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The White Book For Business and Investment In VietNam

The Council of Taiwanese Chambers of Commerce in Vietnam

Asia Taiwanese Chambers Of Commerce

World Taiwanese Chambers of Commerce

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FOREWORD

Taiwanese enterprises have made historical contributions to the Vietnamese economy. Thirty years ago, when Vietnam opened its door for foreign investment, Taiwanese enterprises became one of the first ever investors in Vietnam with their trust in Vietnamese investment policy. Most Taiwanese enterprises have invested in the processing and manufacturing sectors and thus have created many jobs for Vietnamese people. Investment by Taiwanese enterprises has helped improve standards of living, enhance professional skills for Vietnamese laborers. Taiwanese enterprises always support social policies by the Vietnamese government. In addition to business investment, Taiwanese enterprises haven't been afraid of difficulties or hardship, no matter big or small enterprise, no matter where, they have been contributing practically either cash or kinds to public charity activities in Vietnam!

Taiwanese enterprises have continuously been striving for the development of Vietnam's economy, with their desire via this white book with its diverse content to express their concerns and expectations towards Vietnamese economy.

I hope this book is a valuable reference materials for government agencies, enterprise communities and relevant individuals and relevant organizations in attempts of contribution for improvement of business environment and enhance investment development based on harmony of interests among Vietnam, Taiwanese investors and other economies around the world.

Vu Tien Loc

Chairman of Vietnam Chamber of Commerce and Industry (VCCI)

Co- Chairman of Vietnam Business Forum (VBF) Consortium's Management Board

Executive Summary

In 1986, the Vietnamese government launched the *Doi Moi* reform policy, and commenced efforts to attract foreign investment to Vietnam. The first Taiwanese investment in Vietnam began in 1989, and over the following 20 years Taiwan was consistently the single largest source of foreign investment for Vietnam. Taiwanese businesspeople have now been working in Vietnam for 30 years, and have built up close ties with both the country and its people, to the extent that, even after the May 13, 2014 anti-Chinese riots in Vietnam, which caused serious damage to a considerable number of innocent Taiwanese businesses, many Taiwanese business-owners chose to rebuild their factories and recommence operations. For a great many Taiwanese businesspeople, Vietnam is more than just an investment location; it is their second home.

Taiwanese businesspeople have always been down-to-earth, practically-minded individuals, and over 80% of Taiwanese investment in Vietnam has been in the manufacturing sector, with a particular focus on contract manufacturing on behalf of international brands. Although these contract-manufacturing firms tend to remain little-known, they played a major role in the early stages of Vietnam's industrialization, helping to drive Vietnam along the path towards prosperity. Besides earning substantial amounts of foreign currency for Vietnam, Taiwanese-invested firms operating in Vietnam have also created a total of around 1.4 million jobs, and have cultivated large numbers of Vietnamese technical and

managerial experts. Thanks to the investment and hard work of Taiwanese businesspeople, the pool of technical talent in Vietnam has steadily expanded, and Vietnam has gradually developed comprehensive industry supply chains that have helped to reduce its reliance on imports while also providing a solid foundation for attracting even more foreign investment in the future.

Over the years, Taiwanese-invested businesses have grown along with Vietnam. The past 30 years have seen a steady improvement in the investment environment in Vietnam. Infrastructure has continued to improve, and Vietnam's citizens have become steadily more prosperous, while at the same time Vietnam has speeded up the pace of market opening and brought itself into line with international best practice. As a result, Vietnam has become not only one of the world's most important bases for manufacturing operations, but also an important consumer market. Taiwanese businesspeople operating in Vietnam are also immensely proud of what Vietnam has achieved. Reflecting the general desire among Taiwanese businesspeople to see Vietnam move onwards to even greater heights of achievement, and also their wish to see their own businesses put down firm roots in Vietnam and achieve sustainable operation over the long term, the World Taiwanese Chambers of Commerce (WTCC), the Asia Taiwanese Chambers of Commerce (ASTCC) and the Council of Taiwanese Chambers of Commerce in Vietnam (CTCVN) have arranged for the publication of this *The White Book For Business & Investment In VietNam*, in the hope that the

Vietnamese government, Vietnamese people and Taiwanese-invested firms that have created the most jobs in Vietnam, can create a three-way “win-win-win” situation to support the Resolution No.35/NQ-CP dated May 16, 2016. Additionally, the *White Book* hopes the practical experience that Taiwanese businesspeople have accumulated in investing in Vietnam can be made available to serve as a useful reference for the Vietnamese government in the future when implementing liberalization, systemic reform and deregulation, thereby making a positive contribution towards the optimization of the business environment in Vietnam and the speeding up of the process of bringing Vietnam into line with international best practice and upgrading and transforming Vietnamese industry. The *White Book* also offers some suggestions as to areas where there is potential for future collaboration between Taiwan and Vietnam, based on analysis of how the two countries’ respective strengths complement each other; these include, for example: human talent cultivation, agriculture and aquaculture technology, healthcare, innovation and new business start-up, the information and communications technology (ICT) sector, new service models in areas such as “smart government,” “smart campuses,” “smart cities” etc. It is hoped that Taiwan and Vietnam can build a strong, comprehensive partnership based on mutual benefit that will lead to the realization of new milestones in the development of economic, trading, social and cultural linkages between the two countries.

Due to the fact that Taiwanese investment in Vietnam is heavily concentrated in the export-processing manufacturing sector, the operational obstacles that Taiwanese-invested firms face are significantly different from those faced by European and North American multinationals. The issues that Taiwanese-invested businesses operating in Vietnam tend to complain about are issues relating to production and exportation, and their main goal in asking the Vietnamese government to assist in finding solutions for these obstacles is the desire to boost production efficiency and expand exports, which should help to create a more stable employment environment for Vietnamese workers. The issue of main concern for Taiwanese-invested businesses is the hope that the Vietnamese government could do more to improve the legal and regulatory environment, and the related implementation procedures, providing official English-language versions of important laws and regulations and their enforcement rules, along with timely interpretations, so as to enhance the degree of transparency in implementation procedures and increase the consistency of interpretation between central government and local government authorities, while at the same time simplifying investment approval application and review procedures. These changes would significantly reduce the compliance costs and risk that Taiwanese-invested firms currently have to bear in relation to labor affairs, taxation, environmental protection, customs clearance, investment and other aspects of their operations.

Taiwanese-invested firms operating in Vietnam employ very large numbers of local Vietnamese workers, and Taiwanese businesspeople and their Vietnamese workers in fact constitute a community with common interests. Taiwanese businesspeople's concerns regarding labor affairs and human resources are based on genuine concern for workers, and a hope that their suggestions can help to create a "win-win-win" situation for business enterprises, workers, and the Vietnamese government. Taiwanese-invested firms' aim in suggesting that the government should relax the restrictions on the number of overtime hours that can be worked, exclude supplementary payments from the baseline amount when calculating social insurance contributions, take steps to reduce the incidence of illegal strikes and stoppages, ensure that increases in minimum monthly pay take place over a reasonable period of time, reduce compulsory union fees, etc., is to boost workers' income and reduce unnecessary burdens for workers, thereby helping to create a more stable working environment. Taiwanese-invested firms also hope that the Vietnamese government can grant firms more flexibility with respect to the employment of foreign professionals and related social insurance contribution requirements, and with regard to trial employment periods and retirement provisions. A further issue is that the rapid upgrading of Vietnamese industry has led to serious shortages of technical and professional talent. Taiwanese businesspeople feel that the Vietnamese government should endeavor to build on the existing foundations that have been established in terms of manpower exchange between Taiwan

and Vietnam to deepen and intensify the collaboration on human talent cultivation between the two countries, making effective use of bi-directional exchange of both students and industrial manpower, along with closer collaboration between universities and industry, while at the same time developing the potential of the Vietnamese contract workers and Vietnamese spouses and their children who are already living in Taiwan. In this way, it should be possible to promote the development of a two-way flow of high-quality human talent, thereby contributing to the continued development of Vietnam's human capital, and helping to reduce the shortages of specialist talent in Vietnam's agricultural, manufacturing and service sectors.

The way a country's taxation system is designed can have a pronounced impact on business enterprises' operational performance; the taxation system is one of the key factors that multinational corporations consider when deciding which countries to invest in. With the aim of helping the Vietnamese government to build a sound taxation system structure and create a business-friendly tax environment that will help Vietnam to attract more foreign investment, Taiwanese-invested firms operating in Vietnam have a number of suggestions to offer regarding taxation. With regard to trade-related taxation, the single most important issue relates to foreign contractor tax. When a Taiwanese-invested firm operating in Vietnam imports advanced machinery from overseas, the import price often includes transportation and installation costs that may be difficult to distinguish clearly from the price of the equipment itself.

Under the current regulations, the importing firm is required to pay foreign contractor tax equivalent to 5% of the total value of the machinery or equipment being purchased; this represents a heavy financial burden for firms that need to import such equipment. Taiwanese-invested firms have suggested that, in cases where it is not possible to clearly determine the percentage of the total import price that represents ancillary services, a reasonable standard ratio should apply, and that where services will only be provided for a limited number of days, such services should not be subject to payment of value-added tax. Additionally, with regard to value-added tax refunds and processing of export-processing product waste, it is suggested that the Vietnamese government might consider adopting a fully electronic system to speed up taxation processing and enhance supervision, thereby reducing the effective tax burden on enterprises.

With regard to other business-related taxes, in recent years the Vietnamese government has been stepping up its auditing of transfer pricing by foreign-invested firms, and many Taiwanese-invested firms have been required to make supplementary tax payments. However, Taiwanese-invested firms operating in Vietnam are mostly engaged in contract manufacturing for international brands, with a business model that is significantly different from that of most foreign companies; Taiwanese-invested firms' generally low profit margins are the result of their business model, not of deliberate efforts to evade taxation. Taiwanese-invested firms hope that the Vietnamese government can

improve the transparency and reasonableness of the transfer pricing auditing standards and procedures, and that the government can arrange for Taiwanese-invested firms to be able to sign “Bilateral Advance Price-setting Agreements” that would reduce the incidence of post-facto audit-related disputes. Regarding tax audits and payment of interest on supplementary tax payments, Taiwanese-invested firms suggest that the Vietnamese government should follow normal international practice, by reducing the period for which tax and interest on unpaid tax are payable to a maximum of five years, as well as making the average bank interest rate for the current fiscal year the basis of calculation for the interest rate payable on unpaid tax.

Taiwanese-invested firms operating in Vietnam are mainly engaged in export-processing manufacturing operations, and play an important role in linking Vietnam with global supply chains; convenient, efficient trade and investment mechanisms and smooth transport links with other countries would dramatically increase the production and export competitiveness of Taiwanese-invested companies in Vietnam. Thanks to Vietnam’s impressive network of free trade agreements (FTAs), Taiwanese-invested firms in Vietnam already enjoy significant advantages with respect to both imports from and export to key markets. However, there are still significant obstacles to trade between Taiwan and Vietnam. Due to the lack of an FTA between Taiwan and Vietnam, not only is it very expensive for Taiwanese-invested firms in Vietnam to import semi-finished products and components from Taiwan, it is also

difficult to grow exports of the products that Taiwanese-invested firms manufacture in Vietnam, and Vietnam's own highly competitive agricultural and fisheries products, to Taiwan. The failure to negotiate an FTA between Taiwan and Vietnam thus has a negative impact on the development of both countries' foreign trade.

Similarly, the lack of an FTA has meant that many service industries in Vietnam have not been opened up to Taiwanese service providers, and has prevented the implementation of ancillary measures relating to supply chain development, trade facilitation, human talent development, technology, finance, mutual recognition and common standards, etc.; the lack of systematized, comprehensive bilateral arrangements has significantly reduced the benefits from exchange and cooperation in areas where there should be significant potential for collaboration between Taiwan and Vietnam, including agriculture and fisheries, healthcare, innovation and new business start-up, information services, etc. Many Taiwanese companies in emerging service industries, the system integration sector and innovation-oriented industries have had to put plans for investment in Vietnam on hold.

Looking ahead to the future, Taiwanese businesspeople operating in Vietnam hope that Taiwan and Vietnam can continue to build on their existing collaboration in various sectors and achieve a gradual deepening and broadening of collaboration through the introduction of new systemic arrangements. For example, in the agricultural and fisheries sector, there

is potential for moving beyond the existing “one-off” collaboration projects in regard to product types, technology, industry eco-systems, environmental protection, systems, etc., towards strengthened integration of the various links in the supply chain, including production, processing, export, sales, etc., to develop “Sixth Industry” capabilities, enhance the value-added of Vietnam’s agricultural and fisheries products, and boost incomes for farmers and fishermen. With regard to collaboration in the healthcare sector, it is suggested that there is potential for expanding the collaboration networks linking hospitals in Taiwan with hospitals in Vietnam, and for establishing medical personnel cultivation and training mechanisms, so as to strengthen the provision of contracted medical services in both Taiwan and Vietnam, while at the same time working to deepen collaboration between pharmaceuticals manufacturers and medical device manufacturers in Taiwan and Vietnam; this would help Vietnam to upgrade the overall quality of healthcare services, and would benefit both ordinary Vietnamese people and Taiwanese businesspeople operating in Vietnam. In addition, in the era of the digital economy, Taiwanese-invested firms in Vietnam are hoping to be able to integrate the respective resources and strengths of Taiwan and Vietnam to introduce innovative new technologies and business models, cultivate innovation talent, and promote bilateral collaboration in emerging fields such as the Internet of Things (IoT), mobile apps, software, etc., thereby helping to meet the needs of young would-be entrepreneurs both in Taiwan and in Vietnam. Taiwanese businesspeople are also eager to help

meet the new needs that are emerging in Vietnam as a result of the ongoing social and economic development process, by sharing Taiwan's experience and providing practical assistance. For example, Taiwanese firms could help Vietnam to establish new information systems for use in taxation, customs, investment approval, statistical surveys, etc., which would help to boost administrative efficiency. There is also potential for collaboration on new-generation sectors such as "smart transportation," "smart cities," "smart customs clearance," "smart government," "smart campuses," etc.; the joint development of pilot projects in these areas would help Vietnam to reduce its digital divide, while at the same time allowing both Taiwanese and Vietnamese firms to benefit from the new digital business opportunities that are emerging.

Taiwanese businesspeople's attachment to Vietnam has never wavered, regardless of what changes were taking place in the wider economic environment. In the aftermath of the Asian Financial Crisis of 1997, the Global Financial Crisis of 2008, and the anti-Chinese riots of May 13, 2014, not only did Taiwanese businesspeople operating in Vietnam not withdraw their investment, they made an even more determined effort to integrate themselves into local culture and to put down firm roots in the local community. It seems certain that, with the continuing intensification of economic and social interchange between Taiwan and Vietnam, these ties of friendship will continue to grow even stronger in the future. Taiwanese businesspeople operating in Vietnam generally view Vietnam as their "second home," and have a sincere desire

to fulfil their corporate social responsibility and “give something back” to the local community; they are actively involved in charitable and other public-interest activities, and are eager to work together with the Vietnamese government to create an even better and happier society in Vietnam. At the same time, Taiwanese businesspeople hope that the Vietnamese government can start to view Taiwanese-invested firms in Vietnam as a part of Vietnam, and help Taiwanese businesspeople to overcome the obstacles to investment and business operation that they currently experience. This would involve, for example: the establishment of an advance tariff classification ruling system, to realize a higher level of transparency and clarity in customs clearance procedures; the streamlining of foreign investment application review procedures, to reduce the amount of time needed to obtain investment permits; allowing foreign financial institutions (which play an important supporting role for foreign-invested firms operating in Vietnam) to establish multiple branches in major cities, so as to be able to provide services to their corporate customers from close at hand; building on the existing joint research on the potential for an economic cooperation agreement (ECA) between Vietnam and Taiwan to begin actual negotiations, and eventually eliminate the current obstacles to bilateral trade and investment; updating the investment protection agreement between Vietnam and Taiwan to ensure that Taiwanese businesspeople operating in Vietnam can enjoy fair treatment and comprehensive protection with respect to their personal safety and property, etc. These measures would help to attract even more

Taiwanese investment to Vietnam, and would encourage more Taiwanese businesspeople to invest in Vietnam for the long term, and to strive for sustainable operation.

Part One Overview

1. Background

Taiwanese business enterprises began to undertake overseas direct investment in the 1980s. The steady increase in overseas investment by Taiwanese firms led to the establishment of Taiwanese chambers of commerce and business associations throughout the world. The World Taiwanese Chambers of Commerce (WTCC) was established in September 1994 to coordinate the activities of the various regional Taiwanese chambers of commerce. The WTCC has six Continental Chapters (Asia, Europe, North America, Central and South America, Oceania, and Africa), 73 Country Chapters, and 189 regional chapters; the total membership amounts to over 40,000 individual firms. The WTCC is a private-sector organization whose activities are global in scope, and which has attracted widespread attention. Besides seeking to enhance the international status of Taiwanese firms and encourage the countries in which Taiwanese firms invest to safeguard the rights of Taiwanese firms in those countries, WTCC also aims to serve as a bridge for communication between the host nations and Taiwan, helping to build multi-faceted, comprehensive partnerships between Taiwan and these countries.

With the deepening of investment links, many Taiwanese businesspeople have put down firm roots in their host countries; in many

cases, the second-generation owners have grown up in the host country, which is now their home. This younger generation of businesspeople has an in-depth understanding of both Taiwanese culture and the culture of the host nation; they are generally well-educated and multi-lingual, and represent precious human assets for both Taiwan and the host nation.

In their overseas investment activities, Taiwanese businesspeople have been most proactive in investing in Asian nations that are geographically close to Taiwan. Following the adoption of the Doi Moi reform policy in Vietnam in the mid-1980s and the enactment of the Law on Foreign Investment, many Taiwanese firms were encouraged to invest in Vietnam, and Taiwan became Vietnam's single largest source of foreign investment. Since then, Taiwanese investment in Vietnam has continued to grow steadily, with the commencement of the Trans-Pacific Partnership (TPP) Agreement negotiations sparking off a further wave of investment. According to the official statistics, Taiwanese firms account for around 10% of total foreign investment in Vietnam, but if Taiwanese investment routed through a third-country is included, the real figure is definitely much higher than this. Preliminary estimates indicate that there are over 4,000 Taiwanese-invested firms in Vietnam, with a total of more than 50,000 Taiwanese businesspeople active in the country. Taiwanese businesspeople have made a major contribution towards stimulating industrial development in Vietnam, towards job creation, and towards stimulating overall economic growth.

Unlike European and U.S. investment in Vietnam, more than 80% of Taiwanese investment in Vietnam has been concentrated in the manufacturing sector, particularly export-processing; Taiwanese investment accounts for over 15% of total foreign investment in this sector. Taiwanese investment in Vietnam helped to pave the way for Vietnam's continuing industrialization, and for Vietnam's progress towards becoming a more prosperous society. Most of the Taiwanese-invested firms in Vietnam are involved in export-processing for leading international brands; besides earning significant amounts of foreign exchange for Vietnam, these companies have also created around 1.4 million jobs in Vietnam, and have cultivated an immense pool of technical and managerial talent. Thanks to the investment and hard work of Taiwanese businesspeople, the number of technical experts in Vietnam has grown steadily, and Vietnam has developed comprehensive industrial value chains; in addition to reducing Vietnam's dependence on imports, it has also helped Vietnam to build solid foundations for attracting even more foreign investment in the future.

Vietnam possesses a wealth of natural resources, and its citizens are intelligent and hard-working. Over the past few years, the Vietnamese government has been actively implementing domestic reforms, while also speeding up the building of international trading links; as a result, the Vietnamese economy offers immense investment potential. This is reflected in the steady rise in Vietnam's position in international business competitiveness rankings. Recognizing the closeness of the economic and

trading relations between Taiwan and Vietnam, the scale and intensity of the human contacts between the two countries, and the fact that Vietnam is now a “second home” for many Taiwanese businesspeople, the WTCC, the Asia Taiwanese Chambers of Commerce (ASTCC) and the Council of Taiwanese Chambers of Commerce in Vietnam (CTCVN) (hereafter collectively referred to as the “Taiwanese Chambers of Commerce”) have arranged for the publication of this *The White Book For Business & Investment In VietNam*, in the hope that the Vietnamese government, Vietnamese people and Taiwanese-invested firms that have created the most jobs in Vietnam, can create a three-way “win-win-win” situation to support the Resolution No.35/NQ-CP dated May 16, 2016. Additionally, the *White Book* hopes the practical experience that Taiwanese businesspeople have accumulated in investing in Vietnam can be made available to serve as a useful reference for the Vietnamese government in the future when implementing liberalization, systemic reform and deregulation, thereby making a positive contribution towards the optimization of the business environment in Vietnam and the speeding up of the process of bringing Vietnam into line with international best practice. The *White Book* also offers some suggestions as to areas where there is potential for future collaboration between Taiwan and Vietnam, based on analysis of how the two countries’ respective strengths complement each other; it is hoped that Taiwan and Vietnam can support one another in the development of new industries and grow together, achieving shared prosperity based on mutual benefit.

2. Economic, Trading and Cultural Exchange between Taiwan and Vietnam

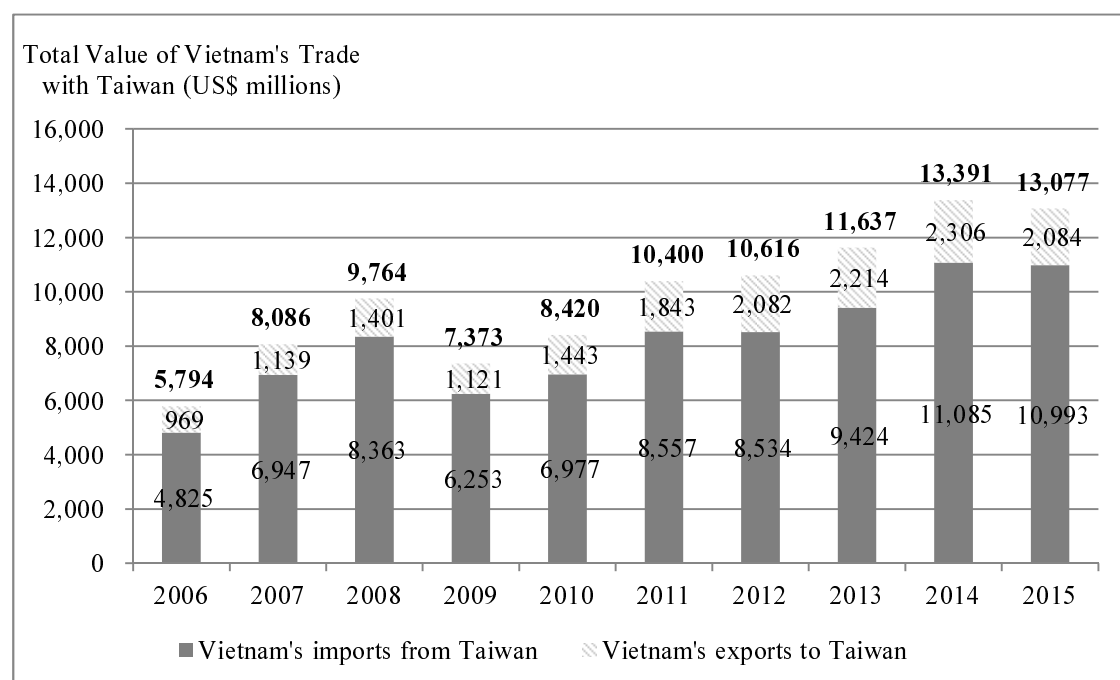
In the 1980s, as a result of Taiwan's rapid economic growth, Taiwanese business enterprises found themselves having to deal with the appreciation of the New Taiwan Dollar against the U.S. Dollar, and with the impact of rising land and labor costs, etc. As a result, there was a gradual increase in overseas investment activity by Taiwanese businesspeople looking for new production locations. In 1986, the Vietnamese government announced the Doi Moi reform policy, and embarked on efforts to attract foreign investment. Attracted by Vietnam's geographical proximity, cultural similarities, and the hard-working, affable nature of the Vietnamese people, the first wave of Taiwanese investment in Vietnam began in 1989. Over the following 20 years, Taiwan remained Vietnam's single largest source of foreign investment. By 2016, there had been a total of 2,509 investment projects in Vietnam involving Taiwanese investors, with a combined investment value of US\$31.5 billion. If one adds to this cross-investment via Taiwanese-owned firms operating in China, Singapore, Samoa, the British Virgin Islands (BVI), etc., then the actual total amount of Taiwanese investment in Vietnam is far higher than these official Vietnamese government statistics suggest.

In March 1991, the Taiwan External Trade Development Council (TAITRA) opened representative offices in Hanoi and Ho Chi Minh City.

In November 1992, a Taipei Economic and Cultural Office was established in Hanoi, and another in Ho Chi Minh City; in July 1993, Vietnam opened its own Vietnam Economic and Culture Office in Taipei, marking the beginning of a new era in economic and trading relations between the two countries. Since then, more than 30 important bilateral agreements have been signed between Taiwan and Vietnam, including the promotion and protection agreement of investment, the agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, the agriculture technical collaboration agreement, the agreement regarding the sending and receiving of Vietnamese workers as contract labor, etc. Currently, there are approximately 180,000 Vietnamese contract workers in Taiwan, 88% of whom are involved in manufacturing operations (particularly metallurgy, machinery manufacturing, plastic manufacturing, and textile manufacturing); Vietnam is the most important source of contract workers for Taiwanese industry. The use of Vietnamese contract workers in Taiwan by Taiwanese companies benefits Vietnam in several ways; besides earning significant amounts of foreign exchange for Vietnam, it also gives the workers the opportunity to learn production techniques and factory management skills that they can use when they return to Vietnam, either in establishing their own businesses or in working for Vietnamese companies.

As Taiwanese investment in Vietnam has grown, the level of value chain integration between Taiwan and Vietnam has become ever more

intense. Vietnam has come to play an important role in Taiwan's positioning within the East Asian and global supply chains, with the emergence of a three-way trade relationship linking Taiwan with Vietnam, and Vietnam with the markets of Europe and North America. This investment and "division of labor" relationship has led to steady growth in the volume of trade between Taiwan and Vietnam (Fig. 1), and has shaped the form taken by the bilateral trade between the two countries. As of 2015, Taiwan was Vietnam's fifth-largest trading partner, and its fourth-largest source of imports. In 2015, Vietnam's imports from Taiwan came to US\$11 billion, while its exports to Taiwan totaled US\$2.1 billion; the disparity between these two figures is significant.



Source: United Nations, Comtrade International Trade Statistics Database

Fig. 1 The Annual Value of Vietnam's Trade with Taiwan, 2006 - 2015

The main reason for Taiwan's large trade surplus with respect to Vietnam is the division of labor in the global supply chain. Although Taiwanese firms investing in Vietnam have endeavored to use local suppliers and to produce locally using local workers, because of the current state of industrial supply chains in Vietnam and the fact that the necessary ancillary measures (in terms of education, human resources, etc.) have yet to be put in place, Taiwanese-invested firms operating in Vietnam are currently still reliant on imports from Taiwan for many types of production machinery, raw materials and key components, and still depend on Taiwan for core technologies, etc. This situation has led to a steady increase in Vietnam's imports from Taiwan. Nevertheless, the components and machinery imported from Taiwan are used in Vietnam-based production, and are ultimately beneficial in terms of boosting the exports of both foreign-invested firms and local Vietnamese firms, and helping to earn foreign exchange for Vietnam. With the gradual upgrading of Vietnamese industry, the level of value-added provided by the intermediate goods that Vietnam imports from Taiwan has been rising steadily; whereas in the past these imports mainly comprised relatively simple semi-finished products, they now include electronic devices and components (particularly IC chips), plastics, rubber and plastic and rubber products, diesel oil and gasoline, production machinery and its components, iron and steel, upstream and midstream textile products, photovoltaic cells, printed circuit boards (PCB), etc. A further important point to note is that Taiwan and Vietnam have yet to sign a free trade

agreement (FTA). As a result, Vietnam's more competitive products – such as agricultural products, marine products and processed foods, etc. – face high tariff barriers in the Taiwan market, making it difficult to achieve rapid growth in Vietnamese exports to Taiwan. This is another factor behind Vietnam's trade deficit with respect to Taiwan.

Besides the close economic and trading relations between Vietnam and Taiwan, there are also strong social and cultural ties between the two countries. As trading links have grown closer, so has Taiwanese understanding of Vietnam; the charm and grace of Vietnamese women, along with the many similarities between Vietnamese and Taiwanese culture (for example, people in both countries celebrate the Lunar New Year and the Ghost Festival, eat moon-cakes on the day of the Mid-Autumn Festival, have rice as the main element in their diet, and eat using chopsticks, etc.), have led to Vietnamese nationals becoming the second largest group of foreign spouses in Taiwan. As of December 2016, there were nearly 100,000 Vietnamese spouses of Taiwanese citizens living in Taiwan, accounting for 20% of all foreign spouses in Taiwan. Professor Do Tien Sam, former Director of the Institute of Chinese Studies at the Vietnam Academy of Social Sciences, notes that the large numbers of Vietnamese people marrying Taiwanese nationals and settling in Taiwan is a sign of globalization, which affects the flow of people as well as the flow of capital and technology, and is also a reflection of the

liberalization policy adopted by the Vietnamese government.¹ In the last few years, there has been a change in Vietnamese-Taiwanese marriage patterns. Whereas in the past such marriages mainly involved Vietnamese women marrying Taiwanese men and moving to Taiwan, as the number of Taiwanese firms investing in Vietnam has grown, and a growing number of Taiwanese managers have been posted to Vietnam for extended period, it has become more common for (particularly younger) Taiwanese people to marry and settle in Vietnam.

The growth in the number of Vietnamese-Taiwanese marriages has made Vietnamese people a significant new ethnic group within Taiwan. To help prevent Vietnamese spouses who have just arrived in Taiwan from suffering from loneliness and alienation, and to help them make new friends in the towns and cities where they are living, County and City Governments throughout Taiwan have been setting up “New Immigrant Clubs,” which offer a wide variety of courses and social activities. These facilities help foreign spouses who have moved to Taiwan to learn Mandarin Chinese, familiarize themselves with Taiwanese culture, get used to Taiwanese eating habits, and even to train as interpreters, etc. Above all, they provide Vietnamese people who have moved to Taiwan with opportunities to build a support network of fellow Vietnamese who can help each other out in dealing with the intricacies of life in Taiwan,

¹ Shiu Wen-Tang (2014), “The Bilateral Relationship between Taiwan and Vietnam: A Retrospective and Analysis,” *Taiwan International Studies Quarterly* Vol. 10 No. 3, pp. 75 – 111, 2014 (Autumn): <http://www.tisanet.org/quarterly/10-3-4.pdf>

and make the process of adapting to their new life in Taiwan a smoother one.

The number of children born to Vietnamese-Taiwanese couples has also been growing steadily. There are now nearly 85,000 such children studying at elementary schools and junior high schools in Taiwan, accounting for around 40% of all children of “New Immigrants” in Taiwan. In the near future, the number of people in Taiwan who can speak Vietnamese is likely to exceed the combined total of speakers of all of Taiwan’s aboriginal languages, making Vietnamese the fourth most widely spoken language in Taiwan.²

Besides Vietnamese contract workers and Vietnamese spouses of Taiwanese nationals, there are also a large number of Vietnamese students studying in Taiwan. Many Vietnamese who have come into contact with Taiwan as young people find that aspects of Taiwanese culture or society make a pronounced impression on them, and decide to undertake advanced study in Taiwan.³ The number of Vietnamese students studying in Taiwan has risen from only a little over 400 in 2006 to 4,774 in 2016, a more than 10-fold increase. Of the Vietnamese students studying in Taiwan in 2016, just over 3,100 were enrolled in university undergraduate

² “According to James Huang, Vietnamese is Set to Become the Fourth Most Widely Spoken Language in Taiwan,” *EToday* (Financial News Section): <http://www.ettoday.net/news/20160815/755930.htm#ixzz4VY4OZyFk> (last accessed on January 12, 2017)

³ “A Vietnamese Teacher Notes that ‘Our Students Are Very Eager to Study in Taiwan,’ and Hopes that Taiwan’s ‘New Southbound Policy’ will Provide Increased Opportunities for This,” *EToday* (General News Section): <http://www.ettoday.net/news/20160812/754193.htm#ixzz4VY572Di3> (last accessed on January 12, 2017)

or graduate degree programs, while the remaining 1,600 or so were studying Mandarin Chinese at language schools in Taiwan.

