

Vietnam - Japan Economic Partnership Agreement (VJEPA) in Bilateral Foreign Economic Relations Between Vietnam and Japan

Nguyen Quoc Phong

Faculty of World Economy and International Affairs National Research University - Higher School of Economics, Moscow, Russia

DOI: <https://doi.org/10.52403/ijrr.20220808>

ABSTRACT

Vietnam - Japan Economic Partnership Agreement (VJEPA) is the first bilateral free trade agreement (FTA) of Vietnam after the country joined the World Trade Organization (WTO). The article outlines the main trade and investment commitments of the agreement. The implementation of the VJEPA has promoted the flow of goods from Vietnam to Japan, and at the same time has attracted FDI capital from Japan. The role of VJEPA is confirmed as a catalyst to promote bilateral foreign economic relations between Vietnam and Japan in the article.

Keywords: VJEPA, agreement, international trade, FDI.

1. INTRODUCTION

Nearly 50 years have passed since Japan and Vietnam established diplomatic relations. Vietnam and Japan have grown closer due to their geographical closeness, long-standing historical ties, and current strategic objectives. The bilateral relationship between Vietnam and Japan is expanded in many aspects such as economy, politics, and society. The economic relations between Vietnam and Japan are continuously expanding, particularly in the areas of international trade in goods and foreign direct investment. One of the milestones creating the solid groundwork of close economic cooperation between the two countries is the Vietnam - Japan Economic Partnership Agreement (VJEPA). With the ongoing changes in the global

economy and the inherent potential of Vietnam and Japan, should VJEPA be a factor contributing to the growth of bilateral trade in goods and direct investment between the two nations?

2. Overview of the Vietnam - Japan Economic Partnership Agreement (VJEPA)

Vietnam and Japan are countries that originated and developed from Eastern cultures, therefore both attitudes and mindsets share many similarities. These similarities are crucial to the growth of the two countries' amicable and cooperative relationship. On the one hand, Japan is a world economic superpower with strengths in capital, technology, and management skills, all of which are crucial to Vietnam's industrialization and modernization processes. In the meanwhile, Vietnam's stable economic and political conditions, as well as its plentiful human resources, make it an appealing location for Japanese direct investment projects aimed at expanding its production chain in East Asia and Southeast Asia. Due to such contextual factors and significant potential, the two nations require a clearer mechanism and cooperation to encourage economic growth, particularly in the field of trade and investment. Therefore, since 2005, the idea of forging the Vietnam - Japan Economic Partnership Agreement was already proposed, and after 9 rounds of formal negotiations, the agreement was

officially signed in December 2008 and entered into force in October 2009 (Ministry of Foreign Affairs of Japan, 2009).

The Economic Partnership Agreement has marked a new turning point in economic cooperation in trade and investment between the two countries. This is Vietnam's first bilateral free trade agreement, in which both Vietnam and Japan provide each other greater preferential treatment than they do in the ASEAN-Japan Comprehensive Economic Partnership (AJCEP). VJEPA contains 14 chapters, 129 articles, and 7 annexes. It is a comprehensive bilateral agreement that includes commitments on liberalization of trade in goods, trade in services, investment, intellectual property, and movement of natural persons, as well as other terms of economic cooperation between Vietnam and Japan.

For trade in goods, Japan has committed to cut 96.45% of tariff lines for goods exported from Vietnam, while Vietnam would liberalize 90.64% of Japan's total trade by 2026. On the Japanese side, within 5 to 10 years, Vietnam's primary exports to Japan, including textiles, footwear, and seafood, would enjoy a 0% preferential tariff rate. Agricultural products, which are likewise areas in which Vietnam excels but which are also heavily protected by Japan, also receive preferential treatment, with 36% of tariff lines being instantly slashed. According to the plan until 2019, the remaining tariff lines for agricultural goods would be gradually lowered (Viet Nam Ministry of Industry and Trade, 2022). When executing the immediate elimination of tariffs on chemical products, pharmaceuticals, and electronic machinery,

Vietnam's roadmap for tariff reduction promised in the VJEPA is largely consistent with other free trade agreements in which Vietnam also participates. The remaining tariff lines are mainly sensitive products that Vietnam has a policy of protection including alcohol, tobacco, oil and gas, cars and auto parts, iron and steel, cotton and fabrics (Vietnam Chamber of Commerce and Industry, 2015).

