3rd Survey on Mekong Business Needs and Strategies in Mekong sub-region

September, 2015
Japan External Trade Organization (JETRO)

Table of Contents

Chapter 1
Objective and Outline of the Survey

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1-1. Objective and Outline of the Survey

- Objective: To provide appropriate inputs to the “Mekong Industry Development Vision”, by illustrating current business networks through numerical data and concrete business cases
- Scope: Domestic/Japanese companies in Mekong countries, Japan and Singapore
  - Total Number of Companies Interviewed: **117**
- Methodology: Interview to the individual companies
- Survey Period: Sept 2014-Jun 2015

Classification	Sector	Singapore		Thailand		Lao		Myanmar		Vietnam		Cambodia		Japan	Total
		Japanese Firm	Non-Japanese	Japanese Firm	Non-Japanese	Japanese Firm	Non-Japanese	Japanese Firm	Non-Japanese	Japanese Firm	Non-Japanese	Japanese Firm	Non-Japanese		
Manufacturers	Chemical	1								1					**2**
	Auto-Parts	1				1						2			**4**
	Electric Machinery	1		5		2				3	1	1		1	**14**
	Mechanicall Processing			1	1										**2**
	Iron & Steel													1	**1**
	Food				2			1	2	3					**8**
	Vheicles			1						2					**3**
	Garment, Foot wear and Sport goods				1	2	1	1		2		3			**10**
	Materials for Construction				1										**1**
	Total	**3**	**0**	**7**	**5**	**5**	**1**	**2**	**2**	**11**	**1**	**6**	**0**	**2**	**45**
Non-Manufacturers	Tradeing	1					2			2		1		2	**8**
	Real Estate	0	1												**2**
	Retail				1				2	2	1	1			**7**
	Infrastructure Development				1								1	1	**2**
	Engineering			1											**1**
	Power Generating													1	**1**
	Bank	1		1										1	**3**
	Construction							1						1	**2**
	E-Commerce	1		1											**2**
	Logistics	2	1	2	6	2	3	4	3	8		2			**33**
	Others			1											**1**
	Total	**5**	**2**	**6**	**8**	**2**	**5**	**5**	**5**	**12**	**1**	**4**	**1**	**6**	**62**
Governmental Organization	Local Agency				3		1				3		2		**9**
	Other Agency									1					**1**
	Total	**8**	**2**	**13**	**16**	**7**	**7**	**7**	**7**	**24**	**5**	**10**	**3**	**8**	**117**

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1-2. Review on the 2nd Survey in FY 2012

- Objective: Follow-up to "Survey on the business needs and strategies in Mekong region" (August to October 2009, JETRO) and discussions in the Mekong-Japan Industry and Government Dialogues, conduct a survey on the most up-dated needs/strategies of Japanese and local companies operating in the Mekong sub-region.
- Scope: Domestic/Japanese companies in Mekong countries, Japan and Singapore
  - Total Number of Companies Interviewed: **190**
- Methodology: Interview to the individual companies
- Survey Period: Mar-Jun 2012

Issues Identified in the 2nd Survey

Trade Facilitation/Logistics

1) Custom procedures (burdensome procedures even after introduction of e-customs),
2) FTA utilization (procedures/rules of ROO)
3) Belated implementation of CBTA

Development of Hard Infrastructure

1) Improvement of road condition of EWEC/SEC, including i) Missing links such as Neak Leoung bridge and Dawei, and ii) better access to seaports
2) Enhanced electricity supply

Enhancing Industrial Development

1) Industrial development of key potential sectors (including service sectors)
2) Human resource development
3) Improvement of productivity

Chapter 2
Recent Business Trends

Summary of Chapter 2

1. Active Business Expansion of Japanese / Mekong countries' Companies

- Number of Japanese companies registered to respective Japanese Chamber of Commerce and Industry in each Mekong country has increased **more than 900 since June 2012 (2,599) to 3,514** as of April 2015. Also, Thailand's SET 100 listed companies have established **130 subsidiaries in CLMV countries** as of 2013.
- Japanese companies in Cambodia have foreseen business outlook in the short term most positively among all other surveyed countries, followed by Vietnam, Myanmar and Thailand, all of which are positioned above the total average score.

2. More Service Sector Investment by Japanese companies

- Non-manufacturing sector FDI stock from Japan to Mekong countries jumped up **more than 5 times to 1.5 billion USD since 2008 to 2013**. FDI ratio in non-manufacturing sector to Mekong countries marks 31.8 points in 2013, remarkably high compared with that ratio to China (26.1 points)

3. Growing Trade Dependency to China

- Compared to 2008, trade dependency rate, especially in its import, has been growing in most of Mekong countries. **This can be regarded as commencement of industrialization**, typically through procuring intermediate goods and/or production materials for possible export to other countries.
- Replacement of such goods production would be the common challenge to CLM countries.

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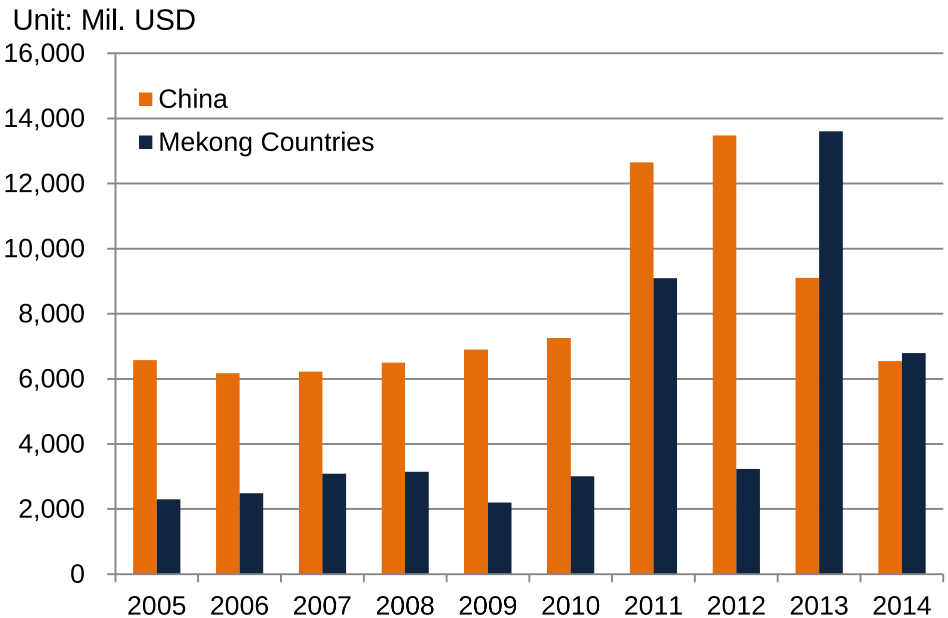
2-1. Business Expansion (Japanese Companies)

- ***FDI to Mekong countries has surpassed that amount to China*** *in 2013 and 2014.*
- *From 2012, number of JCC members in each Mekong country has increased steadily, especially a remarkable increase in Myanmar* ***(4.1 times)****, followed by Cambodia and Lao PDR.*
- *In total, approx.* ***1,000 companies*** *have newly registered to JCCs in Mekong countries.*

Direct Investment Amount from Japan to China & Mekong Countries



(Remarks) Classified based on IMF Balance of Payment Manual ver.5 (BPM 5) up to 2013, BPM 6 in 2014
(Source) Bank of Japan

No. of Companies listed to respective JCCI in each Mekong country

	Apr-15		Jun-12
Cambodia	156	1.7 times	91
Lao PDR	60	1.6 times	38
Myanmar	232	4.1 times	56
Thailand	1,615	1.2 times	1,379
Vietnam	1,451	1.4 times	1,035
Total	3,514	+915	2,599

(Remarks) Figure in Vietnam consists of member companies of JCCs in Hanoi, Da Nang and HCMC
(Source) JETRO from respective JCCs

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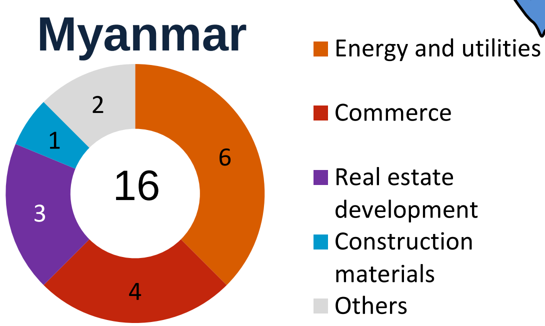
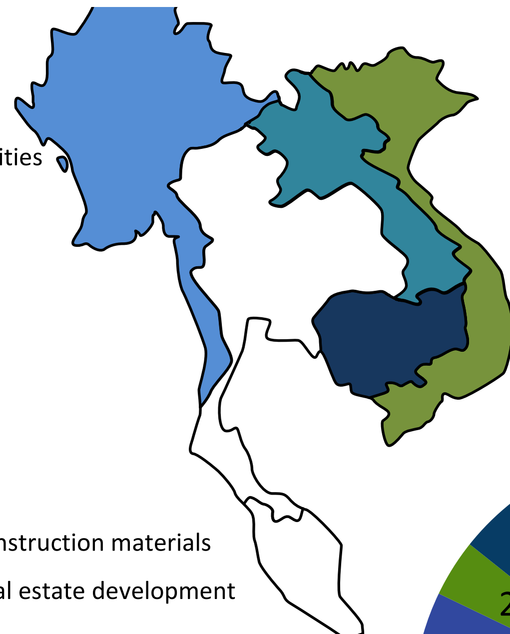
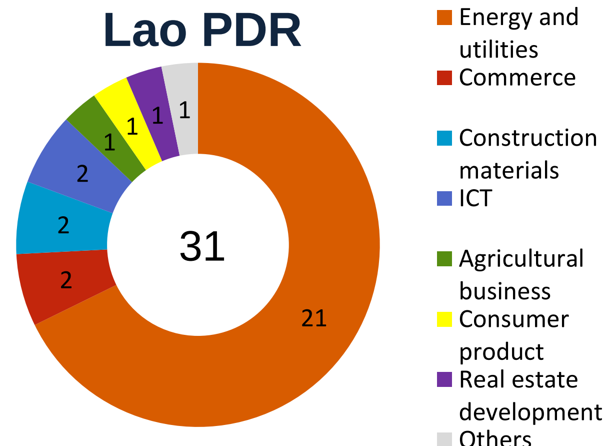
2-2. Business Expansion (Thai Companies)

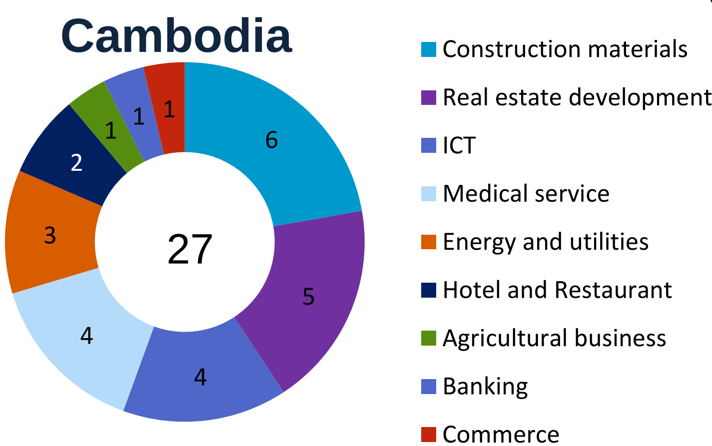
- *Thailand's SET 100 companies have 130 business bases in surrounding Mekong countries as of 2013, mainly in energy and utility sector and commerce sector.* ***Subsidiary number has grew around 40% since 2011****, when there were 93 business bases.*
- *Market oriented businesses (e.g. real estate, hotel & restaurant) are also major businesses.*

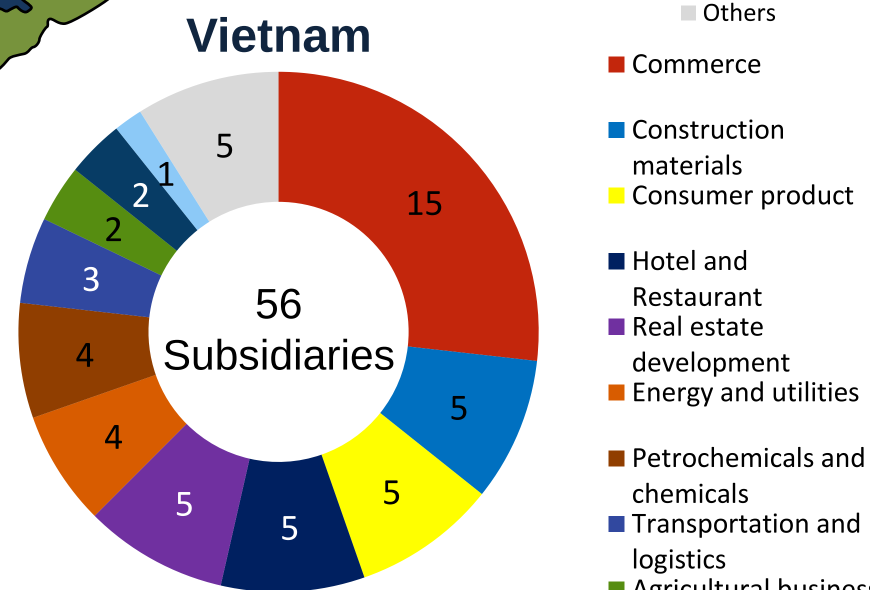
Location of subsidiaries by SET 100 companies











(Source) TDRI SET100 Database

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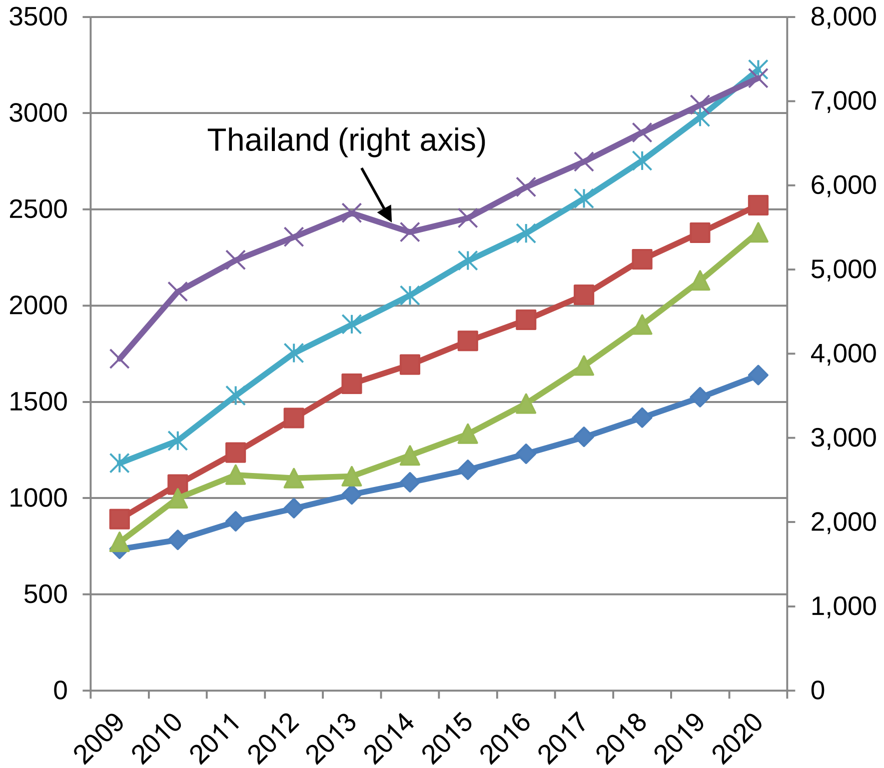
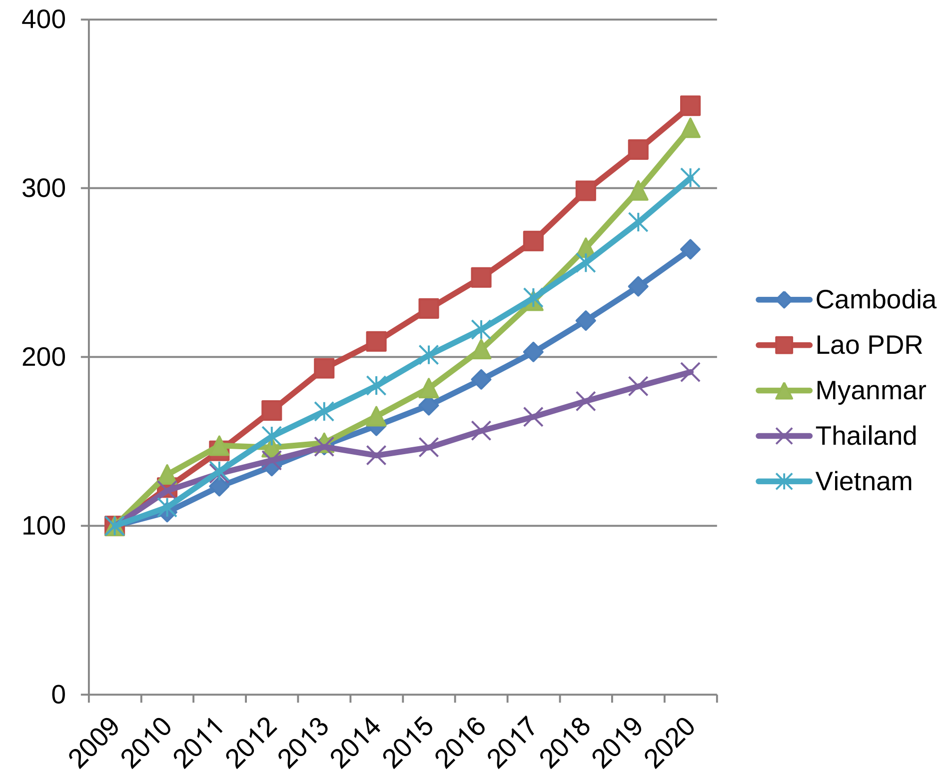
2-3. Mekong as a Market

- *Together with production base, Mekong sub-region has attracted service industries with its rapid-growing market.*
- *Compared with the figure in 2009,* ***Mekong countries' markets will be expanding 2-3.5 times*** *in 2020.*
- *Demand for sophisticated logistics (e.g. cold chain) is observed.*

GDP Per Capita Estimation to 2020



GDP Growth Index (2009=100)



(Remarks) Including estimation
(Source) World Economic Outlook, Apr 2015, IMF

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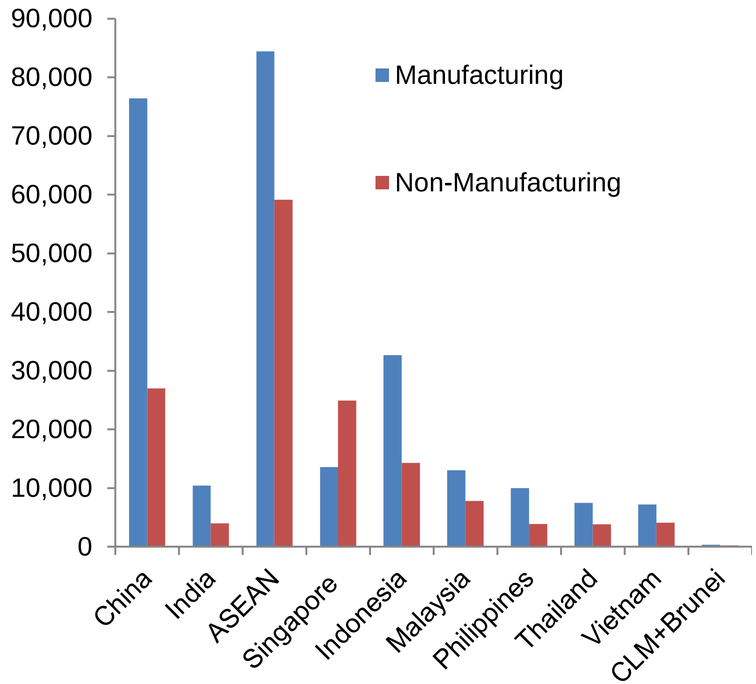
2-3. Mekong as a Market (Cont.)

