10. Vietnamese Case Studies

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INTRODUCTION

This chapter presents three cases of foreign investors in Vietnam. All established joint ventures, yet their roles in them vary considerably. The Danish Carlsberg Breweries established an early foothold in the Vietnamese market in 1993 via its Thai affiliate, with a conventional joint venture structure. The joint venture has been operating fairly successfully, and extensive training of staff improved the productivity of both the joint venture and other operations of the local partner. The Swedish engineering giant ABB accessed the local markets by establishing a joint venture that effectively took over an existing local firm. Hence, ABB had to take responsibility for restructuring and technological upgrading of the company. The leading Japanese motorcycle brand, Honda, moved from imports to local production in a joint venture with a largely passive state-owned enterprise. The new operation built a local supplier network, with potentially considerable spillover effects, yet not involving its local joint venture partner.

SOUTH EAST ASIA BREWERY

Introduction

With beer consumption remaining static in traditional markets, expansion into new markets is the growth engine for many international breweries. Unlike strategy on other continents, affiliates of Carlsberg in Asia are usually joint ventures with local partners. In Vietnam, Carlsberg established a joint venture, Southeast Asia Brewery (SEAB), with a local state company, Halimex, in 1993. Competitive conditions and past experience had a strong impact on Carlsberg’s choice of partner and location. Carlsberg contributes capital, technology and machines, as well as extensive staff training. Sharing
management between Carlsberg and the local partner works quite well; however, it does create some inconsistency in management style. The business is considered successful, although it is not the sales of the Carlsberg brand that earns money, but the local brand, Halida. Marketing and distribution of this local brand utilises primarily knowledge of the local partner.

**Industry**

Brewing is a mature industry. In many traditional markets, beer consumption has been static, or perhaps even declining, thus limiting further growth for European brewers. However, a great potential exists in emerging markets where beer consumption is presently comparatively low, and economic growth prospects are considered bright. During the past two decades almost all the international breweries have found their way into these new markets, and this has triggered an intense competition in an already highly competitive industry.

Five breweries are emerging as global players: Heineken, Interbrew, Carlsberg, SAB, and Anheuser Busch. Their brands are well recognised internationally and their sales have grown mainly through overseas operations. Regionally and locally, the competition is even stronger amongst many strong local and regional brands.

In Vietnam, the competition is already quite strong. Heineken, Carlsberg, Foster, Tiger, and San Miguel are considered as premium beers and compete fiercely for the tiny, unexpectedly slow-growing premium market (less than 30 per cent of the total market). Many strong brands of local standard beers compete quite well in their traditional mid-range markets. The Vietnamese beer industry is still considered to have great potential in the coming years as annual per capita consumption is still relatively low at 9 litres.

**The Investor**

Carlsberg A/S traces its roots to 1847 when brewer J.C. Jacobsen introduced Bavarian-style lager beer and new brewing technologies. Carlsberg Breweries soon became one of the most successful Danish businesses, first establishing the leading brand domestically, and later in many surrounding European markets.

Over the last two decades of the 20th century Carlsberg acquired a number of breweries in both Western Europe and the emerging markets, and it established ‘Carlsberg’ as one of the best-known brands worldwide with the very effective slogan, “probably the best beer...”. In the 1990s Carlsberg expanded primarily in Central and Eastern Europe, where it has become the leading brand in some countries, notably in Russia. Central and Eastern
Europe contributed almost 18 per cent of Carlsberg’s worldwide turnover in 2003, compared with 5 per cent in Asia. Its products were present in about 150 markets worldwide, and more than 94 per cent of beer sales were generated outside Denmark. Its products were then brewed at 90 production sites in 45 countries. Over the last few years Carlsberg Breweries has been pursuing M&A, especially in emerging markets. In Western Europe, Eastern Europe and Asia, the main markets in which Carlsberg is active, the company has achieved market shares of 10, 22.4 and 9.1 per cent, respectively.

Carlsberg has been active in Asia for almost 30 years, often in joint ventures with local partners. Given the stagnant situation in its traditional markets, finding new markets is the main motive for Carlsberg to expand further into Asia, with its large populations and currently low per capita beer consumption levels. In this respect, Vietnam is not an exception.

With a predominantly young population of about 70 million people by the early 1990s, low annual per capita beer consumption (3 litres), no cultural restrictions on beer consumption, out-of-date local production facilities, and positive expectation of economic growth, Vietnam is considered a prominent potential market.

Entry into Vietnam is also part of Carlsberg’s competition strategy to maintain its image in Asia, a high growth region where Carlsberg has always been in a strong position in competition with its international rivals. It is significant that in the early 1990s, almost all breweries operating in the region started to develop simultaneous investment projects in Vietnam. First-mover advantages were obviously the driving force of these projects. These early entries were also considered as a means to occupy a potentially limited number of seats in the beer business. This subsequently turned out to be the right move when the Government later decided to stop issuing investment licenses for new FDI projects in the brewing industry.

The beer business is an advertising-intensive industry, especially for premium brands like Carlsberg and Heineken. Access to (or control of) a distribution network is considered critical for beer sales, and a deep understanding of the local market with its various cultural mores is also very important.

The art of brewing beer is not too difficult to transfer between organisations and over long distances. In order to maintain consistent beer quality, Carlsberg has reorganised all of its technical activities under a department called the Corporate Supply Chain, which includes Operational Control, Innovation, Quality Assurance and Process and Quality Audit. Training is the main channel through which technology is transferred.
The Local Partner

Halimex (the Hanoi Union of Microbiological Products Enterprises) was a state-run enterprise established in 1966. At that time, Halimex was a group of enterprises producing several types of foodstuffs for local consumption, including baker’s yeast, soy sauce, frozen meat, instant noodles, and later, beer and soft drinks.

Except for the brewery that Halimex bought from Danbrew in 1990[1], most of its products were produced by conventional labour-intensive processes that were perceived as far below international standards. Compared with other similar local companies in the early 1990s, however, Halimex was relatively keen to conduct R&D, develop new products and processes etc. It also had tried to work closely with local R&D institutes and university departments to support its activities.

A turnkey project was supplied by Danbrew for Halimex to produce Halida beer. The technology level of Danbrew plant was much higher than the technology used in the old breweries at that time. Halimex and its canned beer, Halida, quickly became a success. This was partly due to the superior technology that it acquired, but managerial competence also contributed an important part. Five different purchasers of largely similar turnkey-projects from Danbrew, with basically the same terms and conditions, created very different breweries and beers. Among them, Halimex had been the most successful, developing Halida as the strongest local brand at that time.

Halimex was very careful in assigning teams of engineers and technicians to accompany Danbrew experts all along, so as to learn and acquire new skills. This helps explain why, after only three trials by Danbrew experts, the Halimex technicians could start to brew by themselves. In several instances, this close working relationship helped solve problems that were new even to the Danbrew experts.

In addition to technical knowledge in the narrow sense, Halimex acquired new knowledge of management techniques, such as systematic planning of repair and maintenance. It was generally believed that Halimex had gained support from Hanoi’s politicians to obtain a loan from the State commercial bank for its investment.

Obviously there is a huge difference in culture between Vietnam and Nordic countries in terms of beliefs, behaviour, attitudes, language etc. However, the relationship between Vietnam and Nordic countries has been developing since the 1970s, beginning with the support by Sweden during the Vietnam War and the years that followed. Typical of this was the Swedes’ building the Bai Bang Paper Mill in Vinh Phu Province. This is one of the many reasons for the very positive attitude of the Vietnamese towards the Nordic countries.
Performance

The joint venture was set up in 1993 with a registered investment of US$ 79 million and a planned production capacity, for the first phase, of 360,000 hectolitres (hl) per year. At the time of this research, Phase I has been completed with an implemented investment of only US$ 23.4 million.

