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Vietnamese automobile industry: Opportunities and Challenges

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Abstract
In 2017, the government introduced a number of new regulations that focused on boosting domestic production. In spite of that, car sales in 2017 declined and continue to do so in 2018, except for the passenger segment. However, this decline is just a temporary setback. As the industry adjusts to the new regulations, sales will return to their previous upward trend in the near future. Car manufacturers had predicted the decrease in sales, as consumers were waiting for car import tariffs to reduce to zero percent in early 2018, in line with the tariff schedules of ASEAN Trade in Goods Agreement. In the first five months in 2018, 103,746 vehicles were sold, down six percent compared to the same period last year, according to the Vietnam Automobile Manufacturers Association. The sales of domestically assembled vehicles grew by 10 percent during the same period to 87,426. However, sales of imported cars decreased by 46 percent to 16,320 units. Segment wise, sales of passenger cars grew by six percent while commercial and special-purpose vehicles declined by 19 percent and 37 percent year-on-year respectively. By the end of 2018, overall sales are predicted to grow by 6.8 percent year-on-year, to 256,000 units, including commercial and passenger cars.

Keywords: actual situation, automobile industry

1. Introduction

The motorbike has long had an entrenched position in Vietnamese life, with 45 million estimated to be active on Vietnam's roads.[1] Bikes have been the cheapest and most efficient travel choice in the last few decades, due to punitively high taxes on the production and import of cars. Before January this year, taxes on imports were a staggering 70%, alongside a luxury tax of anywhere from 40% – 150%. This means that if a car cost $20,000 in the US (say a reasonably priced family hatchback), then the Vietnamese cost (in USD), could be up to 85,000. That's a tax of over three times the value of the car. Little wonder then that bikes have usually been the transport of choice for Vietnamese consumers. After some rockier years, Vietnam is now experiencing a period of relative economic stability and growth. Average wages are rising, and are far less volatile, which has resulted in many choosing to make the transition from bike to car. Cars have a much higher safety rating, and on Vietnam's notoriously unsafe roads, many families are looking to avoid the previously preferred, but dangerous, motorbikes. Car sales in Vietnam have, thus, risen, with an average monthly sales growth of 16.9% [2], a very strong outlook for the industry. A common misconception is that this increase is solely due to trade policies, which affect imports, rather than internal macro effects. In January, this year, Vietnam reduced taxes on cars from the ASEAN (The Association of South East Asian Nations) region, to 0%, and although taxes on cars from non-ASEAN nations remain high, many assumed this would lead to an influx of imports to Vietnam. Instead, imports crashed, falling by 86.2%, according to the EIU [3]. This was the polar opposite of the intended effect of the new trade policy. The reason for this import crash was that Vietnam had simultaneously issued Decree 116, designed to tighten customs clearances and increase safety checks. This makes it very difficult to import any car into Vietnam, and as such, protects the local manufacturers and assembly industries. In short, Vietnam has implemented a highly effective non-tariff barrier to trade, as evidenced by recent data from the EIU, which suggests that domestic production will hit 200,000 cars in 2018.

This was hardly a surprising reaction, as several foreign car manufacturers had pulled production from Vietnam in 2017, due to stagnant sales, worries about communist tax policies and the hope of a zero tax ASEAN region. Vietnam, much like other South-East Asian countries, also has a flexible take on copyright infringement law. This is a big barrier to western firms investing in the country, but also other Asian manufacturers, who would be at risk of being undercut by cheaper 'knock off' versions of their car. Added to this is Vietnam's ever changing policy on taxes, particularly wealth taxes. Rates have been altered several times over the past decade, for several reasons, like promoting domestic manufacturing, but also other more ideological reasons, which led to a luxury tax on goods. The market, therefore, is difficult to predict, and many manufacturers thought they'd be better off producing somewhere else and exporting to Vietnam.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 stop production in Vietnam if they are not given 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 product numbers, 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 coming time, some units will continue to persist in producing and assembling in the country and towards export but the path is still long.