For foreign direct investment, the provisions on promotion and protection of investment between the two countries and improvement of the investment environment have been revised in accordance with the VJEPA on the basis of the contents mentioned in "the Agreement between Japan and the Socialist Republic of Vietnam for the Liberalization, Promotion and Protection of Investment (BIT)" (Vietnam Chamber of Commerce and Industry, 2019) which has been in effect since 2003.

3. The role of VJEPA in promoting bilateral foreign economic relations between Vietnam and Japan

*** International trade in goods**

The world economy was in recession when the VJEPA was established in 2008, and economic relations between Vietnam and Japan were also severely impacted by this downturn. The signature and execution of the VJEPA agreement, in that context, has opened up great possibilities for the two countries' bilateral trade relations. This agreement is a promising factor that would have a favourable impact on the two nations' trade balances and general trade turnover, thereby encouraging both countries to export more goods to each other.

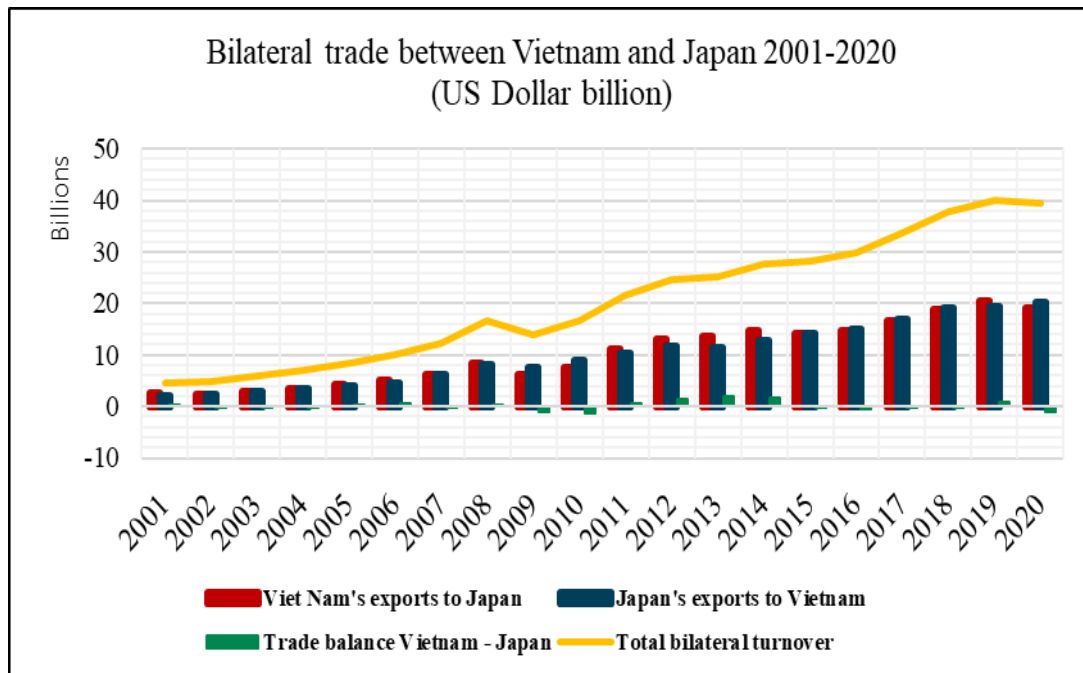


Figure 1. Bilateral trade between Vietnam and Japan 2001-2020 (US Dollar billion)
Source: Calculated and created by the author based on ITC Trade Map data (International Trade Centre, 2022)

In particular, after only one year of adopting VJEPA, the overall bilateral trade turnover between Vietnam and Japan surged from around 4.7 billion USD in 2001 to 16.74 billion USD in 2010, 3.5 times increase. Furthermore, under the terms of the VJEPA's common commitments, Vietnam would eliminate tariff barriers for 87.66% of trade turnover within 10 years of the agreement's implementation, while Japan would complete the liberalization of 94.53% of tariff lines in 2018 (Vietnam Chamber of Commerce and Industry, 2013). Accordingly, the appropriate tariff reduction

schedule as previously stated has created a strong growth momentum for bilateral trade. In 2019, the total trade value reached an impressive 39.96 billion USD, with the export value of Vietnam and Japan at 20.43 billion USD and 19.53 billion USD, respectively. This is the highest number within 20 years for bilateral trade and more than 10 years since the signing of VJEPA, before the world was struck by the worldwide COVID-19 pandemic, which indirectly reduced the value of international trade slightly in 2020.

