

## **SPEECH BY AUTOMOTIVE WORKING GROUP**

*Presented by Mr. Sumito Ishii  
Head of Automotive Working Group*

Deputy Prime Minister, government members, and all other ladies and gentlemen,

My name is Sumito Ishii. I'm Managing Director at General Motors in Vietnam and I'm taking the leader role at the Automotive working group in VBF.

I would like to express my appreciation for the government's resolutions to improve automotive business environment, competitiveness, and also for the support to the enterprise development.

Those government's actions support the CKD vehicle manufactures to sustain our businesses post the January 2018 once the free import duty will be rolled out for the ASEAN built-CBU vehicles.

I believe that the Vietnam automobile industry will be engaged more for the healthy competitions and promoting a level playing field for all players.

The automotive position paper is intended to share our working group's opinion as to how to connect FDI with domestic enterprises more effectively to achieve the auto industry's growth. Today, I will talk about the two key points from the paper.

First, it is about the insufficient economies of scale. This is true that the Vietnam automotive industry is still very small for both auto manufactures and part supplier's point of view.

- Because of that, there is insufficient entry of the global auto part companies today. Global suppliers cannot invest without clear business plan whether or not the auto OEMs will maintain or increase the production volume in Vietnam – and when and how much. There is also not yet enough rationale for many of us to consider export operations.
- Today we face the disadvantages of the small production and insufficient economic scales in importing CKD parts. Manufacturers need to owe packaging cost, logistics and, and import duty. That makes domestic vehicle production cost higher than those in Thailand or Indonesia. This cost gap is predicted to go up to by approx. 10 to 20% after the 2018 ASEAN tariff exemption.

To these issues, our recommendation is as follows:

- In order to help expand the local vehicle productions, we recommend that the existing government's auto taskforce involves both vehicle assemblers and part suppliers to understand more about the current situations. And also we suggest the taskforce will hold monthly meeting to discuss the automotive policy and report out the progress to the PM more frequently than it has been done.
- Another suggest is that the policy makers continuously work with business people to design solutions to narrow the production cost gap to mitigate overheated competitions over the locally assembled vehicles in 2018. The policy makers are recommended to develop tailored programs to support business matching, regularly update supplier databases, and apply certain incentive program for good performance for the existing invested enterprises.

The second point is to talk about the facts that make the linkage between FDI and domestic enterprises not so much effective and/or efficient

- There are no useful databases available regarding the local automotive part suppliers profile. If there is, it makes us to contact them easily as the reference.
- Most of the automotive parts require copyright permit, technology transfer, or licensing agreements from the original genuine part suppliers to any localized suppliers in Vietnam, except for those parts that local enterprises can design and develop by themselves.

For these challenges, we recommend that

- Domestic part suppliers focus on to meet with the production requirements such as for quality, cost, and delivery, and they cooperate with foreign suppliers. This is the recommended approach to develop the auto part business.
- FDI companies are recommended to provide relevant guidance to suppliers regarding supplier selection processes, list of automotive parts that need localization with in detail. This helps the domestic suppliers to obtain technology transfer or technical know-how.
- VAMA has recently formed up a new supplier working group which includes key Tier 1 suppliers. We recommend that the government will utilize this channel to start having structured dialogue.

To conclude my speech, I believe the connection between FDI and domestic enterprises are very important for both enterprises and national economy. For the auto industry, we believe the first priority is to secure a steadily growing automobile market while gradually enhancing supply chain capability of local suppliers with FDI connections & support.