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The information related to automobile industry of Vietnam

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Abstract
Currently, Vietnam has about 3 million cars equivalent to only 20 cars / 1 thousand people, the rate is very small. For the 90 million population market, there are many great market opportunities for the automotive industry to develop. Although in the short term, Vietnam is still a small market with negligible number of vehicles, technology is not high but hopefully in the coming years it will have a leap on the basis of new development. The Vietnamese automobile industry has grown quite rapidly in the last few years. The average growth rate of domestic assembled cars in the period 2015-2018 reached 10%. (In 2015, the production and assembly of domestic cars reached over 200,000 vehicles/year, the rate of increase compared to 2014 reached 51%. In 2016, the output continued to increase sharply, reaching over 283.3 thousand vehicles/year, up 38% compared to 2015. In 2017, production and assembly output reached 258.7 thousand vehicles, down 9% compared to 2016, 2508 cars in 2018, about 3% lower than 2017). By the end of 2018, the whole country had 358 manufacturing enterprises related to automobiles; in which, there are 50 automobile assembling enterprises; 45 enterprises producing chassis, body and trunk; 214 enterprises manufacturing components and auto parts ... There are many big companies that have domestic production and assembly activities (Toyota, Hyundai, Kia, Mazda, Honda, GM, Chevrolet, Ford, Mitsubishi, Nissan, Suzuki, Isuzu, Mercedes-Benz, Hino) meet about 70% of demand for cars under 9 seats in the country.

Keywords: automobile industry, cost, automobile manufacturing

1. Introduction

With the aim of attracting investment and building an automobile industry to keep up with regional countries, so for nearly 15 years, since its inception in 1992, Vietnam's automobile industry Men are considered the key industry and the industry is always the most favored among industries. This very special favor is reflected in the tariff policies of the Ministry of Finance, with preferential tax policies on localization rates and import taxes for assembly parts and corporate income tax.
The result of the preferential policy for Vietnam's automobile industry is the price of domestically produced cars is 2 to 3 times higher than many countries. Explaining the cause of this situation, the Ministry of Finance has frankly stated in the policy report for the automotive industry since 2004: "The cause of this situation is the assembly of enterprises. I believe that the protection of the State should give high selling prices to earn high interest”. Meanwhile, some automobile assemblers said that the reason is that the Vietnamese automobile market has a capacity of only one tenth of the market of regional countries (such as Thailand) so they cannot discount.
The obvious fact here is that automobile manufacturing and assembling businesses have failed to comply with their investment license commitments, increasing the localization rate by 30 to 40% within 10 years. With this "disappointment", up to now, the localization rate of automobile enterprises in Vietnam is only between 2 and 12% and localization only stops at the companies, segments in the production and assembly process (using low-value domestic components such as tires, tires, batteries, wires, chairs ...). The problem here is why investors have not made commitments? And is the orientation of the development of domestic automobile industry and accompanying with the above preferential tariff policy to realize

the localization of the automotive industry? In our opinion, the Vietnamese automobile industry has been on the ground for more than 10 years because the development strategy of this industry only converts into measures to pay import tax on import tax, import tax for whole cars to pressure. Investors make localization of component products. This is "unimaginable" because the automakers, even at their own, only produce 36-45% of the details of a car, the rest is provided by component manufacturers. With the small market in which Vietnam wants to coordinate the localization rate only through the above tax incentive policy, no investor wants to invest in producing real components.

A mistake by policymakers over the automotive industry in the past is that they do not understand the complexity of the automotive industry. The investment in the automotive industry is very high because it is an accurate, safe, quality and high-tech mechanical industry. For example, the belt in a car is worth only 3-6 USD, but if damaged, it will damage the whole engine (automobile), and many other examples ... so the car manufacturers There are brands that only buy components they trust in quality so as not to affect their brand. In the past time we have seen many investors (phones, cars ...) pay extremely large costs (up to several hundred million or billions of dollars) when they have to recall (recall and cancel) the product only because of a defective part. A phone worth thousands of dollars must be recalled when the battery fails, many well-known automakers have also recalled their products. The cause of the Vietnamese automobile industry is not developed and the domestic car price is much higher than that of regional cars, which is a poor accessory manufacturing industry. Need to develop supporting industries, the automotive industry can compete. At the conference "Transport and auxiliary industry" held on the sidelines of Vietnam AutoExpo 2007. The reason that Vietnam's supporting industry has not developed, apart from the reason that we mentioned above, there are reasons that some investors have pointed out that the capacity of Vietnam's automobile market is too small. Because of their small size, investors do not want to rush into manufacturing auxiliary components for domestic enterprises. They cannot even dream of competing in China, Thailand, Taiwan ... in exporting automotive parts. Thailand has over 1,500 auxiliary businesses. With the localization rate reaching 70% -80%. Taiwan also has more than 2,000 investors producing spare parts. 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. 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.