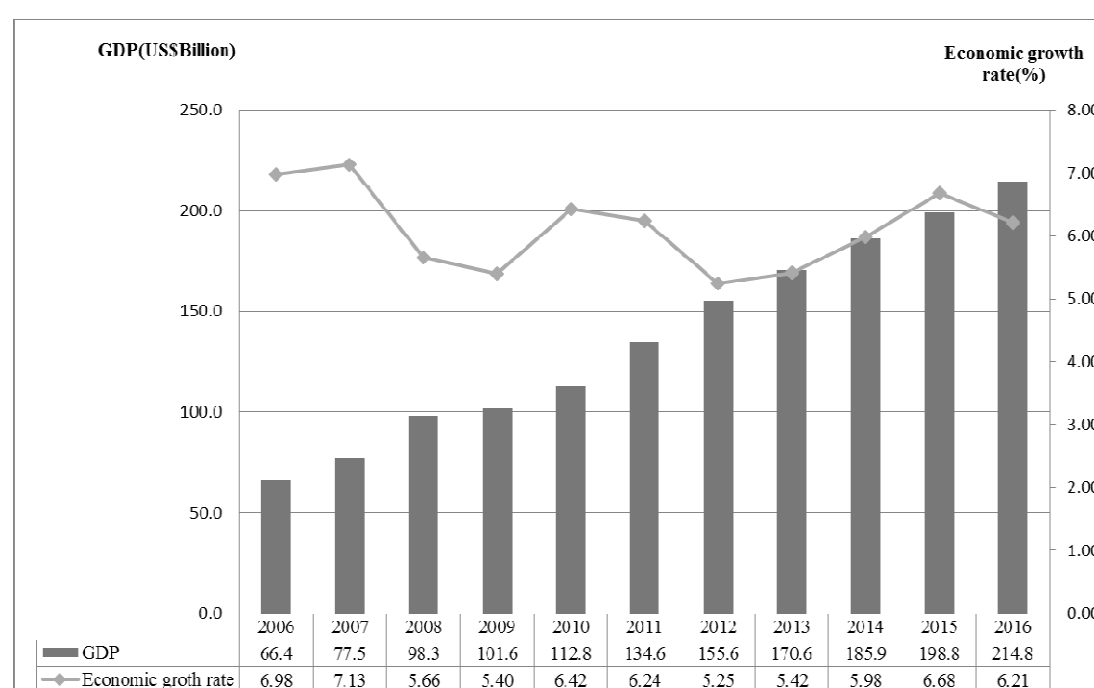
As the cultural links between Taiwan and Vietnam continue to deepen and intensify, interest in Vietnamese food and other aspects of Vietnamese culture has spread in Taiwan (articles about Vietnamese cuisine in particular frequently appear on blogs and websites in Taiwan). At the same time, more and more Taiwanese college students are studying Vietnamese, and choosing Vietnam as a destination for holidays or as a place to work after graduation. It seems safe to say that this intensification of bilateral cultural exchange between Vietnam and Taiwan will lead to ever closer links between the two countries in the future.

3. The Macroeconomic Environment in Vietnam

3.1 Vietnam continues to maintain steady economic growth

In 2013, with the outlook for the TPP agreement looking bright, and with the global economy finally putting the Global Financial Crisis of 2008 behind it and demonstrating signs of a solid recovery, Vietnam saw its annual economic growth rate rise from 5.42% to 6.68%. Nominal GDP has also been rising to record levels, climbing to US\$193.6 billion in 2015 (Fig. 2). Thanks to various factors, including economic reform and liberalization and the increase in inward foreign investment, etc.,

Vietnam's per capita GDP grew steadily over the period 2006 – 2015, rising to over US\$2,000 in 2014. In 2016, because of the impact of natural disasters on the Vietnamese economy (including drought in the central plains and salinification on the southern coast), as well as weak demand in Vietnam's key export markets and the unhealthy state of the global economy as a whole, the annual GDP growth rate was lower than the original target of 6.7%, although still quite impressive at 6.21%.⁴



Note: Data for 2016 are estimates compiled by the General Statistics Office of Vietnam.

Source: IMF World Economic Outlook Database, Oct. 2016.

Fig. 2 Vietnam's GDP and Economic Growth Rate, 2006 - 2016

During the period 2010 – 2012, when Vietnam was experiencing serious problems with inflation, depreciation of the currency, and economic and social instability, many foreign companies adopted a “wait and see” attitude towards investing in Vietnam. However, following the

⁴ “Bright Spots in Vietnam's Economic Performance in 2016, and Key Policies that the Vietnamese Government Will be Implementing in 2017,” MOEA “Global Taiwanese Business Network”: <http://twbusiness.nat.gov.tw/countryNews.do?id=367722525&country=VN> (last accessed on January 18, 2017)

implementation of a series of reform measures by the Vietnamese government, prices have been brought under control, and major international organizations are generally positive about the outlook for Vietnam in 2017. In October 2016, the International Monetary Fund (IMF) forecast that Vietnam would post an economic growth rate of 5.1% in 2017; other leading economic forecasting bodies, including the Asian Development Bank, Global Insight, and the World Bank, expect Vietnam to achieve an economic growth rate in the range of 6.2 – 6.3% in 2017.

Looking ahead to the outlook for the Vietnamese economy in the future, the main challenges for Vietnam will relate to the need to improve the country's overall economic framework and adjust its industrial structure. In regard to the former, the Vietnamese government will need to think about how to bring inflation under control more effectively, how to reduce Vietnam's trade deficit, how to implement reform of Vietnam's state-owned enterprises and its financial sector, etc., in order to strengthen macroeconomic stability. With regard to the overhauling of the industrial structure, Vietnam will need to continue improving its investment environment, endeavor to attract foreign investment in the manufacturing sector that has a high technology content, and develop modernized service industries, etc., so as to create new drivers for continued economic growth.

3.2 Continued liberalization and efforts to integrate Vietnam more closely into the wider global economy

Since joining the World Trade Organization (WTO) in 2007, Vietnam has adopted a proactive approach to liberalization and market opening. Vietnam has signed free trade agreements (FTAs) with many of its major trading partners, including China, Japan, South Korea, India, Russia and the European Union (EU). The stance taken towards participation in the TPP has been similarly proactive. As a result, Vietnam now has a comprehensive network of FTAs, which have helped to attract a considerable amount of foreign investment.

Although it is only relatively recently that Vietnam began to open up its markets, the Vietnamese government has adopted a proactive stance towards participation in regional economic integration, which has gone a long way towards improving the business environment in Vietnam. Vietnam's comprehensive network of FTAs has helped to attract foreign investment; when foreign companies set up production facilities in Vietnam, they are able to benefit from preferential tariff rates when exporting to countries with which Vietnam has signed FTAs, which enhances the price competitiveness of their products in international markets. At the same time, as the number of FTAs that Vietnam has signed continues to rise (and as the "quality" of these FTAs improves), the legal and regulatory framework and the overall business environment in Vietnam will come more into line with international norms, which in

turn will stimulate further domestic reforms within Vietnam. Despite the negative impact on the TPP of the U.S. government's decision to withdraw from it, many foreign companies remain confident that Vietnam's network of FTAs will still provide a solid foundation for future growth, and they are continuing to step up their investment in Vietnam. Overall, Vietnam has become the "destination of choice" for multinational corporations planning overseas investment.

To attract more foreign investment and stimulate economic growth, the Vietnamese government has been gradually overhauling the laws and regulations relating to foreign investment, with the aim of improving the investment environment. This process of reform has involved making revisions to the Law on Enterprise, the Law on Investment and the Law on Bankruptcy, as well as the enactment of a new Law on Housing and Law on Real Estate Business, etc. The Taiwanese Chambers of Commerce have been very impressed by, and are extremely appreciative of, the efforts made by the Vietnamese government in this area; we hope that Vietnam will continue to implement further market opening and to expand its network of FTAs, thereby creating an even better business environment that will help to drive the continued development of Vietnamese industry and the Vietnamese economy as a whole.

3.3 Foreign companies are continuing to expand their investment in Vietnam

Since Vietnam's accession to the WTO, as a result of market opening, Vietnam has gradually integrated itself into the global economic system, and has succeeded in attracting large amounts of foreign investment. Over the period 2013 – 2016, inward investment averaged over US\$20 billion per year; in 2014, several leading international IT companies – including Samsung, Nokia and LG – announced plans to invest in Vietnam, and in 2016, Taiwan's Honhai Group announced that it would be expanding its existing investment in Vietnam.

Overall, Vietnam is a very attractive investment destination for international corporations. On the basis of the analysis contained in reports compiled by leading international organizations – including the World Bank's *Doing Business* report⁵, the *World Investment Report 2016* published by the United Nations Conference on Trade and Development (UNCTAD)⁶, the *Investment Climate Statements 2016* published by the U.S. State Department, and the *Economist* magazine's *Asia Business Outlook Survey 2016*⁷ – the main factors that have made Vietnam so attractive to foreign investors can be summarized as follows: (1) A relatively high level of political stability and a low crime rate; (2) Abundant natural resources; (3) The Vietnamese government's proactive

⁵ World Bank, *Doing Business*: <http://www.doingbusiness.org/>

⁶ UNCTAD, *World Investment Report*: http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf

⁷ The Economist, *Asia Business Outlook Survey 2016*:
http://www.amcham.org.sg/wp-content/uploads/2015/08/ABOS_16_preview.pdf

attitude towards economic development and Vietnam's comprehensive FTA network; (4) The impressive growth potential of the Vietnamese domestic market; (5) An abundant supply of labor, with relatively low labor costs.

Vietnam's comprehensive FTA network, abundant natural resources and large, young labor force have made it a particularly attractive location for investment by foreign manufacturers that are focused on export-processing operations. When Vietnam announced that it would be joining the TPP and signing an FTA with the EU, this sparked off a further wave of foreign investment; international corporations that had not previously invested in Vietnam were attracted to invest, and many companies that already had a presence in Vietnam decided to expand the scale of their investment. Besides export-processing investment, a significant number of foreign corporations have begun working to develop the Vietnamese domestic market, attracted by Vietnam's young population, the rise in per capita income that Vietnam has seen in recent years and the consequent increase in consumer spending power, which is making Vietnam one of the world's most significant emerging consumer markets. If the Vietnamese government can continue to improve the investment environment, strengthen the country's overall competitiveness and enhance the quality of the labor force, it seems safe to assume that even more foreign companies will be attracted to invest in Vietnam, creating a win-win situation for industrial development in Vietnam and the sustainable operation of the foreign companies concerned.

3.4 Continued improvement in the business environment

Since the Vietnamese government formally adopted the *Doi Moi* reform policies in December 1986, it has maintained a steady pace of legislative change to improve the investment environment to meet the needs of foreign investors. The original Law on Foreign Investment in Vietnam that was enacted in 1987 was subsequently revised four times before being replaced in 2015 with the new Law on Investment. Thanks to the Vietnamese government's efforts, there has been steady improvement in Vietnam's global competitiveness and in its investment environment, which has been reflected in Vietnam's stellar economic performance.

In the *2016 – 2017 Global Competitiveness Index* published by the World Economic Forum (WEF), Vietnam ranked 60th out of 138 countries included in the Index, 8 places up from the 2014 – 2015 edition of the Index, but 4 places down on 2015 – 2016. It can thus be seen that Vietnam still needs to make a continued effort to maintain and further improve its business environment. The U.S.-based Heritage Foundation's *2016 Index of Economic Freedom* ranked Vietnam in 131st place worldwide, 17 places up on 2015, while the World Bank's *2017 Doing Business* report (published in 2016) rated Vietnam as having the 82nd best business environment in the world, up 8 places from the previous year's report. The Taiwanese Chambers of Commerce have been very impressed by the efforts made by the Vietnamese government in this area, and are confident that, with government agencies in Vietnam continuing to work

towards the goal of continued improvement of the business environment, Vietnam can expect to see steady economic growth in the future.

Despite the continued improvement in Vietnam's overall competitiveness, there are still some areas where progress has been slow. If the Vietnamese government were to focus more heavily on these areas, this would have a major impact in terms of improving the investment environment in Vietnam, and in terms of attracting more foreign investment. To take one example, although Vietnam ranked 60th overall in the WEF's *2016 – 2017 Global Competitiveness Index*, there were some indicators where Vietnam ranked much lower than this, and some indicators where Vietnam's ranking has been falling; this is an area to which attention should be paid.

The Taiwanese Chambers of Commerce have analyzed the changes in Vietnam's performance in each indicator in the *2016 – 2017 Global Competitiveness Index* over the past two years, and have identified the items that present particular problems for Taiwanese-invested firms doing business in Vietnam; these issues are listed in Table 1 below. The areas where Taiwanese firms have reported obstacles to doing business are precisely the areas where Vietnam's ranking in the *Index* has fallen. Although there were many indicators where Vietnam's performance had improved compared to the previous year's *Index*, Vietnam's ranking in the "Burden of customs procedures" and "Prevalence of non-tariff barriers" indicators fell by 8 places and 13 places respectively, and in both cases Vietnam was outside the top 100 countries in the 138-country

survey (in 108th place and 103rd place respectively). Obstacles relating to customs procedures are a problem that many Taiwanese firms operating in Vietnam have noted; for example, customs personnel are often unfamiliar with relevant laws and regulations, and inconsistencies may arise when new legislation is introduced, leading to mistaken decisions which can cause delays in customs clearance and result in firms incurring losses. The criteria used in product inspections and quarantine inspections are not always made public, leaving matters up to the interpretation given by individual customs personnel or reliant on individual personnel's subjective opinion. The fact that particular items have successfully cleared customs in the past is no guarantee that they will do in the future, which leaves firms having to deal with a high degree of uncertainty when it comes to customs declaration and customs clearance procedures; not only does this situation cause difficulties for firms in their business operations, causing delays in production and in bringing new products to market, it also gives the impression that Vietnamese customs are inefficient, which has a negative impact on Vietnam's overall productivity and competitiveness.

There is also considerable room for improvement in areas such as "Strength of auditing and reporting standards" (where Vietnam ranked in 122nd place in the *Index*), "Soundness of banks" (117th place), "Time to start a business (days)" (103rd place), "Quality of overall infrastructure" (85th place), "Local availability of specialized training services" (110th place), "Local supplier quality" (109th place), and "Value chain breadth" (112th place). As regards electricity supply, because Vietnam relies

heavily on hydroelectric power generation, in the dry season the supply of electric power is inadequate to meet demand, leading to frequent power shortages throughout the country. Internet access tends to be slow and unstable, which leads to increased operating costs for business enterprises. In addition, although Vietnam has a large, young labor force, there are shortages of engineers and technicians, and Vietnam has been unable to keep pace with the growing demand for this category of human talent from foreign companies investing in the country. Another problem that affects many foreign firms operating in Vietnam is the absence of comprehensive supply chains in some industry sectors.

Many Taiwanese business enterprises began investing in Vietnam when Vietnam first began to liberalize and open up to foreign investment; these firms have been witnesses to Vietnam's economic growth and the progress that the country has made, and are well aware of the efforts that the Vietnamese government has made to bring about economic reforms. At the same time, having been in Vietnam for so long, these firms are all the more aware of the areas where progress has been slow. Taiwanese firms operating in Vietnam have a sincere desire to see Vietnam speed up its economic growth and reach even higher peaks of achievement; by providing suggestions in this *White Book* based on their many years of operation in the Vietnam market, they hope that Vietnam can take that extra step forward. If the Vietnamese government can collate the suggestions made by international corporations operating in Vietnam and use them as a basis for continuing reform, then this will do more than merely boost Vietnam's performance in international competitiveness

rankings; it will also help Vietnam to attract more foreign investment. The Taiwanese Chambers of Commerce hope that the Vietnamese government will continue its efforts to deepen and strengthen reform, and to accelerate the pace of reform, because we sincerely believe that this will help bring about a further enhancement of Vietnam's overall international competitiveness.

Table 1 Areas Where There is Room for Improvement in Vietnam's International Competitiveness Rankings (Indicators and Rankings)

Indicator	2016-2017 Ranking	2015-2016 Ranking	2016-2017 Change in Ranking
Overall Performance	60	56	-4
Strength of auditing and reporting standards	122	130	+8
Soundness of banks	117	124	+7
No. of procedures to start a business	116	116	0
Value chain breadth	112	109	-3
Local availability of specialized training services	110	111	+1
Local supplier quality	109	105	-4
Prevalence of non-tariff barriers	108	100	-8
Reliance on professional management	106	109	+3
Irregular payments and bribes	104	106	+2
Redundancy costs (weeks of salary)	104	108	+4
Time to start a business (days)	103	119	+16
Burden of customs procedures	103	90	-13
Quality of roads	89	93	+4
Transparency of government policymaking	88	89	+1
Quality of air transport infrastructure	86	75	-11
Quality of overall infrastructure	85	99	+14
Quality of electricity supply	85	87	+2
Availability of scientists and engineers	84	75	-9
Total tax rate (% of profits)	75	86	+11
Extent of staff training	70	73	+3

Notes: 1. The number of countries included in the Index rankings was 140 in 2015 – 2016, and 138 in 2016 – 2017.

2. Indicators marked with a gray background are those in relation to which a significant number of Taiwanese firms operating in Vietnam have reported experiencing difficulties.

Source: WEF, *Global Competitiveness Report 2016 – 2017* and *Global Competitiveness Report 2015 – 2016*.

Part Two Issues of Concern and Suggestions to Taiwanese Businesspeople Investing in Vietnam

1. Taiwanese Investment in Vietnam – Overview and Special Characteristics

1.1 Pioneering Taiwanese investors in Vietnam

According to statistics compiled by Taiwan's Investment Commission, Ministry of Economic Affairs (MOEAIC), the first instance of Taiwanese investment in Vietnam took place in 1964. However, it was not until 1988 that the Vietnamese government completed the establishment of a comprehensive legal and regulatory framework for foreign investment and the associated statistical systems, so according to official Vietnamese statistics Taiwanese investment in Vietnam began in 1989. Since that year, there has been a steady increase in the scale of Taiwanese investment in Vietnam. Prior to 2010, Taiwan was consistently the largest source of foreign investment for Vietnam, reflecting the pioneering, adventurous spirit of Taiwanese businesspeople.

According to foreign investment statistics compiled by the General Statistics Office of Vietnam, over the period 1988 – 2016 the total number of Taiwanese investment projects came to 2,509 projects (including additional investment and investment withdrawal), a figure

exceeded by only two other countries. With cumulative investment totaling US\$31,568.96 million, Taiwan was Vietnam's fourth largest source of foreign investment in 1988 – 2016, accounting for 10.77% of all foreign investment received by Vietnam during this period. It should be noted that, because of their global business development strategy or for tax-planning reasons, many Taiwanese companies' investment in Vietnam has not been conducted directly through the Taiwanese parent company, but rather in the name of an affiliate company based in a third country such as China, Singapore, the British Virgin Islands, Samoa, etc., If this category of investment is also classed as "Taiwanese investment," then the actual amount of Taiwanese investment in Vietnam has been even higher.⁸

As regards the regions within Vietnam in which Taiwanese investment is concentrated, according to data compiled by the Taiwan External Trade Development Council (TAITRA),⁹ while Taiwanese businesspeople have invested in 48 of Vietnam's provinces and municipalities, the largest concentration of Taiwanese investment is found in Ho Chi Minh City and the neighboring provinces of Dong Nai and Binh Duong, which between them account for around 70 – 80% of total Taiwanese investment by value. As Taiwanese firms have intensified their investment in these areas and worked to build up the local supply chain,

⁸ For the purposes of this chapter and the following chapters, the term "total amount of investment" is used to refer to the amount of investment calculated using General Statistics Office of Vietnam statistics.

⁹ "The Economic and Trading Relationship between Vietnam and Taiwan," <http://www.taitraesource.com/total01.asp> (last accessed on March 8, 2017)

they have helped to foster industrial and economic development in the provinces and municipalities in which they operate, while also helping to attract other foreign investment to these areas. In the past few years, the geographical scope of Taiwanese investment in Vietnam has broadened, with a gradual increase in the number of Taiwanese firms investing in Central and Northern Vietnam, particularly in Hanoi, Haiphong and neighboring provinces. This is helping to reduce the disparities in economic development between Northern and Southern Vietnam.

Taiwanese investment in Vietnam is most heavily concentrated in the export-processing and manufacturing sector, which accounts for over 80% of total Taiwanese investment in Vietnam by value. Other sectors that have received significant amounts of Taiwanese investment include real estate development (representing approximately 6% of total Taiwanese investment by value), construction (4%), and the agriculture, forestry, fisheries and aquaculture sector (2%). The 15 other industry sectors that Taiwanese firms have invested in each accounts for less than 1% of total Taiwanese investment. Within the export-processing and manufacturing sector that has been the main focus of Taiwanese investment in Vietnam, initially, most investment was in traditional manufacturing industries, particularly textile and garment manufacturing, footwear manufacturing, food product and agriculture, forestry and fisheries product processing, machinery and tool manufacturing, rubber products manufacturing, wooden furniture manufacturing, and transportation vehicle manufacturing. The efforts of Taiwanese firms

investing in Vietnam not only boosted Vietnam's exports, helping Vietnam to earn large amounts of foreign currency, they also created large numbers of job opportunities and cultivated the technical and managerial talent needed by Vietnamese industry, while at the same time helping Vietnam to build up comprehensive industry value chains, enhancing the capabilities of Vietnam-based supply chains and contributing to a steady improvement in the overall state of the investment environment in Vietnam.

1.2 The State of Taiwanese Investment in Key Industry Sectors, and Taiwanese Investment's Contribution to Vietnam

1.2.1 Earning foreign currency for Vietnam through exports, and creating large numbers of new jobs

The first two manufacturing industries to develop in Vietnam were the textile and garment manufacturing industry and the footwear manufacturing industry. Besides creating substantial employment opportunities, the two industries were also Vietnam's main source of foreign currency until 2010, accounting for more than 20% of the country's total exports (Table 2). The textile and garment manufacturing industry and the footwear manufacturing industry have also been a major focus of Taiwanese investment in Vietnam. There are currently around 3,800 companies in Vietnam's textile and garment industry, employing over 2 million people, and Vietnam is the world's fifth-largest exporter of

textile and garment products.¹⁰ More than 200 Taiwanese firms have invested in the textile and garment industry in Vietnam, accounting for 40% of all foreign firms investing in this industry.¹¹ Initially, Taiwanese investment was mainly concentrated in the downstream garment-manufacturing and low-end fabric manufacturing segments of the industry. However, in recent years Taiwanese investment has gradually expanded into the mid-stream and upstream segments of the industry, and Taiwanese firms have played an important role in the building of a comprehensive textile and garment manufacturing industry value chain in Vietnam. This trend has enabled Taiwanese firms to reduce their production lead times, while also enabling Taiwanese-invested firms in Vietnam to act as suppliers for other foreign-invested firms that are operating in the textile and garment manufacturing sector in Vietnam; overall, Taiwanese investment has provided a considerable boost towards the enhancement of the overall international competitiveness of the Vietnamese textile and garment industry. Leading Taiwanese textile and garment manufacturers such as Far Eastern Polytex, Tainan Spinning, Formosa Taffeta, Eclat Textile, De Licacy Industrial and Lovetex Industrial have all been expanding the scale of their investment in Vietnam in recent years, developing integrated production networks, and continuing to earn large amounts of foreign currency for Vietnam and create extensive new employment opportunities.

¹⁰ The International Trade Administration (ITA), 2016 ITA Technical Textiles Top Markets Report, “2016 Top Markets Report Technical Textiles-Country Case Study (Vietnam)”, http://www.trade.gov/topmarkets/pdf/Textiles_Vietnam.pdf

¹¹ The Saigon Times (2009), “Taiwan textile suppliers seek to further penetrate Vietnam”, <http://english.thesaigontimes.vn/Home/business/other/4709/>

Table 2 Vietnam's Main Export Products

Units: US\$ millions; %

Product	1995	2000	2005	2010	2015
Total exports (US\$ millions)	5,449	14,483	32,447	72,237	186,837
Primary products	67.2%	55.8%	49.6%	34.9%	23.8%^a
Industrial products	32.8%	44.2%	50.4%	65.1%	76.2%^a
Telephones and components thereof	-	-	0.0%	3.2%	16.1%
Textile and garment products	14.0%	13.1%	14.7%	15.5%	12.2%
Electronic components, and computers and components thereof	-	5.4%	4.4%	5.0%	8.4%
Footwear	5.4%	10.2%	9.4%	7.1%	6.4%
Wood and products thereof	-	2.2%	4.8%	4.8%	3.7%

Note: "a" denotes data are for the year 2014.

Source: General Statistics Office of Vietnam: https://www.gso.gov.vn/default_en.aspx?tabid=780

As regards the footwear manufacturing industry, some of the larger Taiwanese companies that have invested in the footwear industry in Vietnam include Pou Chen, Feng Tay and Fulgent Sun. For both Pou Chen and Feng Tay, their Vietnamese production facilities are the largest of their global network of business locations, accounting for 42% and 53% of the total production capacity of the Pou Chen Group and the Feng Tay Group respectively. While Fulgent Sun's Vietnam plants currently only account for 31% of the Fulgent Sun Group's total production capacity, it is continuing to expand its Vietnam facilities, and within 1 – 2 years Fulgent Sun's Vietnam plants and Cambodia plants combined are expected to account for around 50% of the group's overall production capacity. Pou Chen first began investing in Vietnam in 1994, and now has a total of seven production sites in five provinces and municipalities,

employing a total of around 160,000 workers. Feng Tay has two large footwear-manufacturing plants located in Dong Nai Province and Ba Ria-Vung Tau Province, and has recently been working actively to expand both of these facilities. Besides its existing factory in Hung Yen Province, Fulgent Sun is also building a new plant in Hai Duong Province, and is continuing to secure new customers.

Another important industry which has earned large amounts of foreign currency for Vietnam is the wooden furniture industry. Although annual export value is lower than the textile and garment industry or the footwear industry, the wooden furniture industry has consistently maintained its place as one of Vietnam's five largest export industries; in 2015, this industry posted annual exports of nearly US\$7 billion, accounting for around 4% of Vietnam's total exports.

According to Vietnamese statistics, Vietnam currently has approximately 4,000 wooden furniture manufacturers¹², of which around 500 are foreign-invested firms (many of which are Taiwanese-invested).¹³ These manufacturers are heavily concentrated in Southern Vietnam, particularly in Ho Chi Minh City, Dong Nai Province, and Binh Duong Province.¹⁴ Leading Taiwanese-invested firms Kaiser Furniture (Vietnam)

¹² "Vietnamese furniture makers hit by dwindling timber supplies (posted on January 24, 2017)," <http://e.vnexpress.net/news/business/vietnamese-furniture-makers-hit-by-dwindling-timber-supplies-3533140.html>.

¹³ "Chinese investment surge puts wood industry at risk (posted on August 24, 2016)," <https://www.vietnamcolors.net/2016/08/chinese-investment-surge-puts-wood-industry-at-risk/>.

¹⁴ Taiwan Trade Center Representative Office in Ho Chi Minh City (2009), "Vietnam's Furniture Industry" http://hochiminh.taiwantrade.com/news/detail.jsp?id=1030&lang=zh_TW

(founded in 2004) and Shingmark (Vietnam) both rank among the top three largest wooden furniture manufacturers in Vietnam.

Overall, the establishment of factories in Vietnam by Taiwanese firms has not only helped to create large numbers of jobs and earn foreign currency for Vietnam, it has led to the introduction into Vietnam of a considerable amount of new production technology, new management skills, and new types of production machinery; examples include the production technology used for manufacturing functional textiles and special footwear materials, advanced furniture-manufacturing equipment, etc. In addition, in-house training by Taiwanese-invested firms operating in Vietnam and Taiwan-Vietnam collaboration projects between universities and manufacturers have helped to cultivate a large pool of Vietnamese technical experts, making a significant contribution towards the upgrading of the overall productivity of the Vietnamese labor-force.

1.2.2 Building comprehensive local industry supply chains and reducing Vietnam's reliance on imports

The presence or lack of comprehensive industry supply chains is an important consideration for multinational corporations when deciding where to undertake overseas investment. Having begun investing in Vietnam at an early stage, Taiwanese firms have made a major contribution towards the creation of the industry supply chains that Vietnam boasts today. This is particularly true in the case of the

motorcycle and bicycle industries. Vietnam is the world's fourth-largest motorcycle market; on average, there is one motorcycle for every two people in Vietnam. According to statistics compiled by the Vietnam Association of Motorcycle Manufacturers (VAMM), as of 2016 five leading motorcycle brands – Honda, Piaggio, Suzuki, SYM and Yamaha – held combined market share of more than 95% in Vietnam, with Honda having the highest market share (at around 70%).

Taiwan's SanYang Motor (SYM) established its first factory in Vietnam in 1992, investing around US\$120 million. It brought with it several dozen of its Taiwanese associate manufacturers, including suppliers of castings, exhaust systems, shock absorbers, rear-view mirrors, frames, motors, tires, batteries, wiring, dies, etc., creating a motorcycle industry cluster with a comprehensive supply chain. SYM also provided technology transfer to local Vietnamese firms on a large scale, and invited local firms to join its supply chain. The SYM (Vietnam) supply chain now includes over 200 local Vietnamese component suppliers, and more than 75% of components are sourced locally. Besides supplying SYM, these local Vietnamese firms also supply components to other foreign motorcycle brands that arrived in Vietnam after SYM (including Honda, Suzuki, Yamaha, etc.) and to local Vietnamese motorcycle brands. SYM has thus played an important role in realizing the vision of "Vietnamese motorcycles, made locally in Vietnam." Taiwanese firms are also actively involved in motorcycle and motorcycle component design and R&D, and

have helped to cultivate a large pool of local Vietnamese design and technology R&D talent.

As regards the bicycle manufacturing industry, Taiwanese companies first began to invest in this sector in Vietnam in the late 1990s, and there are now more than 30 Taiwanese-invested firms operating there, including bicycle assembly firms, frame manufacturers, component manufacturers, electroplating firms, etc. A bicycle industry cluster has begun to take shape, which includes vendors of finished bicycles (such as Asama and Strongman) as well as component suppliers (including saddle manufacturer Active International, frame manufacturer Sunrise, brake manufacturer Alhonga Vietnam, and chain manufacturer KMC, etc.), which are helping to meet demand for bicycles in the Vietnamese market, enabling Vietnam's citizens to purchase high-quality, reasonably-priced bikes, and reducing dependence on imported bicycles. In this way, Taiwanese firms are helping to enhance the quality of life of Vietnam's people while also reducing the amount of foreign currency that Vietnam needs to spend on importing goods from overseas.

Taiwanese investment in the bicycle industry and motorcycle industry in Vietnam has not only helped to create employment opportunities, enhance industrial technology capabilities, and cultivate specialist human talent, it has also made a major contribution towards the building of comprehensive bicycle manufacturing and motorcycle manufacturing supply chains in Vietnam. Besides meeting the needs of

the bicycle and motorcycle industries, the existence of these supply chains is also helping to support the development of other industries such as automotive manufacturing, electronics, machinery manufacturing, etc., and has made Vietnam a more attractive destination for foreign investment.

1.2.3 Introducing new technology, and boosting the value-added of local resources

Vietnam has a wealth of natural resources, and is famous as a “land of fish and rice.” Primary industries account for around 20% of Vietnam’s GDP, and more than 40% of jobs; these industries are thus very important for both Vietnam’s economic development and its social stability. Vietnam is one of the world’s leading agricultural and marine product producer nations, and there is considerable potential for implementing further processing on Vietnam’s primary agricultural products. This has led large numbers of Taiwanese firms in the food processing industry and in the agriculture, forestry and fisheries product processing sector to invest in Vietnam. Taiwanese investment in Vietnam in this area has introduced new food processing technology into Vietnam, and increased the value-added of local resources, while also helping local farmers and aquaculture operators to improve their technology, thereby raising both yields and quality levels, and boosting income levels.

Taiwanese companies in this sector that have developed sizeable operations in Vietnam include Uni-President Enterprises, Ve Wong,

Vedan, DaChan, Dai Phat, Want Want, Triko Foods, I-Mei Foods, King Car Industrial, and Vietnam-Taiwan Sugar. Uni-President's Vietnamese operations are mainly focused on the manufacturing of aquaculture feed, flour, instant noodles and oils. Besides supplying the local Vietnamese markets, these products are also exported to other Southeast Asian markets. Ve Wong's Vietnam operations are focused on instant noodle and seasonings production. Want Want has taken advantage of Vietnam's competitiveness in agricultural products by setting up a rice confectionery factory in Vietnam; besides producing snack foods, this factory has also contributed to improvements in local rice cultivation technology. Vedan has used microorganism fermentation technology to transfer Vietnam-produced tapioca flour into monosodium glutamate, which is marketed all over the world, and also holds high market share in the Vietnamese market; Vedan is the largest producer of MSG in Vietnam, and the only Vietnam-based MSG manufacturer that exports its products to other countries.

1.2.4 New investment strategies are helping to reduce regional inequality and contributing to the transformation and upgrading of Vietnamese industry

Since 2006, there have been changes in the form taken by Taiwanese investment in Vietnam. There has been a gradual northward shift in terms of the regions within Vietnam in which Taiwanese firms invest, and there

has also been a shift towards investment in more technology-intensive and capital-intensive industries. The most significant technology-intensive industry in which Taiwanese firms have been investing is the electronics sector, with leading Taiwanese electronics and IT companies such as Hon Hai (Foxconn), Compal and Wintek investing in Vietnam and establishing factories in Bac Ninh Province, Bac Giang Province and Vinh Phuc Province in northern Vietnam, and encouraging their suppliers in Taiwan to also invest in Vietnam. The Taiwanese-invested electronics sector in Vietnam can be divided into two main segments: the manufacturing of complete products, with the larger manufacturers including TECO, Ritek and Compal, and the manufacturing of electronic components, with Hon Hai (Foxconn), Universal Microelectronics, AOET, MiTAC Precision Technology and YoungFast Optoelectronics being among the larger Taiwanese investors in this segment. In 2016, Hon Hai (Foxconn) announced that it was spending US\$22 million to acquire Microsoft's mobile device component plant in Vietnam, and that, making effective use of the equity that Hon Hai holds in mobile phone brand Nokia, in the future Hon Hai would be manufacturing and selling both feature phones and smartphones in Vietnam. It is anticipated that this move by Hon Hai will help to create significant numbers of new jobs in Vietnam and boost Vietnam's exports, while also helping to make the information and communications technology (ICT) supply chain in Vietnam more comprehensive.¹⁵

¹⁵ "Foxconn is moving into the mobile phone handset market, spending heavily to acquire Microsoft's Vietnam plant" <https://kknews.cc/zh-tw/tech/8mgng.html> (last accessed on March 8, 2017)

As regards investment in capital-intensive industries, in 2009 Taiwan's China Steel Corporation (CSC) and Japan's Sumitomo Metal Industries Group established China Steel Sumikin Vietnam (CSV), a joint-venture production facility in Ba Ria-Vung Tau Province; the total amount of investment was US\$1.2 billion, with CSC holding a 56% equity share. 2012 saw Taiwan's Formosa Plastics Group invest over US\$10 billion to establish Formosa Ha Tinh Steel Corporation (FHS). The iron and steel industry is a "basic industry," producing materials that are vital for many other industries, including manufacturers of transportation vehicles, and the electronics, machinery-manufacturing and hi-tech manufacturing sectors. Currently, Vietnam is not self-sufficient in terms of its ability to produce hot-rolled steel (the main raw material for cold-rolled steel) or stainless steel, and is heavily reliant on imports from China. The completion of these two large steel manufacturing facilities through Taiwanese investment means that Vietnam now has comprehensive blast-furnace steel-making capabilities, which in the future should be able to support the development of both the construction sector and Vietnamese industry, reducing the amount of foreign currency that Vietnam needs to spend to purchase imported steel, and potentially even transforming Vietnam into a steel exporter that can take advantage of the huge business opportunities presented by the rapid pace of urbanization in the ASEAN member states.