Table 1. Trade indicators between Vietnam and Japan, 2010-2020 (US Dollar billion)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR 2010-2020	2010-2020
Viet Nam's exports to Japan	7,73	11,09	13,06	13,54	14,67	14,10	14,67	16,79	18,83	20,43	19,27	9,57%	
Year-on-year growth rate (%)		43,5%	17,8%	3,7%	8,3%	-3,9%	4,1%	14,5%	12,2%	8,5%	-5,7%		
Japan's exports to Vietnam	9,02	10,40	11,60	11,56	12,86	14,18	15,10	16,92	19,04	19,53	20,28	8,44%	
Year-on-year growth rate (%)		15,4%	11,6%	-0,4%	11,2%	10,3%	6,5%	12,0%	12,6%	2,6%	3,8%		
Total trade turnover	16,74	21,49	24,67	25,10	27,53	28,28	29,77	33,71	37,87	39,96	39,55	8,97%	

Source: Calculated and created by the author based on ITC Trade Map data ((International Trade Centre, 2022)

Since the VJEPA was implemented and entered into force, each side's export value has maintained an average of over 15 billion USD per year. Although the growth rate

varies from year to year, such as in 2011 when Vietnam's export growth was 43.5% and Japan's was just 15.4%, the compound annual growth rate basically has been

consistent between 8.5-9.5% during this period. When compared to international trade outcomes in the first half of the 2000s, this figure indicates that VJEPA has had a favorable influence on both countries, as expected.

Regarding bilateral trade structure, Vietnam and Japan have complementary patterns that are less directly competitive against each

other. Vietnam's strengths in manufacturing include agricultural products, aquatic products, textiles, wood products, footwear, machinery, electrical equipment, and their components. According to ITC Trade Map data (2022), the trade volume of Vietnam's key exports to Japan reached 136.81 billion USD between 2008 and 2020, accounting for 76.43% of the overall total trade (Table 2)

Table 2. List of key export products of Vietnam to Japan (calculated by gross trade value 2008-2020) Unit: US Dollar thousand

HS code 2 digit	Product description	Total value 2008-2020	Share in total trade (%)
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	38095979	21,28%
'62	Articles of apparel and clothing accessories, not knitted or crocheted	16076677	8,98%
'27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	14612213	8,16%
'61	Articles of apparel and clothing accessories, knitted or crocheted	12980416	7,25%
'03	Fish and crustaceans, molluscs and other aquatic invertebrates	10059123	5,62%
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	8459139	4,73%
'94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	7213488	4,03%
'39	Plastics and articles thereof	6761701	3,78%
'64	Footwear, gaiters and the like; parts of such articles	6745500	3,77%
'44	Wood and articles of wood; wood charcoal	6018828	3,36%
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	5242533	2,93%
'16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	4547879	2,54%
Total value of Vietnam's main exports		136813476	76,43%

Source: Calculated and created by the author based on ITC Trade Map data (2022)

Meanwhile, exports from Japan are strongly promoted in products for industrial production with high technology content such as electronic products, iron and steel, chemicals, equipments for measuring, checking, medical or surgical purposes.

These are the primary Japanese exports to Vietnam that are being encouraged by VJEPA incentives, accounting for 81.55% of the total export value between 2008 and 2022, equivalent to 143.67 billion USD (Table 3).

Table 3. List of key export products of Japan to Vietnam (calculated by gross trade value 2008-2020)

Unit: US Dollar thousand

HS code 2 digit	Product description	Total value 2008-2020	Share in total trade (%)
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	45003491	25,54%
'84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	32784511	18,61%
'72	Iron and steel	22076734	12,53%
'39	Plastics and articles thereof	13117564	7,45%
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	7367794	4,18%
'87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	6801610	3,86%
'73	Articles of iron or steel	5850137	3,32%
'40	Rubber and articles thereof	3428049	1,95%
'74	Copper and articles thereof	2758357	1,57%
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	2268224	1,29%
'29	Organic chemicals	2220986	1,26%
Total value of Japan's main exports		143677457	81,55%

Source: Calculated and created by the author based on ITC Trade Map data (2022)

*** Foreign direct investment**

In general, since the implementation of VJEPA in 2009, Japan's foreign direct investment activities in Vietnam have experienced a gradual growth annually. If the data of Japan's FDI in 2009 was only about 715 million USD with 102 projects, this figure had risen rapidly and reached its peak in 2017 with 9.2 billion USD and 454

projects (Figure 2). During this time period, Japan also kept the position of the largest source of foreign direct investment in Vietnam. Despite a decline in 2020 due to the COVID-19 pandemic, Japanese FDI remains significant and ranks among the top five investors in the Vietnamese market from 2009 to 2020).

