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Dao Nam Cao
Ho Chi Minh University of Transport, Vietnam

Van Trung Tran
Ho Chi Minh University of Transport, Vietnam

Van Huong Dong
Ho Chi Minh University of Transport, Vietnam

Correspondence:
Dao Nam Cao
Ho Chi Minh University of Transport, Vietnam

A Matter of Assembled Automobiles in Vietnam with High Prices but Low Quality

Dao Nam Cao, Van Trung Tran, Van Huong Dong

Abstract
The automobile industry in Vietnam is ahead of the important transfer period. 1/1/2018, imported cars in ASEAN will enjoy 0% tax. The "Judgment Day" is approaching, businesses are still struggling to ask questions should invest in domestic assembly or switch to imports. By 2017, the Vietnamese automobile industry is about 20 years old. At the same time, a lifetime of people is old enough, but with the car industry in Vietnam, 20 years is not big enough. After 20 years of protection, the cars assembled in Vietnam cost twice as much or even triple the US market, although they enjoy a lot of import tariff incentives. Vehicle quality is extremely low, localization rate is only 15-40%, while the corresponding figure in Thailand is 80%. The goal of the auto industry is to contribute 10% of GDP, but only about 3%. Car production is only about 1/3 of the registered number.

Keywords: automobile industry, domestic assembly, cost

Introduction
By 2017, the Vietnamese automobile industry is about 20 years old. At the same time, a lifetime of people is old enough, but with the car industry in Vietnam, 20 years is not big enough. After 20 years of protection, the cars assembled in Vietnam cost twice as much or even triple the US market, although they enjoy a lot of import tariff incentives. Vehicle quality is extremely low, localization rate is only 15-40%, while the corresponding figure in Thailand is 80%. The goal of the auto industry is to contribute 10% of GDP, but only about 3%. Car production is only about 1/3 of the registered number. Specifically, in 2005 set a goal of producing 120,000 units but only reached 59,200 units. 2010 targets 239,000 units but actually reached 112,300 units. 2020 targets 398,000 units but only 198,600 units.

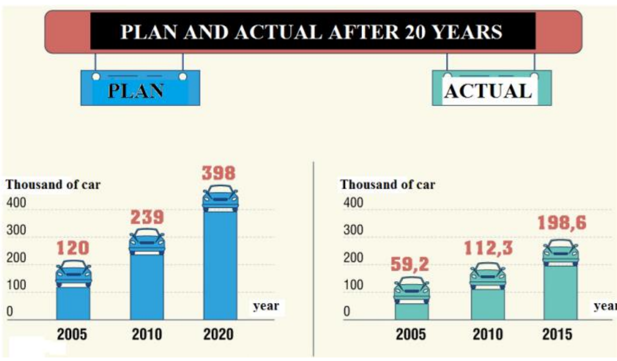

Fig. 1: The picture of Vietnamese automobile industry after 20 year

Vietnamese auto companies usually only reach one fourth to one third of the committed plan when receiving subsidies. Specifically, according to Decision 177/2004, total automobile output is expected to reach 120,000 in 2010, 239,000 in 2010 and 398,000 in 2020. However, in fact, the total number of cars assembled domestically only reached 59,200 units in 2005, 112,300 units in 2010 and preliminary to 198,600 units in 2015. According to the Institute for Strategic Research, Industrial Policy, Vietnam's cost of automobile production is still about 20% higher than that of other ASEAN countries. Meanwhile, the technology of automobile production does not improve much, still mainly stopped at the level of buying components on assembly. Supporting industries for the automobile industry are also underdeveloped, mainly producing simple components such as batteries, tires, etc. The number of auxiliary enterprises is very small compared to assemblers and mainly small ones. , technology does not meet the standards in the market. In 2010, the localization rate of individual cars under nine seats was only about 7-10%, far from the planned figure of 40% in 2005 and 60% in 2010.

According to the Institute for Strategic Studies, Industrial Policy, Vietnam's automobile production costs are currently about 20% higher than those of other ASEAN countries. The technology of car production is not much improved, most of it just stopped at importing components and assembled. The supporting industry is almost nothing, producing only a few simple components such as batteries and tires. Former Volkswagen car designer, who has 40 years of working and working in the automobile industry in Germany, said: "I do not trust products made in Vietnam. The technical barriers as well as the expertise of car experts in Vietnam are extremely low. " "I also wrote about the car industry in Vietnam eight years ago, and Vietnamese technology has been used for the last 30 years, and there is always the need for a good, affordable car. Vietnam has not had a car industry, Vietnam has not won the Mercedes, Audi accreditation. Vietnam has not made the car (car), so why produce “Mr. Dong wondered.”By 2020, Vietnam is trying to reach 80% of domestic production, I think that is a dream, because there is no strategy, and I want to reach 50% of the product, at least the filter system. Air quality standards to Mercedes, BMW, Toyota recognized the air purifier that Vietnam has not done.Milk filter also did not work, the father also did not win. Must be replaced, "he said. The car industry in the country is protected by the government, but the policy of protection is inconsistent which makes firms with "lazy" mentality localization, not stimulating the supporting industries. In the period of 1991-2008, import tax on CBU was about 90%, equivalent to import duty of only 23%. For the period 2008-2015, the figures are 70% and 19%, respectively. At present, import tax on finished cars is from 47% to 52%. Import duty on auto parts is about 18%. According to the proposal of the Ministry of Finance, in early 2018, import tax on auto parts will be reduced to 0% to increase the competitiveness of domestic cars, under pressure from imported cars in ASEAN. In addition, domestic car assemblers also receive corporate income tax incentives and a 5% value-added tax reduction for the group of spare parts and machinery used to assemble automobiles. The advantage for locally assembled cars show that it is a loophole that companies use instead of localizing parts to reduce costs, removing parts of cars and importing into Vietnam. in kit form to enjoy low tariffs. Due to the low localization rate, the cost of assembled cars in Vietnam is about 20% higher than that of vehicles manufactured in ASEAN and so the price of the product is also higher.