However, the Government of Vietnam, with the aim of attracting investment and building a car industry to keep up with the countries in the region, has been around for almost 15 years since its inception in 1992. Vietnam's automobile industry is considered as a key industry and the industry is always the most favored among the industries. This particular favor is reflected in the Ministry of Finance's tariff policies, with preferential tariffs on localization rates, import tariffs on assembled components and corporate income tax. The result of preferential policy for Vietnam's automobile industry is that the price of domestic cars is 2 to 3 times higher than that of many countries. Explaining the causes of this situation, the Ministry of Finance has frankly stated in a report on the automobile industry policy since 2004: "The cause of this situation is that the assembled enterprises Repay the protection of the State should offer high prices to high interest. Meanwhile, some automobile assemblers say that the reason is that Vietnam's car market is only one-tenth that of other countries in the region (such as Thailand) cannot discount. The obvious fact is that the car manufacturing and assembling companies failed to comply with their investment license commitments to increase the localization rate to 30-40% within 10 years. With the "broken promise" should be up to now, the localization rate of the product of the automobile business in Vietnam only reached 2 to 12% and the localization only stopped at the public Simple steps in the production and assembly process (using low value domestic components such as tubes, tires, batteries, power cords, chairs...). The problem here is why investors have failed to make that commitment? The strategic direction of the development of the domestic automobile industry and accompanying it is that the tariff preference policy to achieve the goal of localization of the automobile industry is wrong? The car industry in Vietnam over the past 10 years has stepped on the spot because the development strategy of this industry only focus on import tax measures of import and export of cars built to pressure Investors carry out localization of components. This is a "no-brainer" because auto manufacturers, at the genuine, only produce a depth of 36-45% of the details of a car, the rest is provided by the component manufacturers. With the small market that Vietnam wants to coordinate the localization rate only through the tax incentives mentioned above, no investor wants to invest in real components.

