



## **The Japan Business Association in Vietnam (“JBAV”)**

Annual Vietnam Business Forum 2016

Hanoi, 5 December 2016

### **EXECUTIVE SUMMARY**

With strong business bases in four core areas of Ha Noi, Ho Chi Minh City, Da Nang and Hai Phong, the number of JBAV members at this point in time is slightly over 1,600, which has achieved double compared 2008, just 8 years ago. In the occasion that the number of membership is still going to increase, Japanese businesses still faces some challenges & difficulties in Viet Nam. Taking the opportunity of making presentation at VBF Forum, we would like to particularly share 4 issues among them; these are subjects related to Labor matters, agriculture industry, automotive, and BOT projects in power sector.

#### **Labor matters**

There are 4 sub-issues in the topic of Labor matters. Firstly, for Minimum salary, it seems important to reflect some concepts of strengthening Vietnam’s competitiveness in labor cost into the process of deciding it like choosing some economic specialist as members of National Wage Council and transparent decision of the minimum living needs. Secondly, for Overtime working hours, more diversified & detailed regulations based on the kind of job and the area of industry should be welcomed and the existing regulation in Japan could become a model for it. Thirdly, for The Provisions on occupational safety and hygiene, more flexible regulations could be welcomed in terms of ensuring smooth business operation. Fourthly, for the function and role of social insurance fund, it shall have guiding provisions about using this funds.

#### **Agriculture Industry**

We would like to discuss 4 sub-issues in this topic. Those are Agriculture finance, Training, Balancing the employment in rural community and Traceability system for food safety.

#### **Automotive**

In this topic, we set 3 sub-issues. Firstly, for Policy for domestic Automobile production, we make 2 requests of Parts import duty removal and Clarification the contents and requirement for production incentive. Secondly, for EURO4 emission roadmap, in order to prevent miss-fueling to vehicles, we would like to request to fully replace EURO2 fuel with EURO4 fuel at the soonest. And then, we also request to delay diesel emission regulation at least 1 year for restart the preparation of EURO4 diesel vehicle introduction, which some company already had to delay. Thirdly, for Electric Vehicles (EV) / Electric Bikes (EB), in terms of proper regulation management, we see 3 risks of Traffic safety, Environment and Industrial Property and propose

our suggestion & recommendation toward those 3 risks.

### **BOT projects in power sector**

With the situation that the demand for electricity in Vietnam increases at 10% each year, we believe the PPP (Public-Private-Partnership)/BOT is an important scheme for developing power sector of this country. In terms of “energy-best mix” in Vietnam, we strongly believe that achieving “the National Power Development Masterplan 7” has importance in developing new power sources by taking balance between renewable and thermal power resources. In this regard, we would like to complete negotiations of thermal power projects promptly, such as Nghi Son 2, Vung Ang 2 and Van Phong 1, which are supported by Vietnamese and Japanese Government, for contributing to further development of new power sources in Vietnam.

Last but not least, it is significant for Vietnamese economy to keep its commitment to the comprehensive and regional trade policy, including TPP (Trans-Pacific Strategic Economic Partnership Agreement). We believe the spontaneous participation to the global market will create clear competitive advantage, as Vietnam has been widely exposed to global economy.

**STATEMENT BY JBAV**  
**Annual Vietnam Business Forum 2016**  
**Hanoi, December 5, 2016**

Respectfully addressed to:

His Excellency Nguyen Xuan Phuc, Prime Minister of Socialist Republic of Vietnam,

His Excellency Nguyen Chi Dung, Minister of Planning & Investment,

Ladies and Gentlemen from the Government Bodies and business community present at the Forum today.

Since early 1990s, Japanese business community has been continuously showing its strongest interest to expand business in Vietnam in order to take in its quick and overall economic growth, and throughout the year 2016 we have been keeping this expansion on the right track.

