

"Project Formulation Survey" under the
Governmental Commission on the
Projects for
ODA Overseas Economic Cooperation
in FY2012

Summary Report

Cambodia & Vietnam
Marketing Research for High Quality
Hand Tools in Cambodia & Vietnam (Ho
Chi Minh area)

March, 2013

Ministry of Foreign Affairs of Japan

Joint Venture of Top Kogyo Co., Ltd and
Japan Economic Research Institute, Inc.

This report is a summary of a project formulation survey conducted by the contractor, under the Governmental Commission on the Project for ODA Overseas Economic Cooperation, commissioned by the Ministry of Foreign Affairs of Japan in Fiscal Year 2012. It does not necessarily represent the official views of the Ministry of Foreign Affairs of Japan.

Introduction

In Vietnam and Cambodia, demand for engineers, technicians and skilled labor has been increasing rapidly in line with the increase of setting up of FDI enterprises centering on Japanese enterprises. However it is claimed that the supply of such human resources in local labor markets is still very much limited. To get rid of such constraints, it is the first necessity to raise the skills of local labor through enhancing vocational training by giving practical training opportunities. It is also necessary to introduce technical education in secondary education, together with strengthening supports for practical research and development activities in higher education.

Japanese enterprises, SMEs in particular, have been suffering from stagnant demand in the market and lowering of profitability because of continuing appreciation of the Japanese yen. Under such circumstances, the Japanese government announced a policy to enhance SME's initiatives to find new trade partners abroad or invest abroad aiming to solve the development needs of developing countries together with supporting Japanese SMEs to find trade opportunities in abroad using ODA assistance scheme.

This research and marketing project was planned by the joint venture formed by the Top Kogyo Co., Ltd. (hereinafter Top Kogyo), president company of the All Japan Machinist Hand Tools Manufacturers Association, with the participation of the Maruto Hasegawa Kosakujo Inc., president company of the Niigata Hand Tool Cooperative Association,, and with the assistance of the Japan Economic Research Institute, Inc. (JERI), 100% filial research and consulting company of the Development Bank of Japan.

I. Description of the current situation and development needs of the development issues concerned in the surveyed countries

Although demand for engineers, technicians and skilled labor has been rapidly increasing in line with the increase of FDI companies including Japanese enterprises in Cambodia, it is claimed that the supply of such human resources is limited and far smaller than demand. This has hampered possible growth of economic activities in the country.

In this connection, the government of Cambodia gives high priority to supplying more skilled local laborers within the framework of the so-called "rectangular development strategy."

In the meantime, in Vietnam where infrastructure is advanced farther than in Cambodia and the supply of human resources is also better than in Cambodia, the government has been emphasizing the establishment of supporting industries. In this connection, FDI by SME enterprises that could produce intermediary goods and parts with expertise to leading industries is very much desired together with laborers with higher skill and expertise.

II. Possible applicability of the SME's products and technologies, and prospects for future business development

The survey team started this research and marketing project to identify the practical opportunity to establish a trade partnership with Cambodia and/or Vietnam. Top Kogyo is aiming to realize “win-win cooperation” between Japan and Cambodia/Vietnam by supplying high quality hand tools and trainings to local vocational training institutes as well as its production knowhow of producing high quality hand tools in counterpart countries in the future.

Member companies of the Niigata Hand Tool Cooperative Association (hereinafter the Association), SMEs with capability of producing high quality hand tools, have been suffering from stagnation of their sales and decrease of profit caused by the continuous appreciation of the Japanese yen, and are looking for means and opportunities to increase trade partners and clients in overseas markets. Under such circumstances, the Japanese government announced last year a policy to assist Japanese SMEs to find trade partners in overseas markets as well as to assist in their investment abroad.