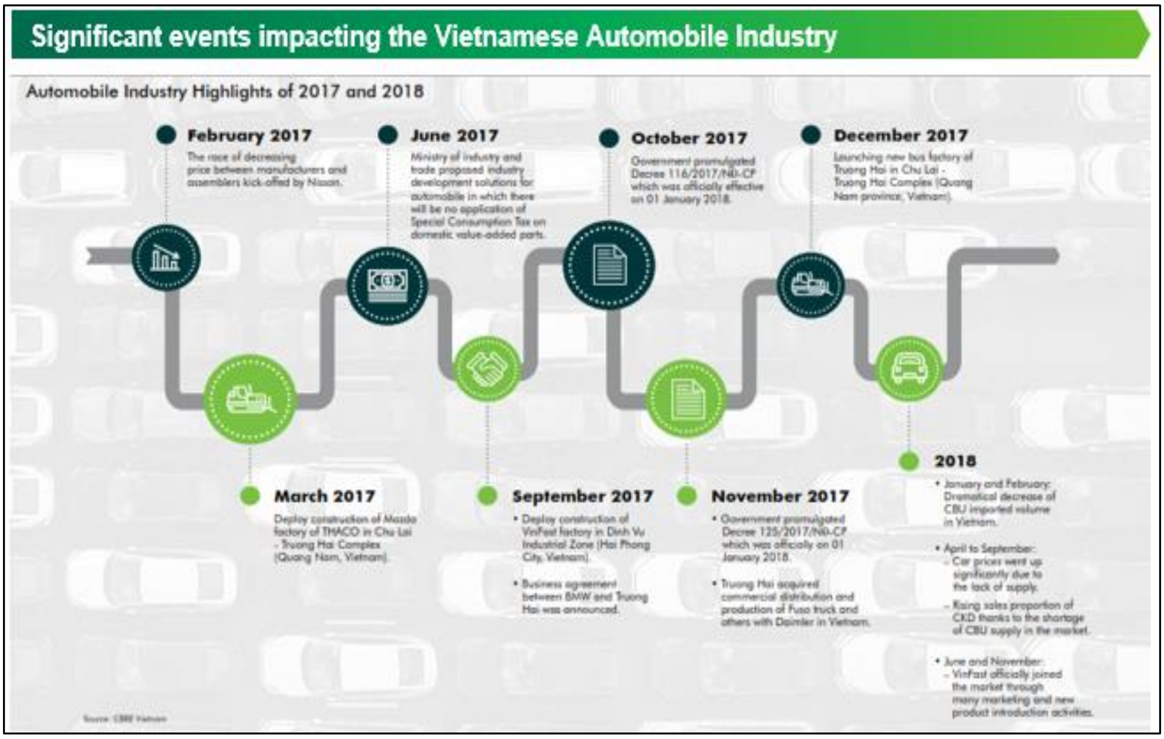

Fig. 1: Auto export in Asian in 2018

2. Main information

A mistake by policy makers for the automotive industry over the past time is that they do not understand the complexity of the automotive industry. Capital investment in the automotive industry is very high because it is precision engineering, safety, quality and high technology. For example, a belt in a car costs $3 to $6, but if damaged, it destroys the whole engine, and many other examples so the automakers Brands only buy components that they trust in quality so as not to affect their brand. In the past time we have seen many investors (phones, cars) have to pay enormous costs (maybe up to several hundred million or billions of dollars) when they have to recall (recall and cancel) the product just because of one component, faulty components. A phone worth thousands of dollars must be recovered when the battery fail, many well-known car manufacturers have had to recall their products. The reason is that the Vietnamese automobile industry is not growing well and domestic car prices are much higher supporting industry so that the new car industry can compete. Automobiles have 20,000 to 30,000 parts and to produce them need thousands of parts. Each assembly company needs at least 20 suppliers, while in Vietnam there are only about 40 component suppliers out of 50 assemblers. The reason why the supporting industries of Vietnam cannot develop, besides the reasons we mentioned above, there are reasons for some investors that the size of Vietnam's automobile market is too small. Because of the small size, investors do not want to invest in manufacturing auxiliary components for domestic enterprises. They cannot even dream of competing with China, Thailand, Taiwan... in the export of automotive components. Thailand has over 1,500 supporting businesses with a localization rate of 70% -80%. Taiwan also has more than 2,000 investors producing spare parts. On this issue, the representative of the Ministry of Finance (the General Department of Taxation) also explained that: "In general, excessive maintenance of the automobile industry is often easy. Make the price of cars in the country too high, creating power for business. Current tax policy is still highly protective, so car prices are still high. Taxes are not reasonable, spare parts cannot be produced in the country but still maintain high tax rates. However, the "vicious cycle of the Vietnamese automobile industry," as called by an official of a ministry, is the one hand on the one hand calling for the development of supporting industries to reduce vehicle prices. Otherwise, there is a policy of restricting the use of cars by applying excise taxes. While the supporting industries want to develop, the market size must be large, the consumption must be high. The most common reason for limiting automobile consumption, which policymakers put forward, is narrow roads, environmental pollution, traffic accidents". Obviously this argument is not convincing. Need to know, the number of cars in Vietnam is only 8 cars per 1,000 people, while in China is 24 cars per 1,000 people, Thailand 152 cars/1,000 people, South Korea 228 cars/1,000 people, US 682 Vehicle/1,000 population. Please provide the following data for further understanding: Germany and Vietnam have roughly the same area (about 330,000 km2), nearly the same population (about 83 million people), But the number of cars in Vietnam is about 670,000 and 18 million motorbikes, with 8 motorbikes using one car, but they still have parking space and no traffic or pollution. The comparison between like Germany is impeccable, but it is important to remember that Vietnam is striving for 2020, ie only 13 years, to become a developed country. The head