

Industrial Policies as Determinant of Localization: The Case of Vietnamese Automobile Industry

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Back ground

➤ Localization in some neighboring countries:

- Thailand 47.9% (2004)
- Malaysia 45% (2004)
- Indonesia 38.3% (2004)
- Philippines 28.3% (2004)
- China 55.9% (2003)
- Vietnam 22.6% (2003)



Localization in Vietnam

- The motorbike 70-80% (2007)
- Tivi products 20% to 70% (2007)
- Air-conditioners 60% (2007)
- Textile 30% (2007)
- Computer 20-40% (2007)

Although the firm can achieve high local content rate in terms of number of parts, its localization rate remains low in value

→ Labor-intensive parts and components rather high value ones

Table 1: GOVERNMENT'S SCHEME ON LOCAL CONTENT RATE OF AUTOMOTIVE PRODUCTS

	2005		2010	
	Local content rate	Estimated production volume	Local content rate	Estimated production volume
Bus	40%	15,000	60%	36,000
Truck	50%	40,000	65-70%	100,000
Car from 4 to 9 seats	30%	3,000	50%	10,000
Professional car	40%	2000	60%	6000
Luxury car	20-25%	32,000	40-45%	60,000
Engine	15-20%		50%	100,000
Gear box			90%	100,000

Source: Vietnamese Ministry of industry

CENTRAL ISSUE

central issue that I want to research on is the relationship between industrial policy and localization on figuring out the various regulations that have possible effect on the localization.

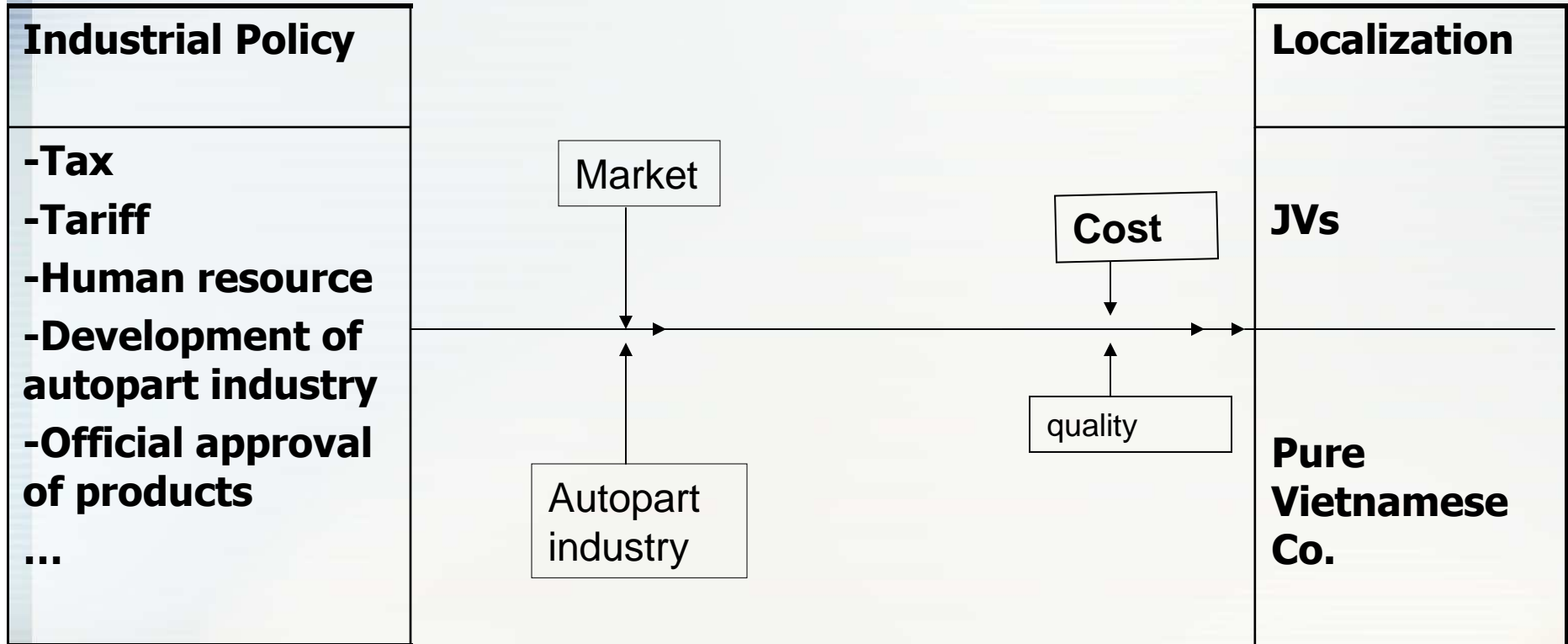
OBJECTIVES

The research would like to look into the current situation of Vietnamese auto industry to assess real state of localization as well as effect of the current policy on localization

