

Emerging Market Opportunities- Vietnamese Automotive Industry

新興市場商機—越南汽車產業

I. Overview of the Development of Vietnamese Automotive Industry

Vietnam is located in the eastern part of Indo-China Peninsula, bordered by the Gulf of Tonkin and the South China Sea in the east and south, Yunnan and Guangxi in the north, and neighboring Laos and Cambodia in the west, with an area of 330,000 square kilometers, a coastline of more than 3,200 kilometers, and a population of more than 90 million people. Vietnam had been in a state of prolonged war since the mid- 20th century, and only after the reunification of North and South Vietnam did the country gradually recuperate. Due to the prolonged period of war and communist dictatorship, Vietnam seriously lacks the conditions for the development of the automobile industry, and the technical basis for the R&D of the automobile industry and its production is very weak. Before the reform and opening up, the demand for automobiles in Vietnam mainly relied on the import of complete vehicles from the old Soviet Union or chassis from the former East Germany, which were assembled into medium- and large-sized passenger cars in the factories in Hoa Binh, Ba Dinh, Nam Ha, Hai Phong, Da Nang, and so on. After the dissolution of the Soviet Union and the unification of East and West Germany, Vietnam lost its original source of imports. In order to ensure the supply of the domestic automobile market, the Vietnamese government formulated a policy to allow foreign investors to set up automobile assembly plants in Vietnam, and approved the establishment of two automobile plants, namely, the Korean-Vietnamese joint venture Vietnam Mekong Automobile and the Japanese-Korean-Vietnamese joint venture Vietnam Motors Corporation (VMC), gradually forming the Vietnamese automobile industry.

In 2023, Vietnam reported the ownership of 930,000 vehicles, of which 48% were commercial vehicles & buses and 52% were small and medium-sized passenger cars. As Vietnam's automotive component manufacturing and production capacity is insufficient, most assembly and sales in Vietnam are completed by international brands, and automotive component manufacturers are mostly foreign-invested, so most key components for passenger cars, commercial vehicles, or trucks have to rely on imports.

In recent years, the rapid economic growth, expanding domestic demand, coupled with the signing of tariffs and economic & trade agreements with a number of countries, have made Vietnam the core of the economic development of ASEAN, and the investment in the automotive industry is vibrant. In addition to the local car manufacturers like VinFast and Thaco actively expanding their production, Korean Hyundai and Vietnam's local car manufacturers also launched a joint venture to produce cars. Especially since January 2018 ASEAN have abolished the tariffs on automobiles, imported cars and components from Thailand and other ASEAN countries will lead to the risk of decline in Vietnam's automobile & components industry. The Vietnamese government has actively cultivated the market for strategic vehicle types, developed the peripheral industries and expanded the integration of resources for the OEMs to plan and at the same time, actively plan for the construction of steel mills and large-scale automobile factories.

II. Vietnam's Automotive Industry Policy & Development

Vietnam has reduced its import tariffs on automobile components since January 2008. It has reduced the tariff rates on both small passenger cars with 5-7 seats and automobile components with more than 16 seats by 3-5%, making the new rate for the former to be 20-25% and that for the later to be 13-17%. According to the development of Vietnam's automobile industry, Vietnam's automobile tariff will decrease year by year. Vietnam's automobile tariff for ASEAN was 50% in 2014, 35% in 2015, 20% in 2016, 10% in 2017, and down to zero after 2018 onwards. The imported automobiles caused an impact on the automobiles manufactured in Vietnam, and a lot of automobile manufacturers dared not to invest in them hastily. In order to avoid the risks brought about by the tariff decrease year by year and improve Vietnam's automobile assembly & domestic components production, manufacturers suggest that the government should formulate relevant industrial policies.