1.2.5 Provision of supporting financial services to meet the trade financing needs of SMEs

Besides Taiwanese investment in the manufacturing sector, Taiwanese investment in the financial services sector has also played an important role in supporting the development of Vietnamese industry, and of the small and medium enterprise (SME) sector in particular. According to statistics compiled by Taiwan's Financial Supervisory Commission (FSC), as of the end of December 2016, Taiwanese-invested banking operations in Vietnam included 12 bank branches, 9 representative offices, and 34 other operations (including subsidiary banks). Chinfon Commercial Bank was the first Taiwanese bank to open two branches in Vietnam; Chinfon was merged into Taipei Fubon Bank in 2010. In 2000, Cathay United Bank established Indovina Bank (IVB) as a joint venture with Vietinbank (Vietnam's largest commercial bank), with Cathay United Bank holding a 50% equity share. IVB has a total of 33 branches, more than any other Taiwan-invested bank in Vietnam; more than 70% of its customers are local Vietnamese customers. In 2006, Cathay United Bank established a new branch in Chu Lai in central Vietnam, in line with Vietnamese government policy.

Taiwanese-invested banks in Vietnam do more than provide services to Taiwanese firms operating in Vietnam; they also provide corporate financing services for other foreign-invested firms and local Vietnamese firms. Taiwanese banks have extensive experience in helping Taiwan's

SMEs to develop overseas markets, and have networks of branches that span the globe; they are thus well-placed to help Vietnamese firms obtain offshore financing and invest overseas, while also being able to assist foreign companies with loans to help them invest in Vietnam. Besides helping state-owned and private-sector Vietnamese firms to obtain the long-term and short-term financing that they need for import/export trade, Taiwan-invested banks also help Vietnamese firms to undertake overseas investment, and help Vietnam to attract foreign investment by providing financing support for foreign companies interested in investing in Vietnam. They have also introduced modern financial products and services into Vietnam, and have cultivated large numbers of talented banking staff, thereby enhancing the competitiveness of the Vietnamese banking sector as a whole.

1.2.6 Demonstrating concern for others and fulfilling CSR responsibilities

Taiwanese-invested firms operating in Vietnam see themselves as part of Vietnam, and feel a strong desire to “give something back” to the local community, as can be seen from their active involvement in corporate social responsibility (CSR) activities in Vietnam. Both individual Taiwanese firms and Taiwanese chambers of commerce in Vietnam have given generously to assist with poverty relief, disaster relief and other charitable activities. At the same time, the vast majority of Taiwanese-invested firms have adopted a low-key approach towards

helping their employees, the local community and Vietnamese society as a whole, taking the view that “actions speak louder than words.” For example, Taiwanese firms have been involved in building new roads and bridges, building classrooms for schools, donating equipment and emergency relief supplies, sponsoring cultural and sporting activities, “adopting” orphans, visiting impoverished families to provide assistance, providing scholarships for students from poor families, helping children who have had to quit school because of family problems to recommence their studies, etc. They have also responded to Vietnamese government policy initiatives by funding the building of houses for homeless people. Some Taiwanese firms have provided long-term funding support for programs to arrange international medical treatment for Vietnamese children with rare diseases, making a significant contribution in this area. Others have arranged collaborative projects with major hospitals in Taiwan, whereby medical personnel from these hospitals make periodic visits to remote communities in Vietnam every year to provide medical services free of charge. The Council of Taiwanese Chambers of Commerce in Vietnam (CTCVN) and its branch chambers have adopted a proactive stance towards the organizing of charitable and cultural activities. For example, the CTCVN’s Haiphong branch has been implementing an ongoing charitable activity for more than 10 years now in collaboration with the Vietnam Red Cross Society that involves providing support for impoverished families during the winter months and visiting senior citizen care homes and orphanages. Other Taiwanese

firms have made use of Taiwan-based resources to help support Vietnam's development, e.g. by collaborating with Taiwan's Agricultural Development Fund to establish new agricultural technology demonstration stations in Vietnam, thereby contributing to the development of rural communities in Vietnam.

In the future, besides working hard to develop their core businesses, safeguard their employees' jobs and help drive the development of Vietnamese industry and the wider Vietnamese economy, Taiwanese-invested firms in Vietnam will also continue to fulfill their corporate social responsibilities, in areas such as concern for employees, concern for society, concern for the environment, etc. In this way, Taiwanese-invested firms will continue to integrate themselves into Vietnamese society and culture, becoming valued partners for the Vietnamese government, Vietnamese society and Vietnamese workers.

1.3 Taiwanese Investment in Vietnam – Transformations, Special Characteristics, and Obstacles

Taiwanese firms began investing in Vietnam at a relatively early stage, and Taiwanese investment in Vietnam now has a history going back three decades. Initially, Taiwanese investment was mainly concentrated in the agriculture, forestry and fisheries sector, but this was followed by a shift towards investment in export-processing manufacturing operations, which in turn was followed by a gradual shift away from labor-intensive industries towards capital-intensive and technology-intensive industries.

Recently, there has been a diversification of business models, as growing numbers of Taiwanese-invested firms in Vietnam have begun to invest in developing the Vietnamese domestic market and the service sector. Overall, however, there are still significant differences between the pattern of Taiwanese investment in Vietnam and investment in Vietnam by other foreign companies from Europe, North America, etc. More than 80% of Taiwanese investment in Vietnam has been in the export-processing manufacturing sector, with a total of over 4,000 individual firms; the number of Taiwanese businesspeople and managers working at these firms totals around 50,000 (60,000 if accompanying family members are included), and the number of local jobs created directly by these firms is approximately 1.4 million. Besides earning foreign currency and creating jobs for Vietnam, this Taiwanese investment has also introduced new know-how and technology into Vietnam, and cultivated large numbers of first-class Vietnamese technical specialists and managers. Thanks to the investment and hard work of Taiwanese businesspeople, Vietnam has seen a steady increase in the pool of technical talent and the emergence of ever-more comprehensive industry supply chains, creating solid foundations for attracting even more foreign investment in the future.

The ties of friendship between Taiwanese businesspeople and Vietnam have never been broken by changes in the global economic environment. For example, the Asian Financial Crisis of 1997 led many foreign companies operating in Vietnam to adjust their investment

strategy, and many of them withdrew from Vietnam completely, but Taiwanese firms' commitment to Vietnam remained unshaken. Similarly, despite the serious damage caused to many innocent Taiwanese businesses during the anti-Chinese riots that occurred in Vietnam on May 13, 2014, Taiwanese firms were influenced by their strong ties to Vietnam not to withdraw from the country, but instead to rebuild their factories and get them operating again. Many Taiwanese businesspeople have in fact put down firm roots in Vietnam, and a second-generation of business-owners is emerging that has grown up in Vietnam; for a great many Taiwanese, Vietnam has become their real home.

Despite the pronounced improvements in the overall investment environment in Vietnam over the past few years, Taiwanese-invested firms operating in Vietnam still experience many obstacles and challenges. Due to the special characteristics of Taiwanese investment, Taiwanese-invested manufacturing often experience obstacles and problems relating to the legal and regulatory environment, labor affairs, taxation, import/export, investment regulations, human resources, environmental protection, infrastructure, etc., while Taiwanese-invested firms oriented towards the Vietnamese domestic market are particularly affected by issues relating to the legal and regulatory environment, investment permits, and intellectual property right protection. Overall, the issues that Taiwanese-invested firms have expressed concern about are mainly related to production and export, and their main motivation in raising these concerns with the Vietnamese government is the desire to be

able to boost productivity, expand exports, and create a more stable employment environment for Vietnamese workers, while at the same time enabling these Taiwanese-invested firms to realize their goal of maintaining sustainable operation in Vietnam over the long term. The following sections of this report examine the issues of concern to Taiwanese-invested firms, and present some suggestions for improvement, which it is hoped will provide a useful reference for the Vietnamese government authorities when helping to address these concerns.

2. Issues of Concern and Suggestions to Taiwanese-invested Businesses

2.1 The Legal and Regulatory Framework, and Procedural Issues (Relevant Agencies: Individual Ministries, and Particularly the Ministry of Planning and Investment and the Ministry of Information and Communication)

2.1.1 Legal and regulatory framework

- **Publication of official English-language versions of laws and regulations to enhance transparency**

Explanation of the Issues and their Impact

According to Vietnam's Law on Promulgation of Legal Documentation, which was enacted in 2015 and came into effect on July 1, 2016, Vietnam has 15 different types of general, abstract laws that have

repeated application to indeterminate numbers of people,¹⁶ which are formulated and revised by government agencies and by political/social organizations unique to Vietnam.¹⁷ Labor legislation in Vietnam can be broadly divided into four levels. The basic framework for labor legislation is provided by the highest-level laws, including the Labor Code, the Law on Trade Unions, the Law on Social Insurance, the Law on Occupational Safety and Health, etc. The second level of legislation comprises Decrees issued by the Vietnamese government, which are similar to Implementation Rules in Taiwan, and which specify in detail how particular laws should be implemented in practice. The third level consists of Circulars, which are issued by individual ministries or ministers, and which have general application. Finally, the fourth level comprises official Replies issued by Vietnamese government agencies in regard to individual cases, which are similar to Interpretations in Taiwan. Generally speaking, when a new law is promulgated or an existing law is revised, the relevant enabling statute is promulgated first, with the related Decrees or sub-statutes being issued later.

The single biggest obstacle that Taiwanese firms encounter when investing in Vietnam is the language barrier. Although the Vietnamese government does publish some English-language versions of enabling statutes, the implementation rules or Decrees (which are of more direct concern to investing firms) are generally only published in

¹⁶ Law on Promulgation of Legal Documentation (Vietnam), Article 3.

¹⁷ This category of special political/social organizations includes the Vietnam Fatherland Front, the Vietnam General Confederation of Labor, and the Vietnam Veterans Association, etc.

Vietnamese-language versions. In the past, investing firms have had to rely on the assistance of translation agencies, law firms, accountancy firms and consulting firms, but they often find that the translations provided by these firms are at variance with the actual Vietnamese text of the law in question, and often these translations are rejected by local or central government authorities. Due to their uncertainty as to whether they have fully grasped the meaning of particular laws, investing firms are forced to constantly seek official interpretations from local government agencies or central government ministries, which involves a considerable waste of time, money and manpower, and the investing firms may still find that they are deemed by the government to have been acting illegally. This situation significantly enhances the uncertainty and risk that Taiwanese firms investing in Vietnam are forced to deal with.

To take an example, in some places the English-language translation of the Statute of the Vietnamese Trade Unions formulated by the Vietnam General Confederation of Labor (VGCL) contradicts Vietnam's Law on Trade Unions and Labor Code. As another example, the calculation of union dues is based on the amount of social insurance payments payable, but the English-language translation is very unclear on this point. Problems of this kind create a situation where, even though the law itself may be perfectly clear, foreign investors still encounter difficulties in relation to how the law is implemented.

Suggestions

In regard to the above-mentioned issues, the Taiwanese Chambers of Commerce would like to offer the following suggestions to the Vietnamese government, in the hope that they may be of assistance to the government in its ongoing efforts to enhance the transparency of the legal and regulatory framework in Vietnam. This would significantly reduce the amount of operational risk that foreign investors are exposed to in Vietnam, and would help to create a better investment environment.

i. Continued upgrading of legislative technique

While the last few years have seen considerable progress in terms of legislative technique in Vietnam, nevertheless, if more could be done to ensure that, after a new statute has been enacted, the related Decrees and Circulars are completed and promulgated soon afterwards, this would make it significantly easier for firms to abide by the requirements of the law. If this is not possible, then it would be helpful if a rule could be adopted specifying that new enabling laws will not come into effect until all of the related Decrees and Circulars have been promulgated too. In addition, to reduce the degree of uncertainty regarding how individual laws are interpreted (which can lead to a lack of consistency in the implementation of the law), it is suggested that the Vietnamese government could make use of executive orders to clarify relevant definitions, implementation procedures, scope of application, specific

details, etc., so as to avoid the situation where firms are unsure of what they need to do in order to adhere to the requirements of the law.

- ii. Prompt provision of official English-language translations of important laws and regulations, to reduce the risk of mis-interpretation

Although in recent years English-language translations have begun to be provided for many Vietnamese laws, there is often a lack of consistency in the terminology used. If improvements could be realized in this area, then this would make it significantly easier for foreign-invested firms in Vietnam to make sure that they are operating in conformity with the law. It is suggested that, if possible, when promulgating new laws (and particularly when promulgating implementation rules or administrative orders), the Vietnamese government should simultaneously issue official, high-quality English-language translations; if the translations cannot be issued at the time of promulgation, then at least they should be issued before the new laws come into effect, and give foreign-invested firms a reasonable period to make any necessary adjustments to their operations.

➤ **Making it easier for firms to obtain copies of laws and interpretations**

Explanation of the issues and their impact

Foreign-invested firms in Vietnam experience two main types of problem in relation to accessing laws and regulations. The first of these relates to the collation of laws and regulations. Taiwanese-invested firms in Vietnam hope that original Vietnamese-language texts (and English-language translations) of all laws can be made available for download from government agencies' websites. The ideal situation would be to have a single, unified portal site for the publication of laws and regulations, with clear classification and with search functions, and providing links to the websites of the relevant regulatory authorities. This would help firms to access the texts of important laws and regulations, and make it easier for them to follow them.

The second category of problem relates to how laws are interpreted by government agencies. A report compiled by the Vietnam Chamber of Commerce and Industry (VCCI) based on an “inventory-taking” of laws and regulations in relation to Vietnam’s transparency obligations under the FTA being negotiated between Vietnam and the European Union (EU)¹⁸ noted that areas where Vietnam was currently lacking included the following: (1) When requested to do so, the regulatory authorities

¹⁸ The Center for WTO and Economic Integration, Vietnam Chamber of Commerce and Industry, Report: “Review Vietnam Legal Framework against Commitment on European Union – Vietnam Free Trade Agreement (EVFTA) on Transparency” (2016).

should provide an explanation of the grounds for new legislation and the purpose of new rules; (2) There is a need for the establishment of suitable mechanisms for responding to queries raised by interested parties.¹⁹ Taiwanese-invested firms hope that the Vietnamese government can clarify which central government agency firms should address queries to in the event of their being uncertain about a particular law or its interpretation, and can ensure that, in the case of submitting such queries, firms will receive a written reply which could be used as a basis for implementation by officials belonging to local government authorities.

Suggestions

The Taiwanese Chambers of Commerce hope that the following suggestions may be of use to the Vietnamese government in perfecting the channels for accessing information about laws and regulations, which would help foreign-invested firms to develop a more precise understanding of the requirements of the law.

- i. Establishment of a unified official portal for the publication of English-language translations of laws and regulations

Currently, with the exception of laws passed by the National Assembly, announcements regarding the revision of existing laws are scattered around the websites of different government agencies. It is suggested that it might be useful to establish a unified official portal for

¹⁹ Ibid. at 9-19.

the publication of official English-language translations of laws and implementation rules, and of revisions made to laws and implementation rules, with clear classification of laws and with search functions, and linked to the websites of the relevant regulatory authorities, to facilitate searching by foreign-invested firms. The same platform could be used for the publication of draft revisions of laws and regulations, so that interested parties can offer their opinions regarding these draft revisions.

ii. Establishment of a unified “contact window” for providing services to foreign investors

The Vietnamese government has so far failed to establish a unified “contact window” for the provision of services to foreign investors. When a Taiwanese-invested firm has a query regarding Vietnamese law or its interpretation, if the firm is located within an industrial park, it has the option of seeking help from the industrial park administration, but if it is not located within an industrial park, then it will need to address its inquiries to the provincial government’s investment office; often, the firm will end up having to contact multiple government agencies before it receives a response to its query. It is suggested that, in the short term, the Vietnamese government could clarify for foreign-invested firms which central government agency they should contact if they are unsure about a particular law or its interpretation, and could make sure that in such cases the firm will receive a written reply which local government officials could then use as a basis for implementation of the law in question. Over

the long term, it would be helpful to have a single unified portal established for the provision of services to foreign investors, along with a digitalized legal and regulatory information system, so that foreign firms can receive concrete written replies to their queries without needing to waste time contacting multiple different agencies.

iii. Regular publication and updating of FAQs for the reference of foreign-invested enterprises

The vast majority of Taiwanese-invested firms in Vietnam are involved in export-processing, and as such they face similar problems. Currently, when Taiwanese firms are unclear about particular laws or regulations, they generally seek advice from a law firm or consulting firm, or contact the regulatory authorities; this often leads to mistaken interpretations, and also increases the administrative burden on the regulatory authorities. It is suggested that the Vietnamese government could follow the example of Taiwan and of other developed nations, by posting regularly-updated FAQs (listing commonly-asked questions and providing answers to them) on government websites. This would make it easier for firms to comply with the law, and would also reduce the workload of government officials.

➤ **Greater transparency in regard to motorcycle use statistics**

Explanation of the Issues and their Impact

Taiwanese-invested firms in the motorcycle industry have noted that the data relating to the annual number of new motorcycle registrations are very important to their production planning and operational planning; they feel that if they were able to base their production planning on official government data, this would provide a significant boost to their operations. Currently, in Taiwan and in many other countries, motorcycle manufacturers can obtain official motorcycle registration data on payment of a service charge, but this is not possible in Vietnam, and the province-level data available from provincial police departments' records are inconsistent. It is very difficult for manufacturers to obtain accurate, official government data in Vietnam. Other foreign-invested firms have expressed similar concerns to the Vietnamese government on many occasions.

Suggestions

It is suggested that the Vietnamese government could follow the example of Taiwan and many other countries by establishing relevant databases, and using electronic systems for database interconnection, so that manufacturers can obtain the vehicle registration data they need (on payment of a fee) more easily and conveniently. Not only would this help manufacturers to implement market analysis and production planning, it

would also enhance the overall degree of transparency of government information, and facilitate the long-term preservation of historic data. The costs of maintaining and updating the databases could be met through the charging of fees for data access.

2.1.2 Implementation procedures

➤ Maintaining consistency in implementation procedures and judicial decisions

Explanation of the Issues and their Impact

Reflecting its active participation in regional economic integration initiatives, the past few years have seen significant progress in Vietnam in terms of the enhancement of legal and regulatory transparency. Nevertheless, there is still considerable room for improvement in terms of administrative agencies' efficiency, implementation capabilities, implementation procedures and transparency of administrative procedures. For example, the situation where a new law has already come into effect but the relevant implementation rules have either not yet been promulgated or are insufficiently precise can lead to inconsistent judicial decisions being made by different ministries, in different provinces and municipalities, and by different officials at different times. This can create serious operational difficulties for business enterprises, particularly larger enterprises that have factories in more than one province or city.

Besides imposing additional operating costs on businesses, the complexity of administrative procedures also weakens SMEs' willingness to abide by the requirements of the law. For example, if a foreign investor wishes to withdraw their investment, they are required to submit an application for the winding up of their company in Vietnam; if the related administrative procedures are too complex and demanding, this can tempt some investors to close down their operations without going through the legally-mandated procedures, which can lead to problems in terms of unpaid taxes, failure to make severance payments to employees, etc.

Suggestions

It is suggested that, before a new law comes into effect, the Vietnamese government should publish concrete, specific English-language implementation rules, to help reduce the incidence of "gray areas" in implementation procedures. There should also be a clearly-designated central contact window for firms that have queries regarding laws or their interpretation, from which firms can obtain a written response to their inquiries that can serve as a basis for implementation decisions and reduce the amount of discretion left to individual enforcement officials. If contact window personnel, local government officials and enforcement personnel could be brought to accept that the provisions of sub-statutes should not take precedence over the provisions of the enabling law, thereby ensuring greater uniformity in

official decision-making, this would significantly reduce the frequency of investment-related disputes.

➤ **Achieving greater consistency in the legal interpretations made by central government agencies and those made by local governments**

Explanation of the Issues and their Impact

As noted above, Vietnam has a complex array of laws which are revised on a very frequent basis, and the promulgation of concrete implementation rules following the enactment of a new law is often delayed, creating a situation where, although the new law has in theory already come into effect, lower-level government agencies have differing views on how it should be implemented. An example of this situation can be seen with the recent revision of social insurance legislation in Vietnam. Different companies have different salary structures and compensation items; Circular No. 59/2015/TT-BLDT-BXH expanded the basis for calculation of social insurance contributions to include not only base salary but also bonuses and other supplementary payments, leaving firms confused as to precisely which compensation items should be included when calculating social insurance contributions. However, when firms make inquiries with the labor affairs agencies of the central government and local government authorities, they tend to receive different, inconsistent answers. Similarly, in regard to tax breaks, Taiwanese-invested firms have found that tax breaks that they were

promised by local government authorities are not honored by the central government. There are also significant disparities between provinces in terms of the implementation of environmental legislation. For example, some Taiwanese firms have commented that enforcement personnel in different provinces take a differing stance as to the requirements for refilling fire extinguishers; some require that fire extinguishers be refilled every six months, others that they be refilled once a year. This kind of situation can cause major problems for larger firms that have factories in more than one province or municipality.

Suggestions

It is suggested that the Vietnamese government could specify a centralized contact window for inquiries regarding laws and regulations, so that when firms are unsure about a particular law or its interpretation, they can obtain a written response to their query that will provide a basis for enforcement at both the central government and local government levels. The government should also try to strengthen the mechanisms for collaboration and coordination between the central government and local government authorities. In theory, enforcement personnel at all levels of government should be following the interpretations made by the central government authorities, but at the same time the central government should accept the validity of tax breaks offered by local government agencies. This would enhance the overall level of consistency and

predictability, reducing the degree of uncertainty and risk to which foreign investors are currently subject.

2.2 Labor Issues (Relevant Agencies: Ministry of Labour - Invalids and Social Affairs (MOLISA), and the Department of Social Insurance, MOLISA)

2.2.1 Overtime hours

- **Raising the maximum permitted number of overtime working hours per year to at least 500 hours**

Explanation of the Issues and their Impact

Article 104 of Vietnam's Labour Code (10/2012/QH13) stipulates that Vietnamese workers may not work more than 8 hours a day or 48 hours a week; if the employer chooses to have working hours calculated on a weekly basis, then the maximum number of hours worked per day may not exceed 10 hours, with the weekly maximum remaining unchanged at 48 hours.²⁰ Article 106 of the Labour Code defines overtime work as the duration of work performed at times other than during regular working hours, as specified by law, collective bargaining agreement, or the internal work regulations of an employer; the number

²⁰ Labour Code (10/2012/QH13), Article 104: "(1) Normal working hours shall not exceed 8 hours per day or 48 hours per week. (2) An employer has the right to determine the working hours on an hourly, daily, or weekly basis, provided that the daily working hours shall not exceed 10 hours per day and not exceed 48 hours per week where a weekly basis is applied. The State encourages employers to implement a 40 hour working week. (3) The working hours shall not exceed 6 hours per day with regard to employees who carry out especially heavy or hazardous work, or who work under exposure to toxic substances as stipulated in the list issued by the Ministry of Labour - Invalids and Social Affairs in Coordination with the Ministry of Health.

of overtime working hours must not exceed 50% of the normal working hours in one day. In cases where working hours are calculated on a weekly basis, the total normal working hours plus overtime working hours must not exceed 12 hours in one day, overtime working hours must not exceed 30 hours per month, and total overtime working hours in one year must not exceed 200 hours, except in certain special cases specified by the government, where the annual limit is raised to 300 hours.²¹ Regarding the penalty for cases where the maximum overtime limit is exceeded, Article 14 of Decree No. 95/2013/ND-CP stipulates that such violations shall be punishable with a fine of between 25,000,000 and 50,000,000 Dong, and that the employer may be ordered to suspend operations for a period of 1 – 3 months.

Vietnam is currently one of the world's most important centers for industrial production, but the way the working hours system has been designed is having a severe negative impact on Vietnam-based manufacturers' production scheduling flexibility and on the overall competitiveness of Vietnamese industry. To take an example, in the hi-tech manufacturing sector, because switching the production

²¹ Labour Code (10/2012/QH13), Article 106: "(1) Overtime work is the duration of work performed at any other time than during regular working hours, as indicated in the law, collective bargaining agreement, or internal work regulations of an employer. (2) The employer has the right to request an employee to work overtime when all of the following conditions are met: (a) Obtaining the employee's consent; (b) Ensuring that the number of overtime working hours of the employee does not exceed 50% of the normal working hours in one day; in case of applying regulation on weekly work, the total normal working hours plus overtime working hours shall not exceed 12 hours in 1 day; overtime working hours shall not exceed 30 hours per month and 200 hours in 1 year, except for some special cases as regulated by the Government, where the total number of overtime working hours shall not exceed 300 hours in 1 year. (c) After a period of a number of consecutive days of overtime work during one month, the employer must arrange for compensatory leave for the duration in which the employee has not taken the leave.

machinery on and off takes too much time, in order to maintain production efficiency factories need to keep operating around the clock, 24 hours a day. The legal restrictions on overtime work make it very difficult for hi-tech manufacturers to arrange work shifts; given that there are already shortages of skilled technicians in Vietnam, in some cases firms may find it impossible to roster enough workers for each shift. Similarly, companies in labor-intensive industries where there is a pronounced “busy season” and “slack season,” find it difficult to make appropriate adjustments to working hours.

Taiwanese-invested companies note that the majority of Taiwanese-invested firms operating in Vietnam are undertaking contract manufacturing for leading international brands; both the requirements laid down by these international brands and their own integrity lead Taiwanese-invested contract manufacturers to abide strictly by the requirements of labor laws in the country in which they are operating. However, rigorous adherence to the letter of the law by Taiwanese-invested firms has resulted in a situation where these firms suffer a high employee turnover rate, because many Vietnamese employees want to earn more overtime pay to boost their incomes. Firms find themselves caught between a rock and a hard place, given that complying with the requirements of the law means sacrificing operational efficiency. As Taiwanese-invested firms see it, excessively strict restrictions on overtime working hours are not achieving their intended goal of safeguarding the health of workers; rather, they are creating a

situation where workers who are not permitted to work overtime and consider their salaries to be too low end up working two or even three jobs to boost their income. At the same time, this situation prevents firms from raising their production capacity and deprives them of flexibility in production scheduling, leading to a substantial increase in operating costs. Manufacturers, workers, and the government all lose out from this situation.

Suggestions

Foreign-invested companies in Vietnam have complained to the Vietnamese government several times about Vietnam's excessively strict restrictions on overtime working hours. Bearing in mind that maximum permitted total working hours (regular working hours plus overtime hours) in Vietnam are low by ASEAN standards (Table 3), it is suggested that the Vietnamese government should relax the upper limit on the maximum number of overtime hours that can be worked each year, raising it to at least 500 hours, so as to give business enterprises more operational flexibility.

**Table 3 Maximum Permitted Working Hours and Overtime Hours
in Key ASEAN Nations**

Unit: hours

Country		Maximum Permitted Regular Working Hours	Maximum Permitted Overtime Hours	Maximum Permitted Regular Working Hours Per Year	Maximum Permitted Overtime Hours Per Year	Maximum Permitted Total Working Hours Per Year
ASEAN member states	Vietnam	48/week	200-300/year	2,496	300	2,796
	Indonesia	40/week	14/week	2,080	728	2,808
	Laos	48/week	45/month	2,496	540	3,036
	Singapore	44/week	72/month	2,288	864	3,152
	Malaysia	48/week	104/month	2,496	1,248	3,744
	Thailand	48/week	36/week	2,496	1,872	4,368

Source: The present study.

2.2.2 Social Insurance

➤ Setting a reasonable upper limit on the amount and scope of social insurance contributions

Explanation of the Issues and Their Impact

As a socialist country, Vietnam has maintained high standards in its worker social insurance legislation. Vietnam's Law on Social Insurance stipulates that if a worker has signed a contract with an employer with a term of at least 12 months, providing for monthly compensation, then the worker must have pay 8% of their monthly salary into a social insurance fund, and the employer must also make a contribution equivalent to 18% of the worker's salary, to be paid into the fund. If one adds in health insurance and unemployment insurance contributions, in total the employer is required to make contributions equivalent to 22% of the

worker's monthly salary, and the worker is required to make payments equivalent to 10.5% of salary, giving a combined total of 32.5%. This figure is far higher than the corresponding percentages for other ASEAN member states such as Malaysia, the Philippines, Indonesia and Thailand (Table 4).

Table 4 The Combined Social Insurance, Health Insurance and Unemployment Insurance Contribution Rates for Key ASEAN Nations

Country	Worker's and Employer's Combined Social Insurance, Health Insurance and Unemployment Insurance Contributions as a Percentage of Monthly Salary
Malaysia	13%
The Philippines	10%
Indonesia	8%
Thailand	5%
Vietnam	32.5%

Source: EuroCham (2017), Whitebook 2017: Trade & Investment Issues and Recommendations, p.44, table 5.

Article 90 of Vietnam's Labour Code (10/2012/QH13) stipulates that wages include not only the basic wage but also wage allowances and other additional payments.²² The Vietnamese government's definition of what constitutes "wages" for the purpose of calculating social insurance contributions has been revised multiple times. Initially, the calculation of contributions was based on the employee's base salary, but Circular No. 59/2015/TT-BLDT-BXH stipulated that, over the period 2016 – 2017,

²² Labour Code (10/2012/QH13), Article 90: "Wages. (1) Wage is a monetary amount which is paid to the employee by the employer to perform the work as agreed by the two parties. Wage includes remuneration which is based on the work or position, as well as wage allowances and other additional payments. An employee's wage must not be lower than the minimum wage provided for by the Government. (2) The wage shall be paid to the employee based on labour productivity and quality of the work performed. (3) Employers shall ensure that wage is paid equally without gender-based discrimination against employees performing work of equal value.

base salary plus wage allowances would be taken as the basis for calculation, and that starting from 2018 other additional payments must also be included.

The expansion of the base of calculation for determining social insurance contributions mandated by this new law means that business enterprises are faced with having to pay higher social insurance contributions, which in turn means an increase in overall labor costs. The extent of the increase in labor costs will vary depending on the characteristics of individual industries; the increase will be higher for firms in labor-intensive industries than for firms in industries characterized by a high degree of automation. Most Taiwanese-invested firms in Vietnam are involved in labor-intensive export-processing operations, and can expect to see an increase in overall labor costs in the range of 10 – 25%. This is a cause of considerable concern for many Taiwanese-invested firms, who believe that this change in the law will dramatically increase their operating costs.

Many Taiwanese-invested firms have noted that, because firms' salary structures are the product of detailed calculations, this change in the law has imposed significantly higher personnel costs on firms. More importantly, Vietnamese workers themselves are now faced with an increased financial burden; many Taiwanese-invested firms report receiving inquiries from their employees about this issue. In the past, Taiwanese-invested firms' collaboration with the Vietnamese government

by raising employees' social insurance contributions led to employee protests and even strikes; Taiwanese-invested firms are concerned that this new change in the law may also lead to significant dissatisfaction among their Vietnamese employees.

Suggestions

The Vietnamese government should reconsider the expansion in the scope of the basis for calculation of social insurance contributions stipulated in the new law, and should either delay the incorporation of other additional payments into the basis for calculation, or reduce the social insurance contribution percentage. It is also suggested that the government should step up communication with workers regarding the change in the social insurance contribution calculation system, so as to reduce misunderstanding that might lead to strikes and stoppages.

Like many other countries, Vietnam has rules setting an upper limit for social insurance; however, in practice these rules are effectively a dead letter. According to current Vietnamese labor law provisions, the maximum amount of social insurance contributions payable is capped at 20 times the minimum wage; since the monthly minimum wage in Vietnam is currently in the range of 2.58 million – 3.75 million Dong (roughly equivalent to US\$103 – 150), this means that the upper limit on social insurance contributions is approximately US\$3,000, far higher than the corresponding figure in Taiwan, which is US\$1,477 (equivalent to 2.2 times the minimum wage, and 1.2 times the average wage). It is

suggested that the Vietnamese government should reference the experience of other countries in this area, and set the upper limit on social insurance contributions at a reasonable level. For example, if Vietnam followed a similar approach to that used in Taiwan or China²³, then the upper limit on contributions would be set somewhere in the region of US\$206 – 650 (assuming the average monthly wage in Vietnam to be US\$217. Another possible model would be Indonesia, where monthly pension contributions are capped at a maximum of 7 million Rupiah (roughly US\$610).