of the largest automobile company in Vietnam added: "Why China chose 50-50, but I chose 70-30% 30% of the contribution of Vietnamese enterprises in the joint venture mainly by land. But with the land, when they are fully depreciated, they finally leave, leaving only the corpses of the factories. According to Tran Ba Duong, investors in the joint venture have had production facilities in ASEAN before. When there are two production sites, they will choose a more efficient place and only produce in Vietnam when the market has favorable conditions for profitable sales rather than actively improve the localization rate. When the time came in 2018, they did not withdraw but simply imported goods to Vietnam for sale, and finally the localization rate could not increase. Looking to Thailand, the increase in the localization rate (up to 70%) is due to self-regulatory and coercive policies to help Thai people get more involved in the value chain. export cars. The Thai government forced the car manufacturers in Thailand - mostly foreign firms - to purchase component parts at local manufacturers. Accordingly, all vehicles will have a localization rate of about 25% in 1975, but by 1999, passenger cars must achieve localization ratios of more than 50%. reaching over 70%. The Thai government has made a clear message: "If you do not join then invite me to come back." However, Vietnam does not implement a similar policy and localization rate is "released" to the joint venture auto production decisions. Once the biggest automaker in Vietnam but now behind Truong Hai, Toyota is not a manufacturer with a high localization ratio. Speaking on "G-day," Mr. Toru Kinoshita - Toyota General Director and President of VAMA (Vietnam Automobile Manufacturers Association) said: "As a representative of VAMA, VAMA members commit to continue. However, by 2018 the tax on 0%, the number of imported cars will likely increase so many members cannot survive, so we propose to consider creating difference between imported vehicles and domestic assembled vehicles ". January 1, 1818 is a time to test the dreams of the Vietnamese. The import tax rate for finished cars will be zero in ASEAN for products with a 40% or more internal volume (40% of parts produced in ASEAN countries). Manufacturers and car assemblers in the country worry, most likely their dreams will "die again". Especially when the new paradigm arose, the tax rate was 0%, while the average import tax on spare parts was 18%, the cheap imported cars would flood in massively and domestic cars would almost not. be competitive. Also, the prospect of the auto industry is that if there is no domestic competitor with enough competitive strength, Vietnam will turn into a car market of Asean countries with vehicles. This would also cause a serious trade deficit, and tens of thousands of workers in the industry and related industries will lose their jobs. But on the other side of the auto industry, thousands of other Vietnamese people are overwhelmed by hopes for a cheap car ownership dream come true. However, the price of imported cars to consumers is not dependent on import tax. In fact, cars have two kinds of tax, import tax and excise tax. Special sales tax on goods that the State does not encourage use, and cars are commodities are such items. And now, the State has many reasons not to lower SST with cars. The first is the size of the economy, especially the trade deficit and the balance of payments. If economic integration, exports do not increase rapidly, it is not sure enough foreign currency to import goods from abroad. Vietnam will face the risk of lack of machinery to serve production, lack of raw materials that cannot be produced in the country, including items that are expensive foreign currency such as cars.