My research questions are:

- How is real state of localization of car in Vietnam?**
- How present policies have effect on localization in the Vietnamese automobile industry?**

Framework



Methodology

Quantitative research

Questionnaires and surveys which were developed to answer the above three research questions referred to real state of localization of locally-produced vehicles, effects of present policies to localization of locally-produced vehicles and recommendation to promote localization in the Vietnamese auto industry

Qualitative research

- Field trips to some automakers and Interview managers and staffs of some selected automakers and auto-parts makers, including
 - 3 Japan-invested automakers, 1 US-invested automaker, 1 Korea-invested automaker and 1 license assembler
 - 2 pure Vietnamese automobile companies, including one state-owned enterprise and one private enterprise
 - 2 auto-part makers including foreign invested companies and pure Vietnamese companies
- Statistical data from various ministries, press release reports were distributed to automakers and auto-parts makers in Vietnam to collect opinions of enterprises in current situation of localization, localization policy, their protests and recommendations to the government.

Definition of local content or localization

- **Local content or localization is defined as “added value” of products processed domestically. It refers to the proportion of products that is not imported.**
 - Local content rate or localization rate is defined as percentage of “added value” of products processed domestically.**
- **Two ways of defining local content rate**
 - Local content rate by value**
 - Local content rate by point list**

Definition of industrial policies

Industrial policy can be defined as the wide range of government actions designed to promote growth and increase the competitiveness of a particular sector or sectors in an economy.

-Tax

-Tariff

-Human resource

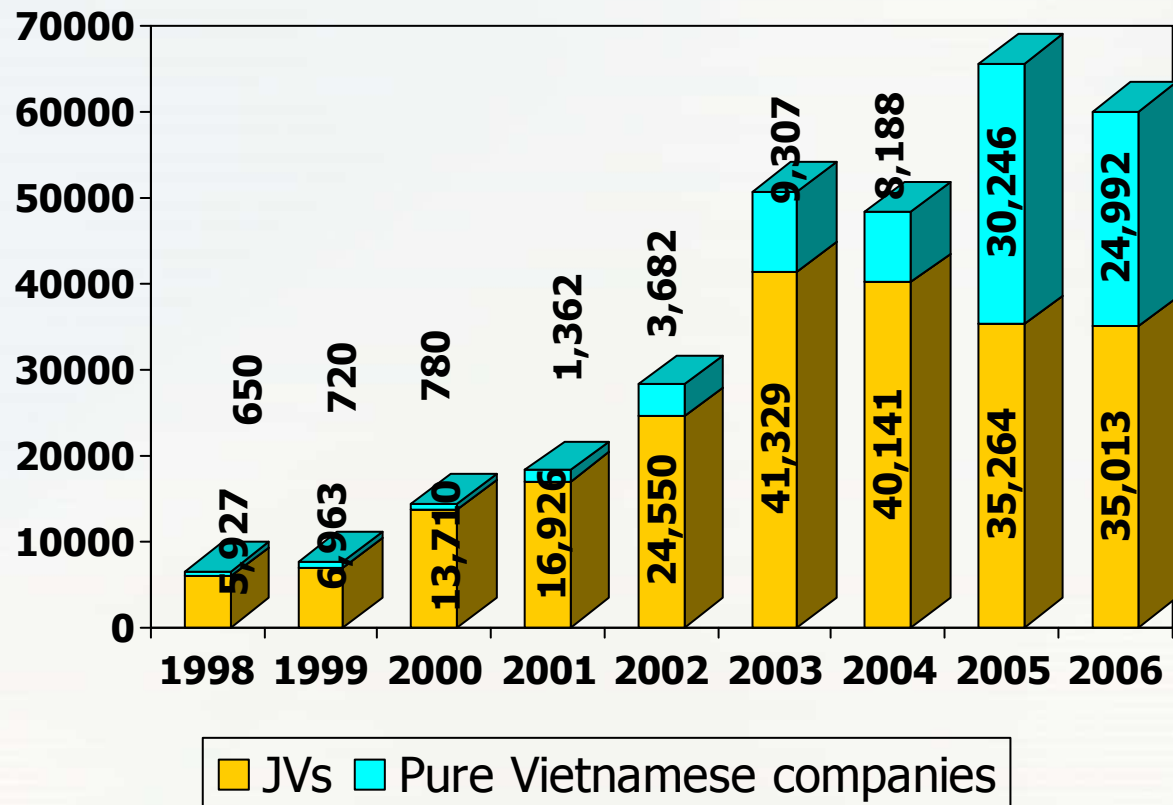
-Development of supporting industrial services

-Official approval of products

-Others (Capital mobilization, Factory sites, buildings, and industrial parks, Transportation of factory equipment, Financing, Cash grants, Public finance policy, Consulting-type assistant)