➤ **Foreign nationals should be allowed to choose for themselves whether or not to join Vietnam’s national health insurance and social insurance schemes**

Explanation of the Issues and their Impact

Since 2012, Vietnamese law has stipulated that foreign nationals employed on a contract with a term of three months or more must pay health insurance contributions. Since January 1, 2018, foreign nationals holding a work permit, intern certificate or intern permit are also required to pay social insurance contributions, pursuant to the provisions of Law No. 58 (58/2014/QH13).

As a general rule, foreign nationals working in Vietnam will normally already have social security insurance in their home country,

²³ In China, the upper limit on social insurance contributions is set at three times the average monthly wage.

and may also have taken out a global health insurance policy. Due to issues relating to the language barrier and safety concerns, foreign nationals working in Vietnam who experience medical problems normally return to their home country for treatment, so while the Vietnamese government's decision to include foreign nationals within the scope of Vietnam's health insurance and social insurance coverage reflects good intentions, the actual benefits for foreign nationals are very limited, whereas they are required to shoulder additional costs, and the firms employing them also experience an increase in labor costs as a result.

Suggestions

It is suggested that the Vietnamese government follow Taiwan's example by giving priority to domestic workers in its labor protection measures, and by giving foreign nationals working in Vietnam the right to decide for themselves whether they wish to participate in Vietnam's health insurance and social insurance programs. For those foreign nationals who do wish to be included in Vietnam's health insurance and social insurance schemes, not only is there no obvious reason for the Vietnamese government to subsidize these workers' contributions, it could in fact set the contributions that they are required to pay at a higher level than those applying to Vietnamese nationals, in line with the "user pays principle." In this way, limited resources could be directed towards those workers who really need them.

2.2.3 Labor dispute resolution and illegal strikes

➤ Lawful labor dispute resolution and illegal strikes

Explanation of the Issues and their Impact

Vietnam's Labour Code (10/2012/QH13) contains provisions governing labor dispute resolution and strike action. The Labour Code divides labor dispute resolution into two categories: labor dispute resolution involving individuals, and collective labor dispute resolution. In the case of labor disputes involving individuals, unless the employee in question has already been laid off or had their contract of employment terminated, in principle, the process of mediation (involving a specialist labor mediator) must be completed before the case can be submitted to the People's Court. Collective labor dispute resolution is more complex, but in principle, regardless of the nature of the dispute, the labor mediation process must be completed first. If mediation is unsuccessful, then in the case of a rights-oriented dispute, the parties to the dispute may ask the chairman of the local district-level People's Committee to settle the dispute. In the case of an employee welfare related dispute, the parties may submit the case to the local Labor Arbitration Council; if arbitration fails, then a strike may be launched. In other words, workers may launch a strike in relation to a welfare-related dispute, but not in relation to a rights-related dispute. In addition, a strike must be led by the labor union, and may not be launched unless the legally-mandated dispute resolution

procedures have been followed, with no settlement reached. Furthermore, employees of different enterprises may not launch a coordinated strike.

According to the provisions of Article 213 of the most recent version of the Labour Code (10/2012/QH13) and of the Law on Trade Union No. 12/2012/QH13, a written document noting the decision to strike must be submitted to the employer at least five working days before the strike will begin, and copies of this document must be submitted to the provincial labor affairs office and the provincial labor union organization. If, by the time the strike is due to begin, the employer still refuses to accept the workers' collective demands, then the union's executive committee may organize and lead the strike.

Taiwanese-invested firms in Vietnam feel that, while Vietnam's Labour Code does give workers the right to strike, in reality almost all strikes in Vietnam fail to follow the procedures specified by law, and thus constitute illegal strikes. The Labour Code allows firms to dismiss workers who have been absent without leave for five days in any given month. Although the promulgation of the revised version of the Labour Code means that workers involved in illegal strikes are now required by law to compensate the employer for loss incurred as a result of the strike, which led to a decline in the number of illegal strikes in 2014 – 2015, the first two months of 2016 still saw 39 illegal strikes take place (of which 20, or 68.9% of the total, involved foreign-invested firms). More than 80% of Taiwanese investment in Vietnam has been in the manufacturing

sector or in the agriculture, forestry and fisheries sector, and this investment has created around 1.4 million jobs; Taiwanese-invested firms in Vietnam feel that the problem of Vietnamese employees of Taiwan-invested firms engaging in illegal strikes that do not comply with the requirements of the Labour Code, and where the employer and the regulatory authorities are not notified in advance, is a serious issue.

Suggestions

In 2011, the Vietnamese government established an emergency contact window at the Committee for Taiwan Affairs (headed by commissioners from the Ministry of Labour - Invalids and Social Affairs and Ministry of Public Security); when an illegal strike occurs, the affected firm can notify the Taipei Economic and Cultural Office in Vietnam, which will then report the incident to the relevant provincial government authorities via the emergency contact window, after which provincial public security personnel and labor affairs personnel will be dispatched to the scene to assist in resolving the dispute. The Taiwanese Chambers of Commerce are very grateful to the Vietnamese government for the support provided by this system.

Although Vietnam has a comprehensive labor dispute resolution mechanism, in reality, the requirements of the law are often ignored, with workers engaging directly in strike action without first completing the required dispute resolution procedures. From the point of view of the affected business enterprises, this can cause serious problems, and in

some cases both personal safety and property can be endangered. Although the incidence of illegal strikes is now lower than it used to be, they do still occur, and it is suggested that the Vietnamese government should continue to step up efforts to educate workers about the illegality of taking strike action that does not follow the legally-mandated procedures, and that when illegal strikes do occur, they should be handled properly in accordance with the law, so as to reduce the business risk that Taiwanese-invested firms need to shoulder. The Vietnamese government should encourage workers to follow lawful dispute resolution channels, and strengthen their awareness of the importance of law-abiding behavior; and should also try to ensure that foreign-invested firms have enough time to response to disputes and to try to resolve the issues. This would reduce the negative impact that strikes have on firms, and help to create a “win-win” situation for both firms and workers.

2.2.4 Visas and Work Permits

➤ Providing greater flexibility in the handling of work permit applications for foreign nationals

Explanation of the Issues and their Impact

On February 3, 2016, the Vietnamese government promulgated Decree No. 11/2016/ND-CP, to serve as the implementation rules for certain provisions of the Labour Code relating to the employment of foreign nationals within Vietnam; the provisions of this Decree took

effect on April 1, 2016. The new Decree superseded Decree No. 102/2013/ND-CP (promulgated on September 5, 2013) and Section 4.a. of Decree No. 47/NQ/CP (promulgated on July 8, 2014), with the aim of simplifying the rules governing applications made by foreign-invested enterprises for work permits for foreign nationals to work in Vietnam. Paragraph 3, Article 3 of Decree No. 11/2016/ND-CP stipulates that specialist foreign workers must meet one of the following criteria: (a) A specialist who holds a certificate issued by a foreign agency, organization or enterprise confirming their possession of specialist skills; or (b) A specialist who is educated to at least university level and who has at least three years' work experience in the industry or field in which they will be working in Vietnam.

Taiwanese-invested firms operating in Vietnam note that this new legislation may create a situation where, when the work permit of a foreign specialist currently already working in Vietnam expires, the foreign specialist may be unable to renew their work permit and be forced to return home because they do not have the required educational qualifications. The Vietnamese manufacturing sector is currently experiencing a period of rapid development; as technology evolves, there is more and more need for experienced skilled technicians and specialists to come to Vietnam to provide on-site guidance and to transmit skills; however, these experienced technicians and specialists often learned their trade through an apprenticeship system or through the on-the-job accumulation of practical experience; they do not necessarily possess

higher academic qualifications or professional certification. Under the new law, these specialists may find it difficult to meet the criteria for work permit issue, or may find that the application process is too complex and time-consuming. This will create a situation where firms are unable to retain senior staff that the firm has spent many years cultivating, potentially causing serious loss to the affected Taiwanese firms.

Taiwanese firms have also commented that if, when foreign-invested firms are applying for work permits for foreign specialists in “general-application” skill areas such as finance, accounting, legal affairs, human resources, IT management, etc., if only work experience in the same industry counts towards meeting the work permit requirements, then this could cause serious human resources shortages for the firms concerned. As individuals with “general-application” skills are able to work in a wide range of different industries, it is suggested that the Vietnamese government should relax the work experience criteria for this category of foreign specialist. A further point is that there are now a growing number of second-generation Vietnamese immigrants in Taiwan (with a Vietnamese mother or father) who are interested in working at a Taiwanese-invested firm in Vietnam after graduating from university in Taiwan. Currently, however, the three-year work experience requirement prevents this. The situation where young Taiwanese who are eager to work in Vietnam are unable to do so, while at the same time skill levels in the Vietnamese workforce are not yet up to international standards, is causing serious problems for Taiwanese-invested firms in terms of

maintaining the human resources they need, and is affecting the international competitiveness of these firms.

Suggestions

The Taiwanese Chambers of Commerce have the following suggestions regarding the regulations governing applications for work permits by foreign nationals; they hope that the government will see fit to relax the work permit criteria, so as to give Taiwanese-invested firms more flexibility in their recruitment and human resources operations.

- i. It is suggested that Vietnam's Ministry of Labour - Invalids and Social Affairs should allow those foreign specialists and managers who have been working for an extended period in Vietnam, having obtained work permits under the old system in accordance with the provisions of Circular No. 102/2013/ND-CP, to be permitted to have their applications for work permit extension handled in accordance with the old system, so as to avoid causing serious loss to Taiwanese-invested firms because of talent shortages and the related difficulties in upgrading production technology.
- ii. With respect to specialists with "general-application" skills in areas such as finance, accounting, legal affairs, human resources management, IT management, etc., such specialists should be allowed to count work experience in other industries towards the minimum work experience requirement.

iii. It is suggested that the Ministry of Labour - Invalids and Social Affairs could revise the provisions of Paragraph 3, Article 3 of Decree No. 11/2016/ND-CP so that specialist foreign workers must meet one of the following criteria: (a) A specialist who holds a certificate issued by a foreign agency, organization or enterprise confirming their possession of specialist skills; or (b) A specialist educated to university level or higher, or the equivalent thereof; or (c) A specialist with at least three years' work experience in an industry or field relevant to the position that they will be holding in Vietnam.

2.2.5 Wages

➤ Maintaining wage growth at a steady pace

Explanation of the Issues and their Impact

From the point of view of a firm's managers, a rise in the minimum wage can not only lead to increased salary expenditure, it can also result in increases in other labor costs such as social insurance contributions, overtime pay, annual bonuses, union dues, etc., which in turn means higher operating costs for the firm. Most Taiwanese-invested firms in Vietnam are involved in export-processing manufacturing, and employ large numbers of Vietnamese workers; Taiwanese-invested firms thus experience a particularly heavy burden when wages rise, because labor costs account for a large share of their overall operating costs. If wages

rise too quickly, Taiwanese-invested firms will cease to be competitive in terms of manpower costs. Unable to bear the burden of excessively high personnel costs, firms will be forced to consider relocating their operations to other regions where labor costs are lower, and Vietnam will become a less attractive destination for foreign investment.

The Vietnamese government adjusts the minimum wage on a regional basis every year. In 2016, the monthly minimum wage was in the range of 2.4 – 3.5 million Dong; in 2017, this was raised to 2.58 – 3.75 million Dong (roughly equivalent to US\$103 – 150), representing a growth rate of 7.1 – 7.5%. Taiwanese-invested firms in Vietnam generally report that the wages they pay their Vietnamese employees are higher than the statutory minimum wage. According to statistics compiled by the International Labor Organization (ILO), as of 2015 the average monthly nominal wage was US\$830 in China, US\$394 in Thailand, US\$222 in the Philippines, US\$217 in Vietnam, US\$159 in Cambodia, and US\$156 in Indonesia, indicating that Vietnam still enjoys competitive advantage with respect to wage levels.²⁴

Taiwanese-invested firms appreciated the efforts made by the Vietnamese government in recent years to control inflation and wage rises, especially by comparison with the situation during the period 2006 – 2012 when inflation was very high and the minimum wage was often

²⁴ International Labor Organization (2016), “Global Wage Report 2016/17: Wage inequality in the workplace,” available at: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_537846.pdf

raised by more than 20% at a time. The average annual rate of increase in the minimum wage over the period 2015 – 2017 was 15% in 2015, 12.4% in 2016, and 7.3% in 2017, so the general trend has been downwards. Nevertheless, ILO statistics on real growth rates for 2015 show that wages have still been growing somewhat faster in Vietnam than in other ASEAN member states (Table 5). The Taiwanese Chambers of Commerce hope that the Vietnamese government can continue to prevent wage growth from becoming too rapid, so as to create an even better investment environment and safeguard the competitive advantage of Vietnam-based firms.

Table 5 Average Nominal Wages and Real Wage Growth Rates in Key ASEAN Nations in 2015

Country	2015		Source
	Average Nominal Wages (US\$ / month)	Real Wages Growth Rate (%)	
China	830	6.9	National Bureau of Statistics, China
Vietnam	217	4.8	General Statistics Office of Vietnam
The Philippines	222	4.1	National Statistical Office of the Philippines
Malaysia	755	4.0	Department of Statistics of Malaysia
Singapore	3,558	4.0	Statistics Singapore
Thailand	394	2.8	National Statistical Office of Thailand
Indonesia	155	-0.4	Statistics Indonesia of the Republic of Indonesia

Source: Global Wage Report 2016/17
http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_537846.pdf

Suggestions

To maintain wage growth in Vietnam at a reasonable pace, and help firms predict how the minimum wage is likely to change, it is suggested

that the Vietnamese government might consider adopting an approach similar to that used in Indonesia, where annual adjustments in the minimum wage are based on the inflation rate and the GDP growth rate. This would help to ensure that Vietnamese workers maintain stable purchasing power, while at the same time taking account of changes in overall productivity. Having a reasonable rate of wage growth contributes to good labor relations and to stability in the labor market; it can also help firms to maintain stable, sustainable operation over the long term and enable them to create more employment opportunities.

2.2.6 Probationary period for new employees

➤ Extension of probationary periods

Explanation of the Issues and their Impact

According to the provisions of Article 27 of Vietnam's Labour Code (10/2012/QH13), the probationary period for workers undertaking "other work" may not exceed six days. Taiwanese-invested firms have noted that, from a practical point of view, six days does not give firms long enough to evaluate whether a given employee is really suited to the job. Once the probationary period is over, the employee will immediately be put on a one-year work contract, so from the seventh day of employment onwards, if the firm finds that the employee is unable to perform their duties properly, it will either have to wait one year before the contract of employment can be terminated, or else negotiate with the employee to

cancel the contract. This situation is not conducive to efficient manpower utilization, and there is also a risk that workers who are unsuited to the job may suffer physical injury or emotional distress, which could lead to a labor dispute.

A further point is that Article 152 of the Labour Code (10/2012/QH13) stipulates that employers must take the health requirements of each type of work into account when recruiting employees and assigning work to them, and that employers are responsible for arranging annual health check-ups for employees, including apprentices and trainees. However, health check-up reports in Vietnam usually cannot be obtained until 20 days after the check-up, a period which exceeds the 6-day probationary period. If an employee is found to be not physically suited to the work they are doing, but the company has already signed a labor contract with that employee, then this can create a situation where the company is forced to reassign the employee to work which was not the work the company originally wanted to employ them for.

Suggestions

It is suggested that, in order to enhance production efficiency and reduce labor conflicts, the Vietnamese government could follow China's example by extending the probationary period to at least 1 – 2 months. Article 19 of China's Labour Contract Law stipulates that, for labor contracts with a term of at least three months but less than one year, the

probationary period may not exceed one month; for contacts with a term of at least one year but less than three years, it may not exceed two months, and for fixed-term labor contract with a term of at least three years and for non-fixed-term contracts, it may not exceed six months.

2.2.7 Retirement provision

➤ Disconnect between retirement and the number of years of social insurance contributions paid in

Explanation of the Issues and their Impact

Article 36 of Vietnam's Labour Code (10/2012/QH13) stipulates that an employment contract is terminated when the contract expires, and also when the employee meets the requirements of the social insurance qualified contribution period and has reached the age of retirement stipulated in Article 187 of the Labour Code.²⁵ Vietnam's Law on Social Insurance (58/2014/QH13) stipulates that employees are not entitled to receive a retirement pension unless they have reached the age of 60 for

²⁵ Labour Code (10/2012/QH13), Article 36: "Cases of termination of an employment contract: (1) The employment contract expires, except for the case regulated in Paragraph 6, Article 192 of this Code. (2) The tasks stated in the employment contract have been completed. (3) Both parties agree to terminate the employment contract. (4) The employee fully meets the requirements of the qualified contribution period of social insurance and reaches the age of retirement stipulated in Article 187 of this Code. (5) The employee is sentenced to imprisonment or capital punishment, or is prohibited from performing the work stipulated in the employment contract by an effective conviction of judgment of the court. (6) The employee dies or is declared by the court to have lost the capacity of civil acts, or to be missing or dead. (7) The employer, who is an individual, dies or is declared by the court to be dead, missing, or to have lost the capacity of civil acts; or the employer, who is not an individual, ceases operation. (8) The employee is dismissed in accordance with Paragraph 3, Article 125 of this Code. (9) The employee unilaterally terminates the employment contract in accordance with Article 37 of this Code. (10) The employer unilaterally terminates the employment contract in accordance with Article 38 of this Code; or the employer terminates the employment contract due to structural or technological changes or because of economic reasons, merger or acquisition, or separation of the enterprise or cooperative.

men or 55 for women, and have been paying social insurance contributions for a period of at least 20 years. This situation can cause problems for business enterprises in regard to the employment and management of older workers. For example, production lines in the textile and garment, footwear and electronics industries require alert, quick-thinking operatives. A male operative who has reached the age of 60, or a female operative who has reached the age of 55, is likely to have slower reactions which mean they are no longer really suited to the work, but if that employee has not yet accumulated 20 years of social insurance contributions and does not want to retire, the employer cannot terminate the labor contract. This can lead to serious inefficiency in terms of production and manpower utilization.

Suggestions

Most Taiwanese-invested firms in Vietnam are in labor-intensive export-processing manufacturing industries, where the quality of the production-line operatives can have a pronounced impact on production efficiency and product quality. It is suggested that the Vietnamese government should consider adopting the approach used in China, Indonesia and Taiwan, with compulsory retirement, so that in situations where there is a disconnect between an employee's suitability for retirement and the number of years of social insurance contributions paid in, retirement can be made mandatory.

2.2.8 Labor union organization

➤ Reducing the financial burden of union dues on business enterprises

Explanation of the Issues and their Impact

On November 21, 2013, the Vietnamese government issued Decree No. 191/2013/ND-CP, which stipulated that the amount of dues payable by a business enterprise to the labor union would be raised from an amount equivalent to 1% of the total employee wages on which social insurance contributions are payable to 2% of this total. Given the steady rise in the minimum wage in Vietnam and the steady expansion of the basis for calculation of social insurance contributions, this is placing a heavy cost burden on labor-intensive Taiwanese-invested manufacturers.

Suggestions

Labor costs as a share of overall production costs vary from industry to industry. For firms in capital-intensive industries, needing to pay an amount equivalent to 2% of total employee wages as union dues might not be an excessively high burden, but for labor-intensive firms in industries such as footwear-manufacturing, or textile and garment manufacturing, it is a serious problem. Taiwanese-invested firms suggest that the Vietnamese government could set different union dues payment rates based on the characteristics of individual industries, so as to reduce

the additional cost burden on firms, and enhance their overall productivity.

2.3 Tax Issues (Relevant Agencies: Ministry of Finance, General Department of Taxation, Ministry of Information and Communications)

2.3.1 Tax breaks

➤ Clarification of the scope of application of tax incentives

Explanation of the Issues and their Impact

The past few years have seen frequent reforms of the law in Vietnam; and, during the period of 2009 to 2013, the corporate income tax incentives applying to foreign companies were suspended. This caused a situation where the terms and conditions applying to tax incentives varied depending on when the investment was contributed in; furthermore, because of inconsistent interpretations of the law and the administrative discretion granted to individual agencies, some Taiwanese firms found that, rather than being able to benefit from tax incentives, they ended up having their rights impinged on.

Following the repeated amendments of the law, the conditions applying to the application of tax incentives to foreign-invested firms became increasingly complex and confusing. Assuming, for example, that a Taiwanese firm invested US\$1 million in Vietnam in 2008 and was

granted for a reduced tax rate at 15% for 10 years; if this enterprise increased its investment to US\$5 million in 2010, because of the suspension of tax incentives during the period of 2009 to 2013, the additional US\$4 million of investment would be liable to tax at the normal rate. If unfamiliarity with the requirements of the law led the firm to fail to distinguish the different categories of investment in its tax declarations, it could find itself in a situation where it was not allowed to apply the original tax incentive to any of its investment in Vietnam; a tax incentive that the Vietnamese government had committed itself too would fail to be implemented according to the original intent.

Taiwanese-invested firms have reported cases where investment tax incentives that were promised by local government authorities when the firm made the decision to invest were subsequently not recognized by the central government tax authorities, and cases where the Ministry of Finance objected to the local government's decision to grant a tax incentive, and required the firm in question to pay several years' worth of "unpaid back taxes." While Taiwanese-invested firms can appeal against such assessments, the appeal process is both time-consuming and expensive, and even if the firm wins the appeal it has no guarantee that the tax incentive will be reinstated. The lack of clarity regarding the conditions applying to tax incentives can negatively impact foreign companies' judgement with regard to investment in Vietnam, lead to increased investment risk, and retard the Vietnamese government's efforts to improve the overall investment environment in Vietnam.

Suggestions

It is suggested that the Vietnamese tax authorities should issue clear rulings regarding the changes of the legislation governing tax incentives, the scope of application of tax incentives, and calculation methods, and should strengthen efforts to educate Taiwanese-invested firms, so that taxpayers have a clearer idea as to which preferential tax rates or regular tax rates apply to that firm in any given year. The Vietnamese government should also endeavor to strengthen the mechanisms for collaboration between different ministries and agencies, so that commitments made to Taiwanese firms are treated in a consistent, coherent manner, regardless of whether such commitments were made by a central government agency or by a local government authority, thereby ensuring that commitments made by local governments are honored and safeguarding the principle of trust. This in turn would help Taiwanese firms to make correct decisions regarding investment, and reduce the level of investment risk in Vietnam.

2.3.2 Foreign contractor tax

- **When it is impossible to distinguish imported machinery from the associated services, the tax reduction and exemption approach advocated by the OECD tax treaty should be adopted**

Explanation of the Issues and their Impact

On August 6, 2014, the Vietnamese government promulgated Circular No. 103/2014/TT/BTC, regarding the taxation rules applying to income earned by foreign organizations or individuals within Vietnam, and noted that implementation would commence on October 1, 2014. The Circular stipulated that, in cases where a Vietnamese enterprise (including foreign-invested enterprises operating in Vietnam) signs a contract with and makes payments to a foreign entity that does not have a business permit to operate in Vietnam, all income earned by the foreign entity in Vietnam – including interest, patent royalties, service charges, rental, insurance payments, transportation costs, securities transfer, goods supplied in Vietnam or goods linked to services supplied in Vietnam, and certain categories of distribution arrangements – is liable to payment of Foreign Contractor Tax.

Taiwanese-invested firms note that it is normal for the cost of machinery imported from overseas to include transportation and installation service expenses. In Vietnam, if the value of the supplementary services provided can be calculated separately, then

Foreign Contractor Tax is payable on these services at a rate of 10% (which comprises value-added tax at a rate of 5% and corporate income tax at a rate of 5%); however, if the value of the supplementary services cannot be clearly determined, then Foreign Contractor Tax is payable on the entire cost of the imported machinery, at a rate of 5% (including value-added tax at 3% and corporate income tax at 2%).

In reality, it is very hard to break down the cost of imported machinery throughout the production process and determine precisely how much is the cost of transportation and installation services, how much is the cost of software design, and how much is the cost of hardware components. Charging Foreign Contractor Tax at a rate of 5% of the total cost of the imported machinery leads to significantly increased costs to purchase imported machinery, including both Taiwanese-invested firms and domestic Vietnamese firms. Most of machinery have been imported by a distributor rather than by the original manufacturer; for practical commercial reasons, the original manufacturer is highly unlikely to reveal their cost structure, making it completely impossible for the Vietnamese or Taiwan-invested firm purchasing the machinery to determine which part of the price paid relates to hardware and which part to services. This situation is highly disadvantageous for companies seeking to purchase advanced production machinery to enhance their technology level, and it also causes a significant obstacle to Vietnam's efforts to upgrade its industries.

Suggestions

Given the difficulty of separating out the cost of machinery itself and related services such as transportation, installation and software design, it is suggested that, in cases where the value of the service component of the price of imported machinery cannot be determined, the importation should be taxed at a reasonable rate, and not as a percentage of the overall cost of the machinery; and the 3% imported value-added tax portion of the 5% Foreign Contractor Tax rate should be refundable by special applications, or creditable to the output value-added tax.

A further point is that, given that a double taxation treaty has already been signed between Taiwan and Vietnam, it should be possible to exempt the 2% corporate income tax included in the 5% Foreign Contractor Tax rate. Item 7, Paragraph 2, Article 5 of the “Agreement between the Vietnam Economic and Cultural Office in Taipei and the Taipei Economic and Cultural Office in Hanoi for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income” (hereafter referred to as the “Double Taxation Agreement”) stipulates that a “permanent establishment” includes “a building site, construction, assembly or installation project or supervisory activities in connection therewith, but only where such site, project or activities continue for a period of more than six months.” Therefore, in the case of machinery installation activities that do not continue for more than six months, if corporate income tax is levied on the value of

machinery hardware, software and services at a rate of 2%, since this sum cannot be set off as a foreign tax credit when declaring profit-seeking enterprise income tax in Taiwan, it therefore constitutes a serious case of double taxation. The Vietnamese government should respect the provisions of the Double Taxation Agreement, and should waive the 2% corporate income tax portion of the 5% Foreign Contractor Tax rate. It is suggested that the Vietnamese government should issue a set of implementation rules for the Double Taxation Agreement, so as to simplify the relevant application procedures and the required documentation, and should provide guidance to help Taiwanese-invested firms in Vietnam make effective use of the Double Taxation Agreement. This would help to reduce the tax burden on Taiwanese-invested firms, and would encourage more Taiwanese companies to invest in Vietnam.

2.3.3 Tax inspections and payment of interest on tax arrears

- **Reducing the number of years for which overdue tax and interest on such overdue tax are payable, and having interest on overdue tax calculated at market interest rates**

Explanation of the Issues and their Impact

Tax audits in Vietnam are carried out on a regular basis, but they usually cover several fiscal years each. If a Taiwanese-invested firm has omitted taxable items from its tax declarations through oversight, it will

often be required to pay both the overdue tax and interest on this overdue tax, which can cause serious difficulties in controlling financial risk. There are various detailed regulations that specify the penalties for behavior that violates the tax laws; these penalties range from minor administrative penalties to fines that may amount to several times the amount of overdue tax. Generally speaking, if a discrepancy is found during a tax investigation, the tax authorities impose a fine equivalent to 20% of the undeclared taxable amount. Interest is payable on unpaid tax at a rate of 0.05% per day overdue. The period for which back taxes and interest thereon are payable is normally capped at 10 years (this 10-year statutory limitation came into effect on July 1, 2013); fines may be imposed with respect to tax arrears for up to five years. The excessively long periods of audit covered by tax inspections, and the excessively high interest rates payable on back taxes, constitute a major burden for Taiwanese-invested firms operating in Vietnam.

Suggestions

It is suggested that the Vietnamese government should announce a more reasonable statutory limitation of tax audit period, and should reduce both the interest rate applying to unpaid tax and the number of years for which interest is payable. It has been observed that, when tax audits are being implemented in Vietnam, the government often dispatches large numbers of personnel to audit the books at a single company; this approach not only causes problems for the affected

enterprise, it also represents a waste of time and manpower, and would seem to be the reason why the government is unable to implement tax investigations on an annual basis. It is suggested that the government should adopt a written review mechanism if the reported profits have reached appropriate level; this would increase tax auditing efficiency, and make it possible to implement audits on a more frequent basis.

It is also suggested that the Vietnamese government could reduce the number of years for which overdue tax remains payable to five years, and also reduce the number of years on which interest is payable on overdue tax to five years. With regard to interest on overdue tax, Vietnam might consider adopting the method used by many other countries whereby such interest is calculated according to average market interest rates announced by banks for that year. These changes would mitigate the problems that firms currently experience when having to pay back taxes and interest relating to an excessively long period, while also helping the Vietnamese government to secure tax revenue more promptly. The government might also want to consider extending the annual deadline for tax declaration from the end of March to the end of May, so that firms have more time to increase the quality of accounting reports for the current fiscal year, and improve the accuracy of tax declarations.

2.3.4 Transfer pricing

➤ Enhancing the transparency and reasonableness of transfer pricing auditing standards

Explanation of the Issues and their Impact

In 2013, the Vietnamese government began to expand the scope of its auditing of transfer pricing by foreign-invested companies. In just the first six months of 2014, more than 500 firms had their declared profits declared too low and compulsorily adjusted, and had fines and interest payments imposed on them; these firms included many Taiwanese-invested enterprises. More than 80% of the Taiwanese-invested firms in Vietnam are manufacturing firms engaged in labor-intensive export-processing operations. While the production volume and production value of these firms may be quite high, their prices are mainly set by the leading international brand corporations that are their customers; also, wages and other production costs have been rising steadily in Vietnam in recent years. As a result, profit margins are generally very low. These low profit margins have made Taiwanese-invested firms a frequent target of transfer pricing investigations. The tax authorities often cite financial data from major international brand corporations, expecting Taiwanese-invested firms to pay tax based on profit levels similar to those achieved by these international brand corporations or other companies in similar industries.

In reality, corporate profits are affected by the international business climate and by changes in the investment environment, and they also vary considerably in different companies. The Vietnamese government has not announced how its industry-specific standard profit rates are calculated, and as such it is difficult for Taiwanese-invested firms to accept the validity of these profit rates. Taiwanese-invested firms in Vietnam all accept that they should file their tax declarations and pay tax honestly, and fulfill their responsibility to Vietnamese society; however, they cannot accept being required to pay extra tax that they should not be liable to pay. The current situation represents a severe burden and creates high risk to the firms affected.

Suggestions

Taiwanese-invested firms operating in Vietnam are mostly contract manufacturers undertaking work for leading international brand corporations. As such, there are significant differences between the business models that they have adopted and those of brand business enterprises. In particular, Taiwanese-invested firms often do not enjoy real autonomy regarding their choice of raw materials and key component suppliers; the international brand customers specifies which suppliers they must use, and the contract manufacturer then has to purchase the materials and components in question from those suppliers. Contract manufacturers can thus only make a profit on their assembly services operations; they cannot make additional profit by reducing their

purchasing costs. This creates a situation where contract manufacturers have a significantly higher cost base than other manufacturers, and consequently their profit margins are lower than average. Contract manufacturers' low profit margins are thus caused by their business model, and are not due to firms attempting to avoid taxes.

In light of the above, it is suggested that the Vietnamese government should follow the recommendations of the OECD's "Transfer Pricing Guideline for Multinational Enterprises and Tax Administrations," and should make improvements to its transfer pricing auditing standards and procedures; the government should also work to enhance the professional know-how and auditing skills of its tax officials, and should strengthen the transparency and reasonableness of auditing methods and standards. The Vietnamese tax authorities could also conclude bilateral advance pricing agreements (APAs) with Taiwanese-invested firms, in accordance with the provisions of Article 25 "Mutual Agreement Procedure" of the Double Taxation Agreement, so that pricing principles and calculation methods are agreed in advance; this would help to reduce the incidence of auditing-related disputes at a later date, and would also reduce the tax burden on Taiwanese-invested firms.

2.3.5 Payment of personal income tax by Taiwanese expatriate managers

- **Taiwanese expatriate managers working in Vietnam should be treated as non-resident for tax purposes, with only that part of their income earned from sources in Vietnam being liable to personal income tax**

Explanation of the Issues and their Impact

According to Vietnam's personal income tax regulations, if a given individual spends a cumulative total of at least 183 days resident in Vietnam within the same calendar year or within a period of 12 months after arriving in Vietnam, then that individual will be deemed to be resident for tax purposes, and will be required to pay personal income tax in Vietnam based on their global taxable income (regardless of where this income was paid or received). Income from employment is taxed according to progressive tax rates; incomes from other types are taxed according to various different rates. Vietnam uses the Western calendar year as its tax year. Under such circumstance, if an individual spends less than 183 days in Vietnam in their first year in the country, then the tax year for that individual is calculated as the period of 12 months commencing on their date of entry to Vietnam; the calendar year applies for subsequent years. Some Taiwanese-invested firms have noted that, under this system, in cases where Taiwanese expatriate managers are on three-year assignments, even if that expatriates spend less than 183 days

in Vietnam in the final year, they may still find themselves being required to pay personal income tax on their global taxable income for this period, resulting in an increased tax burden on the taxpayers in question.

