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## INVESTMENT IN VIETNAM Entering the Age of Co-Creation



JAPAN BANK FOR  
INTERNATIONAL COOPERATION



# Investment in Vietnam is Entering the Age of Co-Creation

Despite close relations with Japan, today's rapidly-growing Vietnam is far from being properly understood.

In this issue's special feature, representatives from the Japan Bank for International Cooperation (JBIC) Representative Office in Hanoi explain the country's development and the changing Japan-Vietnam relationship.

Discover the appeal of this remarkable country through this feature, which includes a special interview with a Vietnamese high government official and an on-the-ground report on a Hanoi industrial park.

## From a manufacturing base to industry diversification and decarbonization: The changing economy of Vietnam

- » As it continues to grow and pursues the goals of becoming a developed country by 2045 and achieving carbon neutrality by 2050, Vietnam is ASEAN's most promising country.
- » Vietnam is enjoying an investment boom with an increase in FDI (Foreign Direct Investment) following the start of the Doi Moi (open market) policy in 1986 and membership of the WTO from 2007.
- » Amid changes in Japanese corporate investment, along with JBIC's support, Japan and Vietnam this year celebrate the 50th anniversary of the establishment of diplomatic relations.

### With 8% economic growth and expanding domestic consumption Vietnam is no longer a "cheap manufacturing base"

Stretching 1650 kilometers from north to south, Vietnam is home to about 100 million people, 35% of whom live in urban areas, including the capital Hanoi, and Ho Chi Minh City, the largest city. "Construction work is going on everywhere in Hanoi, and you can tangibly sense that the country is in the midst of economic development," says KAMITSUJI Haruna of the JBIC Hanoi office, who assumed her post six months ago.

Many people may have an image of a city full of motorcycles, but car ownership is also on the rise. According to IKENAGA Azusa, who works with KAMITSUJI at the representative office, "On Saturdays and Sundays, the Aeon

Mall is crowded with locals, and its parking lot is packed with Japanese and Korean cars, as well as cars made by the local private conglomerate Vingroup." She explains that the Aeon Mall contains stores such as UNIQLO and MUJI, with the selection of goods comparable to that found in Japan, and some items even priced higher.



Representative /  
JBIC Representative  
Office in Hanoi  
**KAMITSUJI  
Haruna**

Joined JBIC in 2018. Assumed her current position after assignments to the Treasury Department and New Energy and Power Finance Department I (in charge of offshore wind power and solar power project financing, nuclear power projects, etc.) Underwent overseas training in Singapore. Graduated from Osaka University, School of Human Sciences.

"While the gap between rich and poor still exists, the economy is strong with rising income levels. Last year, the economy grew by 8 percent, the highest among the ASEAN countries. People believe that tomorrow will be better than today, and they are passionate about investing in education for their children," says IKENAGA.

In terms of the perspective from Japan, there may still be a deep-rooted image of Vietnam as one of ASEAN's manufacturing hubs that yields inexpensive labor to its advantage. However, such preconceptions need to be drastically updated—Vietnam is changing in a big way.

### Ambitious aim of becoming a developed country and carbon neutral FDI is increasing, and attention is rising

Under Prime Minister Pham Minh Chinh, who took office in April 2021, Vietnam



Hanoi's Aeon Mall Long Bien, built almost exactly like stores in Japan, is bustling with Vietnamese customers.

is pushing economic reforms with the aim of becoming a developed country by 2045, the 100th anniversary of the nation's establishment. And at the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26) in November 2021, Vietnam announced its goal of achieving net zero greenhouse gas emissions (carbon neutrality) by 2050.

Pursuing both rapid growth and carbon neutrality would appear to be ambitious goals for a middle-income country like Vietnam. According to AGUIN Toru, chief representative of the JBIC Hanoi office, "To become a developed country by 2045, Vietnam will need to keep its annual economic growth rate around 6 percent or more. Despite this difficult situation, the government of Vietnam has shown commitment to achieving carbon neutrality. This is precisely why momentum is growing in

the international community to support Vietnam's efforts to avoid the 'middle-income trap' (failing to reach the level of high-income countries due to slow growth), and foreign investors are also seeking new opportunities."

Looking back on the evolution of foreign investment in Vietnam, three major turning points can be seen: the start of Doi Moi (market opening policy) in 1986, the lifting of U.S. economic sanctions against Vietnam in 1994, and Vietnam's accession to the WTO (World Trade Organization) in 2007. Moreover, due to expansion of Vietnam's economic partnership agreements and its growing geopolitical importance, the country is now also benefiting from the realignment of regional supply chains including relocation of manufacturing plants. Spurred on by such circumstances, it could be said that a "fourth investment boom" in Vietnam is underway.

Amid such a transition, while focus had initially centered on ODA (Official Development Assistance), there was a rapid increase in FDI after Vietnam joined the WTO. In 2008, the cumulative amount of approved FDI exceeded USD100 billion, and in the following decade it surged to nearly USD350 billion. The range of industries entering the country has expanded from manufacturing companies to service sector industries, and from large enterprises to smaller enterprises.

