

## The matter of steel production for automobile industry in Vietnam

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**Abstract:** In 2018, the import tax rate commits ASEAN integration to 0%, domestic car manufacturers face many challenges when the competitiveness of the domestic car industry is still weak and inadequate. By 80% - 90% of the main raw materials for automobile parts such as steel, aluminum alloy, resin are still imported and subject to import and export tax according to regulations. The dependence on raw materials for production is a cause to increase cost, reduce the competitiveness of automobiles manufactured in Vietnam.

**Keywords:** domestic car, steel, alloy, automobile industry

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### 1. Introduction

In fact, the cost of automobile production in Vietnam is currently 20% higher than other countries in Southeast Asia such as Thailand, Indonesia ... Cause, according to the Ministry of Science and Technology is due The technological level of most automobile manufacturing enterprises in our country is only medium in comparison with other regions and countries in the world. Foreign investors recognize that the capacity of Vietnamese companies to manufacture spare parts is very inadequate, not qualified enough to be of interest to foreign partners. and agree together. The technology gap as well as the capital they spend on investment is too great. These are the obstacles that push foreign companies to invest in Vietnam to produce auto parts. Not to stop there, the level of manufacturing enterprises supporting products is low, especially the domestic enterprises. Most domestic manufacturing enterprises are level one, only a few Thai and Taiwanese firms are level two and Japan are third level. This leads to An inevitable consequence is that the product structure that supports the automotive industry is limited to simple components such as batteries, tires, seats, wires, antennas, etc. For inland facilities The main reason is that these companies have come up from repairing and assembling factories, so their level is almost average, even low. Currently, supporting enterprises are still small and medium enterprises, equipment is backward, mainly imported from China with poor quality. In addition, auto parts manufacturers focus on low labor-intensive products and technology, so domestic auto parts are not diversified.

Regarding raw materials, most of them still depend on imported sources, so they are subject to import and export tax according to regulations. Typically, steel is the principal material constituting automotive metal parts. However, in Vietnam, materials such as steel plates, sections, special steels, etc., have not yet been manufactured locally. According to Kazuhino Yamana, General Director of Vinastar, with specific conditions on capital, quality of human resources, science and technology now, enterprises should choose medium and small scale production accessories for public development. career support ...Representatives of Ho Chi Minh City Association of Mechanical and Electric Association said that in addition to determining their production capacity, the Government should urgently amend the inadequate regulations which have existed for more than 10 years and are exhausting enterprises. general mechanical industry. The focus is on mechanical enterprises still pay 5% tax on products sold on the market, while imported products are subsidized 0% tax so cheap price. This is a new area, development of supporting industries, making the most of the advantage of attracting foreign invested enterprises to invest in Vietnam.

In 2015, the first production and assembly of cars in the country will reach over 200,000 vehicles / year, up 51% compared to 2014. In 2016, the output continued to increase strongly to over 283.3 thousand vehicles. Some products have been exported to Laos, Cambodia, Myanmar, Central America. According to the Ministry of Industry and Trade, by 2016, the domestic automobile industry has about 173 manufacturing and assembling enterprises, of which 56 are engaged in producing vehicles from spare parts, 117 from automobile basis. Most of the small and medium enterprises. Some inland firms have been deeply involved in the global automotive chain. "Despite certain results, the domestic automobile assembly and assembly industry has yet to meet the real car industry criteria (mostly new at assembly level), lines The production mainly consists of 4 main stages: welding, painting, assembly, inspection, "the Ministry of Industry and Trade admitted. Besides not being able to build up the automobile industry, car prices in Vietnam are still high compared to other countries in the region. Vehicle prices in Vietnam are nearly two times higher than in other countries in the region (Thailand and Indonesia), and this figure is higher compared to other countries with stable car industry such as Hoa United and Japan. The biggest cause of the high price of cars is the high taxes and charges and the low

domestic production (enterprises are far below the designed capacity). "The quality of domestic production vehicles, although improved, is still not as good as imported vehicles. There is no cooperation - cooperation and specialization between enterprises in manufacturing - automobile assembly and component parts production. There is no system of suppliers of materials and large-scale components," said the head of the industry. Data from the regulator also showed that localization ratios for private cars up to 9 seats were also unsatisfactory. Specifically, the target is set at 40% by 2005, 60% by 2010, but so far it has reached an average of 7-10%, in which Thaco is 15-18%, Toyota Vietnam 37% With Innova alone, lower than target. The products are localized with low technological content such as tubes, automobile tires, seats, mirrors, glasses, wires, batteries, plastic products ... Up to 80 - 90% Main raw materials for the production of components such as alloy steel, aluminum alloy, resins, high tech rubber are now imported. Main molding materials are also imported. In addition, every year, businesses have to import about \$ 2 to \$ 3.5 billion of components and spare parts for production, assembly and repair of vehicles. The weak capacity of enterprises in the supporting industry and the fact that the mold makers are not large in size or lack of coordination for development are also the causes indicated by the Ministry of Industry and Trade. The localization rate is not high. Besides, there are also factors that enterprises producing casts and casting details for the industry are not many and the rate of defects is high, not meeting the requirements of the industry.

