

POLICY DIALOGUE IN 2024

DRIVING SUSTAINABLE GROWTH: OPTIMIZING ECONOMIC ECOSYSTEMS, TECHNOLOGY AND ENERGY

Ho Chi Minh, September 18, 2024

DIALOGUE SUMMARY

OPENING REMARKS

Mr. Vo Van Hoan, Vice Chairman, Ho Chi Minh City People's Committee

In his opening remarks at the 2024 Policy Dialogue on September 18, Mr. Vo Van Hoan emphasized the global economic challenges caused by geopolitical instability, energy price volatility, and supply chain restructuring. He underscored the importance of sustainable development through optimizing economic technology and energy, while affirming Ho Chi Minh City's pioneering role in promoting green growth and high-tech industries. The city remains committed to cooperating with the Southeastern provinces and the Mekong Delta to create a favorable business environment and support investors, especially foreign direct investment (FDI) enterprises, to achieve sustainable development.

Mr. Michael Vu Nguyen, Co-Chair, Vietnam Business Forum

Mr. Michael Vu Nguyen, Co-Chair of Vietnam Business Forum ("VBF") stressed the importance of optimizing logistics, improving workforce skills in fields such as AI and high technology, and streamlining administrative procedures to create a more favorable business environment. He also highlighted Vietnam's vast potential in renewable energy and the role of technology in transforming sectors such as agriculture and aviation. VBF aims to build strong partnerships between the business community and local authorities to achieve a future of sustainable economic development, technological innovation, and carbon reduction.

Mr. Nitin Kapoor, Vice-Chair, Vietnam Business Forum

As Vice Chair of VBF, Mr. Nitin Kapoor emphasized the significance of the event, providing an opportunity for the business community to collaborate and foster sustainable development. The FDI community is committed to supporting those affected by Typhoon Yagi and working closely with the government to boost economic recovery. With over 25 years of operation, VBF believes this policy dialogue will increase foreign direct investment and strengthen the economic position of the Southern region. He called on everyone to work together to optimize opportunities and address challenges to build a green and fair economy.

SESSION I: OPTIMIZING ECONOMIC ECOSYSTEMS: LOGISTICS, WORKFORCE, TAX, AND INVESTMENT STRATEGIES

Logistics and Supply Chain development – Mr. Tran Anh Duc, Co-Head of VBF Investment & Trade WG

High Logistics Costs

Logistics infrastructure, such as seaports and warehouses, still faces many limitations. Additionally, high logistics costs significantly reduce the competitiveness of Vietnamese goods and businesses. According to statistics, the costs that import-export businesses in Vietnam must pay for logistics services (including transportation, warehousing, customs clearance, paperwork, etc.) are high compared to the global average, accounting for up to 25% of GDP. Transportation costs alone make up 30%-40% of product prices, while the global average is around 10%-12%.

Poor Transport Infrastructure

Road infrastructure surrounding Ho Chi Minh City has not been consistently developed, leading to frequent congestion and overload, both on roads and at ports. Examples include the access road to Cat Lai Port and the Long Thanh - Dau Giay Expressway. The inland waterway transport system has a lot of potential but remains underutilized. Ho Chi Minh City lacks a large-scale logistics center that applies modern, advanced technology.

Tan Son Nhat International Airport is overloaded both in the air and on the ground, inside and outside. Long queues of passengers wait for immigration procedures at the airport, with wait times often ranging from 30-45 minutes, negatively impacting Ho Chi Minh City's international image.

Green Logistics

International customers are setting requirements for green products and green logistics development, from production to transportation, to be environmentally friendly. For example, production powered by solar energy and goods transported via electric barges. In reality, Ho Chi Minh City has only piloted one electric bus route, D4, and with the current subsidy policy, it is challenging to attract private investment in electric vehicle development. Additionally, Ho Chi Minh City needs to support the construction of charging stations for both road and waterway transportation.

