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**MASTER PROGRAMME OF PUBLIC POLICY AND
FINANCIAL MANAGEMENT**

THESIS

**EVALUATION OF THE TAX POLICY FOR THE DEVELOPMENT OF
THE AUTOMOTIVE INDUSTRY IN VIET NAM**

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TABLE OF CONTENTS

ACKNOWLEDGEMENTS.....	2
ABSTRACT.....	5
CHAPTER 1: INTRODUCTION.....	6
1.1 The necessity of the research.....	6
1.2 Research purpose and objectives.....	6
1.3 Research questions.....	6
1.4 Scope of research.....	7
1.5 Organization of the research.....	7
CHAPTER 2: LITERATURE REVIEW.....	8
2.1 Roles and necessity of automotive industry development to the economy..	8
2.2 Roles of tax policies in automotive industry development.....	10
2.2.1 Overview of roles of tax policies in automotive industry development.....	10
2.2.2 Roles of fee and charge policies in automotive industry development.....	13
2.3 Tax policy assessment.....	19
CHAPTER 3: RESEARCH METHODOLOGY.....	22
3.1 Research method.....	22
3.2 Research instruments.....	23
3.3 Research procedure.....	23
3.4 Collecting data.....	23
3.5 Data analysis.....	23
CHAPTER 4: EMPIRICAL PART.....	25
4.1 Automotive industry of Vietnam: Formation and development.....	25
4.1.1 Formation and development.....	25

4.1.2 Current situation of Vietnam’s automotive industry and market	27
4.1.3 Assessment on Vietnam’s recent automotive industry development	33
4.1.4 Causes and lessons of Vietnam’s automotive industry development	34
4.2 The tax, fee, and charge policies for the Vietnamese automobile industry in the 2001-2015 period and the issues posed	37
4.2.1 Tax incentive policies to promote investment in the domestic automobile industry.....	37
4.2.2 The tax, fee, and charge policies for the import, purchase and circulation of cars.....	40
4.3 Comments on tax policy for car industry in Vietnam over the past time...	50
CHAPTER 5: RESULTS OF THE EMPIRICAL PART	52
5.1 Issues regarding requirements for automobile industry	52
5.2 Tax policy improvement for the automotive industry’s growth.....	53
5.3 Tax solutions to encourage the automobile industry’s development	54
5.3.1 Tax policies to encourage firms’ investment for the automobile industry	54
5.3.2 Import tax policies for automobile and spare parts	55
5.3.3 Policy on excise duty	60
5.3.4 Other taxes, fees and charges policies	61
5.4 Selection of the strategic vehicles for development and appropriate preferential policies	62
CHAPTER 6: CONCLUSIONS	64
REFERENCES	66
APPENDIX.....	69

ABSTRACT

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In Vietnam, the automotive industry is a young industry. Yet, the development of the automotive industry in Vietnam has so far led to a certain degree of success, including the construction of a number of automotive assembly factories. However, the achievements have not been significant, is still mainly limited in assembly. Vietnam has not yet had an automobile manufacturing and not commensurate with the potential. The State has had incentive policies in place, including tax policy, but the level of development of the automotive industry in Vietnam is still very low, and company of regional scale to be able to compete and export. The development of the automotive industry has not been able to create the momentum for the industry's development, the localization rate is low.

If the automotive industry is to develop, there must be a number of factors present, including the role of tax policies. In Vietnam, along with the process of innovation for the tax, fee, and charge policy systems of the country in general, the fee, charge, and tax policies applied for the automotive industry and automobile use have also undergone important changes in past periods. In particular, with a view to boosting the development of the domestic automotive industry, Vietnam has also promulgated a number of tax incentive policies, gradually approached the international practice.

CHAPTER 1: INTRODUCTION

1.1 The necessity of the research

Around the world, there have been many studies on the role of financial instruments, in particular tax policies for the automotive industry like the research of Kenichi Ohno (2006) “*Industrial Policy Formulation in Thailand, Malaysia and Japan: Lessons for Vietnamese Policy Makers*”; Kaoru Natsuda & John Thoburn (2011) “*Industrial Policy and the Development of the Automotive Industry in Thailand*”; Wad, Peter (2009) “*The Automobile Industry of Southeast Asia: Malaysia and Thailand*”; or the research by Wade, Robert (2003) “*What Strategies are Viable for Developing Countries Today? The World Trade Organization and the Shrinking of Development Space*”.

On the role of tax policies for the development of the automotive industry, in general recent studies have shown that there is still a lack of research on the dynamics and impacts of tax policies on the Vietnamese automotive industry closely based on the attributes and characteristics of the Vietnamese automobile market, and then set out the guidelines to fine-tune tax policies for the coming period. Accordingly, the selection of the thesis: “*Evaluation of the Tax policy for the development of the automotive industry in Vietnam*” has both theoretical and practical significance. The research and analysis of the role of tax policies for the Vietnamese automotive industry in today’s context are expected to fill this gap.

1.2 Research purpose and objectives

Clarify the theoretical foundation on the role of tax policies for the development of the automotive industry.

Look at the current situation of tax policy promulgation and evaluation of the implementation for the automotive industry in Vietnam in past periods.

Propose the solutions to fine-tune the tax policy system for the automotive industry towards the year 2020, in which the requirements and content of tax policy fine-tuning for the Vietnamese automotive industry in the coming period shall be interpreted.

1.3 Research questions

Major question: Is there a need to fine-tune tax policies to boost the development of the automotive industry?

Sub-questions:

1. How are the prevailing tax mechanisms and policies for the development of the automotive industry?

2. What are the issues facing the goal of developing the industry in general and the automotive industry in particular?
3. What are the tax solutions to boost the development of the automotive industry?
4. Should a flagship vehicle model be selected to focus development and have appropriate incentive and investment attracting policies?

1.4 Scope of research

The thesis focuses on examining tax policies for the development of the automotive industry in Vietnam

1.5 Organization of the research

The thesis has six chapters. Chapter 1 introduces the thesis itself, the research targets, research issues, and questions that will be further analyzed in the other chapters. Chapter 2 is a Literature Review with a focus on theories of tax policy, automotive industry. Chapter 3 introduces the research methodology of the thesis including data collection and data analysis. It contains analysis of the data collected from the General Department of Taxation, General Department of Vietnam Customs. Chapter 4 provides informations about the development of automobile industry during the past years and current issues on tax policy improvement for the industry. Based on the given theoretical framework and the collected data, Chapter 5 provides results of the empirical part. Chapter 6, the final one, focuses on the author's conclusion.

CHAPTER 2: LITERATURE REVIEW

2.1 Roles and necessity of automotive industry development to the economy

The automobile industry plays a crucial role in industrial restructuring of most countries across the world. It is also considered a formidable driving force of modernisation and industrialisation process in numerous countries so profoundly that they have opted for the industry as their strategic sector for investment and development. On a global scale, automobile is always constantly said to be a momentum of growth which generates jobs, incomes and foster innovation¹; while nationally speaking, the industry's development is closely connected with socio-economic development process.

The automobile industry was acknowledged as the 'the industry of industries' in the twentieth century and is considered one of the most globalised industries today (Dicken 2007). The industry was dominated by huge transnational and vertically integrated corporations until the 1970s, deserving being characterised as a producer-driven global value chain (PD-GVC), but since then a wave of restructuring and outsourcing of activities has been ongoing, turning the global industry to be governed in a more relational way by lead assemblers (original equipment manufacturers or OEMs) and core automotive components and parts suppliers if not leaning towards a supplier-driven global value chain (Dicken 2007, Barnes and Morris 2008, Sturgeon et al. 2008, Wad 2008).

In the GVC terminology, the automobile industry has been considered a PD-GVC in contrast to for example the global garment value chain which is considered to be a buyer-driven global value chain (BD-GVC) (Gereffi 1995). The motor vehicle manufacturers (the OEMs) have governed the value chain by way of controlling core technologies and products and used different types of organisations to govern the upstream and downstream processes: vertical integration (typically for American corporations in the past), vertical collaboration (typically for the Japanese keiretsu networks) or horizontal collaboration (typically for continental Europe firms) (Wad 2008). With the early establishment of huge auto corporations in the US and the internationalisation of these corporations the leverage of the auto industry resided in the Western world until the Japanese successfully challenged this dominance during the 1970s and 1980s and triggered increased competition, trade wars between Japan and the US and the EU and globalisation and transformation of the automobile industry. During this industrial warfare Western OEMs abandoned Southeast Asia and Japanese OEMs came to dominate the regional automobile market.

The significance of automobile industry to each countries' socio-economic development is illustrated as follows:

¹ <https://www.daimler.com/investors/reports/annual-reports/>

First, automobile industry has functioned as a growth engine in plenty of countries, both developed and developing ones. Most newly-industrialised-countries have prioritised the development of automotive sector as a way to actively contribute to their modernisation and industrialisation process. Global economic development in general and that of each countries in particular are largely attributed to the automotive sector. Indeed, 3% to 3.5% GDP of the United States is from the automobile industry. The sector also occupies a pivotal role in various aspects of developing countries. Specifically, annual production value of automobile industry in Brazil (the world 6th largest automobile manufacturing country) accounts for some 5% GDP with 50 factories producing about 4.4 million cars each year.

China's automotive sector has also witnessed a giant leap while it took the United States' the crown for being the world's leading automobile market in 2010 with a total output of over 12 million cars. The number is expected to rise in upcoming six years. The Red Dragon has made the automotive industry its strategic sector in its five-year plan. Its government has exerted all-out efforts to restructure scattered automobile factories and suppliers to increase the competitive capacity of the domestic automotive industry².

Secondly, automotive industry's sphere of influence is extended across a wide array of other economic sectors. It is estimated that the United States' automobile sector has provided 2.5 million direct jobs and 13 million supporting jobs, which constitutes 10% of the country's labourers. Likewise, 200,000 enterprises in Brazil are associated with the automobile manufacturing industry. 1.5 million people in Brazil have been provided with jobs regarding automobile sector with an indirect workforce of 150 thousand labourers.

For Vietnam, automobile industry offers the country an opportunity to attract investment and adopt advanced technology, and valuable experiences on business practice and administration from industrially developed countries. Besides, it also opens up employment opportunities for skilled foreign labourers, contributing to improve quality of Vietnam's workforce. Despite being at the very early stage of development, the automotive industry has made a significant contribution to Vietnam's socio-economic development in recent years. To be more specific, it has created direct jobs for more than 80,000 labourers, not to mention indirect jobs offered by automotive firms' subordinate agents and suppliers, as well as a copious amount of tax revenue. On the other hand, sustaining automobile manufacture also facilitates technology transfer regarding manufacturing mechanics, automation, material technology and contemporary management skills.

Thirdly, as the automotive development is closely affiliated with technological advances, the automobile industry also is considered a leverage for science – technology development, especially

² <https://www.daimler.com/investors/reports/annual-reports/>

automation, electronics, new technology, chemicals, manufacturing mechanics, metallurgy, etc., fostering the development of relevant economic sectors.

In the United States, the sector spends 16 to 18 billion US dollars for research and innovation, which makes dramatic impacts to various social aspects, including education and training.

Concurrently, the automotive industry also performs a prominent role in accelerating global economic integration. Globalisation, through expansion of auto firms, has stimulated developing economies' further integration into regional and global economy.

Fourthly, the auto industry's high consumption of other sectors' products, including metals, chemicals, engineering, electronics, and so on, helps create more jobs in the sectors; illustrating the role of auto industry as an economic locomotive which promotes growth of other sectors (supporting industries). For instance, automobile industry in the United States uses up some 20% of its total domestic steel output. Therefore, it could be said that the development of automobile industry reflects the well-being of the economy.

2.2 Roles of tax policies in automotive industry development

2.2.1 Overview of roles of tax policies in automotive industry development

Industrialisation and modernisation are regarded overriding driving forces behind the development of most countries worldwide. Southeast Asian nations and some Asian countries are seen as fine examples of economic development. Their success is resulted by proper policy frameworks to be built at the very beginning, especially macroeconomic stabilisation (low inflation rate, deliberate fiscal policy, appropriate exchange rate policies for encouragement of export and gradual liberalisation of the financial system); incentive policies for capital accumulation for production; and sizeable investment in human resources development. Those countries' resemblances in terms of industrial policies include:

- (1) Establishment of incentive mechanisms for focused sectors to gradually restructuring the economy. The countries' government have successfully sorted out priorities for development, including auto industry, in accordance with requirements of different periods.
- (2) The Government's sufficient and effective public services to facilitate the modernisation process, with a focus on human resources development.
- (3) Investment priority given to infrastructure and education as they are considered a vital factor in the process of industrialisation.
- (4) Effective interventions and orientations by the Government to industrialisation, especially in the implementation of preferential policies and assistances for investment stimulation (the State's preference to a firm is largely determined by its success, instead of political relations).

Industrial Policy under WTO Trade Rules:

In recent decades, the ‘development policy space’ (or policy options) for developing countries has diminished with the rise and continuing influence of the Washington Consensus and its accompanying neoliberal policy prescriptions (Wade 2003a). This has affected East Asian developmental states, whose industrial policies often have been taken as models for other developing countries to follow. In the past, East Asian countries were characterised by the interventionist role of a plan-rational strong state bureaucracy, conducting state-led industrialisation by introducing a series of industrial policies for economic development (Amsden 1989; Wade 2003b; Woo-Cumings 1999). Northeast Asian developmental states such as Japan, Korea and Taiwan successfully conducted upgrading of industry by taking a ‘picking winners’ strategy in order to facilitate national champion firms transforming into world-class exporters.

Although Southeast Asian countries have weaker state capacity as well as policy administrative capacity than Northeast Asian developmental states (Booth 1999; Park 2000), some scholars have claimed that Southeast Asian countries have common characteristics with Northeast Asia. For instance in the case of Thailand, Rock (2002) argued that in the period of the early import substitution industrial strategy in the 1960s through to the export-led industrialisation in the 1980s, industrial policies with selective government intervention in collaboration with foreign direct investment (FDI) were effective and successful.

The rise of neoliberal policies under globalisation in recent decades, particularly three international agreements under the World Trade Organization (WTO) following the Uruguay Round trade negotiations (1986-1994), limits the use of the sorts of industrial policy that Northeast Asian developmental states adopted in the past (Rasiah 2005). Outlawed under current WTO rules are:

- Infringements of the Trade-Related Intellectual Property Rights (TRIPs) measure, which protects copyright and patents;
- Trade-Related Investment Measures (TRIMs), which ban performance requirements, such as those related to local content, trade balance obligations, and export requirements; and
- Infringements of the General Agreement on Trade in Services (GATS), which restricts government intervention in the market and the regulation on the behaviour of multinational corporations operating in their country.

Some scholars including Lee and Han (2006) and Moon and Rhyu (2000) have claimed that neoliberal reform resulted in the end of East Asian-style developmental states. In opposition to this view, others such as Shin (2005) and Pereira (2008), have argued that the role of the state, particularly man-made location-specific factors such as policy, institutions and infrastructure have helped in the creation of business environments that are conducive to development as the pace of globalisation accelerates.

However, even under the WTO rules, it is still possible for developing nations to promote particular industries, thus creating ‘winners’, but employing a narrower range of policy options.

In the case of Thai automotive development, it has been the discontinuation of the right to use local content requirements under TRIMs that has been the main factor of interest. Following the start of operations of the WTO in January 1995, TRIMs-style requirements were to be abolished within a five year period for developing country WTO-members. Thailand complied with this provision, ending local content requirements in 2000. Instead, the Thai government has started to introduce industrial policies by using discretionary power in selecting particular models and functions to be developed in the automotive industry.