## 2. Orientations for automobile industry in Vietnam

According to experts, Vietnam's steel industry is both redundant and missing, expenses for construction steel. There is a shortage of steel for mechanical engineering, automobile manufacturing, shipbuilding; Steel trade deficit is mainly in this steel.



Figure 1. Cai Lan Steel produces the first large-scale steel plates in Vietnam

According to the Vietnam Steel Association, in 2015 Vietnam imported more than 14 million tons of steel. In the first 7 months of this year, Vietnam imported 10.3 million tons. With this momentum, the association estimated 2016 imported 17.5 million tons of steel. Truong Thanh Hoai, Head of Heavy Industry (Ministry of Industry and Trade), said that demand for steel continued to increase. In the period 2025 - 2030 need about 25 - 35 million tons of steel. While Vietnam's long steel production capacity is about 11 million tons, relatively enough to meet demand, flat steel production is still modest, about 4 million tons. Hot rolled products must be imported completely. Meeting with Mr. Hoai, Mr. Nguyen Van Sau, Vice Chairman of Steel Association commented: Up to now, the steel industry has been able to meet the domestic demand for construction steel, welded steel, cold rolled steel and galvanized steel species. However, due to the unsuitable steel industry, many types of steel have not yet been produced such as hot rolled coils, hot rolled coil, cold rolled steel, alloy steel and industrial steels. Relatively large. Looking back on the capacity of domestic enterprises, Nguyen Van Suu is not worried about competition between domestic steel and imported steel,

especially imported steel prices in China increasingly fierce. Meanwhile, most steel enterprises in Vietnam are medium and small.

Recently, the Ministry of Industry and Trade has imposed self-defense tax on billets and long steel imports. This has contributed to limiting difficulties for steelmaking enterprises in the country. However, that is only a temporary solution. In the long term, steel enterprises must improve their competitiveness in terms of technology, financial capacity, management ... It is important to have large enterprises in order to compete for imported products. and reach out to the world. According to Truong Thanh Hoai, the steel industry today is mostly small scale projects, mainly producing construction steel. No enterprise has an annual output of more than 2 million tons. In the context of tariff barriers, the establishment of large-scale companies to reduce production costs, operation is very important. "Coming to the Ministry of Industry and Trade will encourage some investors to form large steel production complexes, favoring structural steel and fabricated steel, limiting the production of construction steel because we are redundant. If we still maintain small projects a few hundred thousand tons today, it is not competitive due to fuel consumption and large operating costs," Hoai said. Mr. Trinh Khoi Nguyen, Deputy General Director of Vietnam Steel Corporation, said that the steel industry plannings of 2001, 2007 and 2013 have set the development objectives but deepened, detailing each name. project, name of investor, size, plant capacity, scale of each specific product ... This in previous phases is appropriate but now invisible generates barriers. Therefore, Nguyen proposed that, in order for steel enterprises to develop under the market mechanism, state management agencies should abandon the sectoral planning. This is also in line with the draft Planning Law that the Ministry of Planning and Investment is developing. The state should not intervene too deeply in each specific project, but develop sets of regulations on the implementation of investment projects based on policy development for sector development, including strategies for resource use, science and technology, energy saving. The specific issues of each project such as what products, how much scale to the market itself. Thus, state agencies will manage according to the function and still create conditions for investors to actively adjust according to market rules.

According to the report of the Ministry of Industry and Trade, the situation of supply over demand has made the manufacturing enterprises in moderation. Iron and steel output in November was estimated at over 220 thousand tons, down 13.6% compared with November 2012; Steel bars, angles are estimated at over 275 thousand tons, down more than 12%. Generally for 11 months compared to the same period, output of iron and steel production decreased 10.8%. Mr. Do Duy Thai, Chairman of Thép Việt said that due to the real estate market is quiet, consumption is very difficult. The director of Tay Do steel company, Huynh Trung Quang said that due to low consumption while production capacity is high and competition with imported goods, enterprises need cooperation in production and business. business. In the context of difficult domestic market is quiet, steel production capacity far exceeds the demand for such companies should promote export.

Ministry of Industry and Trade, in the first 10 months of 2013, exports of construction steel products was 1.8 million tons worth USD 1.4 billion, up 19.2% in volume and 12.5% in value compared for the same period last year. In the past 11 months, the export of iron and steel has increased more than 10% over the same period. Steel companies have been constantly trying to expand the consumption market. To date, Vietnam has expanded its steel exports to 26 markets around the world. Some steel products have strongly increased the export of metal sheet metal and color coatings, shaped steel, stainless steel. Representatives of manufacturers, Mr Do Duy Thai said, domestic steelmakers in general are stepping up export to solve the output problem for the product. In 2013, Pomina alone expects to export about 130,000 tonnes and is expected to grow by about 30% by 2014.

