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Advantages and difficulties in Vietnamese-Japanese and Vietnamese-German joint venture

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Abstract
Joint venture is considered an effective and necessary measure to penetrate new markets. In some markets where there is limited investment from outside, joint ventures may be the only way to reach the market. This paper analyzes the reality of foreign joint ventures in Vietnam, particularly between domestic enterprises and enterprises from Japan and Germany. Besides the benefits, there are always challenges and risks in the process of cooperation. By research methods as well as consultation with scientific articles, information on the Internet, the article will make suggestions as well as solutions to overcome difficulties in the process of integration and bilateral cooperation.

Keywords: Joint venture, Vietnam, Japan, Germany, international cooperation, risk and benefit

1. Introduction

International economic integration is a consistent policy and a key content of Vietnamese Communist Party (VCP)'s foreign policy and international economic cooperation in the process of national renewal. Implementing this policy, Vietnam has gradually and proactively integrated more and more deeply into the regional and world economy. In addition to the main business activities of the parent company, many foreign corporations also promote investment activities in emerging market. From 1986 up to now, the renovation carried out by VCP and State has brought Vietnam from one of the poor countries with per capita income of less than100 USD to become a country with an average per capita income of approximately 2,500 USD in 2018. The poverty rate decreased sharply from 58% in 1993 to about 11.3% in 2013, and other social security indicators also improved markedly. Among development factors, it is necessary to mention the great role of foreign direct investment (FDI). FDI is increasingly playing an important role in the development of Vietnam in many aspects such as capital, technology, export development, participation in international markets and improving international payment capabilities. Japan and Germany are thetwo of international partners that Vietnam cooperates with to bring about the most potential and benefit.

Establishing diplomatic relations in September 1973, 45 years ago, Vietnam and Japan have become increasingly important partners of each other in many fields. Since the two countries upgraded their relations to "deep strategic partners for peace and prosperity in Asia" (March 2014), Vietnam-Japan relations have developed strongly and comprehensively. In 2017, Japan is Vietnam's biggest investor with 9.11 billion USD, accounting for 25.4% of the total investment capital. Japan is also an important trading partner of Vietnam with a total two-way trade turnover of more than 33.4 billion USD. Japan plays an important role in diversifying Vietnam's export commodity structure towards manufacturing exports, reducing raw material exports and increasing higher-value manufactured and processed products. Currently, the localization rate of Vietnam's component materials is 27.9%, much lower than ASEAN regional average. According to the JETPO survey, Vietnam has recently risen to stand the second among countries that Japanese businesses are interested in investing. Manufacturing sector is typical for successful cooperation between Vietnam and Japan in recent years with big names like Toyota, Honda, Canon, and Panasonic present everywhere in Vietnam.

Vietnam and Germany formally established diplomatic relations on September 23, 1975. Over the 37 years since the official establishment of diplomatic relations, relations between the two countries in all fields have been continuously developed, it can be said that Germany is currently the biggest partner of Vietnam in Europe. Vietnam-Germany bilateral economic and trade cooperation is of special importance. Germany is the biggest trading partner of Vietnam in the EU. In general, Germany also sees Vietnam as a potential market with rapid growth in Asia, behind only China and India. Many of 95 million consumers in Vietnam love the "Made in Germany" goods for their quality, safety and prestige. Since late 2017, economic ministers of Hamburg, Bremen, Rheinland-Pfalz and Mecklenburg-Vorpommern have visited and looked for opportunities to cooperate with Vietnamese partners. One of the topics mentioned in all meetings is the field of training and bringing Vietnamese nurses to work in Germany. It is expected that in the coming time, Germany will continue to send high-level exchange delegations to Vietnam.