Overview of Vietnamese automobile industry

Figure 2. Sales of local enterprises



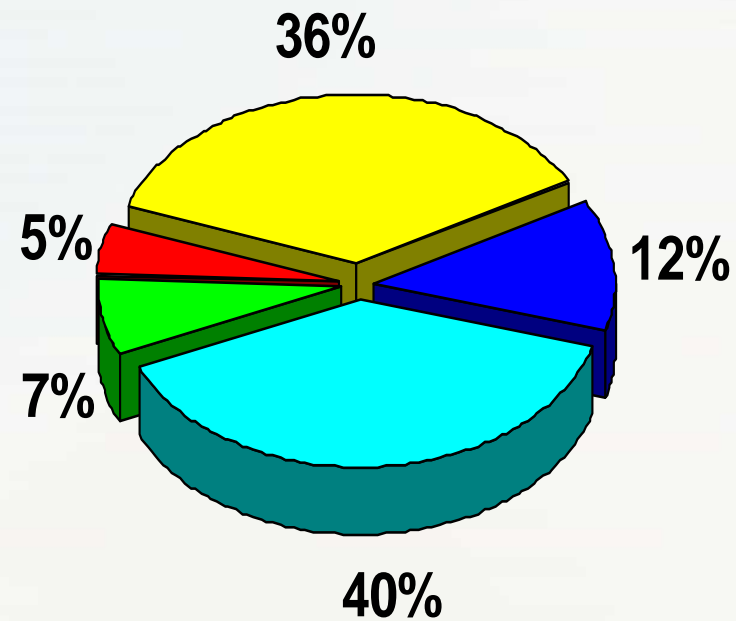
Source: Ministry of Planning and Investment

Table 2. Vietnam auto manufacturers association

	Automobile companies	Brands
1	Toyota Motor Vietnam	Toyota
2	Ford Vietnam	Ford
3	Vinastar Motor	Mitsubishi
4	Isuzu Vietnam	Isuzu
5	Vietnam Suzuki	Suzuki
6	Vietnam Daewoo Motor	Daewoo, GM Daewoo
7	Mercedes-Benz Vietnam	Mercedes-Benz
8	Honda Vietnam	Honda
9	Vietnam motors corporation	BMW, Mazda, Kia
10	Hino Motors Vietnam	Hino
11	Vietindo Daihatsu Automotive	Daihatsu
12	Mekong Auto	Fiat, Iveco, SsangYoung
13	Saigon Transportation Machinery Corp.	Samco
14	Truong Hai Auto Corp.	Kia, Daewoo, Foton, Thaco
15	Vietnam Engine Agricultural Machinery Corp	Veam
16	Vietnam Coal Corp.	Kamaz, Kraz
17	Xuan Kien Private Enterprise	Vinaxuki
18	Vietnam Motor Industry	Vinamotor