Suggestions

It is suggested that the Vietnamese government should, in accordance with the provisions of Item (a), Paragraph 2, Article 4 of the Double Taxation Agreement between Taiwan and Vietnam, make the key criterion for determining whether an individual is resident for tax purposes as the following: “[the individual] shall be deemed to be a resident of the Party in which he has a permanent home available to him; if he has a permanent home available to him in both Parties, he shall be deemed to be a resident of the Party with which his personal and economic relations are closer (center of vital interests).” For Taiwanese expatriate managers on temporary assignment in Vietnam, their permanent home is still in Taiwan; their accommodation in Vietnam is merely a rented flat or employee dormitory. Furthermore, Taiwan is their center of vital interests (since their home, property, and network of social relationships etc. are all in Taiwan). Taiwanese expatriate managers working in Vietnam should therefore be treated as non-resident for tax purposes, with only that part of their income earned from sources in Vietnam being liable to personal income tax; they should not be taxed on the entirety of their global taxable income. The calculation of salary income that Taiwanese managers are required to declare for tax purpose

in Vietnam should be handled in accordance with the provisions of Paragraph 2, Article 15 of the Double Taxation Agreement. In addition, to enhance the benefits deriving from the Double Taxation Agreement, it is suggested that the Vietnamese government should seek to strengthen its administrative efficiency, simplify administrative procedures, and reduce obstacles, so as to make it easier for Taiwanese-invested firms operating in Vietnam to make effective use of the Agreement, and reduce the effective tax burden on Taiwanese expatriate managers working in Vietnam.

2.3.6 VAT Refunds

➤ Adoption of electronic systems to handle issues relating to VAT refunds

Explanation of the Issues and their Impact

Value-added tax (VAT) is payable on all goods and services used in production, trade and consumption in Vietnam (including goods and services purchased from overseas). All domestic enterprises are required to add VAT to their prices according to the value of the goods and services that they provide. In the case of goods that are exported from Vietnam, any VAT that has already been paid during the production, processing or sale process can be claimed back. However, some Taiwanese-invested firms have noted that the VAT refund processes are frequently delayed for a very long time, and that even when a refund has been received, the firm in question is often subsequently asked to make a

supplementary tax payment or pay interest; this can result in serious operational difficulties and increased costs.

Suggestions

Regarding the issue of delays in the VAT refund process, it is suggested that the Vietnamese government could follow the example of Taiwan and many other countries by establishing an electronic system for matching Output and Input VAT items; with this kind of system, the items subject to refund can be determined by entering the company's tax number, the amount of the invoice, and the invoice number, then the amount of the refund can be directly deducted from other tax payables. Not only would this substantially reduce the manpower and time required for dealing with tax refunds, it would also help to enhance overall administrative efficiency and improve the business environment.

2.3.7 Handling of waste deriving from the processing of export products

- **Clarification of regulations governing the disposal of waste deriving from the processing of export products, and exemption from customs duty where items are scrapped in accordance with the requirements of the regulations**

Explanation of the Issues and their Impact

With regard to excess material, by-products with no commercial value, off-cuts and waste etc. that cannot be exported, Taiwanese-invested

firms have commented that, even expended considerable time and manpower on scrapping these items, they often still find that the Vietnamese government treats the items as having been sold within Vietnam, and demands payment of supplementary customs duty. This approach by the Vietnamese government reduces firms' intention to dispose of waste properly in accordance with the requirements of the law, and is detrimental to environmental protection. For instance, in Indonesia, firms are not required to pay customs duty on waste as long as they commission a qualified recycling company to have the waste incinerated or buried in a landfill site, and as long as they cooperate with any Customs inspection. Similarly, in China, firms that receive authorization to do so from the Customs can commission a qualified agency to dispose of waste through incineration, landfill site burial or other non-harmful method, and there is no requirement to pay supplementary customs duties. In Taiwan, the Customs authorities publish standard percentages for off-cuts and other material requiring scrapping; provided that the scrapping process is monitored by a certified public accountant, and provided that an audit certificate is issued, there is no requirement to pay supplementary customs duties on waste that falls within the percentages specified by the Customs authorities.

Suggestions

It is suggested that the Vietnamese government may follow the examples of Taiwan, China, Indonesia, etc. by clarifying regulations to

govern the handling of waste deriving from the processing of export production; the Customs authorities could supervise the process of scrapping waste material with no commercial value, or could collaborate with other government agencies on this supervision, and those firms that conform to the requirements of the regulations would be exempted from payment of supplementary import duty. If the Vietnamese authorities feel that they do not have the manpower needed in order to apply this approach, an alternative would be to designate certain specific locations for the scrapping of waste; firms that could present evidences confirming that scrapping had taken place at one of these locations, and the scrapping process had been monitored by a Vietnamese certified public accountant, would not be required to pay supplementary customs duty.

2.4 Trade Issues (Relevant Agencies: Ministry of Industry and Trade, Ministry of Finance, General Department of Vietnam Customs)

2.4.1 Customs duty and customs administration

➤ Reducing bilateral tariff barriers

Explanation of the Issues and their Impact

Currently, Taiwan and Vietnam mutually apply Most-favored Nation (MFN) tariffs within the WTO framework; as a result, many of the products that Taiwan and Vietnam export to one another are liable to payment of customs duty, which in many cases exceeds 10% or even 15%.

This situation has a negative impact on export competitiveness, and has affected the development of bilateral trade between the two countries. Vietnam's tariff rates are particularly high, and as Vietnam has already signed free trade agreements (FTAs) with Japan, South Korea, China and various other countries through its membership of ASEAN, and has signed bilateral FTAs with Japan, South Korea, etc., the cost of importing semi-finished products and components from Taiwan into Vietnam is, relatively speaking, very high. This situation has led many companies operating in Vietnam to import these items from China instead, further increasing Vietnam's dependence on Chinese imports.

In addition, the Vietnamese government often raises the applied tariff rate on particular product categories; although the increased applied tariff rates do not exceed the bound tariff rates specified by the WTO, they have still resulted in significantly increased costs for Taiwanese-invested firms in Vietnam when importing components.

Suggestions

If Taiwan and Vietnam were able to reduce the bilateral tariff barriers that currently exist between them, this would facilitate closer collaboration between Taiwanese and Vietnamese firms, and would help to enhance the efficiency of the industrial supply chains that link Taiwan and Vietnam, which in turn would attract more Taiwanese investment to Vietnam. It is suggested that Vietnam could consider negotiating with Taiwan regarding the signing of an FTA or an economic cooperation

agreement (ECA); ideally, the initial preparatory work should begin as soon as possible.

➤ **Maintaining consistency in tariff classification**

Explanation of the Issues and their Impact

The Vietnamese government's efforts to keep pace with changing times by revising its tariff classification are to be commended. However, in reality, Customs officials often display a lack of familiarity with official tariff classification, and sometimes old and new classifications are applied inconsistently; the resulting errors can cause delays in customs clearance, which can result in serious financial loss for the firms affected. Many Taiwanese-invested firms operating in Vietnam have reported experiencing a situation where a given product item has been imported for many years with no problems, but then one day they suddenly receive notification asking them to pay arrears of customs duty on the product in question, as well as interest payments and fines. This puts Taiwanese-invested firms in a very difficult situation.

Taiwanese-invested firms have also commented that Customs officials do not always have a thorough understanding of import product categories, leading to errors in tariff classification. For example, "soybean oil" used in animal feed and "soybean oil" used for human food production are different products, but Customs officials are not always aware of the difference, resulting in a situation where there are mistakes

in tariff code and tariff rate determination. Another example is the softeners and additives that Taiwanese-invested firms use to combine rubber with other agents. These products should be classed as organic chemicals (HS29173920), the import duty rate on which is zero. In provinces and municipalities in northern Vietnam, firms have been able to import these products under this tariff code with no problems; however, in southern Vietnam the Customs have been treating these products as organic surfactants (HS34029019), which are widely used in the manufacturing of soaps and cleaning products, and to which an import duty rate of 10% applies, and firms that had previously been importing them under the correct tariff code have been required to pay supplementary duty and fines. Similar issues arise frequently in other industries too.

Suggestions

It is suggested that the Vietnamese government refrain from unnecessary tariff classification revisions, and should strengthen training of Customs officials, so as to reduce the incidence of mistaken determinations. It is also suggested the Customs should implement greater transparency and provide English-language translations of relevant laws and regulations, to address the problems caused by the language barrier and minimize misunderstandings. In addition, the government should establish a binding tariff information system, so that importers can send samples of products that they plan to import to the

Customs in advance for examination; once the Customs have completed their examination and determined how the product in question should be classified, they would then issue an order as to which tariff code should apply, and Customs officials throughout the country would be required to follow this classification. If a given Customs office is unwilling to follow this classification, then the relevant central government agency should confirm the newly applicable tariff code, and the importer should be notified in advance as to when this new code will come into effect. This would avoid the current situation where tariff codes are decided on the whim of individual Customs officials who often lack the required specialist knowledge, and would spare importing firms the problems caused by being required to pay supplementary customs duty and fines.

➤ **Eliminating the import restriction on the maximum used period of old equipment**

Explanation of the Issues and their Impact

On November 13, 2015, Vietnam's Ministry of Technology (MOST) issued Circular No. 23/2015/TT-BKHCN, prescribing the standards, documentation and procedures applying to the importation of used machinery, production lines and replacement components classified (by the Ministry of Finance) under Chapters 84 and 85. According to the provisions of this Circular, imported used machinery must be imported within 10 years from the date of manufacture, and must either be in conformity with the QCVN Vietnamese National Technical Regulations

or the TCVN Vietnamese National Standards, or the G7 standards for safety, energy saving and environmental protection. The Circular also stipulates that, besides the documents specified by the Vietnamese Law on Customs, the importation of used machinery may also require the submission of other documents.

The Taiwanese Chambers of Commerce understands that the Vietnamese government wants to prevent the importation of decrepit machinery and out-of-date technologies into Vietnam. However, the Taiwanese Chambers of Commerce hope that the Vietnamese government can appreciate that the only reason Taiwanese-invested firms import used machinery into Vietnam is to keep their factories running smoothly. Many Taiwanese-invested companies in Vietnam have been operating for over a decade; after a long period of adjustment, they have succeeded in bringing their production equipment and production line arrangement to optimal efficiency. When a company experiences an equipment failure, if the machinery in question cannot be repaired and no compatible machinery is available to purchase new, then the firm's only choice is to buy used machinery. The provisions of Circular No. 23/2015/TT-BKHCN have already caused severe operational difficulties for many Taiwanese-invested firms in Vietnam, preventing them from maintaining and raising their overall production efficiency.

Suggestions

It is suggested that the Vietnamese government should follow the approach taken by international quality, safety and energy conservation standards by relaxing the restrictions on the importation of used machinery and equipment, eliminating the import restriction on the maximum used period of old equipment, and clarifying and simplifying the import procedures, so as to reduce the amount of discretion given to individual enforcement personnel.

➤ Simplifying procedures and enhancing transparency

Explanation of the Issues and their Impact

Although Taiwanese-invested firms operating in Vietnam have made a serious effort to purchase from local suppliers, they are still dependent on imports for some key materials and components. Many Taiwanese-invested firms have commented that the legal framework governing Customs operations in Vietnam is insufficiently precise and transparent; detailed implementation guidelines and inspection and quarantine standards are not always made public, with a great deal being left to the interpretations and discretion of individual Customs officials. The fact that a given item has been successfully imported in the past is no guarantee that it can continue to be imported smoothly in the future; this uncertainty regarding customs declarations and customs clearance causes firms significant operational difficulties, leading to delays in production

and product launch, and it also reduces Vietnam's overall productivity and competitiveness.

As regards standards and inspection, Taiwanese-invested firms have noted a lack of consistency in the standards applied by the Vietnamese Customs authorities. A given product may clear customs smoothly some of the time, and yet be unable to complete customs clearance other times; this makes life very difficult for Taiwanese-invested firms. Vietnam's customs procedures are also extremely complex, with a heavy documentation workload that leads to high import costs (Table 6). Vietnam's importation costs are the second highest within ASEAN, exceeded only by Myanmar, and they are also higher than those of China and India, Vietnam's two main competitor nations, creating significant obstacles to trade. For example, Taiwanese-invested firms in the food industry have commented that, for every food product that a company wants to import, it must first obtain a Food Quality Registration Certificate, which can only be applied for in Hanoi, and for which the application procedures are extremely complex and time-consuming (taking at least 45 days to complete).

Table 6 Time to Import, and Cost to Import, in Selected Countries

Country	Documentary Compliance (Customs Clearance)	
	Time to Import (hours)	Cost to Import (US\$)
Myanmar	48	210
Vietnam	76	183
China	66	171
Indonesia	133	164
India	61	135
Cambodia	132	120
Laos	216	115
Mexico	18	100
Taiwan	41	90
Malaysia	10	60
Brunei Darussalam	140	50
Philippines	96	50
Thailand	4	43
Singapore	3	40

Source: The World Bank “Doing Business Database”,
<http://www.doingbusiness.org/data/exploretopics/trading-across-borders> (last accessed on February 15, 2017)

Suggestions

It is suggested that the Vietnamese Customs authorities could formulate clear, precise implementation rules with respect to important customs regulations; this would reduce the degree of discretion given to Customs officials, and would enhance the transparency and predictability of customs clearance operations. Regulations should also be made available in English-language versions, to reduce the risk of firms misinterpreting particular rules. It is also suggested that the Vietnamese government should try to simplify customs procedures and reduce the number of documents required in order to import products into Vietnam, implementing trade facilitation measures to enhance overall customs efficiency.

2.4.2 Trade remedies

➤ Assistance in relation to dumping

Explanation of the Issues and their Impact

Taiwanese-invested firms have noted that, in recent years, there has been a steady increase in dumping by foreign companies (involving selling products such iron and steel, textile filament, etc., at very low prices) in Vietnam. This has dragged down prices within the Vietnamese domestic market to excessively low levels, and has negatively impacted the competitiveness and profitability of both Vietnamese and Taiwanese-invested firms operating in Vietnam.

Suggestions

It is suggested that the Vietnamese government should establish comprehensive mechanisms for monitoring import prices and volumes, and should immediately launch anti-dumping investigations (and anti-dumping actions, where necessary) in the case of imports that disrupt the market price mechanism and have a severe negative impact on the operations of local firms, so as to safeguard the competitiveness of businesses operating in Vietnam.

2.5 Investment Issues (Relevant Agencies: Ministry of Planning and Investment, Ministry of Industry and Trade, Ministry of Information and Communications)

2.5.1 Investment approvals

➤ Simplifying investment approval procedures

Explanation of the Issues and their Impact

With the steady increase in demand in the Vietnamese domestic market in recent years, many Taiwanese-invested firms in Vietnam have been seeking to gradually expand their operations beyond a single province or municipality to include business locations in multiple provinces and municipalities. However, foreign-invested companies seeking to apply for permits to distribute their products in the Vietnamese domestic market still face considerable obstacles, and there is an urgent need for simplification and streamlining of the application procedures. Decree No. 08/2013/TT-BCT, issued by Vietnam's Ministry of Industry and Trade on April 22, 2013 (and which came into effect on July 6, 2013) stipulates that foreign companies that have obtained a license to market their products in Vietnam may set up a single retail outlet within Vietnam; if a foreign company wishes to establish more than one retail outlet in Vietnam, then it must first submit an Economic Needs Test (ENT) report (providing details of the level of market stability in the areas where it will be opening retail outlets, the population density, the level of regional

development, and a feasibility study, etc.) and obtain approval. If the second retail outlet has a total floor area of less than 500 square meters, then the ENT materials need not be submitted, but the planned retail outlet must still conform to the regional economic development plan for the area in question. The application procedures for obtaining a license are very complex, and it can take several months, even as much as six months or a year, to have the application approved, which can severely disrupt foreign companies' investment plans. Taiwanese-invested firms have also noted that the application procedures that need to be completed in Vietnam in order to implement product promotion activities involve a considerable expenditure of time and manpower; even nationwide activities still require approval from every individual provincial or municipal government, which wastes a great deal of time, and can prevent firms from getting the timing of their promotional campaigns right.

Suggestions

It is suggested that the Vietnamese government should relax the restrictions applying to foreign companies' applications to market their products within Vietnam, and should continue to simplify approval procedures; for example, a single application should be sufficient in the case of nationwide promotional activities. Ideally, there should also be different approval procedures for different categories of promotional activity; for example, the review criteria for simple promotional activities

such as handing out leaflets and hanging up advertising banners etc. should be less rigorous (and the applications should require less time to complete) than those applying to large-scale activities. These changes would help to enhance firms' overall operational efficiency.

2.5.2 Obtaining licenses and permits

➤ Promoting the establishment of a system of mutual recognition of certification

Explanation of the Issues and their Impact

Currently, when Taiwanese firms are investing in Vietnam, they face considerable obstacles with respect to the obtaining of licenses and permits, which can disrupt operational timetables and lead to delays in the launching of new products. To take an example, when applying for licensing of vehicles and vehicle components, because Vietnam's Directorate for Standards, Metrology and Quality has not established a system of mutual recognition with Taiwan's Bureau of Standards, Metrology & Inspection, the validity of certification documents issued in Taiwan is not necessarily recognized in Vietnam, whereas certificates issued in Japan, South Korea or China can be used without problems. This situation results in delays when Taiwanese-invested firms in Vietnam are trying to obtain necessary certification. A further issue is that Vietnam's registration, inspection and licensing agencies are mostly

located in Hanoi, which is inconvenient for firms with factories located in southern Vietnam.

Suggestions

It is suggested that the Vietnamese government should seek to establish a mutual recognition system with Taiwan as soon as possible, to avoid the delays in obtaining licenses and permits that currently result from the need for duplicated certification. A further point is that, in the current era of digitalization, in Taiwan and in many of the world's leading economies a wide range of licenses and permits can be applied for online, avoiding the need for business enterprises' personnel to waste time traveling to and from government offices. It is therefore suggested that the Vietnamese government should try to speed up the development of e-government functions. The establishment of e-enabled systems would help to enhance the overall level of administrative efficiency in Vietnam, with the potential for more effective cross-checking helping to significantly reduce the incidence of errors. Until such time as e-enabled systems can be put in place, the Vietnamese government should give priority to the establishment of new branch offices of the government's registration, inspection and licensing agencies in Ho Chi Minh City, to make it easier for firms located in southern Vietnam to obtain necessary permits and licenses.

➤ **Speeding up the process for issuing NAFIQ health inspection certificates**

Explanation of the Issues and their Impact

Taiwanese-invested firms have noted that, when seeking to export marine products or snack food made from marine products from Vietnam to certain countries (such as China), they are required to submit a NAFIQ health inspection certificate. One of the Vietnamese government's requirements that must be met in order to have this certificate issued is that production operatives must have completed training courses arranged by the government. The instructors for these courses are assigned by the government, and the number of instructors available is limited, so firms often have to wait their turn; this sometimes involves a wait of over six months, leading to significant delays in the issuing of the NAFIQ certificate.

Suggestions

It is suggested that the Vietnamese government should try to reduce the number of regulations governing applications for licenses and permits that are difficult for applicants to meet. For example, the government could increase the number of instructors available so as to speed up the process of applying for NAFIQ certificates; if the necessary human resources are simply not available, then the government should consider relaxing the requirements in question.

➤ **Allowing Taiwanese-invested banks to establish more branches in major cities**

Explanation of the Issues and their Impact

Taiwanese-invested banks have pointed out that Vietnam is a large country, and banks have corporate customers scattered throughout the nation, but the Vietnamese government has been reluctant to approve applications from Taiwanese-invested banks to establish additional branches; this situation has prevented Taiwanese-invested banks from providing comprehensive services to their local customers, and has restricted the scale of their operations in Vietnam. The Vietnamese government has taken the attitude that Taiwanese-invested banks mainly serve other Taiwanese-invested firms operating in Vietnam, and make little positive contribution to the development of Vietnamese business enterprises and the Vietnamese economy as a whole, but this is not really the case. Besides serving Taiwanese-invested corporate clients, Taiwanese-invested banks also provide services to many local Vietnamese companies and to other, non-Taiwanese foreign companies. Taiwanese-invested banks have focused on trade finance, and have first-class U.S. Dollar service capabilities; this differentiates them from the business areas that local Vietnamese banks engage in. In the past, Taiwanese-invested banks have helped a great many local Vietnamese companies obtain the U.S. Dollars that they need to meet their operational requirements, and in the future there is the potential for providing even

more assistance for Vietnamese companies seeking to expand into overseas markets. Taiwanese-invested banks have a wealth of experience in providing financing support for small and medium enterprises (SMEs), and will be able to provide first-rate services to local Vietnamese SMEs to meet their funding needs.

A further point is that most Taiwanese-invested firms are integrated into global supply chains and have extensive business dealings with multinational corporations. For example, there is close collaboration between Taiwanese and Japanese companies within the same supply chains, and many Japanese SMEs are very interested in investing in Vietnam. If Taiwanese-invested banks were able to open more branches in Vietnam, they would be able to assist Japanese SMEs in investing in Vietnam, becoming an investment “contact window” for these firms. This would help to attract more foreign investment to Vietnam and to create new jobs.

Suggestions

Taiwan’s experience with foreign banks operating in Taiwan has shown that foreign banks can play a very important role in the cultivation of local financial talent, in the introduction of advanced business models and systems, and in fostering the development of a health financial sector environment. Taiwanese-invested banks are eager to play a similar role in supporting the development of the financial sector in Vietnam, and their unique expertise in serving SMEs precisely meets the needs of industrial

development in Vietnam. It is suggested that the Vietnamese government should allow Taiwanese-invested banks to establish more branches in major cities within Vietnam. Not only would this help banks to serve local customers more effectively from close at hand, and encourage more Taiwanese firms to invest in Vietnam, the banks' commercial networks would also help to attract investment from other foreign countries besides Taiwan, thereby helping to earn foreign currency for Vietnam, cultivate first-rate human talent, and accelerate Vietnam's economic development.

2.5.3 Investment protection

➤ Strengthening effective investment protection

Explanation of the Issues and their Impact

Strikes and demonstrations are very common in Vietnam. Although, thanks to the assistance provided by the Vietnamese government, the majority of these strikes and demonstrations do not cause serious harm, the anti-Chinese riots that occurred in Vietnam on May 13, 2014 did cause major problems for many innocent Taiwanese-invested firms. While an "Agreement Between the Taipei Economic and Cultural Office in Hanoi and the Vietnam Economic and Cultural Office in Taipei on the Promotion and Protection of Investments" was signed in 1993, following the 2014 riots Taiwanese-invested firms found that they were unable to secure reasonable compensation from the Vietnamese government, indicating that the current investment protection agreement is of limited

usefulness. Despite concerns about the ability of the Vietnamese government to provide effective protection for life and property, following the May 13, 2014 riots, the vast majority of Taiwanese-invested firms did not withdraw their investment from Vietnam; influenced by their strong attachment to Vietnam, they rebuilt their factories and recommenced production. To ensure that sustainable development of Taiwanese-invested firms' operations in Vietnam, it is suggested that the Vietnamese government should, as soon as possible, negotiate with Taiwan to update the content of the investment protection agreement between Taiwan and Vietnam in line with recent trends in international investment agreements.

Currently, the definition of "investment" as used in the "Agreement Between the Taipei Economic and Cultural Office in Hanoi and the Vietnam Economic and Cultural Office in Taipei on the Promotion and Protection of Investments" does not define investment as any property directly or indirectly controlled by the investor, as is usual in recent international investment agreements; it would be difficult to interpret "investment" as defined by the Agreement as including investment by Taiwanese firms routed via a third country. As a result, many Taiwanese firms which have routed their investment in Vietnam via companies registered in China or in the British Virgin Islands are unable to receive protection for their investments. Furthermore, the current Agreement does not include "national treatment" or "full protection and security" clauses, merely stating that investment should be protected in accordance with the

laws of the two signatory countries; the level of real protection provided is thus inadequate. Similarly, the “expropriation” clause only notes that expropriation must be conducted for lawful purposes, and in a non-discriminatory manner, with adequate compensation; there is no requirement that proper procedures be followed. There is thus clearly room for improvement in terms of the protection of life and property and with respect to compensation. As regards dispute resolution, there is no clear stipulation that both signatory nations must agree to requests for arbitration made by an investor from the other signatory nation, and no provision regarding how long negotiation must continue before until arbitration can be sought; this situation is likely to lead to disputes. Finally, as regards enforcement of arbitration decisions, because Taiwan is not a signatory of the New York Arbitration Convention, and because the Vietnamese courts tend to adopt a conservative stance with respect to international arbitration decisions, investors may find that, even if an arbitration award has been made in their favor, enforcement may present problems.

Suggestions

The “Agreement Between the Taipei Economic and Cultural Office in Hanoi and the Vietnam Economic and Cultural Office in Taipei on the Promotion and Protection of Investments” was signed in 1993, but the Agreement consists mainly of statements of principle such as “the Parties agree to treat investment from the other Party with fairness,” and there is

a lack of clear provisions regarding the handling of loss of property by investors, requests for government compensation, etc.; overall, the Agreement is no longer suited to the needs of the current era, and the substantive protection that it provides for Taiwanese-invested firms in Vietnam is limited. To safeguard the development of Taiwanese-invested firms in Vietnam, it is suggested that Taiwan and Vietnam should update the content of the Agreement in line with recent international trends in investment protection agreements, so as to strengthen the level of protection provided for Taiwanese-invested firms, and to incorporate provision for alternative dispute resolution (ADR), with the joint establishment by the two governments of an arbitration mechanism and arbitration body to settle disputes. The following is a list of specific suggestions for revisions, based on the investment protection agreement signed between Taiwan and Japan and the investment sections of the FTAs signed between Taiwan and New Zealand and between Taiwan and Singapore:

- i. Clarification of the types of investor to which the Agreement is applicable (Paragraph 2, Article 1 of the Agreement): To take account of the diversification of investor categories, it is suggested that recent trends in international investment agreements should be followed by clearly stipulating that the term “investor” includes companies, trusts, partnerships, sole proprietorships, joint ventures, associations, etc.

- ii. Expansion of the scope of investment categories covered by the Agreement (Paragraph 3, Article 1 of the Agreement): It is suggested that the provisions of Paragraph 3, Article 1 of the Agreement regarding the categories of investment covered by the Agreement should be revised to reflect the diversification of investment types in recent years, with the range of categories being expanded to include, for example, investment in the form of equity or capital contribution, corporate bonds, financial debentures, loans and other claims, rights granted in accordance with the law (e.g. patents, natural resources exploration rights and extraction rights, etc.). In addition, the Agreement should follow the example of the investment protection agreement between Taiwan and Japan by clearly stipulating that both assets directly controlled or owned by the investor and those indirectly controlled or owned by the investor are classed as investment for the purposes of the Agreement, so as to include indirect investment made by Taiwanese firms via third countries.
- iii. Addition of extra provisions regarding expropriation (Article 4 of the Agreement): With the diversification of investment types, countries throughout the world have developed new methods of interfering with foreign investors' property, thereby putting such property at risk. In order to reduce the level of political risk borne by foreign investors, it is suggested that additional provisions should be added to the Agreement regarding

expropriation, including criteria for determining whether a particular action should be classed as indirect expropriation, principles governing payment of compensation and scope of compensation (for example, whether a reasonable amount of interest will be included in compensation), etc.

- iv. Addition of extra provisions regarding transparency: In order to enhance the transparency of relevant laws and regulations, it is suggested that an additional article should be added to the Agreement concerned with transparency; this article would stipulate obligations for timely updating of laws and regulations by the two parties, so as to enhance the overall level of regulatory transparency and reduce the cost of obtaining and clarifying information about local laws and regulations.

2.6 Human Resources Issues (Relevant Agencies: Ministry of Labour - Invalids and Social Affairs, Ministry of Education and Training)

2.6.1 Skilled workers

➤ Improving vocational education to cultivate skills workers

Explanation of the Issues and their Impact

According to the “Report on the Labour Force Survey” compiled by the General Statistics Office of Vietnam, Ministry of Planning and Investment, the vast majority of workers in Vietnam are unskilled

workers, accounting for more than 80% of the total workforce. There is considerable variation between regions in this regard; in Hanoi Municipality, approximately 39.8% of workers have received vocational training, whereas in the Mekong Delta (a mainly agricultural region), the percentage is just 11.6%. Similarly, in Hanoi 21.3% of the workforce have been educated to university level or above, and the figure for Ho Chi Minh City is nearly as high, at 20%, whereas in the Mekong Delta the corresponding figure is only 4.8%. It can thus be seen that educated and skilled human talent is heavily concentrated in Vietnam's two largest metropolitan areas – Hanoi in the north and Ho Chi Minh City in the south – with pronounced regional disparities.

Currently, only around 38.5% of workers in Vietnam have received formal training²⁶, and there is considerable room for improvement in the overall quality of the workforce (Vietnamese workers are rated at 3.79 points out of a possible maximum score of 10). Operational efficiency is low; Vietnamese workers are rated as being only 1/15 as efficient as their Singaporean counterparts, 1/5 as efficient as Malaysian workers and 2/5 as efficient as Thai workers. Vietnam has a large, relatively young workforce, but the pool of skilled workers is not large enough to meet the growing demand for skilled labor from foreign-invested companies operating in Vietnam. Thanks to the steady increase in the number of Taiwanese-invested and other foreign-invested companies in Vietnam, the

²⁶ Taipei Economic and Cultural Office in Ho Chi Minh City (2016), "Only 38.5% of Vietnamese Workers Have Received Formal Training": <http://hs1101.taiwantrade.com.tw/CH/bizsearchdetail/8148864/C?keyword0=%20%E5%8B%9E%E5%8B%95%E9%83%A8%20%E8%81%B7%E8%A8%93>

unemployment rate is low, at only 2.33%. Many Taiwanese-invested and other foreign-invested firms have noted experiencing difficulties in recruiting the workers they need, and the problem is particularly serious in manufacturing industries that require skilled workers to undertake shift work. Taiwanese-invested firms are concerned that these labor shortages are likely to become further exacerbated in the future; if the government's restrictions on overtime work are not relaxed, the shortage of skilled workers can be expected to become steadily more serious.

Suggestions

Taiwanese-invested firms have always attached great importance to raising the productivity of local workers. Enhancing labor productivity will not only help Taiwanese-invested firms in Vietnam to maintain sustainable operation, it will also contribute to raising the overall quality of the Vietnamese workforce as a whole and to boosting Vietnam's economic growth rate, helping Vietnam to upgrade its industries and create higher levels of value-added. It is suggested that the Vietnamese government could collaborate with Taiwan on vocational education, with the formulation of suitable vocational education development plans to help Vietnam establish a comprehensive vocational education system and new vocational training centers. More specifically, there is the potential for cooperation on the establishment of vocational training centers or specialist schools in Vietnam, and for the promotion of closer collaboration between industry and universities. Vietnamese vocational

training instructors and students would be able to engage in bidirectional exchange with Taiwan, and workforce information systems could be established to facilitate manpower cultivation with more flexibility, along with the development of testing and certification systems that meet industry's real needs, and the improvement of training infrastructure and greater investment in facilities so as to enhance the overall quality of vocational training.

2.6.2 Specialist talent

➤ Strengthening manpower cultivation in specialist fields

Explanation of the Issues and their Impact

Since Vietnam first began implementing reforms in the mid-1980s, the country has worked steadily to integrate itself into the global economy and the global market. Besides joining the WTO, Vietnam has also adopted a proactive stance towards negotiating FTAs with other countries, and has undertaken related market opening and efforts to bring its legal and regulatory system in line with normal international practice. Taiwanese-invested firms applaud the Vietnamese government's efforts in recent years in the areas of systemic reform and regulatory harmonization. However, Taiwanese-invested firms have also noted that improvement in the professional expertise and overall quality of Vietnamese enforcement personnel and other specialists has lagged behind the pace of regulatory reform, creating significant disparities between what the law states and

how the law is actually enforced. Taking environmental and tax legislation as an example, many of Vietnam's existing laws in these areas were formulated with reference to European, U.S. or international law, and they are often extremely complex; auditing procedures also require a high level of professional expertise. Taiwanese-invested firms have noted that, in the past, when they sought help in interpreting particular environmental protection laws from consulting firms recommended by the Vietnamese government, there were still problems with mistaken interpretations.

Suggestions

It is suggested that the Vietnamese government should make more effective use of external resources and should try to cultivate bilingual talent (Vietnamese-Chinese and Vietnamese-English) in areas such as law, finance and taxation, environmental protection, human resources, psychological counseling, etc. In addition, when new laws are promulgated, the government should do more to spread awareness of these new laws among law firms, firms of accountants and consulting firms, etc., so as to reduce the potential for misunderstandings.

2.7 Environmental Protection and Environmental Legislation (Relevant Agencies: Ministry of Natural Resources and Environment, Ministry of Construction, Ministry of Finance, Ministry of Planning and Investment, Vietnam Environment Administration)

2.7.1 Laws and regulations

- **Publishing official English-language versions of laws and regulations, and improving legal and regulatory transparency**

Explanation of the Issues and their Impact

Vietnam promulgated a Law on Environmental Protection in 1993, which has since been revised in 2003 and again in 2014. The version of the Law currently being enforced is that enacted on June 23, 2014, which came into effect on January 1, 2015. The latest revision of the Law added a considerable amount of additional content, including the adoption of the concepts of the “green economy” and sustainable development, and it imposed several new obligations on business owners, including obligations to install automated waste water discharge monitoring equipment, adopt approved environmental management systems and have them registered, register all equipment that emits toxic gases, and install various types of automated monitoring and measuring equipment. The revised version of the Law also clarifies the respective responsibilities of different government agencies. The 2014 revision of the Law on

Environmental Protection was also accompanied by the formulation or revision of various Decrees, emissions standards, etc.²⁷

The Vietnamese government has responded to growing environmental consciousness among Vietnam's citizens by strengthening environmental regulations and implementing environmental surveys. However, Vietnam's environmental legislation is very complex and is revised too frequently, and many important laws lack official English-language versions; this situation makes it difficult for foreign-invested firms to maintain strict compliance with regulatory requirements. Japanese-invested companies in Vietnam find themselves constantly being investigated, sometimes for past infractions for which they had already been fined.²⁸ Recently, Taiwanese-invested firms have been experiencing similar problems. Some firms have commented that, besides the difficult of maintaining compliance, when the government tightens up environmental standards, or when disputes occur, the environmental agencies can be very slow in issuing permits, and may even cancel permits that were issued before the introduction of the new, more restrictive regulations. This creates a high level of uncertainty and risk for investors.