2. Theoretical Framework

Joint venture is a form of establishing a new business unit that is completely managed by the parent company and a form of hiring professional management staff from outside. The benefit from joint ventures is that the government will have regulations and incentives for foreign businesses to invest in the domestic market, sharing the risks with key industries such as aviation and oil and gas, banking, telecommunications, finance, technology, new market management and instability. Sharing knowledge and expertise such as business processes, manufacturing services, management methods, scaling up operation is an opportunity to learn and expand vision. Joining hands, it is easier to cooperate, exchange and enter new market together than standing alone and entering a new market on one’s own (Cao Minh Tri, 2010).

Joint-venture enterprise means an enterprise co-founded by two or more parties in Vietnam on the basis of a joint-venture contract or an agreement signed between the Government of the Socialist Republic of Vietnam and the government of the foreign country. In addition, it could be an enterprise co-operated by a foreign-invested enterprise with a Vietnamese enterprise or an enterprise with 100% foreign-invested capital, cooperating with a foreign investor on the basis of joint venture contract (Foreign Investment Law, 2010). On a national level, the rapid development of FDI enterprises, especially foreign joint ventures, not only affirms the position and role of the young economic sector but also contributes greatly to the industrialization, modernization, economic development and integration of Vietnam with regional and world economy (Nguyen Thi Lien Hoa, 2002) [3].

In addition to providing bilateral benefits, there still exist certain risks in the joint venture process. The important issue is that it is difficult to venture into a global market dominated essentially by cross-border trade. In such cases, there will be unavoidable problems related to transfer pricing and export resources from inside and outside, especially to support branches owned by the company entirely in other countries. Another important issue is when the partners' goals become contradictory. For example, multinational enterprises may have a completely different attitude towards risks compared to local businesses and may be prepared to accept short-term losses to develop market share. They might be subjects to higher debt or spend more in advertising. Similarly, the objectives of the partners can be changed over time, especially the establishment of wholly owned subsidiaries in place of the joint venture for the market access of multinational companies.

Foreign participation in a joint venture with one or a number of domestic partners can be considered an extension of both export and licensing activities when entering a foreign market (Nguyen Thanh Duc, 2005) [2]. The advantage of this option is the sharing of risks among partners, as well as enhancing the ability to connect all together, for example, between enhancing international marketing capabilities and production activities. However, when choosing this method of development, company needs a deep understanding of the domestic market, product distribution system and access to cheap labor and fuel resources. For domestic companies, joint ventures with foreign partners are held to hold the know-how on technology, production and applications. Companies can also venture together to fund a project. In the end, the form of joint venture can be the only way to penetrate a country's market, if the government of that country sets out rules to protect domestic companies, control foreign companies, but joint ventures is fully allowed.

3. Research Methodology

Due to the limited time and unfavorable conditions, this article mainly uses theoretical research methods such as method of collecting and synthesizing theory and data, classification method, theories synthesis and systematizing. Classification method is a method of arranging scientific documents into a strict logical system where each scientific problem has the same basic signs, has the same development direction, to be easy to know and use according to the purpose of research, help discover the development rules of the object, the development of scientific knowledge to predict the new development trends of science and practice. Method of systematizing theory: is a method of arranging diverse information collected from different sources and documents into a system with a tight structure of building a theoretical model in scientific research from which building a complete new theory helps to understand the object more fully and deeply. By collecting information from books, the Internet and scientific articles, filtering to organize the information structure in a logical and reasonable way, it is also possible to find out adequate solutions to resolve the problem.