The comparison of Vietnamese automobile industry and other countries.

The technology used in Vietnamese cars is extremely backward, the old production line, depending on the human and productivity is not high. This is one of the reasons why the price of the car is higher than the common ground. Reporters visited many car assembly plants in Vietnam as well as in the area and concluded that most of the assembly plants in Vietnam are too rudimentary, , less with the support of modern machines or robots. In the world, craft cars are often super cars, super cars, the price is charged to the wages. But at factories in Vietnam, craft workers to create popular models should be included in the price. In addition, the lack of machinery and use of old technology that car assembly in Vietnam does not meet safety standards. There are many cases of air bags unpacked due to improper installation or quality of components has not been tested. Inconsistent welds, thin steel, so the car collapsed in accidents.

However, fair to say, every manufacturer is a business unit. The first thing in business is profit. Therefore, they will find the best solution to recover the money they spend. According to a representative of a large car company in Vietnam, the price of cars in Vietnam is high, the localization rate is low because the market size is so small. Despite its population of nearly 100 million people, most Vietnamese people are either poor or near poor, with an average income of only $ 2,000 per person per year. In the world, the average income to be able to use cars must be from $ 6,000 per person per year. Due to the small size of the market, manufacturers are reluctant to set up large plants to produce components in Vietnam. Ancillary companies also do not see the future and profit so do not invest. As a consequence, Vietnam has no supporting industries, all of which have to be imported, resulting in higher costs. Secondly, due to the policy of imposing car tax, the sales price is too high. Although the value of finished car assembled in Vietnam is about 20% higher than in the region, the after-tax price will be 150% -200% higher. Dozens of taxes, charges weigh on the car because the concept of cars is a luxury toy of the rich. The vicious circle of small market size and high vehicle prices have made the car industry Vietnam has no chance to develop.

In addition, tax policy, arbitrary change fees, inconsistencies make investors are not assured. They cannot spend hundreds of millions to gamble with policy. With just one type of tax change, the $ 100 million factory will be at risk of desertion. The moment 2018 is approaching, although no manufacturer announced that it will be un-assembled in the country, but market movements in the early months of 2017 showed that the structure of the car market in Vietnam is moving. from assembly to import. For example, Toyota's luxury cars such as the Fortuner were converted from assembled to imported complete units from Indonesia. Honda Civic import Thailand, Hyundai Grand i10 imported from India. If the policy for the car assembly industry in Vietnam does not change, the manufacturers will be unassembled, moving to import CBU is inevitable future. With a 0% import tax on the complete unit, while the component import duty is 18%, the balance is definitely on the imported car. The country that develops the automobile industry is also experiencing the assembly period, but in Vietnam this stage lasts too, more than 20 years have not escaped," said former director of the Institute of Strategic Development sigh. The report of the Ministry of Industry and Trade's April 2004 report said that in the past two years the production and assembly of automobiles in Vietnam has increased sharply, but the ministry has acknowledged that the industry has not met the real criteria, Most new releases at the simple assembly level.

Specifically, Vietnam automobile production line mainly consists of 4 main stages: welding, painting, assembly, inspection. The industry has not been able to cooperate, link and specialize among enterprises in manufacturing, assembling cars and manufacturing spare parts, have not formed a system of suppliers of raw materials and products. export large scale components. The localization rate of a car, if viewed on the target, is a failure. Because the target of 2005, 12 years ago is 40%, now it is only about 7-10% on average. Of which, Thaco accounts for 15-18%, Toyota Vietnam 37%.

Fig. 2: The out of date production line for Vietnamese automobile industry

Meanwhile, localization rate in countries in the region is 65 - 70%. Vietnam also has not got a car of their own brand. Vinaxuki car "made in Vietnam" that Bui Ngoc Huyen ambition 7 years ago in fact has not rolled 1 km. To date, Mr. Huyen had to sell the house, sell the car, sell the workshop to repay the debt and often referred to the "sad name passion". Commenting on these issues, Liu said that these are things he and other experts have said many times, but the change is slow. The market is fierce, automobile development policy is either ineffectual or ineffective, or not in the life, even, as in the case of Bui Ngoc Huyen, in some sense, "die by policy".