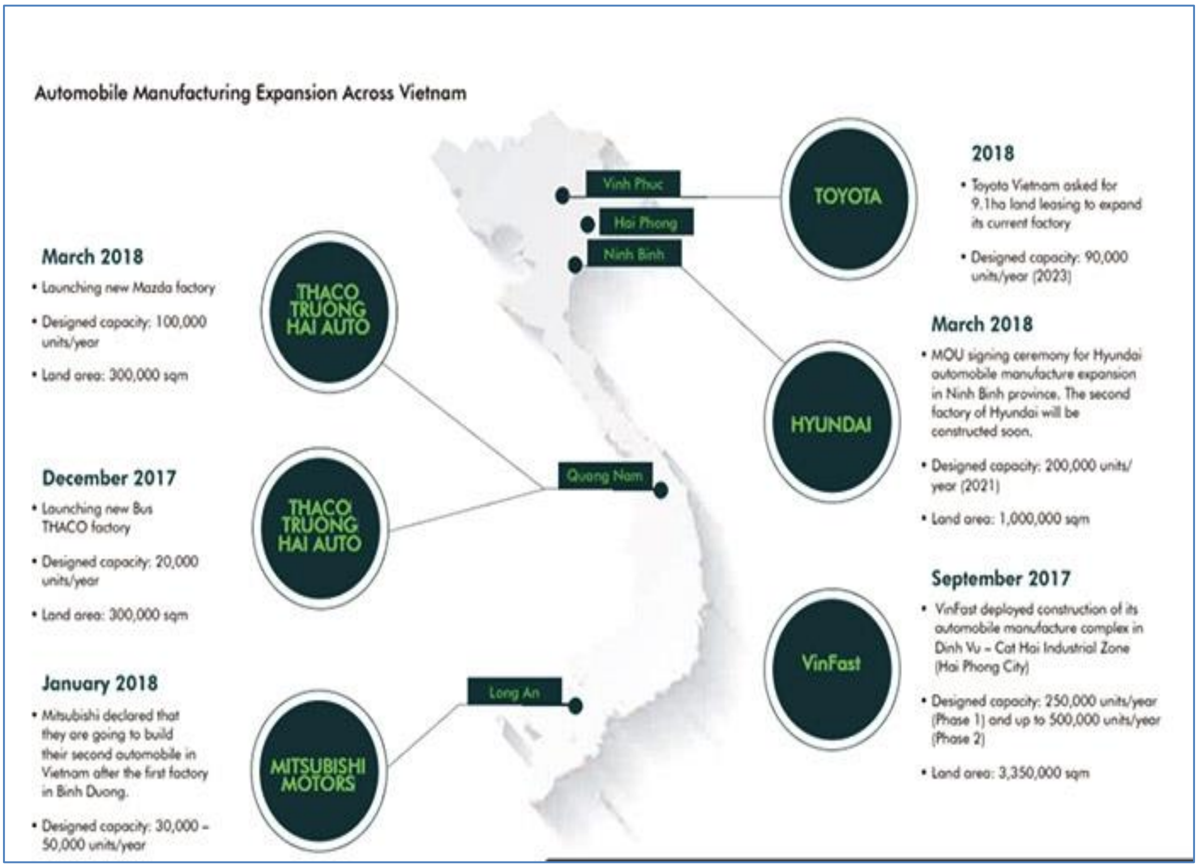

Fig. 2: Auto sales in Vietnam

Secondly, it is the development of infrastructure. Developing fast infrastructures is not easy and requires time. Meanwhile, if the volume of cars in circulation (due to cheap cars overflowing) but the route of infrastructure development has not been timely adjustments, will cause a major traffic problems. Also, cars in countries, even Thailand, Indonesia, and Malaysia are subject to a very high tax rate. They still have a SCT tax in various forms, applied to the production, assembled in the country, said Truong Hai Automobile Chairman. Mr. Tran Ba Duong shared that, in the context of the development of the automobile industry in Vietnam and the small scale of the market, if there is a need to maintain and develop the automobile industry in the country, there must be a difference tax at a reasonable level. This level depends on the competition between assembly production and importation of complete units on the basis of market size. When the market size is large, this gap will be reduced. "The size of the market is large and developed, the localization rate is high, the domestic assembly production is actually cheaper than imported complete unit if we do well." The "special person" of Truong Hai cars emphasizes the phrase "if we do well". Obviously, "if we do well", then no dream is contradictory! But how do we do well? An automobile needs an average of 2,000 components, accessories. To produce an item in it was not easy, how to put that item into the value chain in the car industry more difficult, because the chain has been formed for a long time. Support industries of countries and territories around Vietnam are formed from 50-70 years... So what model to study appropriate? According to Chen Ba Yang, referring to the supporting industry must study the role of Taiwan. This land does not own any brand but itself is a brand attached to major brands. Taiwan has a role to play in this regard as Japan is leading the way in technology and desperately needs other places to provide support. Japan has been targeting Korea, but this country is competing with Japan, so the country's sun rises with Taiwan. However, studying the story of Taiwan to find solutions for supporting industries of Vietnam is not simple because the present situation is much more difficult. Once the rules have been established and set, not any brand made in Vietnam wants to be localized in proportion as expected. In the case of Truong Hai car, Tran Ba Duong shared, at this time Thaco has the right to localization of the bus. Hyundai, Kia, and Mazda also did not have enough rights to localize Thaco, as they could not make a complete car. In the rules of the game, they are only car designers, parts for assembly assembled by many other suppliers signed together. "Now that we want to be part of the value chain, we have to be skillful in convincing both the manufacturer and the third party to provide spare parts," said Truong Hai Auto chairman. A bit optimistic but not in the game, like not knowing football but good football comment into a fast fall dream.

