

Political legal environment of vietnam economics essay



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The Vietnam's commitments when joining the WTO stated that tariff of the whole vehicle by 2018 would gradually reduce to 5%, the current tariff is 83%. The current average tariff of CKD parts is 18% (Trinh, etc. 2007). From January 1, 2009, the Viet Nam officially opened car and motorcycle markets, and allow foreign-funded enterprises to set up auto or motorcycle sales companies. In addition, in 2010, Vietnam's Ministry of Finance issued a notice to lower the import duties on some auto models. Among them, the import duties on gasoline-fueled 2. 5 liter four-wheel drive vehicles with less than nine-seat decreased from 83% to 80% and that of others turned to 77% (ETCN, 2010).

Taking one with another, as the auto projects require large investments, Vietnam government did not conduct a substantive long-term investment, and mainly relied on foreign-funded enterprises to accelerate the improvement of national auto industry. In various joint ventures, Vietnam government possessed 30% shares with the land usage rights, and the technology and equipment assets of foreign enterprise accounted for the other 70% of the shares. The recent policy of Vietnam government tends to

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encourage local CKD production, domestic parts production and restriction by high tariffs on vehicle imports. Vietnam government actively supports the production of energy-efficient small-displacement cars, agricultural vehicles and special vehicles required by national production such as mineral extraction, construction, waste disposal, etc.

To improve the localization rate of automotive production, the Vietnamese government has introduced a series of measures, including the low-interest loans for domestic enterprises and preferential tax policies, replacing the original tax reporting on the import of CKD on the basis of the import tax rates of different parts, proposing preferential mechanism concerning manufacturing projects of automobile engine, gearbox, transmission, special vehicles and ordinary cars. So as to strive to raise the percentage of home-made to 35%-40% and export auto mobile parts to neighbor countries and regions in 2010 (Huong Ly, 2010). However, at present, the policy of improving localization rate of car has achieved so little that joint ventures and the import of vehicles and parts are still the main forms in the auto industry. Main point of policies in the auto industry can be list as follows:

Deregulation of the foreign investment;

Published in 2010 under the Vietnam automobile industry development strategy, the government will no longer approve the establishment of new foreign investment in Vietnam assembly plant in order to support and develop its automobile industry but encourage the cooperation and joint ventures between foreign investment and Vietnam companies, hoping that foreign investment participate in the restructuring of state-owned

automobile manufacturers. It is conducive to introduce foreign investment and promote the development of Vietnam's automobile industry.

Tax concessions;

For the joint venture corporations with Vietnamese companies, regulations of government ensure their priority over land usage, water and power. Also the tax concessions state that the enterprises can exempt from income tax in the first two years and in the next four years the income tax will be reduced by half (Huyen, 2010). Income tax rate is 25%, while income tax rate of native enterprises is 33%. In addition, if the export of products reaches 80%, the export tax rate will be 10% and the import of production equipment and raw materials will be free from duty (Kenichi Ohno, 2004). Besides, the government has allowed enterprises to import 50% of all components abroad as well. Tax incentives both reduces the production costs and increases the market competitiveness of enterprises, thus it is more conducive and attractive to the introduction of foreign capital (Quach, 2004).

Improve the official efficiency.

To realize official efficiency by accurate, quick and best service, the government simplifies some procedures, and establishes special investment services organizations to provide relevant services directly to foreign-invested enterprises. Meanwhile, foreign-invested enterprises can enter into the Vietnam Investment Capital market, adjust the investment environment and enhance the operating efficiency of enterprises more quickly and easily.

Economic Environment

As the economy growth rate keeps on an average of 7% – 8% annually, the construction of Vietnam's domestic infrastructures are in full swing, such as highways, railways, ports and terminals, airports and city facilities. In February 2009, the government investing 55.7 billion U. S. dollars decided to build the high speed railway which the full length is 1,555 km from Hanoi to Ho Chi Minh City, and it is expected to be completed in 2035. In addition, Viet Nam vigorously develops the shipbuilding industry, in order to be the world's fourth largest shipbuilding country by 2015, but at present, nearly all shipbuilding steel should be imported overseas.

Now automotive steel mainly imports from Japan and Korea and according to Vietnam's development planning, in the recent ten years from 2011 to 2020, Vietnam's average growth rate of total vehicle is 8%.

From 2007 to 2025, Vietnam will invest in six major steel projects: Ha Tinh steel plant (capacity of 4.5 million tons per year), Rong orange steel plant (capacity of 5 million tons per year), 1.2 million tons Cold Rolled plant and 3 million tons Hot Rolling plant invested by South Korea's Pohang Iron and Steel Company in Vietnam Namba – Vung Tau province, 200 tons per year high-wire production plant invested by India ESSA, 1.5 million tons per year Old Streets steel plant and the Expansion Project of Taiyuan Iron and Steel Plant. Therefore, theoretically there will be enough automotive steel to ensure the native auto industry.