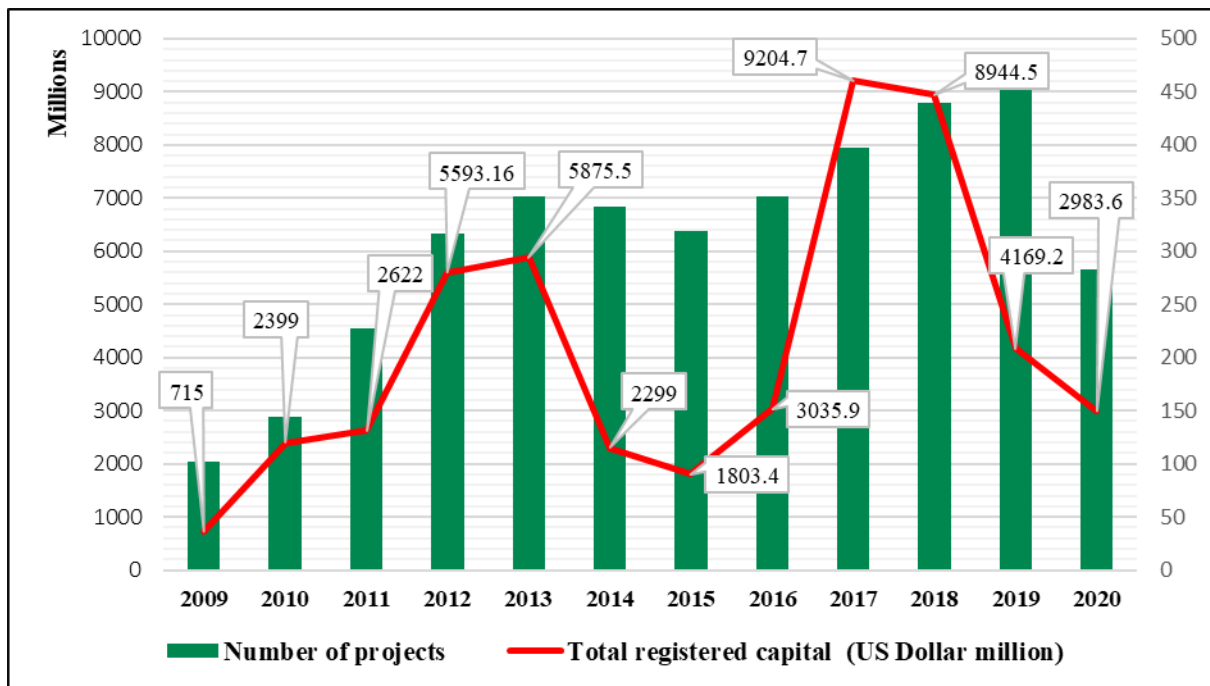


Figure 2. Statistics on Japan's FDI into Vietnam in 2009-2020 (licensed at the end of each year, US Dollar million)
Source: Calculated and created by the author based on data of General Statistics Office of Vietnam, 2022