Financially, the subsidiary started making a profit from 1998. Regardless of the financial crisis in the region and the difficult nature of the Vietnamese economy, it still managed to make moderate profits in the years 1999 and 2000, and to improve its position in the market, especially with the local brand, Halida. 52

Although considered as a successful project, its managers (representing Carlsberg's interest) admitted that the joint venture had not fully met the investor’s original expectation in reaching their objectives. Despite a high level of awareness (91 per cent in Vietnam), sales of the Carlsberg brand remains static while its local brand, Halida, enjoys a slight growth. The affiliate now aims to maintain second position in the premium beer market after Heineken and is aiming to become number one in the standard beer market in the North.

Counterfactual

It is believed that even without the joint venture, the local firm would do well. This is also supported by the fact that the local brand, Halida, was very strong before the joint venture was set up, and has so far been contributing decisively to its financial performance.

From Carlsberg’s viewpoint, it would enter the market the same way, making joint ventures with local companies to acquire the necessary local knowledge. If it had not been with Halimex, it would have been with some other brewery in Vietnam.

The Entry

The ownership of the joint venture was split 35/25/40 between Carlsberg Breweries, the Industrialization Fund for Developing Countries (IFU a Danish State-owned investment fund) and Halimex, respectively. This is a popular formula and is typical of Carlsberg initiatives in developing countries. In summer 2003, Carlsberg acquired the 25% stake of IFU.

It was agreed that the top management will be switched every three years, and Mrs. Nguyen Thi Anh Nhan, the General Director of Halimex, became the first General Director. This is striking, because the Danish partners, controlling 60 per cent of the equity, were entitled to hold the General Director post, as would usually be the case for foreign partners in joint
ventures. Under the above arrangement, the control is shared between the two partners.

As mentioned earlier, Carlsberg considers having a partner with local knowledge of tastes, distribution networks, and political support as crucial for its operation anywhere in Asia, so building a joint venture with local partners was the entry mode of choice. However, why Carlsberg ended up having a joint venture with Halimex in Hanoi is worth further study because (1) the largest beer market (70 per cent) is in the South, and (2) Halimex was a relative newcomer to the beer business.

In explaining this decision, it has to be noted that by the end of 1991, Asia Pacific Breweries, Singapore, which produces Tiger and Heineken beer, had obtained a license to build its brewery in Ho Chi Minh City, at a scale three times larger than SEAB later reached. Given the presence of its main competitor in the South, going North became a natural decision for Carlsberg.

Halimex was not the largest brewery in the North at that time. Hanoi Brewery was the largest and the oldest in the North; however, Halimex was seen as having the ability, skills and know-how to grow into a large brewery business, conscious of quality. It did not make any compromise on quality, which can be an easy temptation when a company is growing fast. This is partly the reason why the quality of Halimex beer is higher and more stable than that of the other breweries that had also bought Danbrew turnkey projects.

**Resources of the New Venture**

In the beer industry, both tangible and intangible resources are important. Most of the tangible assets in terms of equipment and machinery were provided by Carlsberg. Another important tangible asset in the beer business is the distribution network. With income per capita at a low level and a traditional custom of beer being consumed mainly (on more than 70 per cent of occasions) on public premises in Vietnam, having access to outlets like restaurants, pubs, bars, nightclubs, cafes etc., is considered critical for beer sales at this stage.

Intangible assets are even more important. Among them, know-how related to the production of a high and sustainable quality, as well as efficiency in production, is critical. One example is the way of controlling temperature to add flavour to the beer, principally during the brewing and fermentation periods.

Other well-known important intangible resources in the beer business are brand management and marketing know-how. These skills help greatly to sell the product without changing its physical conditions. Management know-how and political “savvy” (in dealing with authorities at all levels) are other important assets that help the business to operate smoothly and profitably.
Generally speaking, the local side contributed the land, its initial production facility including the building, equipment, distribution network, labour force, political connections, local brand prestige of Halida, and marketing know-how for this local brand. The foreign side provided capital, technical and management training for the workforce, some critical know-how in production, international brand prestige (Carlsberg) and marketing know-how for the Carlsberg brand.

Resource Transfer

Other than just capital, the investor also transferred technical, marketing and management knowledge by means of training. Training is an important investment, required to maintain the quality of products and efficiency of operation. Training occurred both in Vietnam, within the factory by on-the-job training, and also overseas.

A large number of senior technical and managerial staff from SEAB were sent for training in different countries. By 1996 most of the key personnel in SEAB had been trained abroad. In certain cases, for instance the chief of the laboratory, the training was focused on transferring in-depth, advanced knowledge. Whilst Halimex only required basic tests, SEAB’s needs were more substantial. For instance, SEAB needs thorough tests not only on the ultimate quality of the beer, but also on the raw materials as well as regular intermediate tests on the product during the process.

Nonetheless, training was not limited to specific skills. For instance, the maintenance manager was sent to Carlsberg Breweries in Hong Kong and Malaysia with a view to expanding his knowledge and breadth of vision, giving him other perspectives on how things can be done as well as why, rather than just what needs to be done.

This can be exemplified in the understanding of the challenges of beer making. In the beginning, when a technical problem occurred, the Vietnamese staff would know that something was wrong, and they might find a solution. However, they may not know why it was wrong, and thus may not be able to recognise the root of the problem and ways to prevent a recurrence. After continuing more in-depth training, studying technical documents and discussing them with foreign experts, they came to know better the underlying causes of the problems they were frequently faced with.

Training abroad was essential, but also costly, and could be made more effective if those trainees could maximise their knowledge after returning home by being able to use creatively what they had learned, by developing further skills from this knowledge base, and by being able to disseminate their new knowledge to others. Careful selection and preparation was therefore needed. The joint venture selected candidates for a certain job, provided them with prior knowledge, tested their ability and skills, and then came up with the person likely to benefit most from further training. They
were also informed about the objectives of the training, along with the expectations of responsibilities and obligations after they returned. This was a process of local training in preparation for training abroad.

The lesson of training, both abroad but particularly at home, was that it was essential to enhance the knowledge of the staff so that they could understand what they were doing, or were meant to do. To give them meaning, rather than just giving them specific measures and telling them, step by step, what to do.

It is the joint venture's policy to localise management and senior technical staff. Even in the initial set-up, only three expatriates worked at the brewery. Three years later, only two expatriates remained (one as General Director and one as Brew Master). By 2002, only the Vice-General Director and Marketing Manager are expatriates. A Vietnamese national has successfully replaced the Brew Master.

In accordance with the above policy, four candidates were selected and rotated through tasks and on-the-job training in different positions and operations, from the brewing house to fermentation, bottling and canning, etc. By so doing, the candidates were given broader knowledge and skills for their job input. This is important, because a brew master has to work with over 200 workers and in different departments, so is required to coordinate and manage different groups when problems arise.

A broader understanding for everyone was also needed. It was necessary for the entire workforce in the brewery to have a good knowledge of the brewery business and techniques. More than that, it was not only the knowledge of how to make beer, but also to make what was considered to be "good" beer by different customers in different regions, or a "beer culture" as it is put by some people. This was important for them because, in general, beer had not until recently been a common drink for many Vietnamese people, unlike the situation in Europe, for instance.

One typical example of this approach to broadening knowledge for everyone was the technical training for marketing and sales personnel. Sales staff were educated in various aspects of brewing techniques so they could understand why and how tastes become different, what makes "good" beer, etc.