### "Medium to long term relations" desired by 97% of Japanese companies Industries are also changing, including the entry of retail

Japanese economic cooperation with Vietnam began in earnest when it resumed ODA in 1992, ahead of other nations. Then in 1993, JBIC assisted Vietnam's return to international financial markets. At the time, Vietnam's debt arrears to the World Bank and Asian Development Bank were ballooning. Since new funds could not be brought in until these were repaid, JBIC provided a USD22.5 million bridge loan prior to the lifting of U.S. sanctions.

The 2010s saw a significant increase in FDI by Japanese companies. "Japan ranks top in ODA to Vietnam, but it also ranks third in cumulative FDI," notes KAMITSUJI. According to an overseas business development survey conducted by JBIC on Japanese manufacturers (released in December 2022), Vietnam ranked fourth after India, China, and the U.S. as a promising destination for medium-term business development (first among ASEAN countries for three consecutive years). In a special



Representative /  
JBIC Representative  
Office in Hanoi  
**IKENAGA  
Azusa**

Joined JBIC in 2010. Assumed her current position after assignments including the Americas Finance Department, the Country Credit Department (including sovereign credit of Turkey and Central and Eastern European countries), and the Strategic Research Department. She travels to various parts of Vietnam to support Japanese companies, engage in policy dialogue, and conduct research. Graduated from Kyoto University, Faculty of Law.

2021 survey of Japanese companies in Vietnam conducted by the JBIC Hanoi office, of the 195 companies that responded, 97 percent replied that they would like to expand their investment in Vietnam in the medium to long term, indicating high expectations. Although labor costs in Vietnam have begun to rise in parallel with economic growth, no trend was seen for "moving to cheaper countries" because of this.

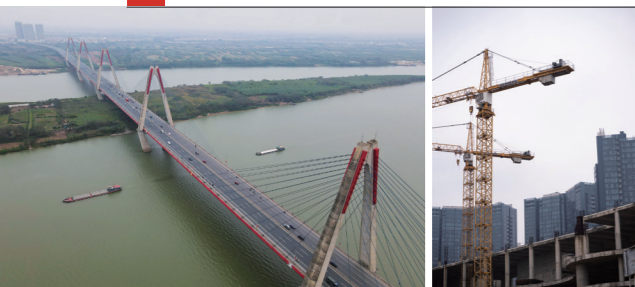
According to AGUIN, "We see many Vietnamese people who are hard-working and skillful. The country's education level is high, and people are quick to master a range of things." It must also not be forgotten that bilateral relations are deepening with a flow of human resources from Vietnam to Japan. And above all, Vietnam's domestic market is expanding as its economy grows.

Due in part to these changes, Japan's FDI in Vietnam, which used to be dominated by manufacturing and infrastructure-related investment, has also been diversifying in recent years. Looking at the number of newly approved investments, about 30 percent of the total in 2021 was in the retail industry. Consulting and IT, which provide side support for this industry, were also high on the list. Meanwhile, in manufacturing industry investment as well, the strategy of "Vietnam plus one" is spreading, in which investments previously concentrated in China are being shifted to Vietnam, and production bases, which tended to be located around Hanoi or Ho Chi Minh City, are starting to spread to other regions in Vietnam.

### Expectations on the decarbonization sector JBIC focuses on policy dialogue as well

As of the end of January 2023, JBIC has provided financial assistance to Vietnam for 315 projects, amounting to JPY848.1 billion. One of the pillars of this assistance is enhancing the resilience of the above-mentioned manufacturing industry's supply chain, but another area of





Growth and tradition coexist in Hanoi. Construction work is underway throughout the city, and the Nhat Tan Bridge (top left, opened in 2015), which was financed by Japanese ODA, is contributing to the lives of the residents. There are also sights that have not changed, such as the train street where shops and houses line both sides of a railway track.

focus is the energy business. JBIC has financed projects that account for 13 percent of Vietnam's total power generation capacity. Now, with the Vietnamese government's announcement of its commitment to carbon neutrality, there will be an increasing number of areas in which Japan can cooperate, such as renewable energy, expansion of the power grid, and zero-emission thermal power generation.

Against this backdrop, JBIC engages in policy dialogue and individual project support while also utilizing the framework of its newly established Australia-Japan-United States Trilateral Infrastructure Partnership. The JBIC Hanoi office, which is in charge of local operations, thus has a wide range of duties to perform. The way Vietnam's legal system operates on the ground can be sometimes unclear to overseas companies, and difficulties also arise when obtaining FDI approval and other permits. The JBIC Hanoi office supports companies expanding into Vietnam in these matters. It also focuses on policy dialogue with the Vietnamese government and agencies to recommend further institutional improvements. One such effort is the "Vietnam-Japan Joint Initiative," a framework for public-private dialogue that was launched in 2003 for both countries to work on improvement of the investment environment. The JBIC Hanoi office has been serving as the leader of the initiative's working team in the energy sector, and works actively in organizing meetings and making proposals to the Prime Minister of Vietnam and relevant ministry officials.

"It is difficult for each company to act individually, by making requests to the

### JBIC's key projects supporting the clean energy and manufacturing industries

As of the end of January 2023, JBIC has supported a cumulative total of 315 projects worth JPY848.1 billion in Vietnam, including areas such as building the resilience of Japanese companies' supply chains and spreading the use of renewable energy. Going forward, JBIC will further strengthen support for decarbonization initiatives.