- *Compared with China, ASEAN countries has attracted more FDI in total, especially contributed by large Non-Manufacturing sector investment in 2013.*
- *Investment ratio in non-manufacturing sector has been increasing in most of ASEAN countries except the Philippines, in terms of both amount and numbers.*
- *Especially that ratio in CLMV countries and Indonesia has remarkably increased since 2008, to nearly 40% of total investment.*

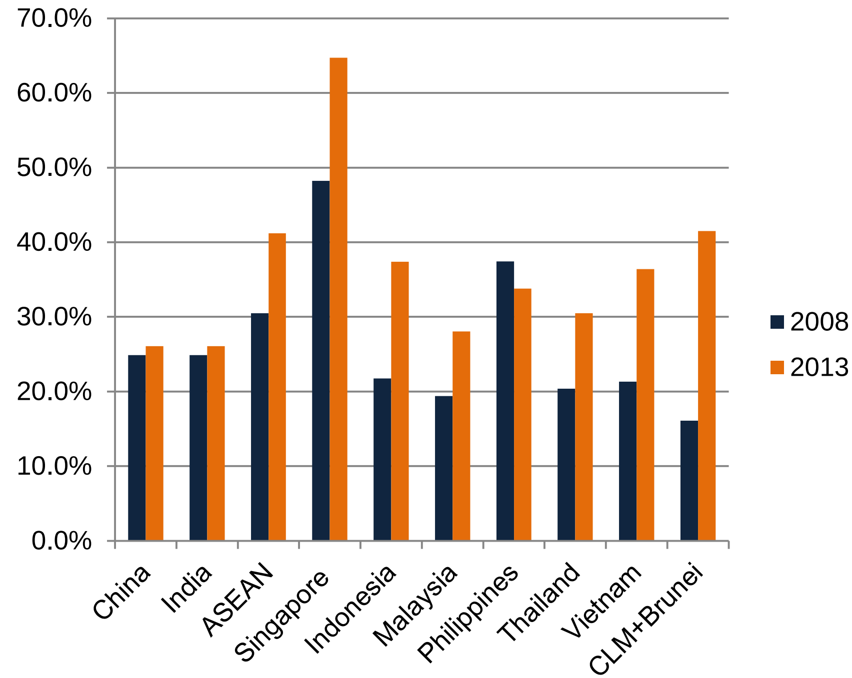
FDI amount in Manufacturing and Non-Manufacturing Sector from Japan (2013)

(Unit) 100 mil.Yen



(Source) JETRO from Bank of Japan

Non-Manufacturing Sector FDI Ratio from Japan (FDI amount base, 2008 and 2013)



(Source) JETRO from Bank of Japan

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2-4. Trade Structure –Growing China Dependency-

◆ *Specifically, while import dependency rate of respective Mekong countries to China has been increasing from 2008 to 2013 except Myanmar, that rate to Mekong countries and ASEAN 10 has decreased in that period. For Cambodia and Lao PDR, this trend can be considered as the initial phase of the participation to global value chain.*

Import Dependency

(Unit:%)

		Japan	China	Hong Kong	Taiwan	Korea	East Asia	Cambodia	Lao PDR	Myanmar	Thailand	Vietnam	Mekong 5	Singapore	ASEAN 10	USA
Cambodia	2008	2.58	21.13	13.32	8.28	5.19	50.51	0.00	0.00	0.00	15.77	10.68	26.45	6.87	38.39	4.98
	2013	1.90	32.56	7.25	5.87	4.02	51.61	0.00	0.06	0.00	11.87	10.70	22.64	3.78	30.69	12.20
Lao PDR	2008	2.50	10.68	0.85	0.11	2.12	16.26	0.03	0.00	n.a.	70.73	6.39	77.15	1.02	78.70	0.73
	2013	1.88	26.62	0.48	0.06	2.89	31.93	0.01	0.00	n.a.	57.25	6.55	63.81	0.41	64.67	0.38
Myanmar	2010	4.00	33.80	n.a.	n.a.	4.70	42.50	n.a.	n.a.	0.00	11.10	n.a.	11.10	25.70	43.40	0.90
	2013	4.70	29.80	n.a.	n.a.	8.90	43.40	n.a.	n.a.	0.00	10.00	n.a.	10.00	21.10	40.40	0.60
Thailand	2009	18.72	12.74	1.29	3.59	4.05	40.40	4.28	6.42	1.54	2.84	1.33	16.41	1.04	20.02	6.26
	2014	15.67	16.88	0.52	3.31	3.75	40.13	3.46	5.59	1.00	3.19	1.15	14.39	1.73	18.99	6.40
Vietnam	2008	10.21	19.79	3.26	10.36	8.99	52.61	0.27	0.35	0.09	6.08	0.00	6.79	11.62	24.25	3.29
	2013	8.75	27.94	0.79	7.12	15.66	60.26	0.38	0.51	0.09	4.76	0.00	5.74	4.31	16.12	3.97

Export dependency

(Unit:%)

		Japan	China	Hong Kong	Taiwan	Korea	East Asia	Cambodia	Lao PDR	Myanmar	Thailand	Vietnam	Mekong 5	Singapore	ASEAN 10	USA
Cambodia	2008	0.74	0.30	19.29	0.12	0.17	20.61		0.02	0.03	0.31	3.92	4.28	2.61	7.23	45.21
	2013	3.62	3.03	17.17	0.24	1.06	25.12		0.01	0.01	2.55	1.17	3.73	8.58	13.99	23.51
Lao PDR	2008	1.32	10.95	0.28	1.25	3.88	17.68	0.01		n.a.	45.39	20.41	65.81	0.07	66.12	3.11
	2013	2.95	28.02	1.68	0.36	0.34	33.35	0.15		n.a.	37.20	18.36	55.71	0.16	56.11	0.84
Myanmar	2010	2.68	13.57	21.44	n.a.	1.67	39.36	n.a.	n.a.		32.71	n.a.	32.71	5.09	43.24	n.a.
	2013	4.58	25.98	4.36	n.a.	0.00	34.92	n.a.	n.a.		38.43	n.a.	38.43	6.19	46.13	n.a.
Thailand	2009	10.31	10.58	6.22	1.48	1.85	30.44	1.04	1.08	1.01		3.07	6.20	4.97	21.32	10.93
	2014	9.65	11.01	5.53	1.76	1.98	29.93	1.99	1.76	1.86		3.46	9.07	4.57	26.07	10.48
Vietnam	2008	13.51	7.74	1.40	2.24	2.86	27.74	2.44	0.26	0.05	2.06		4.81	4.33	16.49	18.99
	2013	10.26	9.98	3.12	1.68	5.06	30.10	2.22	0.32	0.17	2.32		5.04	2.04	14.08	18.08

Source; Global Trade Atlas

Dependency late of Lao calcurated by Partner countries data.

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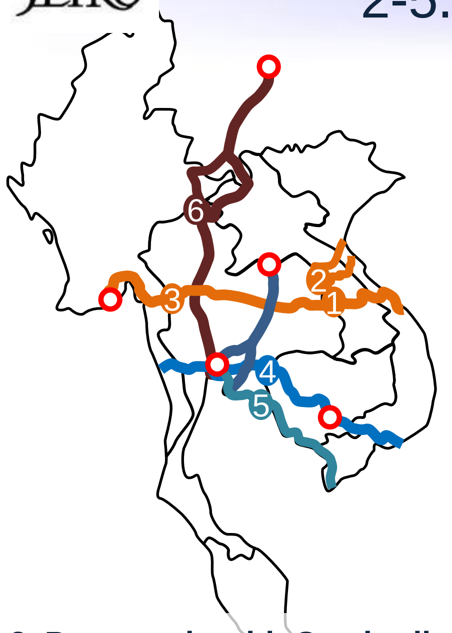
2-5. Utilization of the Corridors (Thai Customs Data)



1. HDD parts trade between Thailand and China are main cargo along EWEC

- With 3rd Friendship Bridge operation in 2011, parts trade has been generated in northern road of EWEC.
- HDD parts/components have been mutually traded between Thailand and China.

1 Mukdahan

FY2011 Export	FY2011 Import	FY2014 Export	FY2014 Import
Processors 451.4	Copper 484.5	Processors 390.8	Copper 518.3
Memory 441.7	Radio・TV 141.1	Motor 99.3	Motor 168.9
Data storage devices 160.9	Garments 43.3	Fuel Oil 85.4	Steel products 65.6

2 Nakhon Phanom

FY2011 Export	FY2011 Import	FY2014 Export	FY2014 Import
Fresh fruits 32.7	Garments 29.7	Data storage devices 239.8	HDD・PC 128.0
Petroleum oil 27.2	Woods 7.9	Energy Drink 74.7	Telecommunication transmission 112.0
Energy drink 22.3	Bag 5.4	Battery 31.1	Electrical Components 26.1

2. Parts trade with Cambodia

- Parts/Components trade have been newly observed in these years, with "Thailand+1" trend.
- Trade amount grows twice in Aranyaprathet in 3 years, and 1.4 times in Khlong Yai in 2 years

4 Aranyaprathet

FY2011 Export	FY2011 Import	FY2014 Export	FY2014 Import
Spare parts for motorcycle 56.4	Steel 39.0	Motorcycle's motor 99.0	Digital Camera component 122.8
Motorcycle's motor 55.9	Gas Tank 28.5	Spare Parts for Motorcycle 94.3	Structure to load optical film 83.3
Swine 49.0	Aluminum 25.3	Tractors 77.4	Cassava 48.1

5 Khlong Yai

FY2011 Export	FY2011 Import	FY2013 Export	FY2013 Import
Sugar 138.7	Woods 1.0	Sugar 81.7	Wire Harness 29.9
Milk 49.8	Molasses 0.3	Milk 52.8	Molasses 5.0
Snack 36.4	Clams 0.3	Drink 41.3	Woods 1.3

(Remark) Fiscal year of Thailand starts Oct to Sept.
(Source) JETRO Bangkok from Thai Royal Customs

3. Less change with Myanmar

- No big change on trade structure between Myanmar and Thailand in past 3 years.
- Logistics improvements including Infrastructure development are necessary to stimulate industrial trade.

3 Mae Sot

FY2011 Export	FY2011 Import	FY2014 Export	FY2014 Import
Benzene oil 46.7	Wooden items 10.0	Beer 111.8	Cows, buffalo 42.9
Beer 25.6	Cows, buffalo 7.0	Telephones 96.1	Peanut 17.2
Flavoring additives 24.7	Antimony 3.3	Benzene oil 84.4	Antimony 10.8

6 Mae Sai

FY2011 Export	FY2011 Import	FY2013 Export	FY2013 Import
Alcohol 69.1	Teak logs 2.8	Fuel Oil 55.8	Teak logs 3.2
Fuel Oil 40.2	Orange 1.2	Alcohol 46.0	Mineral ores 1.1
Processed foods 33.5	Mineral ores 0.7	Beverages 23.6	Orange 0.8

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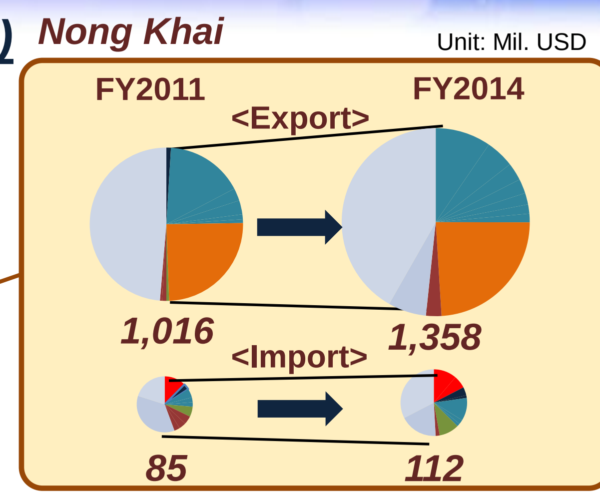
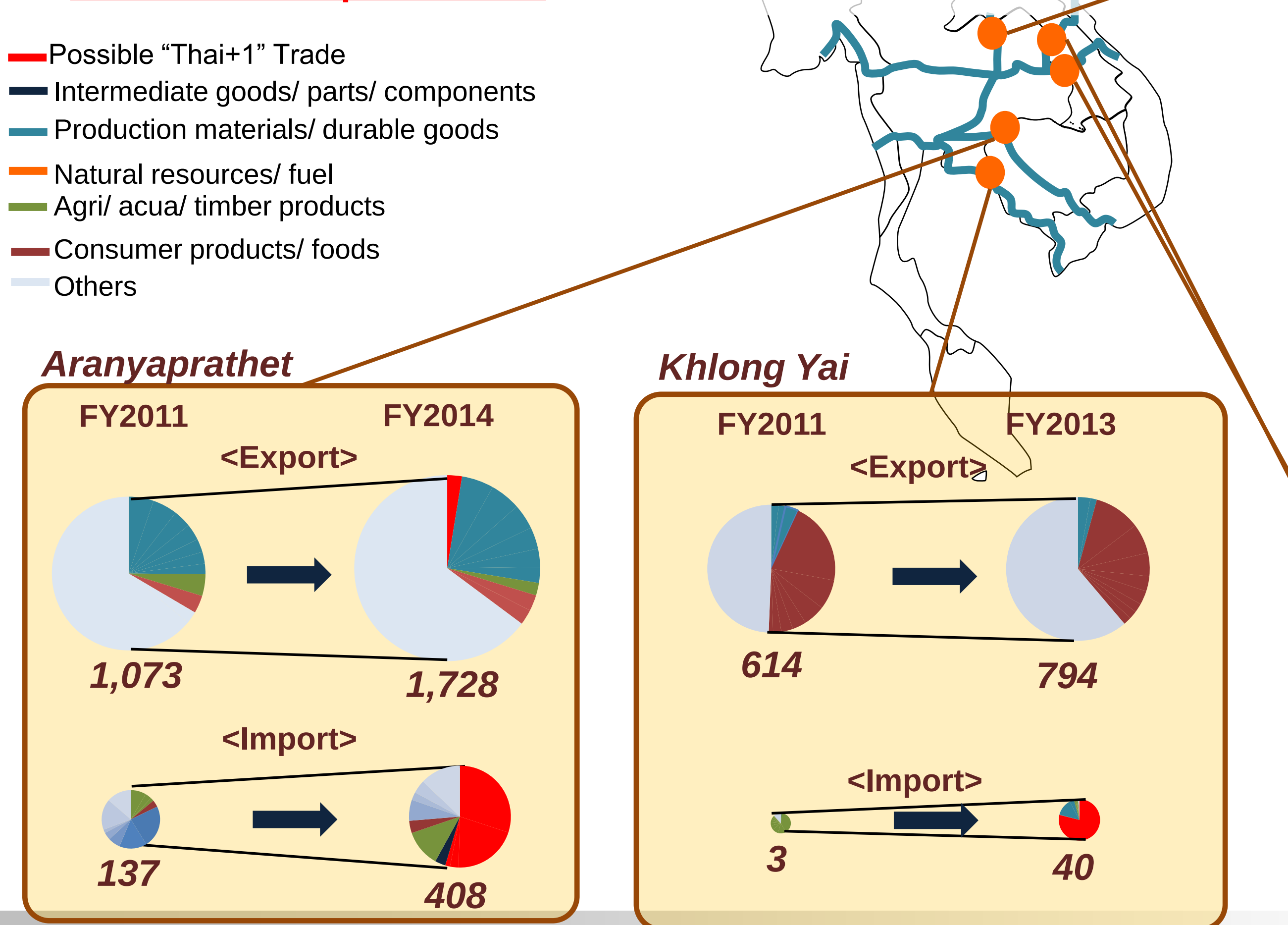
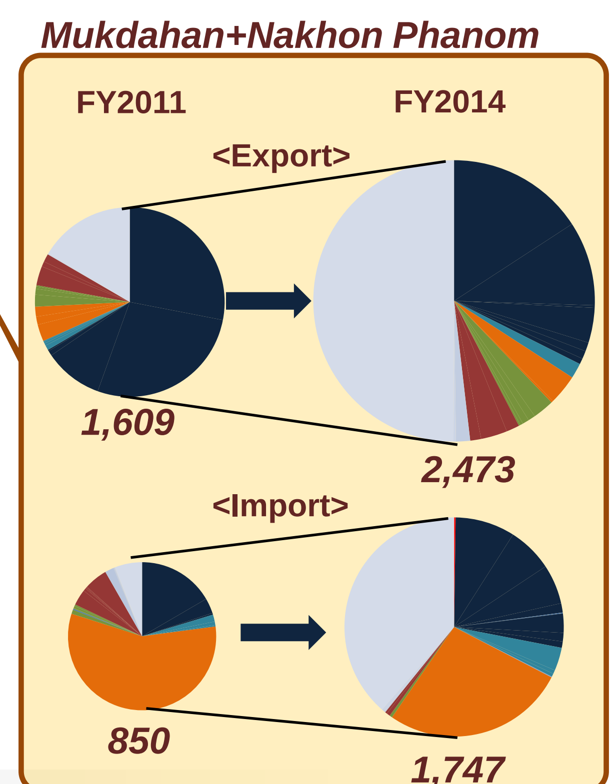
2-5. Utilization of Corridors (Thai Customs Data, Cont.)

Trade situation at major border area (Thai Customs Data)

- Trade amount in all major border has increased in these 2-3 years.
- Parts/components have been actively traded through EWEC, mainly **HDD parts trade between Thailand and China.**
- **Trade is not balanced** in most routes, which lead to high logistics cost.
- "Thai+1" transaction can be observed at several borders, while **trade amount is still quite limited**.







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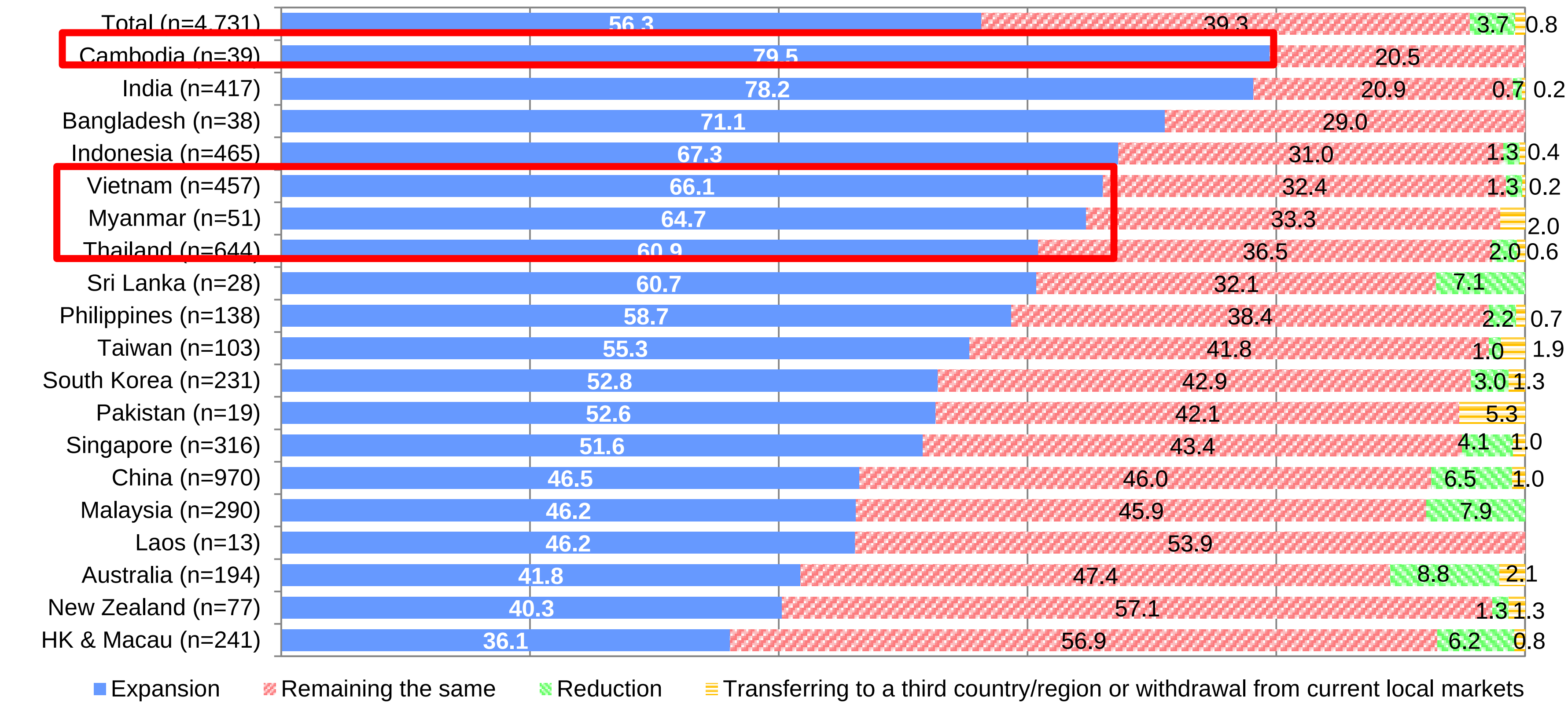
2-6. Business Forecast on Japanese Companies

- *Japanese companies in Cambodia have foreseen business outlook in short term most positively among all other surveyed countries.*
- *Japanese companies in Vietnam, Myanmar and Thailand have also forecasted next 1-2 years outlook fairly good, while that number of Myanmar dropped nearly 20 points since the 2013 survey.*