After many years of continuous efforts in training the staff, Carlsberg is very happy with the technical side of the operation. For example, quality is considered to be consistent, and the Vietnamese brew master is doing well.

Spillover Effects

A remarkable, yet lesser-known, development of the Halimex enterprise has been its attempt to produce draught beer by itself, capitalising on knowledge, skills and experience gained from the Danbrew turn-key project, and the joint venture with Carlsberg. This attempt led to the building of a brewery called...
Viet Ha, in which almost everything was planned and implemented by Halimex itself.

The brewery was modelled after the Danbrew line, and Halimex was to prepare all technical and project planning. To reduce costs, most of the equipment was designed and manufactured locally. A step-by-step approach was applied, starting with an experimental design of the brewing oven. This oven was then put to work with the line supplied by Danbrew, to check that it was operating well and could match the quality and other specifications of brewing ovens produced by Danbrew.

The success in designing and manufacturing the brewing oven created confidence within the management and staff of Halimex, and led to the decision to design and manufacture locally a majority of the equipment needed. Only certain intricate equipment that was essential for the brewing technology or was difficult to manufacture locally, was imported. Halimex itself carried out the design part of the mechanical engineering, while some other design work was contracted out to appropriate local organisations.

A big challenge for the Vietnamese was to design and select the type of process and equipment feasible in the context of Vietnam in terms of the availability of suitable materials. Thus, because there were few suppliers of suitable mechanical parts, and it was difficult to find parts that were consistent in quality and with the required specifications, the process of freezing using salt water was chosen instead of freezing with glycol. This technique avoids the evaporation stage in the cooling process.

The quality of some local manufactured parts and equipment was not perfect. However, compared with other locally designed and manufactured breweries that also make draught beer, Viet Ha has many better features in the process techniques, and its overall product quality is thus better. For example, while the others have no appropriate equipment to control temperature during the fermentation, Viet Ha has a sensor that can automatically cut the power supply when the temperature reaches a certain level. Keeping a stable temperature ensures a stable and desirable product quality.

Overall, although the brewery was self-designed and constructed by Viet Ha, it was not as "modern" as the Danbrew project. Nevertheless, it reflects the Halimex technological and managerial capabilities in planning, designing and implementing a project, manifesting as a spillover from its earlier experience.

In addition to adaptations in term of equipment, Halimex also pursued some technical developments specifically for its draught beer at Viet Ha, as well as other product lines. This was done in cooperation with the local Foodstuff Technology Institute, where research work had been done with the flocculant variety of yeast, in an attempt to make a sort of yeast similar to Danbrew's variety, but more suitable for Vietnam's conditions. In terms of management, the Viet Ha brewery, surprisingly, managed to retain a high
level of autonomy, and copied some of the joint venture’s management features in the later phase.

Most important for Viet Ha, according to its senior managers, was the close coordination between the technical departments and marketing/sales units. The latter were to seek out and observe all the reactions of clients, and channel them back to the technical departments for consideration. Similarly, they worked closely with the technical departments, especially the quality control unit, to evaluate the relevance of new sources or new types of raw material for the brewery.

Senior employees in Viet Ha were required to know more than just operational skills. Indeed, most of the middle and upper level staff were required to have a broader knowledge and understanding of a great variety of issues related to beer brewing. For example, two training courses, each lasting two and a half months, were organised for senior technicians, engineers, foremen and managers on the specific issue of tasting evaluation, with trainers from various organisations. This apparently helped enormously, and made possible the setting-up of the "Taste Testing Committee", selected from personnel right across the brewery.

Since the commencement of operations of the joint venture, a small proportion of the local brand, Halida, has been exported to France and Japan. It is expected that in the future it can be exported to neighbouring countries, such as Laos and Cambodia.

The entry of Carlsberg into Vietnam's market is considered to have had an important influence on the development of the beer industry in the country. Among these influences, one can mention things like competition between breweries, both local and international, and raised standards of product quality and production practices.

Enterprise Restructuring

In general, it could be argued that the joint venture was an upgrade of the local brewery with the introduction of a new kind of beer, Carlsberg. Expansion of the production facility and improvement of technology and management accompanied this expansion. Since technical and technological issues have been discussed in the above sections, we concentrate here more on the restructuring of management.

Even after the joint venture was started, and operated rather successfully, the need for change in management was evident. It was also seen that this was not for the survival of the joint venture, but rather for maintaining its competitiveness and growth. Partly because of this, the General Director was replaced after her first term. It is obvious that the initial success of Halimex, and to some extent SEAB, had depended on her contribution.

However, as a business grows, changes are normally needed. Thus, when the brewery expanded from a small, independent unit to a large joint venture,
and when the joint venture itself grew, her strong, commanding, egoistic style of management posed some difficulties. For obvious reasons, it was necessary to delegate power and decisions to departments and divisions within the expanded organisation, but this was not done effectively. Her replacement led to a more decentralised style of management, which also delegated more authority to people holding middle level jobs. This then allowed people who had trained abroad to experiment with new knowledge, and organise a formal dissemination of that knowledge and information to everyone in the joint venture.

One major change for the joint venture management was the move from a more or less top-down hierarchical approach to a more participatory manner.

Internal cooperation between different parts of the production line has been important for the brewery, as it is a continuous process, in which any flaw at one stage could undermine the quality and taste of all the beer. This was initially handled by the foreign brew master. Gradually, it was taken over by the Technical Deputy General Director, who coordinates all departments involved, especially the laboratory, the brew house and the fermentation facility.

Most critical for the brewery was the cooperation and constant feedback between the marketing/sales departments and the technical departments. With the trained background and awareness of this issue, the two departments kept up regular exchanges and discussions on various aspects of the product and the process - the colour of beer, its level of bitterness, level of foam, etc. In particular, whenever a bottle or package of beer had problems, it was quickly returned to the technical departments for examination and investigation.

The most difficult work for SEAB has been to build up an organisation that would ensure that all beer leaving the brewery had the same high, uniform quality, and keep SEAB competitive amongst the increasingly modernised breweries throughout the country. This has been a success. Its beers are now amongst the best of the 64 brewery facilities Carlsberg has around the world.

After almost 10 years of the joint venture, regardless of the switch in the management team, the structure of the company is almost unchanged. The staff, however, are more confident in their jobs.

Concluding Remarks

Over the first half of the 1990s, as a result of regulations, joint venture was the only choice for entry into the beer market in Vietnam. However, this is also the strategy that Carlsberg has been pursuing in Asia generally.

Under the above condition, selecting a local partner and a location for the new affiliate becomes a strategic decision. Competition dynamics and past relationship seem to be the decisive factors. With its rivals occupying the Southern market and with a past relationship with Halimex (via the turn-key
project with Danbrew), developing a joint venture with Halimex became a natural move when Carlsberg considered entering Vietnam.

Unlike the majority of joint ventures in Vietnam where the foreign partners aim effectively to control the joint venture, management of SEAB is shared between the two partners. This, however, creates a change in management style every time the management is switched.

Carlsberg contributed capital, equipment, technical knowledge, know-how and international brand and training, whilst Halimex contributed access to land, machines, a distribution network, the local brand and political ties. The affiliate sells two brands, Carlsberg and Halida, of which the local brand Halida performs much better. To some extent this strengthens the local partner’s position in the joint venture.

The joint venture creates spillovers for the local partner. Jointly with other international breweries operating in Vietnam, it creates a new face for its beer industry.

ABB TRANSFORMERS VIETNAM LTD

Introduction

At the time of its establishment, ABB Transformer Vietnam was reported as a notable case of joint-venture businesses between foreign and local companies in Vietnam. It represented a number of features that were sought after by local government and businesses, e.g. substantial capital investment, transfer of modern technology and management, continued employment of all local staff, etc. However, the marriage turned sour a few years later for both external and internal reasons. The joint venture may be classified as one of the more successful foreign investments in Vietnam, but it has far to go before both parties are satisfied.