The Vietnamese government insists on making the automobile industry the focus of industrial development, hoping to increase the proportion of automobile parts production and vehicle assembly & domestic production. In response to the demand of automobile manufacturers, the import tariff rate of complete automobiles has been lowered several times in order to stimulate the production and assembly of automobiles in the country, and at the same time, in order to support the development of the

automobile industry, the automobile industry has been classified as a highly protected industry, and has been protected by high tariffs, including the import tariffs and special consumption tax. In accordance with the ASEAN FTA and Vietnam's commitment to trade liberalization, the government has prepared countermeasures. The Ministry of Industry and Commerce of Vietnam proposes to develop Vietnam's automobile industry with tax policies, pointing out that large-sized enterprises should be encouraged to develop the automobile industry on the basis of equal and non-discriminatory manufacturing between domestic and foreign enterprises, and that automobile production and components manufacturers should develop peripheral industries to deepen their integration into the global value chain of the automobile industry.

Many automobile assemblers & manufacturers continue to ask the government for rental tax incentives. The automobile manufacturing industry is one of the industries that enjoy rental tax incentives and preferential policies on the acquisition of land for the establishment of factories. The Ministry of Finance, in coordination with the Ministry of Commerce and Industry, has reported to the Central Government for approval and formulated preferential policies for automobile investment and production, including the implementation details of the Special Consumption Tax Law on Automobiles.

In 2018, Vietnam was required by the ASEAN Trade in Goods Agreement (ATIGA) to remove import tariffs on ASEAN automobiles and completely open up the domestic automobile market, which, coupled with the implementation of the ASEAN FTA and a considerable amount of local demand, may attract more international automobile manufacturers to move in.

Vietnam encourages leading international automobile manufacturers to set up their presence in the Vietnamese market. In order to prepare the Vietnamese domestic industry for early response, the Ministry of Industry and Trade (MOIT) has proposed a policy to help Vietnam's automobile industry to improve its competitiveness, according to which Vietnam will impose high tariffs on the import of luxury automobiles, **encourage local enterprises or joint ventures to engage in the production of automobile parts or complete build unit (CBU) in the country, and reduce import and export tariffs.** The Vietnamese government has adjusted its policy on the automobile and component industries in the direction of reform, opening up and internationalization. The Vietnamese government hopes to develop automobiles as an important industry that can meet the country's domestic demand and enter the ASEAN region and international markets.

III. Vietnam's Automobile Industry Cluster

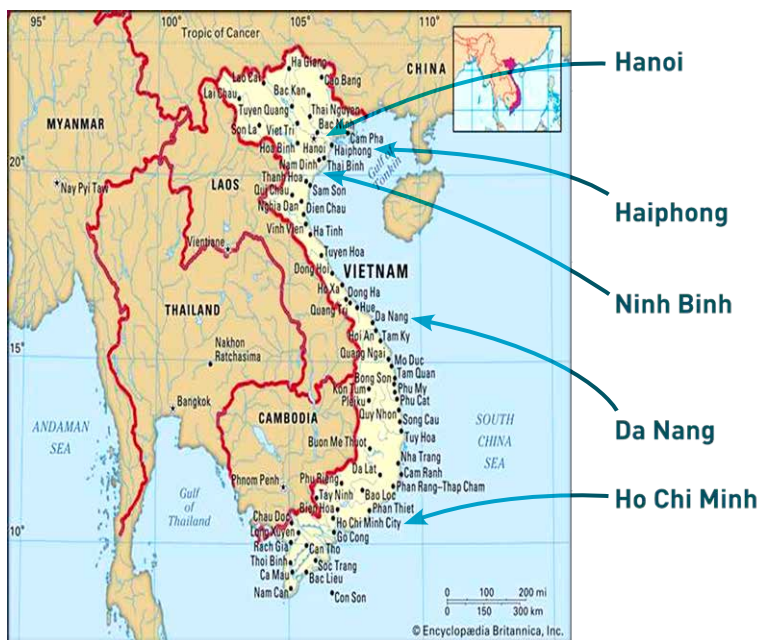
Vietnam's automotive industry is mainly concentrated in two major economic zones. One is centered on the capital city of Hanoi, Tra Noc 1st Industrial Zone in Can Tho City of southern Vietnam,

including Taiyuan and Hai Phong, etc., and the other is centered on Ho Chi Minh City, including Dong Nai Province, Binh Duong Province, and the Thanh Hoa assembly base, etc. These two economic zones are located near ports with convenient transportation and play as north-south logistics centers. People there have higher income levels and higher spending power, while the two major industrial clusters have many large-scale state-owned traditional machinery manufacturing companies and better resources for skilled labor and technology, so leading automobile manufacturers have chosen them to set up production or sales bases, forming automobile industrial clusters.