Chief Representative / JBIC Representative Office in Hanoi  
**AGUIN Toru**

Joined the bank in 1999. Assumed his current position in 2019 after assignments including the Asia and Oceania Finance Department, West Japan Office, and Corporate Planning Department. Graduated from the University of Tokyo, Faculty of Law. Received his masters from the University of Manchester, and MBA from Kobe University. He has given numerous lectures on energy policy and investment trends.

Minister Chinh three times so far. At their meeting in May 2022, Prime Minister Chinh presented Prime Minister KISHIDA with a calligraphic scroll inscribed with the words "Sincerity, Friendship, Trust" in Japanese and Vietnamese. The two countries, which are hailed to now have "the best relationship in history," celebrate the 50th anniversary of the establishment of diplomatic relations this year. AGUIN, IKENAGA, and KAMITSUJI, who are very familiar with the situation on the ground, feel that the relationship between the two countries is no longer that of a donor and a recipient. KAMITSUJI notes that there are also many excellent Vietnamese IT engineers, "I feel we can learn from Vietnam in areas where they are more advanced than Japan, such as the penetration of online payment systems."

The future of Japan-Vietnam relations is "future-oriented" and "co-creative." The two countries are about to begin the next 50 years of their complementary relationship.

## SPECIAL INTERVIEW

### Why Vietnam Has Become a Foreign Investment Magnet

Director General Do Nhat Hoang, Foreign Investment Agency of Vietnam (FIA), explains how the nation's economy has been restructured, the role Japan has played, and why the future looks even brighter still.



Director General of Foreign Investment Agency, Vietnam's Ministry of Planning and Investment

**Do Nhat Hoang**

**Q** Vietnam's GDP growth topped 8% last year. Could you please talk about Vietnam's current economic situation and its future prospects?

**A** Against the backdrop of a global economy facing difficulties and a slowdown in the regional economy, Vietnam has become a growth "bright spot" for the region and the world. It will work to curb inflation and continue to implement dynamic and flexible solutions for the development of infrastructure that will boost the connectivity of the economy. Vietnam will enhance its national competitiveness and also accelerate the process of restructuring the economy to one that is digital, circular, and knowledge based, as well as enhance internal capacity, autonomy, and self-reliance. The target for economic growth this year is 6-7%.

**Q** The FIA has been emphasizing the openness of Vietnam for business; would you tell us about the current wave of foreign direct investment (FDI), your measures to promote "high-quality FDI," and the Vietnam-Japan Joint Initiative (VJJI)?

**A** In terms of the investment trend, major economic corporations and groups wanted to restructure their manufacturing production, and they wanted to restructure their supply chains. In that context, our reforms have attracted the attention of more and more foreign investors, and Vietnam is now in the top 20 countries in the world in terms of foreign investment.

Regarding high-quality investment, according to our strategy, we aim to be selective in approaching the opportunities before us. We set criteria such as quality, efficiency, and environmental protection. Accordingly, we lean toward high-tech electronics, renewable energy, biotechnology, and infrastructure projects that have high added value — specifically, projects related to semiconductor manufacturing and hydrogen. We also plan to set up many R&D centers and want Vietnam to become an innovation hub, as well as to build a financial center to attract finance from all over the world.

To draw such investment projects, we need to continue to constantly review the relevant mechanisms, laws, policies, and investment conditions, and make appropriate adjustments so that our investment environment is more competitive and attractive.

Regarding VJJI, after 20 years of implementation, of the 594 subcategories of issues that have been addressed — including tax, tariffs, and labor laws — 84% have now been resolved.

**Q** 2023 marks 50 years of Vietnam-Japan diplomatic relations. How do you see the current status and future outlook for these relations in terms of trade and investment, economic partnership agreements, movement of people, and deepening economic ties?

**A** We have maintained a profound and expansive strategic partnership that contributes to peace in Asia. We deem this a partnership of trust. Building on this, we have cooperated in various fields, including politics, diplomacy, economics, and culture. Accordingly, we hope the Japanese side will continue its proactive promotion of trade and investment relations with Vietnam. The determination to further strengthen the relationship will only bring benefits to both sides. The relationship is very complementary: Japan has technology, financial resources, and modern governance practices; we have human resources and a growing market.

Japan has an aging population, while Vietnam has youthful demographics. Japan has advanced technology, while Vietnam has mid-level tech. There are many complementary areas.

**Q** Against the backdrop of a global shift to supply-chain diversification, a growing number of Japanese companies are establishing operations in Vietnam. Would you tell us about the impact of Japanese companies' investments in Vietnam?

**A** Many companies are looking at relocating their manufacturing operations, and Vietnam is one of the leading destinations. Japanese companies are no exception, and based on the strong existing bilateral relations, and the ongoing improvements in Vietnam's investment environment, more are considering Vietnam.

Japanese companies were some of the earliest to invest in Vietnam, and they have made great contributions to the restructuring of the economy, including its modernization and industrialization. This has also led to the improvement of human resources, helping Vietnam access international markets and global supply chains. Japanese companies are also law abiding, and care both for their workers and about social issues, such as sustainable development.

Investment from Japan also contributes to bilateral and regional relations; Japanese people get to know more about Vietnam, which helps tourism, and there is also cultural exchange, such as the development of co-produced films. Many Vietnamese students and workers now visit Japan and come to understand Japanese culture.