The number of JBAV members at this point in time is slightly over 1,600, which has achieved double compared 2008, just 8 years ago. We have strong bases of business in Vietnam in four core areas, Ha Noi, Ho Chi Minh City, Da Nang, and Hai Phong. Our outcome of FDI to Vietnam until September 2016 amounted 1.7 Bil. US\$, standing as No.3 among all the countries aiming to invest in Vietnam.

In the meantime, we are facing several challenges in order to further strengthen our investment in Vietnam, taking our every-day operation into consideration.

Taking the opportunity of making presentation at VBF Annual Business Forum 2016, please let us share with you 4 issues regarding the challenges; these are subjects related to Labor matters, agriculture industry, automotive, and BOT projects in power sector.

## **1 Labor matters**

### **1.1 Minimum salary**

#### *1.1.1 Current situation based on economic indicators and comparison with other countries*

Minimum salary (MS) of Vietnam was remarkable increased during recent years with much higher than CPI and GDP. Until 2016, in the comparison with some ASEAN countries, the MS of Vietnam has nearly approached Malaysia (209USD) and Thailand (183USD) which have high-income within ASEAN region, and has caught up Philippines (157USD) which is competing with Vietnam on attracting foreign investment.

#### *1.1.2 Determination of indefinite minimum wage process*

The process of determination MS of Vietnam was changed from the 2014, we have to consider some problems as follows:

Firstly, we are lacking the representatives, who can give opinion based on the point of view of macro economy and midterm & long-term economic promotion measures, such as economists, scientists and socialists.

Secondly, the most important basis to propose is minimum living needs, however, the calculation method of minimum living needs is not clear, lacks of scientific basis and evident survey method.

### *1.1.3 The necessity of investing to increase competitiveness of Vietnam and system processes transparent decisions*

To be able to cope with the challenges of free trade like that ASEAN economic community (AEC), the Agreement on the Trans-Pacific partnership (TPP), the free trade agreement with EU (VEFTA), one of the vital issues for Vietnam is building a competitive internationally business environment, this is the decisive issue for investors whether invest into Vietnam or not. We also recognize that in order to build the economy development, we shall raise the competitiveness of domestic industry. In which, the labor costs is an important factor, which decides the competitiveness of the business environment, especially when the wage costs are making up a large part of the manufacturing and business costs. For exports manufacturing enterprises leading the current economy as well as for small and medium enterprises being backbone of the domestic business fields, the wage costs are really a greatly heavy burden.

## **1.2 Overtime working hours**

The current Labor Code of Vietnam stipulated that for all kind of jobs, the limited overtime working hours is 30 hours per month, 200 hours per year.

We recognize that the most important strategic issue for companies is health-care for workers and safe working environment.

However, for both companies and workers, it is also important to build an environment that can be fully demonstrated our ability. Seen from this view, regulations for the current overtime time working hours limitation is unreasonable for employees who are working job required creativity as information technology, development of products ... or the technical job required to work overtime for hours when technical issues arise to ensure stable progress on the production line, while they want to work overtime but could not.

In Japan, we still get the system set up overtime limits for each fields or sector with specific characteristics based on the harmony of interests and consent of the employee and the employer is. We are looking forward that Vietnam can refer to this system to build flexible regulation on overtime working hours and ensuring the interests of both employees and employers.

## **1.3 The provisions on occupational safety and hygiene**

The provisions on occupational safety and hygiene don't have the flexibility to ensure the smooth business operation. For example, the requirement to hold the OSH training guiding detail in

Decree 44/2016/ND-CP is too strict, impractical and waste many costs for enterprise, because of too long training time, many duplicated training contents and difficult requirements on teacher. Secondly, there are many jobs considered as harmful or hazardous job such as job in noisy area, job on x-ray machine, regardless of the kind of machine safety, effectiveness of protective equipment, actual working environment, exposed frequency.

Therefore, we hope that the Government will promulgate the reasonable guiding documents classified by every business and actual job, as well as refer the opinions of enterprises to strengthening the feasibility of the provisions.