In order to encourage automobile manufacturing, assembly and production of automobile parts, the Vietnamese government has integrated resources and allocation of parts in 3 major economic regions and nearby areas, including North Vietnam (Hanoi, the economic delta of Hải Phòng & Ninh Bình provinces), Central Vietnam (Da Nang City, Khánh Hoà), and Southern Vietnam (the automotive cluster consisting of 4 economic regions (including Hồ Chí Minh City, Bà Rịa - Vũng Tàu, Đồng Nai, Binh Duong), and Phố Cần Thơ).

In order to increase the proportion of domestic production of automobiles, the Vietnamese government has implemented a series of measures, including low-interest loans and preferential tax policies for domestic manufacturers, setting import tax rates based on different components to replace the original Complete Knock Down (CKD) import tax, proposing a preferential mechanism for the manufacture of automobile engines, transmissions, and the production of specialized and general automobile projects, etc., and expanding the export of automobile components to neighboring countries and regions. Most key components such as engines, transmissions, chassis and suspension are imported. **Figure 1** shows the main automotive industry clusters in Vietnam.

Figure 1. The Main Automotive Industry Clusters in Vietnam



Source: britannica and ITRI IEK (04/2024)

Vietnam's leading automobile-related manufacturers, including Vinamotor, Veam, Vinacoal, and SAMCO, invest in the manufacturing and assembly of automobiles and related components, with Vinamotor focusing on the manufacturing & assembly of passenger cars, small & medium-sized trucks, cars, engines, gears and transmission modules, Veam engaged in the manufacturing and assembly of passenger cars, small



and medium-sized trucks, engines, gears and transmission system components, Vinacoal manufacturing and assembling medium- and large-sized trucks, specialty automobiles and ancillary components; and SAMCO manufacturing and assembling passenger cars and producing automotive components.

According to the statistics of the Ministry of Industry of Vietnam, more than 30 manufacturers (mainly in the north of Vietnam) have been authorized to import automobile components for the production of automobiles, and almost all of the imported automobile components come from China. 11 models of Chinese automobiles are assembled in the region. There are a total of 25 automobile sales agents in North and Southwest Vietnam, representing 9 Chinese branded vehicles (mainly trucks with a load capacity of 700 kilograms to 2.5 tons and medium-sized passenger cars with 8 to 29 seats).

There are more than 200 automobile component manufacturers in Vietnam, many of which are SMEs. The Vietnamese government has proposed a target of having at least 40% of automobile components produced locally in 2005 and 60% in 2010, but the proportion by the end of 2023 only reached 33.1%, showing the supply chain of Vietnam's automotive industry is still not self-sufficient, even for joint-venture manufacturers, as high as 70.5% of passenger cars/large passenger cars or buses produced in Vietnam still rely on imported components.

Many well-known manufacturers have operations in Vietnam that produce automotive components, such as Japanese Denso, GS (batteries supplier), Sanyo, Yokohama, and Korean Kymbo, which mainly manufacture plastics, rubber parts, connector parts, screws, gas pedal or other metal machined parts. The development of Vietnam's automotive and components industry is mainly characterized by several phenomena. The first is its weak research capabilities and the metallurgy, materials, electronics, chemicals, machinery and other industries highly related to the automobile industry are underdeveloped, so most rubber/plastic, body panels and tires and other components, and main key components like engines, transmissions (MT/AT), brake servo systems, etc. still rely on imports, the second is the lack of senior technicians and R&D capabilities, and the third is the lack of after-sales service, market research, study & info collection capabilities, and the transportation infrastructure is incomplete compared to other ASEAN countries (e.g., Thailand, Malaysia, Indonesia, etc.).