Source: Field trip to Toyota Vietnam

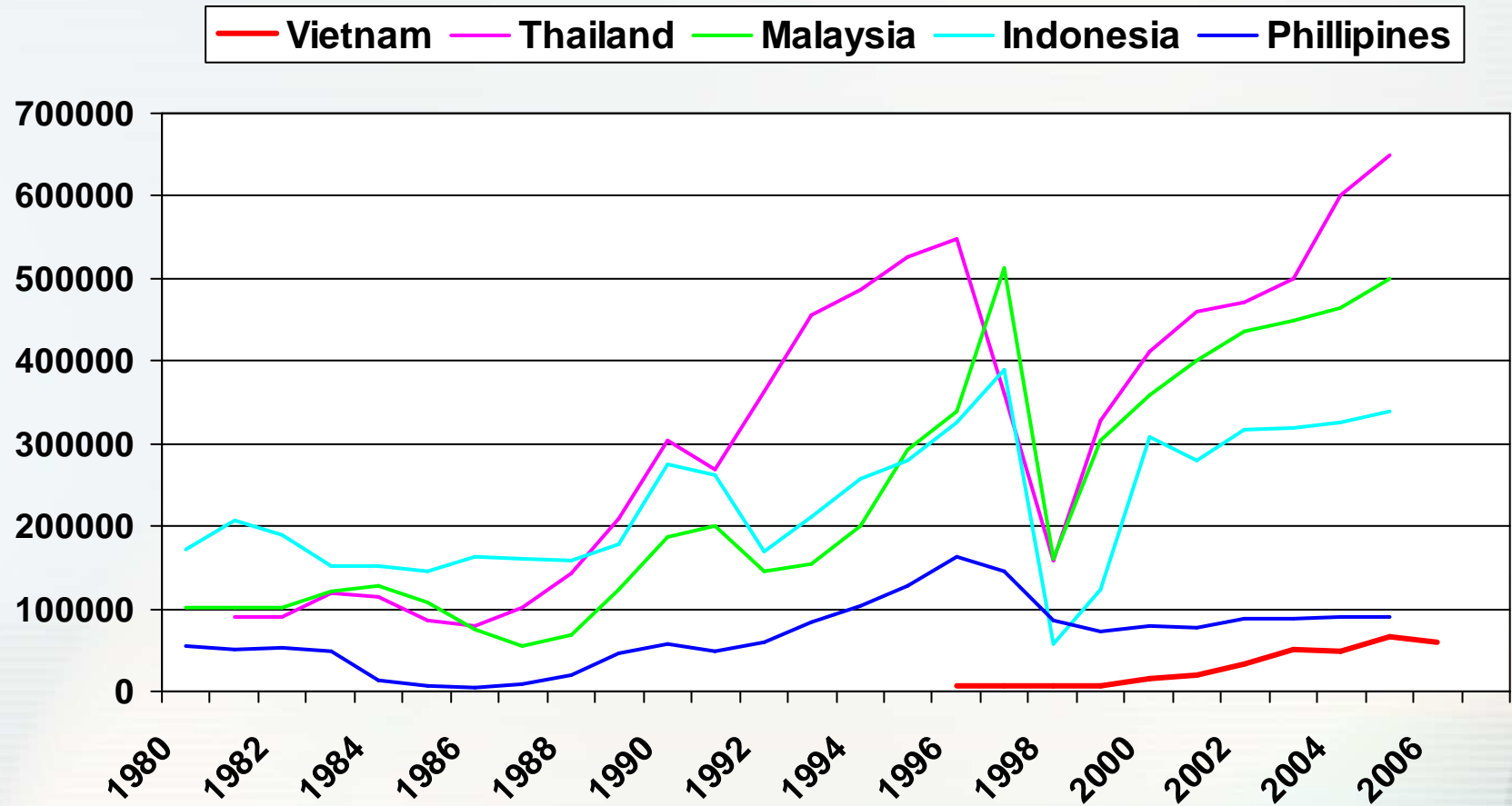
Figure 5. VEHICLE CATEGORIES



■ PassCars ■ Buses ■ Trucks ■ Special ■ Other

Source: Tokyo-UNIDO, 2007

Figure 7: Vehicle sales in ASEAN



Source: various source

Policy for increasing local content in the Vietnamese automobile industry

Before 2004: High domestic market protection and incentives

+CBU import limitation

+Tax and tariff

+Income tax exemption for new companies for the first 5 years of operation, 50% decrease in income tax for 8 years since making profits. Preferential income tax of 15% to 20% depending on their location (income tax is normally 25%).

+Exemption from import tariff of equipments, machines, material for fixed assets that have not been domestically produced

+Exemption from value-added tax

+Reduction in special consumption tax

+ 100% Foreign investment is allowed for Parts and accessories manufacturers

+Joint ventures: 30%-70%

Since 2004: Protection decrease

Since 2006: WTO

PRELIMINARY RESULTS AND DISCUSSION

- **Overview of sample and survey**
- Setting participants**
- Research Procedures**
- **Surveys results**
- **Conclusion**

Overview of the sample

SURVEY		INTERVIEW	
<i>Respondents</i>		<i>Interviewees</i>	
Distributed	19	Managers	6
Returned	18	Staff	6
<i>Type of company</i>		<i>Type of company</i>	
State-own	4	State-own	2
Private	2	Private	1
JVs	12	JVs	4
Dealers	1	Dealers	1
<i>Location</i>		<i>Location</i>	
Hanoi	11	Hanoi	5
HCMC	8	HCMC	3