Industrial Upgrading:

As is now well known, the basic concept of the GVC emphasises the sequential and interconnected structures of economic activities, with each link or element in the chain adding value to the process. GVCs normally are classified as either *producer-driven* or *buyer-driven* chains. The former are characterised by capital and technology-intensive industries including automobiles, computers, aircraft, and electrical machinery. The latter, which are not our focus here, are characterised by labour-intensive consumer goods industries like garments and footwear, in which large global buyers play a central role in establishing decentralised and dispersed production linkages across various countries (Gereffi 1994).

In the automotive industry - an archetypal producer-driven GVC - vehicle assemblers have been governing the highly capital and technology intensive value chains by controlling core technologies, production processes, and research and development (R&D), human resources, finance, and marketing from upstream to downstream operations through their supplier networks (Barnes and Morris 2008; Wad 2008 and 2009).

Industrial upgrading in GVC analysis emphasises how producing firms can improve their position within the chain by obtaining greater value-added functions through the production process, leading to industrial development (Humphrey and Schmitz 2002). The GVC literature usefully categorises upgrading within a GVC into three broad areas:

- *Product upgrading* enables producers to move up value chains by producing from low-end products to sophisticated products;
- *Process upgrading* enables producers to learn how to improve their production processes such as quality control and shortening lead time (or delivery) by reorganising the production system or introducing new technology; and
- *Functional upgrading* enables producers to acquire new functions in value chains by specialising activity, which increase the overall skill content of activity.

The development of automobile industry, similar to other sectors, is driven by not only immaculate natural and social conditions, but also economic policies promulgated by the Government. Specifically, the Government's proper attention as well as remarkable capacity for macro strategies' regulatory and formulation are essential for the automotive industry's development. Unlike Vietnam, Thailand and Malaysia are two successful countries in automotive sector's development within the ASEAN bloc. Experts ascribe the success to the two Governments' comprehensive and coherent long-term strategies for the development of automobile industry. Meanwhile, despite enormous potentials of golden population structure and low-cost labourers, Vietnam's automobile industry has still fallen short of expectation as set in the Master Plan for Automobile Industry Development.

As consulting experiences of preceding countries, it is clearly seen that the development of auto industry requires a coherent system of policy measures. It takes a long time to develop the automotive sectors. This considerable amount of time crucially depends upon the effective implementation of policies regarding the industry. In order to develop the industry, it is necessary that countries devise long-term and clear strategies. In particular, the implementation of such strategies must adhere to the formulation of a long-term effective policy system, in order to attract foreign investors, promote supporting industries and develop infrastructure. The sustainable development of automotive sector is unachievable without effective supporting industries. Yet, sufficient demand and production scale for cars are needed to develop supporting industries, which poses a radical challenge for the countries.

2.2.2 Roles of fee and charge policies in automotive industry development

2.2.2.1 Overview of roles and functions of fees and charges

a) Definition and classification

Tax could be defined in numerous ways. In view of national budget revenue, tax is understood as a proportion of revenue which individuals and organisations are obliged to contribute to the State upon concerning legal documents with a view to meeting expenditure requirements of the State, including investment and administration. Tax defined upon the angle functions as a budget generator. Yet, beside the aforementioned function, tax also performs various tasks, such as income regulatory, assurance of social equity, and rectification of market's defects.

Tax is also an effective tool for the Government to fulfil its management tasks over the whole society as it might regulate economic subjects. To be more specific, the Government could use tax as a tool to regulate social subjects' consumption and production of each service and product. Higher tax is imposed on those goods which are discouraged by the Government for their adverse impacts on society, community health and environment. For instance, big-engine cars in some countries have to pay higher tax than those sharing the same number of seats yet having smaller cylinder capacity, as the

former is potentially more harmful to the environment. From this perspective, tax policy also functions as a tool for environment protection besides its key roles of income generation and regulatory.

It is required that tax policy making and administration meet the basic requirements for a tax mechanism, including simplicity, and convenience for implementation and inspection. As tax is imposed on various economic subjects, it should be as lean and simple as possible to adhere to different backgrounds of social strata. Tax collection should be transparent as well.

A tax system consists of various type of tax, including income tax, consumption tax, export tax, import tax, property tax, environmental tax, excise duties, among others. Although each tax performs different functions and responsibilities, they always complement each other to promote the effect of a tax system as a whole.

Taxes can be categorised upon various approaches. Upon the view of tax payers and tax bearers, taxes are classified into two types of direct and indirect.

- A direct tax is directly paid by taxpayers who are also tax bearers. They consist of personal income tax, corporate income tax, inheritance tax, and so forth. By directly imposing on taxable individuals and organisation, direct tax helps redistribute the wealth of a nation, ensuring social equity. Accordingly, the more a person earns, the more taxes he is levied; which often raises objections from tax bearers when direct taxes go up.
- Indirect taxes include consumption tax, excise duty, commodity tax, export tax, import tax, etc. Their primary economic principle is that the burden of tax can be shifted from the taxpayer to consumers by adding the tax amount to selling prices of goods and services. Therefore, taxpayers are different from the tax bearers, but the purchasers of commodities and services. As consumers have a wide range of selections when it comes to purchasing goods and services; thus voluntary taxation is ensured. Businesses and manufacturers charge indirect taxes on selling prices of their products and services, then forward the tax proceeds to government. They are called indirect taxes since they are basically levied on consumers' income (commodity and service buyers), yet collected indirectly by manufacturers and businesses as intermediaries.

Indirect taxes are said to bring a frequent and fairly stable inflow to the national budget since consumption always takes place, even develops in a more diversified manner, regardless of social circumstances. Indirect tax, on the other hand, remains a shortcoming, which is blamed on its regressive nature. To be more specific, those taxed are imposed equally upon taxpayers, regardless of their income; therefore, the burden of tax is theoretically equal to the rich and the poor. However, when considering the ratio of taxes to income, it could be seen that as ones' income increases, the proportion of his income paid in tax fall.

Accordingly, current direct and indirect taxes imposed on automobiles could be listed as follows: corporate income tax; import tax (on CBU cars or automobile parts, etc.), value added tax, excise duty with various mechanisms, principles and impacts.

b) Fees and public charges

In addition to taxes, the fiscal policies system applicable to automobile industry also consists of fees and public charges. A fee is defined by a sum paid by an organisation or individual to their service providers; while a public charge is an amount collected by state agencies or authorised organisations from individuals and organisations when performing public services.

Fee and public charge structure is devised upon the primary principle of appropriate capital recovery period. For public charges, the capital recovery should take into account changes in State policies; while bearers' financial status should be considered when identify capital recovery period of fees.

Different from taxes, revenue constituted of fees and public charges is enclosed with spending tasks. According to Ordinance on Charges and Fees by Vietnam's Standing Committee of National Assembly, charges collected for services invested by the State are revenues belonging to the State budget, which are managed and used as follows: Where the collecting organizations are provided with the State budget funding for their charge collection activities according to annual estimates, they must remit all the collected charge amounts into the State budget; Where a collecting organization is not provided with the State budget funding for its charge collection activities, it may retain part of the collected charge amount to cover expenses for the charge collection and must remit the rest into the State budget; Where a collecting organization is authorized to collect charges outside its regular functions and tasks, it may retain part of the collected charge amount to cover expenses for the charge collection and must remit the rest into the State budget.

All collected public charges shall belong to the State budget. Fee-collecting organizations must immediately remit all the collected fee amounts into the State budget. Where an organization is authorized to collect fees, it may retain part of the collected fee amount to cover expenses for the fee collection and must remit the rest into the State budget. For public charges, all revenues go to State budget.

Current fees and public charges applied on automobiles in Vietnam include: registration fee, fee for granting license plate, inspection fee, fee for granting of certificate of assurance of technical quality and safety, annual charge for land road use. Among which, registration fee is the most considerable, which is calculated upon proportions of the vehicle's value. Other fees and charges are fixed at absolute rates, including a one-off payment on an annual basis.

2.2.2.2 Impacts of tax, fee and charge policies on automotive industry development

2.2.2.2.1 Classification of taxes, fees and charges applicable to automotive industry

Similar to any industries, automobile sector is either directly or indirectly affected by adjustments of a variety of taxes, fees and charges. Yet, the actual rates of those payables largely depend on each country's preference for automobile usage and concerning aspects of environmental protection, state budget collection, among others. Generally speaking, policies on taxes, fees and charges imposed on the auto industry are divided into two groups.

The first group consists of taxes, fees and charges imposed on automakers, namely import duty on machinery, equipment, components, materials; VAT; corporate income tax; as well as other relevant taxes and charges. For this category, many countries have introduced and applied various incentives in order to attract investment in automobile industry, which are exemption and reduction of corporate income tax, deduction of import tax on machinery and equipment (fixed assets).

The second group includes a wide array of taxes, fees and charges levied on auto consumers, which can be classified into three major sub-groups:

- Sub-group 1: Payables to ensure a vehicle's eligibility to be on road include excise duty, VAT, vehicle purchasing tax, registration fee and license plate registration fee. Additionally, imported cars are subject to import duty. Certain countries introduce distinctive fees on automobile. For instance, auto consumers in Singapore have to purchase 'right to own a car'. Interior tax of 10% is also applied on those from Thailand.
- Sub-group 2: Payables regarding circulation and usage of vehicles consists of charge for land road use, or says, road taxes in some countries; local taxes, fuel/gasoline tax. However, their modes of collection varies from country to country throughout the world. Some are identical yet called by different names.
- Sub-group 3: Payables regarding endorsement of vehicles include VAT, registration fee, vehicle purchasing tax (similar to sub-group 1).

The aforementioned classification is only relative. In some cases, it is difficult to determine subjects of tax burden. The two groups of taxes closely correlate to each other and are of significance to the auto industry's development. Therefore, it is important that building of any tax policies within the groups should be in line with those within the remaining one.

So as to effectively stimulate the industry, tax policies concerning the latter group are required to well complement the former. Specifically, in spite of highly incentive policies such as corporate income tax to attract investors in automobile industry; high taxes, fees and charges on users for some reasons of

traffic congestion and so forth, on the other hand, still hinder the sustainable development of auto industry in a country as the substantial payables might narrow the market size.

It is difficult to encourage investment in auto sector with a sole target of export markets given the current trend global market. Ensuring comprehension between the two aforementioned groups of taxes and other payables is laborious as each policy might aim at different targets (for instance, a conflict between the need for auto industry' development and traffic congestion prevention).

2.2.2.2.2 Impacts of tax policies on the development of automotive industry

Among policies to accelerate development of the automotive industry and supporting industries, tax policies serve a prominent role. However, policy makers should not consider tax policies a master key while turning a blind eye to others. Tax policies facilitate and support the automobile sector right from its early stages of development. Determinants of the automobile industry might include the macroeconomic environment, investment policies (investment licensing in such fields of car manufacturing and assembly) or import-export policies.

Each tax on the auto industry has its own function and policy objectives. However, overall impacts of tax policies on the development of the automobile industry are reflected in the following key aspects:

Firstly, on the basis of tax incentives³, governments might frame preferential policies to attract and stimulate domestic and foreign investment in projects on auto manufacturing and assembling. Tax incentives possibly consist of preferential policies upon direct taxes (corporation income tax deduction or exemption), or indirect taxes (deduction or exemption of import tax on relevant machinery and equipment/fixed assets, materials and spare parts, etc.) Accordingly, when key auto models or projects for development are identified, Governments may adopt strong incentive policies on them. Yet, for countries whose automotive sector is not a development priority, tax policies on the industry is not preferable to others.

³ Tax incentives for investment stimulation take various forms, including:

Exemption and reduction of corporate income tax: The exemption or reduction of income tax rates may be applied permanently or for a definite period of time.

Investment deductions, investment subsidies and depreciation mechanisms: Investment deduction or investment subsidies can be more effective than periodic tax exemptions or reductions in investment attraction. These incentives may be applicable to all investment portfolios or limited to certain items of machinery, high-technology equipment, or R&D.

Exemption of import tax and customs obligations: The exemption of import tax and customs obligations, especially on goods and assets, are the major determinants influencing investment decisions and the most effective forms of incentives, which save a great cost for investors at the very beginning. Tax exemptions are generally applicable to imported equipment, either all equipment and machinery or only certain types (regulated categories). Many countries even apply import tax exemption mechanism for both components and materials for production.

A tax incentive in general or a tax incentive on auto industry in particular is considered effective only if it manages to make investors act in a desired manner. Investment incentives, on the other hand, are regarded successful when they result in expected investment decisions which could not have occurred without the preferential. Additionally, another criterion to assess an investment incentive's effectiveness is the surpassing of investment activities' achievable to incentive schemes' costs. Every incentive incurs a cost which covers a loss in State budget revenue (excluding compulsory incentives without which investors would not invest). Therefore, specification of tax incentives' objectives is of significance; otherwise, the preferential policies may become ineffective, resulting in redundant incentives in projects which investors are always willing to pour money with or without incentives. Tax incentives should be limited to certain investment portfolios instead of being widely applied. For automobile industry, tax incentives should also be deliberated on certain models.

Secondly, protection of domestic auto manufacturing especially in early stages of development is important. As the automotive industry has long investment duration and capital recover time, nascent domestic automakers is less competitive than large-scale and highly-developed foreign ones. Hence, in order to support domestic auto firms, many Governments carry out protectionist policies on the automotive sector in a certain period of time. Yet, given that trade barriers have gradually been broken down due to globalisation and regionalisation, protectionism is no longer an optimal choice. Instead, Governments should pursue more appropriate policies to develop the industry. A great number of legal assistances successfully adopted in the past, including localisation policy and export support policy, have been prohibited by international legal framework; hindering the industry's development of infants in industrialisation like Vietnam.

Thirdly, tax policy should be used as a regulatory tool consumption in order to facilitate development of domestic automakers. The policy tool is applied by lots of countries worldwide, including regional ones. In the context of increased global and economic integration, Governments are prohibited from pursuing discrimination policies between domestic and foreign automobiles. Yet, policies favouring certain models and types of cars, otherwise, are applicable. Accordingly, prioritised models are subject to lower tax rate compared to other models. The method has been largely applied in recent time. More details are listed in the section of international experiences which is later discussed in this paper.

Fourthly, tax incentives, along with other policies, give assistances to not only the automakers but also enterprises in supporting industries, which serve a significant role in promoting development of auto industry. Development of appropriate tax incentives is an essential task to stimulate automotive's supporting industries.

2.3 Tax policy assessment

Tax policy necessitates an appropriate methodology for the analysis and assessment of the impacts of tax instruments within tax regulation. Adequate tax policy is an even greater challenge in the case of multinational companies operating in several jurisdictions. They are obligated to respect two or more legal (tax) systems as far as profit taxation is concerned: the legal system of the country in which they permanently operate and the legal system of the resident country (Kovac 2009). For multinational enterprises, tax implications represent a key factor in decisions on whether to invest in a country. Research to date in the field of taxation of the profits of multinational enterprises (multinationals) has shown that in many respects multinationals are mobile and able to avoid taxes. Legislators or politicians involved in measuring the appropriate level of tax revenue in an individual country are therefore inclined to limit opportunities for tax planning (Wamser 2014; Weichenrieder 2009). Therefore, policymakers are forced to protect national tax revenues and simultaneously attract foreign direct investment (companies), which complicates the situation. They implement various measures to prevent a longer-term effect in the form of tax competition (Jovanovic 2014). National legislators use two instruments to avoid the up to now observed profit shifting of multinational firms. On the one hand, tax competition has led to a significant decrease in corporate tax rates (Ramb & Weichenrieder 2005), and on the other hand, countries, typically large and high-tax examples, have implemented anti-avoidance rules in order to prevent profit shifting (Weichenrieder 2009).