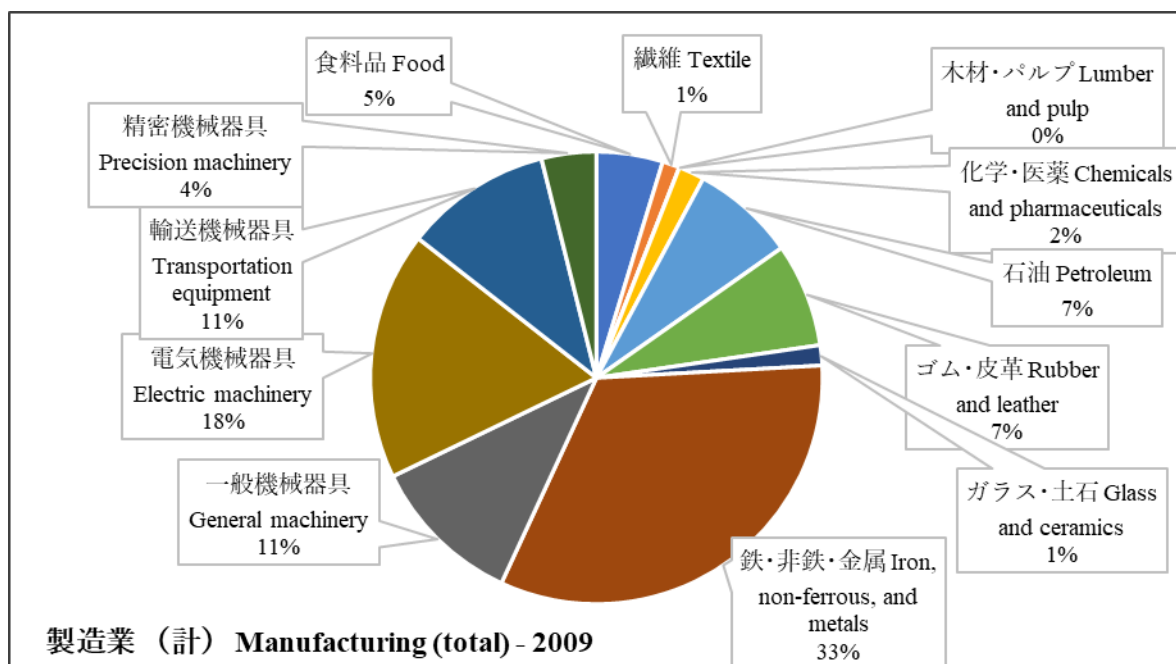


Figure 3. Structure of Japanese FDI in Vietnam, 2009 - Manufacturing sector (%)
Source: Calculated and created by the author based on data of Bank of Japan (BPM 5 & 6) (Bank of Japan, 2022)

According to data from Bank of Japan, in 2009, Japan's FDI into Vietnam was distributed at the rate of 85-15 for the manufacturing and non-manufacturing sectors. For the manufacturing sector, FDI projects concentrated on the processing industry and manufacturing of electricity

machinery and transportation equipment (Figure 3). Meanwhile, finance and insurance, as well as wholesale and retail, were at the heart of Japan's investment plan when it comes to the non-manufacturing sector in 2009 (Figure 4).

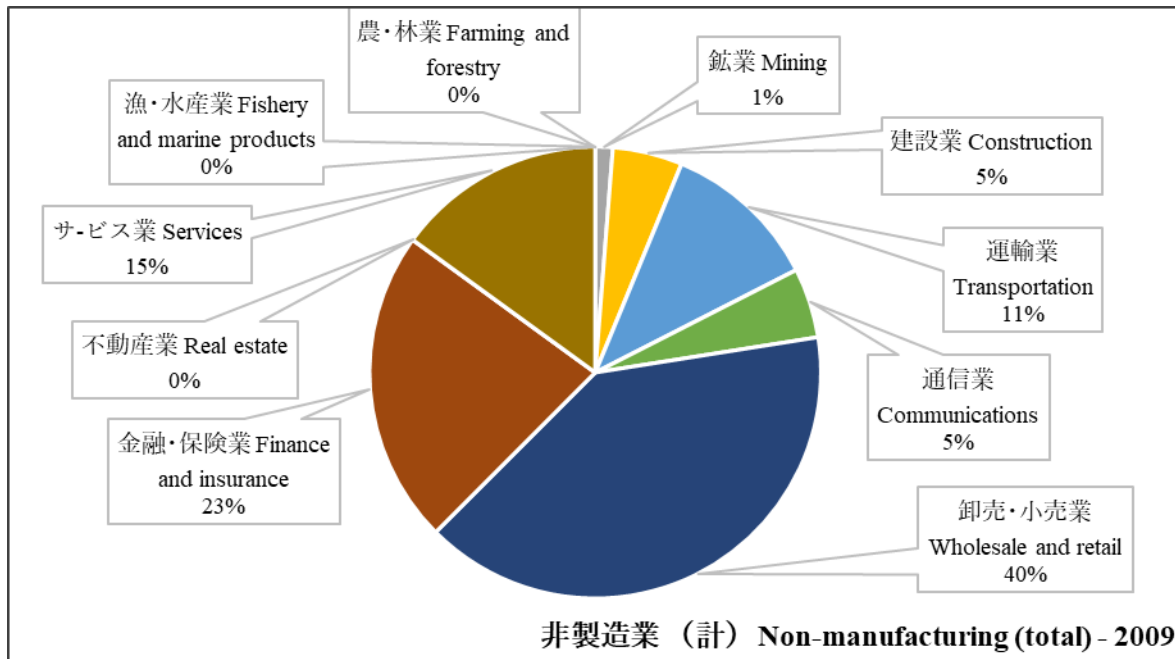


Figure 4. Structure of Japanese FDI in Vietnam, 2009 - Non-Manufacturing Sector (%)
Source: Calculated and created by the author based on data of Bank of Japan (BPM 5 & 6) (Bank of Japan, 2022)