²⁷ JETRO Hanoi, "Trends in Environmental Legislation, Including the Revision of the Law on Environmental Protection (effective as of January 1, 2015)," March 2015:

https://www.jetro.go.jp/ext_images/_Reports/1_1503kankyohogohou.pdf

²⁸ https://www.jetro.go.jp/ext_images/_Reports/1_1503kankyohogohou.pdf

Suggestions

While striving for economic development, it is vitally important that consideration is also given to environmental protection; in the current era, when environmental pollution is starting to cause changes in the climate, the emphasis that the Vietnamese government places on environmental protection is to be commended, and foreign companies investing in Vietnam are of course under an obligation to comply with local environmental legislation. However, Vietnam's environmental laws and regulations are extremely complex, and are subject to frequent revisions, while the single biggest problem making it difficult for foreign-invested firms to ensure full compliance with the law is the lack of official English-language versions of relevant laws and regulations. The Taiwanese Chambers of Commerce suggests that the Vietnamese government should establish a unified channel for the promulgation of new environmental legislation, and should provide English-language texts and explanations of new laws, so as to reduce compliance costs for foreign-invested enterprises.

2.7.2 Enforcement procedures

- **Giving firms enough time to adjust to new legislation, and ensuring consistent enforcement across provinces/municipalities**

Explanation of the Issues and their Impact

Some Taiwanese-invested firms have noted that, despite having already received an environmental permit, the already-issued permit may subsequently be cancelled when the government has plans to further tighten up the relevant criteria, and that application review periods may be dramatically extended; this can cause serious problems for the companies affected. The current Vietnamese Law on Fire Prevention and Firefighting was promulgated in 1995; although new implementation rules have been announced several times since then, it is often difficult to determine whether the provisions of these rules are intended to apply retroactively. This situation inevitably leads to increased compliance costs for Taiwanese-invested firms that have factories in several different provinces, and firms that are continuously expanding their scale of operations in Vietnam. To take an example, if a firm establishes an additional factory building within its old factory site to keep pace with rising demand, when that firm undergoes a fire safety inspection, different inspectors may take a different stance as to whether the old building is required to be equipped with a sprinkler system that conform to the standards applying to newly-built factories.

Suggestions

When a new version of a law comes into effect, its requirements are usually more rigorous than those of the previous version of the law. In cases where a company has been issued a permit in accordance with the provisions of the previous version of a law, it is suggested that the firm in question should only be required to meet the requirements of the previous version of the law until their current permit expires, or alternatively the firm should be given a grace period in which to make the necessary adjustments, so as to reduce the operational risk and additional costs that would be incurred if the firm had to shut down production. It is also suggested that, when a new law is introduced or an existing law is revised, the government should make a greater effort to make Taiwanese-invested firms, law firms, firms of accountants, consulting firms etc. aware of the changes; in this way, Taiwanese-invested firms would be able to determine the key aspects of the changes, and it would also reduce the risk of misunderstandings.

2.8 Infrastructure Issues (Relevant Agencies: Ministry of Natural Resources and Environment, Ministry of Transport, Ministry of Construction, Ministry of Finance, Ministry of Planning and Investment, Ministry of Information and Communication)

2.8.1 Infrastructure development and its quality

➤ Improving infrastructure and enhancing the quality

Explanation of the Issues and their Impact

Although Vietnam has continued to invest in infrastructure development, the overall quality of the country's infrastructure is still inadequate; there is still considerable room for improvement in terms of the quality of Vietnam's airports, ports, railway and road network, etc. As regards electric power supply, because Vietnam relies heavily on hydroelectric power for its electricity, reduced power generation during the annual dry season leads to nationwide power shortages. Although the government tries to mitigate the problem by raising the price of electricity in order to reflect the electricity generation cost, manufacturers still find themselves faced with strict power rationing measures which have a negative impact on production. To help resolve the long-standing problem of electricity shortages, the Vietnamese government has begun collaboration with Russia and Japan on the construction of Vietnam's first nuclear power plant in Ninh Thuan Province in Central Vietnam.

However, construction is not scheduled to begin until 2020.²⁹ An additional issue is the traffic congestion in major metropolitan areas, which is becoming increasingly serious. Ho Chi Minh City, Vietnam's largest metropolis, continues to suffer from traffic paralysis when the city floods during the rainy season, along with various other traffic-related problems.

Taiwanese-invested firms operating in Vietnam are mainly involved in “traditional” export-processing industries such as footwear manufacturing, textile manufacturing etc.; as such, they are heavily dependent on ports. Vietnam has a limited number of major ports, including Haiphong in the north and Ho Chi Minh City in the south. As the volume of international trade has grown, the amount of cargo handled by these ports has increased dramatically, and insufficient cargo-handling capacity has a serious negative impact on Taiwanese-invested firms' ability to deliver their products to customers on schedule.

Suggestions

It is suggested that the Vietnamese government could collaborate with Taiwanese-invested and other foreign-invested companies on infrastructure development using the public-private partnership (PPP) or build-operate-transfer (BOT) model; this would help to speed up the improvement of Vietnam's infrastructure and the creation of a first-class

²⁹ Economic Division, Taipei Economic and Cultural Office in Ho Chi Minh City (2016), “The Economic and Investment Environment in Vietnam – Reference Materials,” p. 9: <http://www.taiwanembassy.org/uploads/sites/99/2016/12/2016-%E6%9B%B4%E6%96%B0%E7%89%88-%E6%95%B4%E4%BB%BD2.pdf>

investment environment. Export-oriented industries play a very important role in job creation at the current stage of Vietnam's economic development; the Vietnamese government should endeavor to strengthen the transportation links connecting it to other countries, so as to make exportation from Vietnam more efficient. Given that many ports in Vietnam are already unable to cope with the volume of cargo they are faced with, it is suggested that the government should give priority to the creation of new, large-scale, deep-water ports.

2.8.2 Mobile Communications Networks and Network Quality

➤ Improving mobile communications networks and its quality

Explanation of the Issues and their Impact

With the dawning of the era of the digital economy, communications networks have grown ever more important, and they are now a major factor affecting firms' operational efficiency. A report published by Akamai in 2015 noted that, with regard to Internet access, the average connection speed in Vietnam in 2015 was 3.4 Mbps, significantly lower than the global average of 5.1 Mbps. As regards the cost of Internet access, a report issued by the International Telecommunication Union (ITU) in 2015 calculated that approximately 2% of citizens' average income in Vietnam was spent on Internet access charges, compared to

0.7% in Singapore; there is thus considerable room for improvement in terms of bringing down the cost of Internet access in Vietnam.

Table 7 Internet Access in Six Key ASEAN Member States and India

	Internet Users as a Percentage of the Population in 2015 (%) ^a	Average Connection Speed in 2015 (Mbps) ^b	Internet Access Charges as a Percentage of Average National Income in 2014 (%) ^c
Global average	42	5.1	-
Singapore	84	12.5	0.70
Malaysia	67	4.9	3.10
Thailand	54	8.2	3.63
Vietnam	50	3.4	2.00
Philippines	46	2.8	8.27
Indonesia	34	3.0	3.11
India	19	2.5	5.28

Source: a. We Are Social & IAB Singapore, “Digital, Social, and Mobile in APAC 2015” report (2015)

b. Akamai, “State of the Internet” report (2015)

c. ITU, “Measuring the Information Society” report (2015)

Suggestions

It is suggested that the Vietnamese government should continue to upgrade Vietnam’s Internet access infrastructure, working to improve connection speeds and network stability, so as to reduce the digital divide between Vietnam and other countries, and create a better investment environment. Comprehensive, high-quality digital communications networks can also help to drive the development of new industries and of new business start-ups created by young entrepreneurs, which in turn would help to speed up the process of industrial upgrading in Vietnam.

Part Three The Outlook for Promoting Trade and Business Collaboration between Taiwan and Vietnam

There are highly-developed economic and trade links between Taiwan and Vietnam, and the two countries are closely integrated into the same production networks and supply chains. Vietnam not only serves as an important manufacturing base for Taiwanese firms in the ASEAN region, it also plays a key role in Taiwanese companies' East Asian and global industry networks. The respective strengths of Taiwan and Vietnam are highly complementary; if the two countries can work together effectively to deepen the collaboration between them, this will have a positive impact on their industrial and economic development, creating a “win-win” situation of mutual benefit.

Vietnam has a wealth of natural resources and a large, youthful population; the country is currently working actively to realize industrial upgrading, seeking to develop high-value-added industries. Taiwan and Vietnam share many cultural similarities, and Taiwan has a wealth of experience of successful industrialization to share. Besides its excellence in manufacturing, Taiwan also possesses significant “soft power” in the areas of education, healthcare, culture, tourism, technology, agriculture etc. Furthermore, the Taiwanese government is currently actively promoting the “New Southbound Policy,” and is eager to develop closer collaboration and exchange with Vietnam in many areas; Taiwan hopes to

develop a comprehensive partnership with Vietnam, aiming to be a “prosperity partner” that contributes to Vietnam’s economic development, a “sharing partner” that helps Vietnam to develop its human resources, an “innovation partner” that supports the raising of the quality of life for Vietnam’s citizens, and a “mutual benefit partner” that helps Vietnam to expand its network of international linkages.

By comparison with European, North American or Japanese companies, Taiwanese companies are closer to Vietnamese firms in terms of the overall level of development, and their industrial experience and technology is more closely suited to Vietnam’s needs. Lee Kuan Yew, the first Prime Minister of Singapore, who also acted as an economic advisor to the Vietnamese government, believed that “The country that Vietnam should seek to learn from above all others in the economic sphere is Taiwan, because both Vietnam and Taiwan started out as countries of small farmers, and for a nation of this type developing small and medium-sized enterprises is the most basic, flexible approach to economic development.”³⁰ Taiwan’s successful transformation from an agricultural society into an industrialized nation is sure to offer many useful lessons for Vietnam. A further point is that Taiwanese-invested firms operating in Vietnam have a more genuine attachment to Vietnam than other foreign-invested firms, and are committed to, and enthusiastic about, developing real industrial collaboration with Vietnam. It seems

³⁰ “Bilateral Relations between Taiwan and Vietnam – A Retrospective and the Outlook for the Future, In Light of the Anti-Chinese Riots that Took Place in Vietnam in May 2014,” *ASEAN Outlook* No. 9, pp. 6 – 9

certain that close cooperation between Taiwanese and Vietnamese business enterprises would help to speed up the implementation of reform in Vietnam, furthering the adjustment of Vietnam's industrial structure and helping to enhance Vietnam's overall international competitiveness.

There are many areas where there is strong potential for collaboration between Taiwan and Vietnam. This year's report offers concrete suggestions regarding collaboration in six key areas that should be prioritized: manpower cultivation, precision agriculture and aquaculture technology, healthcare, new business start-up, the ICT sector and turnkey solution, and strengthening efforts to attract Taiwanese investment.

1. Collaboration on Manpower Cultivation

According to the U.N. Human Development Report,³¹ as of 2014 Vietnam had a population of over 90 million people, of which 70% were aged 15 – 64, higher than the global average of 65.8%. The Human Development Index (HDI) report, which was issued by the United Nations Development Programme (UNDP), noted that over the past 30 years, Vietnam's HDI score³² has risen from 0.463 to 0.666, and now ranks 116th out of 188 countries assessed, reflecting the significant improvements that Vietnam has achieved over the past three decades in

³¹ U.N. Human Development Report, 2015: <http://hdr.undp.org/en/countries/profiles/VNM> (last accessed March 15, 2017)

³² The HDI is a composite index of human development that incorporates that incorporates life expectancy, composite educational indicators (including mean years of schooling and expected years of schooling) and per capita income.

the areas of economic development, human health, human capital cultivation, etc. However, Vietnam's HDI is still low by comparison with the average for all East Asia and Pacific region countries (0.710), and the Vietnamese government is continuing to strive for further improvements in human development.

According to Lin (2012),³³ the study noted that the “Plan on the Development of Vietnam's Human Resources During 2011 – 2020” (Chiến lược phát triển nhân lực Việt Nam thời kỳ 2011-2020) announced by the Vietnamese government in April 2011 set Vietnam's human resources development goals as follows: raising national manpower competitiveness to match the levels of more advanced nations in the region, and close to those of developed nations worldwide; ensuring that Vietnamese workers have the necessary skills, attitudes to work, capabilities (including ethical awareness, professional integrity, appropriate work-style, discipline, ability to collaborate with others, responsibility, and civic awareness, etc.), drive, self-control etc. that correspond³⁴ to the human resources needs of an industrial society; establishing social learning, and realizing equality of learning

³³ Lin Wen-shu (2012), “Vocational Education Systems and Policy in Vietnam, and Taiwan's Response to the Development of the Education System in Vietnam,” National Academy for Educational Research (NAER) research project.

³⁴ The main aim of Correspondence Theory is to explore how education systems and economic systems relate to one another. There are two basic approaches that academics in this field have adopted. The first approach views education as having inherent value, and sees the purpose of education as being to promote the individual's growth and experience-building, rather than being a preparation for a specific future career; in other words, education does not exist to serve the economic system. The second approach views education as a social tool which must meet economic and political needs, and which must adjust its goals in line with economic growth and social change; the purpose of the cultivation of skills, attitudes and character by schools and universities is to cultivate qualified human capital. The second approach incorporates the concept of “correspondence,” in the sense that the content of school education must correspond to the needs of the market. (National Academy for Educational Research: <http://terms.naer.edu.tw/detail/1310669>)

opportunities; establishing advanced manpower training mechanisms and systems, to meet the needs of lifelong learning.

The specific human resources development targets that Vietnam has set itself include the following: By 2020, at least 70% of the workforce will have undergone some form of training, and 55% will have undergone vocational training; the structure of the workforce will be adjusted so that 50% of the workforce will be engaged in industrialized/modernized agriculture, 23-24% are working in manufacturing industry or the construction sector, and 26-27% are working in the service sector.³⁵ As can be seen from the above, there is a high level of need for skilled worker cultivation in Vietnam, especially in the industrialized/modernized agriculture sector, the manufacturing and construction sectors, and the service sector.

By comparison with Vietnam, Taiwan has already established solid foundations in terms of vocational education. Taiwan's vocational schools have ensured that, since the 1970s, Taiwan has not lacked for knowledgeable, skilled technical talent when developing technology-intensive industries. The skilled workers and technicians cultivated by Taiwan's vocational schools and junior colleges have been a key driver of growth for technology-intensive industries in Taiwan, helping to create the "Taiwan Miracle" that transformed Taiwan into one of the "Four Asian Dragons" with strong economic development potential.

³⁵ Lin Wen-shu (2012), "Vocational Education Systems and Policy in Vietnam, and Taiwan's Response to the Development of the Education System in Vietnam," National Academy for Educational Research (NAER) research project.

Taiwan's experience is precisely what Vietnam requires in order to meet its own skilled worker cultivation and vocational educator cultivation needs, and this is an area where there is strong potential for collaboration between Taiwan and Vietnam.

In point of fact, collaboration between Taiwan and Vietnam in the field of education has been underway for more than ten years now. During the 2015 Taiwan-Vietnam Education Forum which was held in Hanoi in 2015, a Taiwan-Vietnam Education Cooperation Agreement was signed between the two countries' representatives, with the aim of strengthening bilateral collaboration on student and educator cultivation, focusing in particular on the four key issues of "Higher Education Quality," "Cultivating Talent for Taiwanese-invested Firms in Vietnam, and Industry-University Collaboration," "Taiwan-Vietnam Mutual Recognition of Higher Education Diplomas," and "Collaboration on Chinese and Vietnamese Language Teaching."

To summarize, Taiwan and Vietnam have already built up a solid foundation of collaboration in the educational sector over many years. In the future, in the field of human resources cultivation, there is potential for continued development of industry-university collaboration models and related manpower utilization that involve cooperation between Taiwanese-invested firms operating in Vietnam and Taiwanese universities and colleges. In addition, taking into account the important part that urbanization is playing in Vietnam's economic development and

the benefits to Taiwan and Vietnam from the WTO Trade Facilitation Agreement that came into effect in 2017, in the future, besides collaboration on the above mentioned orientation, there will also be opportunities to strengthen bilateral collaboration of talent cultivation on “smart city”, trade facilitation, etc. These potential areas for collaboration are examined separately below.

Firstly, there is the expansion of industry-university collaboration models and related manpower utilization. Given that Vietnam is a major focus of investment by Taiwanese companies, and that Taiwan already has many years of experience in implementing the model whereby close collaboration between business enterprises and educational institutions is used to cultivate the talent that industry needs, it should be possible to achieve an expansion of this model through bilateral cooperation between Taiwan and Vietnam. Taiwanese-invested businesses could join forces with Taiwanese universities to establish industrial colleges in Vietnam, supported by scholarship systems, and working to support the Vietnamese government’s goal of raising the share of the workforce employed in manufacturing industry and in the service sector by 2020 by strengthening manufacturing and service sector related vocational education and industry-university collaboration. Not only would this help Vietnam to build up its stock of human capital, it would also help to cultivate the human talent needed by Taiwanese-invested firms operating in Vietnam.

Next, there is the potential for manpower cultivation plans tailored to promoting “smart city” development. In August 2016, ASEAN announced the launch of the ASEAN Plan of Action for Energy Cooperation 2016-2025 (APAEC), which aims to proactively strengthen collaboration between ASEAN member states on energy issues and environmental issues (such as “green building” technology, etc.). Taiwan has traditionally been strong in information and communications technology (ICT), and also has significant capabilities in the areas of “green building” standards formulation, design and construction, etc. To take an example, there are currently around 26 “green building” appraisal systems in existence worldwide; Taiwan was the fourth country in the world, after the U.K., the U.S.A. and Canada, to introduce a scientific, quantified “green building” appraisal system, and this independently-developed system is currently the only appraisal system of its kind in the world suitable for “green buildings” in the tropical and sub-tropical zones.³⁶ In recent years, many of the new factory buildings, school buildings and government offices that have been constructed in Taiwan have been designed as “green buildings.” Taiwan thus has a significant technical edge with respect to the development of “smart cities” and environmentally-friendly urban construction; these are areas for which there is growing demand in the ASEAN member states, including Vietnam, so there is significant potential for collaboration here. Taiwan’s Industrial Economics & Knowledge Center (IEK) and Green Energy and

³⁶ Taiwan Green Building Council:
<http://www.taiwangbc.org.tw/tw/modules/news/article.php?storyid=82> (last accessed on Jan. 20, 2017)

Environment Research Laboratories, both belonging to the Industrial Technology Research Institute (ITRI), already have experience promoting green energy system application adoption in the Philippines and Laos, and they are currently undertaking planning for collaboration with Indonesia in the “smart city” sector. Given that Vietnam is currently undergoing rapid economic development and urbanization, there is considerable potential for collaboration between Taiwan and Vietnam; the Vietnamese government should consider collaboration with Taiwan, for example on skilled worker cultivation programs.

Thirdly, there are the opportunities for strengthening collaboration on human resources cultivation in areas relating to trade facilitation. The World Economic Forum (WEF) publishes The Global Enabling Trade Report³⁷ on an annual basis, to evaluate developments in the international trade field. The Enabling Trade Index, which is presented in the Report, is one of the most important international indices used to assess trade facilitation in individual countries and international commercial goods shipment.³⁸ In The Global Enabling Trade Report 2016, Taiwan ranked 35th out of 136 countries overall, with a score of 5.5 or higher for the “efficiency and transparency of border administration,” “availability and quality of transport services,” and “availability and use of ICT” index components, reflecting Taiwan’s strengths in the area of

³⁷ WEF, “The Global Enabling Trade Report 2016”: http://www3.weforum.org/docs/WEF_GETR_2016_report.pdf (last accessed on March 16, 2017)

³⁸ The seven key component “pillars” of the Enabling Trade Index are: domestic market access, foreign market access, efficiency and transparency of border administration, availability and quality of transport infrastructure, availability and quality of transport services, availability and use of ICT, and operating environment.

trade facilitation. By contrast, Vietnam ranked 73 out of 136 countries, and for the three aspects where Taiwan ranked particularly highly, Vietnam's scores were all in the range of 4.1 – 4.6. Bearing in mind that Vietnam is one of the main recipients of Taiwanese investment in the Southeast Asia region, and that the Vietnamese Customs have in the past sent delegations to Taiwan to study Taiwan's experience with customs clearance facilitation, management and enforcement, it should be possible for Taiwan to strengthen collaboration with Vietnam in the area of trade facilitation related human resources cultivation, for example by assisting with trade facilitation technical assistance and capacity building (TACB) work within the WTO framework. By helping to simplify Vietnam's customs procedures and realize e-enabled customs services, this would help Vietnam to strengthen its competitiveness in terms of trade facilitation, while also strengthening industrial linkages between Taiwan and Vietnam.

2. Collaboration on Precision Agriculture and Aquaculture Technology

Vietnam produces a wide range of crops, and is famous as a bountiful “land of fish and rice.” Primary industry (including agriculture) accounts for around 20% of Vietnam's GDP, and for more than 40% of all jobs in the country; as such, this sector is vitally important both for Vietnam's economic development and for its social stability. As regards Vietnam's agricultural sector development policy, the government's

targets for the period 2011-2015 were to enhance agricultural production efficiency and production techniques, promote the economic development of rural communities, ensure food safety, prevent outbreaks of crop diseases and animal diseases, and guard against natural disasters, etc., thereby improving the overall environment in rural communities. Over the period 2016-2020, the main policy focus will be on promoting the modernization of agricultural sector development, fostering large-scale production, and furthering the development of sustainable agriculture; Vietnam will continue to implement scientific and technological research in relation to fruit trees, vegetables, flowers, etc., seeking to expand fruit and vegetable production so as to provide materials and initial processing for the food processing industry, and create a high-quality image for Vietnamese agricultural produce in international markets. Vietnam will also be working to reduce the incidence of pollution in agricultural production, and reduce the harm caused by natural disasters, diseases and climate change; it will also be seeking to protect biodiversity, and working to safeguard the sustainable development of the fisheries industry and of the aquaculture sector (both in coastal regions and inland). The government is also aiming to realize effective integration of the manufacturing sector, service sector and urban economy with agricultural production and with the economic development of rural communities.

It can be seen from the above that upgrading agricultural technology and raising production capacity, maintaining high product quality standards, safeguarding the environment, and integrating agriculture with

the manufacturing and service sectors, are key objectives of Vietnam's current agricultural policy. Taiwan has many years of experience in improving agricultural technology and aquaculture technology, and has successfully utilized information technology (IT) and biotechnology to raise productivity and boost product value-added. Taiwan's experience in this area – in terms of policies, results, and implementation methods – can serve as a useful reference for the development of Vietnam's agricultural sector; adopting technology and know-how from Taiwan can help Vietnam to enhance the competitiveness of its agricultural, fisheries and aquaculture sectors, thereby helping to boost citizens' incomes. In point of fact, in 1998 an "Agreement between the Vietnam Economic and Cultural Office in Taipei and the Taipei Economic and Cultural Office in Hanoi for Collaboration on Agriculture and Fisheries" was signed between Taiwan and Vietnam, with the two countries agreeing to collaborate on planning the development of agriculture, forestry, fisheries and animal husbandry, on production and processing, and on rural development, with Taiwan agreeing to help Vietnam with agricultural technology training and with agricultural policy formulation training plans, etc. Through initiatives such as pilot projects for the planting of virus-free seedlings in orange tree orchards, it has been possible to implement systematic technology transfer of Taiwan's wealth of agricultural and aquacultural experience and know-how. In accordance with the provisions of the Agreement, since 1999 the Taiwan-Vietnam Working Group Meeting on Cooperation in Agriculture and Fisheries has

been held on a more or less annual basis; this Meeting has now been held more than 10 times, providing a venue for discussing collaboration in areas such as agricultural and fisheries industry development, talent cultivation, biodiversity-oriented agriculture, etc. Besides holding discussions with Vietnam's Ministry of Agriculture and Rural Development on mechanisms for further bilateral collaboration, in recent years Taiwan has also been holding talks directly with local government authorities, and developing a clearer picture of the obstacles to agricultural sector development at the local level.

In the future, collaboration between Taiwan and Vietnam should be based on a foundation of collaboration with respect to individual industries (and products), seeking to enhance cooperation in regard to agricultural sector supply chains, and utilizing the "Sixth Industrialization" concept to integrate production, processing, distribution and sales so as to enhance the value-added of Vietnam's agricultural products. In concrete terms, agricultural collaboration between Taiwan and Vietnam will be focused on three key areas:

Firstly, there will be a deepening and a broadening of existing collaboration efforts. Currently, Vietnam's agricultural development is still heavily oriented towards the production of raw materials, and the overall level of commercialization is low. In the past, Taiwan has already engaged in collaboration and exchange with Vietnam with respect to improvement of plant varieties and animal breeds, agricultural techniques,

eco-system conservation, environmental technology, and other systemic and technology-related areas. As regards collaboration on the enhancement of plant varieties and animal breeds, this cooperation has covered vegetable, fruit tree and flower varieties, aquaculture, forestry and poultry-raising, and has expanded beyond variety and breed improvement to include collaboration on technology, know-how and human talent cultivation in relation to vaccine development, disease prevention, warehouse management, and environmental issues, etc.; a great deal of useful experience has already been accumulated. In the future, besides continuing to intensify existing areas of collaboration, cooperation will also take account of the current state of agricultural development in Vietnam, where rapid development is heavily concentrated in certain geographical areas, with considerable room for improvement in terms of productivity, production innovation, product differentiation, and product value-added, etc. Agriculture in Vietnam tends to make extensive use of chemical pesticides and chemical fertilizers; agrochemical control measures are inadequate, and there is a lack of rigorous testing systems to ensure that food crops are not contaminated by agrochemical residue. Excessively high levels of agrochemical residue are an especially common problem among Vietnam's tea-farmers. As a consequence, the continuing development of the agricultural sector has led to steadily worsening environmental pollution and food safety issues. Besides collaboration on issues relating to the maintenance of biodiversity, other important areas for agricultural

collaboration between Taiwan and Vietnam, and for the exchange of personnel, technology and information, include collaboration on agricultural development in remote districts, on issues relating to environmental and climate change, and on issues relating to product traceability and food safety, etc.

Secondly, there is collaboration on the development of highly-efficient distribution channels for agricultural, fisheries and aquaculture products, and of related value-added services. While Vietnam has an abundant supply of agricultural raw materials, there is still considerable room for improvement in terms of the integration of transportation and sales, logistics, and agricultural products processing. For example, Vietnam is lacking in the areas of logistics technology and equipment and of digital information systems; it would therefore be advisable to expand the existing agricultural collaboration between Taiwan and Vietnam to include integration of agriculture with manufacturing industry and the service sector, and the linking together of individual collaboration items, for example with respect to distribution and shipment. Cold chain³⁹ logistics is an area of particular importance for the development of the agriculture and fisheries sector, but currently the cold chain sector is not highly developed in Vietnam; furthermore, refrigerated warehouses are heavily concentrated in the areas where

³⁹ Cold chain logistics is a set of logistics network and supply systems that seeks to safeguard the quality of food products, pharmaceuticals, agricultural products etc. by ensuring effective integration of refrigeration equipment at every stage from production through packaging and shipment, packaging protection, warehousing, distribution, processing and delivery through to sales (as well as in relation to the provision of information), while ensuring that the product temperature requirements specified by the manufacturer are met continuously in every process, so that products remain at a stable, low temperature throughout.

production takes place and in the vicinity of major metropolitan areas, so that when products are imported into Vietnam from overseas the cold chain is vulnerable to being interrupted. If the cold chain is interrupted at any point in the transportation process (i.e. if product temperature diverges from the specified temperature range), then the products may lose much of their market value; this is particularly true in the case of fresh produce and processed foods. Currently, the lack of suitable low-temperature delivery capabilities causes goods to the value of at least US\$2.5 billion to be damaged in the distribution and delivery process every year; in the case of vegetables, fruit and seafood, the loss rate is as high as 25 - 30%, higher than anywhere else in Southeast Asia.⁴⁰ The Vietnamese government is currently responding to this situation with policy measures aimed at reducing the product loss rate to below 20% by 2020.

In Taiwan, the cold chain utilization rate for products requiring low temperatures is in the range of 80 – 90%, around the global norm. Taiwan has a highly-developed cold chain logistics sector, with an impressive performance in every segment from warehousing through distribution to related IT services, refrigeration equipment R&D, sales channels, etc. Besides having brought cold chain system management and technology applications to a high level of development, Taiwan has also accumulated extensive and comprehensive experience in related services. More importantly, Taiwan has succeeded in developing unique multiple

⁴⁰ Modern Material Handling & Logistics magazine, October 2016: <https://www.logisticnet.com.tw>

temperature band cold chain logistics technology that combines efficiency with low cost to support the delivery of small volumes of a large number of different product types over short distances, together with the supporting human talent and business models; this should be ideally suited to Vietnam's needs.⁴¹ Collaboration between Taiwan and Vietnam in the area of cold chain logistics – including cooperation with respect to human talent cultivation, technology, formulation of standard operating procedures, certification, etc. – would enable Vietnam to benefit from Taiwan's accumulated experience and capabilities in cold chain logistics, helping Vietnam to complete the development of its own cold chain logistics sector, and reducing the economic loss currently suffered in logistics processes.

Thirdly, there is collaboration on the systematic development of rural communities. There is still considerable scope for enhancing the economic efficiency of agricultural production in Vietnam, and Taiwan can support this process through the sharing of its experience and technology. To further the development of agricultural technology, Taiwan has established Agricultural Technology Science-based Parks, using the “agricultural technology industry cluster” approach to promote the transformation and upgrading of agriculture, for example with the establishment of the Pingtung Agricultural Biotechnology Park (PABP).

⁴¹ Food product distribution in Vietnam is dominated by traditional small and medium-sized retailers, with a lack of systematic, efficient distribution systems. Most restaurants in Vietnam implement purchasing by sending their own employees to buy and collect food materials, and while some do obtain food materials from distributors and warehouse operators, the overall level of professionalism is not high.

The systematic development of agricultural technology clusters has enhanced the economic benefits of agricultural sector development, while at the same time overcoming many of the environmental problems associated with agriculture, making it possible to develop agriculture while also protecting the environment. This kind of approach offers considerable potential for agricultural sector collaboration between Taiwan and Vietnam in the future.

3. Collaboration on Healthcare

According to statistical data for Vietnam released by the World Health Organization (WHO) in 2012, the leading cause of death in Vietnam is cardiovascular disease, which accounts for 40% of all deaths. This is related to the high prevalence of smoking in Vietnamese society; over 45% of Vietnamese men smoke. The next most common causes of death are traffic accidents and cancers. With the rapid growth of Vietnam's economy, income levels are rising, and people are starting to attach more importance to their health, leading to growing demand for healthcare services. However, the medical personnel staffing Vietnam's hospitals are too few in number, and their capabilities are insufficiently high, to meet the demand from Vietnam's citizens; there is considerable room for improvement in both the level of training received by medical professionals and in the medical technology available to hospitals. There is also a marked disparity between the number of public hospitals in Vietnam and the number of private hospitals, and there are pronounced

regional variations in the number of hospitals available. There are approximately 10 times as many public hospitals as private hospitals in Vietnam, and almost all of the country's larger, better-equipped hospitals are located in major cities. This situation has attracted the attention of many foreign healthcare service providers, and there has already been considerable foreign investment in Vietnam's healthcare sector. However, the number of medical professionals in Vietnam is relatively low, and most of these have signed long-term employment contracts with public hospitals, making it difficult for foreign-invested private hospitals to recruit enough staff. At the same time, because income levels in Vietnam are still relatively low, most citizens cannot afford the high fees charged by private hospitals. These factors have retarded the growth in the number of private hospitals, and as a result Vietnam's healthcare sector is still faced with a situation where demand outstrips supply.

Vietnamese citizens spend an average of around US\$1.5 – 2 billion every year on traveling overseas for medical treatment. This reflects partly the inability of Vietnam's healthcare sector to meet demand, and partly the fact that medical professionals in Vietnam are unable to deal with some of the more challenging diseases and health problems; as a consequence, richer Vietnamese often travel to Singapore, Malaysia, Japan, Taiwan etc. for treatment. The quality of healthcare provision is closely linked to overall national wellbeing, and the Vietnamese government has consistently attached great importance to improving healthcare. As income levels in Vietnam have risen, not only has there

been steady growth in demand for healthcare services among Vietnamese citizens, there has also been an increase in demand for healthcare from the foreign nationals working at the growing number of foreign-invested companies operating in Vietnam. The Vietnamese government is fully aware that the healthcare sector is in urgent need of development. Besides encouraging foreign investment in the healthcare sector, the government is also sparing no pains in its effort to cultivate high-caliber medical professionals. However, progress in this area is not something that can be achieved overnight; it will require a steady accumulation of experience over time.

