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## Investment and Technology Issues for the Automotive Supporting Industry in Vietnam

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### Abstract

Currently, the automobile industry of Vietnam has continued to develop, contributing to the industrialization and modernization of the country. According to the assessment, the country has over 400 enterprises involved in automobile production with Medium and small scale, with a total designed capacity of about 460,000 vehicles per year, including most types of cars, trucks and coaches. The automotive industry has produced products of international standards. The domestic market has more automobile products, with increasingly diverse models serving the needs of the people. Vietnam has about 200 companies producing parts and accessories for automobiles, but only half of them are really efficient for manufacturing and assembling automobiles. Moreover, the majority of automotive components manufactured domestically come in the form of simple, low value technology, mainly used for trucks and coaches. Therefore, to develop the automotive industry, investment in supporting industries will be indispensable.

**Keywords:** automobile industry, industrialization and modernization, supporting industries

### Introduction

With the goal of bringing the automotive industry to Detroit in Asia, Thailand has 2,500 parts manufacturing companies, of which nearly 400 manufacturers specialize in cast or forged castings. This made Thailand step by step localization of spare parts has shifted to export both cars with components are produced in place. As early as 1996, the Thai government made detailed regulations on localization rates, with a localization requirement of 40% for small trucks, 54% for other trucks, and diesel engines. Produced locally. At present, once the foundation of supporting industries has been met, Thailand has a policy of forcing foreign investors to stabilize their production. On. This has made foreign investors not only have more investment projects to expand production facilities on the spot, but also dragged many businesses and corporations from their own country to invest in Thailand. To open more supporting industry facilities. Currently, Thailand is leading ASEAN countries for supporting industry development.

In Vietnam, according to experts, depending on the ability of each enterprise that can be divided into 3 support industry groups

Group 1 is, the automobile manufacturing and assembling enterprises themselves invest in machinery and equipment to produce their own parts and components in automobiles. Currently there are 56 enterprises operating in manufacturing and assembling automobiles in Vietnam on all types of vehicles. These enterprises often choose to invest in the production of some large size components or mechanical parts with low precision requirements, such as truck body, exhaust manifold, some details Simple interior and exterior trucks and coaches.

Group 2 is a system of local manufacturing establishments, with the majority of them being mechanical, rubber, plastic, electric and electronic (pre-existing) businesses. As the automobile industry emerges and develops, these companies have developed new products, such as automotive components and parts.

However, the common characteristic of this group of enterprises is the lack of proper investment in depth. As a result, the quality of products is unstable and the competitiveness is not high yet, creating trust among assemblers. Most notably in the development of

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supporting industries is the presence of group 3, with FDI enterprises. Being the long-time acquaintances of well-known brands in the world automobile industry, many enterprises come from Japan, Taiwan, Korea and China invested in Vietnam at the invitation of manufacturers, international automobile production.

However, the size and capacity of FDI suppliers are not large, as most of them are small and medium enterprises, not only producing automobile components, but also producing a wide range of products. Other. But these businesses almost exclusively produce their own traditional products, rarely following the orders of assembly plants, because of the small output. A representative of Truong Hai Auto Company (Thaco), which is trying hard to improve the localization rate of automobile parts by many roads, said that Vietnam's supporting industry is very weak compared to Vietnam. With foreigners. In comparison, Vietnam's supporting industry is only one-fifth compared to Indonesia, 1/8 compared to Malaysia and 1/50 compared to Thailand. In addition, due to the international competitiveness of the automobile supporting industry, the automobile industry in Vietnam has to import a large quantity of components and accessories every year, nearly \$2 billion.

Assessing the current state and future of the automobile and automobile parts industry in Vietnam, Prof. Kobayashi Hideo of Waseda University of Japan said that the automobile industry in Vietnam has the number of automobiles produced. , the lowest number of cars consumed by ASEAN. This is the biggest reason leading to the auto parts industry not developing. Thailand is at the forefront of car manufacturing; Malaysia maintains 800,000 cars a year, while Vietnam only produces 250,000 cars a year. According to Prof. Kobayashi Hideo, Vietnam has not had a history of developing the auto industry since the 1990s - Vietnam started producing motorcycles with 5 million units a year. , has now increased to tens of thousands of units / year. Meanwhile, these years were the period when all ASEAN countries shifted from industrialization to import substitution to export-oriented industrialization, so there was no opportunity for the development of the accessories industry. Thus, Vietnam's automobile industry has to develop domestically while seeking solutions to compete with imported vehicles from other countries. In addition, Vietnam's automobile parts manufacturing sector starts with the manufacture of motorcycle parts. According to statistics, from 1986-1999, when Vietnam changed and joined ASEAN, Vietnam has 33 enterprises, mainly enterprises manufacturing components CKD. In the second phase (2000-2002), cheap Chinese motorbikes spilled into Vietnam, increasing the number of cars from 5,000 to 15,000 per year.