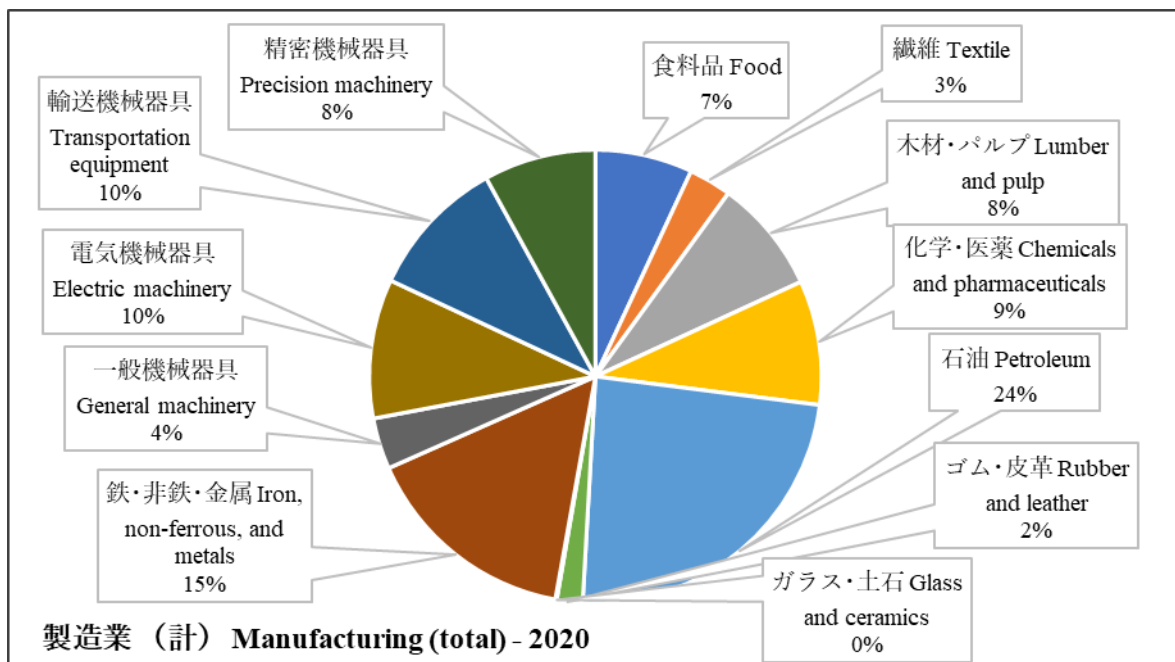


Figure 5. Structure of Japanese FDI in Vietnam, 2020 - Manufacturing sector (%)
Source: Calculated and created by the author based on data of Bank of Japan (BPM 5 & 6) (Bank of Japan, 2022)

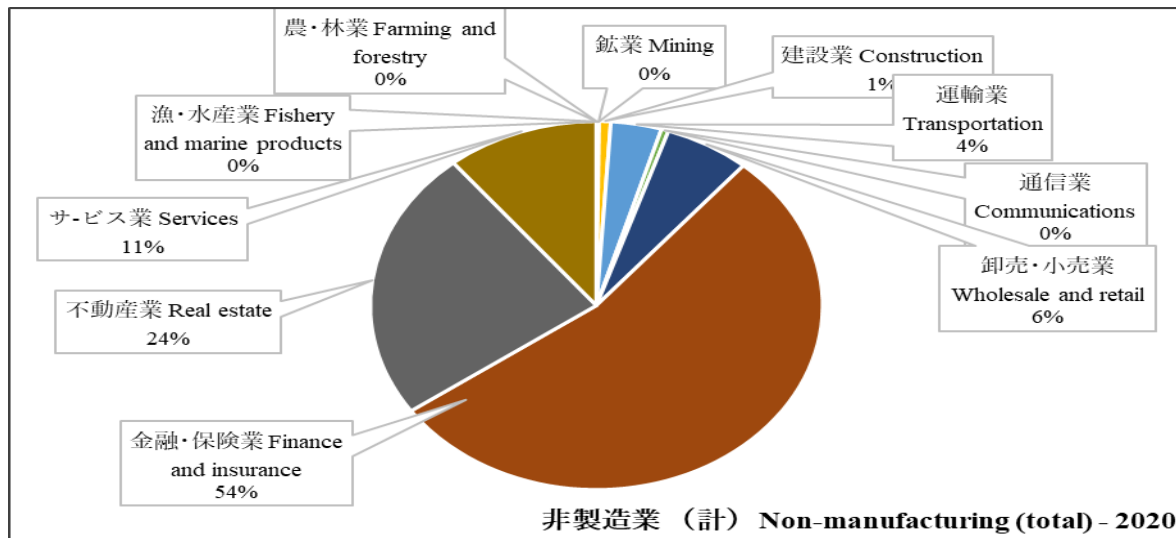


Figure 6. Structure of Japanese FDI in Vietnam, 2020 - Non-Manufacturing Sector (%)
Source: Calculated and created by the author based on data of Bank of Japan (BPM 5 & 6) (Bank of Japan, 2022)