Real state of localization in Vietnam

1 is the least and 5 is the most

Chart 1. Development level of each localization criterion

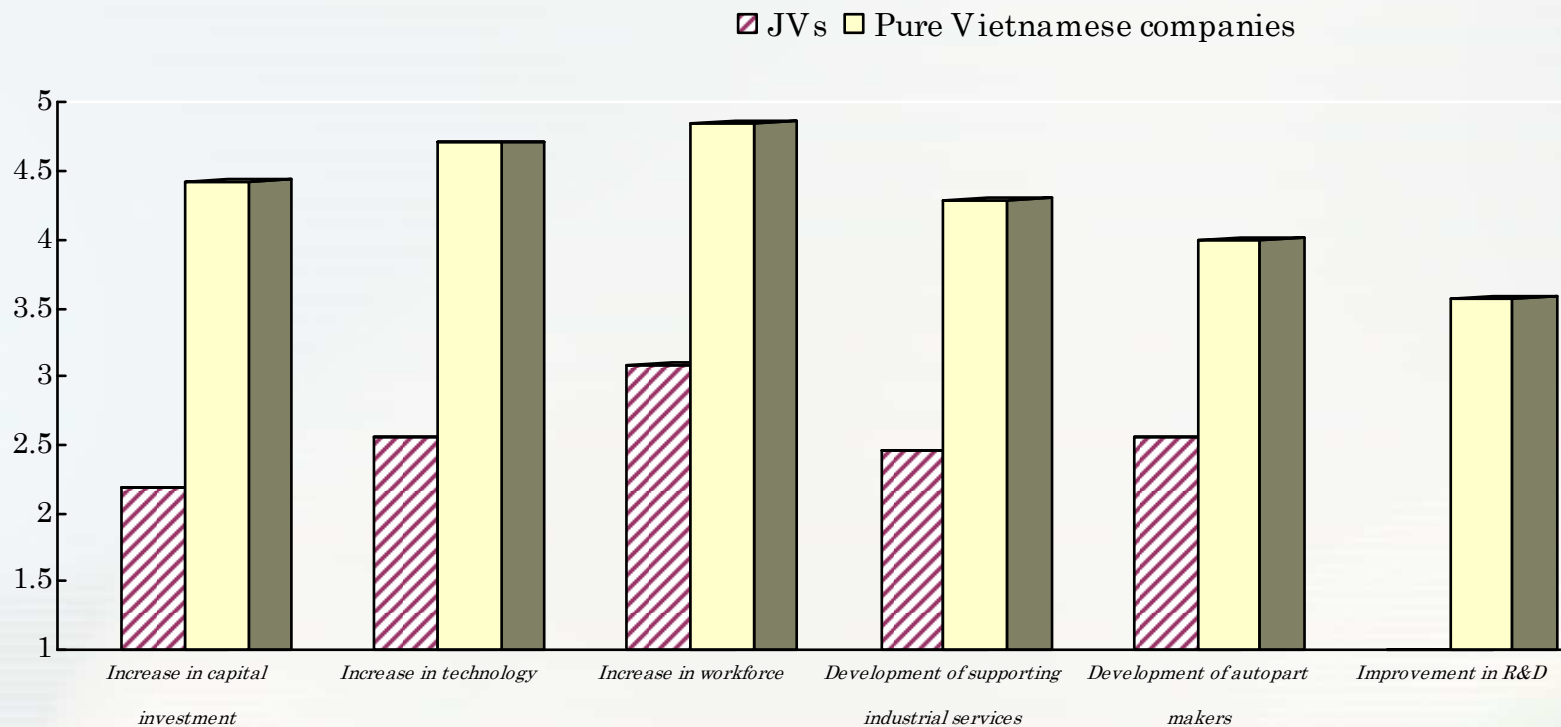


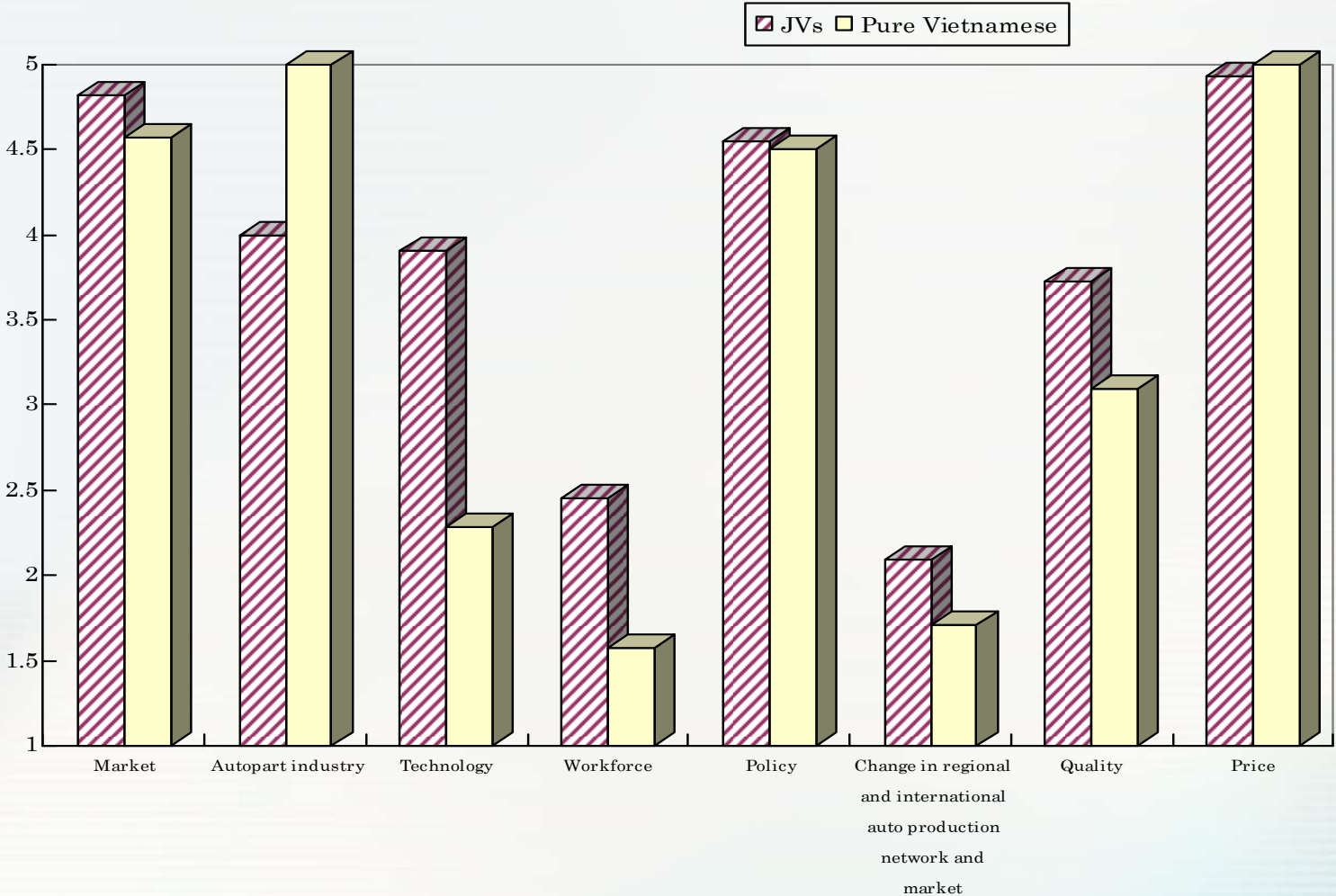
Table 7. Local content rate of automakers in VAMA