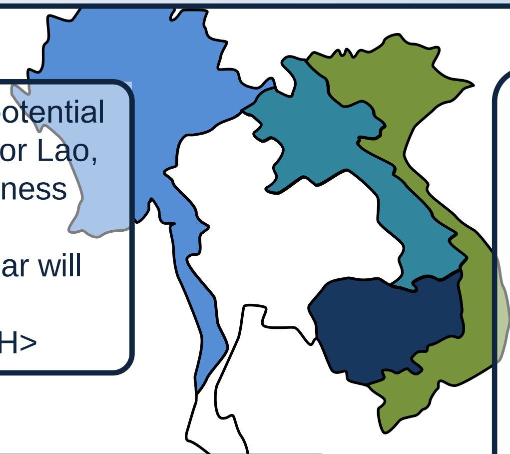
Future Business Forecast in the Next 1-2 years



(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

2-7. Business Strategies and Expectations (Company in Thailand)

- *Thai local companies have various business expansion plans to CLMV countries. Among others, Thai companies are paying attention to Cambodia in the short term, in the area of cold-chain development and logistics related facility construction.*
- *To Lao PDR, considering the relatively small market, several companies are planning to establish base to supply materials/services with cross border. On the other hand, Thai companies have less priority to Vietnam in general, where strong competitors have already existed.*



Myanmar

- ✓ Myanmar's consumer market has a potential to grow, and compared to Cambodia or Lao, Myawaddy area has cost competitiveness <Food company in TH>
- ✓ After Indonesia and Vietnam, Myanmar will be the 3rd priority country in ASEAN <Construction material company in TH>

Cambodia

- ✓ Agreed with some potential customers in Cambodia and Myanmar for developing cold chain for food supply. Will build cold storages in both countries <Logistics company in TH>
- ✓ Will develop river ports, as well as Inland Container Depot (ICD). Planning to deliver construction materials and agriculture goods such as rice and cassava, directly to Cai Mep-Thi Vai ports by utilizing water transportation (Construction company in TH)
- ✓ Building a construction material plant to supply ready-to-use materials <Construction material company in TH>
- ✓ Putting priority for cross-border transportation service Considering to develop ICD at Thai-Cambodia border <Logistics company in TH>

Lao PDR

- ✓ Will establish 100% logistics company, connecting to Kunming to Bangkok for transporting vegetables and fruits <Logistics company in Lao>
- ✓ Will establish construction material factory, which not only providing materials to Lao, but to North-Eastern part of Thailand. Currently providing materials with 500km distance, which will be shortened to 100km with Lao factory operation <Construction material company in TH>
- ✓ Lao PDR has advantage on enjoying "Everything But Arms (EBA)" arrangement to EU, under GSP framework <Food company in TH>

Vietnam

- ✓ Since Vietnam already has full of competitors, priority might be after CLM countries <Logistics company in TH>
- ✓ With keen competition, Vietnam market is somewhat same as Chinese market <Beverage company in TH>

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Chapter 3
Progresses and Identified Challenges

Summary of Chapter 3

Category	Score	Classification	Score
I. Issues on Customs / Cross-Border Procedure	90	1. Infrastructure (Soft Infrastructure)	76
		2. Infrastructure (Hard Infrastructure)	7
		3. Other Issues	7
II. Issues on Logistics	150	1. Logistics Services	51
		2. Logistics Infrastructure (Hard Infrastructure)	38
		3. Logistics Infrastructure (Soft Infrastructure)	23
		4. Overall/Structural Issues	38
III. Issues on Procurement	31	1. Local Procurement	20
		2. Procurement from foreign countries	9
		3. Procurement on production materials	2
IV. Issues on Production	78	1. Labor	55
		2. Utility infrastructure	14
		3. Production Cost	6
		4. Cash Management	3
V. Issues on Sales	10	1. After Services	4
		2. Marketing	3
		3. Finance	2
		4. Quality	1
VI. Other Issues	27	1. Rules and Regulations	27

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(Ref.) Business Challenges (Japanese Companies)

- *“Wage increase” is the common issue for business operation in respective Mekong countries.*
- *Country specific challenges, such as “Power shortage” (C,M), “Difficulty in recruiting management staff” (C, L), “Lack of thorough information on trade rules and regulations” (L) and “Time-consuming Customs procedures” (M) are also observed in CLM countries.*

	Thailand	(%)
1	Wage increase (n=635)	70.2
2	Difficulty in quality control (n=367)	52.0
3	Quality of employees (n=635)	50.4
4	Competitors’ market shares are growing (cost-wise competition) (n=636)	47.8
5	Sluggishness in major sales markets (consumption downturn) (n=636)	42.5

	Vietnam	(%)
1	Wage increase (n=445)	74.4
2	Difficulty in local procurement of raw materials and parts (n=279)	70.3
3	Complicated customs clearance procedures (n=434)	61.1
4	Difficulty in quality control (n=279)	50.2
5	Quality of employees (n=445)	49.0

	Cambodia	(%)
1	Wage increase (n=40)	80.0
2	Difficulty in local procurement of raw materials and parts (n=19)	79.0
3	Quality of employees (n=40)	60.0
4	Power shortage or blackout (n=19)	57.9
5	Difficulty in recruiting middle management staff (n=40)	45.0

	Laos	(%)
1	Lack of thorough information of trade rules and regulations (n=11)	72.7
2	Difficulty in quality control (n=6)	66.7
3	Wage increase (n=13)	61.5
4	Difficulty in recruiting middle management staff (n=13)	53.9
4	Cash flow shortage for expansion of business scale (n=13)	53.9

	Myanmar	(%)
1	Wage increase (n=50)	68.0
2	Power shortage or blackout (n=9)	66.7
3	Restrictions on foreign remittance (n=50)	62.0
4	Time-consuming customs procedures (n=50)	56.0
5	Difficulty in local procurement of raw materials and parts (n=9)	55.6

(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

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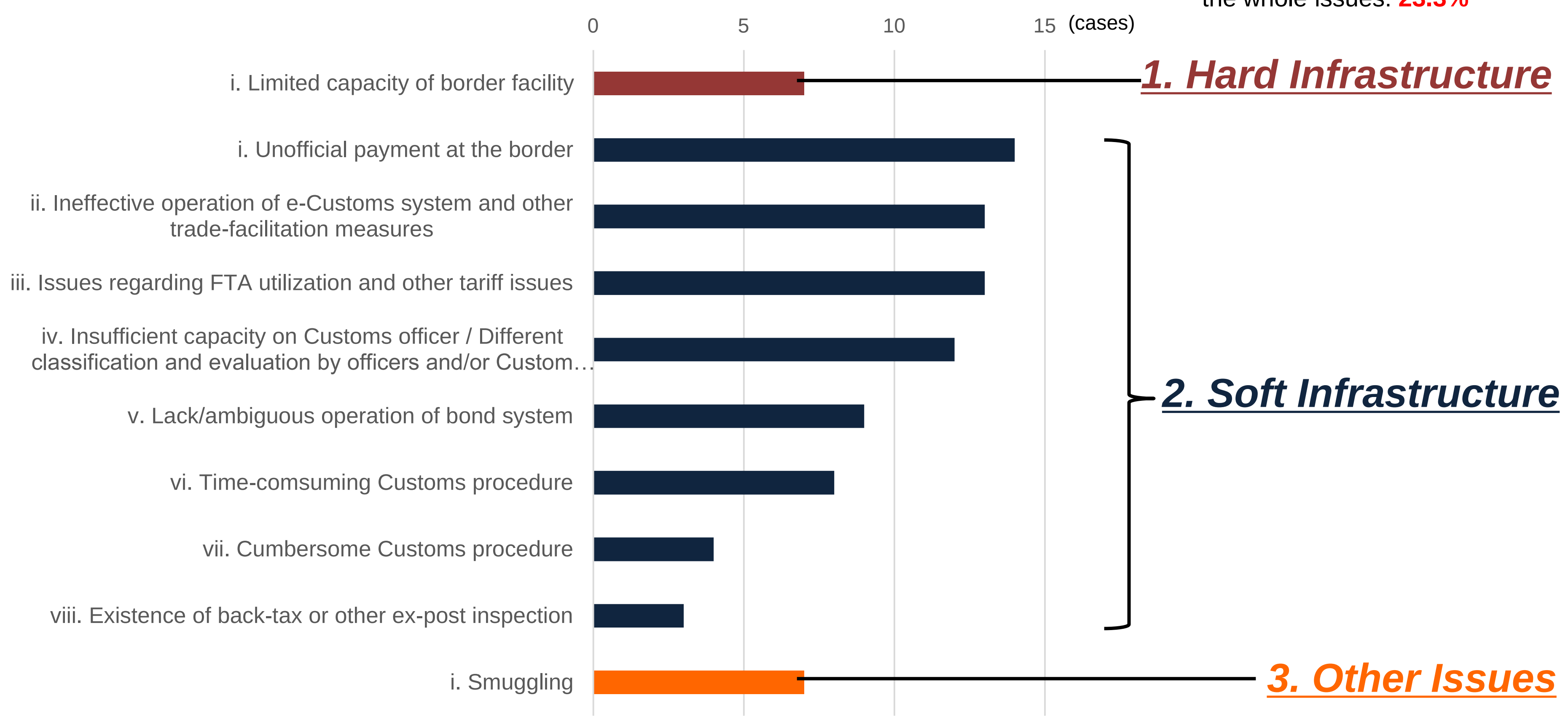
3-1. Customs/Cross-Border Procedure (Summary)

- *All big issues on Customs/Cross-Border Procedure are categorized into underdeveloped soft infrastructure.*
- ***Existence of unofficial payment at the border / during the logistics, and smuggling*** *are big impediments for providing regional logistics services.*
- *Minimization of human-related process could alleviate various troubles.*

✓ Total # of comments: **90**

✓ Total # of comments against the whole issues: **23.3%**



JETRO

3-1-1. Issues on Border Infrastructure

- ◆ *Especially at the traditional border areas (e.g. Poipet – Aranyaprathet and Mae Sot – Myawaddy), heavy congestion is recognized big bottleneck.*
- ◆ *For the cold chain network development, related facilities (e.g. warehouses and electricity plugs for reefer container) shall be developed.*

Border area at Poipet (KH). Both cargo and passenger pass the same border

Warehouse at Myawaddy (MM). Various cargo are piled up without clear classification rules

Relevant Comments

- ➢ Current Poipet - Aranyaprathet border is always congested due to limited back yard <Infrastructure company in KH>
- ➢ With limited capacity of border facilities, each authority also needs to work in a small unit. Dry ports near border area shall be thus developed to facilitate the border procedures <Ministry of Transport, TH>
- ➢ Due to poor facilities at the Mae Sot – Myawaddy border, it is quite difficult to handle fresh food. Some simple handling facility shall be developed <Logistics company in MM>

JETRO

3-1-2. Issues on Soft Infrastructure

- *Unofficial payment at the Customs clearance is recognized as the biggest and common problem among all the border crossing procedures, which distorts fair competition condition and impedes efficient logistics environment in the Mekong sub-region.*

Relevant Comments

<Unofficial payment at the border>

- There is a request from Customs for unofficial payment at the border <Food company in VN>
- Unrecorded fees are still requested at the Lao border, which causes logistics time delay and arbitrary operation and interpretation in each Customs office <Food company in TH>
- Situation has not changed so much in these 2 years. Border crossing fee is twice expensive than that of Thailand <Logistics company in Lao>
- Customs clearance fee is around 200 USD per container, twice expensive than that of Japan. This fee includes unrecorded payment <Logistics company in Lao>
- In addition to the normal logistics cost (350 USD to send 20 feet container from Bavet to HCMC), unofficial fee around 100 USD in total is required <Textile company in KH>
- For pursuing the efficiency of cross-border logistics, it is necessary to improve the transparency of Customs procedure <Logistics company in KH>
- Unofficial payment without receipt still exists at Cambodia border <Automotive parts company in TH>
- There are many occasions to be requested to pay unofficial money <Food company in MM>

JETRO

3-1-2. Issues on Soft Infrastructure (e-Customs Systems)

- *With the Japan Customs' assistance, Vietnam introduced VNACCS in 2014, and Myanmar is also planning to introduce MACCS by 2016. With such arrangement, all Mekong countries will have e-Customs system.*
- *Troubles with e-Customs have not changed so much since 2012, such as requirement of original documents at the border (CLV) / along the road (V), and time consuming input process to the system (C, L)*

e-Customs System in each Mekong country

	e-Customs	Introduction	No. of Introduced Customs
Thailand	e-Customs	Jan 2007	All Customs
Cambodia	ASYCUDA World	(n.a.)	22 Major Customs
Lao PDR	ASYCUDA World	May 2010	11 Major Customs
Myanmar	MACCS (*)	Will introduce within 2016	(Not introducing)
Vietnam	VNACCS (**)	Apr-Jun 2014	All Customs

(*) Myanmar Automated Cargo Clearance System, (**) Viet Nam Automated Cargo Clearance System
(Note) Myanmar does not have any e-Customs system as of Aug 2015
(Source) JETRO from ASYCUDA website, Customs data and trade portal site

Relevant Comments

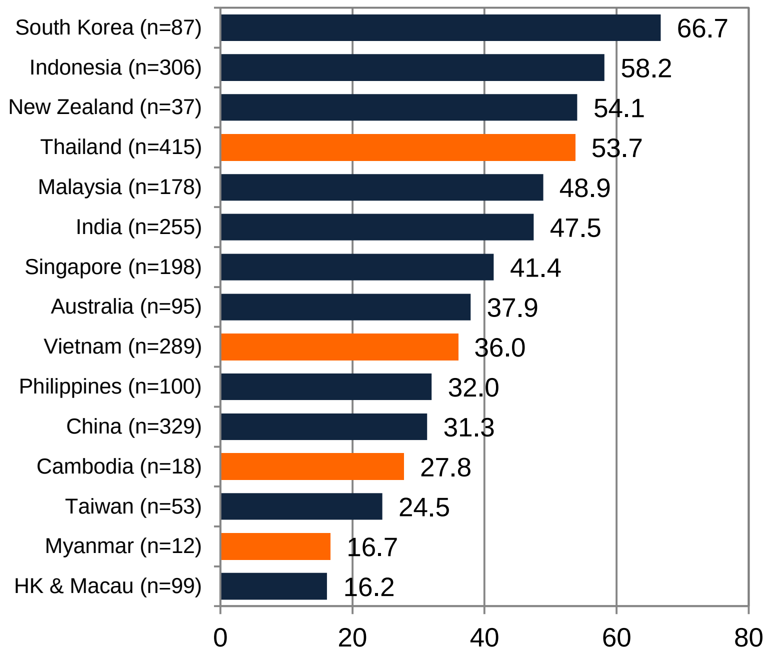
- Although introducing ASYCUDA, most of the logistics companies say actual Customs procedure does not change so dramatically. Still need to submit various papers besides the ASYCUDA application. Also, due to slow internet speed, it takes almost 1 hour to complete the electrical application <Logistics company in Lao>
- Electric application with ASYCUDA is not widely used yet. Since original signature of consignee and company seal are requested at the Poi Pet border every time, need to send such original documents <Logistics company in KH>
- Various troubles with Customs. After introducing VNACCS, situation becomes worsened with more time consuming procedures and number of Customs clearance documents is increased from 2 to 3 <Chemical company in VN>
- Since the limitation of the number of input items to VNACCS, need to divide invoices into 3 pages <Automotive company in VN>
- Apart from the procedure at Customs, traffic authorities request original Customs documents for passage permit. Such documents exchange process inevitably causes the unofficial payment <Logistics company in VN>
- **(Necessity for qualification)** Unless securing the trustworthiness of Customs brokers, it is unavoidable to check the contents of Customs declaration with original/supporting documents time to time. Appropriate qualification criteria shall be developed <Government agency in Lao>

JETRO

3-1-2. Issues on Soft Infrastructure (FTA/Tariff Related Trouble)

- *Except for Thailand, FTA utilization rate is still limited for Japanese companies in CLMV countries.*
- *Reasonable and transparent judgment to FTA application, especially in case of ACFTA, is required.*

Proportions of Japanese firms Utilizing FTAs/EPAs



(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

Relevant Comments

(Troubles on utilizing ASEAN-China FTA (ACFTA))

- On utilizing ACFTA, around 50% of FTA application for importing goods has been rejected by Cambodian Customs due to defects of /insufficient documents <Logistics company in KH>
- There are cases where Vietnam Customs rejects the Form E (CO of ACFTA), pointing out the discrepancy of HS code <Automotive company in TH>

(Troublesome application procedure)

- Cannot utilize ACFTA due to cumbersome application procedure at China side <E&E company in TH>
- Some procurement sources are hesitating to utilize FTA because of time consuming documentation <E&E company in TH>

(Other issues)

- (Issuance fee) 50 USD application fee on issuing Certificate of Origin (CO) is imposed every time <Textile company in KH>
- (Reverse tariff rate) While imposing 5% of import tariff for CBU of agricultural machines, tariff rate to its parts/components is 20%. No benefit to use import parts/components to build agricultural machines <Logistics company in VN>
- (Utilization of Back to Back CO) Thailand Customs frequently rejects Back to Back CO issued by Singapore authority, in case such cargo comes from outside of Free Trade Zone (FTZ) in Singapore. Back to Back CO is key instruments to utilize Singapore as logistics hub, but only Thailand is insisting this point <Logistics company in SPR>

JETRO

3-1-2. Issues on Soft Infrastructure (Capacity Building to Officials)

◆ *In addition to the traditional issues at Customs clearance (discrepancy of interpretation of HS code, import value among officers/Customs offices), following the recent business trends such as new factory construction or commencement of modern retail business, various issues have been observed. Capacity building of the officials at the border shall be further conducted.*

Business Activities

Daily Transactions

Various Emerging Needs

- ✓ Newly importing goods (e.g. parts/components, construction materials and consumer products)
- ✓ Various kinds, small-lot goods (e.g. products for retail shops)
- ✓ Goods with Complicated contract (e.g. terms of payment, 3rd country invoicing)

At Customs

Traditional Bottlenecks

- ✓ Different judgments among Customs officers/Customs offices
- ✓ Various human error and discretion

New Obstacles

- ✓ Non-listed item on the price list (MM) (Need to get the price information on the internet, difficult to judge the fair value)
- ✓ Over capacity work volume for Customs clearance (KH, MM)
- ✓ Difficulty to understand the typical contract cases (Lao)

Capacity Building Needs

- ✓ In-house training scheme for freshman and personnel rotation
- ✓ Sharing best practices among relevant countries
- ✓ Provision of latest and typical contract cases from private sector
- ✓ Continuous support for post-clearance inspection capacity improvements

Relevant Comments

- ➢ Mae Sot-Myawaddy border is too early to use, because of troublesome Customs procedure, quality of Customs officer, insufficient quality of logistics related infrastructure <Logistics company in TH>
- ➢ Different interpretation and arrangement by each Customs officer is widely seen in Lao border <Food company in TH>
- ➢ Each Customs officer still has considerable discretion in Cambodia, which causes various judgment troubles in respective Customs clearance procedure <Retail company in KH>
- ➢ There are various troubles on the judgment of invoice value. Branded products are tended to be judged as more expensive than actual price <Retail company in MM> Has troubles in importing the production materials <Textile company in MM>

JETRO

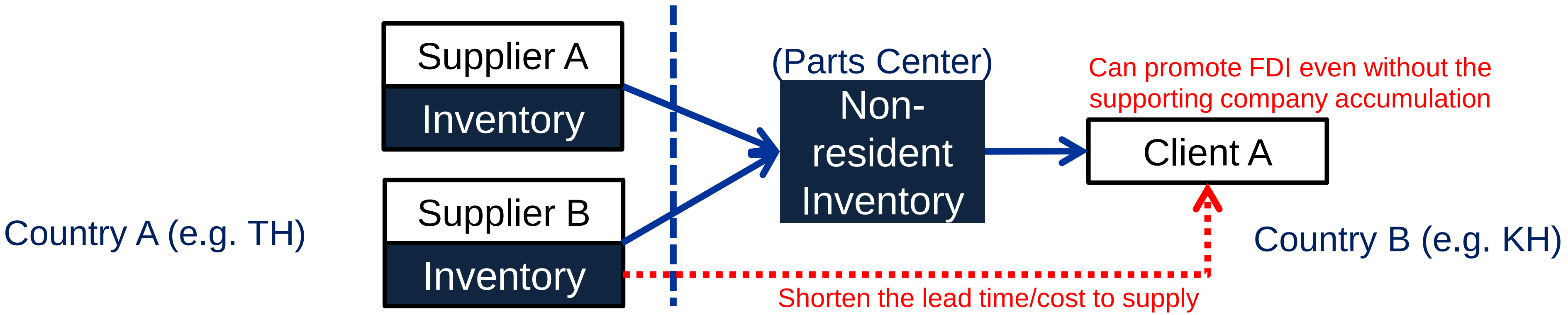
3-1-2. Issues on Soft Infrastructure (Bond System)