4. Research Results and Discussion

Economically, Japan is Vietnam's leading important partner; is the largest ODA provider and the fourth largest bilateral trading partner of Vietnam. Especially, in 2017, Japan rose to become the leading foreign investor in Vietnam. There are more than 2,500 businesses, of which most of Japan's major corporations are investing and doing business in Vietnam. The two countries are also deploying many large-scale projects in the field of infrastructure and energy in Vietnam. Japanese ODA in the areas of infrastructure construction, competitiveness improvement, training of high quality human resources, response to climate change and many other areas have made important contributions to the Vietnam's socio-economic development. For Japan, the Japan Economic Trade Promotion Organization (JETPO) has announced that it has pointed out some risks in the investment environment faced by Japanese businesses. That is the increase in labor cost (61.6% of respondents' opinions), incomplete legal system and unclear use of laws (46.9%), infrastructure incomplete (38.2%), complicated administrative procedures (39.5%) and complicated tax mechanisms and procedures (42%). In addition, Japanese businesses investing in Vietnam also encounter difficulties in sourcing raw materials and components in Vietnam. According to a survey of JETPO, the rate of supply of raw materials in Vietnam in 2017 tends to decrease slightly compared to 2016, reaching 33.2%. This rate is lower than many countries in the region such as China (more than 67%), Thailand (nearly 57%) and Indonesia (more than 45%). In 2017, the export market of Japanese enterprises in Vietnam is still mainly Japan. However, exports to the EU and China also increased slightly compared to the previous year. This shows that China is moving from a production center to a consumption center and this is a potential market for Vietnamese exporters. Thus, compared to the report published by JETPO in early 2017, only 2 indicators are assessed by Japanese enterprises as having been improved compared to the previous ones, such as labor costs, mechanisms and tax procedures while the rest of indicators declined. Also, according to JETPO, many Japanese enterprises showed signs of difficulty in finding reliable suppliers in Vietnam.

The forecast of two-way trade balance between Vietnam and Germany in 2018 will still reach the level of 2017, which is about 10 billion USD. Vietnamese products still hold certain positions in the German market and, vice versa, goods and technology from Germany are still essential for the process of industrialization and economic modernization in Vietnam. In the EU, Germany ranks second, behind the Netherlands, and ranks seventh in the world among top countries importing from Vietnam. The number of Vietnamese goods exported to Germany accounted for 19% of Vietnam's total exports to foreign markets, equal to the sum of exported goods to England and France combined. In 2016, the two-way import and export turnover reached 12.6 billion USD and in 2017 it was about 10 billion VND. In the first four months of 2018, bilateral import and export reached 3.321 billion USD. If calculated from 2008 with a turnover of 3,553 billion USD, after 10 years, the two-way import-export turnover has tripled. Germany is Vietnam's largest trading partner in the EU. As a member of the EU, Germany applies the EU's general trade policy to Vietnam, whereby many categories of Vietnamese goods enjoy GSP preferential tax rates (except for some agricultural products including rice). Currently, the investment environment in Vietnam still posed obstacles, creating concerns for major German investors, especially the legal issues and regulations. As noted, German enterprises in Vietnam often find it difficult to fight for their interest in the provincial courts to solve disputes. If there is a professional and effective administration, especially in the far-off provinces, Vietnam's investment environment will be more attractive.

Through above carried out analysis, we can see the advantages and disadvantages for settling Vietnamese-Japanese and Vietnamese-German joint ventures in order to overcome the current limitations.

Table 1: Advantages and difficulties in settle Vietnamese-Japanese and Vietnamese-German joint ventures.