	Automobile companies	Brands	Local content rate (%)
1	Toyota Motor Vietnam	Toyota	20*
2	Ford Vietnam	Ford	6,45
3	Vinastar Motor	Mitsubishi	14
4	Isuzu Vietnam	Isuzu	12*
5	Vietnam Suzuki	Suzuki	10
6	Vietnam Daewoo Motor	Daewoo, GM Daewoo	8
7	Mercedes-Benz Vietnam	Mercedes-Benz	1.5
8	Honda Vietnam	Honda	20*
9	Vietnam motors corporation	BMW, Mazda, Kia	12*
10	Hino Motors Vietnam	Hino	2,06
11	Vietindo Daihatsu Automotive	Daihatsu	4
12	Mekong Auto	Fiat, Iveco, SsangYoung	4.6
13	Saigon Transportation Machinery Corp.	Samco	40
14	Truong Hai Auto Corp.	Kia, Daewoo, Foton, Thaco	40
15	Vietnam Engine Agricultural Mechinery Corp	Veam	40
16	Vietnam Coal Corp.	Kamaz, Kraz	35
17	Xuan Kien Private Enterprise	Vinaxuki	60
18	Vietnam Motor Industry	Vinamotor	40*

Source: Field trips

1 is the least and 5 is the most

Chart 2. Causes of localization stagnation



Localization factors

-Market

+ Domestic market for cars (income, infrastructure, low-speed market)

+ Parts: Export and domestic market (many models, standard, differentiated market)