Vietnam's automotive and components industry is searching for development strategies. In recent years, Vietnam has been actively expanding export business for some automotive components by virtue of the advantages of cheap labor, etc. Due to the stagnation of Vietnam's domestic demand, the automotive and its related components industry has not been able to develop smoothly. However, with the emergence of the ASEAN countries, Vietnam has been regarded as a production and export base for exporting to ASEAN countries or Japan, and the number of related automotive components manufacturers has

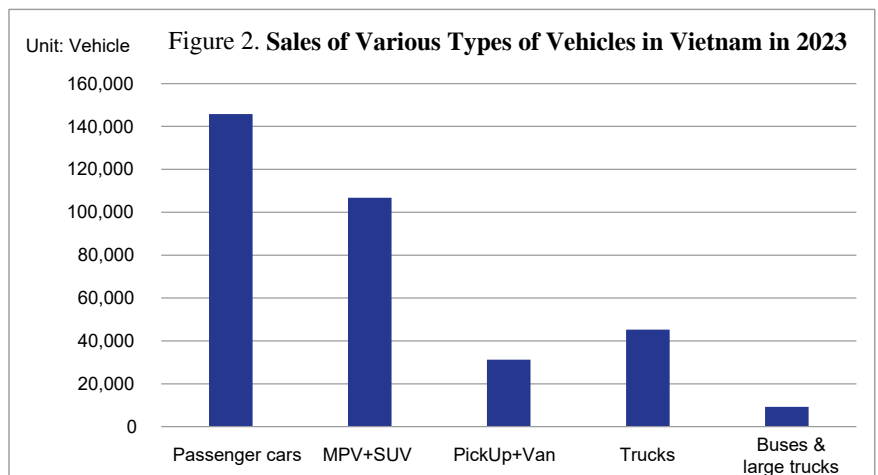
increased significantly, though a higher proportion is engaged in the manufacture of low value-added plastic components.

Vietnam's automotive component manufacturers can only produce simple parts, mainly rear-view mirrors, seat cushions, batteries, etc., whose added value is low and most of them have not reached an economic scale. **Vietnam's automotive component manufacturers, due to the fact that the local motorcycle industry is more developed and the market size is larger, are mainly engaged in the manufacturing of motorcycle components, supplemented by automotive components.** Under the above development, most key components rely on imports, but due to the impact of the increase in import tariffs, the sales price of automobiles remains high, and the vast majority of foreign-invested manufacturers do not conduct R&D and production in Vietnam, resulting in the slow progress of technology transfer.

IV. Vietnam's Automobile and Component Production and Sales

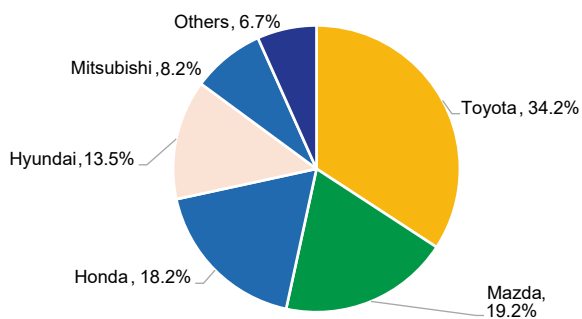
According to the statistics of Vietnam Automobile Manufacturers Association (VAMA), due to the weak manufacturing capacity of Vietnam's automobile industry caused by the prolonged civil war, there are 13 automobile joint-venture factories, which mainly import bulk parts in the form of full-knockdown and semi-knockdown (SKD). Most of them import chassis from China, S. Korea, and the Soviet Union.

According to MarkLines statistics, the automobile sales of Vietnam in 2023 reached 276,000 units, the sales of Hyundai Thanh Cong Vietnam (HTCV), a local corporation of Hyundai Motor not included in VAMA, were 20,000 units, and the total sales were 296,000 units (including 61,000 passenger cars of all types, 153,000 MPV and SUV), 20,000 pick-up trucks and vans, 34,000 trucks, and 0.8 million buses & large trucks, etc. **Figure 2** is the sales volume of various types of vehicles in 2023 in Vietnam. **Figure 3** is a comparison of the market share of passenger cars of Vietnam's leading car manufacturers in 2023, including the sales and share of Toyota (21,000 units, 34.2%), Mazda (12,000 units, 19.2%), Honda (11,000 units, 18.2%), Hyundai Group (0.8 million, 13.5%) and Mitsubishi (0.5 million, 8.2%). These top 5 passenger car manufacturers accounted for 93.3% of the total. **Figure 4** shows the forecast for the Vietnamese automobile market. With the car sales in 2023 totaling 276,000 units, it is forecast that in 2024 Vietnam's economic growth will continue to increase the domestic demand and the automobile market will reach 328,000 units.