It should be noted that in the Sanjo-Niigata area, three sectors (industrial sector, academics and local government) have been closely cooperating to support the development of local industries centering on high quality hand tools production (Tri-party cooperation scheme). The survey team strongly believes that sharing such know how and experiences in Sanjo-Niigata with counterpart countries could contribute much to the development of local industries in the counterpart countries. Top Kogyo will serve as an intermediary body between related organizations together with the Association to share such know how.

Expected approaches taking the merits of ODA assistance are as follows:

In Cambodia:

- 1) Establish a special corner in the Cambodia-Japan Cooperation Center (CJCC) to introduce the key elements of “Monodukuri in Sanjo-Niigata, Japan” the core elements of the expert technology being used for producing high quality hand tools in Sanjo City. Dispatch an expert to explain “Monodukuri” spirit and the merits of using high quality hand tools, introduce the expert technology being used for producing high quality hand tools, organize seminars, and give model trainings in such organization as National Polytechnic Institute of Cambodia (NPIC) and National Technical Training Institute (NTTI) in collaboration with Ministry of Labor and Vocational Training (MOLVT).
- 2) Introduce so called “Tri-Party Cooperation Scheme”, methodology and knowhow accumulated for years in Sanjo area, to MOLVT and its leading training institutions for the sake of local SME development, using technical assistance scheme of JICA.
 Note: “Tri-Party Cooperation Scheme” for local SME development is a scheme which invites universities and vocational training institutions to closely cooperate with business sector, especially local SMEs, with the assistance of local government. This scheme worked as an engine of the local SME development in Japan. Sanjo City is one typical model area that has been implementing this scheme successfully.
- 3) As a medium- to long-term approach, consider assisting Ministry of Education, Youth & Sports (MOEYS) with the assistance of JICA for introducing technological education in secondary education and supporting the initiative of the Ministry of Industry, Mines and Energy for selecting a model enterprise to level up the skill and quality of products of a selected industry, for example repairing and maintenance service of auto repair industry, in the future.

In Vietnam:

- 1) Have technical cooperation with a local company operating in Ho Chi Minh area for technical guidance, OEM production, consignment sales etc., aiming at expanding overseas market.
- 2) In parallel with the above, deepen exchanges at the local government level with a selected province (Binh Duong province, Ba Ria-Vung Tau province, etc.) which could be considered as potential investment destination when some companies in Sanjo might consider direct investment in Vietnam in the future.

III. Expected development impact and effect on business development of the proposing SMEs in the surveyed countries through proposed ODA projects

Expected development impact and effect on local business will be as follows:

In Cambodia:

- 1) Cambodian entrepreneurs are more interested in the high-quality of products and efforts for skill up by local business people will be enhanced.
- 2) Awareness of product quality by laborers will be heightened and the quality of products by local producers will be improved and local employment will be increased.
- 3) “Tri-party Cooperation Scheme” will be introduced in the counterpart country.
- 4) The capacity of Cambodian vocational training institutes will be enhanced, human resource development is enhanced and the number of engineers and technicians who receive more practical training will be increased.
- 5) In the future, technological skill of local companies will be heightened and supporting industries will be set up. Thus the local content rate of FDI enterprises will be increased.

In Vietnam:

- 1) Product quality of the counterpart enterprise will be enhanced and exports and sales of both business partners will be increased.
- 2) Cooperation relationship between the two local authorities will be enhanced and exchange of personnel, including student scholarship and cultural exchange, will be started and increased. As a result, business activities in both areas will become more active.

Whereas in Japan side the proposing company will enjoy not only an increase of demand for high quality hand tools and increase of profit but also an increase of internationally active human resource in the company which will strengthen the corporate governance and international competitiveness.

IV. Proposals for formulating ODA projects

Proposed ODA projects to realize the objective of establishing “win-win cooperation” are as follows:

In Cambodia:

- 1) Dispatch an expert to CJCC and establish an exhibition corner to introduce “Monodukuri” spirit/activities in Sanjo/Niigata, Japan. The expert will make lectures at vocational training

institutions, organize seminars to promote wider understanding among Cambodian entrepreneurs, business people and students on the importance of product quality, keeping and heightening the level of quality. The expert will establish a website which is linked to member companies of the Niigata Hand Tool Cooperative Association, through which actual business contact may be facilitated.