Adequate tax regulation evidently requires a balanced approach between the successful attraction of foreign direct investments and protection of public finances in the form of anti-avoidance rules. Namely, policy instruments are carriers of causal ideas and economic theories used and adopted by the legislators, who are socialized into ways of seeing policy problems through certain cognitive and normative lenses. The reason for that derives from the fact that policy instruments are contingent on presuppositions and conjectures about the relationship between public policy and the economy (Morgan 2003). Accordingly, effective policy-making and thus tax regulation necessitates effective mechanisms that can facilitate preliminary impact assessment of planned tax instruments. Similar ideas have been present in the EU since the second half of the 1990s. They have been promoting the diffusion of institutions and policy instruments that enable governments to assess and manage regulation in different fields through the entire life cycle, including outcomes and long-term impacts. In order to achieve this aim, such approaches must contain well-developed metrics, usually in the form of benchmarks and standards that can demonstrate the quality of the proposed policies independently of the policy field (Coletti & Radealli 2013).

All of the above represents the reason that countries are facing a great challenge in creating an approach or methodology for efficient and effective policy assessment and policy-making. Evidence-

based policy-making is one of the latest policy-planning approaches, widely applied in public administration (Petak 2015). Policy assessment is most commonly practiced as one of several types of “impact assessments” that have emerged in the last two decades, such as regulatory impact assessment (RIA), sustainability impact assessment (SIA) and simply impact assessment (IA). There are slight differences among them, especially in terms of objectives and relevant impacts, but the terms are often used interchangeably, creating some confusion. These broad types of policy assessment in turn harness a range of policy assessment tools and methods, such as cost-benefit analysis (CBA), scenario analysis and computer modelling. The idea of policy assessment has spread rapidly around the world in the last two decades, while in the 1990s there were only a few OECD countries using it. Since 2008, the number of countries using this concept has increased to 31 countries that have either adopted or are in the process of adopting it (OECD 2009). Policy assessment systems (in the form of RIA, SIA and IA) have become a part of legal procedure in almost every European Union (EU) member state and in countries as far apart as the USA, Australia and South Africa, with the systems in different countries varying enormously in their design, implementation and even purpose. Nevertheless, it is important to emphasize that the procedure in some countries exists only on paper and is poorly implemented in practice. The most recent countries to start using policy assessment procedures are Estonia and Lithuania (Adelle & Weiland 2012).

The most recent studies of policy assessment procedures (Adelle et al. 2016) among world countries show that RIA is being applied in a number of developing and emerging economies, but is not well institutionalized. Developed countries, such as Germany, the Netherlands, Sweden and the UK, have set the agenda for this regulatory innovation since the 1980s, with some forms of compliance cost assessment, while for the majority of European Union member states, the move towards RIA has accelerated in recent years (Francesco et al. 2012). Focusing on OECD countries, the number has grown between 1974 and 2012, and 33 countries have begun using the system. At the same time, the countries involved admit that implementation is demanding from both an administrative and technical perspective (OECD 2015).

RIA is therefore one of the most common and essential tools for analysing the quality of legislation and/or evaluating the impact of regulations. The general goal of assessing regulation impacts is to assist governments by facilitating ex-ante evaluation of the potential impacts of policies on all stakeholders, more effective implementation of sector-specific policies and a holistic projection of the long-term impacts of policies. RIA is used to provide an overview and measurements of the likely benefits, costs and impacts of new or existing regulation. Analysis, evaluation and assessment of regulation impacts produced in line with the RIA methodology offers comprehensive support for the policy-making process, as RIA uses the following elements to assess the impacts of regulations (OECD 1997):

- (1) Empirical analysis – Decisions are conceptualized around facts and analyses which determine parameters for action in accordance with certain metrics
- (2) Expert groups – Decisions are based on the professional opinions of trustworthy experts
- (3) Agreement among stakeholders – Decisions are reached in collaboration with interested parties, who seek common ground that would balance out their interests
- (4) Political consent – political representatives search for solutions or decisions on the basis of the priorities of politically set objectives
- (5) Comparative analysis – the decision is based on a comparison with external models such as systems in other countries

Each decision in the policy-making process stems from a combination of the decision-making methods listed above. The combination of elements used differs from country to country, in line with national culture, political traditions, administrative systems and current socio-political developments. The decision-making framework provided by RIA includes multiple methods that at their core are experience-based. The role of RIA in the policy-making process is therefore to surpass the narrow framework of formal empirical methods; in line with its nature, RIA can make an important contribution to other methods used to support decision-making when designing different kinds of public policies. The elements (methods) listed above must be mutually complementary, as none of them independently provide adequate support for public policy-making. The effective integration of the elements of RIA and their purposeful use in the decision-making process can facilitate fact-based decision-making, improve the inclusion of affected stakeholders in public discussions and the decision-making process, ease the inter-agency harmonization of policies and constitute a foundation for the use of alternative methodological approaches to evaluating planned policies and their effects (OECD 2008).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research method

To achieve the aforementioned research objectives, the thesis utilizes a combination of qualitative and quantitative research methods, in which the qualitative method shall be the key method to accomplish the research objectives. Specifically as follows:

Descriptive statistical method: This method is used to gather statistical and descriptive data of the current situation in the Vietnamese automobile market in past periods. This method utilizes secondary data from the Vietnam Automobile Manufacturers Association. In addition, the thesis also uses data sources from the General Department of Taxation, General Department of Vietnam Customs (these two Departments belong to Ministry of Finance) pertaining to the implementation of tax policies for the automotive industry of Vietnam (import tax, special consumption tax, registration fee etc.); especially the analytical report on tax policy development process by the Tax Policy Department, Ministry of Finance.

Analysis and synthesis method: This method is used to analyse and synthesize previous theories and research on the role and impact as well as the practical implementation of tax policies relating to the automotive industry in Vietnam.

Comparative and contrastive method: This method is used to compare and contrast the practical situation of applying tax policies on the automotive industry of Vietnam in the past periods with the trends in some countries in the world, thereby drawing some policy implications for the fine-tuning of the tax policy system for the automotive industry in Vietnam.

In order to collect more information for my research, I had in-depth interviews with experts from the Tax Policy Department, Ministry of Finance. The interviewees directly took part in formulating tax policy so they gave me a lot of information about tax policies for the Vietnamese automobile industry. Before the interviews, a list of semi-structured questions and main points were sent to the interviewees via email. The questions were open-ended. The main talking points were about difficulties, obstacles and their opinions on the current policies and the fine-tuning of the tax policy system to boost the development of the automotive industry in Vietnam.

My thesis is about evaluating of the tax policy for the development of the automotive industry in Vietnam. There are several types of "impact assessment", with RIA as one of the most commonly used. This tool is used to measure and analyse the benefits, costs and effects of an existing legal regime, which can be carried out by collecting and analysing empirical data in the context of a broader decision-making framework. The evaluation criteria derived from the literature, the comparative method and comparison to other countries.

Beside that, according to Silverman (2010), there are three approaches to thesis analysis, each of which utilizes different methods. The three approaches are: using theories (i.e. a systematic analysis for theoretical development), choosing a methodologies (i.e. develop a new method) and experiential (i.e. analysis of a specific databank related to a case). The main point of this thesis is described as a case whose actual data from the Ministry of Finance and the Ministry of Industry and Trade about tax policy for the development of the automotive industry in Vietnam to answer the questions at the present and in the future.

Because collected data have huge influence over data analysis, selecting a methodology is therefore very important in determining the nature of data to be collected. Necessary data for this thesis are those that help identify the role and tasks of the tax policy for the development of the automotive industry in Vietnam, which will then be compared to the corresponding legal documents and research.

3.2 Research instruments

Data analysis will be the main research instruments applied to this thesis. As mentioned above, the data are collected mainly from reports by the Ministry of Finance, Ministry of Industry and Trade, and, related articles and research from newspapers and journals in Vietnam.

3.3 Research procedure

To realise this research, the author has conducted the following steps:

First, data and information have been collected from the Ministry of Finance, the Ministry of Industry and Trade to identify issues facing tax policy for the automotive industry in Vietnam, based on which to identify research issues and research questions.

Secondly, the research design will be provided after consulting related documents, and it will be perfected on the basis of the results coming from the literature review.

The next step is collecting qualitative data.

3.4 Collecting data

The way of data analysis is consulting the Government and the ministries' regulatory documents related to the tax policy for the automotive industry. Policy adjustments to fit such management also form one evaluative criterion of the degree of relevance and management, and gaps in the management.

3.5 Data analysis

The data analysis aims to describe and explain the binding relationships and the interdependence. First, the general data and then the specific ones are summarised. The analysed data are taken from the annual reports of the Ministry of Finance and the Ministry of Industry and Trade. The statistics are also compared in terms of periods. Interviews will help identify whether the control based on executive

regulations are tight and suitable. Ideas of experts and managers will provide the basis for further evaluation of the tax policy for the development of the automotive industry.

The qualitative method and data analysis and interview of this thesis are realised through the content analysis approach (Hancock, 1998). Descriptive account of the data collected and interpretative analysis were used. Specifically, the data collected from interviews are categorised and then combined with the data from the reports to identify analyses of content. Finally, the analytical results will be the basis for provision of conclusions and recommendations to be made to the tax managers.

CHAPTER 4: EMPIRICAL PART

4.1 Automotive industry of Vietnam: Formation and development

4.1.1 Formation and development

Before the 1980s, auto industry in Vietnam was a big Zero. All automobiles for domestic use at that time were imported from the Soviet Union, some Eastern Europe countries, and China, etc. through assistance programmes and exchanges of consumption goods. The imported automobiles were mostly specialised vehicles serving national defence, security, health and industry development.

Not until 1980-1990, did the automobile industry in Vietnam moderately develop with a simple assembly line using imported chassis from the German Democratic Republic to assemble coaches.

‘Doi moi’ process and the open door policy which have been adopted since 1991 breathed new life into Vietnam’s auto industry, illustrated by sizeable foreign direct investment, ranging from a few dozen millions to hundred millions of US dollars, in assembly and production lines of automobiles in Vietnam. The number of automakers nationwide reached 400 by 2012, among which, 56 are assemblers and 18 enterprises are members of Vietnam automobile manufacturers' association (VAMA). Those enterprises are mostly small and medium sized ones, which commonly base in the South-eastern and Red River Delta regions. The total designed production capacity of automobile manufacturers across Vietnam is estimated at about 458,000 units per year⁴.

The total investment capital in automobile and automobile parts industries has reached over 1.5 billion US dollars, of which the total investment of joint ventures is \$ 850 million. The industry has created more than 80,000 jobs. Enterprises joining in the industry are much more diverse with an active participation of private domestic firms. A number of the private businesses have moved in right directions and acquired good names in manufacturing coaches and light trucks, including Truong Hai, Xuan Kien and so forth.

Looking at the aspect of usage purposes, automobiles are divided into two categories, personal and commercial. Accordingly, the former is classified into four segments of luxury, five-seater, 5-seater sports utility, and 7-seater utility cars; while the latter is classified into three segments of trucks, coaches and pickups. 5-seater and trucks are dominant in Vietnam’s auto industry. The sharpest fluctuations occur in the segments of 5-seater and trucks, while minor fluctuations are seen in sports cars and utility cars segments. Other segments witness no significant fluctuations.

⁴ An Nhi (2013). “20 years: Vietnam yet to have an automobile manufacturing industry”. Journal of Economics and Forecasts. Excerpted from: <http://kinhthvadubao.com.vn/nganh-nghe/sau-20-nam-viet-nam-van-chua-co-nganh-cong-nghiep-san-xuat-o-to-1413.html>

Despite a large number of automakers, most of the enterprises assemble cars from imported parts. Their production line, accordingly perform three major stages of welding, cleaning, as well as painting and assembling. Only a limited number of automobile parts are domestically produced, such as mirrors, glass, seats, wires, batteries, chassis and some components of passenger vans, among others. Some enterprises have invested in car body stamping process. Localisation rate of Vietnamese auto industry is low, with only 7%-10% for cars and 35%-40% for light trucks⁵. The difference in aforementioned localisation rate is driven by light trucks' simpler production technology.

Regarding the automotive industry, Vietnamese Government has employed the Strategy for Automobile Industry development by 2010 with a vision to 2020, affirming the significance of automotive industry as an active contributors to the process of industrialization and modernization and national security and defence consolidation. Accordingly, the industry's development should adhere to the country's consumption policy, its transport infrastructure system and requirements for environmental protection. Some objectives set out in the Strategy include:

- CBU cars: 1) *Regarding common automobiles (trucks, coaches, utility cars)*: To meet over 80% of domestic demand and achieve the localization rate of 60% by 2010 (particularly for engines and gear boxes, to strive to reach the localization rates of 50% and 90% respectively); 2) *Regarding special-use automobiles*: to meet 60% of the domestic quantitative demand and achieve the localization rate of 60% by 2010; 3) *Regarding high-class automobiles*: Tourist automobiles manufactured by joint ventures to achieve the localization rate of 40-45% by 2010 and meet most of domestic demand; high-class trucks and buses to achieve the localization rate of 35-40% by 2010 to meet 80% of the domestic demand.
- Engines, gear boxes and automobile parts: To select a certain types of engines, gear boxes, actuators and automobile parts for massive production, in order to meet the demand for domestic cars assembly and exports.

From aforementioned objectives, the Strategy lays down guidelines for big brothers in Vietnam's auto industries, including Vietnam Automobile Industry Corporation, Vietnam Engine and Agricultural Machinery Corporation, Vietnam Coal Corporation, Saigon Transportation Engineering Corporation One-Member Limited Liability Company (SAMCO), automakers under the Ministry of Defence and Ministry of Public Security, FDI enterprises. However, the implementation of Strategy objectives has fallen short of expectation. Incentive policies have been introduced with a view to stimulating the industry's development. Yet, it still could be said that Vietnam is yet to develop a proper auto industry. The shortcomings shall be discussed in great detail in the following section.

⁵ Source: Diep Anh (2013). "Automobile industry - where to go?". Customs News paper, vol. 105 (1877) dated September 1, 2013.

4.1.2 Current situation of Vietnam's automotive industry and market

4.1.2.1 Development status of Vietnam's automotive industry and market

The ongoing reform process and open door policy have resulted in rapid growth in various aspects, especially since 2000. Yet, the industry's development is uneven and unsustainable.