#### **1.4 About the function and role of social insurance fund**

According to recent provision, employer has to pay not only medical insurance, insurance fund for occupational accidents & diseases but also expenses arising from occupational accidents & diseases, it is duplicated and can consider that enterprise pay two time for one kind of expenses, meanwhile insurance fund for occupational accidents & diseases is not used effectively and does not promote fully its function and role.

Therefore, it shall have guiding provision about using this funds to pay for expenses arising from occupational accidents & diseases especially for payment on compensated amount, supplement, medical fees, forensic examination fees for the accident not caused by employer, not related directly to implementing job (not related to working conditions, facilities, working equipments...) such as traffic accidents enjoying benefit as occupational accidents, accident caused by intentional action of employees or third party. Because above accidents happen by force majeure and not depend on subjective decision of employer.

Furthermore, enterprises pay 1% of salary for the insurance fund of occupational accidents. It is unreasonable to pay by same ratio in every industry. The Government should decide the ratio by every industry sector referring to the risk and past results of accidents.

## **2 Developing agriculture industry**

### **2.1 Agriculture finance**

Collateral for agriculture finance in Vietnam mainly depends upon immovable property such as real estate. To accelerate the development of agriculture industry in Vietnam, it will be better to consider movable property as collateral such as agriculture machinery, payment ability of buyer of their product (e.g. Supermarket). At the stage of developing this new agriculture finance, creating the database will be helpful to recognize the value of movable property immediately.

### **2.2 Training**

Nowadays, Japan also accepts Vietnamese young trainees in agriculture fields. However, after their training in Japan, it is hard to say that they got their job related to their training experience obtained in Japan. Providing appropriate working fields for people who have been trained through

the technical internship training program will accelerate the competitiveness of Vietnamese agriculture industry. Thus, Public-private-partnership is necessary for training and utilizing people who gained technical skills which will contribute to Vietnamese agriculture competitiveness.

### **2.3 Balancing the employment in rural community**

It is necessary to remember that “High-technology agriculture” is not only bringing positive results to rural communities, but also bringing some issues. For example, introducing agriculture machinery enables farmers to produce efficiently; however, at the same time, they will reduce the man-power. Thus, in some cases, it is inevitable that some people will lose their jobs. To minimize number of job losses due to the introducing the hi-technology agriculture, and to prosper the communities, promoting industrialization together with introducing high-tech agriculture is desired for creating employment.

### **2.4 Traceability system for food safety**

Japan has had great success with its own agricultural industries and has developed various technologies and know-how that have greatly enhanced not only the quality of its agricultural products but consumer safety as well and there is interest among Japanese business in working with the Vietnamese toward similarly developing Vietnam’s agricultural technology and know-how. One of the examples of such technologies and know-how is the traceability system. We believe that the traceability system in Japan has substantially contributed to the enhancement of safety and the production of the high-quality products, not only by enabling the authorities to trace the producer who may have breached applicable regulations and to enforce the law, but by incentivizing the producers to be recognized directly by consumers as being trustworthy and reputable producers who produce only safe and high-quality products. Under such incentives, reputable producers voluntarily and willingly display their names on the packages of their products as a sort of “reputable brand-name”, which in turn encourages non-recognized producers to gain the trust of consumers by producing safe and high-quality products and becoming one of the reputable “brand-name producers”.

## **3 Automobile**

### **3.1 Policy for domestic Automobile production**

If auto manufacturers do more parts localization, most of them will become high depreciation cost per vehicle because Vietnam production volume is quite small compared to Thailand and Indonesia. That why manufacturers have to import most of CKD parts as of now. As a result of importing CKD parts, manufacturers need to owe the logistics and packaging cost, and furthermore they need to pay import duty. That’s why domestic production costs higher than that of Thailand or Indonesia.

Currently domestic production is protected by high vehicle import duty, however after 2018, the vehicle import duty from ASEAN countries becomes 0%, manufacturers will face the difficult situation to continue domestic production due to inflow of many import cars coming from

Thailand and Indonesia which has strong cost competitiveness. JBAV would like to convey 2 following requests to MOF/MOIT in order to help manufacturers to improve cost competitiveness for keeping local production.

