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A picture for strategy of automotive industry in Vietnam

Cong Tri Tran, Danh Chan Nguyen
Ho Chi Minh city University of Transport, Ho Chi Minh city, Vietnam

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. Vietnam automobile industry has developed quite rapidly in the past 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, auto parts. There are many large companies with 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, supporting industries, orient

1. Introduction

Some domestic enterprises have been deeply involved in the global automotive production chain. The automobile industry has contributed to the state budget billions of dollars per year and solved jobs for hundreds of thousands of direct workers. In recent years, the National Assembly and the Government have adopted and promulgated preferential mechanisms and policies for the automotive industry, LR in investment and tax laws (import and export, corporate income and consumption). In particular, credit, land rent ... to support and create the most favorable conditions for the automobile manufacturing and assembly industry in the country to develop. Earlier, speaking at the opening ceremony of Vietnam AutoExpo exhibition 2019, Deputy Minister of Industry and Trade also said that the Vietnamese Government advocates the development of Vietnam's automobile industry to become an important industry of the country to meet the dark. multi-domestic market demand for common trucks, passenger cars and specialized vehicles Striving to become a supplier of components and spare parts and a number of high-value components in the industrial production chain World cars contribute to economic growth and promote the development of other industries. This is a common goal of the development of Vietnam motorbike industry by 2020 with a vision to 2030. Forecast for 2030 Vietnam has from 466,000 to 863,000 new cars entering the market; by 2020 the number of motorcycles will also reach about 36 million units. On the other hand, improved infrastructure is also a favorable factor for the development of automobile, motorbike and auxiliary industries. With these forecasts and factors, it can be said that the industry, the market for automobiles, motorbikes and supporting industries in Vietnam still has a lot of potential for enterprises to invest in production and business. 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 beindispensable. 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 industrydevelopment.

Emerging Asia Tax Rates			
Country	**Corporate Income Tax**	**Value Added Tax**	**Dividends Tax**
China	25%	17%	10%
India	40% (proposed reduction to 30%)	12.5%	15% (proposed reduction to 5%)
Malaysia	25%	N/A	Zero
Thailand	23% (reduced to 20% for the two accounting periods on or after January 1, 2013)	7%	10%
Vietnam	25% (proposed reduction to 23%)	0%-10%	Zero

Fig. 1. Tax for car import in Vietnam

In Vietnam, according to experts, depending on the ability of each enterprise that can be divided into 3 support industry groupsGroup 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 andparts.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 developmentof 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 TruongHai 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 quantityofcomponentsandaccessorieseveryyear,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, Vietnamhas 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 supplychains.

2. Orientation for the development in Vietnam

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. Afurther 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. MitsuoSabaka, 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 supportingindustries 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 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.

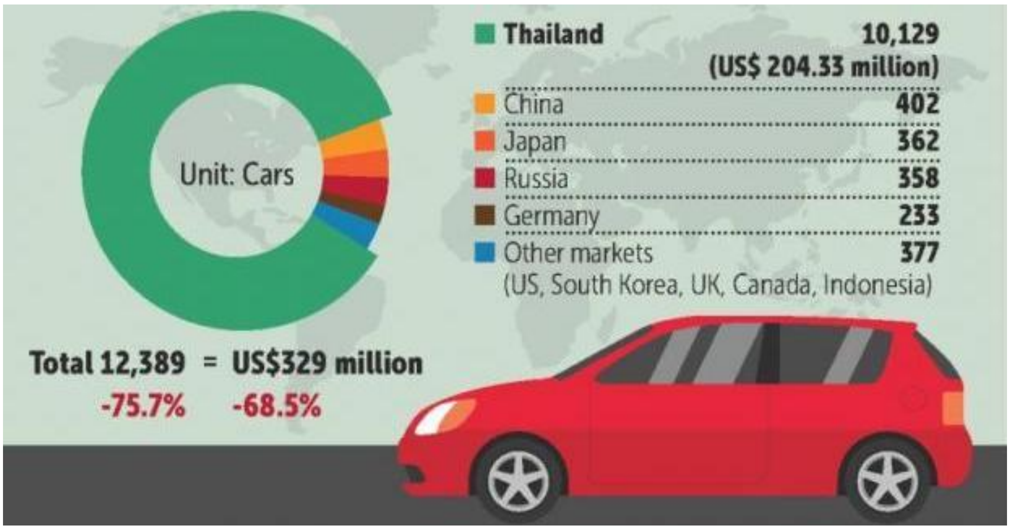

Fig. 2. The auto imports in first half in Vietnam

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 developthe 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. 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. 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.

