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## The Vietnamese Automobile Market As 0% of the Car Import Tax In 2018

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### Abstract

The car industry in Vietnam has a competitive advantage over other countries in the region. This has been clearly demonstrated through the localization rate and the number of Vietnamese companies involved in the car assembly process. The inadequate supporting industry development strategy has pushed the investors in the field to other countries. In particular, Hyundai has shifted its focus to developing the plant in Malaysia instead of Vietnam as originally stated. The world's largest automaker, Toyota, is considering focusing its production and assembly in Thailand and then exporting its units to other countries. In retrospect, major manufacturers have at least one assembly plant in countries such as Malaysia, Thailand or Indonesia, for which there is a strong automotive industry.

**Keywords:** Vietnamese companies, car assembly, automobile industry

### Introduction

There are many objective and subjective reasons that can lead to this problem, typically the car market in Vietnam is relatively small compared to other countries in the region. In addition, policies are designed both to balance the development of the domestic car industry and to ensure that infrastructure is not overloaded, especially in large cities. It is quite difficult. On the other hand, import tax of 0% would not necessarily reduce car prices and bring benefits to consumers. Because apart from import tariffs, there are many other "tariff" and non-tariff barriers, and they are not affected by free trade agreements or international commitments. Examples include excise taxes, value added taxes, registration fees, import quotas, road tolls, etc. Changing these taxes and fees can change the price of an imported car. Clearly, and we do not yet know the result. Recently, the Vietnam Mechanic Association has sent a document to the Ministry of Finance and the Ministry of Industry and Commerce to propose the change of the tax calculation price in the Decree and Circular amending the Law on Special Consumption Tax. In addition, another policy also affects the import of cars, which is Circular 20 requiring traders to have their authorization, which is extremely difficult for importers. Private showroom another barrier to importing cars is cultural differences. Most of the countries assembling and producing large cars in the ASEAN region use the right hand drive. Therefore, in order to export to Vietnam, car manufacturers must invest more equipment, expand the workshop and change the existing registered structure. This costs a lot of time and money. These aspects show that the car industry in Vietnam still has the opportunity to develop if the state has more appropriate development policies in the coming time. Even lowering the import tariff by 0% by 2018 will provide more opportunities for the domestic car market.

Sales report of Vietnam Automobile Manufacturers Association (VAMA) shows that in August of this year, the whole industry sold 22,099 vehicles, a slight increase of 7% compared to July 2017 and a 1% increase compared to August. / 2016. Of which 12,568 vehicles were sold, up 12% from July. Sales in August slightly increased compared to the previous months, which is a good signal for the market. However, the experts are not optimistic, because the increase is not much, mainly comes from the customer before the month of buying cars with significant discount packages from many manufacturers.

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Considering the cumulative effect, the market picture is still a gray one. By the end of August, the whole industry sold 177,037 vehicles, a decrease of 6% compared to the same period last year of 187,863 vehicles, of which the car decreased by 4%. The shift from imported vehicles to imported vehicles was also noticeable with assembled cars down 11% and imported vehicles by 10%. Two-thirds of 2017 has passed and to date, a 6% drop is a blow, breaking every attempt and anticipation in the industry. In early 2016, VAMA said that the 2017 market will increase by 10%, but to the present clearly this goal is impossible. Regarding market share, Truong Hai still ranked first with 36.8%, Toyota ranked second with 24%. Compared to the

same period in 2016, these two opponents have reversed direction. While Truong Hai has fallen from 43% in 2016 to 36.8%, Toyota has increased from 20.1% in 2016 to 24%. If considered separately car, Truong Hai was overtaken Toyota. Both Kia (9.2%) and Mazda (10.1%) combined are still not equal to Toyota. After a strong price-cutting campaign, which will take market share in 2016, Truong Hai will not reduce its market share until 2017, in addition to introducing fewer new products. Meanwhile, Toyota reduced prices at dealerships, so sales increased. Other companies such as Ford, Honda, Mercedes, Mitsubishi, GM also increased slightly over the previous year.