Development process of Vietnam's auto industry could be summarized as follows:

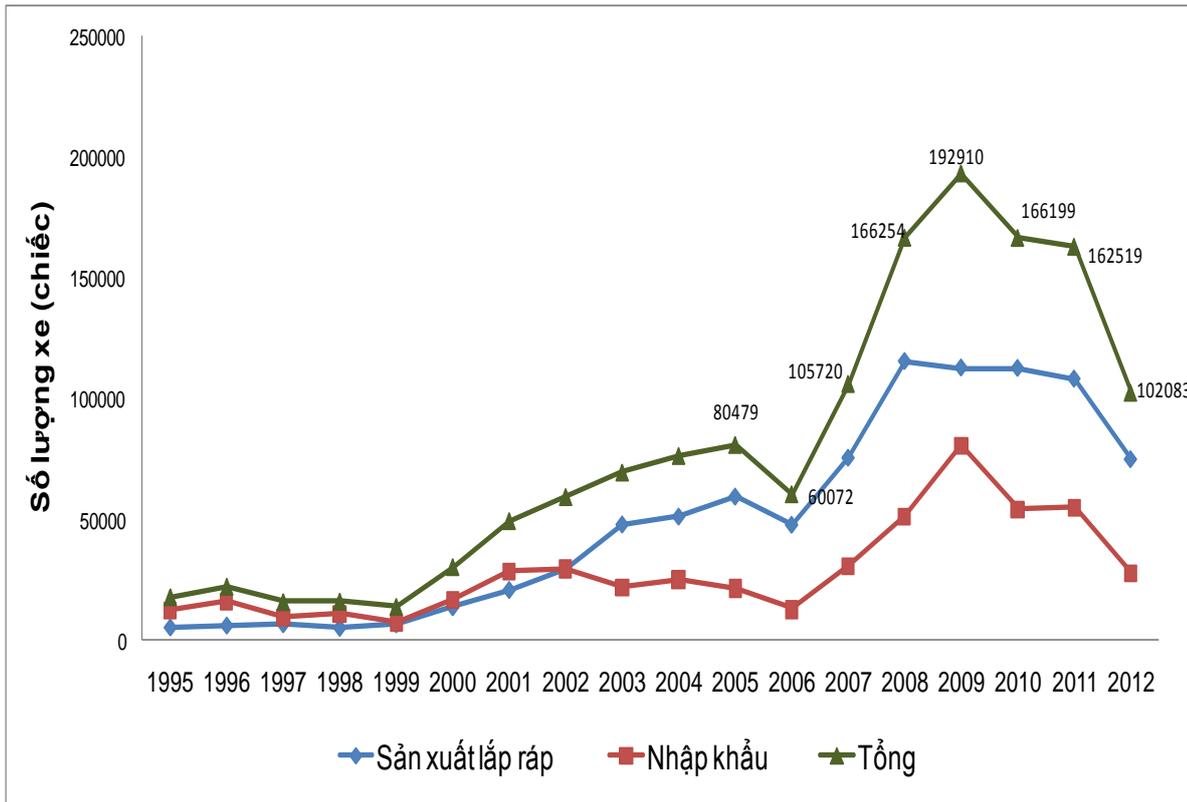
From mid-1990s to early 2000s: this period witnessed the first participation of world's major automakers. A series of FDI projects on automobile production and assembly of cars were licensed and put into operation. However, the scale of Vietnam's automobile market at that time was still modest. Since the country was in an early stage of development and integration, its average income per capita was low, resulting in sluggish demand for automobiles.

From early 2000s to 2006, Vietnam's auto markets posted a sound growth rate. During the period, domestic auto manufacturing highly developed while imports of CBU cars decline thanks to a stable macro economy, incentives policies for domestic production and high taxes imposed on CBU cars.

Regarding segments, 5-seater car demand in the period experienced great volatility due to drastic changes in excise duty. Especially, from 2000 - 2003, difference in excise duties on CBU and CKD cars is radical (100/5), boosting consumption to a substantial level (excise duty levied on imported cars was 100% while that of domestic assembled cars was only 5% as a tax deduction of 95% was applied). From 2004, as excise duty on CKD cars increased to fulfil Vietnam's WTO, 5-seater car sales were seeing a sharp decrease until the end of 2006. By 2006, excise duties on CBU and CKD cars were adjusted to an identical rate of 50%, while import tax began to decline under CEPT commitments and imports of used CBU cars were permitted.

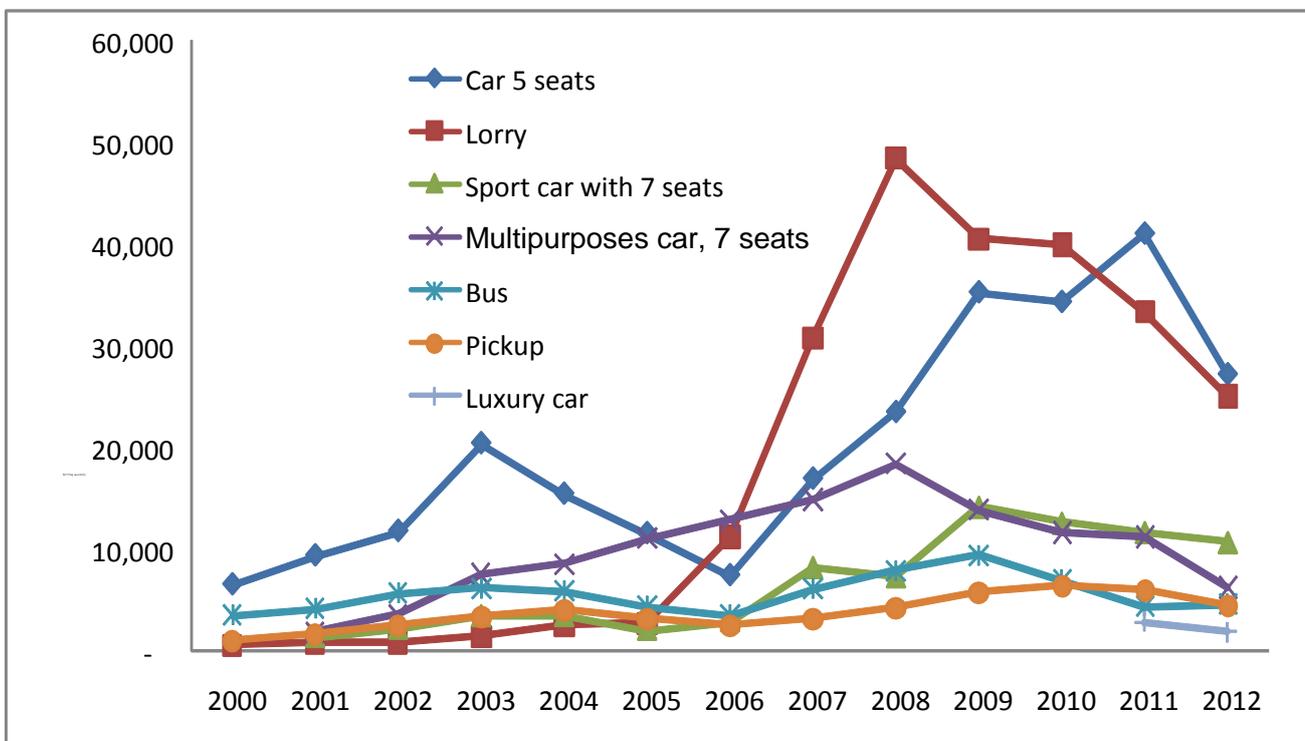
From 2007 to 2009, Vietnam's automotive industry saw exponential growth in both imports and exports thanks to a spectacular domestic economic growth rate from 2007. Auto production reached a record height by 2008, while imports and total market volume kept growing until 2009 thanks to a stimulus package. Import tax on automobile in the period is considerably reduced compared to the last period.

Figure 1: Sales, production outputs and imports of automobiles



Sauce: Ministry of Industry and Trade.

Figure 2: Sales of segments



Source: Ministry of Industry and Trade.

In 2007, import tax lowered for three times (100% - 80% -70% - 60%), and the booming of the stock market contributed to the tremendous growth of domestic automobile market (97% rise of productivity, and 114% rise of sales).

Import tax increased again in 2008 after two adjustments (60% - 70% - 80%) while the similar pattern was also observed in registration taxation. By the end of the year, global financial crisis began expanding, adversely affecting the domestic economy as the stock market was sluggish. Therefore, despite a rise in output and sales, the increase was not as significant as that of 2007. Import tax moved upwards yet in general, it was still lower than that of the previous period.

Global and national economy in 2009 badly struggled against the rapidly mounting crisis. Adoption of the Law on Excise duty⁶, and Hanoi's increasing of registration fee from 10 to 12% led to a decrease in output in 2009. Yet, by the middle of 2009, the introduction of a stimulus package by the government, which cut down on registration fee and VAT on automobiles by 50%, resulted in a strong rise in sales in 2009, compared to that in previous years.

The period of 2010-2015 witnessed a regression of the automobile sector in terms of both output and sales as affected by both macroeconomic environment and policies. Specifically, within five years from 2010 to 2015, macro economy was yet to revive, real estate market was dull, the country faced with mounting bad debts, the State Bank of Vietnam adopted the monetary tightening policies; while the policy on taxes, fee and charge was variable. Among which, the most determinant factors resulting in the significant decline were a rise of registration fee from 10-15% to 10-20% by 2011, and the proposal of charging personal vehicles to ease the traffic by the end of 2011, and Hanoi's rise of registration fee from 12 to 20% which took effect in January 1, 2012.

Overall, Vietnam's automotive market is highly volatile, especially in recent years. Besides macroeconomic turbulence, impacts of relevant polices of finance and banking (credit crunch); tax (import tax, excise duty, value added tax); Charges and fees (registration fees, charge for land road use, etc.) also perform a crucial roles in the industry's development. In spite of similar external factors to other regional countries, the development trend of Vietnam's auto since 2006 have been relatively different from the rest. Generally speaking, other countries' automobile outputs witnessed decreases in only twice in 2009 and 2011 due to the Financial Crisis of 2008 and 2011 Tōhoku earthquake and tsunami in Japan then quickly recovered in 2012 and 2013. In the meantime, Vietnam's auto sector has registered negative growth since 2009, illustrating a dominant role of domestic macroeconomic factors and relevant policies in people's demand for automobiles.

⁶ Excise duty on cars having 6 to 9 seats and cylinder capacity not exceeding 2000cm³ has risen from 30% to 45%; while that of those with cylinder capacity exceeding 2,000 cm³ but not exceeding 3,000 cm³, and exceeding 3,000 cm³ reach 50% and 60%, respectively.

Among cars at the market, cars with less than 9 seats are the most volatile group and account for the largest proportion of the market. Use of commercial vehicles (trucks, buses, specialised vehicles) for production and public transportation are encouraged by the State; therefore, high protectionism is applicable at the beginning in order to stimulate domestic production of those vehicles. Additionally, other taxes, fees and charges on commercial vehicles are at lower rates than the rest. The development of commercial vehicles thereby is more stable.

4.1.2.2 Production scale and current situation of local manufacture, assembly and trade

The total designed production capacity of automobile manufacturers across Vietnam is estimated at about 458,000 units/year. Among which, the total production capacity of trucks is the largest with maximum production of 215,000 units/year, which occupies over 46.9% of the country's total production capacity. It was followed by cars with less than 9 seats which boasts a designed production capacity of 197,000 units/year, accounting for 43% of the total production capacity nationwide. Meanwhile, the production capacity of coaches and specialised vehicles only constitute some 9.7% and 0.4% of Vietnam's total designed production respectively. After seven years of implementing the master plan under the Decision No.177/2004/QĐ-TTg by the Prime Minister, the domestic automotive industry has gained a number of solid achievements. Specifically, the country has seen significant growth of domestic automakers as domestically manufactured coaches and trucks have met 94% of consumers' demand within the country (surpassing the target of 80% set in the Master plan) while cars with less than 9 seats meet more than 64% of domestic demand.

Vietnam in 2010 produced 112.3 thousands cars of various types and models, roughly twice higher than and 8.4 times higher than that of 2005 and 2000, respectively. Average annual growth rate of the industry tops 17.44. In 2011, as influenced by the global crisis, domestically manufactured car output was only 107.9 thousand, down 4% compared to 2010. The number continued decreasing to 72,749 units in 2012, representing a decline of 31% year-on-year⁷.

Domestically assembled cars account for 68.32% and 72.8% of the total number of cars sold in 2010 and 2012 respectively. Of the figure, cars with under 9 seats, 10-seater cars and trucks made up 64.16%, 94.49% and 76.85% respectively, while specialised vehicles and other types only account for 9.74%. The numbers illustrate that domestically assembled trucks and coaches boast the highest competitive capacity in Vietnam' auto sector, followed by cars with below 9 seats. Luxury cars with 4 to 9 seats are mostly imported. Low-end and middle segment, particularly cars with 4-9 seats, which accounts for a large proportion of domestic auto market and sustains an impressive growth, open up

⁷ An Nhi (2013). "20 years: Vietnam yet to have an automobile manufacturing industry". Journal of Economics and Forecasts. Excerpted from: <http://kinhtevadubao.com.vn/nganh-nghe/sau-20-nam-viet-nam-van-chua-co-nganh-cong-nghiep-san-xuat-o-to-1413.html>

ample opportunities for domestic automakers. Still, Vietnam’s auto market remain humble compared to other regional and international markets. It is commonly said that modest market size has been hindering the development of the Southeast Asian country as the market volume is too small for supporting industries to develop.

Regarding the structure of domestic automobile industry during the period of 2001-2010: Cars with 5 to 14 seats make up the highest proportion among assembled cars; followed by below-5-tonne trucks and trucks with 5 to 10 tonne load capacity. Proportion of coaches in the country’s auto industry has declined to 4.4% in 2010 despite a high ratio in the past. However, the percentage trend has changed in recent three years, with light trucks, pickups and vans accounting for the largest proportion, followed by passenger cars with less than five seats, utility cars with more than seven seats while coaches still constitutes the lowest proportion.

4.1.2.3 Automobile import situation

Automobile imports during 2000 to 2015 period reflect an upward trend in import volume throughout the years. Particularly, the average import volume in the period of 2000 – 2006 was some 22,000 units per year while that of period from 2007 to 2015 drastically increased (to 50,000 units per year). Especially in buoyant economic years, growth rate of automobile imports is generally very high. For instance, automobile imports in 2007 posted a year-on-year rise of 144% (2007 marked Vietnam’s first time to fulfil WTO commitments which require a decrease in import tax from 90% to 80%, the year was also booming year in terms of economic growth); also the industry’s growth rates in 2008 and 2009 were 68% and 58% year-on-year. Of which, cars with less than 9 seats enjoyed the highest average growth rate. However, growth rate of trucks imports was modest while imports of cars with over 10 seats even fell sharply.

The statistics show Vietnam’s largest automobile import market in the past three years is the Republic of Korea, and followed by China, Japan, ASEAN bloc and other countries and territories (*Taiwan, Germany, the United States, the United Kingdom, Canada, and so on*).

Table 1: Imported cars from 2009 to 2012

Category	2009				2010			
	Quantity		Trading		Quantity		Trading	
	unit	Compared to previous year	Sales (millions of USD)	Compared to previous year	unit	Compared to previous year	Sales (millions of USD)	Compared to previous year
CBU cars	80,596	157.8%	1,268	122.0%	53,841	66.8%	978	77.1%
- Passenger cars having 9 seats or fewer					35,000		405	
- Passenger cars exceeding					376		10	

Category	2009				2010			
	Quantity		Trading		Quantity		Trading	
	unit	Compared to previous year	Sales (millions of USD)	Compared to previous year	unit	Compared to previous year	Sales (millions of USD)	Compared to previous year
9 seats								
- Lorries					14,159		343	
Components, Parts of car			1,802	98.4%			1,932	107.2%

Category	2011				2012			
	Quantity		Trading		Quantity		Trading	
	unit	Compared to previous year	Sales (millions of USD)	Compared to previous year	unit	Compared to previous year	Sales (millions of USD)	Compared to previous year
CBU cars	54,619	101.4%	1,028	105.1%	19,790	44.0%	447	52.8%
- Passenger cars having 9 seats or fewer	34,892	99.7%	424	104.8%	9,881	33.7%	104	28.0%
- Passenger cars exceeding 9 seats	177	47.1%	6,334	62.9%	128	121.9%	2,8	61.6%
- Lorries	16,041	113.3%	420	122.2%	7,730	59.4%	232	66.4%
Components, Parts of car			2,074	107.4%			1,078	72.0%

Source: General Department of Custom (2013).