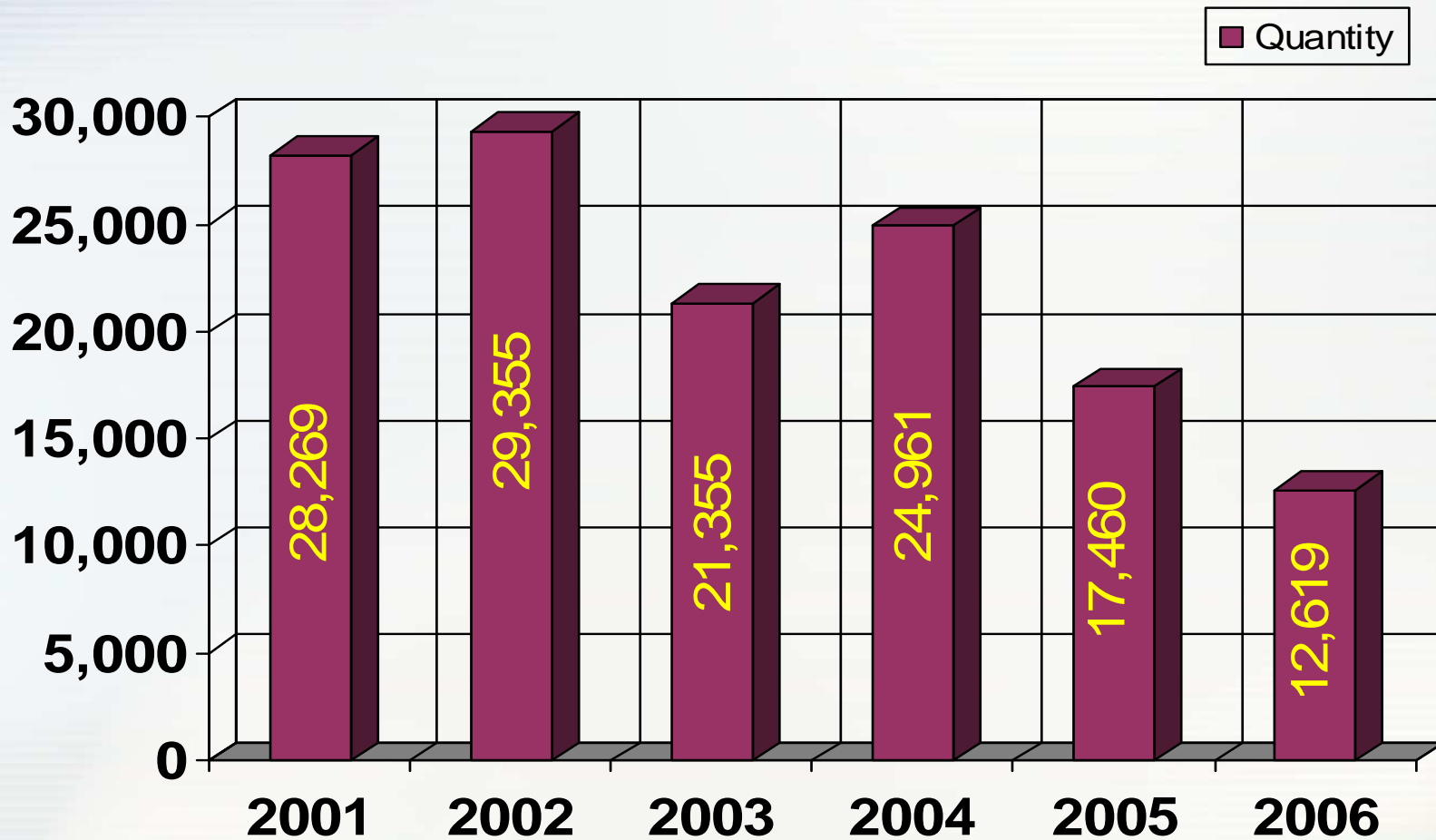
-Quality (Achieve a certain of quality, Different standard of JVs and Pure)

-Cost (High Price of cars, Parts)

Autopart industry

- Automakers themselves are able to produce at most 36-42% of the car**
- Each automaker need at least 20 autopart makers**