- *Bond system is not smoothly operated in CLM countries. In the situation where local procurement rate is quite limited to these countries, smooth implementation of bond system is the important infrastructure.*
- *Specifically, official introduction of Non-Resident Inventory System shall be considered in each country, which enables 1) effective inventory management in the region (T, V), and 2) swift parts supply from other country to that country through storing these parts at that country as non-residence inventory (CLM).*

Current situation and Expectation to Bond System in CLM

- (Myanmar) Currently bond-related regulation is still ambiguous. If large-scale bonded facilities (e.g. industrial park, factory and warehouse) and its regulations are developed, further number of businesses will invest in Myanmar. <several Logistics companies in MM>
- (Lao PDR) While there is a description on bond system in the Customs Law (Article 60), detailed enforcement regulations are not notified yet
- (Cambodia) In order to attract other industries than sewing, it is necessary to develop bond system <Trading company in KH>

(Ref.) Non-Resident Inventory System



Expectation to the Non-Resident Inventory System

- If there is non-residence inventory system, for instance, parts supplier without manufacturing base in Cambodia can make inventory in Cambodia, and that works to shorten the lead time to supply parts to the client in Cambodia. In case there is parts distribution center in utilizing non-resident inventory system, that is quite useful for promoting further foreign direct investment, and also contribute to decrease logistics cost <Logistics company in KH>

JETRO

3-1-2. Issues on Soft Infrastructure (Customs Procedure)

◆ *No. of documents and necessary days for trading in CLM countries is much more than that of Thailand. While positive comments on the improvement of the Customs procedure in Cambodia are also collected, such effort shall be continued ceaselessly, and actively disseminated with surrounding countries.*

Time & Cost of Trading in each Mekong Country

Country	No. of documents related to export	Time to export (days)	Cost to export (USD per container)	No. of documents related to import	Time to import (days)	Cost to import (USD per container)
Cambodia	8	22	795	9	24	930
Lao PDR	10	23	1,950	10	26	1,910
Myanmar	8	20	620	8	22	610
Thailand	5	14	595	5	13	760
Vietnam	5	21	610	8	21	600

(Note) Survey on June 2014

(Source) The Doing Business Project, the World Bank

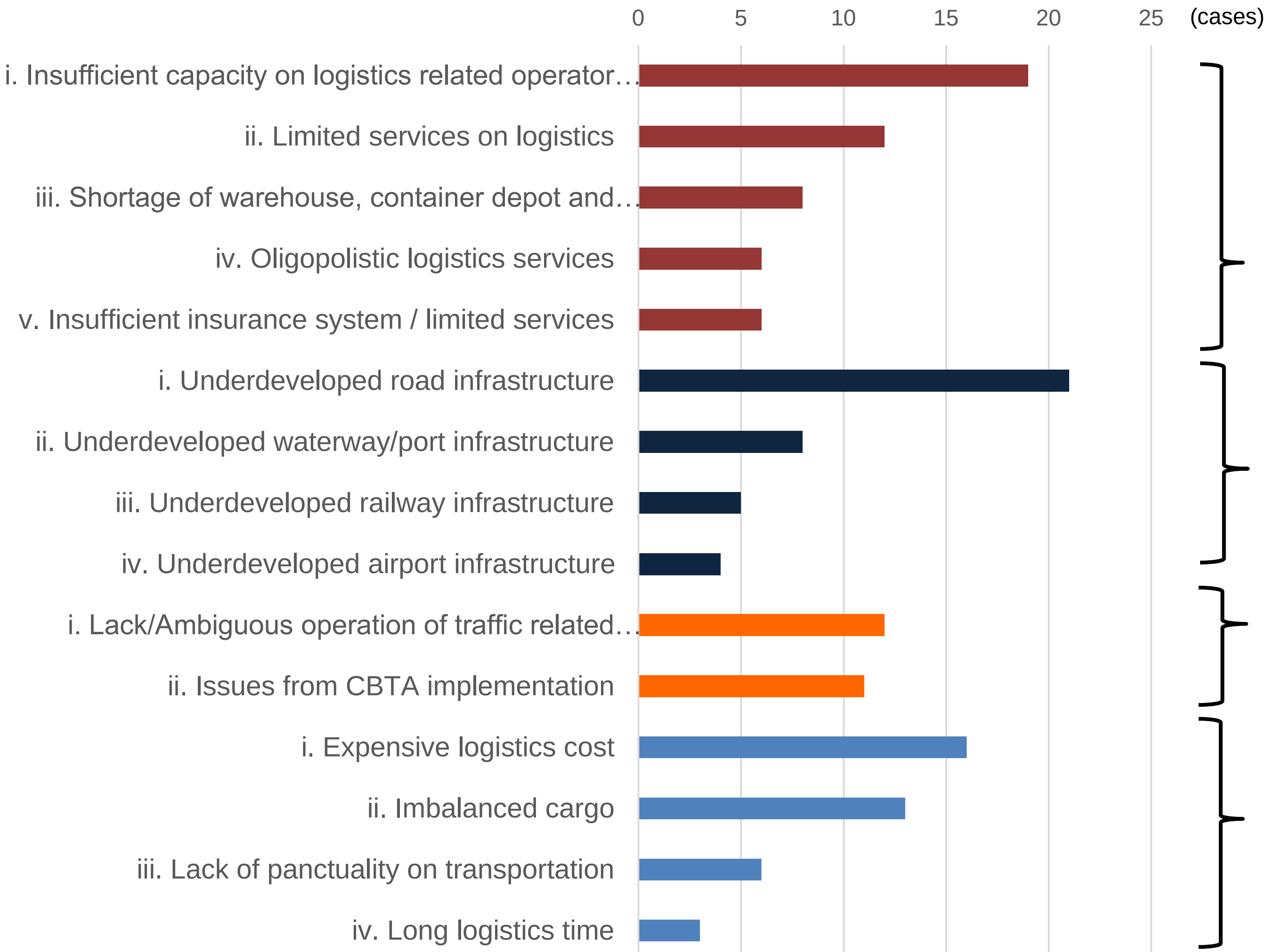
Relevant Comments

- Customs clearance is quite time-consuming. Typically, in case of submitting the import declaration documents around 10:00, with 1 hour input time to PC and lunch time, the cargo can be received only around 15:00 or 16:00. It takes a whole day <Logistics company in Lao>
- Customs procedure has not changed remarkably since 3 or 5 years ago. However since we have strong connection and technique to pass the Customs, have no complaint to the current situation <Logistics company in Lao>
- (Improvement) Because of active sharing of necessary information (e.g. rules and regulations), troubles at the Customs have been decreased. Also, thanks to the establishment of information desk among the relevant ministries, work flow at Customs and Ministry of Commerce has been also streamlined <Logistics company in KH>

JETRO

3-2. Logistics (Summary)

- *While road infrastructure development is still considered as the biggest issue especially in Myanmar and Cambodia, comments for seeking better logistics services come first as a whole.*
- *Expensive logistics cost, lack of logistics punctuality and long logistics time will hinder the region-wide production network formation.*



- ✓ Total # of comments: **151**
- ✓ Total # of comments against the whole issues: **39.1%**

[Identified as the biggest bottleneck in the sub-region]

1. Logistics Services

2. Basic Logistics Hard Infrastructure

3. Logistics Soft Infrastructure

4. Overall/Structural Issues

JETRO

(Ref.) Changes on Logistics Performances

- *Compared with 2010, logistics related ranking in Cambodia and Thailand has improved in every factors*
- *Securing punctuality of cargo transportation, as well as logistics quality and its competence are the common challenges in CLM countries.*

Global Competitiveness of Mekong countries in Logistics

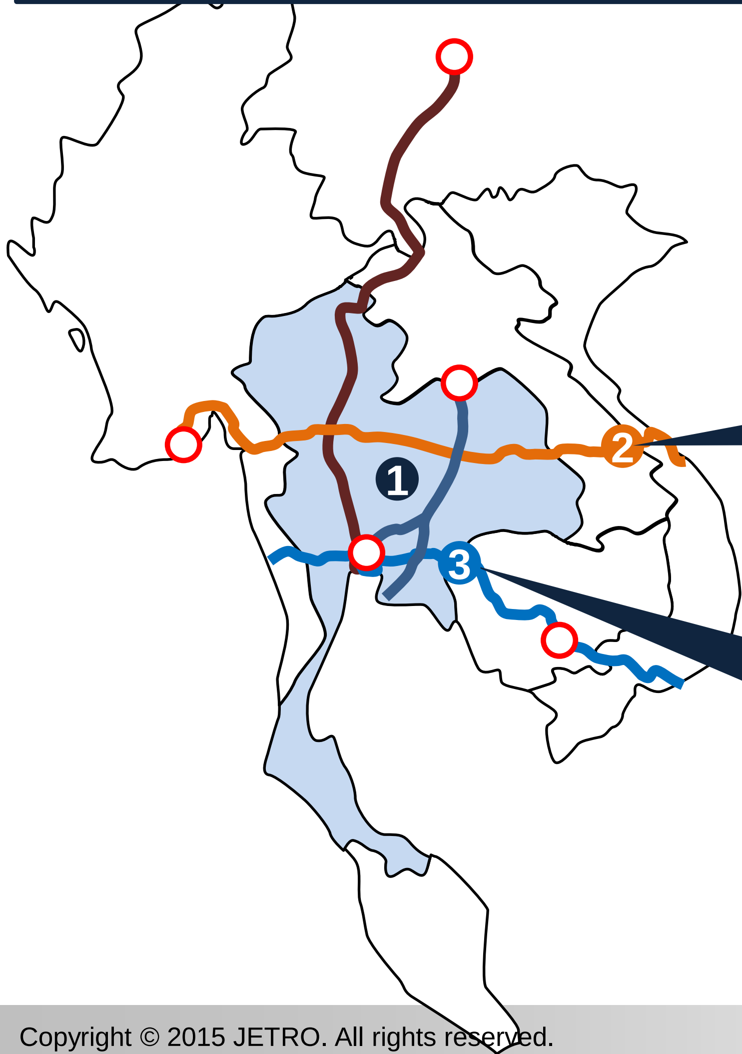
	Overall Ranking		Customs		Infrastructure		Logistics Quality and Competence		Tracking and Tracing		Timeliness	
	2010	2014	2010	2014	2010	2014	2010	2014	2010	2014	2010	2014
Cambodia	129	83	95	71	114	79	118	89	111	71	132	129
Lao PDR	118	131	113	100	132	128	137	129	113	146	89	137
Myanmar	133	145	146	150	134	137	148	156	129	130	82	117
Thailand	35	35	39	36	36	30	39	38	37	33	48	29
Vietnam	53	48	53	61	66	44	51	49	55	48	76	56

(Note) Green: improved since 2010, Orange: worsened, Red figure: least 2 figures
(Note 2) Ranking is among 155 countries in 2010 and 160 countries in 2014
(Source) World Bank, Logistics Performance Index (2010, 2014)

JETRO

(Ref.) Major Improvement (Institutional Connectivity)

- *Ratification of all annexes and protocols on CBTA in Thailand in March 2015 enables Thailand to take various actions for transport facilitation, including introduction of CCA and extension of the EWEC to 3 capitals (Bangkok, Vientiane and Hanoi) and 2 ports (Laem Chabang and Hai Phong).*
- *Increasing the number of cross-border licenses especially between Cambodia and Thailand was long-awaited issue for industries.*



1 Mar 2015

Full-Ratification of CBTA in Thailand

Thailand has ratified Annex 1, 4, 6, 8, and 14 by 30 March 2015. which enables Thailand to conduct SSI in Thailand and neighboring border, clarify transit and inland customs clearance procedures, temporary vehicles importation process, and container handling regulations.

2 Jan 2015

Official Introduction of Single Stop Inspection (SSI)

At Dansavan-Lao Bao border along EWEC, Single Stop Inspection (SSI) was firstly officially introduced under CBTA.

3 Jun 2015

Increasing Number of Cross-Border Licenses

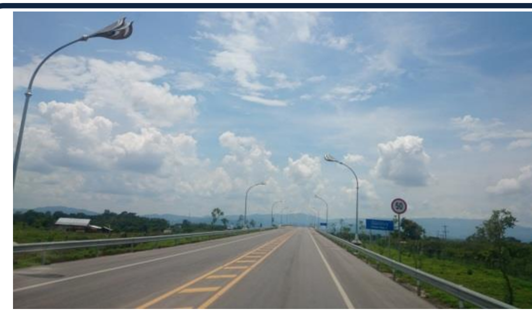
Cambodia and Thailand had agreed to increase the number of cross-border licenses from 40 trucks/buses to 500 in each country through the bilateral discussion on 5 June 2015.

JETRO

(Ref.) Major Improvement (Physical Connectivity)

- *Starting the operation of Tsubasa-Bridge in Cambodia and signing the trilateral MOI on comprehensive development of Dawei SEZ project are highlights for dissolving the missing link.*
- *National Route 9 maintenance and completion of 4th Friendship Bridge will change the regional logistics.*

② Aug 2015 (P)
New Route at Kawkareik
With Thailand's cooperation, new route between Kawkareik-Myawaddy, where steep mountain only allows 1 traffic lane was officially opened in August. It shortens **more than 2 hours** to access to Myawaddy.



③ Dec 2013
4th Friendship Bridge
With China and Thailand's cooperation, 4th Friendship Bridge and new border check points were in operation on 11 Dec 2013.

① Feb 2015
NR 9 in Lao PDR
With Japan's cooperation, National Route 9 in Lao PDR (58.1km out of total 244km) has been maintained and improved. Opening ceremony was held on 14 Mar 2015.

⑤ July 2015
Trilateral MOI on Dawei
Japan, Myanmar and Thailand expressed their intention to cooperate in the comprehensive Development of Dawei SEZ Project, which includes equity investment to SPV and technical collaboration in full-phase development on 4 July 2015.

④ Apr 2015
Operation in Tsubasa-Bridge
Tsubasa-Bridge (former called as Neak Loeung Bridge) was open to traffic on 6 April 2015. This bridge enables pure land logistics along HCMC, Phnom Penh and Bangkok.

JETRO

3-2-1. Issues on Logistics Services (Insufficient Logistics Service)

- *In order to alleviate the unbalanced cargo problem in the Mekong sub-region, where trade volume from Thailand to surrounding countries surpass that volume from CLMV countries to Thailand, modernization and diversification of logistics service, especially in term of provision of cargo consolidation, is the necessary step. Appropriate competition shall be promoted in logistics industry.*
- *Also, newly emerging demand, such as cross-border cold chain development, also require sophisticated logistics services across sub-region.*

Relevant Comments

<Limited Logistics Services>

- As for the cool and chilled logistics, need to conduct trading by ourselves including truck arrangement, which causes unstable cost price and makes profit estimation difficult <Retail company in KH>
- Regarding the cross-border transaction, unbalanced volume of cargo between export and import, as well as the limited number of logistics service provider on cargo consolidation <E&E company in KH>
- There is no logistics company to provide cargo consolidation service in Lao PDR. Full-container fee is charged even if cargo volume is so small <Textile company in Lao>
- (Da Nang sea port) In case of the tight shipping schedule, sometimes call to Da Nang port is cancelled due to low priority order <E&E company in VN>

<Limited Competition>

- Domestic logistics market is shared by 5-6 big logistics companies which provide Customs clearance service, transportation service and dry port service altogether. Any foreign forwarding companies need to use these companies as sub contractor <Trading company in KH>
- Logistics service is quite limited in Lao PDR. Appropriate competition shall be introduced to enjoy various choices of services <Textile company in Lao>
- Logistics industry is occupied by several big companies without competition, that causes high logistics service cost <Textile company in MM>
- No. of professional logistics service provider is still limited, and quality of service is not improving due to less competition <E&E company in VN>

JETRO

3-2-1. Issues on Logistics Services (Shortage of Facilities)

- *Business sectors' strategy to develop logistics related facilities, such as warehouses, is mixing. While positively planning to construct the facilities for dry cargo in MM, development of special function facilities (i.e. cold storage) is still at the initial stage, due to underdevelopment of cold-chain services and/or insufficient infrastructure such as stable electricity.*
- *For the sub-regional distribution hub development, big demand was observed in Lao PDR, where expensive logistics cost has been a critical issue.*

Relevant Comments

<Shortage of Logistics-related Facilities and Services>

- Due to the requirement from shipping companies, containers owned by such companies need to return to them within 3 days. Considering the lead time between Laem Chabang and Vientiane (1.5 days), there is only limited time to keep containers in Vientiane, which makes difficult to utilize containers in both ways <Logistics company in Lao>
- While having the plan to possess rental warehouse, the demand is still limited <Logistics company in Lao>
- Although there are dry ports managed by Customs, utilization of such facilities is only permitted to domestic large logistics companies <Logistics company in Cambodia>
- Will develop the Inland Container Depot (ICD) and truck terminal <Logistics Company in MM>
- Will develop distribution center <Logistics company in MM>

<Demand for Developing Logistics Park in Lao PDR>

- Given the current import-export ratio with Thailand of 10:1, need to collect the cargo demand from Lao to Thailand. If there is such logistics park in Vientiane, it will be quite useful to consolidate the cargo <Logistics company in Lao>
- Development of the logistics park is also helpful to improve the transparency of Customs clearance and effective imposition of relevant tariff and other taxes <Logistics company in Lao>

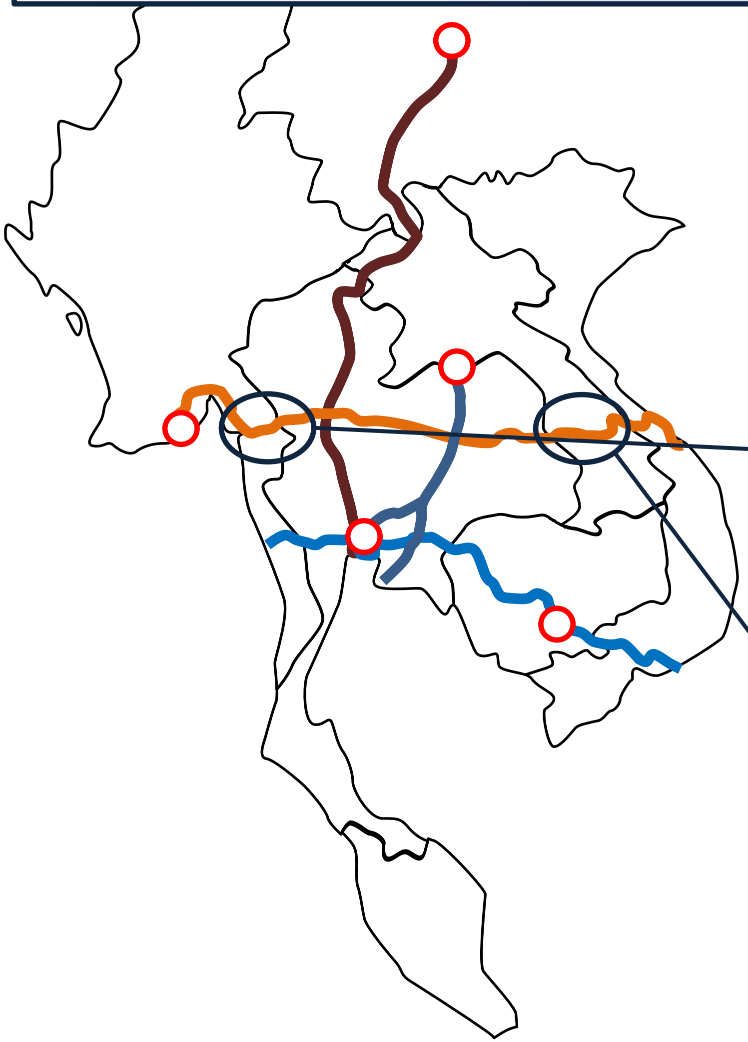
<Facilities and Services for Cold-Chain Development>

- For keeping the quality (prevent from oxidation process), need the cold storage in HCMC <Food company in VN>
- Since there are no cold storages for temporary stock at Savannakhet, need to transport the fruits by coordinating the reefer truck schedule between Thailand and China <Logistics company in Lao>
- Do not consider developing cold-chain storage in Phnom Penh yet, due to limited demand <Logistics company in KH>

JETRO

3-2-2. Issues on Logistics Hard Infrastructure (Road)