**Q** What are your expectations for the role of the Japan Bank for International Cooperation (JBIC) in terms of Vietnam-Japan relations?

**A** JBIC has been providing significant and effective support for companies and investors, and we hope it will continue to do so going forward in order to expand investment in Vietnam.

**Q** Do you have a message for Japanese companies planning to start doing business in Vietnam?

**A** We have a great deal of trust in and appreciation for Japanese investors. We continue making efforts to improve the investment landscape so that they will have peace of mind about doing business in Vietnam. Please come to Vietnam. We are committed to being your partners.



## The secret behind how an industrial park allows companies to dedicate themselves to manufacturing

- »» Thang Long Industrial Park supports manufacturers which are entering Vietnam to restructure their supply chains.
- »» It provides a stable supply of electricity, water, and other infrastructure, legal support, and even holds events to build friendship.
- »» There's also much to gain for the Vietnam side, with stable tax revenues, job creation, and technology transfers in various fields.



Workers start returning home just after 5 p.m. As the railway network is still in development in Vietnam, motorbikes are usually used for commuting (photo taken at the main gate of the Thang Long Industrial Park).

### Vietnam was selected because of its young and diligent workers, and inexpensive labor

Hanoi is Vietnam's capital and a megapolis with a population of over 8 million. A 30-minute drive north from the city center, across the Red River (Hong River), sits a concentration of industrial plants on a vast expanse of land. The Thang Long Industrial Park (TLIP I) is home to a total of 106 companies, ranging from Japanese global corporations such as Canon, Denso, and Yamaha to leading small and medium-sized manufacturing companies, which combined employ some 60,000 people.

Established in 1997 as a joint venture between Sumitomo Corporation and a Vietnamese company, it is cited as a "successful example of an industrial park." Two more parks have since been developed on the outskirts of Hanoi, with establishment of the Thang Long Industrial Park II (TLIP II), in 2006, and Thang Long Industrial Park III (TLIP III) in 2015. WACHI Satoru, who was seconded from the Overseas Industrial Park Department of Sumitomo Corporation to

	Thang Long Industrial Park	Thang Long Industrial Park II	Thang Long Industrial Park III
Location	Hanoi	Hung Yen Province (outskirts of Hanoi)	Vinh Phuc Province (outskirts of Hanoi)
Year of establishment	1997	2006	2015
Total developed area	274 hectares	346 hectares *3rd phase of expansion underway (181 hectares)	213 hectares
No. of tenant companies	106 companies (85 plants)	79 companies (73 plants)	47 companies (34 plants)
Total no. of workers	About 60,000	About 29,000	About 7,000

serve as the deputy general director of TLIP II and III, explains as follows: "The concept of this business is to attract Japanese and non-Japanese manufacturers by laying the groundwork using the format of industrial parks in countries that, from a Japanese perspective, lack developed infrastructure or systems. Our main targets are ASEAN countries, plus India. Vietnam is one of them, and although it might be considered a success story in hindsight, I believe that the establishment of TLIP I in 1997 was quite challenging."

Sumitomo Corporation was looking for a place to invest in the "industrial park format." The business in Indonesia was already on track, and Vietnam was

the next destination of choice. Vietnam has a large, young workforce, low labor costs, and a national character of diligence and pro-Japan sentiments. With the shift to the Doi Moi policy, Vietnam began to show solid growth in the 1990s. However, developments were at the time centered in the south, home to Vietnam's largest city, Ho Chi Minh City. In the north, where Hanoi is situated, the underdevelopment of roads, ports, and other infrastructure was a bottleneck to companies entering the market.

A quarter of a century has passed since the establishment of TLIP I, and there are now said to be more than 300 industrial parks in Vietnam, including those funded with local capital, by other

Japanese trading companies, and companies from countries such as Thailand, South Korea, and Singapore. When looking just at the leasing fees, "Thang Long is relatively expensive," notes WACHI, but available slots are quickly filled. The series of expansions it has undergone demonstrate its popularity. What is the reason for this?

"When it comes to operations in ASEAN, there are a lot of things that have to be considered before starting to actually manufacture. These include matters such as: Will there be a stable supply of power? How is the quality of water? How can we properly hire people? How do we deal with frequently changing laws? We take care of all of these steps that need to be dealt with in advance so the companies can dedicate themselves to manufacturing. I think that is what they really appreciate," says WACHI.

### Posting Japanese staff to provide support for environmental compliance and digital transformation

TLIP has its own power substation for electricity and thoroughly controls the quality of groundwater and rainwater shared as industrial water. Stable supply of infrastructure services is realized through strict daily maintenance of these facilities. "Although the frequency of power outages in Hanoi has recently been decreasing, there are still a lot of power failures when you go to the outskirts of the city. Momentary voltage fluctuations that make the lights and TV in your room suddenly go off happen about 1000 times a year. In TLIP however, momentary voltage fluctuations only occur about 20 to 30 times a year."

Five Japanese staff members are also posted to each of the three TLIPs. While constantly exchanging information with



Deputy General Director Thang Long Industrial Park II, Thang Long Industrial Park III, WACHI Satoru. Joined Sumitomo Corporation in 2001. Engaging in logistics industry-related work, he learned the basics of the business through assignments including a shipping company and the rental of containers for shipping liquids. Has been a part of the Overseas Industrial Park Department since 2014, in charge of attracting companies in Japan and the development of TLIP III. Assumed his current post in 2017.