Conclusion

Many investors are optimistic about the logistics market in Vietnam, with the hope that the country will become a major production hub in Asia. The growing domestic consumption demand will drive production activities, and Vietnam's logistics market will continue to see positive growth.

Visas, Work Permits and Temporary Residence Cards – Mr. Colin Blackwell, Head of VBF Human Resources WG

Improving the work permit process for executive directors and foreign experts is essential for Vietnam's success as a global investment destination. Although Decree 70 has brought some improvements, the process still faces many challenges, especially for businesses in high-tech and green growth industries. Five key solutions have been proposed:

- Flexibility in documentation requirements

- Expand the geographical validity of work permits: Issuing a single work permit at the business's registered location and requiring notification when an employee is assigned to another locality for business trips of 30 days or more would be more efficient and practical
- Ensure consistent application of the law across provinces
- Streamline the pre-approval process for hiring foreigners
- Prioritize expedited processing for large-scale projects

In the education and training sector, the VBF Education and Training Working Group recommends stricter enforcement of the provisions under Decree 86/2018/ND-CP, ensuring that relevant authorities do not request additional documentation beyond what is specified in the Decree. Specifically, the group suggests that for issuing investment certificates for short-term training institutions, such as English, Korean, Chinese, or Japanese language centers, approvals from the Department of Construction and the Department of Natural Resources and Environment should not be required. Additionally, land use and planning requirements should apply only to preschools and primary schools, and not to short-term training centers like English language centers.

The ability to quickly establish training centers will foster a highly skilled workforce, capable of supporting industries from manufacturing to technology. This will also help ensure that Vietnam maintains its competitive edge on the international stage, with a labor force equipped to meet the growing demands of modern businesses.

Upskilling the Vietnam workforce to meet global demand including AI, semiconductor, aerospace, hi-tech design and manufacturing – Mr. Colin Head of VBF Human Resources WG

Colin pointed out the significant opportunity for Vietnam to leverage artificial intelligence (AI) to enhance labor skills and meet global demands. Vietnam has an advantage due to its readiness to embrace AI, especially among the youth, and its ability to implement AI early across various sectors. AI presents tremendous potential for automation and productivity enhancement, delivering clear benefits to businesses, particularly small and medium-sized enterprises (SMEs).

He emphasized the shift in the approach to labor skills, moving from traditional programming education to mastering the application of AI in daily work. This transition enables Vietnamese workers to compete in high-tech industries. Furthermore, Vietnam can capitalize on its role in global manufacturing, particularly in areas such as robotics and aerospace.

It is recommended to strengthen collaboration with international partners and invest in workforce development to maximize the potential of AI. Supporting SMEs in adopting AI is also crucial, as it will enhance the competitiveness of the Vietnamese economy in the global market, while simultaneously creating significant opportunities for Vietnam to become a technology leader in the future.

Administrative procedure reform in investment – Mr. Seck Yee Chung, Co-Head of Investment & Trade WG

Market Access Conditions for Foreign Investors

- Issue: Although legal regulations allow foreign investors to access the market similarly to domestic investors in the absence of restrictions, challenges persist when applying for an Investment Registration Certificate (IRC) due to the conservative attitudes of licensing authorities.
- Recommendation: Relevant authorities should adopt a more flexible approach in reviewing IRC applications, particularly in sectors where Vietnam imposes no restrictions under international agreements.

Documentation Requirements Beyond Legal Regulations

- Issue: Licensing authorities frequently request numerous additional documents that are not mandated by law, resulting in delays and increased costs for investors.
- Recommendation: Authorities must adhere strictly to legal requirements and refrain from demanding documents that fall outside the specified list.

Extended Licensing Times Due to Overload

- Issue: Work overload at certain business registration offices (e.g., Binh Duong Department of Planning and Investment) has led to excessive delays in the licensing process.
- Recommendation: It is essential to allocate additional human resources to ensure that procedures are completed within the established time frames.