- *Insufficient road infrastructure development is still big logistics bottleneck especially in Myanmar.*
- *Vibrancy of the road is one of the major issues for utilizing corridors as industrial use, especially for transporting parts and components requiring accuracy. In addition to proper maintenance of the road condition, appropriate enforcement of relevant laws (e.g. over load regulation) shall be also pursued.*



Relevant Comments

<Overall Comment>

- Road infrastructure is still poor in Mekong sub-region. Need to have production bases in each important area, which causes additional cost for operation <Construction material company in TH>

<Difficulty for utilizing as "Economic Corridor">

(Bangkok to Yangon)

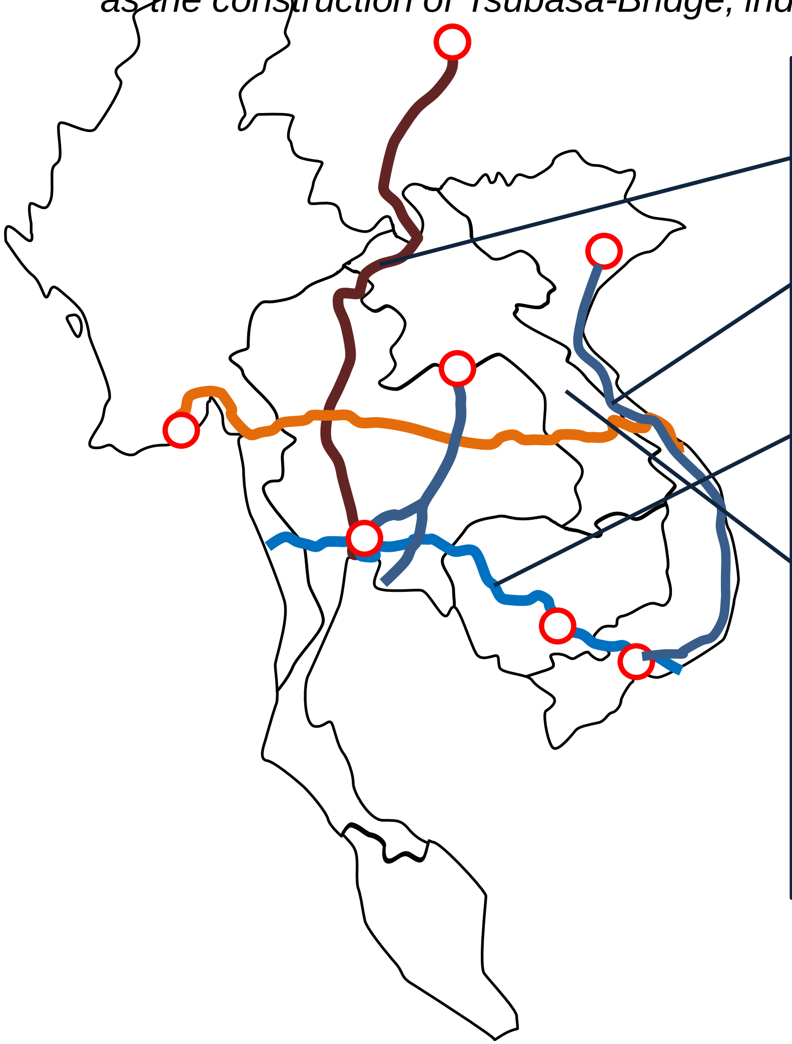
- Although once tried the road transportation from Bangkok to Yangon, gave up that idea due to possible vibrancy damage from the poor road condition <E&E company in Singapore>
- Cannot use the route from Bangkok to Yangon, because of the constraints on utilizing Thai-Myanmar Friendship Bridge, which accommodates only 25 tons <Logistics company in TH>

(East-West Economic Corridor in Lao)

- Not quite attractive to use East-West Economic Corridor (TH-Lao-VN) due to i) expensive logistics (sea freight has been decreasing for keeping competitiveness against road transportation), and ii) poor road condition which causes loosening cargo binding <E&E company in VN>
- Due to frequent transportation of over-loaded cargo, road conditions have been worsening year by year <Logistics company in VN>

3-2-2. Issues on Logistics Hard Infrastructure (Road, Cont.)

- *Especially in Lao PDR and Cambodia, road condition improvement along the Economic Corridors is in need.*
- *With the current work to maintain/upgrade the Southern Economic Corridor in Cambodia by 2020, as well as the construction of Tsubasa-Bridge, industry use of SEC will be facilitated more.*



<Respective Development Needs>

(North-South Economic Corridor in Lao)
- While seeing huge domestic demand in China, road condition in Lao PDR is really a big bottleneck <Construction material company in TH>

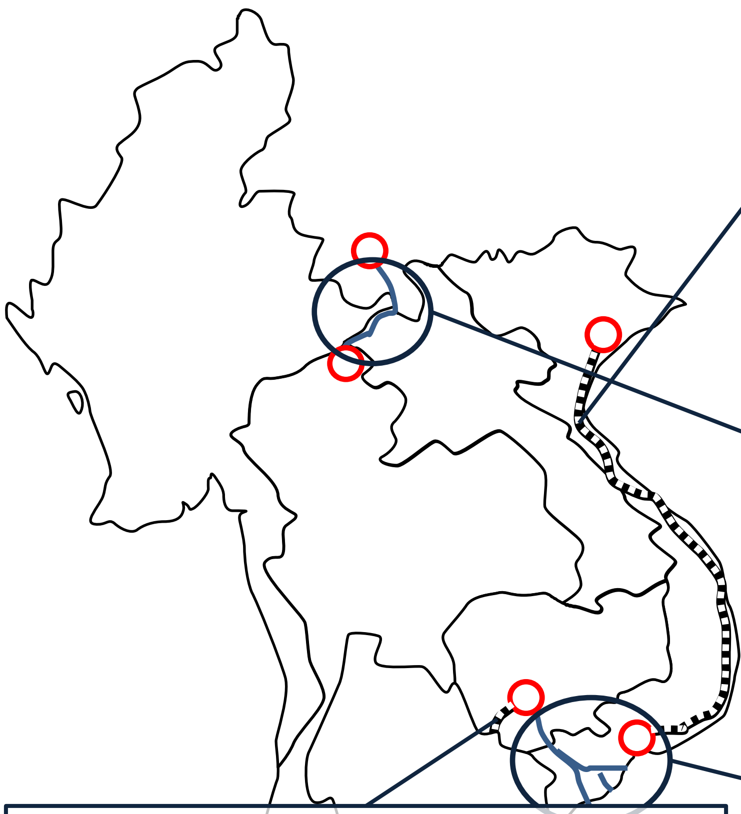
(National Route 1 of VN)
- If highway is fully constructed between Hanoi and HCMC, helpful for domestic logistics, which currently require 3-4 days <Automotive company in VN>

(National Route 5 of KH)
- Due to the dangerous condition for night time transportation (e.g. collapsing road shoulder, animal crash), it takes around 10 hours from Phnom Penh to Poipet border <Government agency in KH>

(Domestic routes of Lao)
- For delivering the goods, poor road condition between big cities in Lao PDR is a big bottleneck <Pharmaceutical company in Lao>
- Inter-city road condition is dangerous in Lao PDR, on passing other vehicles or at the curve <Logistics company in Lao>

(Congestion in Yangon)
- Traffic jam in Yangon has became serious (Logistics company in MM, retail company in MM)

JETRO 3-2-2. Issues on Logistics Hard Infrastructure (Other Logistics Modes)



Relevant Comments

<Railway in Vietnam>

- If the railway cost becomes cheap in Vietnam, will consider to utilize it for delivering the products <Food company in VN>
- Cargo transportation put lower priority than passenger in high travel season like Tet holiday. Also, railway in VN is vulnerable to natural disasters <Automotive company in VN>

<Water Way along North-South Economic Corridor>

- Initially consider the water way utilization for Thai-China logistics, gave up the idea due to shallow river port depth in Thailand, which has a operation risk in dry season <Construction material company in TH>
- While accommodating 450-500 ton vessel at rainy season, only 300 on vessel can pass the waterway at dry season. Logistics is gradually shifting from water way to the road, especially after completion of Thai-Lao Friendship Bridge 4 in 2013 <Local government in CH>

<Water Way along Southern Economic Corridor>

- Especially at the high season in exporting goods from HCMC to US, insufficient number of feeder vessels between HCMC and Phnom Penh, as well as quite tight vessel schedule causes a big issue on logistics. <Logistics company in KH>
- While attractive on relatively constant lead time (E&E company in KH), it takes too long time (38 hours from Phnom Penh to HCMC) for food delivery especially cool products <Government agency in KH>
- Only small vessel less than 4.5 meter draft can use the water way. Also night time transport is not allowed. Continuous dredging and guiding illumination facility is necessary <Government agency in KH>

<Railway to Sihanoukville>

- Only a few logistics companies like Marsk are utilizing the railway. Further development of logistics facilities is necessary for more utilization <Logistics company in KH>
- Has cargo potential of 600 TEU/month <Government agency in KH>

3-2-3. Issues on Soft Infrastructure (Enforcement of Regulations)

◆ *In addition to introduce CBTA and other agreements, appropriate enforcement of such agreed rules is also indispensable factor. Mekong countries need to jointly improve the enforcement capacity of necessary rules and regulations to promote region-wide logistics.*

Overloaded truck conveying wood in Lao

Damaged road along East-West Economic Corridor in Lao

Relevant Comments

<Ambiguous/Unclear transportation manner>

- Even in TH, foreign-registered truck or truck from other provinces sometimes have trouble with local governments, which may have a connection with local logistic company <Logistics company in TH>
- Need to pay unofficial transport fees at 7 times from TH to Yangon <Logistics company in TH>

<Lack of enforcement capacity on over-loaded regulation>

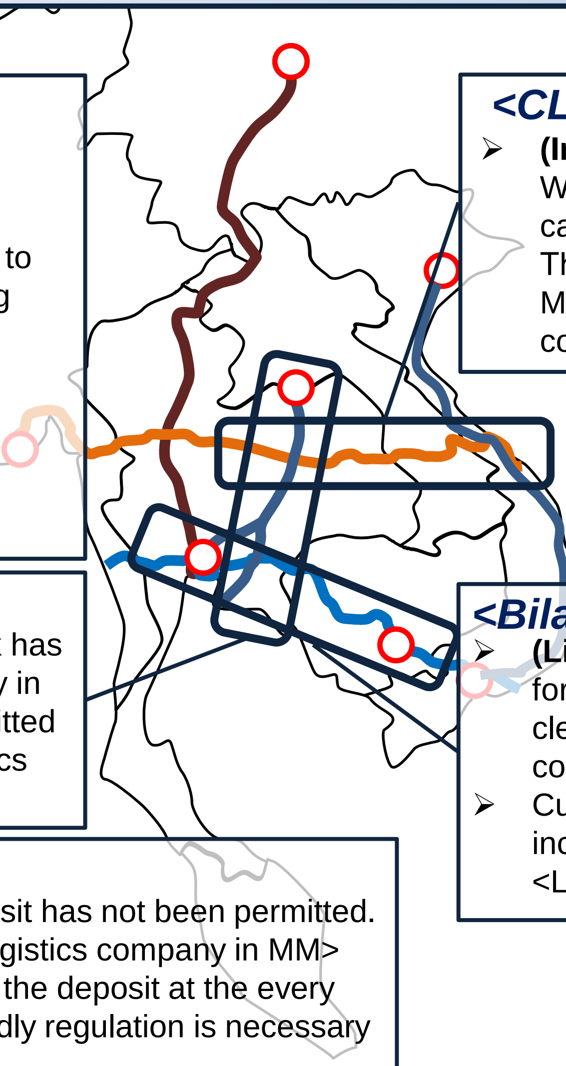
- Rules on overloading are hardly every followed. Companies who follow the rules lose out and vital industrial roads are also damaged <Logistics company in Lao>

JETRO

3-2-3. Issues on Soft Infrastructure (CBTA Implementation)

◆ *Appropriate implementation of CBTA in each ratified country, as well as prompt and effective information dissemination for securing business sector's active participation in the framework are two keys for facilitating cross-border transportation.*

Relevant Comments



<General Comments>

- **(Applicable company)** Foreign 100 owned logistics company in KH cannot get the CBTA license <Government agency in KH>
- Need the guarantor as well as the registration to domestic logistics association in each applying country <Logistics company in TH>
- **(Driver training)** In addition to information exchange on traffic regulation, actual driver training is necessary as a fundamental issue. Need the manual development which ADB is underway <Government agency in TH>

<CLM Trilateral>

- **(Insufficient information dissemination)** While EWEC has not been extended to 3 capitals yet (will be implemented after Thailand's full ratification of CBTA on 30 Mar 2015), several companies got confused on the current condition.

<Bilateral between Lao and TH>

- **(Different treatment)** Although licensed truck has the right to enter into another country mutually in the agreement, Lao truck has not been permitted to enter into TH <Textile company and Logistics company in Lao>

<Bilateral Between KH and TH>

- **(Limited number of licenses)** Application for the license has been denied. Need the clear requirements and criteria <Logistics company in TH>
- Currently asking both government to increase the number of licenses to 500 <Logistics company in TH>

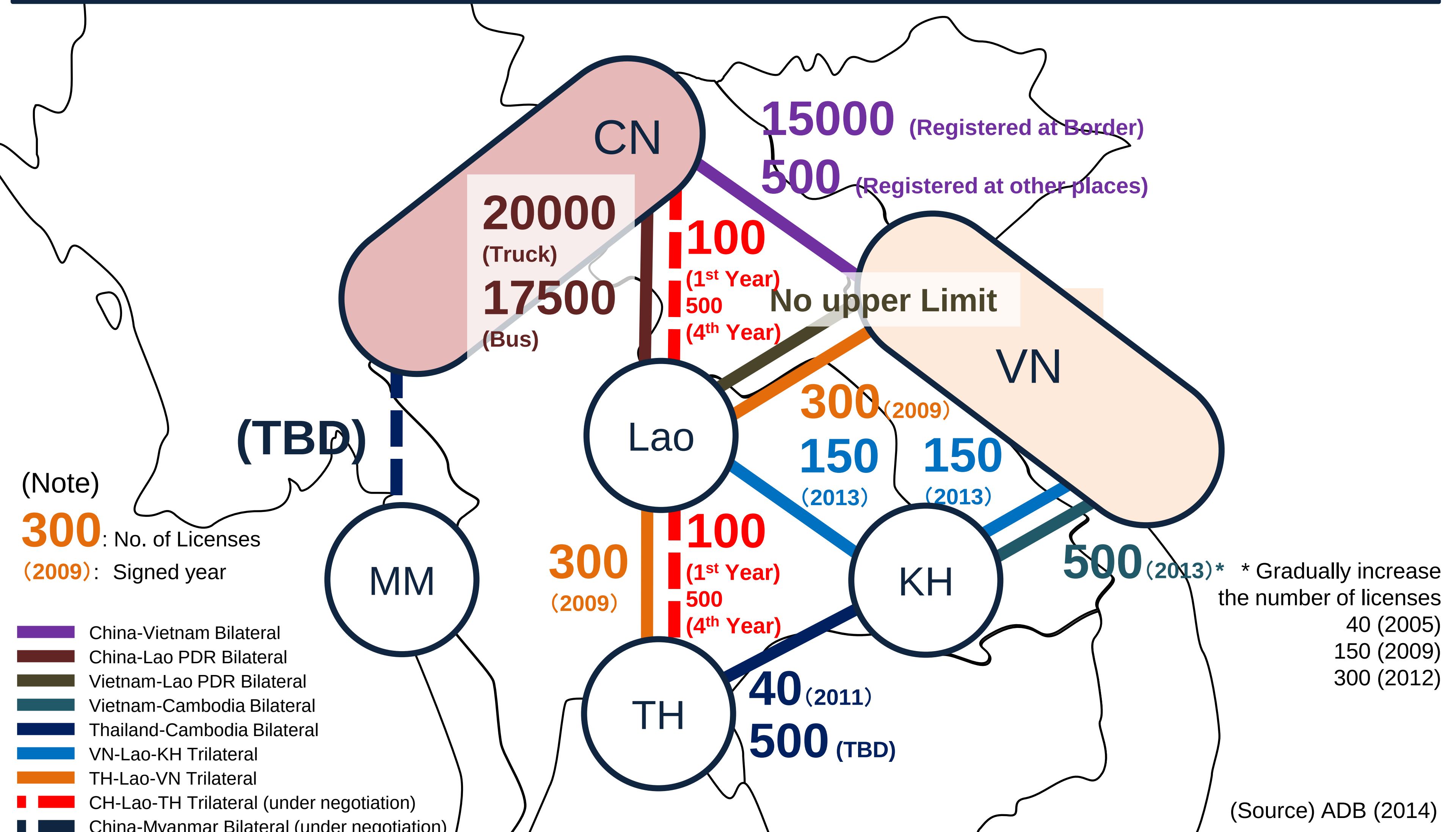
<Other issue>

- **(Transit deposit)** From MM to TH, cargo transit has not been permitted. Need to pay tariff and taxes at the border <Logistics company in MM>
- For utilizing Laem Chabang port, need to pay the deposit at the every borders. More transparent and business-friendly regulation is necessary <Logistics company inTH>

JETRO

(Ref.) Number of Licenses under CBTA

- *Exchanging the traffic right between/among GMS member countries has been actively conducted. Myanmar's early participation in this framework is strongly required.*

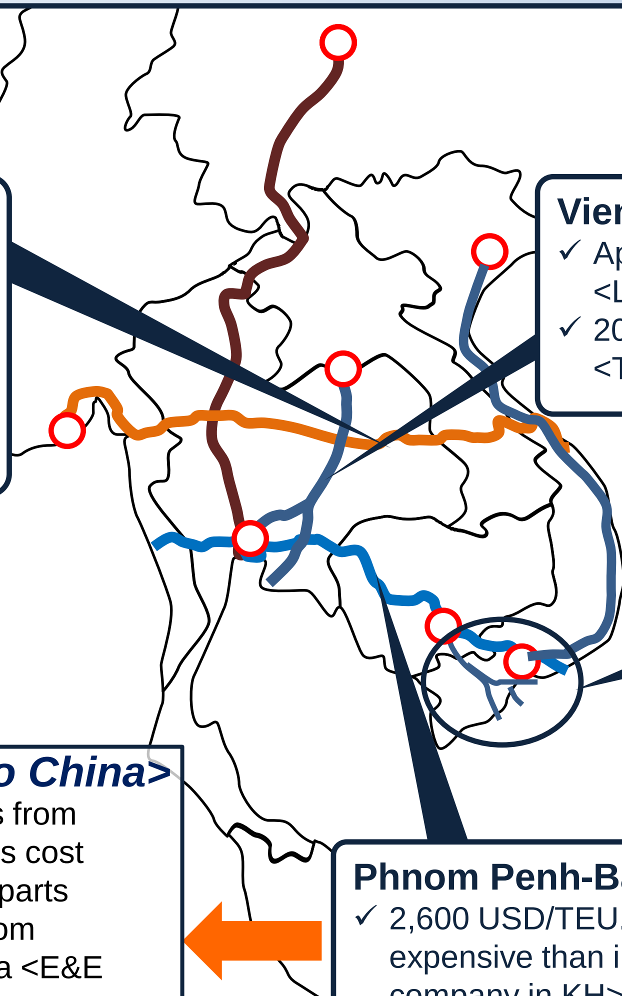


(Source) ADB (2014)

JETRO

3-2-4. Overall Issues (Logistics Cost)

◆ *As a result of multi-layered issues, such as imbalanced cargo volume, limited competition in logistics industry, existence of unofficial payment at the border/along the road, logistics cost along the Economic Corridors has been expensive compared to other transport mode in Mekong sub-region.*



EWEC (Hanoi-Bangkok)

✓ Currently land transport cost between Hanoi and Bangkok is three-to-five times expensive than ocean freight. If the cargo volume between TH and VN will be balanced, the price gap will be shrank to three times <Logistics company in VN>

Vientiane-Bangkok (Laem Chabang)

✓ Approx. 4000 USD/FEU for round price <Logistics company in Lao>

✓ 2000 USD between Vientiane-Tokyo freight <Textile company in Lao>

Phnom Penh-HCMC (Water way)

✓ 1,000USD/TEU. Due to limited competition, logistics cost is considerably high <Logistics company in KH>

Phnom Penh-Bangkok

✓ 2,600 USD/TEU. Logistics cost is far more expensive than initial expectation <E&E company in KH>