	Japan	**Germany**
Advantages	The structure of Japanese and Vietnamese goods is complementary and non-competitive. Japan is a big importer of seafood, consumer industrial products such as textiles, leather shoes and processed food while Vietnam is a country with absolute competitive advantage in these products. In contrast, Vietnam imports from Japan machinery, equipment, technology and raw materials for production.	The political and social system is stable with economic growth reaching over 7% per year for many years. Vietnam has an industrious, intelligent and eager labor force, represented by the young staff with high professional qualifications.
Difficulties	Japanese enterprises face many difficulties in terms of corruption, laws and regulations, legal system, tax structure and infrastructure in Vietnam market. The nature of legal regimes and commercial laws in Vietnam, combined with overlapping authority among government ministries, often leads to a lack of transparency, uniformity and iconsistency in policies and government decisions on commercial projects. Project timelines often exceed initial projections, especially when funded using official development assistance (ODA). Corruption and bad governance in government are a major challenge to the consistency and productivity of government and for foreign companies doing business in Vietnam. Vietnam ranked 107 (out of 180) on the 2017 Corruption Perceptions Index of Transparency International. According to the FTAs in the period of 2018-2022, the tariff roadmap move towards 0% for many goods, creating new opportunities to improve the Japan-Vietnam import-export turnover.	Infrastructure is weak The legal system is not stable or changed Administrative mechanism is also cumbersome, sometimes ineffective The private economy has not yet developed strongly The raw material source for the industry is lacking, the workers' skills are still low. Enterprises have not much information about the market and partners, and customs procedures, quality inspection of goods are quite complicated, high cost. There are many Vietnamese enterprises when exporting to Germany through intermediaries and brokers without directly signing contracts with German partners. This increases the cost of business and also increases the risk for businesses when uncontrollable importers lead to risk of not being paid.

Source: Own development

It can be sure that the investment activities of Japanese or German enterprises in Vietnam will be pushed forward in the future, and this must be a great business opportunity for legislation related service and supporting industries in Vietnam. At the same time, the Vietnamese side needs to overcome its own disadvantages. If this is done, the economic relationship between Vietnam and the two major countries will reach important new heights.

5. Conclusion and recommendation

Deep international integration creates new opportunities and advantages to implement the policy of comprehensive international integration, deepening and enhancing partnerships, creating long-term benefits with all the world's leading political and economic center, bringing new strength and power to the country, strengthening the peaceful and stable environment. To take advantage of these great opportunities and overcome the difficulties of mechanisms, policies, customs procedures, tax rates, branding and creating trust of businesses in other new markets concerted efforts are required at the level of government and ministries of the countries regarding law enforcement. Many enterprises also have to understand and apply the law inconsistently due to unclear legal provisions and limited staff capacity, especially the issues related to laws concerning securities, healthcare, technology transfer, environment, energy, tax and customs. On the issue of labor, with particularly emphasis on the increase in labor productivity, minimum wage, and labor licensing labor it is needed to clarify the voluntary participation in social insurance for foreign workers. Infrastructure development needs to continue to improve policies and mechanisms to attract investment through a more effective public-private partnership projects. According to experts, Vietnam's largest resource is human resource, each year more than one million young people join the labor market, and Vietnam is committed to the goal of modernization, industrialization and globalization. In particular, focus should be put on attracting foreign direct investments, contributing to jobs creation and general development of Vietnam. The cooperation based relationship between Vietnam and other countries such as Japan and Germany, has really stepped up to a new phase of a comprehensive strategic partnership to build the prosperity of each country and contribute to ensuring common security in Asia and in the world.

In order to attract a wave of investment from Japan in the coming time and make good use of the advantages from the recently signed CPTPP, Vietnam needs to continue to reform administrative procedures; improve the competitiveness of small and medium enterprises, improve labor productivity and especially keep the commitment and confidence of investors. Local-level cooperation between Vietnam and Germany needs to be further promoted in the coming time, especially to create conditions for local business communities to enhance cooperation and exchange. However, the investment environment of Vietnam still shows many weaknesses to be overcome such as infrastructure has not developed synchronously to commensurate with the growth potential, the quality of human resources is still quite low, public services are weak and poor especially along with unstable legal system. Typically, tax laws change rapidly and continuously, causing many barriers and obstacles for businesses. Paying attention to the policy promoting the connection of FDI enterprises with domestic enterprises to overcome own weaknesses and make a use of spillover effects of FDI still limited. At the same time, the development of supporting industries, the participation in global value chains, thereby improving the economic potential of domestic enterprisesis still an ongoing process. In the process of bilateral cooperation between the two countries, the legal issue plays a very important role. It will become a serious common barrier without transparent provisions. Besides, constantly changing tax policies makes foreign enterpirses troublesome in updating them accordingly.

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