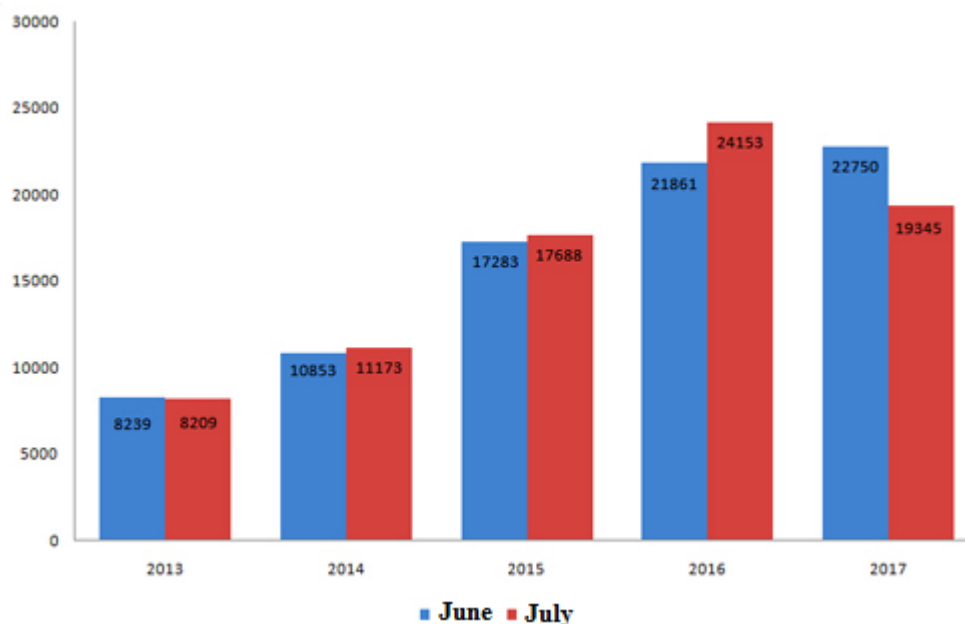


Fig.1: Sold car in June, July in comparison with 5 years [6]

Difficulty of the sales team reflected on the results of the whole market. According to the report of Vietnam Automobile Manufacturers Association (VAMA), July sales reached 20,662 vehicles, down 15% compared to June and 27% decrease compared to July 2016. Both domestic assemblers and imports decreased (14% and 17%, respectively). Most car manufacturers have recorded sales decrease compared to the previous month, the greater the rate of reduction of the higher. Toyota reduced by 37%, Mercedes by 35%, Mazda by 7%, Kia by 2%, Lexus by 15%, Isuzu by 12%. Since the auto market is recovering in 2013, this is the first year of July sales decrease compared to June. This fact is strange because usually customers will buy car in July to avoid stepping into month. 8 (July lunar month) abstain from shopping. Khanh Minh and his colleagues find it difficult in the short term. "This year has two six months of the lunar month, and sales are bleak," Minh complained. Sales slowdown before the season is the result of the psychological wait of customers, from the speculation about car prices and from the deep discount strategy to stimulate the demand of the airline. Unclear tax policies, fees in 2018 cause the question whether the car has a discount or not have a solution. The number of customers hugging the price of car will be more comfortable, albeit slightly reduced early next year, should be delayed time to buy a car.

Because of this mentality of the car, the car launched

promotions to stimulate demand, with discounts from a few dozen to several hundred million. But at the discount, another question arises, "Will the next few years be reduced further?", and again the customer waited. The psychological double-waiting caused market sales in the following months to decrease significantly compared to last month. Representatives of some VAMA firms said that the price they apply in 2017 is the best possible price, even at this price, many agents have to accept profit offset sales, earn Benefit from repair, maintenance service rather than car sales. The car cannot decide where to place the price, increase or decrease depending on the decision of the Government. The company itself is not cautious about the price, but all confirmed that it is unlikely price prospects will fall as deep as customers still expect.