Relevant Comments

<Switch procurement from Thai to China>

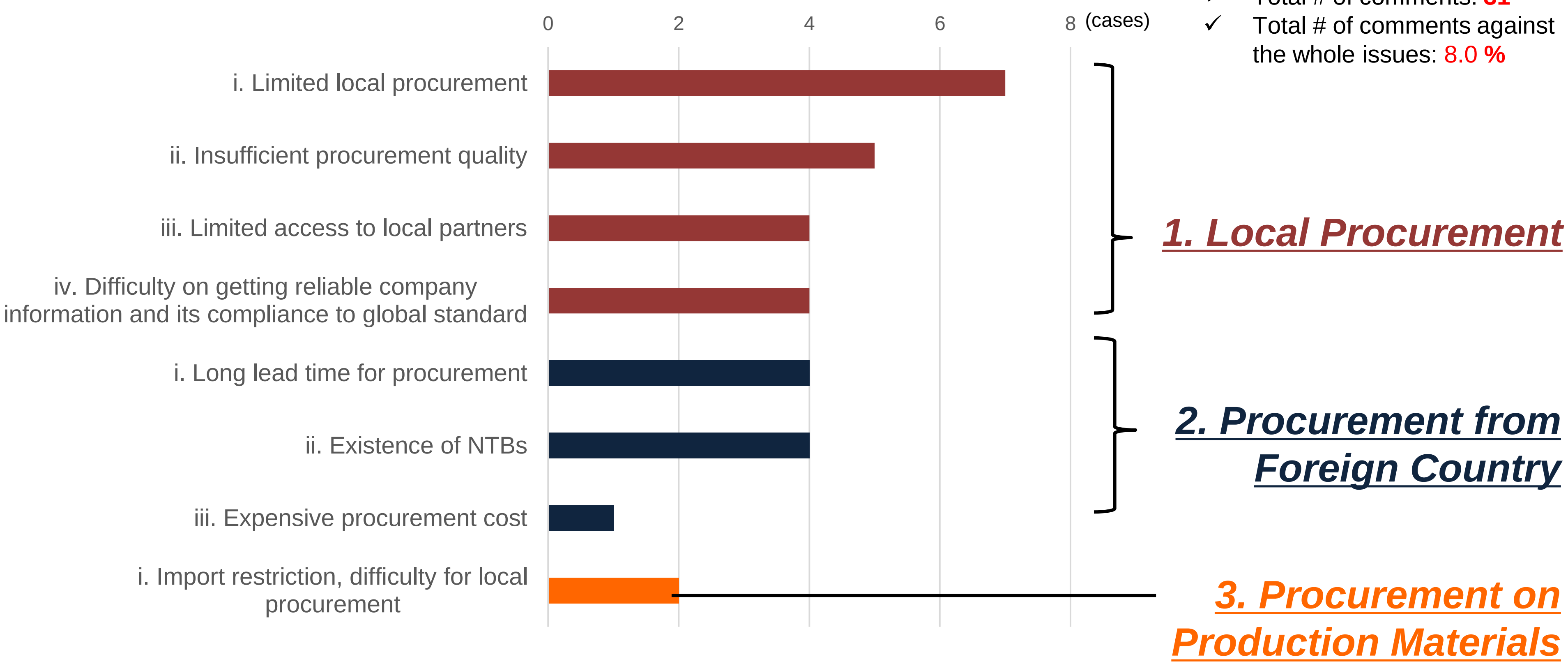
➢ While initially planning to procure materials from Thailand, due to unexpectedly high logistics cost between Phnom Penh to Bangkok, switch parts procurement from China. Also, products from Cambodia factory are directly sent to China <E&E company in TH and KH>

JETRO

3-3. Procurement (Summary)

- ***Difficulties on local procurement*** *are found as the biggest bottleneck on procurement.*
- *While seeking the procurements from local companies,* ***insufficient procurement quality, lack of business-matching opportunity, and less transparency on company information*** *are identified as major bottlenecks.*
- *Regarding the procurements from CLMV countries,* ***long lead time and high logistics cost*** *are recognized as top issues to be alleviated.*

✓ Total # of comments: **31**
✓ Total # of comments against the whole issues: 8.0 **%**



JETRO

3-3. Local Procurement (Procurement Policy in Thailand)

◆ *Most of the responding Japanese companies in Thailand put their importance on both local and Japanese companies for future local procurement.*

Future Local Procurement Policy (Japanese Companies in Thailand)

	n	Local Company	Japanese Company	Chinese Company	Korean Company	Taiwanese Company	EU Company	US Company
Automotive	5	80.0%	80.0%	20.0%	20.0%	0.0%	0.0%	0.0%
Electric Machinery	27	96.3%	88.9%	14.8%	7.4%	14.8%	7.4%	0.0%
Automotive Parts	51	78.4%	80.4%	2.0%	3.9%	3.9%	0.0%	0.0%
E&E Parts	26	69.2%	92.3%	0.0%	0.0%	7.7%	3.8%	0.0%
Metal	26	65.4%	84.6%	3.8%	7.7%	0.0%	3.8%	3.8%
General Machinery	23	95.7%	65.2%	4.3%	4.3%	0.0%	0.0%	0.0%
Plastic	25	84.0%	84.0%	0.0%	4.0%	0.0%	4.0%	4.0%
Rubber	9	66.7%	33.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Iron	10	80.0%	60.0%	0.0%	20.0%	0.0%	0.0%	0.0%
Nonferrous metals	11	72.7%	54.5%	18.2%	27.3%	0.0%	0.0%	0.0%
Chemical	18	83.3%	72.2%	5.6%	0.0%	0.0%	11.1%	11.1%

(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

JETRO

3-3. Local Procurement (Procurement Policy in Vietnam)

◆ *While also putting the importance of procurement from both local and Japanese companies, Japanese companies in Vietnam also pay attention to Taiwanese companies.*

Future Local Procurement Policy (Japanese Companies in Vietnam)

	n	Local Company	Japanese Company	Chinese Company	Korean Company	Taiwanese Company	EU Company	US Company
Automotive	4	50.0%	100.0%	0.0%	0.0%	25.0%	0.0%	0.0%
Electric Machinery	12	100.0%	66.7%	33.3%	25.0%	50.0%	0.0%	0.0%
Automotive Parts	22	72.7%	77.3%	0.0%	4.5%	22.7%	0.0%	0.0%
E&E Parts	16	50.0%	75.0%	37.5%	0.0%	50.0%	0.0%	0.0%
Metal	25	76.0%	76.0%	0.0%	16.0%	20.0%	8.0%	0.0%
General Machinery	14	92.9%	64.3%	0.0%	7.1%	28.6%	0.0%	0.0%
Plastic	15	86.7%	40.0%	13.3%	0.0%	46.7%	0.0%	0.0%
Rubber	6	66.7%	83.3%	0.0%	16.7%	0.0%	0.0%	0.0%
Iron	8	75.0%	87.5%	0.0%	0.0%	25.0%	0.0%	0.0%
Nonferrous metals	7	57.1%	71.4%	14.3%	0.0%	28.6%	0.0%	0.0%
Chemical	4	100.0%	50.0%	0.0%	25.0%	0.0%	25.0%	0.0%

(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

JETRO

3-3-1. Issues on Local Procurement (Limited procurement source)

◆ *While there are strong needs for increasing local procurement from local companies, as results of weak supporting industry accumulation, lack of reliable company information and business matching opportunities, companies in CLM countries still need to import major components from other countries.*

Procurement Countries

	Local	Japan	ASEAN	China	Korea	Taiwan	India	Others
Thailand (n=348)	**54.7%**	29.4%	3.8%	5.3%	1.8%	1.1%	0.4%	3.4%
Vietnam (n=268)	**33.2%**	35.1%	10.8%	12.5%	1.8%	2.4%	0.3%	4.0%
Cambodia (n=17)	**8.9%**	38.5%	17.3%	24.4%	1.8%	1.8%	2.9%	4.4%
Lao PDR (n=6)	**3.8%**	15.0%	49.5%	23.3%	2.5%	0.8%	5.0%	0.0%
Myanmar (n=7)	**1.6%**	48.4%	15.7%	26.3%	0.0%	1.4%	1.4%	5.1%

(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

Relevant Comments

- There are almost no materials to procure <Textile company in KH>
- Need to Import almost all consumer goods from other countries except for beer, tobacco and some processed food, mainly due to the lack of manufacturing industries in Cambodia <Retail company in KH>
- No materials for domestic procurement, while importing textiles from China and Thailand, production materials such as needle and sawing machines from Thailand <Textile company in Lao>
- Importing raw materials such as wire and connector from China and Japan <E&E company in Lao>
- All materials are relying on import from other countries <Textile company in Lao>
- Would like to procure the materials from local, ASEAN and India if cheap and quality control can be secured. However, considering the competitiveness of Chinese companies, even provided the logistics cost and lead time, still need to rely on China for procurement <E&E company in VN>

JETRO 3-3-1. Issues on Local Procurement (Insufficient procurement quality)

◆ *Insufficient procurement quality, in terms of both product quality and lead time management, is the major bottleneck for increasing local procurement rate.*

Relevant Comments

<Insufficient Parts / Material Quality>

- Quality of locally procured parts (e.g. wooden door and wooden floor) are still low. While promoting local procurement as much as possible, quality control is one of major bottlenecks <Constructing company in MM>
- There is a big gap on printing quality for labeling between in VN and in Japan <Beverage company in VN>
- Quality of local parts and components is not quite stable. Even if its sample quality is good enough, in manufacturing process, such quality level will not last long <Automotive parts company in Singapore>
- While considered local procurement in the past, gave up the idea since quality did not reach to the required level by business partner <grove company in VN>
- In cultivating the new procurement source, it is necessary to pass the qualification test conducted by business partner <E&E company in Japan>

<Limited Information/Connection on Local Partners>

- Actively signing business alliances with various Japanese companies. Japanese companies don't have the network with government or local companies in general <Business conglomerate in Lao>
- Selection of good local partner is the crucial key for punctual lead time management <Constructing company in MM>
- In order to manufacture value-added office printer, need to find out the local supplier on steel metal processing <E&E company in VN>
- Improvement of local procurement rate from local company is the common challenge in ASEAN countries <Automotive parts company in Singapore>

JETRO

3-3-1. Issues on Local Procurement (Lack of reliability)

- *Lack of potential business partner's information, with reliable financial data and information disclosure policy, is the crucial impediment to explore the business partnership.*
- *Testing laboratories for major standards may be the key infrastructure to develop.*

Relevant Comments

<Difficulty on Getting Reliable Company Information>

- On providing the credit, no existence / less workable credit rating agency is a big issue. Especially in case of local SME, since there are often the cases to have two-three sets of accounting books for submitting the tax authority, need to evaluate the company by not relying to such financial figures <Banking company in Singapore>
- Due to its difficulty on setting the collateral to the real estate in Mekong countries, need to judge the credit from business activities and daily cash flow <Banking company in Singapore>

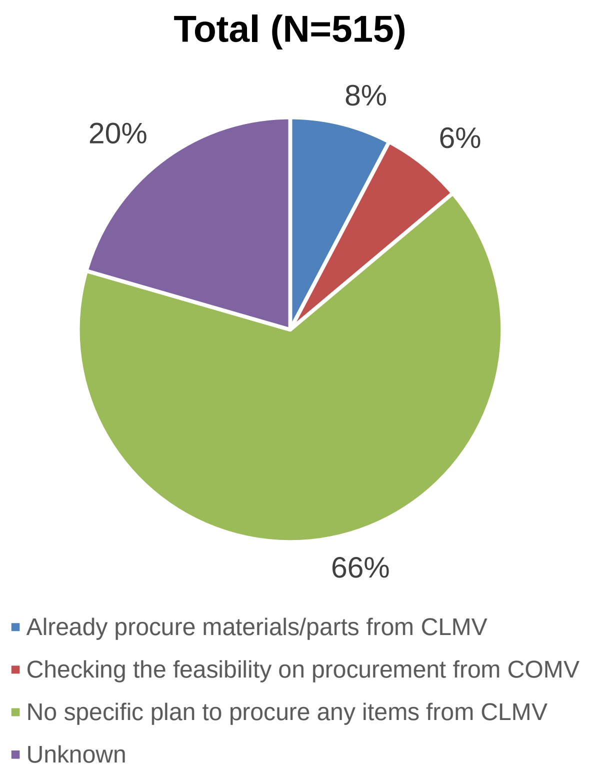
<Lack of Compliance to Global Standard>

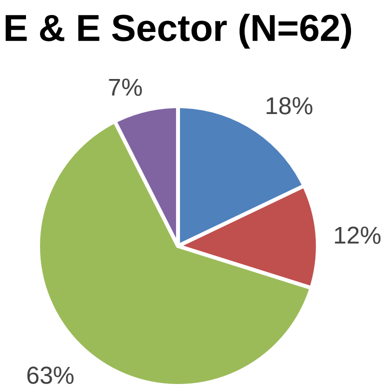
- Due to lack of testing laboratory in Myanmar, need to get sanitary certificate in Thailand. Moreover, because of insufficient education level of the worker, difficult to acquire global standards such as HACCP and GMP <Processed food company in MM>
- Business compliance is the biggest issue on selecting local partner. While business partnership with local company is indispensable to expand the business, there are even companies which conduct smuggling in the daily basis <Trading company in Singapore>
- It is quite difficult to trace the usage of chemical substances by local procurement sources in CLM. Some companies decided to import testing machineries by their own account to secure the traceability <E&E company in TH>

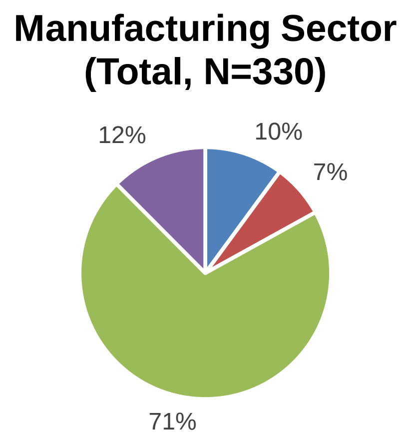
3-3-2. Procurement from Foreign Countries (Procurement Policy)

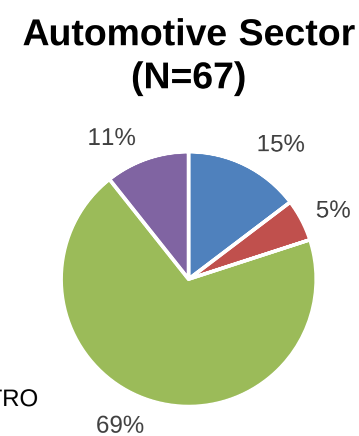
- *14% (90 cases) of responded Japanese companies in Thailand has been procuring / considering future procurement from CLMV countries.*
- *Specifically, Electric and Electronics (E&E) sector and Automotive sector has actively procured parts and components from CLMV, with further future procurement in E&E sector.*

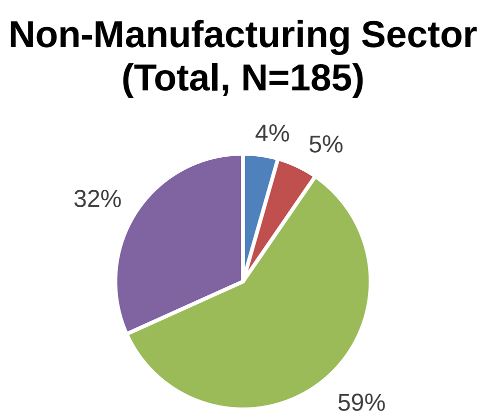
Procurement Policy from CLMV (Japanese Companies in Thailand)











(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

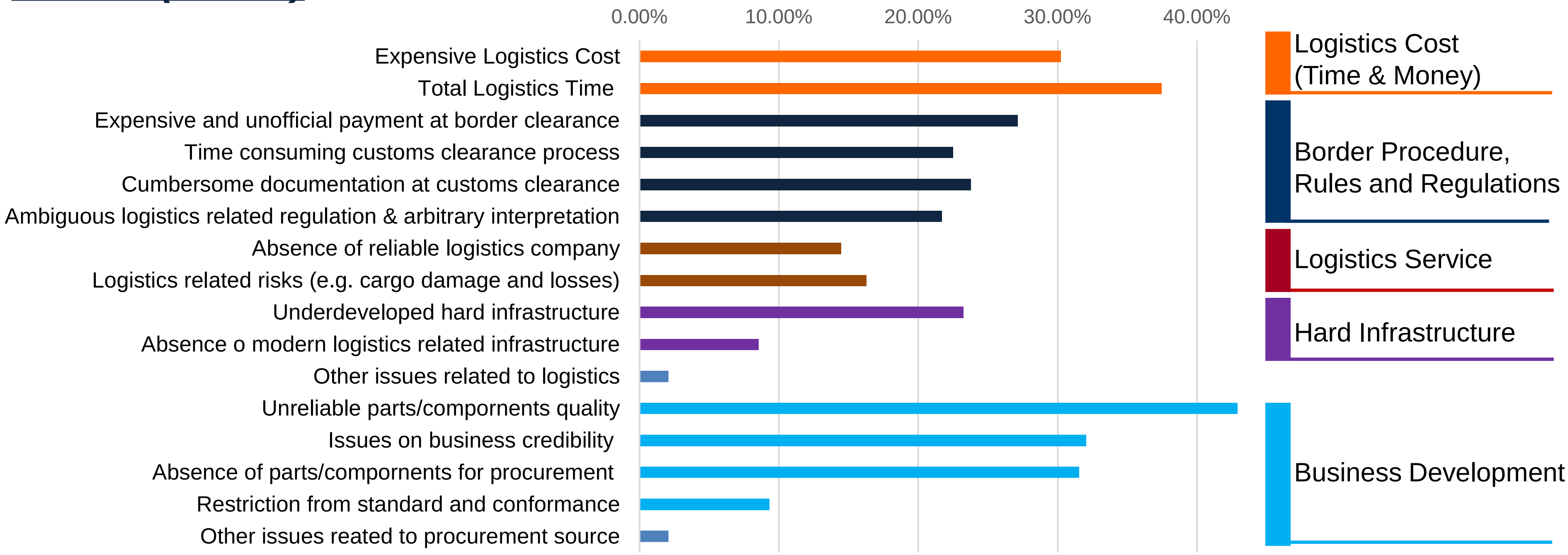
JETRO

3-3-2. Bottlenecks on Procurement from CLMV

- *Business development (e.g. parts/components quality and credibility as business partners) can be found as biggest bottlenecks for possible procurement from CLMV countries.*
- *Logistics costs in terms of time & money are also regarded as critical factors.*
- *While hard infrastructure is still big issue especially regarding Myanmar, soft infrastructure (e.g. border clearance procedure and ambiguous logistics related regulation and its interpretation) is recognized as bigger issue to solve.*

Bottlenecks on Possible Procurement from Mekong Sub-Region (Japanese Companies in Thailand)

1. Total (N=387)



(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

JETRO

3-3-2. Bottlenecks on Procurement from CLMV (Cont.)