Phase 3 (2003-now) the number of enterprises producing motorbike and automobile components increased rapidly with 162 enterprises, but still very young. The number of foreign-invested enterprises producing automobile parts is about 80 enterprises, of which the majority are enterprises with investment capital from Taiwan, with 43 enterprises; South Korea 10 enterprises ... mainly companies are assembling motorcycles, with 50 enterprises, these companies are inclined to provide both parts for cars. Particularly for Japanese companies mainly supply parts for cars. According to experts, the enterprises of automobile parts in Vietnam have the technical ability to accumulate in

the production of motorcycle components, the company has produced motorcycles, but the enterprises have absolutely. The ability to switch to the manufacture and supply of automotive parts. Therefore, it is necessary to create conditions for motorcycle component manufacturers to shift to manufacture parts for both motorcycles and cars. However, the automotive parts industry needs to overcome limitations, such as: technical issues, the development of training mechanisms to improve measurement techniques, quality management skills, management produce. In terms of business, the shift to the automotive sector on the basis of promoting the production of motorcycle parts is an advantage for Vietnam to develop. Countries develop the automobile market through market development. At present, the ASEAN Economic Community has been set up, Vietnam needs to think through challenges, including the reduction of import tax on imported CBU cars and parts after 2018. Sharing with Vietnamese enterprises about the orientation of automobile industry development in Vietnam in the coming time, JICA representative said that JICA has implemented many support programs for Vietnam in the past time. There is support for the development of the automobile industry, increasing the localization rate for enterprises. In 2018, Vietnam will integrate more deeply into the region, reduce taxes on many imported cars, and more cars will be imported into Vietnam. This will be one of the pressures on the assembly and production of cars in Vietnam. However, with the development of transportation systems, with many expressways, the demand for cars of the Vietnamese people will grow. Currently, ASEAN provides only 20% of imported vehicles into Vietnam, but after 2018 when the tariff reduction, car imports from ASEAN is expected to increase sharply. However, according to experts' assessment, although the size of Vietnam's market is small but has the potential to grow, it is attractive to investors in the field of automobile and automobile parts. . FTAs will open up the opportunity to shorten the localization route for parts, and businesses will take advantage of the opportunity to export and participate in global supply chains.

### **Solutions for supporting industry development**

The lack of consistency in the selection of strategic vehicles of recent VAMA members shows the fact that the business is strong nowadays. Each person has a direction, a particular strategy. Vietnam market is small but many models, types of vehicles. This is the biggest defect of the industry and of the business. According to Ngo Van Tru, deputy head of the Department of Mechanical, Metallurgical and Chemical (Ministry of Industry and Trade), a further danger to domestic automobile enterprises is their scattered investment. There are domestic companies investing 40-50 billion VND to assemble cars, while other difficult stages, such as static painting, are rented. Said Mr. Mitsuo Sabaka, Ambassador of Japan to Vietnam. According to this analysis, due to commitments in the ASEAN Free Trade Area (AFTA), 10 years later, almost all products from ASEAN countries will be exempt from import duty. As for cars, the import duty will be reduced to 0% by 2018. And so, many of the manufacturing companies operating in Vietnam will be forced to choose the strategy of continuing production in Vietnam or importing. And sell products made in other ASEAN countries. However, how to develop supporting industries

is not a simple matter. According to the experience of neighboring Thailand, it takes 15 to 20 years to create a strong supporting industry. In Vietnam, in July 2007, a master plan for the development of the supporting industry was approved.

But according to experts, the specific plan of action, like who do, when to do, what to do to implement this plan is still unclear. Mr. Sabaka said that at that time, Vietnam was not aware of the urgency of supporting industry development and policy content, spreading in many aspects, so there is no single agency. Which ministry is responsible for? An expert on the automotive industry has given advice worth pondering. About two things that the Vietnamese automobile industry needs to do. One is to have at least one business that is really strong and outstanding enough to "set an example" for other businesses, and that businesses need to be linked together, especially between local firms business. In Notice No. 133 dated March 14, 1977 by the Office of the Government on the conclusion of Deputy Prime Minister Trinh Dinh Dung at the meeting on the situation of automobile import, Deputy PM asked the Ministries Relevant stakeholders, according to their functions and tasks, to accelerate the deployment of solutions to develop supporting industries for the automobile industry, continue proposing the Prime Minister to amend, supplement and promulgate new Mechanisms and policies to promote the development of supporting industries, especially for large investors, leading enterprises. Accordingly, the Deputy asked the Ministry of Industry and Trade to chair and coordinate with the relevant agencies to set up an interdisciplinary working team to comprehensively evaluate the Vietnamese automobile market in relation to the regional and world markets. , focusing on assessing the opportunities and difficulties and challenges for the automobile assembly and assembly industry in Vietnam from 2018 onwards (especially when special preferential import duty rates ATIGA reduced to 0% for complete cars). In addition, domestic and regional automobile supply and demand forecasts, actual capacity assessment, potential development of domestic automobile assembly and assembly, and adaptability of domestic enterprises to the environment. The competition is increasingly fierce as Vietnam continues to open markets and reduce tariffs on imported cars in line with international commitments. Study on the possibility of applying commercial safeguard measures when imported cars increase dramatically and significantly affect domestic production. Deputy Prime Minister also assigned the Ministry of Finance to assume the prime responsibility for, and coordinate with concerned agencies in, tightly managing the dutiable value of origin of imported cars (especially satisfying the origin criteria of ASEAN) in order to ensure compliance with the provisions of law on taxation, trade fraud and international commitments. The Ministry of Finance also studies the re-evaluation of special consumption tax and registration fees for pick-up trucks to propose to the Government and the National Assembly for timely supplementation and adjustment. The actual fit and purpose of this vehicle. The Ministry of Finance is responsible for reviewing and studying the report of the Government to consider and adjust the most favored nation's preferential import tax rates for automobile components and parts in line with the Government's orientation on incentives To develop the