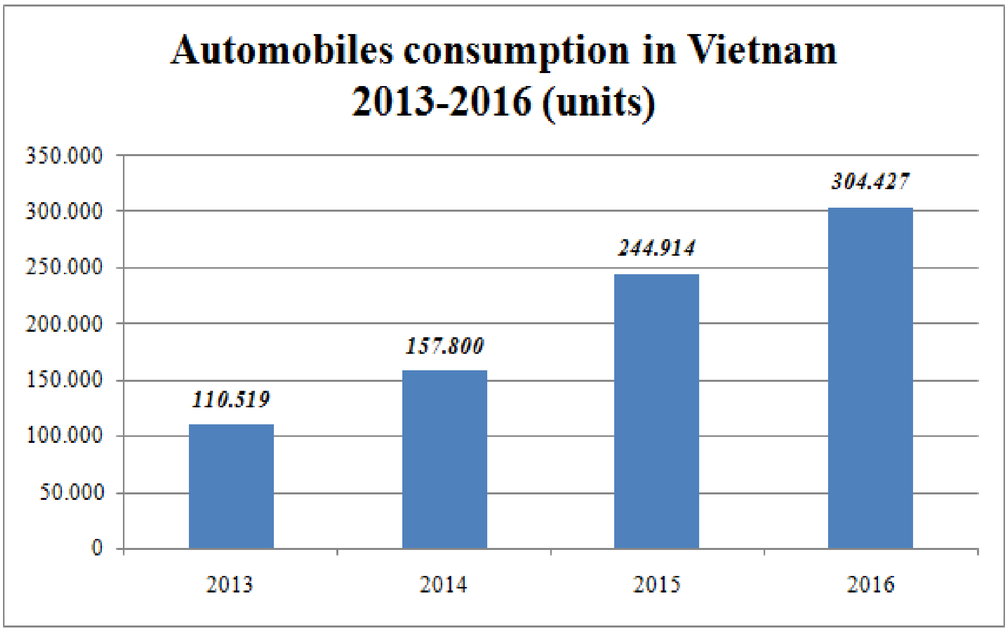

Fig. 1: Automobile consumption of Vietnam

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, and 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.

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%.

2. Orientation for development

Building the Vietnamese automobile industry to become an important industry, meeting the domestic market demand for vehicles with competitive advantages, participating in exports, creating a driving force for the development of the automobile industry. Other industries and improve competitiveness to become suppliers of components and spare parts in the automotive industry in the world. Priority product groups include:

- A series of multi-purpose vans for agricultural and rural production and medium and short-range passenger cars running inter-province, district and inner city ... with reasonable price, safe and convenient.
- Small cars with small size, low energy consumption suitable for transport infrastructure and income of people.
- Important parts, components, such as actuators, gearboxes, engines, vehicle bodies ... for some types of vehicles; strengthen cooperation with major automakers to select the types of parts and components that Vietnam can produce to take on the role of a link in the global

production-supply chain, based on that investment. Advanced technology, production for export.
By 2020, the total vehicle production will reach ~ 227,500 units. In 2025, this figure is ~ 466,400 units and by 2035, the total output will reach ~ 1,531,400 units. The percentage of locally assembled vehicles is ~ 67%, ~ 70% and ~ 78% respectively. Total export vehicles in the 2020, 2025 and 2035 milestones are ~ 20,000 units, ~ 37,000 units and ~ 90,000 units.
The strategy aims to form a number of automotive industry centers / clusters with a focus on organizing and rearranging production. Promote cooperation - link between automobile manufacturing and assembling enterprises, supporting industrial enterprises, research and development institutions and training institutions of all economic sectors to improve investment efficiency and enhance specialization ability. Some solutions and policies for implementing the Strategy:
- Select a number of important parts in the automotive component value chain into the List of key mechanical products.
- Research and establish necessary business conditions for imported cars.
- Researching, reviewing and reforming policies on taxes and fees (import tax on cars and cars, accessories; special consumption tax ...) to ensure feasibility and stability of the castle.
- Ensuring consistency and stability of the policy system for a minimum period of 10 years, in line with the integration trend to create trust for consumers and manufacturers, as a premise for early activities private.