- *In detail, each sector has its own tendency to select specific issues as follows;*
  - ***Logistics Cost:*** *Transportation, E&E, Food*
  - ***Total Logistics Time****: All manufacturing sectors*
  - ***Parts/Components Quality****: E&E, Automotive*
  - ***Business Credibility****: General Machinery*
  - ***Regulation:*** *Transportation*
  - ***Infrastructure****: Transportation*

2. Respective Sectors

	Manufacturing (Total)	Food	Chemical, Medicine	Iron, Non-Ferrous & Metals	General Machinery	Electric Machinery	Automotive	Non-Manufacturing	Wholesale & Retail	Transportation
Number	248	14	34	45	17	54	52	139	86	12
Expensive Logistics Cost	31.0%	42.9%	32.4%	15.6%	11.8%	44.4%	36.5%	28.8%	30.2%	58.3%
Total Logistics Time	44.8%	78.6%	52.9%	42.2%	47.1%	42.6%	44.2%	24.5%	29.1%	16.7%
Expensive and unofficial payment at border clearance	25.0%	21.4%	44.1%	8.9%	29.4%	25.9%	25.0%	30.9%	33.7%	41.7%
Time consuming customs clearance process	27.0%	35.7%	23.5%	20.0%	35.3%	24.1%	30.8%	14.4%	11.6%	16.7%
Cumbersome documentation at customs clearance	22.6%	35.7%	26.5%	17.8%	11.8%	24.1%	19.2%	25.9%	26.7%	25.0%
Ambiguous logistics related regulation & arbitrary interpretation	18.1%	7.1%	26.5%	11.1%	35.3%	14.8%	13.5%	28.1%	29.1%	50.0%
Absence of reliable logistics company	16.1%	21.4%	23.5%	8.9%	17.6%	14.8%	19.2%	11.5%	12.8%	16.7%
Logistics related risks (e.g. cargo damage and losses)	14.9%		5.9%	24.4%	11.8%	20.4%	11.5%	18.7%	22.1%	25.0%
Underdeveloped hard infrastructure	25.4%	28.6%	20.6%	22.2%	17.6%	35.2%	26.9%	19.4%	17.4%	66.7%
Absence of modern logistics related infrastructure	8.5%	35.7%	8.8%	6.7%	-	7.4%	9.6%	8.6%	8.1%	33.3%
Other issues related to logistics	1.6%		-		5.9%	1.9%	3.8%	2.9%	1.2%	-
Unreliable parts/components quality	48.8%	42.9%	38.2%	35.6%	47.1%	59.3%	50.0%	32.4%	38.4%	-
Issues on business credibility	33.1%	21.4%	32.4%	24.4%	52.9%	33.3%	23.1%	30.2%	30.2%	-
Absence of parts/components for procurement	35.5%	14.3%	47.1%	48.9%	23.5%	27.8%	34.6%	24.5%	24.4%	8.3%
Restriction from standard and conformance	8.1%	14.3%	5.9%	11.1%	17.6%	5.6%	7.7%	11.5%	11.6%	-
Other issues related to procurement source	1.2%	-	-	-	5.9%	-	3.8%	3.6%	1.2%	-

(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

JETRO

3-3-2. Issues on Procurement from Foreign Countries

- *Given the low local procurement rate especially in CLM countries, lead time becomes longer for imported materials. Securing the punctuality of delivery time would be the key.*
- *Various Non-Tariff Barriers (NTBs) have been pointed out against the tariff elimination towards 2018 in CLMV countries.*

<Long Lead Time for Procurement>

- While need to procure the goods from Japan and other countries, due to insufficient basic logistics infrastructure and not-enough number of the feeder vessel from HCMC, it takes 5 weeks to 7 weeks from order placement to actual delivery <Retail company in KH>
- Due to the limited number of inventory by partner company in Myanmar, have no choice but to import such materials, which causes quite long lead time <Construction company in MM>
- Since there is no partner factory in Vietnam, production lead time tends to be longer than other area <Chemical and Skin care company in VN>

<Existence of Non-Tariff Barriers>

- Although considering to use the land border for cold and chilled products importation, there is no permission from Food and Drug Administration (FDA) <Retail company in MM>
- It takes 5 weeks to get FDA certificate to import food and skin care products <Retail company in MM>
- There are many Anti-dumping (AD) cases even between Mekong countries. Each country need to consider regional profit to develop the industry. Also, mandatory standard to iron & steel product is not suitable action, since such standard shall be fulfilled by the consumer safety law or safety standards to the final consumer product <Iron & Steel company in Japan>

JETRO

3-3-3. Issues on Procurement of Production Materials

- ◆ *Used machinery import restriction is recognized as a big obstacle for smoothly shifting the production line in TH and VN. While both countries are trying to alleviate the negative impact of such restriction, transparent and user-friendly operation of the regulation shall be considered.*
- ◆ *Smooth importation of production materials to CLM countries is also important factor for shortening the lead time.*

Regulation and Current efforts of each authority

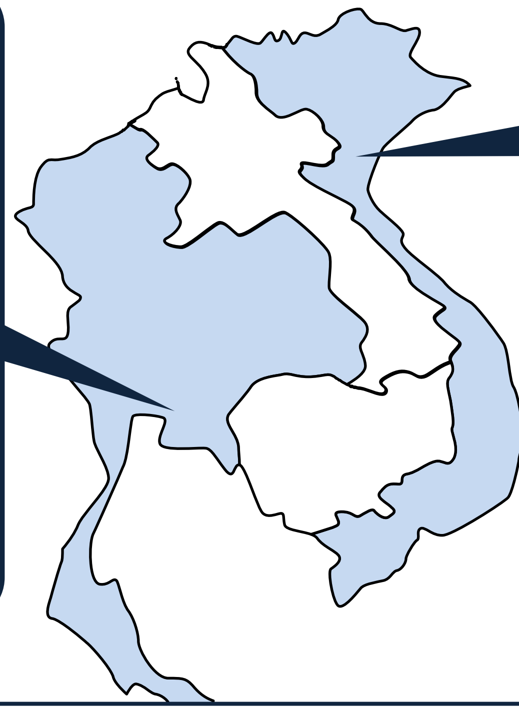
Thailand

(Original Regulation)

- ✓ At the new BOI scheme from Jan 2015, used machineries more than 5 years (except for press machine) are regulated not to be used for licensed projects under BOI.

(Current Situation)

- ✓ For the new/expansion investment case, used machineries more than 5 years but less than 10 years are newly permitted to import.
- ✓ For the case of shifting production line from other countries, permit the import of used machineries more than 10 years as well



Vietnam

(Original Regulation)

- ✓ By notification No.20/2014/TT-BKHCN, Major used machineries import was regulated to satisfy 1) not more than 5 years usage and 2) more than 80% quality level compared to new equivalent machineries.

(Current Situation)

- ✓ Stop the implementation of the notification from Sept 1 2014.
- ✓ Developing the revised notification to ease the import condition

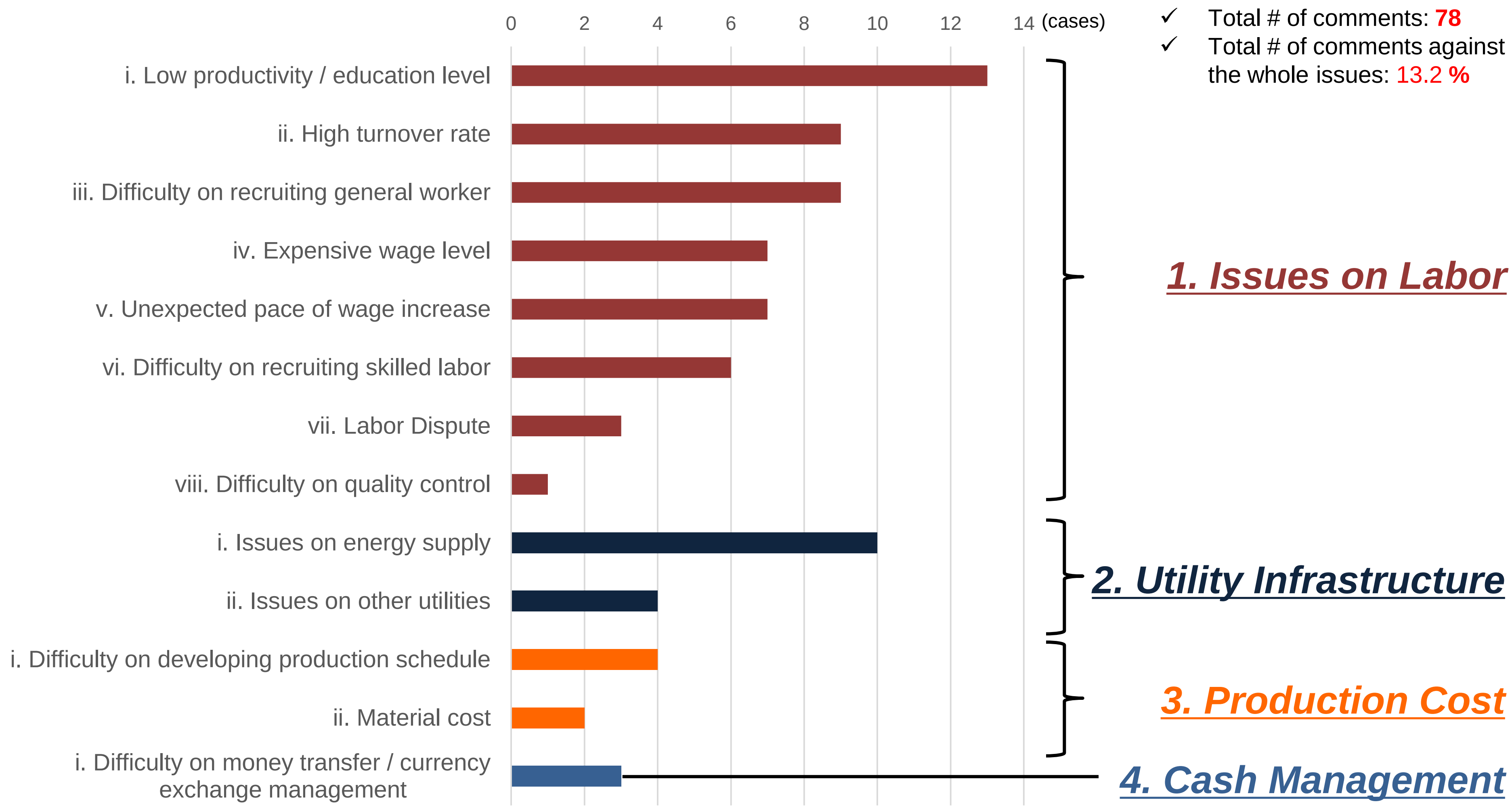
Relevant Comments

- ➢ Have concern on the import restriction on used production machineries <Automotive company in VN>
- ➢ Replacement of spare parts for production machineries (e.g. sawing machine), which is relying on importation from other countries, affects production plan <Textile company in Lao>

JETRO

3-4. Production (Summary)

- *Various issues on labor, including* ***low productivity*** *(C, L),* ***high turnover rate*** *(L),* ***difficulty on recruiting general worker*** *(M), and* ***expensive wage level*** *(C), are pointed out.*
- ***Limited energy supply*** *is recognized another widely-seen issue for production.*



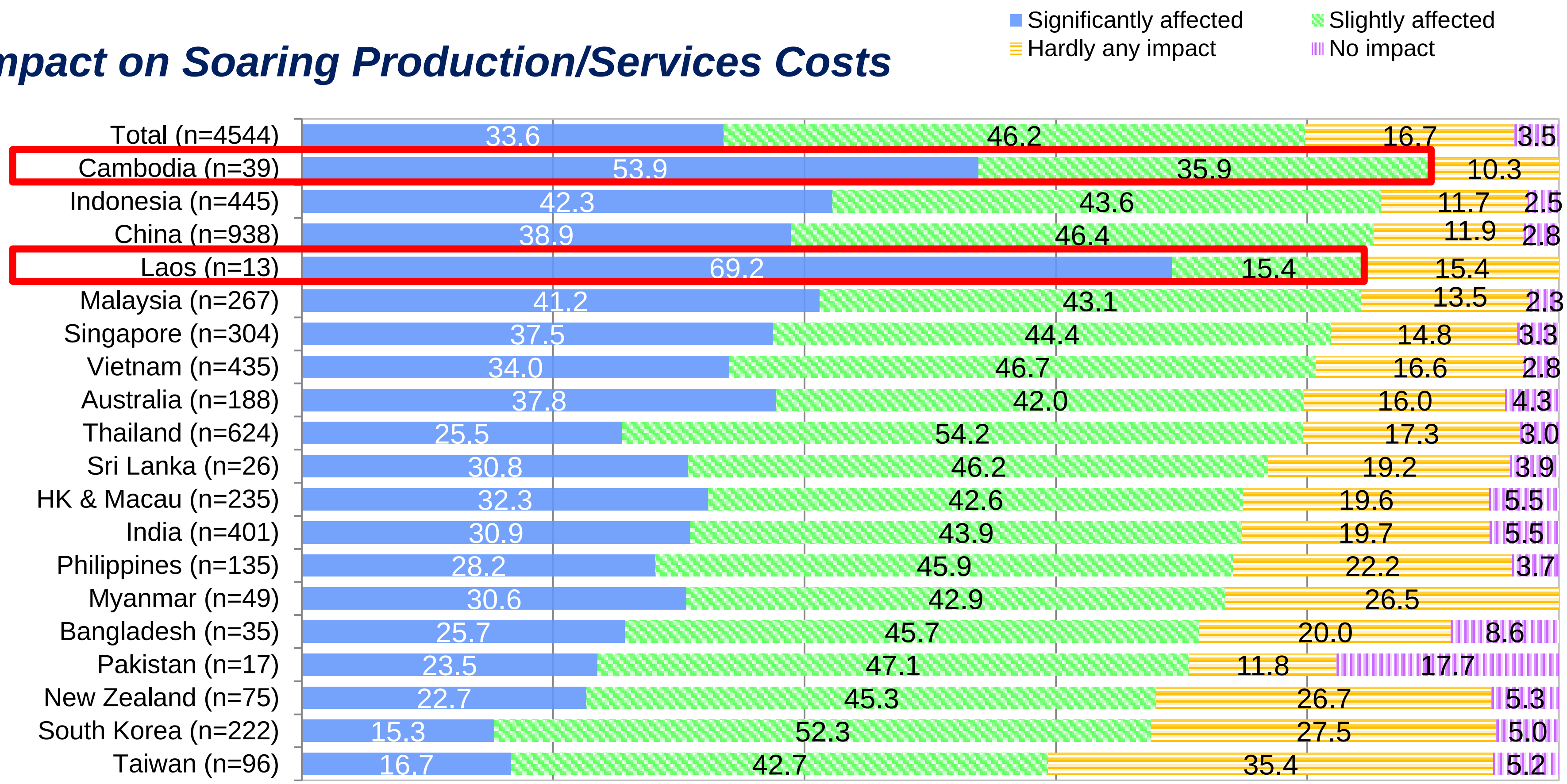
- ✓ Total # of comments: **78**
- ✓ Total # of comments against the whole issues: 13.2 **%**

JETRO

(Ref.) Impact on Soaring Production/Services Costs

- Especially in **Cambodia and Lao PDR, increasing production costs** (e.g. wage, costs on materials, energy and logistics) **has affected negative impact** on the business operation.
- CLM countries need to keep its cost competitiveness for attracting further FDI to develop supporting industries within their countries

Impact on Soaring Production/Services Costs



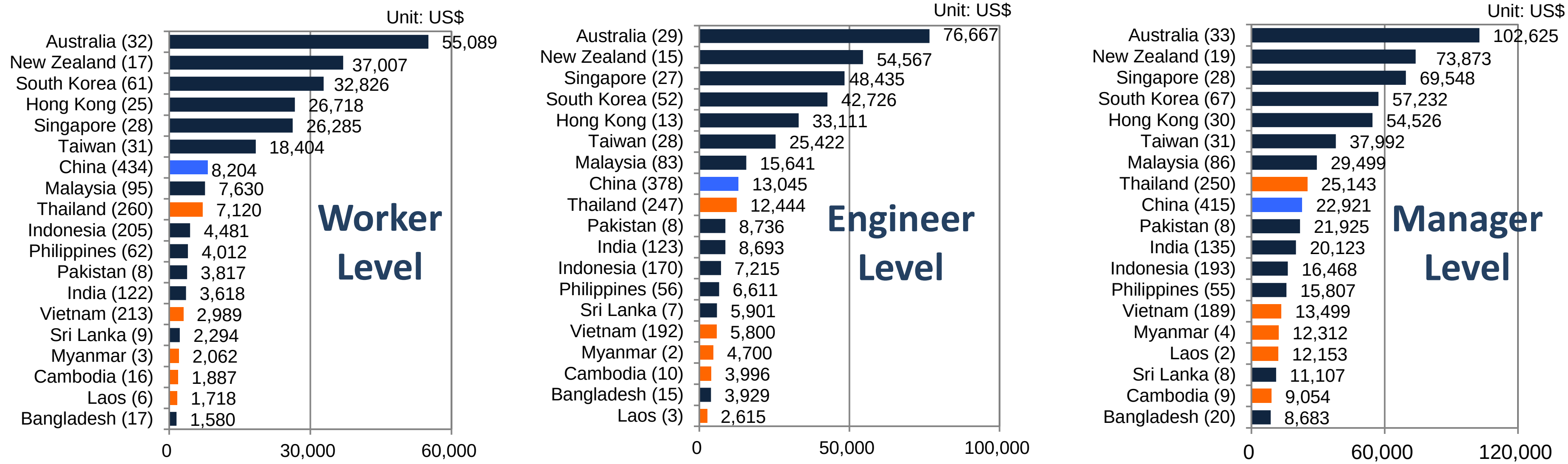
(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

JETRO

(Ref.) Cost Competitiveness -Low Wage Rate-

- ***Reasonable wage level in CLMV countries is one of the major business attractiveness.***
- ***With steeper wage increase in China, Mekong countries' cost competitiveness has been improved since 2010 in general.***

Annual salary among Japanese companies in each country



Wage gap with China (Annual salary base, China=100)

		India	Thailand	Vietnam	Cambodia	Lao PDR	Myanmar
Worker	2014	44	87	36	23	21	25
	2010	74	92	33	27	-	11
Engineer	2014	67	95	44	31	20	36
	2010	115	120	59	59	-	17
Manager	2014	88	110	59	40	53	54
	2010	149	161	69	37	-	37

Annual salary: Total labor cost per employee per year, including base salary, benefits, social security cost, overtime allowance, and bonuses, and excluding retirement benefits incurred in FY2014

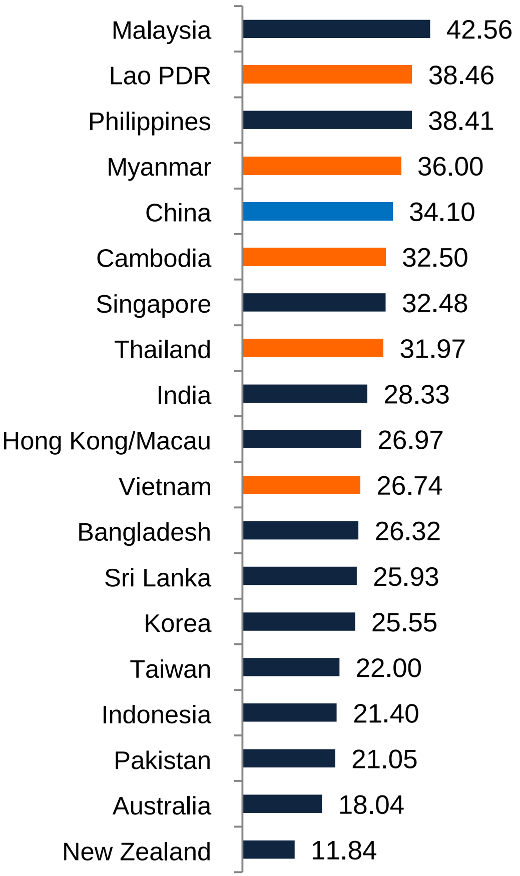
(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

JETRO

3-4-1. Issues on Labor (High turnover rate)

- ◆ *High turnover rate is recognized as a big issue especially in KH and Lao, which is the major impediment to improve the productivity.*
- ◆ *Better situation is observed in VN, backed by abundant workforce.*

Struggling company ratio on high turnover rate



Relevant Comments

<Current Status>

- ➢ Monthly turnover rate: 8%
  However with abundant workforce in the area, it is not becoming big issue
  <Footwear company in VN>
- ➢ Monthly turnover rate: 10%
  Leave the factory altogether after the salary payment
  <Textile company in Lao>
- ➢ Monthly turnover rate: 10% <E&E company in KH>

<Companies' Efforts>

- ➢ After opening the education facility in the factory, turnover rate has been improved remarkably. Current monthly turnover rate is around 2% <E&E company in KH>
- ➢ In order to improve the turnover rate, refreshed the canteen facility. Current annual turnover rate was 6% <Chemical and face care company in VN>

<Others>

- ➢ Typically quitted altogether at the farming season in the past; however, because of the penetration of monetize economy in the rural area, currently many farmers do not request their children to come back to help <E&E company in KH>

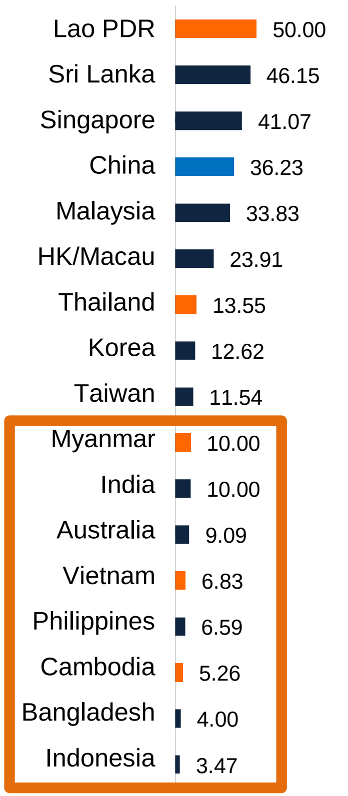
(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

JETRO

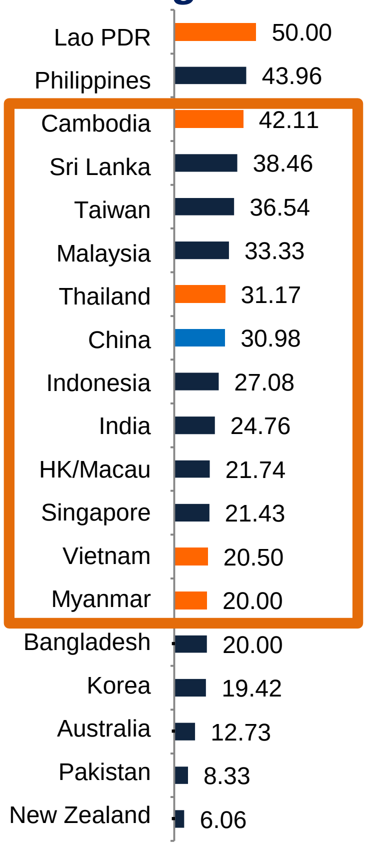
3-4-1. Issues on Labor (Shortage of skilled labor)