production of important automobile parts and accessories which can be produced domestically, taking into account the correlation with the reduction of import tax on complete automobiles under international commitments. At the same time, to review the tax policies on second-hand imported cars so as to promptly amend and supplement them so as not to make fraudulent or commercial frauds.

In this notice, the Deputy Prime Minister assigned the Ministry of Industry and Trade, the Ministry of Transport and the Ministry of Science and Technology to study and build technical barriers in accordance with the law and international commitments. To strengthen the management of imported cars, ensure that imported cars of poor quality are not imported into Vietnam in order to protect the interests of consumers and manufacturers and assemblers. Bowl in the water. In addition, simplification of procedures for accrediting automobiles into circulation, creating favorable conditions for enterprises to manufacture and assemble automobiles and at the same time ensure the interests of consumers.

After nearly 20 years, Vietnam has formed a car assembly industry with 18 FDI enterprises and 30 domestic ones. The main production line consists of three main stages: welding, cleaning - painting, assembling. Each year, these 48 companies can produce about 460,000 vehicles, including cars, trucks, passenger cars. In fact, the industry has contributed significant revenue to the state budget (an average of more than \$ 1 billion a year, taxes alone) and created jobs for about 80,000 people. However, until now, the automotive supporting industry is still very weak. Speaking at the online conference held by the Industry and Trade Newspaper on the morning of August 22, Nguyen Manh Quan, Head of Heavy Industry Department (Ministry of Industry and Trade), said that the planned target is the production rate domestically for engines and gearboxes is 50-90% by 2010, but has not done so far. Around 210 enterprises participate in the automobile supporting industry, but most of them are small and medium enterprises, producing only a few simple, low tech components, such as mirrors, glass, chairs. Seats, wires, accumulators, plastic parts ... and a few companies invest in the body line, tires. According to Lam Chi Quang, General Director of VEMA, manufacturers cannot produce all components of automobile but only design and produce some main components such as: The details of the engine and the assembly are complete, most of the components are supplied by the supplier's system. Due to the small size of the market (Vietnam's annual car sales are only equal to Thailand's sales in about 20 days), component manufacturers have not been able to invest in Vietnam to supply the homes. Car manufacturing.

The same view, Quan said, the output of vehicles produced and assembled in the country is only at 100-120 thousand vehicles per year with hundreds of models, so the investment or calling first the production of spare parts, components for production and assembly of cars is not attractive because it is difficult to bring efficiency. Even the export of spare parts to other countries in the region, the investment companies in Vietnam also have little competitive advantage because they cannot produce the main materials. Up to now, the localization rate of cars is still far from the target. Right at the time of establishment, the domestic rate set for popular vehicles such as trucks, passenger cars and cars was 40% in 2005 and 60% in 2010,

but only Truong Hai achieved 15 to 18% for cars and about 33% for light trucks. In the investment licenses of automobile joint ventures in 1995 and 1996, it was stated: From the third year from the commencement of production, the joint venture company shall use domestic and auxiliary components. Parts are produced in Vietnam with the rate increasing year by year to reach the 10th year at least 30%. Toyota has nearly 17 years of presence in Vietnam, but recently reached a localization rate of over 30% for some models. However, overall of the entire automotive industry, the localization rate is still very low, not achieving expectations. Currently, the tax policy, the fee is not stable, spread out, so not as an effective tool to stimulate the development of the automobile industry. Automobile joint ventures are not incapable makers, as their parent and system are the leading automakers in the world, and have been successful in many countries. In Vietnam, they have not been able to meet the expectation of localization as the supporting industry has not yet developed.

In fact, car manufacturers are keen to get parts supplies in Vietnam to reduce costs and be more active in production. However, the supply still does not meet the actual production demand. Mr. Jesus Metelo Arias, General Director of Ford Vietnam, Chairman of VAMA, said that FDI companies, when developing component suppliers, need to ensure a large market size and good quality and price policy. The decisive factor in supporting industry development is the market, in which quality and price are important. If Vietnamese components manufacturers meet the quality requirements of automobile assembly companies, the consumption will be easy.

### Conclusion

Although it has attracted many big brands in the world such as Toyota, Ford, Mercedes, Honda ... but compared with other countries in the region such as Thailand, Indonesia, Malaysia ..., Vietnam is still behind. Big corporations have invested in parts and components in the system, so it is difficult for Vietnamese companies to participate in their global supply chain of spare parts.

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