After 12 years of implementing VJEPA, there has been a shift in Japan's foreign direct investment capital. The transition in investment structure has been significant, as the non-manufacturing sector's proportion has increased significantly to 57.6 %, while the traditional manufacturing sector has lowered to 42.4% (Table 4). Japan's investment in 2020 has primarily targeted vital industries and services, such as manufacturing of mechanical equipment,

assembly of electronic components and equipment, chemicals and pharmaceuticals, petroleum, as well as financial services and real estate (Figure 5 & Figure 6). Despite adverse global impacts such as the pandemic, in fact, the majority of Japanese FDI projects in Vietnam operate effectively and profitably, as evidenced by the increasing registered capital value and number of projects over the years.

Table 4. Share of outward direct investment of Japan into Vietnam (%), 2009-2020

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
製造業 (計) Manufacturing (total)	85,1%	54,2%	57,1%	59,1%	57,2%	82,2%	85,5%	61,9%	57,3%	49,0%	38,9%	42,4%
非製造業 (計) Non-manufacturing (total)	14,9%	45,8%	42,9%	40,9%	42,8%	17,8%	14,5%	38,1%	42,7%	51,0%	61,1%	57,6%

Source: Calculated and created by the author based on data of Bank of Japan (BPM 5 & 6)

4. Prospects of VJEPA in promoting bilateral foreign economic relations between Vietnam and Japan

Over the years, there has been positive and remarkable growth in bilateral trade outcomes between the two nations, but the inherent potential has not yet been fully

realized. According to the author's calculations for the period 2008–2020 (Table 5 & Table 6), the data on gross bilateral trade is still relatively modest as Vietnam only ranks seventh-largest in comparison to other trading partners of both Vietnam and Japan.

Table 5. Vietnam's report on main trading partners and trade shares (2008-2020) Unit: US Dollar billion

Trade Partner	Vietnam's Gross export (2008-2020)		Vietnam's Gross import (2008-2020)	
	Value	Share (%) v.s to World	Value	Share (%) v.s from World
China	276,14	13,61%	570,60	27,95%
United States of America	426,29	21,01%	97,12	4,76%
Korea, Republic of	123,49	6,09%	343,21	16,81%
Japan	179,00	8,82%	176,19	8,63%
Hong Kong, China	64,84	3,20%	16,80	0,82%

Source: Calculated and created by the author based on ITC Trade Map data (2022)

In other words, the value of Vietnam's trade with the potential Japanese market still accounts for a negligible portion of the market, in particular approximately 2.15% in terms of Japan's gross imports from Vietnam for the period 2008–2020 (Table 6). However, Japan has always been a

significant trading market for Vietnam to export its key products, as well as import high-quality goods from Japan, thereby diversifying the commodity structure in each market and further promoting the development of international trade.

Table 6. Japan's report on main trading partners and trade shares (2008-2020) Unit: US Dollar billion

Trade Partner	Japan's Gross export (2008-2020)		Japan's Gross import (2008-2020)	
	Value	Share (%) v.s to World	Value	Share (%) v.s from World
China	1886,13	18,92%	2328,17	22,82%
United States of America	1817,49	18,23%	1039,39	10,19%
Korea, Republic of	744,49	7,47%	430,06	4,22%
Taipei, Chinese	614,91	6,17%	344,60	3,38%
Australia	214,73	2,15%	623,03	6,11%
Thailand	440,21	4,42%	313,69	3,07%
Viet Nam	174,96	1,75%	219,12	2,15%

Source: Calculated and created by the author based on ITC Trade Map data (2022)

Besides international trade, foreign direct investment also plays a significant part in the economic development of the two countries. Therefore, the accomplishment of investment commitments under the VJEPA framework would facilitate administrative procedures and local laws, also provide additional incentives, thereby assisting Japanese investors in maintaining their confidence and optimism when investing in new projects in Vietnam. Moreover, Japan has always been a country with a very large scale of FDI abroad in the world, notably in recent years. The current trend of promoting outward investment of Japanese corporations in terms of both the size of investment capital and the number of investment projects is remarkable.