Table 2: Quantity, import turnover automobiles under the countries that have signed the Agreement establishing a free trade area

Countries signing the agreements	2009		2010				2011			
	Quantity	Trading	Quantity		Quantity		Trading		Quantity	
	Unit	Sales (millions of USD)	Unit	Unit	Sales (millions of USD)	Unit	Unit	Sales (millions of USD)	Unit	Unit
ASEAN	3.773	65.7	3.417	90.6%	57.226.672	87.0%	7.220	211.3%	109.2	190.8%
India							2.720		32.4	
RoK	47.297	460.8	28.119	59.5%	318.4	69.1%	25.106	89.3%	260.0	81.7%
Japan	7.216	176.0	5.387	74.7%	168.4	95.7%	4.549	84.4%	162.2	96.3%
Australia	41	0.64	28	68.3%	0.92	143.4%				
China	4.368	152	4.192	96.0%	152	99.6%	5.524	131.8%	201.1	132.3%
MFN	17.029	390	11.321	66.5%	244	62.8%	9.091	80.3%	243.2	99.3%
Total	79.724	1.246	52.464	65.8%	941	75.6%	54.210	103.3%	1.008.3	107.0%

Source: General Department of Custom (2013).

4.1.3 Assessment on Vietnam's recent automotive industry development

Vietnam's automobile is still an infant industry, satisfying mainly the domestic market demand. Impartially speaking, Vietnam's automobile industry, though having fallen short of expectation, has gained certain achievements given a poor starting points, which include:

First, scale of Vietnam's automobile industry has been expanded. It has managed to mobilise resources from many economic subjects to have itself developed. The total investment capital of auto and spare parts industries has topped 1.5 billion US dollars, with that of joint-ventures making up 850 million US dollars. The sector has provided jobs for more than 80,000 labourers. Enterprises joining in the industry are much more diverse with an active participation of private domestic firms.

Second, infrastructure and facility for automakers have been developed. The number of automakers nationwide reached nearly 400 by 2013, among which, 56 are assemblers and 18 enterprises are members of Vietnam automobile manufacturers' association (VAMA). The total designed production capacity of automobile manufacturers across Vietnam is estimated at about 458,000 units per year, with FDI firms accounting for some 47%, while domestic ones making up 53%⁸.

Third, a skilled labour force of workers, experts and engineers in auto making has been initially formed, contributing a valuable resource to the country's modernisation and industrialisation.

Fourth, strategic partnership relations with domestic and foreign suppliers have been established with a view to obtaining a sustainable supply of materials and spare parts, laying a foundation for the development of supporting industries.

However, analyses on the current situation and development process of Vietnam's automobile industry indicate numerous shortcomings. In particular, in spite of achievements, the industry is yet to fully tap its potentials. Preferential policies, including tax incentives, have been introduced, yet the sector's growth rate still stays modest, mostly assembling. Overall assessment on the implementation of Directions and Plans for automobile industry's development reveals key issues as follows:

First, Vietnam so far has not had any large-scale enterprises with enough capacity to compete with regional rivals and expand export markets. After years of developing auto industry, the rate of technology transfer from foreign enterprises to domestic automakers still remains low. Loose cooperation among enterprises within the industry also hinders the sector's development as each firm's strengths are yet to be properly exploited.

⁸ An Nhi (2013). "20 years: Vietnam yet to have an automobile manufacturing industry". Journal of Economics and Forecasts. Excerpted from: <http://kinhtevadubao.com.vn/nganh-nghe/sau-20-nam-viet-nam-van-chua-co-nganh-cong-nghiep-san-xuat-o-to-1413.html>

Second, the industry's unimpressive growth which is insufficient to stimulate supporting industries and its low localisation rate also disruptively influence the domestic automobile manufacturing and assembling. The current localisation rate fails to meet the target of 50% to 60% set out in the Strategy. Assembly does not make the grade on retaining its role as the industry's locomotive due to its low output and scattered production. Supporting industry in Vietnam could not catch up with the global automotive production chain, or says, the country has not yet been ready to develop the industry.

Supporting industries are still nascent. Major spare parts which need focusing, such as engines, gearboxes and transmissions have yet to be produced. The number of supporting industry enterprises in Vietnam is still modest, while they mostly produce simple automobile parts which require only unskilled labourers. Despite a large number of automakers, most of the enterprises assemble cars from imported parts. Their production line, accordingly perform three major stages of welding, cleaning, as well as painting and assembling. Only a few spare parts are produced domestically, such as mirrors, glass, seats, wires, batteries.

Third, the automotive industry's development remains spontaneous. Although the Master Plan for Automobile Industry Development has been adopted for ten years, the sector has not achieved dramatic results. Many objectives identified in the Master Plan have yet to be fulfilled. The sector's true potentials remain untapped while its development is yet to cover "costs" incurred by the protectionist policy during a long period of time.

4.1.4 Causes and lessons of Vietnam's automotive industry development

The underdevelopment of the Vietnamese automobile industry in recent years can be blamed on various reasons. Carrying out in-depth research on hindrances to the sector may help Vietnam adopt effective measures for developing its automobile industry to catch up with the regional and international automobile industry. The obstacles hindering development of the country's automobile industry over the past years can be categorised as follows:

Firstly, unstable, inconsistent and highly volatile policies

Vietnam's business environment is yet to adequately facilitate automobile assemblers and manufactures in devising long-term investment plans in such production lines of domestic components and spare parts, large-capacity vehicles and multi-seat buses, among others. It could be seen that the Government's frequently changed policies regarding the industry and a major conflict between the needs for automotive development and efforts to limit private vehicles use in big cities. Pressures from global integration have become more intense day after day. Particularly, import tax on automobile by 2018 should be fully exempted due to AFTA commitments. The trend of cutting down on import tax may encourage domestic automobile enterprises to switch from manufacturing and assembly to mere commercial and distribution, making the country a market for foreign automakers. The country's

burden of trade deficit will accordingly increase while the industry's development goals maybe unachievable.

Due to inappropriate policies for development, automakers mostly operate as assemblers, while the industry's localisation rate (automobile parts and components manufactured locally) remains low. A number of foreign investors start pouring money when realising upward trends in development of Vietnam's automobile industry, which is resulted by the country's recent escape from low-income countries to a middle-income country. However, inconsistent macro-economic policies have caused a decrease in market demand for automobiles given that market is already small. In addition, the automotive industry requires enormous investment and modern technology. Therefore, Vietnam automotive sector hardly can develop without foreign investment, which underscores the importance of a stable, transparent and consistent policy system in foreign investment attraction in the country in general and its automotive industry in particular.

Secondly, causes regarding current production status of Vietnamese auto firms

Backward technology, modest production scale: As a developing country, its scientific and technical is said to lag behind the general level across the world. Featuring basic technology, high energy consumption, huge production cost, and low quality, Vietnam's industrial products have a limited competitive capacity compared to those from countries with advanced technology worldwide. As a result, despite great dependence on FDI firms, the automobile industry of Vietnam has not proved effective. A majority of foreign-invested enterprises within the sector only perform assembly operations with basic assembly line. Most enterprises turn to simple assembly line and import of CBU cars built for economic purposes instead of paying heed to increasing localisation rate as committed.

Low specialisation and lack of adequate supporting industries: An automobile is constituted by 20,000 different parts. Hence, automotive industry requires the cooperation and specialisation of a wide array of supporting industries, including mechanical engineering, electronics, chemical industry, etc. However, the loose collaboration among the aforementioned industries results in an inconvenient situation when an industry is capable of producing automobile parts thus makes none for the industry. For example, Vietnam exports dozens, or even hundreds of thousands tonnes of rubber and rubber products; yet fails to meet the auto industry's demand for tires and tubes. The fact is partly due to Vietnam's technical constraints, which prevent the industries from meeting stringent requirements of joint ventures within the sector. Due to inadequate supporting industries, improving localisation rate is an arduous task.

Imbalance among models, unidentified priorities for development: Despite a wide array of brands, Vietnam's auto see an imbalance of car models, among which the luxury travel cars are dominant, regardless of its incompatibility with the country's current infrastructure and people's income.

Meanwhile, the market is in need of small, convenient and low-cost vehicles.

Such a small market with too many rivals has hindered the localisation of the automobile industry, creating a ‘vicious circle’ for domestic automobile manufacturing. In fact, each country may adopt different approaches in identifying priorities for development. While some countries choose certain types and models of automobiles as priorities for development and call for participation of numerous auto firms; some, otherwise, give priority to certain enterprises, etc. The later approach is also taken by Vietnam. However, the decision has failed for some reasons. In order to successfully develop the auto sector, selected enterprises should be large in capital and have a coherent development strategy.

Labour force’s limited qualifications: Current overall labour force is yet to meet more diverse and stricter demands of the modern economy. Vietnam’s proportion of skilled labourers in labour structure is lower than that of the region and the world. An emerging issue which could be easily seen in Vietnam is the outnumbering of bachelors to technical workers.

Thirdly, causes regarding output and consumption of the auto industry

Small-sized market: Due to the economy’s low level of development (illustrated by low GDP per capita and Vietnam’s recent escape from the list of low-income countries), demand for automobile is limited. Vietnamese people’s income remains modest compared to that of other countries in the region and in the world. Among ASEAN member countries, Vietnam’s GDP per capita in US dollar is ranked seventh, only higher than Cambodia, Laos and Myanmar.

Table 3: The percentage of vehicles per 1000 people in some countries in the world

Country	Population, millions	Light vehicle fleet, millions	Vehicle density per 1,000 people
US	313.43	201.41	643
France	60.26	31.54	523
Germany	81.75	42.14	515
UK	62.74	31.87	508
Poland	38.30	17.33	453
Czech Rep.	10.54	4.62	438
South Korea	48.39	14.22	294
Russia	141.84	35.50	250
Ukraine	45.19	7.93	175
Brazil	196.66	26.91	137
Turkey	73.64	7.80	106
China	1,345.95	66.57	49
India	1,241.49	14.02	11

Source: Ernst and Young (2012)⁹

As compared to the regional average income, Vietnamese people’s income is less than half. The low

⁹ Ernst and Young (2012). “An overview of the Russian and CIS automotive industry”.

income, lead to low demand for automobile due to the vehicle's considerable cost of purchase and maintenance. The country's total automobile market volume in 2010 was over 150,000 vehicles (imported automobiles not taken into account), yet the pie is divided to up to 50 automakers. Small market size, consummate investment capital in large production lines, fast-paced changing technologies have hampered development of the automobile industry in Vietnam recently.

High price to consumers: Automobiles in Vietnam fetch more exorbitant prices than those in other regional countries. Despite improvements in product quality, domestic cars are said to have more inferior quality compared to imported cars with the same model. According to statistics by the Ministry of Finance, Vietnam's automobile prices are 20% higher than those in ASEAN countries, such as Thailand and Indonesia.¹⁰ The high price is driven by numerous factors, including both those by automakers themselves and the Government's policies on taxes, fees and charges. Those policies, apart from protection purpose, also discourage use of private automobiles due to inadequate infrastructure, especially in metropolises. Heavy import tax CBU cars and automobile parts, as well as high excise duty have more or less affected domestic car prices, and hence, the consumption volume. However, maintenance cost of car in Vietnam is lower than that in some regional countries.

Inadequate infrastructure: The ongoing rise in automobile density requires correlating infrastructure development. The inferior infrastructure has impeded the development of the local economy in general and the automotive sector in particular. Vietnam's infrastructure development index, especially in metropolises, is much lower than those of other regional countries. The underdeveloped infrastructure is the major driving force of a wide range of State policies on limiting private vehicles, including increasing registration fee and applying road maintenance fee, among others. Adoption of the policies has reduced size of such a narrow market, raising a contradiction which need addressing by policy makers in Vietnam.

4.2 The tax, fee, and charge policies for the Vietnamese automobile industry in the 2001-2015 period and the issues posed

4.2.1 Tax incentive policies to promote investment in the domestic automobile industry

4.2.1.1 Incentive policies on corporate income tax

The law on corporate income tax in Vietnam has quite many regulations applicable to investment projects. For an investment project that meets one of the conditions regarding the industry, area or average number of employees in a year, some forms of corporate income tax incentives include:

¹⁰ An Nhi (2013). "20 years: Vietnam yet to have an automobile manufacturing industry". Journal of Economics and Forecasts. Excerpted from: <http://kinhtevadubao.com.vn/nganh-nghe/sau-20-nam-viet-nam-van-chua-co-nganh-cong-nghiep-san-xuat-o-to-1413.html>

Tax exemption and reduction within a definite term: Tax exemption for a maximum of 04 years and 50% tax reduction for a maximum of 9 years, depending on the area and field of investment.

Application of preferential corporate income tax rate: Investment projects enjoy a preferential tax rate of 20% and 10% for a period of 10 or 15 years or for the project's lifetime, depending on the area and field of investment.

Regulations on loss carryforward: If business establishments suffer a loss after tax settlement with the tax office, that loss will be carried forward and that amount will be deducted from the taxable incomes of the following years. The duration of loss carryforward shall not exceed 05 years.

Accelerated depreciation of fixed assets: Business and production establishments of goods and services with high economic efficiency may enjoy accelerated depreciation of no more than 2 times the depreciation level in accordance with the system, for quick technological innovation.

Other cases of incentives: Business establishments in production, construction, and transportation which employ a large number of female workers.

According to current regulations, investment projects on car parts production, which is a key industry, are under the category of industries which encourage investment. Specifically, according to the provisions in Decision 12/2011/QĐ-TTg dated February 24th 2011 of the Prime Minister on the policies to develop supporting industries for the automobile production and assembly industry, some incentives are applied: (1) Projects on the manufacturing of supporting industrial products are entitled to import and export tax incentives in accordance with current regulations on export tax and import tax. (2) Investors in the projects on the manufacturing of supporting industrial products which are small and medium-sized enterprises are entitled to financial support policies as provided in the Government's Decree No.56/2009/ND-CP dated June 30, 2009 on supporting the development of small and medium enterprises and (3) Projects on the manufacturing of supporting industrial products for the hi-tech industrial development shall be considered and entitled to tax policies under the law on high technologies.

In addition, according to the regulation in the Decision No.10/2009/QĐ-TTg of the Prime Minister on the mechanism of support for the manufacturing of key mechanical products and the list of key mechanical products, there are 8 types of projects to invest and produce key mechanical products in the 2009-2015 period, in which there is an investment project to produce Diesel engines of 100 horsepower or more. These projects have enjoyed various financial incentive policies. Particularly on the tax and public charge policies: The import tax rates of products on the list of key mechanical products which the country is capable of producing is set at the ceiling rate, until the end of the roadmap of tax exemption and reduction which Vietnam has signed and committed to implement with international

partners; The materials and equipment imported for the production of key mechanical products and for investment in the production of key mechanical products shall be subject to the zero tax rate or the floor tax rates under the international agreements which Vietnam has signed.

4.2.1.2 Incentive policies on indirect taxes (import tax and excise duty)

In addition to incentive policies on corporate income tax, domestic automobile manufacturing and assembling enterprises are also entitled to some incentive policies in import tax. Prior to 2006, these enterprises could even enjoy incentive policies in excise duties (in a long time, a policy to reduce the excise duty was applied on domestically produced and assembled cars). Specifically:

On import tax, the 2005 Law on Export and Import Tax stipulates a number of import tax exemption cases. Of which, for automobile manufacturing and assembling enterprises, the following regulations may apply:

- i) Goods imported to create fixed assets for the projects encouraged for investment, including: equipment, machinery; Means of transport used exclusively in technological lines and transport vehicles for workers; Components, parts, removable components, spare parts, fixtures, molds and accessories accompanying the equipment, machinery and specialized means of transport;
- ii) Raw materials and supplies used in the manufacture of equipment and machinery in the technological line or for the manufacture of components, parts, removable components, spare parts, fixtures, molds and accessories accompanying the equipment; Construction materials that cannot yet be produced domestically;
- iii) Imported goods to be used directly in scientific research and technological development activities, including machinery, equipment, spare parts, supplies and means of transport which cannot yet be domestically produced, technologies that the country is not yet capable of creating; documents, scientific books and journals.