Figure 9. Importation of second hand automobiles



Source: Tokyo-UNIDO, 2007

Chart 3. Effect of government policies on localization of auto products

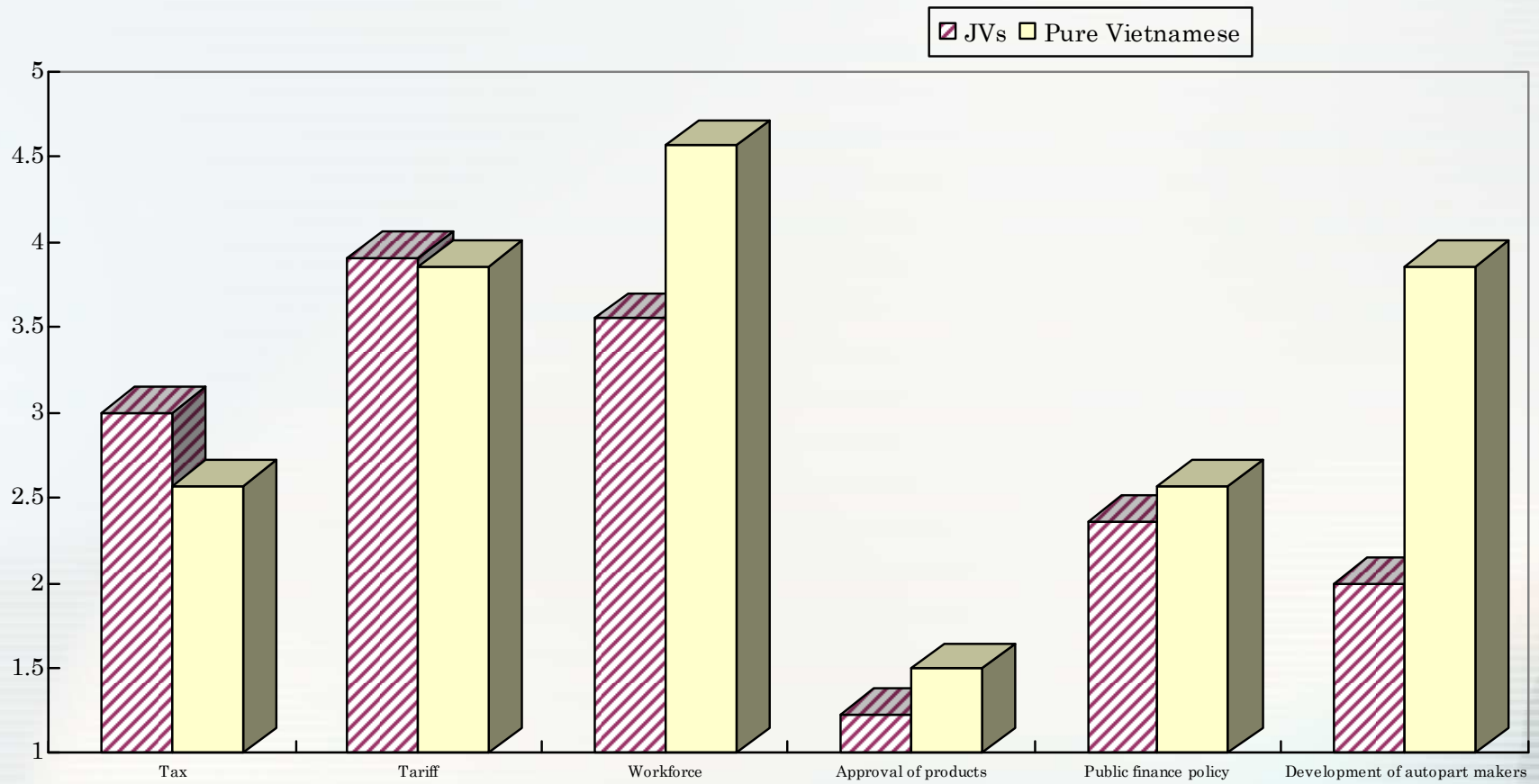


Table 9. Changes in tariff and tax rates in automotive products

Types of car	Special consumption tax		Tax remission rate				VAT		Import tariff for CKD kits		
	Before 2004	After 2004	Before 2004	2004	2005	2006	Before 2006	After 2006	Before 2004	2004	2006
Under 5-seat car	100	80	95	70	50	30	0	8-10	20	25	36
6-to-15-seat car	60	50	95	70	50	30	0	8-10	20	25	36
15-to-24-seatcar	30	25	95	70	50	30	0	8-10	20	25	36

Source: Thời báo kinh tế Việt Nam - Vietnam economic Times, Vol. 54, 2004

Tax and Tariff

- Protection of domestic market for a long time
- Tariff adjustment →
 - +Increase import duty of some parts → increase price of car
 - market (JVs)
 - keep unchanged price of car →slightly increase market (Pure Vietnamese)
 - +effect on consumer's decision
 - +Import duty of CBU decrease → increase imported car →market
 - +no effect on autopart makers

Table 8. Reduction of import tax following the WTO, CEPT & ACFTA commitment

Type	Items	Tariff	Commitment with WTO			CEPT	ACFTA
		MFN %	Type	Final tariff %	Year	Tariff %	Tariff %
P.Car	V≤5s	80	≥ 2500cc, gasoline	52	2019	-	-
	6s≤V≤9s		≥2500cc, gasoline, 4WD	47	2017	-	-
			<2500cc, others	70	2014	-	-
Bus	10≤V≤15		-	-	-	-	-
	16≤V≤24		-	-	-	-	-
	24≤V≤30	80	-	-	-	-	-
	30<V		-	-	-	5	-
Truck	GVW≤5T	80	-	70	2017	5	90
	5<GVW≤6T	60	-	50	2012	5	55
	6<GVW≤10	60	-	50	2012	5	55
	10<GVW≤20	30	-	-		5	25
	20<GVW≤24	10	-	-		5	10
	24<GVW	10	-	-		5	10

Source: VAMA, 2007

Policy of encouragement of autopart industry

- Pure Vietnamese autopart companies: 30 local companies produce 40 kinds of spare parts (regularly 25) like rubber components, suspension and spring, bolts... but can not be accepted by JVs
- Foreign autopart companies: 40 companies produce simple external accessories such as Tires, tube, battery, air-cons, shock absorber, antennas, leaf spring, coil spring, lamps, wire harness, seat, break, muffler, bearing, technical rubber parts, wheels, seats, doors... mainly processing and assembling imported semi-products or bundles of accessories.
- Development
 1. Market (buying guarantee, standard)
 - Differentiated market (JVs and PVCs)
 - JVs (direct contracts with autopart makers)
 - Pure Vietnamese companies (contracts and self-localized)
 - Autopart makers diversify their products
 2. Production cost (Raw material to be imported, imported components)

CONCLUSION

- It is necessary to consider 4 main factors that have big effect on localization: cost, quality, market and autopart industry**
- Amid the current situation, industrial policies are useful and helpful to facilitate the auto industry via improvement of localization factors. However, current policies seems not to have a positive effect on localization. It is partly because of policy itself, other matter hide in unstable and unsuitable government policy, lack of mutual consultation dialogue between policy makers and enterprises**

Thank you