Due to the characteristics of Japan's FDI, it is concentrated in industries in the fields of industry and services, in line with Vietnam's development orientation. Hence, these investment projects would contribute to the transformation of Vietnam's economic structure towards industrialization and modernization. Japanese FDI companies investing in Vietnam might bring with them advanced production technologies and business management techniques. Having to compete with these FDI enterprises would therefore create a push for Vietnamese enterprises to innovate their business models and improve the competitiveness of

their enterprises as well as the Vietnamese economy.

Alternatively, when Japanese companies choose to invest in Vietnam within the framework of VJEPA's commitments, they could well benefit from young and abundant workforce with labor costs that are significantly lower than in other regions, in addition to the benefits of FDI enterprises being treated similarly to domestic investors. It can be said that VJEPA aids Japanese investors in expanding their market, increasing their profits, and strengthening their reputation when entering the Vietnamese market of more than 98 million people, which is a prospective market for commodity consumption and an appealing investment destination. These factors have a good effect on the development of each nation's industries, consequently fostering investment and trade and mutually beneficial growth in bilateral foreign economic relations between Vietnam and Japan.

5. CONCLUSION

The signing of the Vietnam-Japan Economic Partnership Agreement (VJEPA) and the implementation of the commitments of the two countries are the most important milestones in the bilateral trade and investment relationship of Vietnam and Japan, contributing to bolstering foreign

economic relations between the two countries on a large scale. The bilateral provisions in this agreement are assessed to have been and would bring numerous benefits to the business communities of both countries by providing tariff incentives for trade, supporting customs and legal procedures, and facilitating a favorable environment for investment. Thus, it can be affirmed that VJEPA has been and will always play a crucial role in fostering the development of bilateral international trade and direct investment between Vietnam and Japan.

Acknowledgement: None

Conflict of Interest: None

Source of Funding: None

REFERENCES

1. Bank of Japan. Balance of Payments Related Statistics (Data Based on the BPM5): 日本銀行 Bank of Japan. 2014. Available from: <https://www.boj.or.jp/en/statistics/br/bop/index.htm/>
2. Bank of Japan. Balance of Payments Related Statistics (Data Based on the BPM6 [Data from January 2014 onward]): 日本銀行 Bank of Japan. 2022. Available from: https://www.boj.or.jp/en/statistics/br/bop_06/index.htm/
3. International Trade Centre. ITC Trade Map. 2022. Available from: <https://www.trademap.org/>
4. International Trade Centre. Investment Map. Trade & Market Intelligence. 2022. Available from: <https://www.investmentmap.org/investment/time-series-by-country>
5. General Statistics Office of Vietnam. Data and statistics archive: Statistical Yearbook of the years. 2022. Available from: <https://www.gso.gov.vn/en/data-and-statistics/>
6. Ministry of Foreign Affairs of Japan. Japan-Viet Nam Economic Partnership Agreement. MOFA. 2009. Available from: <https://www.mofa.go.jp/policy/economy/fta/vietnam.html>
7. Vietnam Chamber of Commerce and Industry (VCCI). Summary of Vietnam's commitments in the Vietnam-Japan Economic Partnership Agreement (VJEPA). WTO Center. 2013. Available from: <https://wtocenter.vn/chuyen-de/17253-summary-of-vietnams-commitments-in-the-vietnam-japan-economic-partnership-agreement-vjepa>
8. Vietnam Chamber of Commerce and Industry (VCCI). (FTA) Vietnam Japan Economic Partnership Agreement (VJEPA). WTO Center. 2015. Available from: <https://wtocenter.vn/chuyen-de/12772-full-text-of-vietnam-japan-economic-partnership-agreement-vjepa>
9. Vietnam Chamber of Commerce and Industry (VCCI). Agreement between Japan and Vietnam for the Liberalization, Promotion and the Protection of Investments. WTO Center. 2019. Available from: <https://wtocenter.vn/chuyen-de/13053-agreement-between-japan-and-vietnam-for-the-liberalization-promotion-and-the-protection-of-investments>
10. Viet Nam Ministry of Industry and Trade. Commitments on Tariff (VJEPA). Vietnam National Trade Repository. 2022. Available from: <https://vntr.moit.gov.vn/fta/19/2>

How to cite this article: Nguyen Quoc Phong. Vietnam - Japan economic partnership agreement (VJEPA) in bilateral foreign economic relations between Vietnam and Japan. *International Journal of Research and Review*. 2022; 9(8): 108-116. DOI: <https://doi.org/10.52403/ijrr.20220808>
