	0,62	0,24
2009	106014,60	5,86	1,12	0,29
2010	115931,75	2,77	0,70	0,26
2011	135539,49	5,03	0,75	0,15
2012	155820,00	3,78	1,06	0,19
2013	171222,03	3,75	0,76	0,14
2014	186204,65	2,34	0,82	0,08
2015	193599,38	2,32	0,56	0,06

**Source:** Calculation based on data from WB and OECD.

In general, the contribution of ODA to GDP growth has tended to fluctuate in accordance with the economic situation over the years and often increases during periods of economic difficulties and challenges (as in the crisis period. (2008 - 2009) In the period of 2005 -2015, ODA accounted for an average of 4.05% of GDP, a small proportion, but it can make positive impact in stimulating

demand, contributing to maintaining economic growth momentum. Comparing this indicator between Japan and South Korea shows that the contribution of Japanese ODA to GDP is often higher than that of Korean ODA. This is also due to the largest amount of ODA that Japan brings to Vietnam, which accounts for about 30% of the total ODA received by Vietnam. Donors from Japan and South Korea mostly finance the transportation, environment, human development, health, education, etc., thus contributing to the strong development process. This is reflected in the high GDP growth over the years since 2010 due to the promotion of investment effects from the years before ODA programs, projects, especially Japan. It is strongly increased, which is reflected in the high contribution of GDP (2005-2009 with an average contribution of 0.89%). By 2010-2015, the average contribution amount reached 0.77%. Since this time Vietnam has made certain development steps when it becomes a middle-income country, the amount of ODA capital into Vietnam also decreases. This shows that the strong positive impact that ODA of Japan and Korea has brought to Vietnam particularly on Korean ODA has been increasing continuously as the contribution of GDP has increased over the years. Regarding Japanese ODA loans, the Government of Vietnam and JICA have been prioritizing the use of Japanese ODA loans to invest in important infrastructures for Vietnam's socio-economic development. They are highly appreciated for their outstanding improvement in the investment environment of Ho Chi Minh City and Hanoi. Some recent examples such as, from January 2015, Hanoi inaugurated T2 Passenger Terminal, Noi Bai International Airport, opened to Nhat Tan Bridge and the path to Noi Bai International Airport, helping to improve significant arterial routes circulation goods from the international gateway to the city center. Similarly, in Ho Chi Minh City, traffic to the Ho Chi Minh City-Dau Giay Expressway has significantly improved traffic from Dong Nai and Ba Ria Vung Tau. Moreover, Japanese ODA loans have been contributing to the benefits of Vietnamese businesses. For example, the contract value that Vietnamese enterprises own in the value of the ODA contract of the main contractor increased 2.4 times, from 1.4 billion USD in fiscal year 2010 to 3.1 billion USD in fiscal year 2014. At the same time, the transfer of high technology technologies from Japanese companies to Vietnamese partners through Japanese loan projects also took place very strongly.

## 6. Conclusion and recommendation

ODA is very important for underdeveloped and developing countries. Previous studies on ODA in Vietnam and around the world have all confirmed the important role of ODA. However, the studies focused mainly on the macro aspect of ODA without the research on assessing the factors affecting the efficiency of ODA use in an experimental aspect. I have been trying to clarify the enormous contributions of ODA from Japan and Korea to Vietnam's socio-economy in recent years, trying to update the latest data as possible to document for Other research needs are also in this regard. Based on the research results, the average contribution to GDP in the period 2005-2015 of Korea and Japan were 0.17% and 0 respectively. 83%, this capital flow has contributed positively to the economic growth of Vietnam. The total amount of ODA signed during the period was up to 2172.8 million USD from South Korea and 10988.29

million USD from Japan, respectively, 4.22% and 21.37% of Vietnam's total ODA. This shows that these are the two countries that play a major role in Vietnam's economic growth, especially in improving the infrastructure for the nation's comprehensive development. From there, it is necessary to have appropriate solutions to promote ODA attraction, making use of this resource to create a premise for sustainable development in Vietnam. In addition, there is a need to improve the ability to use capital from the government, including: improving the management ability, improving the adaptability to all circumstances in the project development, raising the ability seeking profits from the granted ODA capital.

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