Manufacturing of electrical transformers is one of the key areas of electrical engineering, and has a strong effect on the efficiency of power distribution and consumption. Internationally, there are only a few large manufacturers who can compete in the world markets, such as General Electric, Siemens, Mitsubishi, Thompson and ABB.

As the markets in industrialised countries became more or less saturated in the 1970s - 1980s, these big multinational companies became more interested in expanding into emerging and developing countries. Some of them also located manufacturing facilities in those countries.

In Vietnam, before 1990, all transformer manufacturers were state-owned enterprises, but managed by different ministries. Thus, there was some local rivalry, although only to a minor extent. The sub-sector was on the government’s high-priority list for seeking foreign investment.
The Investor: ABB

The ABB group is one of the major multinational enterprises that specialises in global electrical industries. It is involved in the worldwide manufacturing and marketing of various kinds of power plants and equipment, as well as in servicing a wide range of electrical systems. These comprise power generation plants, power transmission and distribution, industrial installations, transportation and general applications of electricity.

The group is a federation of national companies and uses a matrix structure for its organisation. The whole group has approximately 214,000 employees in 1300 independently incorporated units. ABB’s worldwide activities are grouped into eight business segments comprising 65 business areas, each with its own profit-sensitive responsibility for product development, production and marketing. The group has some 5,000 autonomous profit centres.

In Vietnam, ABB has diverse business interests. In the beginning, power generation was its key business focus, and by 1996, ABB was involved in several key power-generation projects. In addition, ABB was also active in electrical engineering projects, supplying, for example, electrical machinery and equipment for large industrial projects. However, it was transformer production that ABB wanted to enter into as a joint venture for local manufacturing in Vietnam.

Acquired Local Firm: Hanoi Transformer Manufacturing Factory

The Hanoi Transformer Manufacturing factory (HTM), was established in the early 1960s, under the General Corporation of Electrical Equipment and Techniques, the Ministry of Industry, and was one of five major distribution-transformer manufacturers in the country. HTM enjoyed about 50 per cent of Vietnam's distribution-transformer market.

HTM manufactured a variety of products, for instance, various types of drying kilns and metallurgical kilns. In addition, because the networking of business and back-to-back integration was underdeveloped, HTM had to produce many types of intermediate products and components themselves. This forced HTM to acquire basic knowledge in rather broad areas of technical and production activities.

In the area of transformers per se, underlying production technologies, as well as product designs, were modelled after the then Soviet Union’s products. In many ways, HTM had to adapt the Soviet and other technologies to Vietnamese conditions, as well as to develop some technologies of its own, and self-design and manufacture certain machinery itself. This experience in adapting and modifying foreign technologies became a conscious effort amongst HTM staff.
HTM already had a long tradition of reverse-engineering. It was active in the acquisition of technical literature, especially industrial catalogues, and using them as a reference source. HTM also had a long tradition of cooperation with technical universities and R&D institutes.

These technological endeavours were part of the reason for HTM’s success in expanding production and market share. Compared with the design capacity of about 400 transformers of various sizes, during the early 1990s, its actual annual capacity was about 1,600 transformers, making it the biggest producer in Vietnam, accounting for about 50 per cent of market share. This success may be surprising, considering the fact that HTM was outside the aegis of the Ministry of Energy, which is responsible for installing the power distribution network and has two of its own transformer producers.

Performance

The joint venture’s market share at present is about 30 per cent. ABB Transformer Vietnam Ltd. initially achieved financial success very quickly. The joint venture broke even after only six months of operations, a record time compared with most of the ABB transformer joint ventures worldwide. However, later, while expanding into power transformer production, the joint venture began to make losses. This is partly because the market did not grow as quickly as expected, and partly because of heavy debt servicing. The joint venture has successfully managed to export to regional markets. So far, it has exported to India, Laos, Indonesia, and is preparing to export to Singapore.

Counterfactual

It seemed that the joint venture was, and remains, the best choice for both parties. For the local company, the joint venture seems to be the best way to retain its identity, obtain foreign capital and technology, and enter into international markets. If this ABB joint venture had not occurred, it is likely that HTM would have entered into a joint venture with a Japanese partner.53

For ABB, joint-venturing was also the best choice. The Government policy at the time did not encourage 100 per cent foreign-owned businesses. At the same time, because of the import substitution strategy, and because all customers of this industry are state-owned companies or entities, it would have been difficult for ABB to compete using imports. If this joint venture had not occurred, ABB would have sought a joint venture with another local company.

The Entry

Unlike many joint venture preparations, in which the Vietnamese party often played a passive role, the HTM factory acted enthusiastically to establish a
genuine partnership. It was also actively involved in the discussions and formulation of the long-term plan for the joint venture (for example its insistence that power transformers be manufactured before the year 2000), together with product lines, distribution and marketing/sales strategy, etc. It was agreed that HTM and ABB were each to be primarily responsible for certain specific aspects (for example, HTM for sales and marketing, and ABB for production management), while at the same time both would contribute jointly to all other aspects. To avoid the paralysis incurred by some joint ventures due to lack of support from local employees, or lack of consensus between local and foreign staff, many issues were exposed to comment and discussion by various departments and units within HTM.

The Vietnamese factory had stronger bargaining powers than most Vietnamese enterprises seeking to establish a joint venture with a foreign company. HTM set some preconditions, most significant of which were: 1) to retain all existing employees of HTM within the joint venture, and 2) to start with distribution-transformers, then quickly move to the manufacturing of power transformers so long as the distribution-transformer business was in normal operation.

**Resources of the New Venture and Resource Transfer**

HTM insisted that its contribution to the joint venture was its equipment, technical capabilities and human resources, not the land-use right conferred by the State. The main technical changes brought by ABB to the joint venture were in product design and management.

Surprisingly, getting new equipment and machinery for manufacturing transformers was not a top priority of the Vietnamese managers and engineers in the ABB joint venture, as was commonly demanded in other cases. Both ABB and the Vietnamese factory were very selective in their choice of equipment for the joint venture.

Both sides were careful in deciding what types of machine could be used second-hand, and what types should be new. All in all, existing equipment and machinery by HTM accounted for up to 10 per cent of the prescribed capital, valued at US$ 400,000.

ABB's contribution to the prescribed capital was also mainly in the form of equipment and machinery. This included a CNC machine for cutting high and low voltage, a winding machine, crane, oil pump, electrostatic painting system, and auxiliary equipment.

For the distribution-transformer phase, 28 persons in total were trained in courses overseas. To benefit most from this overseas training, careful preparation and selection was done. The first and most basic preparation was to provide prospective trainees with background knowledge about the subject in which he or she was going to be trained.
Second, intensive English training was provided for all the people, especially senior technicians and managers. The joint venture wanted to retain all existing staff, and wanted to retrain key personnel from the Vietnamese partner so that they could take up similar positions in the joint venture, which was preferable to recruiting already qualified managers and technicians from outside. This approach would build on the existing capability and human resource, and have an accumulative effect, but it required substantial English training because most of more senior managers and engineers had Russian as their first foreign language, unlike the younger generation.

The people selected for overseas training were then to be sent to the ABB facilities that would be providing technology to the joint venture. In addition to some classroom training, they were primarily assigned to work with ABB experts who would later come to work for the joint venture in Vietnam. This way, close working relations were initiated from the beginning.

In critical specialties or technical areas, at least two senior people were to receive in-depth training. One would learn specialist skills for a certain area, while the other would learn how to become a supervisor/trainer for that area.