Simplifying Business License Issuance Procedures

- Issue: The process for obtaining a Business License is overly complex and time-consuming, particularly for foreign investors.
- Recommendation: Licensing authorities should comply with statutory deadlines and provide clear documentation requirements to minimize the number of verification rounds.

Investment Support for High-Tech and Semiconductor Investors

- Issue: Vietnam's policies aimed at supporting high-tech and semiconductor investments are currently still in the draft stage.
- Recommendation: It is imperative to expedite the implementation of these initiatives and continue developing the necessary infrastructure. Efforts should focus on facilitating energy transition, enhancing labor skills, and simplifying approval processes to attract investment in high-tech sectors.

Impact of Tax and Customs Regulations on Foreign Enterprises Operating in Vietnam – Mr. Takahisa Onose, Representative of VBF Tax & Customs Working Group

Land Rent Collection

Nidec Precision Vietnam signed a land lease agreement in 2012 based on a 2005 Framework Investment Agreement, securing a rental rate of USD 0.2/m²/year for a high-tech manufacturing project. However, since 2018, the State Audit Office of Vietnam has issued a demand for an additional payment of VND 16.64 billion, citing Decision No. 5754/QD-UBND from the Ho Chi Minh City People's Committee in 2007.

Nidec Precision Vietnam asserts that the land lease agreement was legally binding at the time of execution and requests a waiver of the back payment to safeguard investor confidence and ensure the continued implementation of its investment plans.

Delayed VAT Refund

Itochu Vietnam has encountered delays in VAT refunds over the past two years due to temporary discrepancies in accounting books and transactions with high-risk suppliers. Despite providing all necessary documentation, the prolonged resolution process has adversely impacted the company's cash flow.

Itochu Vietnam respectfully requests support from the Ho Chi Minh City People's Committee to expedite the VAT refund process and ensure equitable treatment of investors.

Application of the Advance Pricing Agreement (APA) mechanism on in tax administration for enterprises having outstanding related-party transactions for many years

The Advance Pricing Agreement (APA) mechanism in Vietnam has faced significant delays, with numerous applications pending since 2014. Vietnam is urged to expedite the resolution of these cases and adopt commercial databases to enhance transparency in the process.

Businesses urge the Ho Chi Minh City People's Committee to prioritize the swift processing of APA applications and enhance the capacity of tax authorities to ensure a stable and predictable investment environment.

VAT Refund for Export Activities

Vina Kyoei Steel Ltd. submitted VAT refund applications for export activities between December 2021 and November 2022, but the Tax Department has denied the refund of more than VND 88 billion, citing purchases from suppliers considered high-risk in terms of tax compliance. The company affirms that its transactions were conducted in full compliance with the law, and the denial of the refund has negatively impacted its cash flow and eroded trust in tax authorities. The company requests that the People's Committee of Ba Ria – Vung Tau reassess the refund applications and direct the Tax Department to resolve the matter promptly.

HS Code Classification for Imported Goods

America Indochina Management Vietnam Ltd. requests that customs authorities provide clarity on the HS code classification for a two-component product (plastic and hardener). Under WCO guidelines, if the solvent content is below 50%, the product should be classified under Chapter 39 (plastics) rather than Chapter 32 (paints). The company requests that customs adopt the updated regulations instead of relying on an outdated 2018 decision, which is no longer applicable.

Pending VAT Refund

Chori Vietnam Ltd. submitted a VAT refund application nearly a year ago but has yet to receive a response, causing cash flow issues amounting to tens of billions of VND. The company respectfully requests the Ho Chi Minh City People's Committee to instruct the Tax Department to expedite the resolution of the VAT refund and refrain from requiring information on transportation matters that fall outside the company's scope of responsibility.

Transshipment Business Restriction

Current regulations prohibit foreign-invested enterprises from engaging in transshipment activities through bonded warehouses in Vietnam, which limits business model diversification and negatively impacts potential government revenues. Investors request the Ho Chi Minh City People's Committee to engage with the central Government to revise this regulation, thereby facilitating new business opportunities for foreign-invested enterprises in Vietnam.

