

MARKET REPORT VIETNAM

Bicycle industry holds strong production base in Southeast Asian country

EU-Vietnam Free Trade Agreement Delayed

BRUSSELS, Belgium – The European Parliament elections, which will take place 23-26 May, are causing further delays for the EU-Vietnam Free Trade Agreement (EVFTA). At least that's the outcome of the provisional agenda set by the new Romanian EU presidency.



Companies from the bicycle and e-bike industry that recently invested in Vietnam are (among others) KMC, Bohle/Schwalbe, Astro, Kenda, DDK and A&J.

Photo: Bike Europe

It results in the fact that this already long-delayed trade deal won't enter into force before 2020. The further delay for EVFTA was recently reported by renowned Politico Pro. This report states that, according to a provisional agenda set by the new Romanian EU presidency, EU countries are to ratify the EU-Vietnam trade agreement (plus the separated investment protection deal) at the next EU Trade Council on 28 May in Brussels. That's not good news for those hoping for a quick ratification of the deal. In particular as under EU rules, EU countries need to give their consent to a trade deal before it can be officially signed with the partner country shortly afterwards. Only then, can ratification in the European Parliament begin. According to Politico Pro: "The tentative date of 28 May for an approval by EU countries means that the Romanians have given up hope that the Vietnam deal could still be ratified in Parliament before the EU elections on 23-26 May. Thus, the trade deal will have to pass the next European Parliament and won't enter into force before 2020." Negotiations for EVFTA were already concluded in August 2015 and initially it was expected that by the summer

of 2018 it would be ratified by the EU Parliament. However, it ran into difficulties as the European Parliament placed questions on how Vietnam as a one-party Communist state is treating its workers. European Parliament's trade committee chair Bernd Lange, claimed that it is unfair for big manufacturers to use Vietnam as a cheap manufacturing base, with lower environmental standards, and then export goods tariff-free into the EU. Despite EVFTA being delayed, Vietnam already benefits from a special trade arrangement granted by the EU under its Generalized System of Preferences. Currently regular bicycles imported from Vietnam have a GSP import tax of 10.5% while on Vietnam made e-bikes 2.5% import tax is levied.

While the European Union delayed its decision other countries step up their investment in Vietnam. "The US - China trade war will quickly

boost labour demand due to foreign investment flows moving into Southeast Asia, including Vietnam," said Michael Kelly chairman of the American Chamber of Commerce in Vietnam on a local forum last December. "However Vietnamese labour quality remains low and is expected to fail to capitalise on the benefits on this shift of investments." Statistics from the Thai Maybank Kim Eng indicate that the foreign investment capital injected into the manufacturing sector in Vietnam rose by 20% over the first three quarters of 2018." Vietnam has a young, abundant, active work force of 75 million people. However only 11% of the Vietnamese labourers are highly skilled and a mere 5% can communicate in English."

Taiwan Important Investor

In the past 30 years Taiwan has been one of the major foreign investors in Vietnam. In different industries, the Taiwanese have invested in some 4,000 companies. Many of them are somehow connected with the Taiwan industry association. Some industries, like the bicycle industry, have their own departments. Today some 30 Taiwanese bicycle industry companies, like KMC, Bohle/Schwalbe, Astro, Kenda, DDK and A&J have their production facilities in Vietnam. Most of them are components manufacturers, distributing their products to bicycle assemblers in Cambodia. As both Vietnam and Cambodia are members of the ASEAN Economic Community they can benefit from the favourable tariff reductions for export to Cambodia. "In the past years the supply chain for the bicycle industry in Vietnam developed to a high level," explains Richard Tsai, chairman and CEO of

DDK. The company's long time involved in Vietnam, which gave him a lot of experience. Today he is often consulted by Taiwanese companies who want to invest in Vietnam. "The Vietnamese government is very supportive towards the bicycle industry and offers multiple tax schemes. They also develop a line of industry parks as well as infrastructure, including a new harbour in the Saigon river. Most of the bicycle industry is located on industry parks around Di An and New City, both North of Ho Chi Minh City. Logistics-wise these are the best locations as it is only 70 km to Cambodia and 1.5 km to the harbour."

Local content rules

The products exported from Vietnam to Europe have to abide by the local content rules. These rules specify that 50% of the ex-works price of the (electric) bikes exported to Europe must be made with in Vietnam manufactured components like frames. However, there are 'specially removed' bi-lateral cumulation rules which apply here. They state that parts (like mid-motors) imported from Europe that are to be fitted on Vietnam made e-bikes, are considered local content. It boils down to the fact that EU made parts add value to the local content making it much easier to reach the named local content and with that the rules of origin of the by Vietnam exported e-bike.