

Breakdown hurting Japanese investment

By Lien Huong

A lack of communication between Japanese investors and local supporting industries is creating significant challenges to attracting Japanese investment.

Two of the major causes that hinder the development of supporting industries are a serious shortage of information about both Vietnamese manufacturing firms and Japanese enterprises operating in Vietnam, as well as demands and difference in business conception, said the United Nations Industrial Development Organisation's (UNIDO) programme officer Junichi Mori.

"Many foreign direct investment assemblers need to be able to connect with local potential parts producers but they don't even know where those firms are located," Mori said.

He said that Japanese assemblers commonly had to seek and choose from up to 100 different local parts and component suppliers for the right firm to take one work.

"Many of the Japanese firms complain that local manufacturers were not active in connecting with them, but they do not know that local producers also find it hard to gain Japanese firms' information," Mori said.

Differences in business thinking was also an obstacle preventing Japanese assemblers and local manufacturers getting closer to each other, with Japanese firms being very demanding on the quality of products, cost and delivery. Vietnamese suppliers, meanwhile, complain about such



Japanese investors need supporting industries to keep their businesses running smoothly

strict requirements, said Mori.

He said that building a supporting industries database, including all information about local suppliers specialties and capabilities was very crucial.

Vietnam Electronic Industries Association secretary general Tran Quang Hung said that information about both foreign investors, local parts and component manufacturers was needed to bridge the gap, explaining that the origin for Vietnam's supporting industries' weakness was a lack of cooperation and management among local industries and authorities.

"The problem is that supporting industries in Vietnam have been neglected for decades. However, local authorities now recognise that it is a crucial task for them to develop supporting

industries in order to attract and hold onto foreign investors," Hung said.

"Each sector lacks a long-term development strategy and are operating in different ways," he added.

"Scattering plus shortages of capital and technology are the main hindrance to their growth making them incapable of meeting foreign assemblers' demands."

The most effective remedy for stronger supporting industries was in the hands of local authorities and industries, which have to build a clear development path and establish more effective cooperation with each other, Hung stressed.

According to the Vietnam Development Forum (VDF), which organised a series of hearings between the Ministry of Industry and Japanese manufacturing firms operating in Vietnam,

local supporting industries are relatively undeveloped. For Japanese FDI firms in manufacturing, Vietnam's local procurement ratio is 22.6 per cent, with those in Malaysia and Thailand at 45 per cent or higher.

The motorbike manufacturing sector is most advanced in localisation, with the average local procurement ratio of 75 per cent.

This figure includes internal parts production by assemblers, sourcing from local suppliers, and sourcing from FDI suppliers in Vietnam.

In the electrical and electronics sector, local procurement is rising at some FDI firms. But overall, the current localisation level is still far below what Japanese firms desire, about 72.9 per cent, for attaining competitiveness.