This mikoshi portable shrine for the industrial park's summer festival was specially built by a Vietnamese temple carpenter.



Solar panels being installed on factory roofs in TLIP to secure a stable supply of power and as an environmental measure (left). The vast site is even equipped with channels and retention basins to store rainwater for flood control (right). (Both photos are of TLIP II).

the tenant companies, they provide input on changes in laws and systems, and recently have even started to provide support for environmental compliance and the digital transformation of plants and company management. The sense of security that comes from all this was also cited as an advantage by KAWABE Kazuharu, president of Suzuran Viet Nam, the local subsidiary of medical and hygiene products manufacturer Suzuran Medical Inc., which makes cotton products at TLIP II. "Our plant is operating 24/7 on a four-shift system. In the five years we have been here, we have had no major problems with power or water. It is also a great help to us that they check our government-related documents and provide us with information in Japanese."

Active efforts are also taken to regularly hold events in the industrial park to deepen friendship among the tenant companies and their employees. WACHI takes pride in this, saying, "We value the Japanese aspect of the park. We want the Vietnamese people, who are generally pro-Japanese, to be even more positive toward Japan. In the spring, we hold an inter-company *ekiden* long-distance relay race, and in the summer, we hold a summer festival, inviting the employees of our tenants and their families. There are food stalls, and even a *mikoshi* portable shrine to carry. The Vietnamese people seem to find this fresh and exciting, and we always have a big turnout."

### Vietnam is an ideal destination for company expansion. Some challenges, but nothing insurmountable

For Japanese companies that are restructuring their supply chains, "When it comes to the infrastructure or the political system, Vietnam has some challenges, but nothing insurmountable. And its low risk and good balance are advantages when compared to other countries," explains WACHI. Although labor costs are now higher than in Laos or Myanmar, the political system is stable. In addition, Hanoi is home to more than half of the country's top 20 universities, which makes it easier to



KAWABE Kazuharu is General Director and President of Suzuran Viet Nam, a subsidiary of Suzuran Medical Inc., which is headquartered in Nagoya, Japan. The company manufactures cotton products at its factory in TLIP II from raw materials procured from Indonesia and South Korea.

hire Vietnamese executive candidates and engineers.

Nevertheless, expanding overseas is not easy, whether it be to Vietnam or elsewhere, especially for small and medium-sized companies. One approach would be to find a local company to partner with, but some companies may find it difficult to build good relations. In this sense, entering a Japanese-owned industrial park is a big advantage since the company can then concentrate on manufacturing.

Industrial parks are also very beneficial to Vietnam, which wants to attract foreign companies. Rather than attracting individual companies that might eventually leave, it is more advantageous to have highly reliable Japanese-affiliated industrial parks that can be expected to not only generate stable tax revenues and have a significant impact on job creation, but also facilitate the transfer of technology in a variety of fields. According to WACHI, the industrial park has a good reputation among not only the local governments of Vietnam but also the employees. "It appears that the Vietnamese employees are proud to work for a Japanese company; they even wear their factory uniforms when they go back to their hometowns," he says.

TLIP is currently attracting a growing number of non-Japanese tenants, including companies from Taiwan and Hong Kong. The infrastructure and operational know-how of the TLIP, which even host summer festivals, are generating effects that go beyond supporting the expansion of Japanese companies.





Kyosha Co., Ltd.  
Representative Director and President

**KOJIMA Kazuto**

Joined the company in 1996, and after serving as head of subsidiaries in the United States and Mexico, became president in 2009. Always keeps a global perspective central to his growth strategy. Valuing communication within the company, he frequently visits the factories, and listens to the voices of employees.

**Kyosha Co., Ltd.**

**A printed wiring board manufacturer from Kyoto Builds a global production and supply system on the power of trust**

Equipped with state-of-the-art machinery utilizing IT and automation, its Vietnam plant is now in full operation. Aiming to become a top global niche manufacturer, Kyosha is responding swiftly to changes in demand and accelerating overseas expansion, a strategy it pioneered.

**Applying the printing technology of traditional crafts to shift the business to large household appliances**

From televisions and air conditioners, to personal computers, smartphones, automobiles, and airplanes, printed wiring boards (PWBs) are indispensable. A PWB is a substrate on which many electronic components are mounted to create electronic circuits.

Kyosha is the world's top manufacturer of single-sided PWBs, which have an electronic circuit only on one side. The company was established in 1951



Global leader in single-sided PWB production (Photo is the plant at the Kyoto headquarters)

as a manufacturer of screens for textile printing in a traditional dyeing method called Kyo-Yuzen. Using the manufacturing technology cultivated in the textile industry, in 1967, Kyosha began manufacturing and developing PWBs. Currently, in addition to its core PWB business, the company is expanding into the fields of electronic component mounting and jigs for mounting components. A PWB displayed at the company's head office in Kyoto had beautiful patterns, just like an exquisite work of traditional craftsmanship.

"This all began when our founder went on an overseas study trip and learned of a company that uses dyeing technology to manufacture PWBs," says KOJIMA Kazuto, the third president of Kyosha. "The textile industry in Japan was showing signs of a downturn, but large household appliances were selling well at that time, so he decided to enter that market. There are various types of PWBs. Making high value-added products requires intensive capital investment and extensive financial

resources. That is why we decided to initially focus on the most basic product, the single-sided PWB."