### *3.1.1 Parts import duty removal for cost reduction of domestic production*

JBAV would like to request to remove still remaining parts import duty under Japan-Vietnam EPA by 2018.

### *3.1.2 Clarification the contents and requirement for production incentive*

Production incentive policy mentioned in decision No. 229/QD-TTg of Prime Minister dated February 4th 2016 article 5-1 is very important measure for automobile manufacturers; however, the current policy is unclear and thus it is difficult for companies to prepare project proposal. Therefore, in order for manufacturers to be able to develop the domestic production plan, we would like MOIT to clarify incentive content and requirements of above production incentive.

In the process of clarifying incentive content and requirements, JBAV would like ask MOIT to make an inter-Ministerial working team (MOIT/MOF/MPI/GO) and clarify schedule and driving force. And JBAV also would like ask MOIT to hear auto manufacturer's opinion.

## **3.2 EURO4 emission roadmap**

JBAV would like to report to H.E. Prime Minister regarding a serious concern about Euro 4 emission implementation which was scheduled to start from January 1st, 2017 according to Prime Minister's decision No. 49/2011/QD-TTg (Decision 49). It is totally unclear for automakers because Euro 4 fuel introduction has not confirmed yet, while only more than 02 months remains. In line with Government direction of environment protection and perusal to the decision 49, automakers have seriously prepared during the last 06 years and now they are ready to upgrade from Euro 2 engines to Euro 4 engines before 1st January 2017. However, until now Euro 4 fuel has not yet supplied to the market. JBAV is very much concerned that using Euro 4 engines with Euro 2 fuel will cause serious impacts on performance and durability of the engine, as well as on emission of the vehicle; impacting to environment protection and benefit of vehicle consumers.

The impact is even more serious for diesel engines, especially big diesel engines using for buses and trucks. They are very much concerned about this issue because until now there is no detail information of Euro 4 fuel introduction roadmap: by when, which province, how many fuel stations?

Due to this concern and a long awaiting for Euro 4 fuel introduction, some makers have to delay their preparation for Euro 4 diesel vehicle introduction. And it would take them around 1 year for restart the preparation for Euro 4 diesel vehicle introduction from planning, ordering to homologation and production.

In order to implement Decision 49, contribute to environment protection and for consumer benefits, JBAV would like to send our proposal regarding Euro 4 emission roadmap as follow:

To prevent miss-fuelling to vehicles as well as possible fraudulence in fuel supply, it's necessary to fully replace Euro 2 fuel with Euro 4 fuel.

Under above condition, it is better to implement at the soonest.

However, for diesel vehicle is to delay at least 1year for restart the preparation of EURO4 diesel vehicle introduction.

Thank you very much for your considerable support in the due course.

### **3.3 Electric Vehicles (EV) / Electric Bikes (EB)**

#### *3.3.1 General situation & content of petition*

Since the past few years, the number of Electric Vehicles (EV) & Electric Bikes (EB) in Vietnam has been increasing that were mainly produced in China or imported from China and assembled in Vietnam.

However, the management of EV/EB has not been so appropriate that it creates big risks to consumers in particular and the society in general. The risks cover in 3 main areas, including Traffic safety, Environment & Industrial Property.

So, JBAV would like to propose related governmental offices to strengthen management of EV/EB to ensure safety & environment protection for both consumers & the society.

#### *3.3.2 Risks from weak management of EV/EB*

##### *3.3.2.1 Risk of traffic safety*

- Most of EV in Vietnam has not been controlled by registration.
- Registration number is much lower than the actual number of circulation (only about 10%).
- Quality of EV/EB is not controlled properly.
- The brake system does not meet QCVN that has been equipped on most EV/EB in circulation in Vietnam.
- The chassis will cause serious injury to drivers in case of collision because it's designed and manufactured with lightweight materials, very weak traction, and unguaranteed brake system.
- Traffic awareness of EV/EB riders (mainly junior & high school pupils) is very poor with a lot of violations (not wear helmets, overspeed, zigzag riding...). As a result, accidents caused by EV/EB are even much more serious than those caused by motorcycles.