- 2) Supply technical assistance on policy planning and management to introduce the “Tri-party Cooperation Scheme” for the development of local industry, based on partnership agreement between MOLVT and Sanjo City for implementing the cooperation. The project activity includes introducing “Tri-party Cooperation Scheme”, conducting a model case cooperation between leading training institutions under MOLVT and related parties in Sanjo City, and making programs for future adoption of the “Tri-party Cooperation Scheme” by the counterpart institutions by themselves. The project will be conducted by dispatching experts from Japan, organizing training courses in Japan and in Cambodia, supplying necessary equipments (including high quality hand tools) to counterpart organizations to give immediate practical experience to the Cambodian counterpart organization.

In Vietnam

- 1) The survey team found a certain Vietnamese enterprises as business partner candidates of the member company of the survey team, and will seek the opportunity to enhance the relationship between the two companies. As this approach will be more business oriented, utilization of JICA’s assistance scheme is not expected at this point. However, Technical Intern Training Program of Japan International Training Cooperation Organization might be utilized.
- 2) In the course of exchanges with a certain province in Vietnam, if some companies of the Association begin to consider direct investment in Vietnam in the future, sharing Sanjo City’s knowhow of the Tri-Party cooperation scheme (through technical assistance of JICA) could be considered in order to establish a basis to support Japanese FDI operation in the province selected as potential investment destination.

Attachment: Outline of the survey

1) Period of the survey:

1st survey: November 29 – December 11, 2012

2nd survey: January 20-January 31, 2013

3rd survey: February 13-February 23, 2013

2) Places where the survey was conducted:

Cambodia: Phnom Penh, Kampong Thom Province and Sihanouk Ville SEZ

Vietnam: Ho Chi Minh City, Binh Duong Province, Dong Nai Province and Ba Ria Vung Tau Province

3) Members of the survey team:

Team leader: Shuji Yokoyama, Managing Director, Top Kogyo Co., Ltd.

In charge of Market research: Tadashi Hasegawa, Chairman of the Board, Maruto Hasegawa Kosakujo, Inc.

Project manager: Hisatsugu Furukawa, Senior Consultant, JERI

In charge of Education/ Vocational training: Yumi Ito, Chief Research Analyst, JERI

In charge of Business Model Development: Yoshiyuki Oba, Senior Consultant, JERI

Type (Project Formulation Survey)
Marketing Research for High Quality Hand Tools
in Cambodia & Vietnam (Ho Chi Minh area)

SMEs and Counterpart Organization

- Name of SME: Top Kogyo Co. Ltd.
- Location of SME: Sanjo-city, Niigata Prefecture, Japan
- Survey Site • Counterpart Organization: MOLVT in Cambodia; Local government in Vietnam (Ho Chi Minh area)

Concerned Development Issues

- Cambodia
- Increasing demands for engineers, technicians and skilled labor
 - Need to develop SME in local area
- Vietnam
- Strong needs for development of local supporting industry whose products could satisfy quality requirements of FDI enterprises

Products and Technologies of SMEs

- High quality hand tools together with
- Training & HRD by sending experts to C/P organizations and receiving trainees in Sanjo-city & Niigata Prefecture
- Transfer of management system and knowhow of tri-party cooperation scheme to develop local SME

Proposed ODA Projects and Expected Impact

- Grant aid for supplying high quality hand tools sets and sending trainers/engineers to vocational training organizations in Cambodia to enhance HRD
- Transfer knowhow of tri-party cooperation scheme implemented in Sanjo-city using Grass Roots Technical Assistance scheme (based on the Proposal of Local Authority)

Future Business Development of SMEs

- Increase of exports in short-term and FDI investments in the middle and long-term



* Prepared when this study project was started in Nov. 2012.