**Leading the industry in overseas expansion Capitalizing on failure to change direction**

In addition to the plant in Kyoto, the company established a production base in Kumamoto in 1972 to fortify its foothold in the market. At the time, the company was producing PWBs for cathode-ray tube televisions and other large household appliances, but domestic consumer electronics manufacturers were beginning to relocate their factories overseas. Anticipating growth in demand from those offshored plants, the company decided to expand its business overseas, ahead of its competitors.

The company's first overseas foray was the establishment of a joint venture in Hong Kong in 1993. "When our second president, currently our chairman, went to China on a study tour, he found a good business partner through

a lucky encounter with a person who happened to be sitting next to him on the plane," says KOJIMA with a hearty laugh. The company then established production bases in Guangzhou, China, and Indonesia.

But it had a bitter experience when it set up business in Mexico in 1998. The popularity of flat-screen TVs and subsequent changes in the business environment led to a decline in PWB orders, and adding to this blow was the soaring cost of local labor. The company then decided to focus on making products for the auto industry, which is a very stable sector, and eco-friendly consumer electronics, which has growth potential. To meet increased demand for the double-sided PWBs used in these products, the company decided to make Vietnam its manufacturing and export base for them because that is where auto parts manufacturers are expanding their operations.

**It is no longer the age of cheap labor A cutting-edge production center in full operation**

The Vietnam plant, which mainly produces double-sided PWBs for the auto industry, was completed in March 2020. It is a cutting-edge production base with state-of-the-art machinery and robots. "It is no longer the age of going overseas because of low labor costs. Labor costs will probably rise soon in Vietnam as well. This makes factory IT and automation crucial."

One of the company's aims in expanding to Vietnam was to diversify risk by its dependency on sales in China. Compared to Mexico, where exports are limited to the United States, the attraction of Vietnam was not only its rapidly growing market of some 100 million people, but also its function as an export base. The establishment of the new Vietnam plant was based on a "decision looking to the future" to raise sales in Southeast Asia, including Vietnam, to the same size as that of Japan and China.

"The launch of the plant was halted because of the COVID-19 pandemic. But the delivery date for products to auto parts manufacturers was fast approaching. So, when we heard that a chartered flight was going to Vietnam, we sent our employees there from Japan. By communicating with the machinery manufacturer via smartphone, they managed to get the plant up and running." An efficient production system on a 150-meter-long production line was built, with functions surpassing that of the plants in Japan. In July 2023, a second production line will come on line, bringing the plant to full operational capacity. A loan from JBIC was also used here.

Work that would usually be outsourced in Japan is, in Vietnam, integrated into the plant's work. The entire process has to be done in-house since a supply chain has not been established, but this has been well received by parts manufacturers who prefer integrated production. In addition to the plant's

location in a well-equipped Japanese industrial park, the plant also draws strength from its personnel—former technical intern trainees who studied in Japan and speak Japanese.

At the core of the company's mission to build a global production and supply system is KOJIMA's vision of "becoming first-class" and the slogan of "Build Trust." "A relationship of trust with suppliers, customers, and among the employees is indispensable for the growth of the company. We can only create trusting relationships by striving to improve ourselves with the aim to be the best." The company maintains the same approach at home and abroad as it continues on the path to becoming a leading global niche manufacturer.

Kyosha Co., Ltd.	
1951	Company established
1967	Began manufacturing and developing printed wiring boards
1993	Established what is currently Kyosha Hong Kong
1994	Established what is currently Guangzhou Kyosha in Guangzhou, China
	Established what is currently Kyosha Indonesia
2010	Established Kyosha (Thailand)
2019	Established Kyosha Vietnam



**Loan Summary**  
In August and December 2021, loan agreements were signed with Kyosha Vietnam Co., Ltd., the Vietnam subsidiary of Kyosha Co., Ltd., for loans up to USD2.5 million and USD1 million, for a total of up to USD3.5 million (JBIC portion). Co-financed with Shiga Bank. This support contributes toward maintaining and improving the international competitiveness of Japanese industry.



JBIC engages in various projects around the world. Senior JBIC staff on the front line share their thoughts and stories behind their projects.

Project Financing for NeuConnect, UK-Germany Interconnector Project

# JBIC's first financing of an interconnector project in Europe, which is pushing ahead with decarbonization

## Experiencing JBIC's global connectivity and looking ahead

As renewable energy expands, so does the number of interconnector projects, which link countries via power cables to allow the exchange of electricity. OKABE Mai, who was involved in complex and tough negotiations among multiple stakeholders in one such project, shares her story.

### Four countries and some 30 organizations A complex and epic project

At a project ceremony held in London in November 2022, members from all over the world, who had been negotiating online, met in person for the first time. OKABE Mai, who was in charge of the project in JBIC's Infrastructure and Environment Finance Group, was also present. The time differences had them engaged in intense online discussions both day and night. "We all praised each other for the very hard work we poured into this project," OKABE recalls with a smile. While striving to move their respective agendas forward, they were united in their strong desire to do whatever it took to make this project a success. This brought them together as a team, and their sense of accomplishment in finally wrapping up negotiations was evident.