In the coming time, when the TPP is signed, Vietnamese steelmaking and exporting enterprises will benefit greatly from this agreement, especially in export activities. According to economic experts, Vietnam's steel enterprises will enjoy a significant reduction in tariff rates to boost exports, contributing to increased consumption and reduced inventories. Recognizing the opportunity of the steel industry when entering the big playing field is the TPP Agreement, Nguyen Tien Nghi, former vice president of Vietnam Steel Association, said that to boost exports, steel companies must pay attention to investment in terms of technology to increase productivity, reduce costs and focus on improving quality to increase competitiveness. In order to increase the export of steel, according to Pham Chi Cuong, former president of the Vietnam Steel Association, chairman of the Vietnam Association for the Foundry and Metallurgy Technology, domestic steel enterprises need to constantly trade Promote your products in new markets such as America, Africa, Middle East .



Figure 2. The automobile assembly and production industry has not yet met the industry criteria

At the same time, improve the quality and reduce the price of steel products. There are three reasons Vietnam needs to continue to increase steel exports. Firstly, the steel industry is big trade deficit. Half of the domestic steel cannot be produced, including imported materials for construction steel, at nearly \$5 billion per year. Therefore, it is necessary to export to reduce the trade deficit. Secondly, domestic construction steel production is twice as large as real demand. As a result, exports will help reduce inventory, steel mills maintain production. Thirdly, the quality of domestic steel has been improved and the brand has been established in other countries in the region. Along with that, as of 2016, Vietnam's automobile industry has about 173 enterprises involved in manufacturing and assembly. Of which, 56 are engaged in producing vehicles from spare parts, and 117 from vehicle production. Most of the small and medium enterprises. Some inland firms have been deeply involved in the global automotive chain. "However, the domestic automobile assembly and assembly industry has yet to meet the criteria of the real car manufacturing industry, most of it at the simple assembly level, with only four production lines. The main sections are welding, painting, assembly, inspection" - Minister of Industry and Trade Tran Tuan Anh admitted. Besides not being able to build up the automobile industry, car prices in Vietnam are still high compared to other countries in the region. The price of cars in Vietnam is almost two times higher than that of other countries in the region such as Thailand and Indonesia, which is higher compared to countries with stable auto industries such as the United States and Japan. Explaining the reasons for the above situation, the leaders of the Ministry of Industry and Commerce said that the high price of cars is due to high taxes and charges and low domestic production, enterprises are under production. very far from the designed capacity. The quality of domestic production vehicles, although improved, is still not as good as imported vehicles. There is no cooperation - cooperation and specialization between enterprises in manufacturing - automobile assembly and spare parts production. There has not been a system of suppliers of materials and large-scale components production," said the head of the Ministry of Industry and Trade. The rule of automobile industry development in the world has been to protect the market in a rational way to transfer technology transfer from assembly to develop auxiliary industries, manufacturing components and spare parts, increasing the localization rate of automobile products. In order to survive and develop, domestic auto companies themselves have to increase their competitiveness and lower their costs. We set a target of 5% reduction in cost per year, increasing the localization rate. Nguyen Duc Thanh, director of the Institute for Economic and Policy Research (VEPR), said that the trend of imported vehicles to Vietnam could not be prevented at an even lower cost when opening up the association to enter, dismantle the tariff barriers. Next year, cheaper imported cars from ASEAN will put pressure on domestic production and assembly vehicles and imported vehicles from other markets to reduce accordingly. At that time, consumers have more choice, more benefit.

### 3. Conclusion

A report released by the Heavy Industry Department of the Ministry of Industry and Trade shows that total production capacity - about 500,000 cars a year. . Of these, 12 are domestic assemblers that meet about 70% of domestic demand, with a total market share of 210,000 vehicles per year in 2016. car prices are still high compared to other countries in the region; The quality of the car though improved but not by imported car. The manufacturing and assembly of automobiles has not yet met the criteria of the real automobile industry (most of

them are just assembled), the main production line consists of 4 main stages: welding, painting, assembly, inspection. The localization rate for private cars to nine seats was low, with a target of 40% in 2005 and 60% in 2010, but only 7-10%. It is noteworthy that, at present, the localization method is not in line with international practice, but in general the localization rate is low. Causes have been shown to be due to unstable policies (taxes, fees, infrastructure ...) and there is no high consensus among state management agencies to create favorable conditions for enterprises to rest assured From large scale projects in Vietnam. Vietnam also lacks a specific program of action and allocates resources (human and financial resources) to implement the policies promulgated.

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