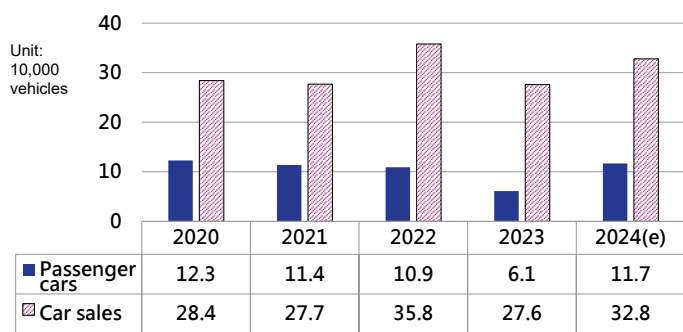
Source : MarkLines; ITRI IEK (2024/04)

Figure 3. The Market Share of Passenger Cars of Vietnam's Leading Manufacturers in 2023



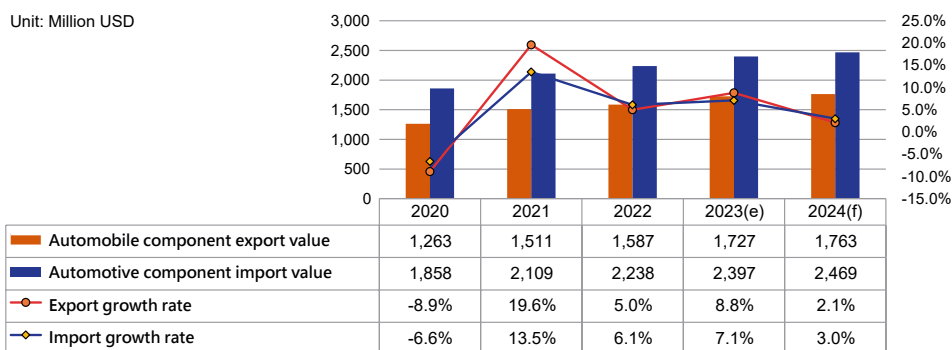
Source: MarkLines; ITRI IEK (2024/04)

Figure 4. The Forecast for the Vietnamese Automobile Market



Source: MarkLines; ITRI IEK (2024/04)

Figure 5. The Forecast of Import & Export Value of Vietnam's Automotive Components

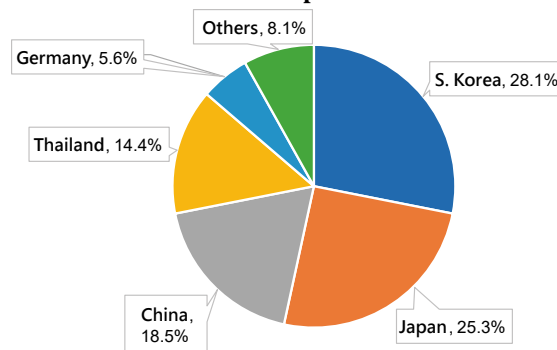


Source: Global Trade Atlas; ITRI IEK(2024/04)

Vietnam's automobile sales price is 20% higher than those of other ASEAN countries. In addition to the depreciation of Vietnamese dong in recent years, the main reason for this difference is its low capacity, with most of the assembly lines having a capacity of less than 50%. Coupled with the high taxes (including luxury tax) and other factors, Vietnam's automobile component production and assembly is not very profitable, exports are not competitive, and it is difficult to absorb investments, and the high tax system has also limited the development of Vietnam's automobile industry to a certain extent. Most automotive component manufacturers are lagging behind in terms of technology, hardware and software equipment compared to other ASEAN countries, and because Vietnam's automotive market is relatively small compared to Thailand, Malaysia and other countries, resulting in a low willingness of international component manufacturers to enter Vietnam, and the related manufacturing technologies have not been able to introduce or drive the development of the local automotive and component industries.