Regarding the excise duty, for a long period of time, from January 1, 1999 to the end of 2006, to support domestic automobile manufacturing and assembling enterprises, the law on the excise duty already had some regulations allowing a reduction on the excise duty or domestically produced cars. Specifically, in the 1999-2003 period, 60% to 100% of the tax rate for domestic car manufacturing and assembling establishments was reduced during the first five years; if the firm continued to suffer losses, it might extend the tax reduction period from 1 to 5 years.

To step by step integrate into the world economy, eliminate tax discriminatory measures between domestically produced products and imported products, and implement the Law amending and supplementing a number of articles in the Excise duty Law issued on June 17th 2003, the excise duty incentives applicable to domestically manufactured and assembled automobiles are adjusted to

gradually decrease according to a roadmap announced in advance and by 2007 to be made uniform with imported cars. This is considered one of the policy adjustments that have had a great impact on the operations of domestic automobile manufacturing and assembling enterprises.

4.2.2 The tax, fee, and charge policies for the import, purchase and circulation of cars

4.2.2.1 Import tax for completely built up (CBU) cars and components/spare parts

4.2.2.1.1 Import tax for CBU cars

a) International commitments on import tax reduction

Under the commitments with WTO and 07 regional Free Trade Agreements (FTAs), since 2007 Vietnam has had to carry out the duty of reducing import tax rate for CBU cars and imported components/spare parts for cars. Vietnam would also have to liberalize trade with ASEAN nations in the domestic automobile production and assembly by 2008 (and reduce the import tax rate to 0% in 2018). For countries outside of the region under WTO commitments, the rate of opening up will be slower and slower (Vietnam will have to cut import tax rate to 70%, 52% and 47% depending on the type of imported vehicles).

Commitments within the CEPT/AFTA:

Under the commitment at CEPT/AFTA, the tax rate for passenger vehicles of 10 seats and more and trucks has been cut to below 5% since 2006. For passenger vehicles of 9 seats or below, the tax rate will have to be reduced to 0% in 2018.

Commitments within the WTO:

In general, all types of cars have to reduce tax from 100% to 70% 7 years after joining the organization (in 2014). Particularly for passenger vehicles with a cylinder capacity of 2,500cc or more, the tax rate has to be reduced from 90% to 52% 12 years after joining (in 2019), the tax rate for 4WD cars will reduce to 47% 10 years after Vietnam's accession to WTO (in 2017).

Commitments in accordance with the ASEAN - China Agreement:

(i) For passenger vehicles: Tax reduction is currently not applied, however according to the road map the tax rate must be reduced to below 50% in 2018. As for vehicles specifically designed to travel on snow, or golf carts etc. the tax rate was cut to 50% in 2006.

(ii) For trucks: Most have been included in the tax cut roadmap; as for specialized trucks with a tonnage of less than 5 tons with a low current tax rate of 10%-20%, a tax cut is not applicable. Specifically: - For trucks with a tonnage of less than 5 tons: The tax reduction rate was 100% (in 2005) and would be reduced to 45% in 2014. - For trucks of 5 to 10 tons: The tax reduction rate was 30% and 60% (in 2005) and will be cut to 0% in 2020 and 30% in 2012. - For trucks and specialized vehicles of

more than 10 tons: The tax cut rate is 5% or 10% and will be cut to 0% in 2020 or earlier.

Commitments in accordance with the ASEAN - Korea Agreement:

In accordance with the committed roadmap, passenger vehicles of below 10 seats will be subject to tax cut in the 2015-2021 period, from 20% to 70%; for trucks by 2021 the tax rate will be reduced to 25%. As for garbage trucks and refrigerated trucks, the tax rate is set to be reduced to 0% in 2016.

Commitments in accordance with the ASEAN - Japan and Vietnam - Japan Agreements:

For passenger vehicles: In exclusion list, with no commitment to reduction (except for funeral cars and inmate transport cars: the tax rate will be reduced to 0% in 2018 in accordance with the ASEAN - Japan Agreement and 0% in 2019 in accordance with the Vietnam - Japan Agreement. For trucks: Most in exclusion list, in particular trucks of over 45 tons are entitled to a tax rate of 0%, dump trucks of no more than 24 tons are entitled to a tax rate of 20% which will remain unchanged throughout the roadmap.

b) The situation of implementation:

For passenger vehicles: The MFN tax rate for new cars has been set in line with the principle of gradual reduction since 2007 (the year of joining the WTO) and a mixed tax rate is currently being applied to used cars (relative tax rates combined with absolute tax rates for vehicles of below 15 seats; from 2011 to earlier only the absolute rate was applied) and a high tax rate (150%) for other types of vehicles.

The FTA tax rate was set at the same level as the MFN tax rate and not until 2011 was the reduction on the ATIGA tax rate at a faster pace than the MFN tax rate (in 2013 the figure was 60% and it will be reduced to 0% in 2018). Other FTA tax rates (ASEAN - China, Korea, Japan, Australia, New Zealand, and Chile) will be implemented according to the MFN tax rate as there is no commitment for this type of vehicles.

For trucks: MFN tax for new cars is also required to gradually decrease over each year (in 2007 it was 80%) and is currently set at a lower level compared to the commitment with the WTO as trucks are considered a production material (the rate equal to the committed level with the WTO is only applicable to trucks of less than 5 tons). A high tax rate is applied to use trucks (150% for trucks of 5 tons or below; tax rate equal to 1.5 times of that of new trucks for vehicles of more than 5 tons). The FTA tax rate is set at 5% immediately following the signing of 07 FTA agreements and will have to reduce to 0% in 2018 (within ASEAN) and in 2020 for other FTAs.

c) Evaluation on the implementation of import tax policies for CBU cars in the past period

The gradual reduction of import tax for CBU cars has helped to reduce car sales prices within the country. The supply of vehicles has also been diversified with the appearances of many types of

imported cars.

Maintaining a high import tax rate for passenger vehicles (both new and used) in a long period of time (equal to the highest committed tax rate with the WTO annually, with a reduction no faster than the committed level with the WTO) and for trucks in the early phase of developing an automobile industry (from 2005 to earlier) has helped to create a favourable environment for the production and business of the domestic automobile production and assembly industry (the average growth rate of the automobile industry in the 2000-2015 period was 20%) and direct consumption to be in line with the conditions of the transportation infrastructure system, contributing to limit trade deficit.

The gradual tax reduction on trucks which are a production material for enterprises has helped to diversify the supply of vehicles and reduced input costs for industries using medium and heavy duty trucks. For this type of cars, currently the tax rate is set at a lower level than the committed level with the WTO (protection is only maintained for vehicles of under 5 tons, which are a type of cars that domestic manufacturers have attained good production capacity).

In evaluating the protectionism policy through import taxes in the past period, a paradox can be identified. For a type of vehicles which enjoys a high level of protectionism like passenger vehicles of no more than 9 seats, the rate of localization is really low; the number of imported vehicles is still high (in the 2006-2010 period, the average growth rate of car imports reached 20.64%/year in volume and 23.92%/year in value, which was nearly double the average growth of the number of cars produced locally in the same period, which stood at 11.36%/year in which vehicles of up to 9 seats had the highest average growth rate at 51.36%/year). Meanwhile, trucks and vehicles of 10 seats or more enjoy a much lower level of protectionism but the rate of localization is still high and import is lower (Truck import had an insignificant growth rate of 2.9% and import of cars of 10 seats or more decreased dramatically with the growth rate in the 2006-2010 period of -13.08%). This shows that maintaining a protectionism policy in a long time has impeded the protected enterprises and becomes a factor leading to high prices of imported vehicles.

4.2.2.1.2 Commitments regarding automobile parts and the implementation situation

a) Tax commitments for automobile parts

In general, in accordance with the commitments within the ASEAN region, between ASEAN - China and ASEAN - Korea, the committed tax rate for automobile parts and components is at a low level of 5% (within ASEAN) and would be cut down to 0% in 2018 for ASEAN - China. The committed tax rate within the WTO is from 0% to 30% depending on the type of components (2014 being the last year of tax cuts). The lowest import tax in accordance with the commitments for CBU cars and automobile parts/components under some upcoming Agreements is presented in the Table below.

Table 4: The lowest import tax in accordance with the commitments for CBU cars and automobile parts/components

	Vehicle type	The lowest import tax	Point in time	Under the commitment with
1	Passenger vehicles of 9 seats or below	0%	2018	ASEAN
2	Passenger vehicles of 10 seats or above	0%	2018	ASEAN
3	Trucks of under 5 tons	45%	2014	Asean – China
4	Trucks of over 5 tons to under 10 tons	0%	2020	Asean – China
5	Trucks of over 10 tons to under 45 tons	0%	2020	Asean – China
6	Specialized vehicles to transport wastes and frozen goods	0%	2016	Asean – Korea
7	Specialized vehicles for funeral services and inmate transportation	0%	2018	Asean – Japan
8	Components and parts	0%	2018	Asean – China

Source: The Ministry of Finance

b) The implementation of tax policy for automobile parts

Prior to 2006, the component import tax was regulated based on the IKD component set (tax for passenger vehicles of under 16 seats was 5%; tax passenger vehicles over 16 seats was 3%; for trucks under 5 tons it was 3%-5% and for trucks of over 5 tons it was 1%) and the CKD component set with a tax rate of 3% up to 25% depending on the types of cars, in which the tax rate for the CKD component set of vehicles under 9 seats was 25%.

From 2006 to 2007: The tax policy for automobile parts was changed to regulating the tax rate based on each individual component in accordance with Decision No.177/2004/QD-TTg on the basis of the following principles: for components that could be produced domestically and were capable of competing, a reasonable protective tax rate would be set (20-30%); for components that domestic manufacturers could not produce, a low tax rate would be set (0-10%) with a transfer duration of 1 year. The specific tax rate for each type of component is imposed in accordance with the decision by the Minister of Finance.

Since 2007, the tax rate imposed on automobile components has been regulated in the direction of encouraging the localization in the automobile industry, in line with the tariff reduction commitments made by Vietnam within the frameworks of WTO and FTAs in each year.

In particular, the tax rate imposed on components of vehicles of below 9 seats is set at the highest level, equal to the level committed with the WTO to contribute to the objective of limiting trade deficit (except for components with the interchangeability among different types of vehicles, the tax rate level for these is lower than the committed level with the WTO). The average import tax for components of

different types of vehicles is always lower than the tax imposed on CBU cars (for passenger vehicles of less than 9 seats: about 18%; for passenger vehicles of more than 10 seats: 10.5%-15.35%; for trucks of lower than 5 tons: 12%-15%; for trucks of more than 5 tons up to 20 tons: 11%; for trucks of more than 20 tons: 7%; for specialized vehicles: 12.8%).

Because the domestic manufacturing and assembling of cars is mainly in the form of assembly from sets of car components (import in full or in part all components of the car); therefore in order to create favourable conditions for domestic car assembling and manufacturing enterprises to be able to compete when the import tax for CBU car is reduced, since 2007, the Government has issued separate incentive regulations on tax calculation methods for sets of car components based on separate individual components to be separately applied to the automobile manufacturing and assembling industry (not applicable to commercial enterprises). To be eligible for this particular tax calculation method, the enterprise has to satisfy some certain conditions (the enterprise must meet the standards in automobile manufacturing and assembling as regulated by the Ministry of Industry and Trade; the car components in the imported component set has to be at a specific level of discretion as regulated by the Ministry of Science and Technology) and comply with specific regulations (if enterprises cannot fulfil the above 02 conditions, they will have to pay taxes for the car component set at the tax rate imposed on CBU cars) with a view to encouraging enterprises to pursue the goal of increasing the rate of localization.

c) Some evaluations of tax policies for automobile components/spare parts

On evaluating the impose of tax on each component in the past period in comparison with the policy's set objectives, it can be seen that the change in the taxation policy from import tax imposed on IKD, CKD component sets to tax imposed on automobile components/spare parts since 2006 in accordance with Decision No. 177/2004/QĐ-TTg has been a step in the right direction as it has contributed to the transformation of the domestic spare parts production industry: some domestic automobile manufacturers have made an effort to localize their products (Vinaxuki, Truong Hai Motors, TMT, Vinamotor etc.), the rate of localization of some products has reached 20% to 40%. For some joint ventures with a long-term investment orientation in Vietnam such as Toyota, Vidamco etc., there has been a tendency to look for domestic manufacturers of spare parts or call for Korean or Japanese investors to invest in the manufacturing of spare parts in Vietnam.

An appropriate tax rate imposed on automobile components has created many favourable incentives for manufacturing and assembling enterprises, to enable them to compete with imported products (for example, the tax rate imposed on a component set for passenger vehicles of under 9 seats is 18% while the tax rate imposed on a CBU car of the same type is 74%, the tax rate difference is up to 56%).

However, in the implementation process of import tax policies for CBU cars and car components/spare parts, some issues have arisen. The implementation process has not brought the desired outcome of

increasing the rate of localization in the automobile manufacturing and assembling industry. This is due to the fact that it is relatively easy to accept the standards of enterprises in the manufacture and assembly of cars; the conditions of applying import tax calculations on car components are not sufficient to put pressure on businesses to increase the rate of localization of important components and parts (the discrete level of the components is regulated to be at a minimum level, there is no requirement for the component to be domestically produced) leading to the fact that some enterprises take advantage of the State's incentives to operate simple import and assembling activities, and they do not concentrate on investment expansion in the direction of increasing the rate of localization or technological transfer. In addition, the adjustment of these tax policies has not yet followed a specific roadmap, which to a certain extent causes passivity for enterprises in the development of the business and production plan.

4.2.2.2 Excise duty on cars

a) Current situation and adjustments of policy on excise duty on cars

Excise duty is only applicable to under-24 seat cars including imported cars and domestically produced cars, excluding trucks. For the past 10 years, policy on excise duty of Vietnam has been changed several times as follows:

1. From January 01, 1999 to December 31, 2003:

Table 5: Excise tariff regulated in the Law on Excise duty dated May 20, 1998 was as follows:

Goods or services	Tax rate (%)
Cars	
a) Under-5 seat cars	100
b) Cars of between 6 seats and 15 seats	60
c) Cars of between 16 seats and 24 seats	30

For manufacturers, tax rate of domestically produced cars decreased from 60% to 100% as seen in the aforementioned Excise Tariff within the first 5 years since the adoption of the Law on Excise duty. The tax reduction could be extended from 1 to 5 years if the manufacturers continued to make a loss.

2. From January 01, 2004 to December 31, 2005:

Table 6: According to Amendments to Some Articles of The Law on Special Excise Duty dated June 17, 2003, the excise duty tariff was regulated as follows:

Goods or services	Tax rate (%)
Cars	
a) Under-5 seat cars	80

Goods or services	Tax rate (%)
b) Cars of between 6 seats and 15 seats	50
c) Cars of between 16 seats and 24 seats	25

According to the aforementioned Excise Tariff, the tax reduction for car manufacturers was as follows:

In 2004, 70% tax reduction.

In 2005, 50% tax reduction

In 2006, 30% tax reduction.

From 2007, the tax rate would be paid according to the prescribed tax rate.