RESPONSES FROM HCMC'S DEPARTMENTS AND LOCAL AUTHORITIES

Ho Chi Minh City Department of Transport – Mr. Võ Khánh Hưng, Deputy Director

We would like to provide some updates regarding transportation in the city and neighboring provinces as follows:

- Several key and urgent infrastructure projects are slated for investment in the 2020–2030 period, with priority given to regional connectivity through ring roads, expressways, and national highways
- As for the immediate challenges highlighted by the participants, particularly in the Cát Lái port area and Tan Son Nhat International Airport, the transport sector is working closely with local authorities and traffic police to quickly resolve traffic congestion in these areas. We are expediting the completion of Terminal 3 and the surrounding roads to improve traffic flow at Tan Son Nhat Airport
- Regarding the transition of transport vehicles to green and clean energy, the city has tasked the Department of Transport with developing an emissions control proposal. This proposal is divided into two phases:
 - Phase 1: Develop a plan to transition public transportation, including buses currently using gasoline and diesel, to electric power. The plan aims for 100% of buses to be electric by 2030.
 - Phase 2: Expand the transition to other vehicle categories, including taxis, tech-based vehicles, and private cars. By 2050, 100% of vehicles will use electric energy.

The Department of Transport is also collaborating with transport departments in neighboring provinces to plan the development of synchronized infrastructure, facilitating the efficient transition to electric-powered vehicles.

Tan Son Nhat International Airport – Mr. Nguyễn Công Hoàn, Deputy Director

Tan Son Nhat International Airport (TSN) is presently operating beyond its designed capacity. In response to this challenge, and following directives from the Government, we are advancing the construction of Terminal 3, which is projected to be operational by April 30, 2025. Moreover, Long Thanh International Airport is scheduled to begin operations in 2026, further easing the pressure on existing infrastructure. In addition, we are collaborating with border security to implement various measures, including lane management and the pilot introduction of automated gates, aimed at alleviating congestion and improving queue organization at the airport.

Ho Chi Minh City Customs Department – Mr. Đỗ Thanh Quang, Deputy Director

Regarding the import policies for electric vehicles, businesses must comply with the following conditions:

- Obtain a business license as stipulated under Government Decree 116
- Ensure product quality as mandated by the Law on Product and Goods Quality and secure a quality certification as per Circular 12 from the Ministry of Transport before customs clearance
- Provide a Certificate of Origin (CO) when importing
- According to Circular 21 from the Ministry of Industry and Trade, only six seaports in Vietnam are authorized for the import and customs clearance of electric cars: Hai Phong, Quang Ninh, Thanh Hoa, Da Nang, Ho Chi Minh City, and Ba Ria-Vung Tau
- Customs procedures must be completed at the port of entry
- Electric vehicles are subject to import duties, special consumption tax, and value-added tax (VAT).

Ho Chi Minh City Department of Information and Communication

- Two key issues being addressed are digital transformation and AI, both of which are areas of significant focus for the city
- Digital transformation extends beyond the technology sector; it encompasses all economic sectors. In addition to activities the city has already organized (such as startups and innovation), there is a concerted effort to support small and medium-sized enterprises in their digital transformation journey
- AI is also a priority area for the city in relation to the digital transformation of businesses. We share Mr. Colin Blackwell's perspective on promoting and supporting youth engagement with AI. Currently, we are collaborating with universities on AI utilization, and we plan to research and propose ways to integrate AI into the high school curriculum.

Ho Chi Minh City High-Tech Park – Mr. Nguyễn Anh Thi, Head

- To accelerate digital transformation and the application of AI technology, developing digital infrastructure, particularly large data centers, is a primary focus for attracting investment, which the city and the high-tech park are actively pursuing
- In parallel with attracting investment, we are also preparing proposals related to AI and semiconductor technologies to support AI initiatives.