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. 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 perennial like Toyota.

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. Of course, 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 certainly stands out of the export game at least by 2018. In the future, some units continue to persevere with production and assembly in the country and aim to export but the road is still long. The appearance of VinFast is evaluated by experts as the third leg to help develop Vietnam's automobile manufacturing and assembly industry. Along with Vingroup's carmaker are two big Truong Hai (Chu Lai) and Hyundai Thanh Cong (NinhBinh). This is an appropriate time to bring the industry to a new development, not as flat as before. Why has Vietnam automobile industry not been formed in over 20 years?

The automobile assembly projects in Vietnam began in the 90s of the last century. The first automobile production activities were carried out by HoaBinh automobile company (VMC) and Mekong - cooperating with firms. vehicles in the form of business cooperation contracts. VMC assembles and distributes BMW, Mazda and Kia models. Mekong makes Fiat cars, Ssangyong. Next, automobile companies invest in Vietnam in the form of joint venture with domestic enterprises: Toyota, Honda, Daihatsu, Ford, Mercedes. The development strategy of the automobile industry in the first phase is very clear: attracting foreign investment in the automobile industry, creating jobs, creating favorable conditions for the production of input materials for automobile production. Another social goal is to use automobile production projects to create development opportunities for low-economic provinces such as VinhPhuc and Hai Duong. At that time, although the consumption market in the South was larger, the factories were located in the North. To support assembly manufacturing ventures, the government enforces a market-closing policy for CBU imported cars (CBU). Around the early 2000s, the import tax for whole cars was very high, up to 120%. By the time Vietnam joined the WTO in 2007, the import duty was brought back to about 60-80% and then following the cut roadmap of the ATIGA trade agreement. 2018 is the first year according to the roadmap, imported cars of ASEAN origin (C / O form D) have 0% import tax rate. Since the Common Effective Preferential Tariff Agreement (CEPT) was signed between ASEAN countries in 1992, automobile manufacturing corporations have to take into account the strategy of producing and consuming products in this region. With the accession of ASEAN to Vietnam, a country with a large population and a lot of potential of consumer markets, automakers must reconsider long-term business strategy. Currently, it can be clearly seen that Vietnam has absolutely nothing in the supply chain and production of automobile manufacturers in the region. Firms are narrowing down CKD production and switching to 100% import of complete cars from other countries in the region. Hopefully, only two late growth firms are expected to be Kia and Hyundai of Korea. These firms are also only producing and consuming in Vietnam market.

3. Conclusion

The Vietnamese automobile industry is developing 30 years later than other countries in the region, creating great competitive pressure on domestic production. In the integration trend, Vietnam has long-term strategic solutions for the automotive industry, considering this sector an important driving force to promote the industrialization and modernization process, should be encouraged to promote. develop with stable, consistent and long-term policies. At the same time, Vietnam will become a country with a developed automobile industry, ensuring consumers' rights and environmental safety, in line with Vietnam's national commitments in the integration process. Thereby, the Vietnamese automobile industry has had active and widespread participation of enterprises of all economic sectors. As a result, the total production and assembly capacity of automobiles in Vietnam has reached about 600,000 vehicles per year, including most types of cars, trucks and passenger cars; some types of vehicles such as load trucks up to 7 tons have a localization rate of 55%; passenger cars of 24 seats or more localization rate from 45% to 55% basically meeting the target set by 2020. Some products have been exported to Laos, Cambodia, Myanmar and China. America. In particular, with the participation of many businesses in this field, businesses contribute to the state budget billions of dollars / year and create jobs for hundreds of thousands of direct workers, creating an important premise for the construction and development of automobile assembly and manufacturing industry.

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