3. From January 01, 2006 to March 31, 2009:

Table 7: According to Amendments to Some Articles of The Law on Special Excise Duty dated 29, 2005, the excise duty tariff was regulated as follows:

Goods or services	Tax rate (%)
Cars	
a) Under-5 seat cars	50
b) Cars of between 6 seats and 15 seats	30
c) Cars of between 16 seats and 24 seats	15

4. From April 01, 2009 up to present:

Table 8: Excise tariff regulated in the Law on Excise duty dated November 14, 2008 was as follows:

Goods or services	Tax rate (%)
Under-24 seat cars	
a) Passenger cars of 9 seats or fewer	
Of a cylinder capacity of 2,000 cm ³ or less	45
Of a cylinder capacity of between over 2,000 cm ³ and 3,000 cm ³	50
Of a cylinder capacity of over 3,000 cm ³	60
b) Passenger cars of between 10 seats and under 16 seats	30
c) Passenger cars of between 16 seats and under 24 seats	15
d) Cars for both passenger and cargo transportation	15
đ) Cars running on gasoline in combination with electricity or bio-fuel, with gasoline accounting for not more than 70% of the used fuel.	70% of the tax rate for cars of the same type

Goods or services	Tax rate (%)
e) Cars running on bio-fuel	50% of the tax rate for cars of the same type
g) Electrically-operated cars	
Passenger cars of 9 seats or fewer	25
Passenger cars of between 10 seats and under 16 seats	15
Passenger cars of between 16 seats and under 24 seats	10
Cars for both passenger and cargo transportation	10

Source: Ministry of Finance

b) Comments on recent tax excise policy

The higher tax rate for imported cars compared to domestically produced cars has supported the domestic manufacturers and assemblers to take the advantage of competition with the imported cars in the beginning stage of car industry.

The amendment of policy on excise duty to make the tax rate on both domestically produced cars and imported cars in line with international commitments (since 2008) created a fair and competitive environment and encouraged domestic enterprises to improve technology, increase the localization rate, lower production costs and improve the competitiveness. The high excise duty rate on under-5 seat cars had effects on the structure of manufacturing and consuming under-5 seat cars. It decreased the proportion of under-5 seat cars and increased the proportion of 6-seat and 24-seat cars, which was in line with Transport Development Strategy of Vietnam up to 2020.

4.2.2.3 Value-added Tax

Prior to 2008, there was a difference of tax rate between cars subject to excise duty (10%) and cars not subject to excise duty (5%). However, 10% VAT has been imposed on all cars since January 01, 2009, reflecting the resemblance between VAT imposed on cars and that on other commodities. It is a common method applied in other countries.

4.2.2.4 Registration fee

Since 2001, the registration fee for cars has been increased twice in order to implement the policy of Government in each phase (*Resolution No.13/2002/NQ-CP on solutions to check the increase of, and proceed to reduce, traffic accidents and congestion; Resolution No.16/2008/NQ-CP on step by step tackling traffic jams in Hanoi and Ho Chi Minh cities*). In detail, the adjustment of registration fee for cars regulated in Resolutions of Government since 2001 are as follows:

From 2001 to May 2013: the fee of 2% was applied to both first-time registration and re-registration.

From March 2003 to July 2008: The fee imposed on under-7 seat cars (excluding cars used for economic activities) was 5% applied in all central provinces and cities (*for both first-time registration and re-registration*); the fee imposed on under-7 seat cars and other types was 2% applied in other areas (*for both first-time registration and re-registration*).

From August 2008 to August 2011: The fee imposed on passenger cars of under 10 seats varied from 10-15%. The specific fee was specified by Provincial People's Committee (*for both first-time registration and re-registration*). The fee imposed on other types was 2% applied for both first-time registration and re-registration.

From September 2011 to March 2013: The fee imposed on passenger cars of under 10 seats varied from 10-20%. The specific fee was specified by Provincial People's Committee (*for both first-time registration and re-registration*). The fee imposed on other types was 2% applied for both first-time registration and re-registration.

The adjustment of registration fee as mentioned above complied with Resolution No.13/2002/NQ-CP dated November 19, 2002 on solutions to check the increase of, and proceed to reduce, traffic accidents and congestion; Resolution No.16/2008/NQ-CP dated July 31, 2008 on step by step tackling traffic jams in Hanoi and Ho Chi Minh cities. It helped to reduce the circulation of private cars in Hanoi and Ho Chi Minh City. However, because cars registered in other provinces were allowed to circulate in these two cities, purchasers could ask their relatives living in other provinces to register (the fee was lower) for them. Furthermore, the re-registration fee was high, which did not encourage people to transfer the ownership.

Since March 2013, in order to implement the Resolution No.02/NQ-CP dated January 07, 2014 and on the basis of the Ministry of Finance's Report No.16/TTr-BTC dated February 26, 2013 on Draft Decree amending and supplementing Decree No.45/2011/ND- CP on registration fee, Government has also issued a Decree amending the registration fee which are as follows: for passenger cars of under 10 seats, the first-time registration fee is 10% and is adjusted to increase no more than 50% by the local authorities; for vehicles registered from the second time onwards and other types of cars, the fee is 2%. Currently, according to this Decree, many provinces and cities have adjusted the registration fee. Specifically, the fee in Hanoi has been reduced from 20% to 12%.

The registration fee policy has contributed to limit the registration of private cars in Hanoi and Ho Chi Minh City. However, it made the number of registration in other provinces increase because purchasers living in Hanoi and Ho Chi Minh City asked their relatives living other provinces for registration. Besides, the high registration fee resulted in the high cost for buying cars. It also distorted the concept of registration fee for cars, which made it become "a type of taxes".

4.2.2.5 License plate registration fees:

The fee has been adjusted to increase twice since 2001. The road map of adjustment was as follows:

From 2001 to April 2003: the fee was 150,000 VND/car/one time for Vietnamese organizations and individuals; was 450,000 VND/car/one time for foreign organizations and individuals.

From May 2003 to December 2010: The fee for under 7 seat cars not used for economic activities was 2,000,000 VND/car/one time in Hanoi and Ho Chi Minh city (*Zone I*), 800,000 VND/car/one time in the provinces and towns where Provincial People's Committees are located (*Zone II*), and 150,000 VND/car/one time in other areas (*Zone III*). The fee for other types of cars was 150,000 VND/car/one time.

From January 2011 up to now: For under-10 seat cars not used in business, the fee varied from 2 million – 20 million VND/car/one time at Zone I. The specific rate was specified by Provincial People Committees. The fee was 1 million VND/car/one time at Zone II and 200,000 VND/car/one time at Zone III. For other types of cars, the fee varied from 150,000 – 500,000 VND/car/one time at Zone I and 150,000 VND/car/one time at other areas (Zone II and III).

4.2.2.6 Inspection fee and fee for issuance of issuance certificate of technical safety

Basically, inspection fee is a service fee compensating for inspecting vehicles. Therefore, this fee does not have effect on using cars. Inspection fee for cars varies from 160,000 VND to 400,000 VND/inspection. The inspection fee is paid periodically due to the periodical inspection. If the car does not ensure the technical safety, it must be repaired and re-inspected. Therefore, fee for re-inspection also must be paid.

Fee for issuance of certificate for technical safety is paid when the state bodies issue certificate of technical safety for cars (after car inspection). Because the fee is low and paid only once, it basically does not have effect on using cars (in term of the level of fee and the fee collection by authorised State agencies for inspection and collection).

4.2.2.7 Annual charge for land road use per vehicle

Annual charge for land road use per vehicle has been applied since January 01, 2013 with the fee of 130,000 VND to 1,040,000 VND per month depend on types of vehicles. It replaces the fee regulated for the road invested by State budget (which is now collected at the station on the road invested by State budget). There are various comments on this fee. Because it has been applied in Vietnam recently, it is not enough data and evidences to assess this policy.

4.3 Comments on tax policy for car industry in Vietnam over the past time

According to the analytical reports on tax policy development process by the Tax Policy Department, Ministry of Finance, after analysing the current situation of tax policy for car industry in Vietnam, it can be concluded as follows:

Firstly, basically, thanks to the reform of tax, fees and charges system in Vietnam in general, the tax policies, fees and charges applied to car industry and the use of cars in Vietnam have gradually approached the international practice.¹¹ Many tax policies have been adjusted recently in line with the trend of tax reforms in the world. The adjustment of policy on excise duty for cars which are classified by cylinder capacity and types of vehicles. Accordingly, the lower tax rate applied to small cylinder capacity and environmentally friendly vehicles is an appropriate step in line with international common practice, contributing to energy saving and environmental protection. Therefore, it is applied by many countries in the world. The lessons learned from other countries show that beside the number of seats, the cylinder capacity is used as a criteria to impose excise duty on cars. The larger cylinder capacity is, the higher tax is imposed and vice versa. It aims to protect environment because the cars with larger capacity discharge more polluted air. Higher taxes should be imposed to prevent pollution. On the other hand, those who use large cylinder capacity vehicles are high income people. Therefore this adjustment is necessary to ensure fairness. In addition, some countries around the world have produced environmentally-friendly cars (using clean fuels or less fuels, low emissions), and excise duty imposed on these vehicles are also lower (for example in Taiwan, it is half of normal tax rate). Vietnam has also developed a number of tax incentives to support to the development of this industry. However, the policy does not have good results. Moreover, the supporting industry in Vietnam is underdeveloped as analysed above.

Secondly, in order to promote the development of the domestic car industry, Vietnam has also issued several tax incentives. It is implemented in term of two contents. Firstly, the preferential policies on corporate income tax and on import tax have been issued to encourage enterprises to invest in the car industry. Secondly, solutions have been implemented to protect domestic car industry. This protection is implemented by excise duty and import tax. For excise duty in a long time, Vietnam has issued policies to reduce excise duty on domestically assembled cars. However, the biggest limitation while implementing these policies is the inadequacy of developments of domestic car manufacturers despite high levels of protection. The purpose of promoting localization cannot follow the roadmap. It is essential to implement the policy to protect and encourage the development of industries in Vietnam

¹¹ Source: Reports on tax policy development process by the Tax Policy Department, Ministry of Finance

including car industry. However, for car industry in Vietnam, there are no strings attached to the protection policy, which makes the implementation less effective.

Thirdly, in the past few years, because many problems must be dealt such as poor infrastructure and high inflation in many years, policies on taxes, fees and charges for car industry are adjusted frequently and not stable. It reduces the attractiveness of foreign investors to Vietnam car industry. Currently, policies for Vietnam's car industry are facing with a fundamental contradiction between limiting traffic jams, especially in big cities (raising taxes and fees) and developing car industry by the development of an appropriate tax and fee system to gradually reduce the cost of car procurement, thereby increasing demand and expanding the consumption market, enabling the car enterprises to grow

Fourthly, policy on taxes and fees is one of the factors that have effect on demand for cars. The demand for cars depends on several factors, including: (i) average income which shows the ability to buy and use cars of the people; (ii) transport infrastructure of the whole country and each area (including static and dynamic transport infrastructure); (iii) behavior of consumers (including consumer trends and consumer psychology).¹²

Fifthly, if compare the price of cars in Vietnam with other countries in the region (Thailand), the price of cars in Vietnam is higher. However, this comparison should be considered because costs for the circulation of vehicles in these countries are higher than Vietnam. For example, in Singapore, the government restricts only a limited number of vehicles per year and auctions are organized to take the right of using cars. Particularly, for imported second-hand car, users have to pay \$ 10,000 fee in order to use. Some other countries provide for a yearly tax on cars, which the tax rate in subsequent years is higher. Otherwise in Vietnam, the registration fee is paid only once. Moreover, a number of technical barriers have been put in place to limit imports, while for Vietnam technical barriers are limited.

Sixthly, the socio-economic context has been constantly changed recently. It resulted in the frequent change in tax policy of Vietnam including the policy on car industry. The excessive change in the tax policy system has negative effect on domestic car manufacturers and assemblers in developing their own plan. In addition, the formulation of tax reduction is mainly carried out each year, not yet developed and announced a long-term roadmap for the implementation of commitments.

¹² Source: Reports on consumption demand of cars in 2010-2015 period of Ministry of Industry and Trade

CHAPTER 5: RESULTS OF THE EMPIRICAL PART

5.1 Issues regarding requirements for automobile industry

Since the implementation of the renovation policy, the Vietnamese economy has gained important achievements. Industry has play a vital role for socio-economic development in the country. Along with the overall development of the industry, Vietnam car industry has also been formed and has a number of achievements.

The experience of previous countries shows that the car industry has significant effect on supporting industry. It can be seen from some Asian countries as well as other countries around the world that car industry is very important. The development of the car industry contributes to the development of supporting industries and therefore, also has a great influence on development of industry and economy in every country.

However, it appeared that the development of Vietnam car industry did not contribute to achieve these results. The level of development of the domestic car industry is low. In the future, if Vietnam car industry can have success, it will play an important role in implementing the policy of industrialization and modernization so that Vietnam will become a modern industrialized country by 2020 as plan.

Economic growth in recent years has facilitated the increase in people's living standards. This has also required Vietnam to adopt appropriate policies to meet the car demand in the period of motorization. In broad terms, "motorization" is the process which cars get more popular and become essential means of transport for all people. It also means that is the period which under-9 seat cars will become popular. This is the trend of most countries in the world. A country is considered to enter the motorization phase if it has 50 cars per 1,000 people in average. In this period, there will be a great demand for owning and using cars as a means of transportation

According to the reports by the Ministry of Industry and Trade, in 2010, there were 18.7 cars per 1,000 people in Vietnam and the number was 25 in 2015. These figures show that the Vietnamese economy is in the pre-phase of motorization. Along with the economic development, the average income per person in Vietnam will increase, resulting in improvement of transportation infrastructure and escalation of urbanization. Vietnam will enter the period of "motorization". According to forecasts by the Ministry of Industry and Trade, this process will occur in Vietnam during the period from 2020 to 2025, with over 50 cars per 1,000 people and GDP > 3,000 USD in average.

At the same time, according to the Ministry of Industry and Trade forecast, by 2025, the market size will reach 800-900 thousand vehicles per year. Motorization is an inevitable when the demand for private transport increases along with the development of the economy and income of people. In order to get benefit from this trend, Vietnam needs to have orientations and an appropriate strategy for

developing car industry. Moreover, it has to increase the proportion of domestically produced cars with high localization rates. If it tends to import cars to meet the needs, in addition to increasing trade deficit, it is necessary to consider problems such as jobs and promoting other industries to develop.

5.2 Tax policy improvement for the automotive industry's growth

In recent time, tax policy has been inseparable from the formation and development of the automobile industry and is considered one of the supporting devices for the industry's progress. For Vietnam, the development of the automobile industry is a crucial need on its way towards industrialisation and modernisation. Vietnam has also issued a growth strategy for the automobile industry, the total investment capital for which has now reached over US1.5 billion dollars. Vietnam also needs a mechanism to efficiently make use of such investment. Simultaneously, the Draft Master plan on Vietnam's automobile industry development through 2020, with a vision toward 2030 also established the development plan for transportation motor vehicles in correspondence with the country's road transport infrastructure, ensuring safety and environment technical requirements, in compliance with different types of cargos and passengers.

To facilitate the automobile industry development in such direction and stay true to international commitment, the presence of multiple mechanisms and policies, including the fees and charges system, is needed. In order to maximise the effect of the automobile industry progress, fees and charges policies must be constructed and completed based on the following guiding principles:

Firstly, preferential and progressive treatment must be selective. There should be no suggestions for a common preferential policy across the automobile industry. Instead, Vietnam must emphasise having the correct tax policy for the type of vehicles designated as the country's automobile industry's strategic production in upcoming time (strategic vehicles). The selection of which vehicle to be the strategic one for preferential development must be considered on numerous grounds, including the growth opportunities on a mass scale to increase the level of domestication in production. Based on that, other local supporting industries can also be pushed for growth. This is a tried and true method for other countries in the region. Their experience shows that the choice of a national strategic vehicle must be based on the following order of priorities: National benefit, consumers', and businesses'.