##### *3.3.2.2 Risk of environment pollution*

Batteries of EV/EB circulating in the market are mainly "lead batteries" with not good quality. It

will be discarded after a short time, and very harmful for the environment in Vietnam. (Annually about thousands of tons of lead together with millions of battery plastic shells toxic)

### 3.3.2.3 Risk of Industrial Property (IP) violation

It can be easily found that lots of EV/EB circulating in the market violates IP rights, namely trademarks and industrial designs registered for protection in Vietnam of famous motorcycle manufacturers. Such violations infringe the benefits of consumers & cause unfair competition.

### 3.3.3 *Petition on strengthening management of EV/EB*

#### 3.3.3.1 Traffic safety

- Manage specific quantities, causes of traffic accidents involving EV/EB to ensure safety accordingly.
- Strictly fine EV riders without registration.
- Strengthen fine against traffic safety violations.

#### 3.3.3.2 Environment protection

JBAV would like to recommend relevant governmental offices to clearly define regulations on handling and recycling EV/EB batteries.

#### 3.3.3.3 Industrial Property (IP) protection

JBAV would like to recommend a close co-operation between the Inspectorate of the Ministry of Science and Technology, market management authorities and motorcycle manufacturers to actively prevent, withdraw and not to circulate IP violating EV/EB.

## **4 BOT projects in power sector**

Due to the high economic growth in Vietnam in coming years, electricity demand is estimated to increase at 10% each year. We believe that it is important for the Vietnamese government to quickly develop new power sources for further economic development.

We also regard that PPP (Public-Private Partnership) /BOT scheme contributes to reduce public debt by utilizing private-sector funding. In particular, BOT scheme comprise an important part of development of new power sources since BOT power project accounts for 20% portion of new power source development in Vietnam.

Japan Bank for International Cooperation (hereafter JBIC) provides competitive finance scheme to the PPP/BOT projects, thus the Japanese government is strongly supporting such projects indirectly. With the support from JBIC and the Japanese Government, we, Japanese investors, are taking efforts to realize the PPP/BOT projects which should contribute to ensure stable power supply in Vietnam.

In terms of “energy-best mix” in your country, we recognize that renewable power sources, such as solar, wind and geothermal, need to be implemented effectively.

On the other hand, we are also aware that new large-scale thermal power plants need to be developed in parallel in a certain percentage in this (energy-best mix) balance as base-load power sources.

Under such circumstances, we understand that the Vietnamese government gave instruction in May 2016 to complete negotiations of Nghi Son 2, Vung Ang 2 and Van Phong 1 projects by the end of this year. We strongly believe that achieving “the National Power Development Masterplan 7” has importance in developing new power sources. Thus, with the leadership and guidance of the Vietnamese government, the contracts of the aforementioned projects needs to be concluded promptly, while we, as Japanese investors, would like to contribute to further development of new power sources in Vietnam.

Last but not least, it is significant for Vietnamese economy to keep its commitment to the comprehensive and regional trade policy, including TPP (Trans-Pacific Strategic Economic Partnership Agreement). We believe the spontaneous participation to the global market will create clear competitive advantage, as Vietnam has been widely exposed to global economy.

## **ANNEX 1: RECOMMENDATION TOWARDS DEVELOPMENT OF AUTOMOTIVE SUPPLY CHAIN AND INTEGRATION OF LOCAL COMPANIES BY FDI COMPANIES.**

We would like to explain the current issues and future recommendation towards development of automotive supply chain and integration of local companies by FDI companies.

### **[Characteristics of Supply Chain for Automotive Industry]**

Firstly, I would like to explain the characteristics of automotive industry supply chain.