Training on the spot, at the joint venture, was critical for the installation of equipment and the initial operation. In reality, both short-term consultants sent by ABB to the site, and resident engineers and managers, were required to train complementary Vietnamese staff. Moreover, this was considered to be one of their main tasks, not something incidental to be done in their spare time. Resident expatriates, including the Chief Technical Engineer, spent nearly five hours on training each working day.

Technology Sharing and Management Localization as a Platform for Capability Building

Rather than using the term “technology transfer”, ABB believed “technology sharing” would be a more effective mode. Both sides considered this as one important part of the joint venture. Its main purpose was to help local managers build up competence and capability of their own, so they could act as independent experts, and could replace foreign experts.

The technology-sharing programme did not run well at the beginning. One of the major problems was that most foreign experts were preoccupied with the performance of the joint venture, product quality and reliability, etc., and did not pay proper attention to this programme. There was also a problem of picking appropriate candidates: a very qualified engineer may not be suitable, or even interested, in senior engineering jobs that demand some management and supervision functions.

To improve the programme, several measures were undertaken by the joint venture. First, the human resource managers were required to be involved in the implementation of the programme, so that problems and difficulties could be identified early, and remedied in a timely fashion.
Second, senior managers were to be more actively involved in the supervision of the implementation of the programme. Third, after each particular period envisaged in the Action Plan, Vietnamese persons subject to the programme were to make reports on its implementation, and come up with suggestions/recommendations for improvement.

In practice, the joint venture expatriates are being replaced. When the joint venture started operations there were five resident managers and engineers. Two years later, only two were left, and one of those two is now preparing to go. This is claimed to be a rapid process, considering that even in ABB companies in the US, it normally takes five years to complete the substitution with local managers.

Two stages of overseas training were pursued. First, before the commencement of operation of the joint venture, staff were sent to ABB transformer manufacturing facilities elsewhere to learn basic operational knowledge and techniques. Later, when the joint venture had already been in operation for some time, and people had achieved a first-hand understanding of the ABB products and production, they were further trained for more in-depth knowledge, including underlying theoretical issues and wider practical experience. Thus, elements of education for "know-why" capability were introduced more systematically in this second stage.

**Tapping into ABB's Regional and International Networks**

The in-depth knowledge and technology can also be upgraded via the regional forum, or common meetings, for people from all ABB facilities from different countries in each subject area. This type of meeting is organised regularly for each functional segment, such as purchasing, design and electrical engineering.

Vietnamese managers and engineers were exposed to, and actively involved in this forum. The joint venture's Vietnamese staff participated in the Asia-Pacific Training Programme, a programme in which managers from different ABB companies in the region are rotated to work at other ABB facilities on a cost-sharing basis, thereby gaining broader experience, as well as a new vision.

The impression of managers at the joint venture is that it is information and understanding about markets and management that was most beneficial for the Vietnamese in these forums. Surprisingly, the Vietnamese Deputy Technical Director stated that understanding from tapping this network "is more valuable than specific techniques", and "may be impossible to buy even if you had the money".

**Enterprise Restructuring**

One of the many changes in management was its re-focusing from day-to-day management to more strategic planning and monitoring. Consequently,
management found that having to give training to middle-level staff on various aspects of work.

As the market was still in the embryo stage, the network of agents and dealers had yet to be developed, and the joint venture had to do most of the sales function itself. Moreover, most orders for transformers were small, and the time lag from placing an order to expecting delivery was short, normally only 10-15 days.

This situation led to the necessity for close cooperation between various departments within the joint venture to respond quickly to an order. Thus, a new procedure was created, in which each department's role and functions were clarified: the sales department would inform the technical department about a new order; the technical department then chooses an appropriate design for the technical parameters, calculates material needs and then transmits these to the planning department for calculation of costs and suggestions for a price, which would be returned to the sales department to negotiate the final price with the customer. A production order would only be made after agreement had been reached with the client.

This procedure also led to changes in the method of placing a production order within the joint venture. For example, previously the technical department was responsible for making drawings and blueprints for transformers to be manufactured, and for suggesting the type of material. This was then sent to the shop floor and the rest of the specification calculated and final details decided by the shop floor manager. In the joint venture, however, after making detailed technical drawings, the technical department has also to prepare material bills, in which specifications and volumes of all materials required must be specified for each component of the transformer. This data will enable the planning department to finalise the remaining calculations quickly, and when the production order is obtained, all materials can be quickly made available according to those specifications. Thus, aside from close cooperation with other departments, the technical department was also required to be knowledgeable of broader issues, for example, an alternative material supply, so that they could work effectively with the other two departments.

By early 1997, the joint venture had four product/service areas, namely, 1) distribution transformer, 2) switch gear, 3) services, and 4) power transformers. The first three areas no longer needed ABB's expatriate experts, and by mid-1998, the first power transformers were being churned out by the joint venture, more than a year earlier than originally planned by the Vietnamese party and Government agencies.

However, it turned out to be inefficient for the joint venture to retain such a broad range of products, and they had to streamline, by cutting the switchgear group, and reducing the services to only that which was directly required for distribution and power transformers.
The expansion to power transformers in 1997 was a controversial decision. ABB was a bit hesitant to move quickly to power-transformer production, mainly for commercial rather than technical reasons. In spite of the more complex and sophisticated nature of power transformers, ABB believed that the Vietnamese staff of the joint venture could handle it. Its hesitancy came mainly from cost-effectiveness considerations. For one thing, investments in additional manufacturing facilities are enormous: A new laboratory needing far more precise analysis and tight quality control, costs alone around US$ 2 million. Another reason was that the Vietnamese market for power transformers is still small, and can well be supplied by ABB's other facilities, in China or Thailand.

Unlike the production of distribution-transformers, the Vietnamese personnel had no previous experience with power transformers, so although the joint venture could rely to some extent on the experience with the distribution-transformers, it also had to invest substantially in training for power transformer production, costing the joint venture almost US$ 600,000 to do so.

**Employment**
In the beginning, the joint venture employed all the staff of the Vietnamese factory – 470 persons. In 1998, the joint venture started to downsize employment. Gradually, as productivity increased, the need for labour was also reduced. For instance, the design department had 30 persons in the beginning, but employed only four by early 2001. In addition, as the joint venture closed down non-core products, a number of redundant employees were also laid off.

By 2001, the joint venture employed only 260 persons, which meant that nearly half the original labour force of the Vietnamese side had been made redundant. The laying-off process was a strenuous one for the joint venture itself, and for managers from both parties.

**Utilisation of Equipment of the Acquired Firm and Technological Standards**
Some equipment for the Vietnamese side was retained and contributed to the joint venture, for the production of non-core products. However, five years later, most of this equipment has been replaced by new equipment. It became evident that the ABB side had foreseen that such equipment would not last for a long time, but had had to accept it in the first place in order to reach the joint-venture agreement.

Most of the product adaptations took place in technical areas. These adaptations were made for two main reasons: one was the local market condition, and the other was to exploit the accumulated experience and expertise of the local partner. Yet there were two notable adaptations suggested by Vietnamese staff. First, the core of the transformer was
modified to a new vertical design, so that it could be easily transported and handled safely under the rough transport conditions prevailing in Vietnam.

Second, an additional component to sustain the copper winding was added to the ABB standard design. This was a solution to the problem caused by the lowering of the winding, which resulted from the fact that due to high humidity, the tightness of the winding changed considerably after the drying, thus making it very loose. ABB’s efforts to remedy this problem, which included drying for a longer period, brought little success because the constantly varying humidity made it difficult to have a standard measure for winding and drying.