Ho Chi Minh City Police Department

- Regarding the challenges related to fire safety, particularly the standards for installing shelving in warehouses to facilitate investors: According to TCVN 7336:2021 on fire safety standards, the requirement for an automatic fire extinguishing system using water or foam is mandated for warehouses with shelving heights of 5.5 meters. For warehouses exceeding this height, investors and design units can explore the application of international fire safety standards.
- On June 5, 2023, the Ministry of Public Security issued Decision No. 4158/QĐ-BCA-PCCC&CNCH, permitting units to apply foreign and international fire safety standards in Vietnam. This includes design standards for automatic sprinkler systems for storage racks between 5.5 meters and 25 meters high, based on Russian standards and NFPA 13:2002 for goods stored on racks above 5.5 meters, without needing to undergo a specific approval

process for each case when applying these standards. Additionally, investors can also investigate other relevant foreign fire safety standards and follow the established procedures for their application.

- Currently, the Fire Prevention and Fighting Police Department is researching the development of standards for automatic water-based fire extinguishing systems for warehouses storing goods on racks taller than 5.5 meters, with implementation required in 2024 and 2025.

SESSION II: DRIVING FUTURE SUSTAINABILITY: SUSTAINABLE ENERGY AND SMART TECHNOLOGIES

Sustainable energy development – Mr. John Rockhold, Head of VBF Power & Energy WG

In the context of Vietnam's push for green transformation and the development of high-tech industries, particularly in the southern region, policies such as Decree No. 80/2024/ND-CP on direct power purchase agreements (DPPA) and PDP8 emphasize the goal of utilizing rooftop solar energy. This not only encourages investment in renewable energy but also creates a competitive electricity market, contributing to energy security and sustainable development. Battery Energy Storage Systems (BESS) will also enhance the reliability of renewable energy infrastructure.

To achieve these goals, a restructuring of the industrial sector towards high-tech and environmentally friendly products is necessary, supported by the Vietnam Business Forum. Ho Chi Minh City has significant potential to lead in the development of green energy and high technology, with commitments from working groups to create collaborative opportunities and innovative solutions. The ultimate objective is to provide clean, sustainable energy, attract foreign investment, and ensure a sustainable economic future for Vietnam.

Advancing Aviation Decarbonization: The Sustainable Way Forward and Feedstock Potential in Vietnam – Ms. Sharmine Tan, Regional Sustainability Lead - Southeast Asia, Boeing

Boeing is committed to achieving net-zero emissions in aviation through solutions such as fleet renewal, efficiency improvements, and sustainable aviation fuel (SAF).

SAF can reduce CO2 emissions by up to 80% compared to traditional fuels and is expected to contribute 65% towards the net-zero emissions target by 2050. Boeing has been at the forefront of SAF development.

Vietnam has significant potential for SAF feedstock, particularly rice straw and husks. Boeing is also implementing a "book and claim" system, which allows for the global trading of SAF credits, enabling Vietnam to sell domestically produced SAF. Developing SAF production in Vietnam will yield substantial economic and environmental benefits, and Boeing is committed to collaborating to promote the sustainable development of the aviation industry.

Sustainable cooling in achieving NDC – Mr. Rusmir Musić, Global Cooling Lead, International Finance Corporation (IFC)

Mr. Rusmir shared the importance of sustainable cooling as part of a strategy to reduce carbon emissions. He emphasized the need for cooling in sectors such as logistics, cold supply chains, and the import and export of agricultural and seafood products. The IFC is implementing a "year-on-year" strategy focusing on areas like urban cooling, green building cooling, and supporting small and medium-sized enterprises in upgrading their cooling equipment.

IFC has various supportive tools, such as the Edge program for green buildings, and will be organizing workshops for further sharing. They also provide financial support and consulting services to businesses to help reduce their carbon footprints. The IFC's report on sustainable cooling will be launched during the United Nations Climate Week in September, and they aim to collaborate with the Vietnam Business Forum (VBF) to present this report in Vietnam. Ultimately, the IFC is committed to assisting businesses with innovative solutions and the necessary resources to achieve net-zero emissions.