Taiwan and Vietnam are located in the same part of the world and have similar climates; there are also strong cultural similarities between the two countries. Taiwan has a mature healthcare system and high-quality medical personnel; bilateral exchange and collaboration between Taiwan and Vietnam in the medical sphere can not only help Vietnam to make more rapid progress in the development of its healthcare sector, it can also benefit Taiwan by helping Taiwan to build up experience in how to effectively share its know-how with other countries. Since 1992, National Taiwan University Hospital (NTUH), which plays a very important role within Taiwan's healthcare system, has helped Vietnam to complete its first kidney transplant, liver transplant and bone marrow transplant operations. In 2005, NTUH signed exchange agreements with several Vietnamese hospitals, including Ho Chi Minh City Medical University Hospital, Bach Mai Hospital in Hanoi, Viet Duc

Hospital, Cho Ray Hospital in Ho Chi Minh City, the National Hospital for Tropical Diseases in Hanoi, 115 People's Hospital in Ho Chi Minh City, the Vietnam National Hospital of Pediatrics in Hanoi, Hue Central Hospital, and Children's Hospital No. 1 in Ho Chi Minh City. NTUH has also helped organize numerous medical conferences in Hanoi and in Ho Chi Minh City, and has provided training for Vietnamese medical and nursing professionals, with the aim of raising the overall level of medical technology capabilities in Vietnam, while at the same time establishing channels for communication between Taiwan's medical system and Vietnam's medical system. Once NTUH had led the way by beginning to undertake exchange and collaboration with hospitals in Vietnam, other Taiwanese hospitals followed suit, including Changhua Christian Hospital, China Medical University, En Chu Kong Hospital, and Buddhist Tzu Chi Hospital. Whether in terms of academic exchange, arranging visits to hospitals, or providing training for Vietnamese medical professionals, Taiwan has consistently upheld the spirit of compassion, seeking to enable the people of Vietnam to benefit from the advanced medical technology that Taiwan has built up over the years (which ranks first in Asia and third in the world). In concrete terms, there are three main areas offering the potential for in-depth collaboration in the future:

Firstly, there is potential for the expansion of exchange between Taiwanese and Vietnamese hospitals. Building on the foundations that have been built in the past, Taiwan and Vietnam should strive for a further expansion of the scope of collaboration and exchange. This could include

a further increase in the number of hospitals involved in collaboration projects, the establishment of permanent mechanisms and channels for training medical professionals, the joint holding of international medical conferences, the provision of clinical guidance by Taiwanese physicians, utilization of remote learning, etc. Taiwan could also help Vietnam with the raising of funds for international physician training, helping to expand cultivation of medical professionals in Vietnam, and donate medical instruments, books, etc., so as to help raise the overall standard of healthcare provision in Vietnam.

Secondly, Taiwan and Vietnam can strengthen collaboration on the provision of contracted medical services. With regard to diseases that Vietnam lacks the technology to treat effectively, an overseas referral system could be established so that patients could receive treatment in Taiwan. Taiwan is renowned for its expertise in health examination services, cosmetic medicine, corrective laser eye surgery, dental surgery, etc., and there is strong potential for developing medical tourism, encouraging Vietnamese citizens to travel to Taiwan for treatment. Taiwan is only about three hours' flight time from Vietnam, and there is only a one-hour time difference; both the climate and dietary habits are similar, and medical costs in Taiwan are quite reasonable compared to many other countries; Taiwan is thus an ideal location for Vietnamese citizens to seek medical treatment. All of Taiwan's leading hospitals have established international medical centers, including NTUH, Taipei Veterans General Hospital, Taipei Medical University Hospital, Taipei

Municipal Wanfang Hospital, Cathay General Hospital, Chang Gung Memorial Hospital, etc. These international medical centers all have dedicated personnel to help overseas patients book treatment online, and can provide a comprehensive range of assistance for patients and their accompanying family members, including help with visas, transportation, accommodation, etc. While the services at Taiwanese hospitals' international medical centers are normally provided in an English-speaking environment, the hospitals can arrange interpreters for other languages on request.

Thirdly, there is the potential for an intensification of collaboration between the Taiwanese and Vietnamese healthcare sectors. Besides hospitals and medical professionals, medical devices and pharmaceuticals also play an important role in any country's medical system. Currently, around 50% of the products being sold in Vietnam's pharmaceuticals market are generic drugs, with antibiotics in tablet form accounting for a large share of these; liquid drugs for delivery by injection are relatively uncommon. Taiwan is renowned for its generic drug expertise; not only does the tablet manufacturing technology possessed by Taiwanese pharmaceuticals companies meet U.S. and Japanese standards, Taiwanese drug manufacturers have also achieved impressive results with liquid drugs delivered by injection; Taiwanese pharmaceuticals firms can offer suitable products to help patients in all age ranges with a wide range of diseases. There is thus strong potential for collaboration between Taiwanese and Vietnamese pharmaceuticals manufacturers on the joint

development of drugs to treat Vietnam's more common diseases. As regards medical devices, Vietnam's domestic medical device industry is mainly involved in the manufacturing of basic medical devices, and Vietnam is heavily reliant on imports from Singapore and Japan for more advanced medical devices. Taiwan has a highly developed medical device industry, manufacturing high-quality medical appliances, test strips, diagnostic agents, instruments, consumables, etc. In addition, looking ahead to the future development of remote medicine, Taiwan possesses advanced information and communications technology (ICT) capabilities that can substantially enhance the medical environment and reduce costs. There is thus considerable potential for collaboration between Taiwanese and Vietnamese medical device manufacturers.

4. Collaboration on Innovation and New Business Start-up

With the aim of transforming Vietnam's economic development model from factor- and investment-driven growth to innovation-driven growth, over the past few years the Vietnamese government has been working actively to promote innovation and new business start-up. Besides launching the "National Program to Support Innovative Startup Ecosystem in Vietnam by the Year 2025" to serve as the guiding strategy for innovation and new business start-up development, the government has also established the "National Technology Innovation Fund" and launched the "Vietnam Silicon Valley" initiative, along with various other

government-supported programs, to provide start-ups with the funding support and incubation services they need. Besides the central government, local government authorities in Vietnam have also adopted a proactive stance towards the promotion of innovation and entrepreneurial activity. Currently, Vietnam's start-ups are heavily concentrated in Ho Chi Minh City, Hanoi and Danang. Hanoi has the largest concentration of hi-tech talent, while Danang has benefited from an IBM Smarter Cities Challenge grant that is helping it to develop "smart city" solutions.

Examination of the content of the "National Program to Support Innovative Startup Ecosystem in Vietnam by the Year 2025" shows that the Vietnamese government is committed to actively developing Vietnam's innovation ecosystem. By establishing a national innovation and business start-up ecosystem portal site, setting up regional service centers, organizing large-scale innovation and start-up activities, implementing the Vietnam Silicon Valley project, providing start-up entrepreneurs with the facilities they need, helping new start-ups to develop international links, and improving the regulatory environment, the government is working to build a healthy environment for business start-up and venture capital activity. As regards the specific industries being targeted for start-up promotion, currently the main focus of the Vietnam Silicon Valley project is on promoting the development of start-ups in the agricultural sector, e-commerce, logistics, software development, game development, mobile applications, augmented reality (AR) and virtual reality (VR), etc. The municipal government of Ho Chi

Minh City has also provided funding totaling around US\$45 million to support start-ups in industries that include machinery manufacturing, electronics, chemicals, food processing, e-commerce, transportation, logistics, tourism, communications, healthcare, educational technology, etc.

Providing active support for innovation and new business start-up has been an important policy in Taiwan for some years now. In December 2014, the Taiwanese government established the Innovation and Startups Taskforce to promote innovation and new business start-up by focusing on four key areas: social innovation and young entrepreneurs, global networking, the entrepreneurial environment, and the development of the entrepreneurial ecosystem. 2016 saw the promulgation of the Asia Silicon Valley Development Plan, which has two primary objectives: promoting innovation and R&D in the Internet of Things (IoT) field, and upgrading Taiwan's innovation and entrepreneurship ecosystem. The Plan aims to create an R&D-centric innovation and start-up ecosystem through the implementation of four key strategies: optimizing the innovation and start-up ecosystem, strengthening Taiwan's innovation and R&D capabilities by building links with leading international R&D powerhouses such as Silicon Valley, strengthening software development capabilities to build a comprehensive IoT supply chain, and providing testbeds for innovation in areas such as "smart" applications, etc.

Analysis of the main thrust of innovation and business start-up promotion policy in Taiwan and Vietnam, and of industrial development needs, suggests that the following areas present significant opportunities for collaboration between Taiwan and Vietnam in this area:

Firstly, Taiwan could help Vietnam to improve its systemic environment for innovation and business start-up. Although the Vietnamese government has been working actively over the past few years to promote innovation and entrepreneurship, there are still many areas where the environment needed to support this is lacking. In Taiwan, the Taiwanese government's proactive efforts to promote innovation and business start-up in recent years have led to the creation of a first-rate start-up ecosystem, whether in terms of the legal and regulatory framework, incentive and subsidy programs, manpower cultivation, start-up incubation, or international linkages, etc.; Taiwan should be able to share this experience with Vietnam and help to improve the local innovation and start-up environment. It is suggested that, in the future, the Vietnamese government could send delegations to observe Taiwan's innovation and business start-up ecosystem at first hand. In particular, Taiwan has already put in place some first-class mechanisms for providing guidance to young entrepreneurs; these could provide a useful reference for the Vietnamese government in establishing similar mechanisms to help Vietnam's young people start their own businesses, while also helping to meet demand for intrapreneurs among Taiwanese-invested firms in Vietnam. Taiwan has also built first-rate

systems for supporting business start-up in the hi-tech sector, which could also offer useful lessons for Vietnam.

Secondly, Taiwan could help Vietnam to establish new incubator centers and accelerators for start-ups. Incubators and accelerators can play a very important role in the cultivation of hi-tech start-ups. Thanks to active promotion by the Vietnamese government, Vietnam currently has around 20 – 30 incubators and accelerators. However, if Vietnam is to realize the goal of supporting 800 start-up projects and 200 start-ups by 2020 that was enunciated in the National Program to Support Innovative Startup Ecosystem in Vietnam by the Year 2025, the existing incubators will not be enough. Taiwan is in a position to offer meaningful help in this area. After many years of development, Taiwan now has over 100 incubator centers. Several of these have secured certification from European and U.S. incubator certification bodies, and the last few years have seen the establishment of exciting new accelerators such as the Tronxin Accelerator (TXA), AppWorks, Garage+, and the “Taiwan Cloud” incubator. Overall, Taiwan’s incubator network has built up some impressive capabilities. It is suggested that, in the future, the Vietnamese government may want to consider establishing new incubator centers within existing industrial parks, or alternatively, plan the establishment of new innovation parks. Taiwanese-invested firms operating in Vietnam could play an intermediary role, helping the Vietnamese government to benefit from Taiwan’s accumulated experience in this area – with respect to incubators/accelerators, entrepreneur training programs, mechanisms

for industry-university collaboration, international linkages, etc. – and also encouraging start-ups in Taiwan to expand into the Vietnamese market and collaborate with local, Vietnamese start-ups. The Vietnamese government might consider encouraging Vietnamese universities and research institutes to participate in the process of building up the innovation and business start-up ecosystem, thereby helping to strengthen the ecosystem as a whole.

Thirdly, Taiwan could assist in the cultivation of local start-up talent in Vietnam. Human talent is a vital prerequisite for the development of a successful business enterprise; the cultivation of high-quality human talent can help Vietnam to develop more start-ups, while also helping Taiwanese-invested firms to thrive in Vietnam. In the future, Taiwanese-invested firms in Vietnam will be working together to organize the “Southeast Asia Talent and Innovation Contest,” inviting both students from Southeast Asian countries and Southeast Asian nationals studying in Taiwan to participate in a start-up contest with different sections focusing on products, technologies, and services. Participating teams will be asked to develop innovative business models, marketing strategies and applications to match that year’s themes. Winning teams will receive funding support and/or opportunities to receive free support and mentoring from accelerators in their home countries or in Taiwan; there may also be opportunities to work at Taiwanese-owned enterprises. Every year, large numbers of outstanding Vietnamese students come to study in Taiwan; for those Vietnamese

students with an interest in starting their own business, Taiwan could provide training courses, or support to help them establish themselves in a Taiwan-based incubator or accelerator. This also would contribute to the cultivation of entrepreneurial talent for Vietnam.

Fourthly, efforts should be made to encourage collaboration between Taiwan-invested firms operating in Vietnam and Vietnamese start-ups. Having been operating in Vietnam for many years, Taiwanese-invested firms have put down firm roots in the country, while at the same time they have continued to transform and upgrade themselves, and to make an ongoing contribution towards Vietnam's economic development. However, with the rapid emergence of new technologies and the growth of the online economy and digital economy, today Taiwanese-invested firms in Vietnam once again find themselves faced with the need to implement a further transformation. Collaboration with Vietnamese start-ups could provide Taiwanese-invested firms in Vietnam with new growth drivers, while at the same time they would be able to utilize their own resources to support the development of Vietnamese start-ups, or even act as intermediaries to help forge collaborative relationships between Vietnamese start-ups and Taiwanese start-ups, creating a three-way "win-win-win" situation of mutual complementarity and mutual benefit. In the future, Taiwanese-invested firms operating in Vietnam will be forming alliances with the aim of developing the new products, technologies and services needed to meet the needs of transformation and upgrading; they will be eager to work with both

Vietnamese and Taiwanese start-ups that can help them find solutions to these challenges, and will be able to assist these start-ups with funding support, technology, and help in developing new markets and establishing new distribution channels, thereby contributing to an enhancement of Vietnam's innovation and new business start-up capabilities while the Taiwanese-invested firms are themselves able to achieve their transformation and upgrading objectives.

Fifthly, there is scope for promoting collaboration between Taiwan and Vietnam in emerging industries such as agricultural technology, the Internet of Things (IoT), mobile apps, software, healthcare, educational technology, etc. Judging from the policies being implemented by the Vietnamese government, these are all areas the development of which the government is prioritizing. Taiwan has already accumulated first-rate technological capabilities in the fields of agricultural technology, mobile apps, healthcare and educational technology, and the Taiwanese government has positioned the "Asia Silicon Valley" (IoT), the biomedical sector and "new agriculture" sectors as key development areas. Over the past few years, Vietnam has succeeded in cultivating a sizeable pool of software talent; in the future, Taiwan and Vietnam can make effective use of their respective policy resources and their accumulated technological and human capabilities to identify areas for collaboration in the sectors noted above.

5. Collaboration on the ICT Sector and Turnkey Solution

Taiwan has one of the world's most important clusters of information and communications technology (ICT) companies, and plays a key role in the global economy as a supplier of semiconductors, LCD panel, electronic components, etc. Whereas in the past Taiwanese companies tended to focus on refining the production processes for individual products, over the past few years Taiwanese firms have been moving aggressively into the field of system integration, integrating their existing strengths in hardware manufacturing and software development to develop a wide range of innovative new applications and new service models in areas such as “smart transportation,” “smart logistics,” “smart healthcare,” “smart campuses,” and “smart homes.”

In Vietnam, with the exception of a handful of large telecommunications companies and large communications equipment manufacturers (most of which are or were state-owned enterprises), the vast majority of companies in the ICT sector are small or medium-sized enterprises (SMEs) that have only very limited links with international supply chains. To encourage investment in this area, the Vietnamese government has included the ICT sector on a list of important hi-tech industries eligible for tax breaks (alongside machinery manufacturing, metallurgy, chemicals, food manufacturing and the energy sector). The last few years have seen many leading multinational ICT companies

establishing production facilities in Vietnam, and Vietnam is now an important supplier of consumer electronics products to the global market; for example, Bac Ninh Province in northern Vietnam has emerged as a leading global center of mobile phone handset manufacturing. As Taiwan and Vietnam are at different stages in the development of the ICT sector, there is a high degree of complementarity between them, with potential for collaboration in areas such as the following:

Firstly, there is potential for a deepening of collaboration in terms of industry supply chains. Several of the leading South Korean and Japanese ICT manufacturers have already invested in the establishment of production facilities in Vietnam, and ICT industry clusters are starting to take shape. The biggest single investment project in this sector involving a Taiwanese company in recent years was the 2016 acquisition by Hon Hai (Foxconn) of Microsoft Mobile's handset factory in Vietnam, which Hon Hai will be using to manufacture both feature phones and smartphones. If Hon Hai continues to expand the production capacity of this facility, it can be expected to stimulate a wave of investment in the region by Taiwanese component and peripheral suppliers, which would help to make the ICT supply chain in Vietnam more comprehensive, and would further boost demand for ICT components. By comparison with other foreign investors, Taiwanese companies are characterized by production networks that are flexible and adaptable to local conditions, with a high degree of openness; there is thus high potential for promoting collaboration between Taiwanese and Vietnamese manufacturers. This

would help Taiwanese ICT manufacturers to further strengthen their supply chains, while also helping Vietnamese firms to access global supply chains, thereby raising the overall level of development of Vietnam's ICT sector and expanding the capabilities of Vietnam's ICT industry clusters.

Secondly, there are opportunities to promote collaboration between Taiwan and Vietnam in the field of system integration. Over the past few years, Taiwanese ICT companies have been actively developing their system integration capabilities, and have built up an impressive track record in this area; Taiwanese and Vietnamese firms can join forces to help meet the new needs that are emerging in Vietnam as a result of rapid social and economic development. Not only would this facilitate the development of solutions appropriate to conditions in Vietnam, it would also enable Taiwanese firms to benefit from using Vietnam as a testbed, accumulating experience in localization and international operation that would help them to expand into other emerging economies in the region in the future. Specific areas that offer potential for collaboration include:

- i. Electronic toll collection (ETC) systems

Taiwan's Electronic Toll Collection (ETC) system, which has achieved a toll collection rate of 99%, has attracted interest from many countries, including Vietnam. FETC, the company responsible for implementing the ETC system in Taiwan, has already signed a technology

consulting agreement with Vietnam, and it is suggested that there could be a further deepening of this collaboration in the future.

ii. Information security systems

In the past few years, Vietnam has become a target for online attacks. Taiwan has a large pool of first-rate information security talent skilled in preventing hacker attacks, and has accumulated a great deal of experience in this area; the respect in which Taiwan's information security capabilities are held by international corporations is evidenced by IBM's decision to entrust its global information security product development activities to a Taiwanese team. Collaborating with Taiwan can thus help the Vietnamese government to build more effective information security systems.

iii. Reducing the digital divide

The Vietnamese government has responded to the dawning of the new digital era by working actively to combat the digital divide. Taiwan's ICT firms have strong capabilities in this area and an impressive export track record; they can provide both the hardware and software needed to help the Vietnamese government build e-government and "smart campus" capabilities for Vietnam, thereby helping to reduce the digital divide between Vietnam and other countries and between provinces and municipalities within Vietnam. As regards e-government, Taiwan already has over a decade's experience in this area, and has achieved impressive

results in terms of both e-government ICT infrastructure and e-government application services; Taiwan has, over time, succeeded in reaching world-class standards in regard to the diversification of the channels through which government services are delivered, effective publicization of government information, expanding the hours of government service provision, improving operational procedures and enhancing administrative efficiency.

Taiwan has also achieved impressive results in regard to “smart campus” development, and Taiwanese companies are exporting their experience in this area to other countries. For example, Taiwanese firm MiTAC, supported by Vietnamese distribution group AIC, is rolling out “smart learning” and “smart healthcare” services in Vietnam’s Quang Ninh Province and Dong Nai Province, and has arranged training for local teachers which has cultivated a total of around 10,000 English language teachers in these regions; there are plans to expand this project to other provinces and municipalities in the future. Another significant project is a Taiwan-Vietnam direct broadcasting interactive experience class program, whereby schoolchildren at Chia Bei Elementary School in Chiayi City, Taiwan are able to interact with schoolchildren at elementary schools near Ha Long Bay in Quang Ninh Province, Vietnam using the Internet; this project helps children in the two countries to develop a better understanding of one another and to build strong ties of friendship.

Through a further expansion of the scope of “smart applications,” there is the potential for collaboration between Taiwan and Vietnam on “smart city” development. Currently, countries throughout the Asia Pacific region are actively developing “smart city” projects which use innovative ICT applications to solve problems affecting urban development. Many provinces and municipalities in Vietnam are working to improve their network infrastructure and are seeking partners to help them establish “smart city” testbeds or pilot projects. For example, in March 2017 Binh Duong Province signed MoUs with Taiwan’s Industrial Technology Research Institute (ITRI) to collaborate on “smart city” and “cloud-based information center” projects; Binh Duong Province and ITRI will be working together to foster collaboration on related technologies. Bearing in mind that Taiwanese companies have already developed “smart city” solutions in areas such as transportation, logistics, public safety, healthy lifestyles, etc., in the future it should be possible for Taiwanese and Vietnamese service and application providers, telecommunications operators and the Vietnamese government to collaborate on testbed and pilot project establishment. This would help to solve the problems affecting urban development in Vietnam, speed up the process of urbanization, and further the development of both the Taiwanese and Vietnamese IT-based service industries.

Thirdly, it should be possible to strengthen collaboration between Taiwan and Vietnam in the area of systems. Vietnam is now one of the world’s leading suppliers of consumer electronics products such as

mobile phone handsets, and it exports large quantities of such products. However, importation and exportation are heavily affected by the efficiency of customs operations, which in turn depends on close collaboration between the different government agencies involved in supervising customs clearance, inspections, transportation etc. Taiwan has established a CPT Single Window service that integrates customs operations with other related government agencies; Taiwan also has experience with the successful adoption of an electronic certificate of origin system. Furthermore, Taiwanese companies have an impressive track record in the development of IT-enabled services relating to foreign trade and customs operations. It should thus be possible for Taiwan and Vietnam to exchange ideas based on their respective experience and to promote collaboration in this area; this would help Vietnam to further upgrade its trade-related systems and bring them into line with international best practice, and would also strengthen Vietnam's ICT product export competitiveness.

6. Strengthening Collaboration to Attract More Taiwanese Investment to Vietnam

Following the announcement of the adoption of the Doi Moi reform policy by the Vietnamese government in 1986, Taiwanese companies were among the first foreign companies to begin investing in Vietnam. Around 80 – 90% of the Taiwanese-invested firms operating in Vietnam are engaged in export-processing manufacturing. They employ large

numbers of local Vietnamese workers, creating new jobs in the areas where they are located, and helping to raise living standards; furthermore, because they are mainly focused on export sales, Taiwanese-invested firms are not in direct competition with local Vietnamese SMEs, and they also earn considerable quantities of foreign exchange for Vietnam. Thanks to the investment and hard work of Taiwanese companies, Vietnam has been able to develop steadily more comprehensive industry value chains, and has achieved a steady increase in the pool of technical talent in the country; this has built solid foundations for helping Vietnam to attract even more foreign investment.

As Taiwanese investment in Vietnam has increased, the linkages between Taiwan and Vietnam in terms of industrial production have grown ever closer; Vietnam has come to play an important role in Taiwan's East Asian and global supply chains, with the emergence of a "triangular trade" relationship linking Taiwan, Vietnam, and the countries of Europe and North America. In the process of investing in Vietnam, although Taiwanese companies have made a serious effort to implement local procurement, produce locally and recruit locally, nevertheless, because of the relatively undeveloped state of supply chains in Vietnam and the lack of necessary ancillary measures in areas such as education and human resources cultivation, etc., Taiwanese-invested firms operating in Vietnam are still forced to rely on imports from Taiwan for many types of machinery, key technologies, raw materials, and components, and they

also need to bring technical specialists over from Taiwan to provide on-site support and guidance.

However, currently imports into Vietnam from Taiwan are required to pay import duty at the WTO-specified MFN rate; this means that importers often face import duty rates of 10% or even more. Furthermore, the signing of FTAs between Vietnam and other countries such as China, South Korea, Japan, and the EU, has made imports of semi-finished products and components from Taiwan even more expensive, relatively speaking, which has hindered the development of bilateral trade and of integrated industrial supply chains. This has also created a situation where many Taiwanese-invested firms operating in Vietnam have begun importing equipment and components from China instead, thereby making Vietnam even more dependent on Chinese imports, and reducing the share that high-quality Taiwan-made products hold in the Vietnam market. In order to establish a solid foundation for the development of bilateral trade between Vietnam and Taiwan, and encourage increased Taiwanese investment in Vietnam, there is a need for the creation of systematic arrangements for dialogue between Taiwan and Vietnam, ideally including the signing of an economic cooperation agreement (ECA), so as to further strengthen exchange and collaboration between the two countries in the areas of trade, industrial supply chain development, human resources development, technology, mutual recognition of certification, and joint formulation of standards, etc., thereby creating a win-win situation for both countries.

Besides investment in the manufacturing sector, the last few years have also seen growing interest in investing in Vietnam among Taiwanese firms in emerging service industries, system integration service industries, and emerging innovation-oriented industries. However, because no ECA has been signed between Taiwan and Vietnam, thereby precluding Taiwanese firms from investing in many service industries in Vietnam, a high percentage of Taiwanese firms that had been eager to invest in Vietnam have been forced to abandon their investment plans or invest elsewhere, which is a highly regrettable situation. Bearing in mind that think-tanks in Taiwan and Vietnam have already completed various joint research projects regarding the feasibility of a Taiwan-Vietnam ECA, and that a solid foundation of mutual trust has already been established, it is suggested that the two countries should build on this existing foundation to begin preliminary discussions in preparatory work as soon as possible, with the aim of deepening the bilateral economic and trade relationship between Vietnam and Taiwan.

According to foreign trade data compiled by the Vietnamese Customs authorities, in 2015 Taiwan's exports to Vietnam totaled US\$11 billion, while Taiwan's imports from Vietnam came to US\$2.1 billion; there is a pronounced disparity between these two figures. The main reasons for Vietnam's large trade deficit with respect to Taiwan include the current global division of labor in international supply chains, and the fact that Taiwan and Vietnam have not signed an ECA, which means that Vietnam's more competitive products – particularly agricultural produce,

marine products and processed foods – face high tariffs that restrict their access to the Taiwan market and restrict the growth of Vietnamese imports. Taking as an example the Vietnamese agricultural and marine products that are most commonly imported into Taiwan – shrimp (HS030617), cashew nuts (HS080132) and black tea / green tea (HS0902) – these products all face high tariffs of 15% or more when imported from Vietnam into Taiwan, and Vietnam’s similarly competitive garment and footwear products also face relatively high tariffs of 5% or higher in Taiwan. In point of fact, there are potentially very substantial business opportunities for Vietnamese products in Taiwan. There are currently around 180,000 Vietnamese contract workers in Taiwan, along with 100,000 Vietnamese spouses of Taiwanese nationals and 5,000 Vietnamese students studying at Taiwanese universities; there are also large numbers of Taiwanese managers who have acquired a taste for Vietnamese food while on assignment in Vietnam, and many other Taiwanese (and foreign nationals living in Taiwan) who also enjoy Vietnamese cuisine. Influenced by their strong attachment to Vietnam, Taiwanese-invested firms operating in Vietnam sincerely hope that the signing of an ECA between Taiwan and Vietnam would help to boost exports of Vietnamese products to Taiwan, helping to further the development of bilateral trade between the two countries.

Vietnam has in recent years been working steadily to integrate itself into the international economy and global markets; besides joining the WTO, Vietnam has also adopted a proactive approach towards signing

FTAs and towards market opening. However, being oriented towards global markets involves more than just market opening; it also involves bringing one's legal and regulatory system into line with normal international practice; this is why the U.S.- and EU-led regional trade agreements of the past few years have all included regulatory harmonization as a key objective. Vietnam still suffers from a lack of transparency with regard to laws and regulations and enforcement procedures, and there have been frequent calls from foreign companies investing in Vietnam for the government to implement reforms. Taiwan's legal system is the product of extensive Western influence, and Taiwan has extensive experience in international regulatory harmonization and in the establishment of digitalized regulatory systems; Taiwan would be happy to share this experience to help Vietnam realize improvements and enhance the country's overall competitiveness.

As a first step, Taiwan and Vietnam could focus on bilateral legal and regulatory harmonization. Not only would this help to resolve some of the obstacles and problems that Taiwanese firms currently experience when investing in Vietnam, it would also facilitate closer integration of the Taiwanese and Vietnamese markets, strengthen bilateral collaboration and exchange, and further Vietnam's integration into global markets. Regulatory harmonization involves the elimination of non-tariff barriers and a reduction in the role that unwritten rules play in trade; the potential scope of regulatory harmonization efforts is very broad, encompassing agriculture (phytosanitary inspections and quarantine), manufacturing

(industrial standards), the service sector (market access, permits, etc.), etc. The signing of an ECA between Taiwan and Vietnam would facilitate the process of regulatory harmonization, and render it more effective. Taiwan would also be more than happy to share its experience and provide practical assistance to help Vietnam establish the information systems needed to support bilateral regulatory harmonization.

Taiwanese-invested firms' attachment to Vietnam has never been shaken by changes in the external economic environment. For example, in the aftermath of the Asian Financial Crisis of 1997, many foreign companies made radical adjustments to their investment strategies in Vietnam, and a considerable number of foreign companies withdrew from Vietnam completely; only Taiwanese firms continued to invest in Vietnam during this period. Similarly, although the riots that took place in Vietnam on May 13, 2014 caused considerable loss and damage for many innocent Taiwanese-invested firms, Taiwanese businesspeople's strong attachment to Vietnam led them to remain in Vietnam, where they rebuilt their factories and recommenced operations. In point of fact, many Taiwanese businesspeople have put down firm roots in Vietnam, and a second-generation of business-owners is emerging that has grown up in Vietnam; for these people, Vietnam is their home. Taiwanese-invested businesses in Vietnam just want to receive fair treatment and reasonable protection for their personal safety and their property.

Although an “Agreement Between the Taipei Economic and Cultural Office in Hanoi and the Vietnam Economic and Cultural Office in Taipei on the Promotion and Protection of Investments” was signed in 1993, this Agreement consists mainly of statements of principle such as “the Parties agree to treat investment from the other Party with fairness,” and there is a lack of clear provisions regarding the handling of loss of property by investors, requests for government compensation, etc. The aftermath of the riots that occurred on May 13, 2014 showed that this Agreement is no longer adequate to meet current needs, and that the amount of real protection that it provides for Taiwanese investors in Vietnam is limited. To enable Taiwanese-invested firms to continue to develop their operations in Vietnam over the long term, and to attract more Taiwanese investment to Vietnam, it is suggested that the Vietnamese government should collaborate with Taiwan on updating the provisions of the “Agreement Between the Taipei Economic and Cultural Office in Hanoi and the Vietnam Economic and Cultural Office in Taipei on the Promotion and Protection of Investments” in line with recent international trends in investment protection agreements.

Part Four Conclusions and Recommendations

1. Taiwanese Investment in Vietnam – Overview, and Key Features

In 1986, the Vietnamese government began to implement the “Doi Moi Reform” reform policies, and commenced efforts to bring foreign investment to Vietnam. Attracted by Vietnam’s geographical proximity, its cultural similarities to Taiwan, and its hardworking people, a first wave of Taiwanese investment in Vietnam began in 1989. Over the following two decades, Taiwan was consistently the single largest source of foreign investment for Vietnam. By 2016, the cumulative total of Taiwanese investment projects in Vietnam had reached 2,509 projects, representing cumulative investment of US\$31.5 billion; if one adds in Taiwanese investment routed via third countries, the actual total amount of Taiwanese investment in Vietnam would be even higher than these official Vietnamese government statistics suggest. Preliminary estimates indicate that there are over 4,000 Taiwanese-invested firms operating in Vietnam, and more than 50,000 Taiwanese business-owners and managers. In the early stages, Taiwanese investment was heavily concentrated in the textile and garment industry, footwear manufacturing, food processing, the agriculture, forestry and fisheries sector, machinery manufacturing and tool-making, rubber products manufacturing, wooden furniture production, and transportation vehicle production. In recent

years, however, there has been a steady increase in Taiwanese investment in technology-intensive and capital-intensive industries such as electronics and iron and steel production. Taiwanese-invested firms can be found in 48 of Vietnam's provinces and municipalities. Initially, they were mainly concentrated in southern Vietnam, in Ho Chi Minh City and in the neighboring provinces of Dong Nai and Binh Duong, but there has since been a gradual expansion in the geographical scope of Taiwanese investment within Vietnam, which has now spread to central and northern Vietnam. Taiwanese investment has made a major contribution towards driving Vietnam's industrial development, helping to earn foreign exchange for Vietnam through exports, and also creating new jobs and contributing to the reduction in disparities in development between regions within Vietnam, while also helping to boost economic growth for the country as a whole.

As Taiwanese investment in Vietnam has increased, the production linkages between the two countries have grown ever closer. Vietnam has come to play an important role in Taiwanese companies' supply chains, both within East Asia and globally, and an extensive "triangular trade" has developed linking Taiwan with Vietnam with Europe and North America. Taiwanese investment and the division of labor that has developed as a result has helped to drive growth in trade between Taiwan and Vietnam, and has also fostered exchange between the two countries in the social and cultural spheres. In 1999, the "Agreement between the Taipei Economic and Cultural Office in Hanoi and the Vietnam Economic

and Cultural Office in Taipei Regarding the Sending and Receiving of Vietnamese Workers as Contract Labor” was signed; there are currently around 180,000 Vietnamese contract workers in Taiwan, of whom 88% are working in the manufacturing sector, particularly in the metallurgy, machinery manufacturing, plastics manufacturing and textile industries, and Vietnam is Taiwan’s single most important source of foreign contract labor. Having Vietnamese contract workers come to work in Taiwan has several benefits for Vietnam; not only do these workers earn significant amounts of foreign exchange for Vietnam in the form of remittances, after they return home to Vietnam they are able to utilize the production technology and factory management knowhow that they have acquired to start their own businesses or to work at existing Vietnamese domestic enterprises. Vietnam is also Taiwan’s second largest source of foreign spouses. As of the end of December 2016, there were approximately 100,000 Vietnamese spouses of Taiwanese nationals living in Taiwan, and nearly 85,000 of the children studying in Taiwan’s elementary schools and junior high schools were the offspring of Taiwanese-Vietnamese marriages. Recently, there has been a change in the pattern of Taiwanese-Vietnamese marriage. Whereas in the past this tended to involve Vietnamese women marrying Taiwanese men and moving to Taiwan, recently, as Taiwanese investment in Vietnam has grown, there has been a trend for Taiwanese business-owners and Taiwanese managers assigned to work in Vietnam to settle in Vietnam, marrying and having children there, so that Vietnam becomes their real home. At the same time,

because they view themselves as being a part of Vietnam, Taiwanese-invested enterprises in Vietnam are generally eager to be good corporate citizens, fulfilling their corporate social responsibility by organizing charitable activities to help low-income households in Vietnam, providing support for disaster relief efforts, etc. Both individual Taiwanese-invested firms and the Taiwanese Chambers of Commerce have shown great generosity in this respect.