**Spillover Effects**

There are several spillover effects from ABB Transformers Vietnam. It initiated the efforts to reduce no-load loss by 20 – 30 per cent across the whole industry. In relation to suppliers, the joint venture assisted in the specifications and technical assistance for them to supply parts and other inputs to ABB requirements. In general, ABB set new informal standards on manufacturing and management, which have later been adopted by many local firms.

The joint venture has managed to export to regional markets, and so far it has exported to India, Laos, Indonesia, and is preparing to export to Singapore. In the beginning, 100 per cent of inputs had to be imported. The local inputs now account for about 10 per cent. Potentially, these local inputs may eventually account for up to 20 per cent.

**Competition**

This joint venture has created waves of competition, and upgrading in technology and quality by other companies. Most notable was the imitation by some other local companies in choosing equipment and product design. The ABB joint venture reduced the no-load loss by 50 per cent within four years, so other companies had to reduce this also, and this has helped to reduce the no-load loss by 20-30 per cent across the whole industry.

Indirectly as a result of this joint venture, the industry became less concentrated. No company has a dominant position now, and the number of major companies increased from five to seven (all State-owned or joint ventures).

**Concluding Remarks**

The joint venture was the only mode of entry available at the time of ABB entering the Vietnam market and it seemed to be a satisfactory choice for both sides in the beginning. Over time, however, many unexpected things
happened, and both sides discovered that there are many problems with this way of doing business. In the summer of 2003, ABB acquired the stake of its local partner and thus attained full ownership and control over the venture.

Considerable resources were transferred from ABB, but intangible resources were the most appreciated, rather than the tangible equipment/hardware. Similarly, the intangible contribution by the acquired firm was more appreciated by ABB and the joint venture: human resources, Government relations and understanding of local markets, etc., while tangible assets, including equipment, was not seen as important nor fully utilised.

The integration process was fairly smooth in the beginning, when the joint venture basically retained the previous business/resources of the acquired firm. However, when it needed to undergo substantial restructuring, the process was not easy, and many Vietnamese felt that they were being "taken over" by ABB. The joint venture made substantial positive impacts on the local industry, although the financial prospects in the near to medium term were not bright.

HONDA VIETNAM

Introduction

The Government's protection of the motorcycle market has encouraged foreign investments in this sector. Honda’s joint venture with a state-run company has been a political move. With its long-established reputation for quality, Honda quickly became the largest and most profitable producer, within a few years of its commencement. Production in Vietnam can be seen as an extension of Honda's operation in the region. The product and process technology are similar to its Thai factories. Training is critical to maintain specified quality and productivity.

Industry

Honda Vietnam was established in 1996 and started its operation in 1997. Its main business is the manufacture of motorcycles. The industry can be considered as mature. However, there is still some potential for growth, with shifts in market demand and the continuous development of motorcycle technology. This is also a very competitive industry, with several Japanese companies, especially Honda, dominating the market. In the financial year ended March 31, 2002, unit sales of Honda’s motorcycles reached 6,095,000 units worldwide, of which the Asian market alone accounted for 4,775,000 units.

In Vietnam, as in many other Asian countries, the motorcycle is the main means of transportation. Before 2000, the market was dominated by
Table 10.1 Motorcycle market in Vietnam and Honda’s share

<table>
<thead>
<tr>
<th>Year</th>
<th>Cumulative units registered</th>
<th>Units registered in the year</th>
<th>Industry growth (%)</th>
<th>Honda Vietnam(^2)</th>
<th>HVN's share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>2,770,000</td>
<td>36,400</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1991</td>
<td>2,806,000</td>
<td>36,000</td>
<td>-1.1%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1992</td>
<td>2,846,000</td>
<td>40,000</td>
<td>11.1%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1993</td>
<td>2,901,000</td>
<td>55,000</td>
<td>37.5%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1994(^3)</td>
<td>3,275,000</td>
<td>374,000</td>
<td>580.0%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>3,678,000</td>
<td>403,000</td>
<td>7.8%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1996</td>
<td>4,209,000</td>
<td>531,000</td>
<td>31.8%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1997</td>
<td>4,827,000</td>
<td>618,000</td>
<td>16.4%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>5,219,000</td>
<td>392,000</td>
<td>-36.6%</td>
<td>81,000</td>
<td>20.7%</td>
</tr>
<tr>
<td>1999</td>
<td>5,585,000</td>
<td>366,000</td>
<td>-6.6%</td>
<td>96,000</td>
<td>26.2%</td>
</tr>
<tr>
<td>2000</td>
<td>7,452,524</td>
<td>1,867,524</td>
<td>410.3%</td>
<td>162,000</td>
<td>8.7%</td>
</tr>
<tr>
<td>2001(^4)</td>
<td>9,422,524</td>
<td>1,970,000</td>
<td>5.5%</td>
<td>170,000</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

**Notes:**
1. Calculations based on various reports of the Ministry of Industry, and HVN.
2. Sale of HVN’s products only, imported Honda products are not included.
3. The first FDI in motorcycle manufacturing was the 100% foreign owned project of Ching Fong Group, a Taiwanese conglomerate. It received its investment license in 1992, and started production in late 1993.
4. Motorcycles originating from China account for approximately 86.5% of the Vietnamese market.
international brands (Honda, Yamaha, Suzuki, SYM of Taiwan, Piaggio) which are assembled locally with many imported components, or are imported as whole machines. Honda has enjoyed the lion’s share in the Vietnamese market, even though recently it has been seriously challenged by cheap locally-assembled motorcycles using imported components from China, as illustrated in Table 10.1. A jump in usage of motorcycles in recent years has illustrated the high demand-elasticity of price.

The industry has been protected by a high tariff on motorcycle imports. As a result, until 2000, the domestic price had been at about 1.5 times higher than the price of similar models in Thailand. The import of components is regulated by a sliding scale of duties linked to the assemblers' fulfilment of ‘local content’ conditions (Fujita 2003). Transportation costs or other natural barriers to trade do not seem to have much effect on this industry.

**The Investor**

Honda Vietnam is a joint venture between Honda Group and Vietnam Engine and Agricultural Machinery Corporation (VEAM). Honda Motor Co., Ltd. is the ultimate parent of all Honda subsidiaries throughout the world. It was established in Japan on September 24, 1948, and now has its office in Tokyo, Japan. Its main operations are the manufacture, sale, lease, and repair of motorcycles, automobiles and power products. The company is one of today’s leading manufacturers of automobiles and the largest manufacturer of motorcycles in the world. By the end of March 2001, the company had a global network of 434 subsidiaries and affiliates, including 118 production facilities in 31 countries. In the financial year ended 31 March 2001, Honda Motor Co., Ltd. and its subsidiaries employed 114,300 workers, had total assets of US$ 45,741.8 million (including long-term debt and stockholder’s equity), net sales of US$ 52,169.7 million, a net income of US$ 1,874.4 million or 3.6 per cent of sales, and an R&D expenditure of US$ 2,847.7 million (Honda, 2001).

Asian Honda Motor Co., Ltd., is a 100% Honda owned operation in Thailand. It was established in 1964. In 1996, Asian Honda Motor Co., Ltd. became the ASEAN regional headquarters and took responsibility for the coordination of operations of subsidiaries, and the import and distribution of Honda products throughout the ASEAN region. Honda’s Thai operations are still the largest in Asia outside of Japan, encompassing R&D, production and sales of motorcycles, automobiles, power products, and parts and accessories.

**Motive for Entering the Country**

The entry of Honda into Vietnam might be seen as a result of several forces, one of which is the size of the Vietnamese market. With a population of 74 million people and the motorcycle as the main transportation means, Vietnam
is definitely an attractive market. However, this alone was not enough to justify the entry, because, given low transportation costs and similar conditions in the region, Honda could have effectively exploited the market by importation, as it had already been doing for a long time.