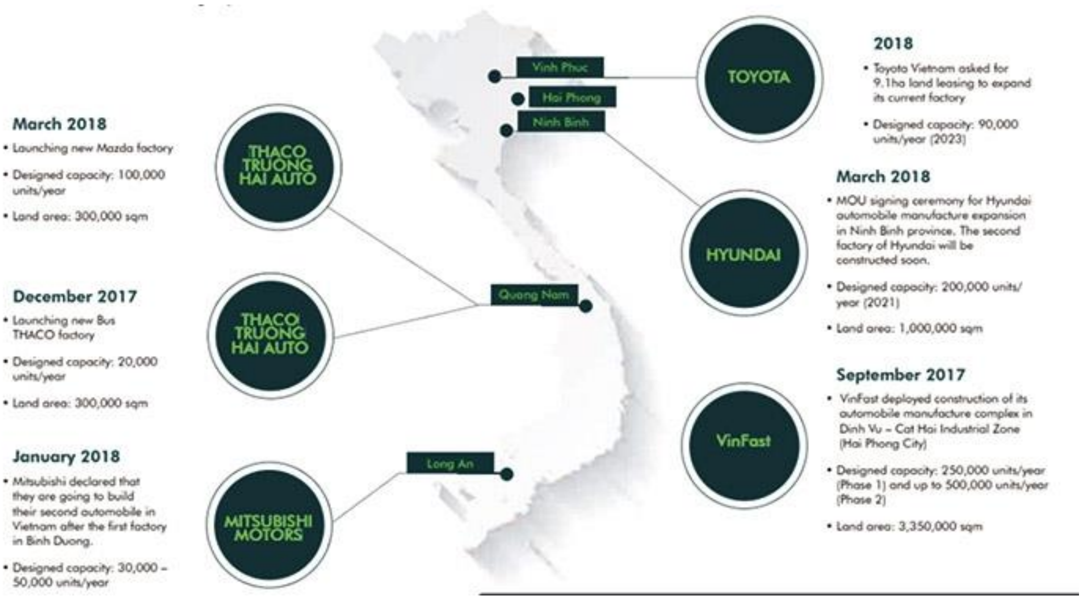

Fig. 2: Automobile manufacturing in Vietnam

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. 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, and increasing production capacity while maintaining high profit. Oriented in the period to 2025, with a vision to 2035, Vietnam will develop the automobile industry to become an important industry to serve the industrialization and modernization, contributing to socio-economic development and ensuring security and defense of the country. Accordingly the industry will focus on the following product lines:

- Forming large-scale enterprises (leading the market): Attracting and concentrating preferential policies, supporting enterprises with investment projects to produce priority cars with capacity of over 50,000. Vehicle/year and the project to produce engine parts, gearboxes, transmission units.
- For passenger cars up to 9 seats: the orientation for the period to 2025, vision to 2035 is to focus on developing car products suitable for Vietnamese people and car development trend of The world (environmentally friendly cars: eco car, hybrid ...) includes: Individual cars, small size, low energy consumption, environmentally friendly and affordable price for Vietnamese consumers.
- For trucks and passenger cars: focus on developing the advantageous types of home-made products and products for agriculture and rural areas; special-use vehicles, including: multi-purpose small trucks for agriculture and rural areas; medium and short range passenger cars; concrete trucks, tanks and specialties for national defense and security; Multifunctional agricultural vehicle.
- Supporting industry: the orientation for the coming time is to strengthen cooperation between domestic enterprises and foreign large enterprises in the production of components and spare parts, focusing on the related parts important, high technology content to serve the needs of the domestic market, replace imports, proceed to export. Specifically, the ratio of domestic production value to automobile production: by 2020, cars with 9 seats will reach 30-40%, from 10 seats or more reach 35-45%, trucks reach 30-40 %, special vehicles reached 25 - 35%; by 2025, cars reaching 9 seats will reach 40-45%, from 10 seats or more, reaching 50-60%, trucks with 45-57%, special vehicles reaching 40-45%; By 2035, cars with 9 seats will reach 55-60%, from 10 seats or more reach 75-80%, trucks reach 70-75%, special vehicles reach 60-70%.

3. Conclusion

The automobile manufacturing industry has more than 400 enterprises, mainly concentrated in the Southeast region and the Red River Delta region. Most businesses are small and medium sized. The total assembly capacity is about 460,000 vehicles / year, of which the foreign invested sector accounts for about 47%, domestic enterprises about 53%. In the 2001-2014 period, the average growth rate of automobile assembly and production is about 17% / year. Fluctuations of the economy and policy changes, especially tax and fee policies, are the main factors affecting production and consumption of cars. Total number of cars consumed in 2010 was 184,813 vehicles, in 2011 was 181,545 vehicles, in 2012 was 124,815 vehicles and in 2013 was 153,199 vehicles, in 2014 was 241,178 vehicles, in 2015 was over 350,000 vehicles. Up to now, the market has had active and wide participation of enterprises of all economic sectors, including a number of domestic companies, Truong Hai Automobile Joint Stock Company (Thaco), Joint Stock Company... and major automobile corporations in the world (Toyota, Ford, Honda, Mitsubishi, ...). Total production and assembly capacity of cars is about 460,000 vehicles / year, including most types of cars (capacity of about 200,000 cars / year), trucks and passenger cars (capacity of about 215 thousand vehicles / year). Due to the small domestic market capacity, only at 200-300 thousand vehicles/year with many models, the number of large production - assembly enterprises (56 enterprises), so the market share of each brand even more fragmented. Small capacity does not meet the economic criteria of scale in industrial production, both in vehicle assembly, as well as manufacturing of supporting industrial products. Moreover, basic materials such as steel, rubber, plastic and plastics depend on imported raw materials. All of which makes the investment enterprises to produce automotive spare parts and components have less competitive advantage due to high production costs. In addition to subjective causes, the qualifications of Vietnamese enterprises are still limited, assembling enterprises are not interested in supporting industries, and have not created conditions for domestic enterprises to join the supply chain.

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