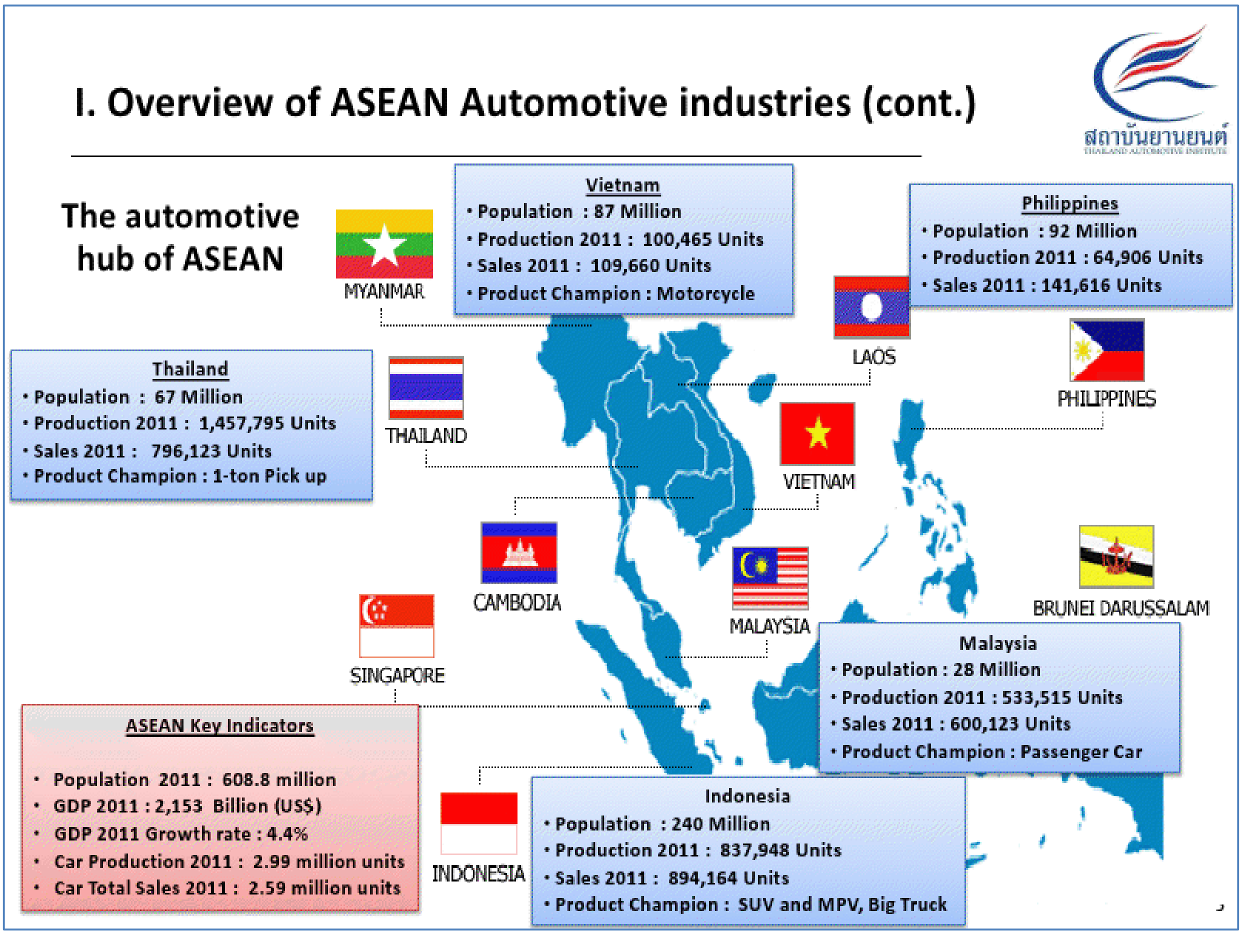

Fig. 3: Characteristics of Vietnamese auto market

A bit optimistic but not in the game, like not knowing football but good football comment into a fast fall dream, head of the country's largest automobile company, while not having identified its specific position in the region's production network, besides Vietnam, has emerged as a major player in the automobile industry, such as China. Korea, Japan, Korea, Thailand, Indonesia... Each country has its own position in producing, forming car models, parts suppliers and parts for the world market. Malaysia tries to position itself as "ASEAN car designer". They set the automobile industry to become a priority industry. In the mid-1980s, the Malaysian government introduced a national automobile project to facilitate the development of this industry and the domestic aiding industry. Malaysia has now produced for itself a national car company Proton. It is not popular in the world, but it is suitable for people in low income countries, giving them the opportunity to use cars. So what about Vietnam? Where do we want to locate ourselves? Truong Hai wants to go through assembly to become part of the supply chain. Vinaxuki wants to be rescued to continue the dream of Vietnamese car brand. Ministry of Industry and Trade wants high localization rate. In the end, no dream is contradictory, if we build it firmly on our own feet. The chairman of Thaco is still very enthusiastic about his automobile dream: "If we organize domestic production with a localization rate of 40%, then 40% will not only bring jobs, The creation of industrial products, which may even be further thought of balancing the trade balance, is aimed at exporting back to ASEAN countries at zero tariffs. It's a long way, but for a big business and with a business