The second factor that had an impact on Honda’s investment in Vietnam is the protection of the local market. A 60 per cent tariff rate applied on imported complete motorcycles is an effective incentive for a market-seeking FDI project. The third factor was the other attractive incentives that the Vietnamese government offers foreign investors with ambitions to develop the local automobile and motorcycle industry. Honda Vietnam Co., Ltd, for example, was granted a four year corporate income tax holiday, followed by a further four years at half the normal rate, and after 15 years of operation, a rate stabilised at 25 per cent.

**Characteristics**

The motorcycle manufacturing industry is considered a mature industry. With advancement in engine technology as the most important in the industry, and advanced engineering capability to meet demands of escalating safety restrictions and environmental regulations, the industry has been improving at a rapid pace. R&D expenditure in all business segments of Honda has been around 5.5 per cent of net sales during the last 10 years. In the financial year ended March 2001, expenditure for R&D in the motorcycle segment alone was about 8 per cent of motorcycle sales worldwide.

With a ‘market-in approach’, which is (1) understanding each local market and (2) tailoring products to local needs, Honda has developed its five regions global strategy. The traditionally centralised R&D and engineering activities in Japan are now distributed amongst the main regions (Japan, North America, Europe, and Asia) to produce products that meet the local needs.

Advertising is an important activity in marketing Honda’s products. However, the motorcycle industry is not considered to be advertising-intensive. We do not have any reliable estimate of Honda’s advertising expenditure at this time.

**Experience**

Honda has been in Asia since 1964 with the establishment of Asian Honda Motor Co., Ltd., in Thailand. Since then, Honda has developed a comprehensive business in the region, making Asia one of five strategic regions in its global strategy. The Asian operations of Honda cover a wide range of activities, including R&D (just recently in 1997), production and sale of motorcycles, automobiles, power products, and parts and accessories. For motorcycles alone, Honda has 14 motorcycle production sites in 9 Asian countries, with a combined annual production of about 3 million units.
In 1996, the Asian Honda Co. in Thailand became Honda’s headquarters for the ASEAN region. Its function is to support and oversee the strategic development and operations of all Honda operations in the region. Given a long-term serving of the Vietnam market from its production bases in Thailand, Honda has used its experiences in Thailand in applying production technology, product designs, and quality control methods in Vietnam.

With regard to mode of entry, the joint venture is typical of Honda (but not dominant) in Asia (rather than in the Pacific), while 100 per cent ownership is typical in North America, Europe, South America, and Japan. We do not know at this stage, however, if 100 per cent ownership is by means of M&A or of greenfield investment. The difference in mode of entry in Asia is probably due to regulations of the governments in the region, where joint ventures are more welcome.

**Vietnamese Local Partner**

The local partner in Honda Vietnam Co., Vietnam Engine and Agricultural Machinery Corporation (VEAM), owns a 30 per cent share in the joint venture. VEAM is a State General Corporation that was set up in 1995 by merging (simply combining) activities of 15 individual State-run production/research units. The corporation is under control of the Ministry of Industry. The Prime Minister assigns the General Director, the Minister of Industry assigns the Vice-General Directors, and the Minister of Finance assigns the Head Accountant.

VEAM's enterprises stretch all over the country and produce various things like multi-purpose engines, agricultural machinery, tractors, automobiles, motorcycles, equipment for on-land and water transportation. By 2002, it employed about 7000 workers. It is also the local partner in some joint ventures with foreign investors such as Toyota, Suzuki, and Ford amongst others.

The main contribution of the local partner in Honda Vietnam Co. is property in terms of land-use rights, and its political position in the machinery industry. Informal regulations of this sector have changed over time. In the early 1990s, with the Government objective of attracting foreign investors into the automobile and motorcycle industry, few FDIIs were allowed to take the form of 100 per cent foreign-owned. Later on, joint venture with Vietnamese enterprises was effectively the only choice for FDI in this sector. In this circumstance, VEAM emerged as the most politically suitable partner.

It is also a surprise that none of the 15 subsidiaries of VEAM could become a local parts-supplier to the joint venture. In fact, the joint venture has developed business relationship with other local producers for their components supplies.
Cultural Distance
Even though Japan and Vietnam are both in Asia, and both are influenced by Buddhism, their culture, tradition, and language are very different. However, the Japanese managers who currently work at Honda Vietnam do have some experience of working in the region. Regardless of all the differences, Japan is still amongst the top foreign investors in Vietnam, and is seen by many policy-makers as a major source of technology transfer.

Performance
Honda Vietnam Co. is considered to be a profitable FDI business in Vietnam. By the end of 2000, protected by a high tariff rate and efficient sourcing policy, Honda’s accumulated production reached 339,000 units, and its accumulated profit was about US$ 65.8 million. HVN took just 15 months to reach its first 100,000 units of production, a further 11 months to reach 200,000, and only seven more months to reach 300,000 units of cumulative production. By that time, HVN had identified itself as the country’s largest motorcycle producer. In general, the FDI has fulfilled the expectations of the investors in terms of its original objective.

Counterfactual
If this joint venture had not been established, Honda would have found another local partner to implement its entry plan. As for the current local firm, it would have survived with subsidies from the Government, as many other State companies have.

The entry of Honda into Vietnam has created many changes that have had a great impact on the Government’s policy towards the motorcycle industry. So there is reason to believe that some actions of public sector institutions would have been different if Honda had not entered.

The Entry
Honda Vietnam Co. was legally established in March 1996 with legal capital of US$ 31.2 million. This is a joint venture in which Honda Group owns 70 per cent (42 per cent Honda Motor Co. and 28 per cent Asian Honda Motor Co.) and the Vietnamese partner owns 30 per cent. This rate allows Honda to have managerial control in the operation of the joint venture. On the management board, the Japanese side holds the post of General Manager and the Vietnamese side holds the post of Vice-General Manager.

HTM is located in Phuc Thang Commune, Me Ling District, Vinh Phuc Province, about 30 kilometres from Hanoi. This is essentially a greenfield project in which Honda takes the leading role. Legal capital of the joint venture is US$ 31.2 million, of which the Vietnamese partner contributes the
value of the land-use right, and the foreign partner contributes capital funds. Design capacity of HTM is 450,000 units/year and this is in line with the registered investment of US$ 104 million. By 30 October 2001, the accumulated investment was about US$ 134.4 million. By January 2002, HVN had 1,143 workers and a capacity of 450,000 units/year. By April 2002, it reached the capacity of 600,000 units/year with about 2,000 workers, a dramatic growth curve.

**Resources of the New Venture**

As a typical mechanical factory, manufacturing, assembling, and testing the final products requires a large area of land and an appropriate building configuration. Appropriate and reliable machinery, especially testing equipment, is also important to maintain consistent quality and safety. In the motorcycle business, a manageable distribution network is important, because the distributors are not only the sales outlets, but also the service centres where customers can obtain after-sales services.

Concerning intangible resources, technology, brand name, managerial know-how, business relations, and motorcycle culture are all-important but for different reasons. Technology helps to attain product quality, as well as cost control. Even though there is nothing advanced in the technology to make standard motorcycle models, technological know-how, managerial know-how, and practical experience (reinforcing specific technology) are needed to obtain a consistent level of high quality and reliability.

Business relations are also vital for the new venture. The operation of Honda Vietnam Co relies heavily on the Honda procurement-network in the region. This network has enabled HVN to become successful in a relatively short time. The establishment of HVN also brought with it many foreign parts and accessory makers into Vietnam, creating an array of satellite companies around HVN. Without strong business relations, Honda would not have been able to do this.