- *Different from the general worker employment, companies in CLMV have difficulty to hire skilled labor and manager class personnel in general.*
- *Reliable and comparable qualification system, as well as easing to issue work permit to manager class personnel for helping business start-up shall be considered to enhance FDI.*

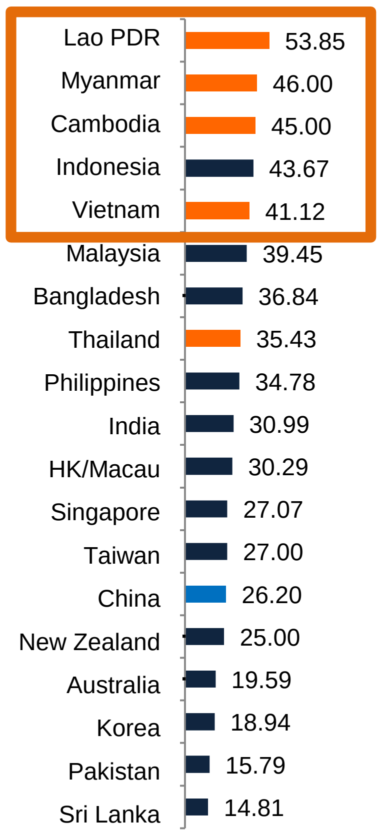
Difficulty in hiring Worker



Difficulty in hiring Engineer



Difficulty in hiring Manager



(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

Relevant Comments

<Shortage of skilled labor>

- Manager class staff and engineers in the age around 40 is not enough <E&E company in VN>
- Difficult to find out accounting staff with factory work experience <Footwear company in VN>
- There is less opportunity to study through actually operating machineries in universities. Students are clever with English ability, but difficult to hire <Environment service company in TH>
- Recruiting mechanic staff is quite difficult in CLMV. Need to conduct in-factory capacity building <Automotive parts company in SPR>

<Ineffective qualification system>

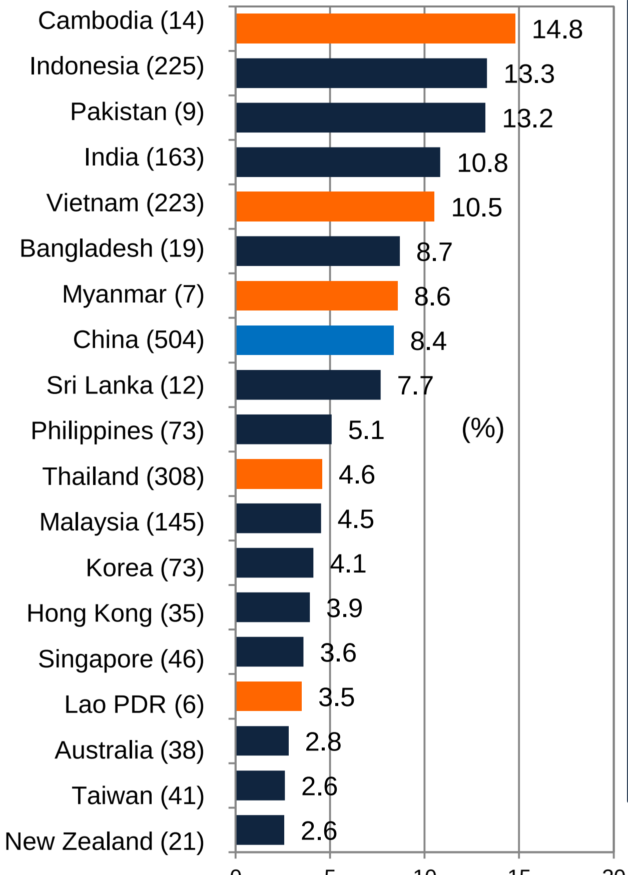
- It is totally meaningless to check the qualification information in the recruitment resume. Does not hire the university student, and recruit the less educated worker to conduct in-company capacity building <Business conglomerate in Lao>
- For securing the industrial human resource quality, need to develop workable qualification system in KH <Trading company in TH>

JETRO

3-4-1. Issues on Labor (Sharp increase of wage rate)

◆ *Sharp increase of wage rate especially in KH and Lao has lessened the business attractiveness. Unexpected pace of wage hike makes it difficult to develop production plan in the mid-to-long term.*

Wage annual base up rate (Manufacturing Sector)



(Source) Survey of Japanese-Affiliated Firms in Asia and Oceania (FY2014 Survey), JETRO

Relevant Comments

<Wage rate increase in unexpected pace>

- Wage hike pace is twice faster than our company's expectation <Textile company in Lao>
- By the minimum wage increase to 128 USD in Jan 2015, wage level becomes higher than some area in VN. With that increase, manufacture investment to KH has been totally stopped <E&E company in KH>
- Minimum wage rage becomes twice in 2 years. Current level is same as that of VN. Considering the difference of productivity between KH and VN, has no reason to continuously stay in KH <Textile company in KH>
- Will operate the factory in another 5 years, but given the wage hike, have no idea whether the company can keep its competitiveness after 10 years <Textile company in MM>
- Wage increase pace is too fast to catch up <Automotive company in VN>
- Decreasing the number of workers with improving the production effectiveness to deal with the recent wage hike <E&E company in VN>
- While forecasting the wage increase upon new investment, wage hike pace has been always beyond expectation. Automation and factory workable with less labor shall be well considered <Automotive parts company in SPR>

JETRO

3-4-1. Issues on Labor (Low productivity)

- ***Combined with wage hike, weaker Japanese yen and expensive logistics cost, low productivity of labor has affects the profit level of invested companies.***
- ***Low productivity of labor and high turnover rate shall be considered as "hidden costs"***

Average Score for the Investment Climate (N=25, Thailand company)

	KH	Lao	MM	TH	VN
Quality of workers	2.9	2.5	2.5	4.3	3.4
Quality of middle managers	2.8	2.5	2.4	3.9	3.4
Quality of engineers	2.7	2.3	2.1	4.2	3.5
Electricity supply	2.7	3.2	1.7	4.5	3.4
Quality of local supplier	2.5	2.3	1.8	4.1	2.9

(Note) 1=very poor, 2=poor, 3=fair, 4=good and 5=excellent
(Source) Rattanakhamfu, F and S. Tangkitvanich (2015) "Strategies and Challenges for Thai Companies Investing in CLMV," in Ishida, M. and Y. Yamada ed. *Thailand Plus One Corporate Strategy and Its Supporting Policies* (forthcoming), Jakarta: ERIA.

Relevant Comments

<Low productivity of labor>

- Compared with China, labor productivity was only 25% in 3 years ago. While under improvement, currently that level is still around 50% <E&E company in Lao>
- Labor productivity has not been improved so impressively. 2-3 times of labor force is required to make equivalent quantity of products in Japan <Footwear company in Lao>
- Weak at mathematics and cannot calculate profit margin <Business conglomerate in Lao>
- Weak at mathematics and need to pay attention to the inventory control <E&E company in KH>
- Labor productivity is at 70% level of that of China <E&E company in KH>
- Factory in KH produces 200 set/day, while that of China makes 340-400 set/day. Considering the wage hike with 128 USD minimum wage, production cost in KH is not much cheap <Textile company in KH>
- Productivity level is 80% of that of China <Textile company in VN>

<Work discipline>

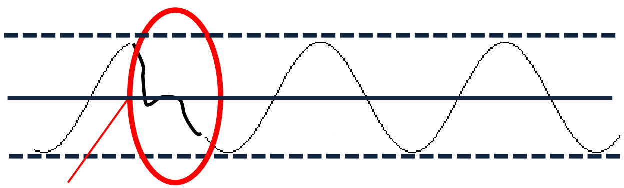
- Around 70% of workers have no experience to work. Need to educate from time keeping, fashion and "be quiet" <Automotive parts company in Lao>
- Leave the production line without asking other supporting staff to replace her task. Need to stop the production line as a result <E&E company in KH>

JETRO

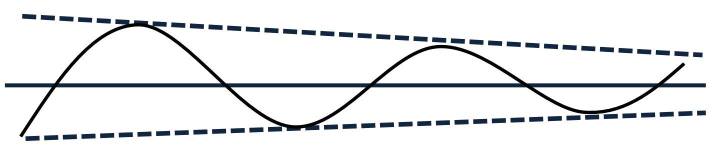
3-4-2. Issues on Production (Utility Management)

- ◆ *Insufficient supply of electricity and frequent black out is still serious issue on production. Stable energy supply is also essential for cold-chain network development.*
- ◆ *In line with steadily developing power station, effective energy grid facilities and its system development is also key to enable stable quality of power supply.*

(Ref.) Various energy issues



Irregular wave shape caused by the mixture of different quality of electricity



Attenuation of electricity due to high power transmission loss from poor power grid infrastructure

Black Out

Relevant Comments

<Insufficient supply of electricity with low quality>

- ➢ Suffering from frequent black out every day. Sometimes that period lasts a few days, and affects to production <Koh Khon> <Manufacturer in KH>
- ➢ In case of the black out at Customs, all Customs clearance procedure shall be proceeded manually <Logistics company in Lao>
- ➢ Electricity supply is the biggest risk to develop cold-chain network <Logistics company in MM>
- ➢ While there are cases of black out, almost all cases are at night or at weekend. It is not the level to consider purchasing emergency power system <Da Nang> <Footwear company in VN>

<Other utilities>

- ➢ Lack of appropriate industrial park in Bac Ninh province <E&E company in VN>
- ➢ Due to poor water quality, sometimes production machineries such as mold tool gathers rust <Koh Khon> <Manufacturer in KH>

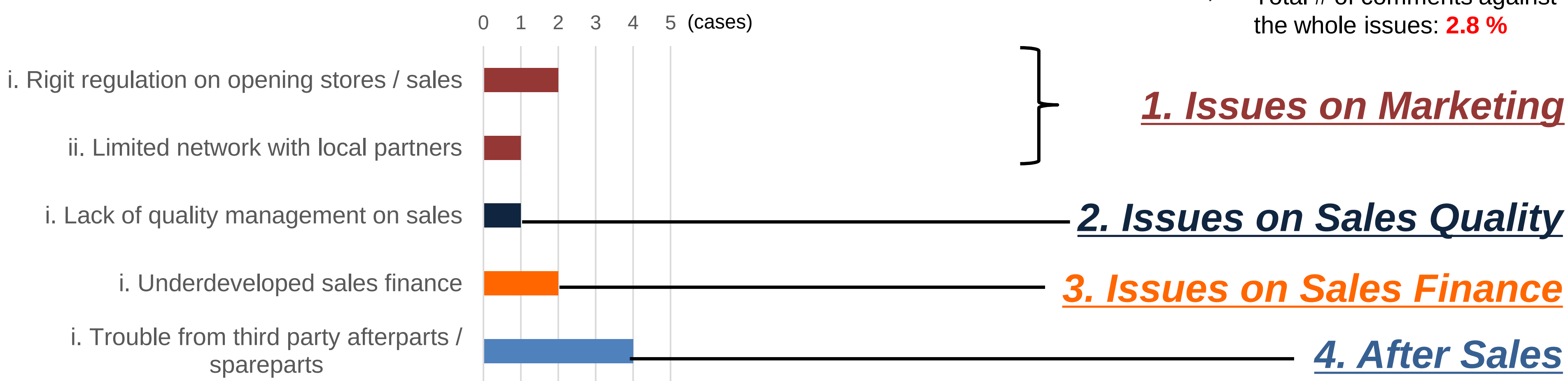
JETRO

3-5. Sales & Other Issues (Summary)

- *While number of cases are relatively small,* ***importance of after sales service provision*** *has been pointed out.*
- ***Ambiguous implementation in various business-related rules and regulations*** *is major bottleneck for business expansion in general.*

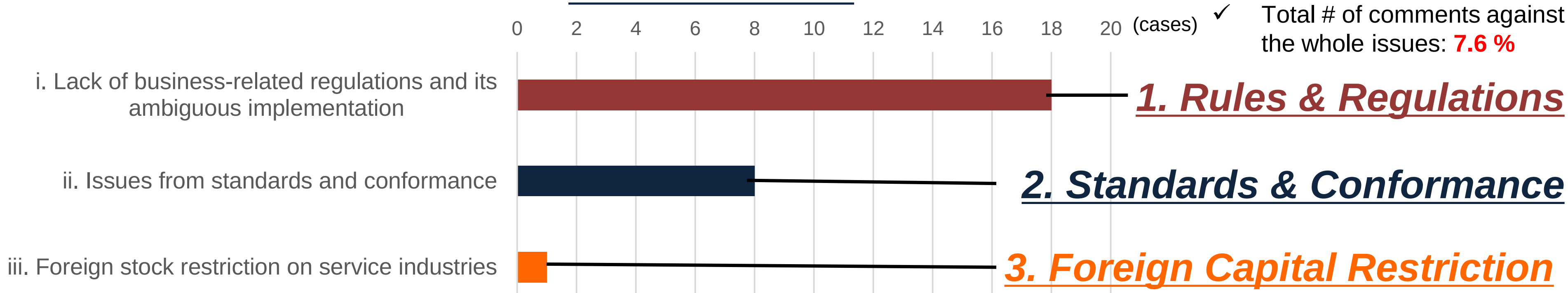
<Issues on Sales>

- ✓ Total # of comments: **10**
- ✓ Total # of comments against the whole issues: **2.8 %**



<Other Issues>

- ✓ Total # of comments: **27**
- ✓ Total # of comments against the whole issues: **7.6 %**



JETRO

3-5-1. Issues on Sales

- *For keeping the brand image of the product, it is necessary to properly upgrade the manufacturing related services (e.g. maintenance and after-parts sales).*
- *In order to develop relatively new markets (e.g. e-commerce), need the regulation to allow various sales finance scheme and sophisticated logistics system.*

Relevant Comments

<After-service and maintenance service>

- There are a lot of counterfeit after parts <Motorcycle company in VN>
- Suffering from counterfeit products especially for non-durable parts such as filters. General farmers cannot distinguish proper products from the false <Automotive company in VN>
- After installing the elevator to building, some companies use third companies' after-parts for maintenance. There is the possibility to cause serious accident by using such parts, and will damage the brand image <E&E company in TH>
- For repair parts, a lot of imitation products are coming from China. Considering the average vehicle usage period in ASEAN (5 years), need to promote the proper products utilization to keep the brand <Automotive parts company in SGP>

<Underdeveloped sales finance>

- In order to smoothly launch e-commerce business in Mekong sub-region, smooth logistics and financial system are two keys. For providing Cash-on-Delivery (COD) service, need the financial license in VN. In term of the logistics, "last one-mile logistics" network development shall be promoted through developing distribution center and small-package logistics system <e-commerce company in SGP>
- Settlement method is still relying on cash <Motorcycle company in VN>

<Sales/Products Quality>

- There is a big gap on labeling quality between Japan and VN. For nurturing the brand image, cannot compromise such quality gap <Beverage company in VN>
- Rough displaying work at respective retail shop causes product breakage <Food company in VN>

JETRO

3-5-2. Other Issues

- *Sudden change/Ambiguous interpretation of rules and regulations seriously worsen business predictability. Transparent and foreseeable regulation change and its implementation are the crucial step for attracting further investment.*
- *Harmonization of standards and conformance is also necessary to promote procurement and sales in the sub-region*

Relevant Comments

<Sudden change of rules and regulations>

- While top down and speedy decision sometimes facilitate the FDI, without having clear criteria and guidelines, such decision making process may also hinder mid-long term company strategy planning. Workable rules and regulations development is thus required <Logistics company in KH>
- Consistency of rules and regulations shall be secured to promote further investment <Business conglomerate in Lao>
- Lao and VN often make rules and regulation change without prior notification. Once developed container yard in Savannakhet, but due to sudden notification from Lao government to use the government-owned yard, we become not to be able to use their own facility, and made a loss <Logistics company in TH>

<Ambiguous interpretation of rules and regulations>

- Together with frequent change of rules and regulations, necessity to make “face-to-face” relationship with government officials results in less-transparent business environment in VN <E&E company in VN>
- Approval process totally depends on the staff in charge. On instructed to change some business activities, sometimes difficult to find out referring regulations <Food company in VN>
- While seeing the improvement on document procedure at Ministry of Commerce and Customs, other ministries such as Ministry of Agriculture or Ministry of health, need to also facilitate the business activities <Logistics company in KH>

<Issues on standards and conformance>

- The biggest issue is the difference on automobile-related standards in each country. Without harmonizing the standard and conforming the test results, it takes additional months to launch new line up in the whole region <Automotive company in TH>
- Need the harmonization of products standards to facilitate region wide products delivery <E&E company in TH>

Chapter 4
Business Recommendations

Summary of Chapter 4

◆ *While seeing the opportunity to enter into global value chain, as well as to become attractive market to invest in, currently Mekong countries have faced with several key challenges to realize "Quality Growth". Mekong countries are at a critical crossroad now.*

Quality Growth

- Withdraw/shrink production bases
- Slow down of new FDI

Mekong at a Crossroad

3 Possible Recommendations

1. Develop the policies on facilitating supporting industry accumulation
2. Improve transparency and effectiveness of along value chain, including steady and proper operation of e-Customs and development of qualification system for Customs brokers
3. Upgrading of logistics and related service sector

3 Identified Challenges

1. Time consuming/costly procurement structure
2. Troublesome formal/informal border procedure
3. Insufficient supporting service industries development (e.g. logistics, maintenance etc.)

\+ Wage hike without productivity improvement

Growing Business Opportunity

- ✓ Start to participate into global value chain through "China+1" or "Thai+1"
- ✓ Increase attractiveness as a connecting market (e.g. cold chain development)
- ✓ Improvement of physical / institutional connectivity in Mekong sub-region

JETRO

4-1. Soft Infrastructure as Key Drive-Force

A) Transparent and Predictable Rules and Regulations Development on Cross-Border Transaction

- For facilitating cross-border expansion of production/sales network, further development of rules and regulations, in such fields as 1) logistics, 2) cross-border procurement of materials and machineries, 3) finance and 4) capital management among group companies, shall be pursued.

- At the same time, such regulation development shall be done with full consideration of investors. Especially from the viewpoint of securing enough time for business sectors to prepare for the regulation change, its formation process and the actual implementation schedule shall be disclosed in transparent and predictable manner.

- Specifically in logistics, effective implementation of CBTA is one of the keys for decreasing the logistics cost and time. Information disclosure on amendment process of domestic rules and regulations in compliance with the Agreement, together with swift dissemination of agreed contents, including change in number of CBTA licenses and CBTA applicable route shall be sincerely considered.

JETRO

4-2. Productivity, and the Productivity

B) Adequate Human Resource Development for Improving Productivity, facilitating Customs Procedure, and Strengthening Governance Capacity

- Sharp and frequent minimum wage increase, introduction of new standard and systems at the border, and various promotion programs for improving local procurement rate shall be followed by the adequate and appropriate human resource development. Without the improvement of productivity, constant increase of production cost in CLM countries will become the critical bottleneck for business expansion.

- In logistics, not only capacity building on Customs officers, which MOF of Japan has been conducting, capacity building/qualification for logistics service providers shall be developed for facilitating border-crossing procedures.

- At the same time, enforcement capabilities for government officials on existing rules and regulations (e.g. traffic regulation for over-loaded cargo, appropriate crackdown on smuggling goods) shall be also improved. The economic corridors shall be utilized and maintained as a common assets of the whole sub-region.

JETRO

4-3. Strengthening the Attractiveness

C) Strengthening the Production Network through Developing Sophisticated Logistics Infrastructure and Deregulation on Manufacturing-related Service Sectors

- Development of sophisticated logistics infrastructure (e.g. regional logistics park and distribution center, logistics IT system, facilities necessary for cold-chain network, and regulation on bond and non-resident warehouse system) shall be the crucial path for strengthening current production network, especially through alleviating the unbalanced cargo trade, shortening the total logistics time, and enabling flexible arrangement on production location.

- On developing logistics hub in the sub-region, thorough discussion opportunities among Mekong countries and business representatives shall be prepared.

- For further forging Mekong sub-region’s attractiveness as a connecting production base, deregulation and upgrading of manufacturing-related services including logistics, maintenance, installment and repair, together with appropriate region-wide qualification program development shall be further considered.

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