Particularly with the policy of high import taxes, investment incentives to protect the domestic automobile industry, the director of research at the Fulbright Economics Teaching Program, remarked that the industry was slowing down. Nearly the middle of this year, the Ministry of Industry and Trade has also acknowledged the development goal of the Vietnamese automobile industry has failed. Production targets were only about 50%, with the localization rate of less than 9 seats being around 17%. In the beginning of 2018, the import tax rate for cars in ASEAN will be 0%. At that time, car assembly in the country would be more expensive than importing. Some foreign automakers have narrowed their production and imported cars from other countries in the region. From the beginning of 2017, Toyota Vietnam has reduced from 5 models to 4 models and is considering installing only 2 - 3 models in Vietnam. In particular, the stopping of Fortuner and importing CBU from Indonesia is considered a significant decision in the market, as the Fortuner is the second most commercially available car made in Vietnam. In spite of this, some manufacturing and assembly companies in Vietnam are wading up when they invest heavily to export cars to ASEAN countries. This is not a temporary decision that has been prepared carefully, according to Tran Ba Duong, chairman of Thaco. The company, as Mr. Yang said, has modern assembly technology with 9,000 engineers, skilled workers and more than 40,000 employees of suppliers of supplies, components and parts. Mr. Duong also said Thaco set a goal of reducing the price to 5% each year, investment in supporting industries to increase the localization rate. The company is aiming to increase this ratio to 40%, while turning Chu Lai - where the plant becomes a center for manufacturing components of automotive parts of ASEAN.

Similar to most countries that want to develop the automotive industry, Vietnam maintains a high import duty ratio on imported cars. During the period 1991-2008, the import tax rate for complete units was about 90%, and the component tax was 23%. Corresponding between 2008 and 2015, the above figures are 70% and 19% respectively. In addition, domestic automobile manufacturers are also entitled to corporate income tax incentives and a 5% value-added tax reduction for spare parts and accessories until the end of 2008 to assemble automobiles. With high import tax rates on car units, local firms will not have to worry about competition from imported vehicles. However, Vietnam has maintained a lower import duty on components for a very long time. This makes it easier for companies to import components from developed countries such as China, Japan, Thailand and Indonesia to assemble cars and sell them instead of buying components locally. . This policy led to the fact that the company mainly focused on assembly to benefit from the preferential policies of the State even if the commitment on localization ratio was not achieved. Therefore, businesses do not need to invest in developing production technologies, innovating, increasing production capacity while maintaining high profit.

With low import duty on parts, domestic firms can hardly compete with imported components and thus remain out of the market. As a consequence, assemblers continue to complain that local firms do not meet the requirements of the business. In order to maintain production, they need to continue importing most components from the outside. In addition to the unreasonable tax policy side, there is a lack of consistency in policy objectives across departments. Increasing numbers and revenue are good signals for the automotive industry, but they cause overload when the infrastructure fails to catch up. Therefore, although there are different incentives, every time the volume of vehicles increases, premiums such as special sales tax and registration tax are adjusted to curb the momentum, which makes the business investment. Disappointment.

Taxes are also imposed arbitrarily, constantly changing and varying between lines. This creates unpredictable upheavals by policies as well as unfair advantages for businesses in the same industry. Typically, from January 2007 to April 2008, corporate tax and business subsidies in the automobile industry changed six times. Continuing to indiscriminate the domestic automobile industry in an inconsistent manner will not be an effective way to help the domestic automobile industry develop. The cost of this pampering is huge. It is not only a wasteful subsidy but also a story about a healthy competitive environment as well as the process of economic globalization being seriously affected. It would be difficult to measure the true cost when investment funds are not being used effectively because of the distorted competitive environment in the country due to inconsistent sectoral protection policies. Finally, it is Vietnamese consumers who are being forced to suffer from domestic business weakness at a three times the cost of buying a car, compared to 1.5 times that of Americans. , Indonesia. The consequence of a lack of consistent protectionist policy for the automobile industry is a lack of policy orientation for the industry in the future. Acceptance of foreign investment enterprises moving production to another country and export of automobiles to Vietnam after the term of protection has been terminated in accordance with international commitments or continued search for measures another protection to hold the business to stay? Until now, we still do not have a clear and definitive answer from the government.

Conclusion

In fact, the brains of "carnivores" operating automobile assembly and assembling companies in Vietnam have anticipated the 2018 hurricane. Many big men even "scare" to abandon production in Vietnam without incentives to deal with imported vehicles. Up to this point many manufacturers have responded by moving to import some new vehicles, still maintaining production but fewer products, plans to expand almost frozen. It can be said that the Vietnamese automobile industry is definitely out of the export game at least by 2018. In the future, some units will continue to persist in production and assembly in the country and towards export but the path is still long.

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