Digital transformation in agriculture – Mr. David Whitehead, Head of VBF Agribusiness WG

The importance of technology in Agriculture: Agriculture is undergoing a digital revolution, and technology plays a crucial role in enhancing efficiency and increasing productivity while helping farmers face the challenge of producing more with fewer resources to feed the growing global population.

Challenges and opportunities: Farmers currently face numerous challenges, such as equipment costs, water and energy management, and the need to continuously update to new environmental regulations. However, advanced technologies like AI, big data, smart sensors, and robotics are helping farmers optimize resources, improve crop management, and achieve sustainability.

Digital transformation in Agriculture: Digital technology and AI are being widely adopted in activities such as farm monitoring, automated harvesting, and real-time data analysis to enhance crop yields. This allows smallholder farmers to also engage with and apply technology in their production processes.

Marvin Group, established in 2004, is an agricultural company specializing in animal feed and veterinary products, with factories and farms spread throughout Vietnam. The company has completed its digital transformation over the past five years, utilizing SAP solutions to manage its entire system, from finance and human resources to operations.

To survive and thrive in the agricultural sector, businesses in Vietnam need to understand and adopt new technologies to provide clean, safe, and efficient food.

RESPONSES FROM HCMC'S DEPARTMENTS AND LOCAL AUTHORITIES

People's Committee of Binh Phuoc Province – Ms. Trần Tuyết Minh, Vice Chairwoman

- *Renewable Energy:* Binh Phuoc Province holds significant potential for solar energy, thanks to its vast land area. It ranks among the top two regions in Vietnam with the highest annual solar radiation levels (following Ninh Thuan). This ensures that the electricity transmission infrastructure can effectively distribute solar power from local plants. The government's solar

power plan for Binh Phuoc is substantial, with over 7,200 MW of capacity planned, and solar energy will be diversified into various forms.

- *Reducing Aviation Sector Carbon Emissions:* Binh Phuoc has the largest natural cashew plantation area in Vietnam, with 150,000 hectares, producing the country's highest yield. We recognize the great potential in producing cashew nut shell oil, which is attracting interest from countries like the U.S. and Japan. This oil can be used in the plastic materials industry, aviation equipment, and renewable energy sources. However, we currently face challenges in accessing advanced technologies for deep processing of cashew nut shell oil. We hope to collaborate with partners to explore new opportunities in reducing carbon emissions within the aviation sector.

People's Committee of Dong Thap Province – Mr. Phạm Thiện Nghĩa, Chairman

The Mekong Delta faces three major challenges:

- **Weak Infrastructure:** This issue has been addressed by the Central Government, and some improvements have already been made
- **Shortage of Skilled Technical Labor:** Policies have been implemented to improve labor skills across the region
- **Creating a Favorable Business Environment:** Administrative procedures are being reformed to attract more investment.

There is substantial room for growth in these areas, and we aim to attract investors to continue enhancing and creating a more favorable business climate for future investments.

CLOSING REMARKS

Mr. Võ Tân Thành, Vice President, Vietnam Chamber of Commerce and Industry

The discussions today have presented significant solutions in key areas such as logistics, workforce development, investment reform, and energy. The challenges in logistics, supply chains, and labor have been clearly articulated, along with the need for administrative reform to create a more favorable environment for both domestic and foreign businesses.

We have also emphasized the role of renewable energy and digital transformation in agriculture. This is not only an opportunity for Vietnam to sustain its development but also to assert the nation's position in the region. The adoption of advanced technologies and green development policies will be crucial in propelling Vietnam towards a dynamic and sustainable future.

In conclusion, I would like to sincerely thank the close collaboration among the organizing bodies, particularly the Ho Chi Minh City People's Committee and the Vietnam Business Forum. I hope that today's exchanges will lay the groundwork for more extensive initiatives and collaborations in the future.