As the most basic premise, development of automotive supply chain requires expansion of domestic market. More specifically, supply chain develops when domestic vehicle demand is supplied by domestically produced vehicles, and those vehicles are manufactured with locally procured parts.

Also, automobiles consists of around 30,000 parts per vehicle, and automotive industry requires multi-layered supply chain consisting of Tier 1, Tier 2, Tier 3 suppliers and raw material suppliers.

Development of suppliers requires much effort, time and investment. Tier 2-3 suppliers are required to strictly adhere to production requirements such as quality/cost/delivery (QCD), while for Tier 1 suppliers, R&D requirements such as parts development and proposal capabilities are necessary in addition.

(Summit Group, a well-known Tier 1 supplier from Thailand, has started their business 50 years ago as service shop for motorcycles, and gradually expanded their coverage from motorcycles to automobiles, and service to production and R&D).

Lastly, Japanese OEMs or suppliers are open to using suppliers which can meet the requirements mentioned, regardless of whether the company is local or foreign.

### **[Current Situation & Issues of Local Supplier Integration in Vietnam]**

Next, I would like to explain the current situation of local supplier integration in Vietnam's automobile industry and its issues.

Firstly, Vietnamese vehicle market is smaller compared to other ASEAN countries such as Thailand or Indonesia. Also, most of domestic demand is currently being supplied by local production, but after AFTA tariff elimination in 2018, development of local industry could slow down due to increase of imported vehicles.

Additionally, majority of locally assembled vehicles are dependent on import parts, mainly due to insufficient economies of scale from small Vietnamese market. Within locally procured parts, some portion is being supplied by local companies. But there are many companies which cannot

meet the basic production requirements of QCD, and their usage is limited. Therefore, usage of local companies as Tier 1 is even more difficult due to additional requirements in the R&D area.

For increasing usage of local suppliers, it is necessary to resolve both demand-side issues such as small market and production volume, and supply-side issues such as insufficient capability of local suppliers for meeting the QCD requirements.

### **[Suggestions for Enhancing Local Supplier Integration]**

As mentioned earlier, both the demand and supply side issues need to be resolved. From JBAV point of view, we think that the first priority is to resolve the demand side issue and ensure that automobile industry will be sustained in the future.

#### Demand-side Issues

For the demand-side issue of market expansion, we would like to firstly request government to maintain consistent market policies (SCT, registration tax).

In terms of local production expansion, keeping in mind the limited time before ATIGA tariff elimination in 2018, we recommend the government to set up a task force including existing assemblers and suppliers to clarify policies for development of local production as soon as possible.

#### Supply-side Issues

For resolving the supply-side issues, we would like to first propose two sets of directions.

Firstly, we believe that suppliers should not aim to “leapfrog” and become Tier 1 suppliers in the short term, and instead ensure that they can meet the production requirements (QCD) as Tier 2 and 3 suppliers.

Secondly, we think that supplier enhancement can only be done through acquiring pragmatics and “on-the-ground” know-how. Therefore, we would like to propose effective use of foreign suppliers as approach for development of suppliers.

Based on these two sets of directions, following are the actions required from government, foreign companies, and local companies.

For the government, we would like them to create an environment which promotes entry of foreign suppliers to Vietnam. As mentioned earlier, increase of foreign suppliers should enhance capability of local suppliers. Additionally, we would like the government to promote technology assistance to local suppliers and business matching between foreign and local suppliers, in cooperation with external organizations such as JICA.

For FDI companies, we will proceed with providing guidance to suppliers as well as transferring our technical know-how.

Especially for Japanese OEMs and suppliers, we have a culture of not only “using”, but “educating” suppliers with business relations. In order to enhance our competitiveness, we have intention to support suppliers with strong will for grow. (Already, there are some local suppliers which has been chosen to be developed as Tier 1 supplier)

From the local suppliers, we would like them first have a good understanding of the QCD requirements from FDI companies, and proactively use opportunities to enhance their competitiveness.