According to the tariff reduction schedule under the ASEAN Trade in Goods Agreement (ATIGA), from 2018, the import tax rate for CBU from South East Asia will be reduced to 0%. The roadmap for tax cuts will be implemented in phases in order to be more appropriate to the reality and also to "shock against" the business and consumers. The problem is that, now and for the next decade, there will be no luxury automakers to open factories large enough in ASEAN countries for export purposes. Most of the luxury brands like Audi, Mercedes-Benz, Porsche, BMW, Lexus, Cadillac ... are manufactured in Germany, USA or Japan ... Yes, On par with the factory

that Mercedes-Benz is located in Vietnam. Therefore, if the ATIGA tax reduction takes place as fast as synonymous, the price of car types imported from this area is cheaper. Meanwhile, luxury cars are imported from countries outside the ASEAN region, so prices will continue to long-term long-term due to high import tax. Note that the import duty plus CIF price or the taxable price determined by the customs department will be the basic amount for a series of other taxes - charges such as special consumption, added value or registration fee. Another point to note is that there will be no traffic going around for tax incentives. In preferential tariffs developed and issued by the financial sector, it is clear that goods must be imported directly from the country. For example, it is impossible for merchants to ship Audi cars from China via Southeast Asia before importing them back to Vietnam for tax incentives. In the meantime, most popular vehicles have a huge advantage in terms of the price offered by the reduction. In fact, the prospect of a car market in Vietnam flooded with vehicles from Southeast Asia since 2018 has many times been mentioned by the media. In the car market of Vietnam today, vehicles bearing Toyota, Ford or Honda brand ... are occupying overwhelming market share. Most of these automakers have at least one factory located in Thailand or Indonesia, or both. Over the past two years, the big automobile corporations themselves have shown a clear trend towards more focused production in Thailand and Indonesia, from which exports to Southeast Asia in particular, Asia Pacific and Africa in general. Typically, Toyota and Ford have recently decided to build more plants in Thailand and Indonesia with investment capital at each plant from \$ 200 million to \$ 400 million, equal to the total capital they invested throughout. Nearly 20 years in Vietnam. Most recently, Nissan also inaugurated a new factory with an investment of more than \$ 110 million in Thailand. A few years ago, when import tax from ASEAN entered the cut-off route, car joint ventures in Vietnam start to reduce the list of assembled products in the country (CKD) to offset it with imported vehicles. Whole unit from Thailand and Indonesia. Right now, at least 10 models are being imported by distributors in Vietnam from two countries in the region. In the context of increasing integration pressure, automobile manufacturers and assemblers in Vietnam must, on the one hand, make recommendations and make donations to government agencies with mechanisms and policies that are strong enough for the domestic automobile industry. On the other hand, still have to "body room" by step by step "reservation" for the CBU market. The fact is very clear. Under the ATIGA Special Preferential Import Tariff for the period 2012-2014, the import tax rate for finished cars imported from ASEAN countries has been sluggish, ranging from 70% in 2012 to 50% in 2014 for passenger vehicles. Less than 10 seats, however, imports from this region have been constantly increasing.

According to statistics of the General Department of Customs (Ministry of Finance), the total volume of CBU cars imported from ASEAN in the first five months of 2014 reached 4,282 units valued at 65.37 million US dollars, up 1,104 units in volume and up 11, 92 million in value over the same period in 2013. In particular, imports from neighboring Thailand reached 3,575 units and 58.49 million, up 899 units in volume and up 9.45 million USD; Imports from Indonesia reached 707 and \$ 6.86 million, up

205 in volume and \$ 2.46 million in value. With such a strong momentum, Vietnam's market will be flooded with vehicles of Thai or Indonesian origin. And this is a strong warning for the hesitance and weakness of the automobile industry in the country.

### **The characteristic of Vietnamese automobile market from 2018**

#### **Import tax from ASEAN to 0%**

As committed in the ASEAN Free Trade Area (ATIGA), cars with a localization rate of 40% or more will be entitled to zero tariffs. This means, by 2018, Vietnam can import cars from Thailand, Indonesia, Malaysia ... with 0% tax, a deep reduction with tariffs in 2017 is 30%. Then, the price of the car will decrease significantly. If calculated on the basis of the tax formula, the price is reduced by 23% if the tax rate is from 30% to 0%. Cars want to get such discounts, must meet two criteria, produced by an ASEAN step and the localization rate of 40%. This means that cars imported from ASEAN but the domestic rate is lower than 40% or car imported from a foreign ASEAN such as Korea, Japan, Europe ... also do not enjoy this incentive. According to manufacturers, currently in Vietnam market, the number of this car is quite small, but the number may increase in the next year as the manufacturers turn many new products back to the country.