This "NeuConnect, UK-Germany Interconnector Project" is a megaproject to construct a high-voltage direct current transmission system—720 kilometers long with a capacity of 1400 megawatts—between southeast Britain

and northwest Germany, due to operate for 25 years. It falls under the legal jurisdiction of the UK and Germany, while the transmission cables will pass through the exclusive economic zone of the Netherlands. Participants from Japan include Kansai Electric Power Co., Inc. (KEPCO), which possesses cutting-edge technology in the operation of high-voltage direct current transmission systems. The approximately 30 project stakeholders, including sponsors, operating companies, and lenders, are mainly from the UK, Germany, the Netherlands, and Japan.

"This was JBIC's first project financing (PF) for an interconnector project, and with no frame of reference, in the beginning we had no idea as to how to proceed with the negotiations," says OKABE. Since her main work up to then had been the monitoring of projects after their signing, this was also the first time for OKABE to structure a new PF.

PF repayment from business revenues is scheduled over a long period of time, which makes the review of business feasibility critical. This project's income source structure is complex, involving the UK and German operators,

and multiple lenders (see figure below). There were also a number of risk factors affecting the project review, including the environmental impacts of laying and maintaining undersea cables, and delays in procurement of construction materials due to the COVID-19 pandemic.

### The conflict in Ukraine heightened the importance of interconnectors

JBIC became involved in the project in 2018 when KEPCO became the first Japanese electric power company to embark on an interconnector project and approached it for a loan. However, the project was pushed back significantly due to reasons such as delays in obtaining approval from the British and German authorities for undersea cable installation, and the UK's withdrawal from the European Union.

A breakthrough occurred in July 2021, when a meeting between then UK Prime Minister Boris Johnson and German Chancellor Angela Merkel saw them reaffirm the importance of the UK-Germany NeuConnect interconnector, and the project was quickly set into motion. It was right around this time that OKABE was placed in charge of this



Division 2 (EMEA & Americas)  
New Energy and Power Finance Department I  
Infrastructure and Environment Finance Group

### OKABE Mai

Joined JBIC in 2006. She has been involved in the export of power generator parts to Mexico, operations in the Americas, and power generation and desalination projects in the Middle East and Europe. Graduated from Sophia University, Faculty of Foreign Studies, Department of Hispanic Studies. A member of the flamenco circle at university.

project at JBIC.

The development of renewable energy is progressing in Europe as it strives to become carbon neutral. As renewables such as wind and solar power are dependent on weather, it is essential to deploy interconnector systems that allow countries to share electricity to effectively use renewable power.

Just as the negotiations were reaching a critical juncture, Russia invaded Ukraine in February 2022. "Since we didn't know how the situation would develop, we all felt an even stronger urgency to move ahead with the project."

There was a growing sense of crisis in Europe over the supply of power. This reaffirmed the importance of the project from the perspective of energy security as well. "I personally saw how JBIC's operations are connected to the global situation," says OKABE.

"The sponsors, operating companies, and lenders all had different agendas, and when an agreement couldn't be reached, we had to negotiate with each of them individually. This is a large-scale project, but I became keenly aware that it

is built upon steps taken one at a time."

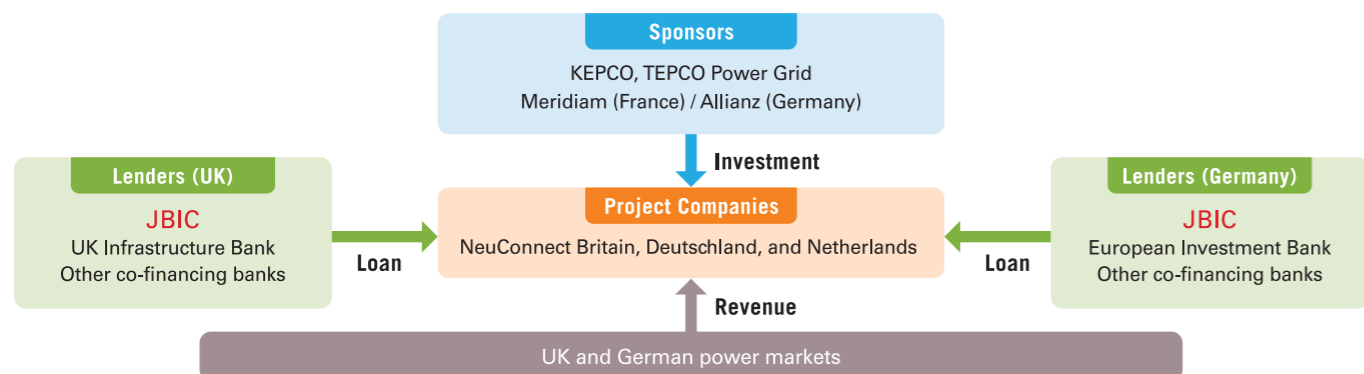
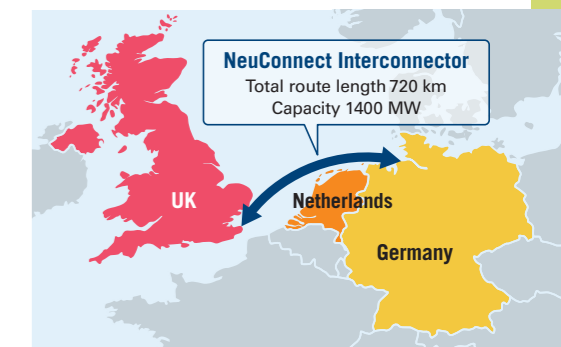
After overcoming these various challenges, construction of UK-Germany NeuConnect interconnector has begun, with completion scheduled for 2028.