More than 80% of Taiwanese investment in Vietnam is concentrated in the export-processing sector and other manufacturing industries; Taiwanese investment accounts for over 15% of all foreign investment in Vietnam's manufacturing sector. The main focus of Taiwanese investment is significantly different from that of other foreign investors (such as European and U.S. firms) that are mainly interested in Vietnam's domestic market. Taiwanese investment in Vietnam has helped to write a new page in the history of Vietnam's industrialization, and has provided a starting point for Vietnam's march towards becoming a prosperous society. Most Taiwanese-invested firms in Vietnam are engaged in export-processing activities on behalf of international brands. Besides helping Vietnam to earn considerable amounts of foreign exchange, these firms have also created 1.4 million jobs, and have cultivated a large pool of outstanding technical and managerial talent for Vietnam.

Taiwanese-invested firms' strong attachment to Vietnam has remained unshaken by changes in the external economic environment.

For example, the Asian Financial Crisis of 1997 led many foreign companies operating in Vietnam to adjust their investment strategy, and many of them withdrew from Vietnam completely, but Taiwanese firms' commitment to Vietnam remained unshaken. Similarly, despite the serious damage caused to many innocent Taiwanese businesses during the riots that occurred in Vietnam on May 13, 2014, Taiwanese firms were influenced by their strong ties to Vietnam not to withdraw from the country, but instead to rebuild their factories and get them operating again. Thanks to the investment and hard work of Taiwanese companies, Vietnam has seen a steady increase in its pool of technical talent and a steady strengthening of its industrial supply chains; this has helped to reduce Vietnam's dependence on foreign imports, and has also laid the foundations for attracting even more foreign investment to Vietnam.

Vietnam has a wealth of natural resources, intelligent, hard-working citizens, and a government that over the past few years has been working actively to promote reform and market opening, and to speed up the pace of Vietnam's integration into the global economy; as such, Vietnam has immense investment potential. The steady rise in Vietnam's position within international business competitiveness rankings is testimony to this potential. However, despite the marked improvement in the overall investment environment, Taiwanese-invested firms operating in Vietnam still face various obstacles that have yet to be resolved. Due to the special character of Taiwanese investment, many Taiwanese-invested firms find themselves faced with difficulties in terms of the regulatory environment,

labor affairs, taxation, foreign trade regulations, investment issues, human resources, environmental protection, infrastructure, etc. It is suggested that the Vietnamese government could make a greater effort to listen to the voices of Taiwanese-invested firms, and help them to overcome these obstacles. This would help to improve the operational efficiency and competitiveness of Taiwanese-invested firms operating in Vietnam, helping these firms to realize their goal of putting down firm roots in Vietnam and maintaining sustainable operation over the long term; at the same time, it would also enable Taiwanese-invested firms to make a meaningful contribution towards Vietnam's ongoing efforts to implement reform, market opening, systemic adjustment, deregulation, optimizing of the business environment, and bringing Vietnam into line with international best practice. The following sections summarize the issues facing Taiwanese-invested firms in Vietnam, and offer some suggestions for resolving them. Assistance from relevant Vietnamese government agencies in overcoming these problems would be greatly appreciated.

2. Key Issues Affecting Taiwanese Investment, and Suggestions for Resolving Them

Issue	Suggestions
A. The legal and regulatory framework, and procedural issues	
1. The legal and regulatory framework	<ul style="list-style-type: none"> Enhancing the level of transparency in the legal and regulatory framework: Using administrative ordinances to make laws and regulations clearer and more comprehensive; providing official English-language versions of important laws and implementation rules in a timely manner. Making it easier for firms to obtain the texts of laws and regulations, and obtain interpretations: Establishing a unified “single contact window” for providing related services to foreign-invested firms, including announcements of the publication of English-language versions of laws and regulations, and assistance in interpreting laws and regulations; regular publication and updating of FAQs for the reference of foreign-invested firms. Making it more convenient for foreign-invested motorcycle manufacturers to obtain (and if necessary, pay for) official new motorcycle registrations data.
2. Implementation procedures	<ul style="list-style-type: none"> Maintaining consistency in enforcement procedures and judicial decisions. Enhancing the level of consistency between central government agencies’ interpretations of laws and regulations and local government authorities’ interpretations.
B. Labor issues	
1. Overtime hours	<ul style="list-style-type: none"> Increasing the upper limit on the maximum number of overtime hours that workers are permitted to work each year to at least 500 hours.
2. Social insurance	<ul style="list-style-type: none"> Delaying the incorporation of other additional payments into the basis for calculation of social insurance contributions, or reducing the social insurance contribution percentage; setting a reasonable upper limit on social insurance contributions. Allowing foreign nationals employed by foreign-invested firms to decide individually whether they want to be enrolled in Vietnam’s national health insurance and social insurance programs.
3. Labor dispute resolution and illegal strikes	<ul style="list-style-type: none"> Requiring law enforcement personnel to follow the requirements of the law when dealing with illegal strikes. Improving publicization of changes in labor laws, to reduce dissatisfaction among workers caused by misunderstandings.
4. Visas and work permits	<ul style="list-style-type: none"> Allowing foreign specialists and managers who obtained work permits under the old system to have their applications for work permit extension handled in accordance with the old system. Revising the provisions of Paragraph 3, Article 3 of Directive No. 11/2016/ND-CP so that specialist foreign workers must meet one of the following criteria: (a) A specialist who holds a certificate issued by a foreign agency, organization or enterprise confirming their possession of specialist skills; or (b) A specialist educated to university level or higher, or the equivalent thereof; or (c) A specialist with at least three years’ work experience in an industry or field relevant to the position that they will be holding in Vietnam.
5. Wages	<ul style="list-style-type: none"> Maintaining a reasonable pace of wage growth in Vietnam.
6. Probationary period for new employees	<ul style="list-style-type: none"> Extending the probationary period for new employees to a period of at least 1 – 2 months.
7. Retirement provision	<ul style="list-style-type: none"> Making it possible for retirement to be made mandatory in cases where there is a disconnect between an employee’s suitability for retirement and the number of years of social insurance contributions paid in.
8. Labour union organization	<ul style="list-style-type: none"> Setting different union dues payment rates based on the characteristics of individual industries, so as to reduce the cost burden on firms.

Issue	Suggestions
C. Tax issues	
1. Tax breaks	<ul style="list-style-type: none"> • Strengthening efforts to educate Taiwanese-invested firms, so that firms have a clearer idea as to which preferential tax rates or regular tax rates apply to that firm. • Ensuring that commitments made to Taiwanese-invested firms (and determinations made in relation to Taiwanese-invested) firms are treated in a consistent, coherent manner, regardless of whether they were made by a central government agency or by a local government authority.
2. Foreign contractor tax	<ul style="list-style-type: none"> • In cases where the value of the service component of the price of imported machinery cannot be determined, the importation should be taxed at a reasonable rate, and not as a percentage of the overall cost of the machinery. • Where the services provided within Vietnam have been limited to a few days' installation work, then the machinery should be exempted from value-added tax, or deemed to have already paid value-added tax on importation, and the 3% value-added tax portion of the 5% Foreign Contractor Tax rate should be waived. • Issuing of a set of implementation rules for the Double Taxation Agreement, so as to simplify the relevant application procedures and the required documentation, and provision of guidance to help Taiwanese-invested firms in Vietnam make effective use of the Double Taxation Agreement between Taiwan and Vietnam.
3. Tax inspections and payment of interest on tax arrears	<ul style="list-style-type: none"> • Reducing the number of years for which overdue tax remains payable to five years, and reducing the number of years on which interest is payable on overdue tax to five years. • With regard to interest on overdue tax, adopting the method whereby such interest is calculated according to average bank interest rates for that year.
4. Transfer pricing	<ul style="list-style-type: none"> • Taiwanese-invested contract manufacturers' generally low profit margins are caused by their business model, and are not due to firms attempting to evade taxes; it is suggested that the government should work to enhance the professional know-how and auditing skills of its tax officials, and should strengthen the transparency and reasonableness of auditing methods and standards. • The government could also sign bilateral advance pricing agreements (APAs) with Taiwanese-invested firms, to reduce the incidence of tax audit related disputes.
5. Payment of personal income tax by Taiwanese expatriate managers	<ul style="list-style-type: none"> • Taiwanese expatriate managers working in Vietnam should be treated as non-resident for tax purposes, with only that part of their income earned from sources in Vietnam being liable to personal income tax. • The government should simplify the procedures for firms applying to benefit from the Double Taxation Agreement between Taiwan and Vietnam, and reduce the obstacles hindering such applications.
6. VAT rebates	<ul style="list-style-type: none"> • Establishment of an electronic system for matching sales and purchasing, to speed up the VAT tax rebate process.
7. Handling of waste deriving from the manufacturing of export processing products	<ul style="list-style-type: none"> • Formulation of clear regulations governing the disposal of waste deriving from the manufacturing of export-processing products, and exemption from customs duty where items are scrapped in accordance with the requirements of the law.

Issue	Suggestions
D. Trade issues	
1. Customs duty and customs administration	<ul style="list-style-type: none"> • Consideration should be given to the negotiation of an FTA or ECA between Vietnam and Taiwan; the preliminary consultations and preparatory work for such an agreement should begin as soon as possible, with the aim of reducing the obstacles to bilateral trade. • Establishment of a system whereby it is possible for firms to send samples of products that they plan to import to the Customs in advance for examination, thereby helping to ensure consistency in tariff rate determinations; strengthening of Customs official training, to reduce the incidence of mistaken determinations. • Following the approach taken by international quality, safety and energy conservation standards by relaxing the restrictions on the importation of used machinery and equipment, eliminating the import restriction on the maximum used period of old equipment, and clarifying and simplifying the import procedures, so as to reduce the amount of discretion given to individual enforcement personnel. • Formulation of clear, precise implementation rules with respect to important customs regulations; this would reduce the degree of discretion given to Customs officials, and would enhance the transparency and predictability of customs clearance operations.
2. Trade remedies	<ul style="list-style-type: none"> • Establishment of comprehensive mechanisms for monitoring import prices and volumes, and prompt launching of anti-dumping investigations (and anti-dumping actions, where necessary) in the case of imports that disrupt the market price mechanism and have a severe negative impact on the operations of local firms.
E. Investment Issues	
1. Investment approvals	<ul style="list-style-type: none"> • Simplification of approval procedures; for example, a single application should be sufficient in the case of nationwide promotional activities. Ideally, there should also be different approval procedures for different categories of promotional activity.
2. Obtaining licenses and permits	<ul style="list-style-type: none"> • The Vietnamese government should seek to establish a mutual recognition system with Taiwan as soon as possible, to avoid the delays in obtaining licenses and permits that currently result from the need for duplicated certification. • Establishment of branch offices of registration, inspection and licensing agencies in southern Vietnam, and accelerated strengthening of e-government functions, to make it easier for firms to obtain necessary permits and licenses. • Increasing the number of instructors available so as to speed up the process of applying for NAFIQ certificates; if the necessary human resources are simply not available, then the government should consider relaxing the requirements in question. • Allowing Taiwanese-invested banks to establish more branches in major cities within Vietnam, thereby enabling Taiwanese banks to effectively exercise their unique capabilities in terms of providing services to SMEs, while also helping to cultivate first-rate human talent for Vietnam and contributing to the acceleration of Vietnam's economic development.
3. Investment protection	<ul style="list-style-type: none"> • Updating the content of the investment protection agreement between Taiwan and Vietnam in line with recent international trends in investment protection agreements, strengthening the level of protection provided for Taiwanese investors, and at the same time incorporating provision for alternative dispute resolution (ADR).

Issue	Suggestions
F. Human resources issues	
1. Skilled workers	<ul style="list-style-type: none"> • Collaboration with Taiwan on vocational education, with the formulation of suitable vocational education development plans to help Vietnam establish a comprehensive vocational education system and new vocational training centers.
2. Specialist talent	<ul style="list-style-type: none"> • Making more effective use of external resources and cultivating bilingual talent (Vietnamese-Chinese and Vietnamese-English) in specialist fields. • When new laws are promulgated, the government should do more to spread awareness of these new laws among law offices, firms of accountants and consulting firms, etc., so as to reduce the potential for misunderstandings.
G. Environmental protection and environmental legislation	
1. Laws and regulations	<ul style="list-style-type: none"> • Establishment of a unified channel for the promulgation of new environmental legislation, and provision of English-language texts and explanations of new laws, so as to reduce compliance costs for foreign-invested enterprises.
2. Enforcement procedures	<ul style="list-style-type: none"> • In cases where a company has been issued a permit in accordance with the provisions of the previous version of a law, it is suggested that the firm in question should be required to meet the requirements of only the previous version of the law until their current permit expires, or alternatively the firm should be given a grace period in which to make the necessary adjustments. • When a new law is introduced, the government should make a greater effort to make Taiwanese-invested firms, law firms, firms of accountants, consulting firms etc. aware of the changes; in this way, Taiwanese-invested firms would be able to determine the key aspects of the changes.
H. Infrastructure issues	
1. Infrastructure development and its quality	<ul style="list-style-type: none"> • Collaboration with Taiwanese-invested and other foreign-invested companies on infrastructure development using the PPP or BOT model, to speed up the improvement of Vietnam's infrastructure. • Strengthening of the transportation links connecting Vietnam to other countries, including the building of new, large-scale, deep-water ports.
2. Mobile communication networks and network quality	<ul style="list-style-type: none"> • Continued upgrading of Vietnam's internet access infrastructure, and improvement of connection speeds and network stability, so as to reduce the digital divide between Vietnam and other countries.

3. The Outlook for Promoting Trade and Business Collaboration between Taiwan and Vietnam

Vietnam possesses a wealth of natural resources and a large, youthful population; the country is currently working actively to realize industrial upgrading, seeking to develop high-value-added industries. Taiwan and Vietnam share many cultural similarities, and Taiwan has a

wealth of experience of successful industrialization to share. Besides its excellence in manufacturing, Taiwan also possesses significant “soft power” in the areas of education, healthcare, culture, tourism, technology, agriculture etc. Furthermore, the Taiwanese government is currently actively promoting the “New Southbound Policy,” and is eager to develop closer collaboration and exchange with Vietnam in many areas; Taiwan hopes to develop a comprehensive partnership with Vietnam, aiming to be a “prosperity partner” that contributes to Vietnam’s economic development, a “sharing partner” that helps Vietnam to develop its human resources, an “innovation partner” that supports the raising of the quality of life for Vietnam’s citizens, and a “mutual benefit partner” that helps Vietnam to expand its network of international linkages.

By comparison with European, North American or Japanese companies, Taiwanese companies are closer to Vietnamese firms in terms of the overall level of development, and their industrial experience and technology is more closely suited to Vietnam’s needs. In addition, Taiwanese-invested firms operating in Vietnam have a more genuine attachment to Vietnam than other foreign-invested firms, and are committed to, and enthusiastic about, developing real industrial collaboration with Vietnam. It seems certain that close cooperation between Taiwanese and Vietnamese business enterprises would help to speed up the implementation of reform in Vietnam, furthering the adjustment of Vietnam’s industrial structure and helping to enhance Vietnam’s overall international competitiveness. There are many areas

where there is strong potential for collaboration between Taiwan and Vietnam; the following sections offer concrete suggestions regarding collaboration in six key areas that should be prioritized: manpower cultivation, precision agriculture and aquaculture technology, healthcare, new business start-up, the ICT sector and turnkey solutions, and strengthening efforts to attract Taiwanese investment.

3.1 Collaboration on manpower cultivation

- i. Expansion of industry-university collaboration models and related manpower utilization: Taiwanese-invested businesses could join forces with Taiwanese universities to establish industrial colleges in Vietnam, supported by scholarship systems, thereby helping to strengthen manufacturing and service sector related vocational education and industry-university collaboration.
- ii. Manpower cultivation plans tailored to promoting “smart city” development: Taiwan has a significant technical edge with respect to the development of “smart cities” and environmentally-friendly urban construction; given that Vietnam is currently undergoing rapid economic development and urbanization, there is considerable potential for collaboration between Taiwan and Vietnam in this area, and also in regard to related skilled worker cultivation programs.

- iii. Strengthening collaboration on human resources cultivation in areas relating to trade facilitation: Taiwan enjoys a high level of competitive advantage in terms of the efficiency and transparency of border administration, the availability and quality of transport services, and the availability and use of ICT; it should be possible for Taiwan to help Vietnam to simplify its customs procedures and realize e-enabled customs services.

3.2 Collaboration on precision agriculture and aquaculture technology

- i. Deepening and broadening of existing collaboration efforts: In the past, Taiwan has already engaged in collaboration and exchange with Vietnam with respect to improvement of plant varieties and animal breeds, agricultural techniques, eco-system conservation, environmental technology, and other systemic and technology-related areas. In the future, besides continuing to develop cooperation in these areas, it should also be possible to expand collaboration in regard to the maintenance of biodiversity, agricultural development in remote districts, issues relating to environmental and climate change, and issues relating to product traceability and food safety, etc.
- ii. Collaboration on the development of highly-efficient distribution channels for agricultural, fisheries and aquaculture products, and of related value-added services: The existing agricultural

collaboration between Taiwan and Vietnam should be expanded to include integration of agriculture with manufacturing industry and the service sector, and the linking together of individual collaboration items, for example with respect to distribution and shipment.

- iii. Collaboration on the systematic development of rural communities: Taiwan can share its experience in the establishment of Agricultural Technology Science-based Parks, and in the utilization of the “agricultural technology industry cluster” approach to promote the transformation and upgrading of agriculture.

3.3 Collaboration on healthcare

- i. Expansion of healthcare exchange between Taiwan and Vietnam: Building on the foundations that have been built in the past, Taiwan and Vietnam should strive for a further expansion of the scope of collaboration and exchange; this could include a further increase in the number of hospitals involved in collaboration projects, the establishment of permanent mechanisms and channels for training medical professionals, the joint holding of international medical conferences, the provision of clinical guidance by Taiwanese physicians, utilization of remote learning, etc.

- ii. Strengthening collaboration on the provision of contracted medical services: With regard to diseases that Vietnam lacks the technology to treat effectively, an overseas referral system could be established so that patients could receive treatment in Taiwan. Taiwan is renowned for its expertise in health examination services, cosmetic medicine, corrective laser eye surgery, dental surgery, etc., and there is strong potential for developing medical tourism, encouraging Vietnamese citizens to travel to Taiwan for treatment.
- iii. Intensification of collaboration between the Taiwanese and Vietnamese healthcare industries: Taiwanese and Vietnamese pharmaceuticals manufacturers and medical device manufacturers can collaborate on the development of drugs, vaccines and medical devices to treat Vietnam's more common diseases, thereby meeting the needs of the Vietnam market.

3.4 Collaboration on innovation and new business start-up

- i. Helping Vietnam to improve its systemic environment for innovation and business start-up: The Vietnamese government could send delegations to observe Taiwan's innovation and business start-up ecosystem at first hand; for examples, Taiwan's mechanisms for providing guidance to young entrepreneurs could provide a useful reference for the Vietnamese government in establishing similar mechanisms to help Vietnam's young people

start their own businesses, while also helping to meet demand for intrapreneurs among Taiwanese-invested firms in Vietnam.

ii. Helping Vietnam to establish new incubator centers and accelerators for start-ups: Taiwan could share with Vietnam its accumulated experience in this area (with respect to incubators/accelerators, entrepreneur training programs, mechanisms for industry-university collaboration, international linkages, etc.) while also encouraging start-ups in Taiwan to expand into the Vietnamese market and collaborate with local, Vietnamese start-ups.

iii. Assisting in the cultivation of local entrepreneurial talent: Taiwan could provide training courses, or support to help Vietnamese entrepreneurs establish themselves in a Taiwan-based incubator or accelerator; thereby contributing to the cultivation of entrepreneurial talent for Vietnam.

iv. Encouraging collaboration between Taiwanese-invested firms operating in Vietnam and Vietnamese start-ups: There is potential for Taiwanese-invested firms operating in Vietnam to work with Vietnamese and Taiwanese start-ups that can help them find solutions to the challenges facing them as they seek to transform and upgrade themselves; they will be able to assist these start-ups with funding support, technology, and help in developing new markets and establishing new distribution channels, thereby contributing to an enhancement of Vietnam's innovation and new

business start-up capabilities while the Taiwanese-invested firms are themselves able to achieve their transformation and upgrading objectives.

- v. Promoting collaboration between Taiwan and Vietnam in emerging industries such as agricultural technology, the Internet of Things (IoT), mobile apps, software, healthcare, educational technology etc.

3.5 Collaboration on the ICT sector and turnkey solutions

- i. Deepening of collaboration between Taiwan and Vietnam with respect to industry supply chains: By comparison with other foreign investors, Taiwanese companies are characterized by production networks that are flexible and adaptable to local conditions, with a high degree of openness; there is thus high potential for promoting collaboration between Taiwanese and Vietnamese manufacturers, which would help Vietnamese firms to access global supply chains.
- ii. Promoting collaboration between Taiwan and Vietnam in the field of system integration: In line with the needs that have developed in the course of Vietnam's social and economic development, Taiwan and Vietnam could collaborate on the electronic toll collection (ETC), information security systems, "smart government," "smart campuses," "smart cities" etc., which would help to reduce the digital divide between Vietnam

and other countries, as well as the digital divide between provinces/municipalities within Vietnam.

- iii. Strengthening collaboration between Taiwan and Vietnam in the area of systems: Taiwanese companies have an impressive track record in the development of IT-enabled services relating to foreign trade and customs operations; collaboration in this area would help Vietnam to further upgrade its trade-related systems and bring them into line with international best practice, and would also strengthen Vietnam's ICT product export competitiveness.

3.6 Strengthening collaboration to attract more Taiwanese investment to Vietnam

- i. Commencing initial consultations and preparatory work for the negotiation of an economic cooperation agreement (ECA) between Taiwan and Vietnam, as soon as possible: Think-tanks in Taiwan and Vietnam have already completed various joint research projects regarding the feasibility of a Taiwan-Vietnam ECA, and a solid foundation of mutual trust has been established. The two countries should begin consultations as soon as possible, so as to strengthen bilateral linkages in the areas of industry and trade, while also promoting collaboration in the areas of human capital development, technology, mutual recognition of certifications, joint formulation of standards, etc., and encouraging Taiwanese firms in emerging service industries,

system integration service providers and innovation-oriented start-ups to invest in Vietnam. This would also boost Vietnam's exports to Taiwan, creating a "win-win" situation for both countries.

- ii. Updating of the investment protection agreement between Taiwan and Vietnam: The aftermath of the riots that occurred on May 13, 2014 showed that the "Agreement Between the Taipei Economic and Cultural Office in Hanoi and the Vietnam Economic and Cultural Office in Taipei on the Promotion and Protection of Investments" is no longer adequate to meet current needs, and that the amount of real protection that it provides for Taiwanese investors in Vietnam is limited. To enable Taiwanese-invested firms to continue to develop their operations in Vietnam over the long term, and to attract more Taiwanese investment to Vietnam, it is suggested that the Vietnamese government should collaborate with Taiwan on updating the provisions of the Agreement in line with recent international trends in investment protection agreements.

Appendix

1. Overview of the World Taiwanese Chambers of Commerce (WTCC)

The increase in overseas investment by Taiwanese companies and entrepreneurs in recent decades led to the founding of Taiwanese chambers of commerce in countries all over the world. To coordinate the activities of these different chambers of commerce and enhance the level of service provided to Taiwanese-invested firms operating overseas, the World Taiwanese Chambers of Commerce (WTCC) was founded in Taipei City, Taiwan in September 1994. The WTCC was established to provide services to Taiwanese companies and businesspeople all over the world, in line with five key principles: (1) Promoting collaboration between Taiwanese-owned firms in every region of the world, so that they can work together to develop industrial and commercial business opportunities, and develop international markets. (2) Strengthening linkage, mutual support and mutual friendship between Taiwanese-owned firms and Taiwanese businesspeople throughout the world, and encouraging the sharing of experience in the areas of business management and technology. (3) Providing Taiwanese-owned firms and Taiwanese businesspeople throughout the world with industrial, commercial and financial news and information, thereby helping to strengthen regional trade collaboration. (4) Raising the international stature of Taiwanese-owned firms, and helping to ensure that the rights of

Taiwanese-owned firms and Taiwanese businesspeople are protected by countries all over the world. (5) Promoting social and cultural exchange in every region of the world, so as to foster mutual understanding and stimulate economic development.

The WTCC has six Continental Chapters (Asia, Europe, North America, Central and South America, Oceania, and Africa), and 189 Regional Chapters (which are distributed in 73 countries and regions); the total membership amounts to more than 40,000 individual firms, making the WTCC one of the largest and most important organizations of its kind in the world. In September 2009, the WTCC established a permanent headquarters in Taipei City, so as to be able to provide services to Taiwanese firms and businesspeople throughout the world even more efficiently.

The WTCC is headed by a President, appointed to serve a one-year term (the President may not be re-elected to serve consecutive terms). The presidents of the individual Continental Chapters are automatically appointed Vice Presidents of the WTCC. In accordance with the WTCC's Constitution, the President appoints a Secretary General, Chief Financial Officer, etc., who serve on a voluntary, unpaid basis, to assist in handling the WTCC's affairs. The WTCC has also established 17 functional committees: the Election Committee, Funds Management Committee, Committee for Matters Relating to Taiwanese-owned Firms Operating in Mainland China, Women's Committee, Taiwan Social Affairs Committee,

Young Taiwanese Entrepreneurs Cultivation Committee, Business Opportunity Development Committee, Disciplinary Committee, International Affairs Committee, Public Relations Committee, Special Projects Committee, Educational and Cultural Affairs Committee, Outstanding Overseas Taiwanese SMEs Award Committee, Specialist Fields Committee, Online Presence Committee, Publications Committee, and Legal Affairs Committee. Over the past few years, the WTCC has been actively providing guidance to help each Continental Chapter establish its own Junior Chamber, so as to encourage younger Taiwanese businesspeople to join their local Taiwanese chamber of commerce; October 2010 saw the establishment of the World Taiwanese Chambers of Commerce Junior Chapter (WTCCJC) in Taipei, aimed at ensuring the sustainable, long-term development of the WTCC.

The WTCC coordinates resources across a wide range of sectors to provide services to Taiwanese-owned firms and Taiwanese businesspeople, seeking to foster close collaboration between Taiwanese-invested firms and the governments of their host countries, while at the same time encouraging Taiwanese-invested firms operating overseas to make an even bigger contribution to local society, so as to create a three-way “win-win-win” situation. The WTCC also serves as a channel for communication between Taiwanese-owned firms and Taiwanese businesspeople operating overseas and the Taiwanese government, seeking to minimize the problems that Taiwanese-owned firms and Taiwanese businesspeople may encounter as a result of policy

decisions made in Taiwan. Both in Taiwan and overseas, the WTCC plays a leading role in representing the interests of Taiwanese-owned firms and Taiwanese businesspeople.

2. Overview of the Asia Taiwanese Chambers of Commerce (ASTCC)

From the late 1980s onwards, there was a steady increase in the number of Taiwanese firms and Taiwanese businesspeople investing in Southeast Asia, and as a result the period 1990 – 1992 saw the establishment of Taiwanese chambers of commerce in several Southeast Asian nations. Initially, however, there was little interaction or communication between these individual chambers of commerce. Recognizing the need to improve this situation, Mr. Yu Sheng-ching, the founding chairman of the Thai-Taiwan Business Association, contacted the chairmen of the Taiwanese chambers of commerce in the Philippines, Malaysia, Singapore and Indonesia, proposing the establishment of the Asia Taiwanese Chambers of Commerce (ASTCC).

The ASTCC was formally established in Taipei City, Taiwan in July 1993, with five key objectives: (1) Promoting collaboration between Taiwanese-owned firms in Asian nations, so that they can work together to develop industrial and commercial business opportunities, and develop international markets. (2) Strengthening linkage, mutual support and mutual friendship between Taiwanese-owned firms and Taiwanese businesspeople within the Asia region, and encouraging the sharing of

experience in the areas of business management and technology. (3) Providing Taiwanese-owned firms and Taiwanese businesspeople in Asian nations with industrial, commercial and financial news and information, thereby helping to strengthen regional trade collaboration. (4) Raising the international stature of Taiwanese-owned firms, and helping to ensure that the rights of Taiwanese-owned firms and Taiwanese businesspeople are protected by all countries. (5) Promoting social and cultural exchange within the Asia region, so as to foster mutual understanding and stimulate economic development.

The ASTCC has 12 country chapters, in Thailand, the Philippines, Malaysia, Singapore, Indonesia, Japan, Hong Kong, Macao, Vietnam, Laos, Cambodia, and Brunei. Taiwanese chambers of commerce in another six countries and cities – Bangladesh, India, Myanmar, Jeddah (Saudi Arabia), Guam and East Timor – have observer status, and a South Korea chapter is soon to be established. The total membership exceeds 27,000 firms. The ASTCC is headed by a President, with the chairmen of the individual country chapters being automatically appointed as Vice-Presidents, and has an executive committee, a board of directors, and a board of supervisors. Fourteen committees have been established: the Election Committee, Public Affairs Committee, Industries Committee, Bylaws Committee, Publications Committee, Educational and Cultural Affairs Committee, Finance Committee, Committee for Coordination with Taiwanese-owned Businesses Based in Mainland China, Promotion Committee, Disciplinary Committee, Young Entrepreneurs Committee,

Crisis Management Committee, Long-term Development Committee, and ASEAN Affairs Committee. There are also dedicated member services and consulting services contact windows. The ASTCC is subordinate to the WTCC, serving as a first-rate platform for promoting exchange, business matching and investment between the countries in which its members operate. Particularly at the present time, when the ASEAN member states are experiencing rapid growth and development, the ASTCC has an important role to play in coordinating resources from different sectors to provide even more effective services to its members.

3. Overview of the Council of Taiwanese Chambers of Commerce in Vietnam (CTCVN)

A “Taiwanese Chamber of Commerce in Northern Vietnam” was established in 1993, followed by a “Taiwanese Business Association in Southern Vietnam” in June 1994. In September 1994, these two organizations were merged into the Council of Taiwanese Chambers of Commerce in Vietnam (CTCVN), which was created to promote communication, interaction, collaboration and the sharing of experience between Taiwanese-owned firms operating in Vietnam, to foster collaborative business development and efforts to ensure protection for Taiwanese businesspeople’s legal rights, and to strengthen economic, trading and cultural exchange and collaboration between Taiwan and Vietnam.

The main tasks undertaken by the CTCVN include: (1) Helping members to resolve investment and trade disputes, by providing legal and consulting services as needed. (2) Undertaking collection, collation and statistical analysis of Taiwanese and Vietnamese economic policy, commercial law and related government initiatives, and carrying out research linked to these areas, as well as publishing related information on a regular basis for the reference of members. (3) Helping members to foster amicable relations with Vietnamese government agencies and business organizations. (4) Organizing social events to foster closer understanding between Taiwanese and Vietnamese citizens, and to strengthen the ties of friendship between members and between members' families.

The CTCVN received a formal business license from the Vietnamese government in 1997, and has established branches throughout Vietnam. There are currently a total of 14 branches, located in Hanoi, Bac Ninh Province, Hai Phong, Thai Binh Province, Ha Tinh Province, Da Nang, Lam Dong Province, Ba Ria-Vung Tau Province, Dong Nai Province, Binh Duong Province, Tay Ninh Province, Ho Chi Minh City, Tan Thuan Export Processing Zone, and Long An Province. There are nearly 2,500 member firms in total. The CTCVN is headed by a President, and the presidents of each individual branch are automatically appointed as Vice Presidents; a Secretary General and a Chief Financial Officer assist with the handling of CTCVN business. The CTCVN has a board of directors and board of supervisors, and 12 functional committees: the Legal and

Regulatory Committee, the Young Entrepreneurs Committee, the Industrial Exchange Committee, the Education Committee, and International Exchange Committee, the Vietnam Business Forum (VBF) Committee, the Taiwan-Vietnam Investment Promotion Committee, the Agriculture Committee, the Taiwan-Vietnam Artistic Exchange Committee, the Taiwan Healthcare Promotion Committee, the Sports Exchange Committee, and the Charity Committee.

The CTCVN plays a leading role in guiding the various local Taiwanese chambers of commerce in Vietnam in the provision of services to Taiwanese-owned business and Taiwanese businesspeople operating in Vietnam. It also serves as a bridge for communication between Taiwanese-owned firms and the Taiwanese and Vietnamese government with respect to policy implementation and investment promotion. Over the past few years, the CTCVN has expanded the scope of the functional services that it provides, helping to foster closer collaboration among Taiwanese-invested firms, and greater awareness of the importance of such collaboration, thereby enabling Taiwanese-invested firms in Vietnam to develop the business opportunities available to them more effectively.

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