philosophy and what we have done in the past, we continue to choose the way to develop the automotive industry". The automobile industry is a precision engineering. Vietnam does not travel with other countries, but cannot "go off". The only effective way that Vietnam should do and do is to "take them to piggyback". "Piggyback" how? by applying high technology standards developed by developed countries. This standard benefits the country and society. In Vietnam, the consumers do not have to pay anything. In that way, they introduce the latest technologies in the Vietnamese market: reducing emissions, reducing energy consumption, high safety for consumers and minimizing traffic accidents. If anyone says that the application of high technical standards, then Vietnam cannot do, please say that Vietnam does where the foreign automakers have to do it! How do they do in their country to our country? And if anyone says that using high technology, consumers do not have money to buy that consumers do not understand anything about car technology or they understand that deliberately say otherwise to continue to sell, continue to "waste" out "low-tech, backward for Vietnam.

Now it is no longer a time to argue whether Vietnam should continue to develop the automobile industry or not; but in the new context, how to make cars, determine where, how development policies? The lesson of bitter defeat has been, successes learned from other countries also, pioneering Vietnamese enterprises also have. The remaining is the determination and institution that Prime Minister Nguyen Xuan Phuc affirmed in his speech at the investment promotion conference in Quang Nam: "Previously there was only a sandbank, now forming a joint venture. The largest private enterprise in Vietnam is Truong Hai - Chu Lai Automobile with several billion