### Picturing the knowledge gained in Europe being applied to Japan and Asia as well

KEPCO, which began investing in a project company in 2018 and was involved in the development of the project, possesses cutting-edge technology in direct current transmission systems that enable high capacity and low loss in long-distance power transmission. On the back of its successful use of this tech in the southeast Seto Inland Sea in Japan, KEPCO took on its first project overseas. "By supporting KEPCO's expansion into Europe, we could contribute to the international competitiveness of Japanese companies and work for the good of the country, giving me a great sense of fulfillment," says OKABE of the true pleasure of her work. TEPCO Power Grid, Inc. later joined the project, expanding the involvement of Japanese companies.

For JBIC as well, the successful implementation of this pioneering initiative to finance an interconnector project serves as a stepping stone to the future. "The know-how and technologies developed in Europe should lead to the creation of highly efficient power interconnectors in Japan and other parts of Asia."

OKABE was also inspired by the persuasive negotiation skills of the female staff of European financial institutions who she worked closely with on the project. As the global trend toward decarbonization accelerates, OKABE is already looking ahead to the next challenge.



### Project Summary

In July 2022, loan agreements were signed for a maximum of GBP270 million and EUR156 million (JBIC portion) for project financing of NeuConnect, an interconnector project that will link the UK and Germany. These loans are co-financed, bringing the total amount to approximately GBP1069 million and EUR910 million.



Press release on this project >>>



1964

## Japan's participation in the world economic system and the role played by the Export-Import Bank of Japan

A look back at the steps taken by JBIC's predecessor, the Export-Import Bank of Japan (JEXIM), and the postwar history of the Japanese economy. Japan overcame three obstacles to join the OECD in 1964.



Financed by the World Bank, the Tokaido Shinkansen (bullet train) opened for service to coincide with the Tokyo Olympic Games (October 1964). In April of the same year, Japan joined the OECD.

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### Three obstacles: Bretton Woods, GATT, and post-war reparations

Immediately after the end of World War II, it became imperative for Japan to establish itself as a trading nation because it had few natural resources. But as Japan sought ways to participate in the world economic system, it came up against three obstacles.

First was participation in the Bretton Woods system, the U.S.-initiated global financial system centered on the World Bank and the IMF. Second was membership of the General Agreement on Tariffs and Trade (GATT), the predecessor to the WTO. And third was resolving the issue of reparations. Japan overcame these obstacles and achieved rapid economic growth, and was then able to join the OECD in 1964.

The Japanese government's first approach to the World Bank and the IMF was in April 1950, when Finance Minister IKEDA met with U.S. economic advisor Dodge to discuss the establishment of JEXIM. For Japan's economy, which was struggling with a current account deficit, there were substantial advantages to receiving foreign currency loans under the Bretton Woods system. The GHQ was indifferent to this at first, but the situation took a turn for the better when General MacArthur was relieved of his command. With the support of the U.S., Japan became a member of the World

Bank and the IMF in August 1952.

Japan was able to borrow the foreign currency needed for postwar reconstruction from the World Bank. The loans were used to build much of the country's economic infrastructure that underpinned Japan's rapid economic growth, including the Tokaido Shinkansen, the Tomei and Meishin Expressways, and the Kurobe Dam.

Next was the coveted membership of GATT. Japan formally applied to join in July 1952, but was met with unexpected opposition from the countries of Europe, reflecting a deep-seated wariness over the prewar dumping of Japanese textile products. But with U.S. support, Japan was finally able to join GATT in September 1955. Japan was forced to self-regulate textile exports even after its accession, but GATT membership had symbolic meaning for the nation's return to the international community. Japan's exports subsequently expanded from textiles to the chemical and heavy industries, and became the main engine driving its rapid economic growth.

### Payment of reparations and JEXIM First non-Western country to join the OECD

This was also the period when the signing of the Peace Treaty accelerated negotiations over reparations to war-damaged countries. Japan first sought to resolve the issue of reparations

with the countries of Southeast Asia in order to normalize trade relations.

Payment of reparations began in 1955, and JEXIM was central in the financing of economic cooperation projects that accompanied the reparations. Japan's economic cooperation began with reparation payments. As Japan's industries became increasingly sophisticated, its exports of plant, along with chemical and heavy industry products, such as steel, ships, and machinery, grew in tandem. JEXIM's activities including export loans and overseas investment loans also increased as a result, supporting Japan's rapid economic growth from the financial side.

And so, in April 1964, Japan became the first non-Western country to join the OECD. Japan was now expected to take on more responsibility as a developed country.

### Participation in the World Economic System

1952	August	Joined World Bank and IMF
1955	September	Joined GATT
1956	December	Joined United Nations (UN)
1960	December	Prime Minister IKEDA Hayato announces the Income Doubling Plan
1964	April October	Joined OECD Tokaido Shinkansen Line opens for service Tokyo Olympic Games