In 2009, in spite of the global economic slump, the total Automobile sales, containing domestic-manufactured and imported autos, make a new record

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of almost 200, 000 units on the domestic market, giving a great boost to Vietnamese automakers. The sixteen members of Vietnam Automobile Manufacturers Association (VAMA) sold 119, 460 units in 2009, 7% more than in 2008 (VBN, 2010).

Social Environment

The average age of Vietnamese is under 25 years old, in that social burden is lighter than other developing countries. With the improvements of road conditions and housing construction, the existing 17 million motorcycle consumers will rapidly turn to consuming automobiles. Vietnam is one of the fastest developing countries in the world with a highly potential emerging market.

With reference to the prediction in Industrial Policy and Strategy Report made by Vietnamese Ministry of Industry, the demand of Vietnam's auto market will be 256, 000 units per year in 2010. According to forecasts of Vietnamese Ministry of Transport, in 2010 the total number of vehicles participating in circulation will reach 129 million units, including 310, 000 cars, 360 000 of all kinds of coaches, 620, 000 auto trucks and by 2020 the total demand will reach 2. 8 million units.

According to the urban traffic development plan of Vietnamese Government, Vietnam annually needs to purchase 35, 000 buses for servicing all kinds of urban public traffic system from 2005 to 2010. In a period of economic development, Vietnam has a greater demand for large tonnage heavy-duty dump truck, engineering vehicles, tractors, container vehicles and farm vehicles which use the cities and transportation infrastructure construction.

The large luxury coaches, medium-sized passenger cars and mini – buses suitable for use of small cities and towns gradually become a new market demands. The Vietnamese government is taking measures to limit the motorcycle license gradually, which may have the indirect stimulation in richest families who buy cars and mini-vans.

Located in the eastern part of indo-china peninsula with more than 3, 200 km of coastline, Vietnam is in the important international traffic online. It has more than half of the province in coastal of the 53 provinces. So it has the obvious advantage of the coast. Vietnam owns many coastal harbors and the land directly to other countries in Indochina is very convenient. It has opened 23 international routes which through the 19 countries and regions of the capital or city in the world. Due to the strategic location of the Vietnam, it has been provided many favorable conditions, such as developing the foreign economic, absorbing foreign investment, developing economic and trade cooperation as well as advantages on aviation, maritime, tourism.

Technological Environment

Standard and the work application particularly for the mandatory standards promulgated by departments of Vietnamese government is relatively piecemeal and the implementation is less effective, therefore the effect of management based on the standard left much to be desired.

From the aspect of technology transfer and training, foreign-funded enterprises tends to stay in the low level of CKD1 and CKD2, and training is only to adapt to the needs of automotive assembly process (Thuy, 2008).

Concerning the use of raw materials, in addition to some simple process of

individual components and parts, main raw materials for automobile assembly are selected and purchased from a parent or parent's partners.

On account of Vietnamese poor domestic production, even some raw materials used for the manufacture of parts, such as steel plate or profiles have to be imported from abroad. The main task of car assembly companies is to maintain and repair due to its poor factories, technology, and equipment. The problems concerning technology include three points as follows:

First, the scientific research is too weak, and metallurgy, new materials, electronics, chemical, kinetic, mechanical and other industries supporting the automotive industry developed slowly, in that only the car chassis and automobile tires can be produced natively, while the main components are still dependent on import; The second is a lack of senior technical staff in general, and R & D is almost empty, long-term effort is needed to meet the demand; Third, the lagging after-sale service lead to unimpressive market research and information collection.

According to technical training, research and development and environmental protection, at present, the automobile machinery plants in Vietnam expedite investment on the more production of cars and spare parts, with the result that the labor resource is already serious shortage, especially for engineers and senior technicians and other technical workers.

There are three native training mechanisms available in Vietnam:

(1) Six universities with the major of auto mechanics training professional engineers;

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(2) 300 colleges training thousands of professional technicians and workers, but more limited level;

(3) Training schools educating common workers to be skilled in technical.

The joint venture company also absorbed the large number of Vietnamese technical cadres to be appointed after training, but generally speaking the overall technical education is not poor.

Recommendations and summary

In brief, the Vietnamese car market is small; machinery manufacturing industry is weak, and automotive auxiliary industry is nearly zero. On these grounds, there are four recommendations proposed below:

Carry out active exchanges and strengthen force to develop further. Trade promotion activities and Vietnam-related automobile exhibitions are worthwhile to participate with specific targets;

Focus on quality instead of under dumping. Under dumping may lead to vicious competition and price competition will not only reduce corporate profits directly, but also affect the company's image. And the auto company needs to strengthen communication and coordination with relevant departments so as to make appropriate export strategies according to the actual needs of the Vietnamese market;

Improve the marketing system and the after-sales service. Based on the high-quality and low cost, enough service personnel are needed in Distribution Offices to enable the Vietnamese consumers to consult at ease;

Invest in Vietnam to establish joint ventures, acquire or restructure existing motor vehicles and parts of Vietnamese companies. Since Vietnam introduced a series of preferential localization, predominant products may seek joint venture partners to produce locally.