#### **Special consumption tax (SCT)**

The Ministry of Industry and Trade recently proposed SCT exemption with the local value of each model. This proposal pushes the car market into two extremes, the price of assembled cars in the country decreased, the price of imported cars increased. While imported vehicles have a local value of almost zero, vehicles assembled can increase this proportion over time. The higher the domestic content, the lower the tax, the lower the price. At this point, the further distance between the price of assembled vehicles and imports. However, in the press conference within the Vietnam Motorshow 2017 exhibition, Mr. Pham Van Dung, General Director of Ford Vietnam said that this proposal is difficult to implement because of violation of Vietnam's WTO commitments as well. Free Trade Agreements. SCT taxes vary between imported vehicles and assembled vehicles that violate the "no discrimination against imported and domestic" rules. Dung's proposal, as well as VAMA's, is to reduce component taxes, to assist producers in the integration phase to create a level playing field. But with the plan to become a center for auto exports to the region, some experts predict that in order to avoid a violation, Vietnam will still apply the SCT tool, but adjust it in a different way to avoid a conflict of engagement. International, but still in the direction of supporting vehicle assembly, making it difficult for imported vehicles.

#### **New registration fee**

According to the Decree 140/2016 on registration fees from 1 January 2017, from 2018, localities may increase the registration fee from 10% -12% today to 15%. Increasing the registration fee does not affect the price of your listed car but increases the total cost that customers have to pay for rolling. Both imported and assembled vehicles are subject to the same impact in this case. Even with pickups, cars are eligible for import tax incentives (5%), special consumption tax (15% -25%) and registration fee (2%).

Accordingly, the tariffs, charges applied to the truck load are proposed to be calculated like cars, raised to 30% import (2017), 40% -110% by volume engine, register 10%. This calculation can cause the pickup truck to double the price of today.

### Combined effects of taxes, fees

Even if the import tax, special consumption tax, VAT, registration fee has been calculated, the manager still has many fees can interfere with the cost of buying wheelchairs of Vietnamese people. That may be the cost of issuing number plates, registration fees, road maintenance fees, insurance fees ... or even those fees not available in Vietnam as proof of parking. The combined effect of taxes and charges in early 2018 on assembled and imported automobiles is projected in the following direction. In which the arrow goes down, the arrow goes up and the dash is not affected. Eliminate the will factor of the manufacturer from time to time. The quantity and the rate of increase / decrease of assembled and imported vehicles are similar with two types of increase, one decreases and one does not affect. With this table can be seen, the price of the car will increase or decrease will depend on the impact of each type of taxes and fees. For example, an assembled vehicle costs 500 million. If the new excise tax is applied, the tax reduction is 50 million, the increase in registration and other costs is 30 million, and the price of the car will be reduced by 20 million. Conversely, if the registration and other types of expenses increased by about 60 million, the price of the car increased by 10 million. Similarly for imported vehicles.

### Response of the car manufacturer in Vietnam

Representatives of joint venture companies in Vietnam said that the price increase or decrease is still speculative and cannot be concluded accurately. However, the actions of each manufacturer show clear import orientation. By the end of 2016, Honda replaced Civic assembled by import, similar to Toyota's Fortuner. At the Vietnam Motor Show 2017 in Ho Chi Minh City, a series of cars imported into the country in all segments, ready to fight in 2018 such as Toyota Wigo, Avanza, Alphard; Honda Jazz, Suzuki Fit, Chevrolet Trailblazer.

### Conclusion

Vietnam is one of the world's most expensive car markets. The reason is that the tax rate for a car imported to Vietnam is considered as the second best in the world, of which 3 main taxes are import tax, excise tax and VAT. Therefore, a car when imported into the country, sold to consumers have been pushed up prices several times the price of imports abroad. But from 1/1/2018, the import tariff of cars under 9 seats from ASEAN countries to Vietnam will decrease from 30% to 0%. This is the lowest discount price so far of the import market of cars in Vietnam. Specifically, according to experts, as of January 1, 2018, when the car import tax from ASEAN to Vietnam reduced to 0%, special consumption tax with the car line from 1.5L down down from the level The current 40% is down to 35% and the car's cylinder capacity from 1.5L to 2.0L is reduced from 45% now to 40%. Meanwhile, cars that are being sold on the market at prices ranging from VND 450 million to VND 1 billion are expected to decrease from VND100 million to VND300 million. With the tax reduction cannot

be so deep, domestic consumers expect car prices will decline compared to the current. Many hope it will be owned car at the same price in Thailand, Malaysia.

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