Honda has contributed almost all the resources necessary for the operation of the new venture and the local partner contributes only land and some political connections. Construction of HTM was also carried out in accordance with the development plan and engineering works of Honda. HVN is set to go through several phases, starting with assembling standard models with some parts produced and sourced locally, and sophisticated components (such as entire engines) sourced from overseas. It will then move up, producing these sophisticated components in Vietnam. Resource transfer is part of this development strategy.

Concerning the machinery and production-line structure, by the end of 2000 HVN had developed this structure with six production workshops, as follows:
Concerning the product range and quality as mentioned in the above sections, HVN started production with the ‘Super Dream’, and later the ‘Future’, a sports-type model. These models were both designed in Thailand and their quality was equivalent to similar models produced in Honda’s Thai factories. Their prices were also close to similar models imported from Thailand.

Facing challenges from cheap Chinese motorcycles, which were copies of the Honda products, in January 2002, HVN launched its Wave Alpha model, which was priced about 20 per cent higher than the Chinese ones, but perceived by Vietnamese customers as having superior quality.

So far, the technology transferred has been process technology, which means equipment and skills to operate and control the production-process smoothly. Product technology has not been transferred fully, since design and product development capacity is centralised in Honda R&D South East Asia Co., and Honda’s factories located in Thailand.

The above-mentioned process technology is being transferred mainly through staff training. Before starting production, HVN had built up a core staff comprising engineers and technicians whom they sent to Japan and Thailand for training. There were six-month courses for production-line managers and three-month courses for managers at lower levels. In total, 100 people had this type of training. Once the production commenced, Honda sent its supervisors overseas on a regular basis to gain guidance in production activities.
Besides overseas training, on-the-job training has been in use since the start of operations in the form of short training courses provided by Japanese lecturers. This type of training aims at specific or problematic issues arising in the operation of the new venture. The training curriculum is based on the Honda Foundation Course, a programme used within Honda only. Teaching methods include classroom lectures, role-plays, scenario building etc.

The above training is not restricted to technical issues, but also managerial and marketing issues. Here again, the typical formula is overseas training plus in-house training and on-the-job training as well as supervision and guidance by foreign staff. In the charter of the joint venture it is clearly written that in the long term, Vietnamese will eventually replace positions currently held by Japanese professionals. However, some Japanese managers say that it might take at least 10 years to complete this process, whereas Vietnamese staff in the company have a more optimistic outlook on this.

A general problem in Vietnam during its transition period is the shortage of managerial and technical skills. The market for raw materials and intermediate inputs is much more developed. As discussed earlier, given the ambition to develop the automobile and motorcycle manufacturing industry in Vietnam, the Government requires motorcycle assemblers (both FDI and domestic firms) to use some proportion of components made locally. The higher the local content, the lower the import duty rate for imported inputs. This ‘local content’ rate is required to increase steadily over time. In order to enjoy a better import duty rate, Honda has therefore focused on sourcing components locally, and this, in turn, has helped develop the local input market. By the end of 2001, Honda had localised more than 60 per cent of the two models, Super Dream and Future. The local content of Wave Alpha, the newly launched model, is targeted at an even higher level of localization.

By 1997, the FDI policy environment was quite favourable. However, in the case of motorcycles, there were some extra requirements, as well as incentives, in accordance with the ‘local content’ policy.

Regardless of the 30 per cent ownership held by the local partner, Honda keeps the leading role in this greenfield project. So far, there is not much said about integration of the local partner with the foreign partner in this case. As mentioned earlier, other subsidiaries of VEAM have been unable to obtain any supply contracts from Honda.

Post-Acquisition Development

The operation of Honda Vietnam relies heavily on the company's production network in the region. Its product designs and engineering works all originate from Thailand. The technical staff are also from other Honda operations in the region, many important components are sourced from Honda's affiliates or suppliers in the regions.
The entry of Honda into Vietnam had a dramatic impact on the development of the motorcycle industry. In order to meet the targeted rate of local content (so as to enjoy a lower rate of import duty for imported components), HVN had to develop a network of suppliers in Vietnam. This network is made up from domestic suppliers who have been selected by, and received technical support from HVN, and other FDI enterprises that in many cases are suppliers to Honda within the region. At the moment, Honda has about 20 local suppliers, of which 13 are Japanese firms who set up in Vietnam solely to serve Honda, a firm based on Thai investment that had been assembling Honda products before Honda came to Vietnam, and six domestic firms. Honda itself has entered into two more joint ventures with other local partners to produce motorcycle parts.

The process of seeking local domestic suppliers had an important impact on the awareness of many local domestic firms. By negotiating with Honda, they have learned a great deal about quality requirements and control, and management skills and philosophy. Those who failed to become suppliers to Honda learned, the hard way, how and why they had failed in their attempt to gain the prestige and profit the role would have earned them. Those who succeeded have improved greatly in the process of meeting the demanding requirements of their client. In many cases the link to Honda proved to be a valuable source of technical support and enlightenment.

The entry of Honda also changed the competitive behaviour in the local market. First, the importation of similar standard models from Thailand has been replaced by the importation of more expensive models aimed at the higher-end of the market. Secondly, Yamaha and some other assemblers also entered the market, making countrywide competition even more intense. Thirdly, the high price set by FDI firms (Honda is the most noted for this) has created opportunities for low-priced units to enter the market. Thus the emergence of so called ‘Chinese motorbikes’ (as most of the components are made in China) with prices which range from half to a third of that of Honda’s standard products.

In responding to the challenge of these ‘Chinese bikes’, Honda launched its new model ‘Wave Alpha’, which is priced at about 20 per cent above the Chinese units. Very quickly after its launch, the new model gained a significant share in the low-end market. Many people had to wait in turn to buy one. Wave Alpha became a real threat to local assemblers who, so far, had enjoyed the surge of ‘Chinese bikes’ by assembling only those models. They fought back by criticising Honda, saying that they had used too many ‘Chinese parts’ in their new model, and that Honda had manipulated the local content rate for low tax benefits. The debate brought about an investigation by the Government, and the situation has become problematic.

After its investigations the Government realised that the ‘local content policy’, with its ambiguous method of calculation, is a paradise for rent-seeking activities and smuggling. Within the Government, ministries blame...
each other, and some corrections ensued. However, correction of a problem of this sort often creates new problems. As a result, years 2001 and 2002 showed repeated changes in regulations promulgated on the motorcycle industry. This created an unpredictable policy framework that led to considerable irritation among foreign investors (Fujita 2003). Honda, for example, at some point had to stop its operation for six months to wait for clearance from the Government on a particular issue. In 2003, 'local content policy' based on tax incentives is being eliminated.

Concluding Remarks

Market seeking or 'Jumping over the tariff' has initially been the main objective of Honda's investment in Vietnam. It started mainly with simple assembly operations and the production of some non-critical components, then moves up the value chain. Joint venture with a politically strong local company was the most suitable choice at the time Honda entered Vietnam.

Honda's operation in Vietnam has created a network of suppliers and thus has a strong spillover impact on the motorcycle industry. Standard equipment and training is critical in maintaining the quality of Honda's products. With an established reputation for quality, the affiliate enjoys high growth and profit.

The local partner is weak in exploiting its position in the joint venture with Honda and the evidence is that its enterprises have failed to become suppliers of Honda Vietnam. The affiliate is effectively under the full control of Honda.

References for Vietnamese Case Studies

Fujita, Mai (2003): Foreign direct investment and industrialization in Vietnam: New developments and remaining issues, mimeo, National University of Singapore and JETRO.