USD, and human will and conditions and institutions are nothing we cannot overcome and move forward. Looking back, before Thailand became the largest automobile producer in Southeast Asia today, the government has chosen a policy to focus on developing manufacturing and processing industries. Components and assemblies from the beginning, combined with tightened policies tightening on imported vehicles; while Malaysia chose to invest in a national brand with cars called Proton or Perodua that brought pride to the local people. Although there are now many changes in ownership when Proton has a large stake in Chinese carmaker Zhejiang Geely, Perodua has a 35% stake in Toyota; The growth of both models on the Malaysian market is a clear testament to the trend of choosing good quality but affordable cars, regardless of whether it is a foreign or domestic brand. Perodua model alone set a record with sales of 207,100 cars in 2016, accounting for 35% market share of the automobile market in this country. Successes from Thailand and Malaysia have undoubtedly affected the development strategy of Vietnam's automobile industry in tightening with imported cars as well as the effort to launch an automobile brand Made in Vietnam as VinFast. If not to mention the restriction of having to compete more with imported cars, ATIGA is considered an opportunity for car manufacturers and assemblers in Vietnam because the export potential is great, especially for traders. There are not many factories in other countries in the region. Unfortunately, this unique advantage almost becomes difficult because the regulation only applies to cars with a localization rate of over 40% while no manufacturer in Vietnam has achieved this figure. Specifically, Vietnam currently has only 173 enterprises related to the automobile industry but most of them only produce on a small scale and at a basic level do not meet the criteria of a real industry. Details are less localized and rather rudimentary such as plastic, electrical wires, tubes, tires, mirrors, and glass. The production is mainly assembled, welded or painted. Therefore, the passenger car with the highest localization rate, Toyota Innova, has only stopped at 37%, the figure is considered to be quite low compared to a less equipped and modern production model. This is considered a failure of the Vietnamese automobile industry because before that the localization goal of this industry was 40% in 2005 and reached 60% in 2010. So far the localization rate has only reached 7 -10% if averaged. While regional countries such as Malaysia and Indonesia, the average localization rate is up to 60-70%, even the capital of ASEAN auto industry is Thailand has reached 80%. Despite knowing before but when the door was fully opened in 2018, the Vietnamese automobile industry could not keep up. The difficulties of the Vietnamese automobile industry are advantages for the remaining countries in ASEAN region to have more conditions to export vehicles to Vietnam. Not to say far, if the car from ASEAN region was mainly sold because there were many incentives in the policy, the number of passenger cars has increased dramatically, mainly cheap cars. For example, from Indonesia, where there is only 1 aircraft to Vietnam in January 2016, it will increase to 1,823 units in the same period after the new import tax is reduced by 10% from 40% to 30%. In fact, the "mind" brains operating the automobile manufacturing and assembling joint ventures in Vietnam were anticipated by the 2018 storm but seemed to be impotent. Many big men even "threatened" to quit production in Vietnam without preferential treatment to deal with imported cars. Up to this point, many manufacturers have responded by switching to importing some new models, still maintaining production, but the number of products is less, the expansion plan is almost frozen. It can be said that the Vietnamese automobile industry definitely stands outside the export game at least by 2018. In the coming time, some units continue to persevere with production and assembly in the country and aim to export but the road is still long.

3. Conclusion

According to the Vietnam Automobile Manufacturers' Association (VAMA), sales of passenger cars grew 27.7 percent, while those of commercial and special-use vehicles dropped 19.2 percent and 48.5 percent, respectively. The association noted that in the last four months of 2018, automobile sales expanded strongly.

More than 25,000 vehicles were sold in September, 29,040 in October and 30,902 in November and 34,234 in December, with the latter figure the highest level for a month in two years. Imports were greatly impacted by a decree which tightened regulations on cars shipped to Vietnam, allowing domestically-produced and assembled automobiles to drive the market's growth. By the end of 2018, sales of domestically assembled vehicles rose 10.6 percent, while that of imported car fell 6.2 percent year on year. The leading firms in the market were Thaco, Toyota Vietnam, Ford Vietnam and Honda Vietnam. Thaco led in sales with 96,127 vehicles, up 7 percent over 2017 and 34.7 percent of the market share. Thaco was followed by Toyota Vietnam with 65,856 vehicles, accounting for 23.8 percent of Vietnam's automobile market, and Honda Vietnam with 27,099 vehicles, making up 9.8 percent of the market. Meanwhile, Ford Vietnam sold 24,636 vehicles, a decrease of 14 percent compared to 2017, owning 8.9 percent of the market. As part of efforts to increase sales ahead of the upcoming Lunar New Year holiday, some companies, including Nissan and Ford Vietnam, have slashed the prices of some models by 10-30 million VND each.

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