Figure 5 is the forecast of import and export value of Vietnam's automotive components (HS8708 category), Vietnam's automotive component import in 2023 was valued at 2.40 billion USD, an increase of 7.1% from 2022, which shows the value of imports is greater than that of exports, and it is predicted that, with Vietnam's political and economic stabilization in 2024 and the increase in the domestic market demand, the value of imports will grow to 2.47 billion USD, an increase of 3.0% from 2023. In 2023, the major import origins of Vietnam's automobile components were S. Korea (28.1%), Japan (25.3%), China (18.5%), Thailand (14.4%) and Germany (5.6%), all of which account for 91.9% of the total, as shown in Figure 6.

Figure 6. Vietnam's Main Import Origins and Share of Automobile Components in 2023

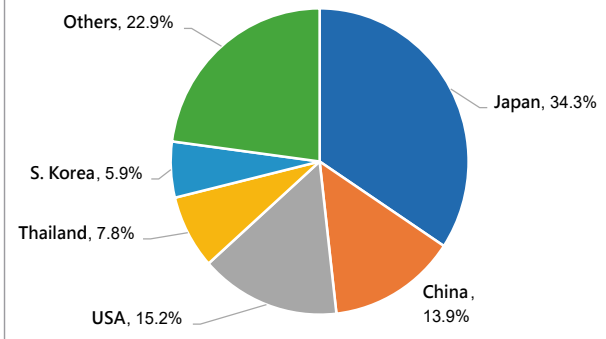


Source: Global Trade Atlas; ITRI IEK(2024/04)

In 2023, Vietnam's auto component export was valued at US\$1.73 billion, up 8.8% from 2022. The trade war between China and the U.S. has led to some manufacturers actively setting plants in Vietnam. Coupled with Vietnam's signing of trade agreements with many countries, the number of auto components made in Vietnam and exported from Vietnam has increased, and the export value is forecast to be US\$1.76 billion in 2024, up 2.1% from 2023. Vietnam's main automotive component export destinations in 2023 were Japan (34.3%), China (13.9%), the U.S. (15.2%), Thailand (7.8%), and S. Korea (5.9%), all of which account for 77.1% as shown in Figure 7.



Figure 7. Vietnam's Main Auto Component Export Destinations and Percentages in 2023



Source: Global Trade Atlas; ITRI IEK (2024/04)

V. Conclusions and Suggestions

Although Vietnam's domestic automobile demand market is not large, Vietnam's economic growth rate has been maintained at 6.5-7.0% in recent years. It is expected that the purchasing power of Vietnamese people will increase rapidly, and the demand for automobile components will continue to grow. Moreover, according to Vietnam's policy of encouraging domestic car manufacturing, manufacturers investing in Vietnam may be able to respond to the increasing demand for automobile components and obtain relevant (investment or tax) incentives.

Vietnam is a member of ASEAN and has signed FTA with many countries, so it enjoys zero tariff for exporting automotive components to ASEAN countries, making its components more cost-competitive. As automobile sales in advanced countries in Europe, the U.S., and Japan are nearing saturation and the demand is slowing down, the emerging ASEAN countries are

about to become the world's 4th largest automobile market, so there is a promising prospect of the demand for automotive components and the market development. Taiwan has invested in more than 10 automobile and motorcycle component factories in Vietnam, but the scale of investment and production is not large, and most of them mainly produce motorcycle components, supplemented by automobile components. Taiwanese automotive industry is characterized by high precision and cost competitiveness in the manufacturing of stamping parts and fasteners. Its automotive components such as electrical systems, braking system components, aluminum alloy wheels, automotive wiring harnesses, brake pads, and lamps, etc. also have gained an important position in the world, and may be able to fill in the gap in Vietnam's automotive component supply chain. It is recommended that Taiwanese manufacturers deploy in the Vietnamese market ASAP in order to seize business opportunities. ▣



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