Secondly, the tax, fee and charge system must be designed simultaneously on a reasonable level, maintaining long term stability and consistency, appropriate for global integration trends, creating trust for both customers and producers, in order to generate stable demand and premise for investments.

Thirdly, the completion of a taxes, fees and charges policies must have its effect on controlling the amount of imported vehicles, minimising the negative impact on the national transport infrastructure in accordance with international commitments. The adjustment of import taxes on car must both strictly

comply to WTO's and regional international commitments, and must have a reasonable and scientific plan to decrease said amount to ensure policy transparency and to have orientation impact on car producers or manufactures' production and investment plans.

Fourthly, the implementation and issuance of tax policies to advocate the automobile industry's growth must aim for a balance between the economy's interests, between automobile manufacturing and assembly firms' and transportation firms towards lessening input taxes for production and imports, as well as gradually increasing adjustment of usage taxes for automobiles with fewer than 10 seats. A reasonable import tax policy decision for whole imported vehicles of different types (under 10 seats, more than 10 seats, trucks, specialised vehicles) would be to encourage production, tourism, and transportation, while assuring the balance of benefits between the Government, businesses and consumers at the same time.

5.3 Tax solutions to encourage the automobile industry's development

The Government's orientation for the automobile industry is to continue developing the automobile industry. As such, there must be appropriate supporting policies to develop the automobile industry through encouragement and prioritising supporting industry for the automobile industry, while maintaining a balance of other related goals. To develop the automobile industry, in addition to tax and fee solutions, there must be a combination of other factors, including the market, investment planning, and transport infrastructure, etc.

Based on the aforementioned policy goals, the tax policy orientation for the automobile manufacturing and assembly industry for the upcoming time is as followed:

5.3.1 Tax policies to encourage firms' investment for the automobile industry

The key objective of policy for investment attraction is to create an environment for investors to make profit without encountering unnecessary risks. One of the most important factors that investors must take into account before considering an investment is a stable, predictable policy environment, free of administrative barriers for business activities; a stable macroeconomic environment; accessible and ample resources, including related infrastructure and human resources. The use of preferential tax policies to attract investors cannot replace these comprehensive policy solutions. In some cases, preferential tax policies may increase attractiveness for the investment environment but at the same time preferential tax policies do not always generate the desired impacts. Preferential tax policies are easily abused, leading to tax avoidance opportunities. The majority of researches have concluded that tax subsidisation in the short run usually does not have any effect on investment attracting. The application of a tax exempt or tax subsidising period is seen as an attraction for investors, but they also push up "cost" for the investment-receiving countries in terms of decreased input for the State budget.

Limited time tax exemptions that are not well managed can lead to illicit activities and create a precedence for tax avoidance and tax abuse, through a price transferring mechanism for the following years after the tax exempt or preferential tax period.

For Vietnam, the preferential tax policies including the corporate tax policies are relatively high compared to other countries in the region. According to the present Law on Corporate Tax (Law No.32/2013/QH13 dated June 19, 2013), newly established businesses from investment projects in areas with especially poor socio economic conditions, economic regions or high tech regions; newly established businesses from investment projects in the high technology field, scientific study and technology development, State's significant research for technological infrastructure development, and software production are all subjected to a 10 per cent tax rate for a time period of 15 years. For special projects attracting investment on a large scale with high technology then the preferential tax period can be extended, but not preceding another 15 years period, while being subjected to a maximum tax exempt period of less than 04 years and a tax reduction of 50 per cent out of maximum taxable income for less than the next 09 years.

As such, in order to push forward investment in the automobile industry, there must be consideration to allow automobile manufacturing and assembly firms to enjoy some of the highest preferential corporate income tax in the available bracket. The application of such preferential policies must be inseparable from the investment and production scale of automobile that these firms must achieve after a few years into operation. Nevertheless, these preferential treatments should be reserved for automobiles designated as strategic vehicles in need of priority with specific standards. This is the solution applied by several countries in the region such as Thailand.

At the same time, in order to increase the national investment environment's level of attractiveness, a common tax reduction must be applied in accordance with the Tax Reform Strategy towards 2010 for corporate income tax with an appropriate path to attract investment, so that businesses would have a better financial resource, as well as an increase in capital accumulation to push forth investment, enhance competitiveness, simplify tax preferential policy towards in-depth fields, while continue to encourage investment into manufacturing sectors for products with high added values, and supporting industries using high technology.

5.3.2 Import tax policies for automobile and spare parts

In the face of globalisation and international economic integration, protectionism through preferential policies concerning localisation rate exports which have been adopted by many countries is now inapplicable as it violates the principle of national treatment. Accordingly, the only permitted protection measure for domestic automobile industry at the moment is the adoption of import tax. However, import tax in many countries, Vietnam included, is now on its way to be reduced in

compliance with international commitments. The problems presented to Vietnam right now is to take advantage of the reduction schedule. This means there must be a reasonable import tax policy towards selective, conditional and periodically protectionism, in order to encourage the automobile industry's growth toward the right direction, it is necessary to gradually decrease the protection level through an import tax reduction phase to create a reasonable downward pressure on automobile's price, while avoid an uncontrollably fast increase in the number of imported vehicles that can possible affect the country' traffic environment.

Adjustments of Import tax on automobiles must consider effects on the domestic automobile manufacturing industry, while still manage to put sufficient pressure to cut down on the selling prices for automobile to assure customers' well-being. Accordingly, there must be an appropriate schedule for tax reduction for CBU cars in accordance with WTO's and other regional tax commitments towards a gradual tax deduction instead of a sudden tax cut. As such, the tax reduction path for whole imported automobile must be balanced between committed tax rates between ASEAN countries and China, ASEAN and South Korea, etc. and in compliance with WTO's commitments (excluding those belonging to the CEPT/AFTA due to too steep tax cut). For vehicles with limited consumption (chiefly those with fewer than 09 seats), then the tax rate of which will be maintained at the same level as in WTO's commitments. According to the analytical report on tax policy development process by the Tax Policy Department, Ministry of Finance, the details are as follows:

a) For CBU cars

As there is not much time left between now and the deadline to fulfil WTO's commitment to deduce import taxes from 69% and 74% in 2013 to 47%, 52% and 70% in 2019 (depending on the automobile's cylinder capacity) and ASEAN's commitment to deduce said taxes from 60% in 2013 to 0% in 2018, with the above objectives, tax policies regarding CBU cars and auto spare parts should be implemented as follows:

(i) Reduction of MFN import duties on passenger cars and trucks of less than 5 tonnes in accordance with WTO commitments and FTAs on an annual basis (except for FTA-ASEAN);

(ii) Implementation of the ATIGA (ASEAN) tariff reduction on passenger cars on the principle of maintaining a longer term of protection within the next 04 years before decreasing to 0% by 2018 as committed. For example, this route can be followed:

Table 9: Import tariff for passenger cars from 2016 to 2018:

Import taxes	Type of vehicle		2016	2017	2018
ATIGA	Passenger	PA1	40%	30%	0%

Import taxes	Type of vehicle		2016	2017	2018
	car	PA2	50%	50%	0%

There is an evident shift in the flow of trade for imported automobiles from ASEAN countries. By tracking import turnover of Completely Built Units (CBU) from countries that have signed FTAs with Vietnam in the period from 2010 to 2015, it is clear that most imported CBU units are from Korea, followed by those from China, Japan, and ASEAN countries, and there has been a significant change for Vietnam, switching from Korea and other countries exported automobiles to those from ASEAN and China. This shows that the import tariffs reduction following commitments with ASEAN countries and China has had the effect of shifting trade flows for imported automobile complete units into Vietnam. With a maximum import tax rate of 20 per cent, the maintenance of import duties on CBU units will be 20 per cent higher over the next 04 years (as proposed in the two solutions above). This will compel automobile manufacturing and assembly businesses to compete with imported vehicles for some time to come. However, each option has its own strengths and weaknesses; as Option 2, while able to maintain high levels of protection for longer periods of time, can also cause major shock to the domestic automobile industry by making a sudden tax cut at the end of the period in 2018. If this option is implemented, it is necessary to proactively promulgate the roadmap for tax reduction from now until 2018, so that domestic automobile enterprises can take the initiative in adjusting their production and business plan accordingly.

In addition, in order to synchronise with the maintenance of additional protection periods by imposing import tax on automobile production, it is necessary to modify the method of calculating import tax based on component parts manufactured and assembled by import automobile manufacturers and assemblers in order to motivate businesses to use locally made components in their assembling activities and encourage domestic enterprises to produce parts for automobile assembly. In order to achieve this, it is necessary to modify the standards of automobile manufacturing and assembling enterprises established by the Ministry of Industry and Trade in the direction of supplementing regulations on important components and spare parts production lines, which currently include assembly line, paint production line, quality inspection technology line and some other according to the general requirement standards such as test line for separate automobile carriages with a minimum length of 500 meter, etc., and at the same time applying additional import tax policy conditions on imported automobile components, excluding domestically produced ones, along with the current two conditions, so as to ensure the standards for automobile manufacturing and assembly firms according to regulations set by the Ministry of Industry and Trade and the level of discretion according to regulations from the Ministry of Science and Technology. Revised regulations on tax calculation for

automobile components as proposed above would have the advantage of not creating a big disturbance for automobile manufacturing and assembly firms, but will also put pressure on businesses to increase their investment in installing production line with more up to date technology, in order to increase automobiles localisation rate, in accordance with the Government's development plan. However, one important issue remains is that the Government must identify vehicle types that need development priority to apply the appropriate financial incentives for the automobile industry to produce mentioned types.

(iii) Caution in opening the market for automobile according to negotiations for the future TPP and the Agreement on the Establishment of a Free Trade Area between Vietnam and the EU.

Currently, Vietnam is in the process of negotiating two important agreements, the TPP and the Vietnam-EU FTA. The level of market opening based on these two FTAs is expected to be higher than previous WTO commitments and some other FTAs that Vietnam has signed. Therefore, with the objective of continuing to develop a domestic automobile industry, it is necessary to for Vietnam include automobile related goods in the list of commodities whose tariffs need maintaining. Vietnam will not be able to develop the automotive industry if it does not receive the appropriate protection, at least in the short term as well as in the medium term.

(iv) Maintenance of the current MFN rates of 10%, 15% and 20%, depending on the type of vehicle, until 2020 for medium and heavy duty trucks and specialised vehicles, keeping Vietnam's commitments in line with the tariff reduction schedule in 07 FTAs.

According to Decision 177/2004/QĐ-TTg, several types of vehicles will help boost the automobile industry growth, with investment from the country's four major corporations including the Vietnam Motor Industry Corporation, the Vietnam Engine and Agricultural Machinery Corporation, the Vietnam National Coal Corporation, and the Saigon Transportation Mechanical Corporation. However, although these corporations have invested in automobile production, they have not yet met the current demand for quantity and variety. There is almost no possibility of producing spare parts in the country, as automobile manufacturing and assembly firms assemble entirely from motorised chassis or imported complete units. Currently, with a low level of WTO commitments (which is 25%) and 0% ATIGA tax rates, vehicle types that are not strategic or in need of prioritisation will not be able to enjoy any prolonged protection policies in order to reduce input costs.

(v) Continuing to maintain the highest level of import duties on older automobiles (mixed tax rates, including the percentage and absolute tariffs under WTO commitments), currently in use based on Decree No.36/2011/QĐ-TTg dated 29/6/2011 by the Prime Minister and Circular No.28/2013/TT-BTC dated March 15, 2013 by the Ministry of Finance.

Currently, Vietnam has only committed to reduce tariffs within the WTO based on new vehicle tariff plus absolute tariff rates, and has yet committed to any reduction in the other 07 FTAs. However, for the two FTAs that Vietnam is negotiating, which are TPP and the Vietnam – EU FTA, partner countries demand that Vietnam apply to tariff reduction used automobiles. Therefore, for the used automobile category, it is necessary to maintain the highest tax rate to restrict imports.

(vi) Maintenance of import tariffs at committed rates for automobile components that would encourage domestic supporting industry enterprises to manufacture components such as engine, gearbox, or transmission shaft in accordance with the Government's orientation.

b) For automobile parts

The tax policy for imported automobile parts and accessories should be reviewed and adjusted to match the highest tax rate available under the WTO commitment for components, as seen on the list of mechanical products based on Decision No.10/2009/QĐ-TTg and listed as one of the supporting industries in Decision No.1483/QĐ-TTg, dated 26 August 2011 by the Prime Minister. The list of supporting industries supports development. In fact, according to Decision No.1043/QĐ-TTg dated 01 July 2013 by the Prime Minister on Vietnam's industrialisation strategy in the Vietnam-Japan Cooperation Framework towards 2020 with a vision to 2030, automobiles and automobile parts are also identified as priority industries. In order to develop the industry for both product types, certain levels of protection are required through tax policy, in line with international commitments.

Since 2007, the tax rate of automobile parts has been set in hope of increasing the localization rate in the automobile industry, while keeping in line with WTO's commitment and any other annual FTA tariff reduction. In particular, automobiles with fewer than 9 seats are subject to the highest tax available under the WTO (except for mixed vehicle components, which are entitled to enjoy lower level of WTO tariff commitments). The average import tax rate for all types of localised vehicles is always lower than the tax rate for imported complete units (passenger cars under 9 seats: about 18%, passenger cars under 10 seats: 10.5% to 15.35 %, trucks of less than 5 tons: 12% - 15%, trucks of over 5 tons to 20 tons: 11%, trucks over 20 tons: 7%, and specialised vehicles: 12.8%).

As the above analysis shows, supporting industries in Vietnam are still weak. Major spare parts that need to be developed such as engines, gearboxes and transmitters have not yet been produced in the country. The number of supporting enterprises in Vietnam is only 1/5 that of Indonesia, 1/8 against Malaysia and 1/50 compared to Thailand. Investors have been focusing on manufacturing components that do not require high technology, mainly to exploit the country's cheap and plentiful labour. Only a few spare parts have been produced in Vietnam, such as mirrors, windshield, seats, wires, or batteries with some companies investing in automobile body stamping. As such, in the future, the Government

must identify what kind of spare parts need to be developed domestically to obtain the appropriate level of protection, especially accessories for strategic vehicles defined as a priority for development.

5.3.3 Policy on excise duty

According to the Tax System Reform Strategy for the period 2011-2020, the orientation for the reform of the policy on excise duty is defined as: *"To study the adjustment and supplement of special consumption tax subjects in order to keep consumption in line with the country's socio-economic development situation; To formulate a roadmap for tax adjustment for tobacco, beer, alcohol and automobiles to regulate consumption and implement international commitments; To study and implement regulations on tax calculation for a number of cases of cooperation among countries in the global production chain, ensuring fair treatment between domestic and foreign goods and services import and export; To study the application of the combination of proportional tax rates and absolute tax rates for a number of taxable goods and services."*

According to the provisions of the present tax law, the applicable tax rate for automobiles with 16 seats or fewer is the same at whichever number of seats and machine capacity, at the rate of 45% to 55%, as compared to eco-friendly vehicles such as electric vehicles, bio-energy vehicles with lower rates. At present, many countries around the world are issuing regulations in this direction. The general rule of setting tariff rates for this commodity group is not to reduce revenues from taxes on automobiles and not to reduce the excessive increase of personal vehicles. Automobiles with the same seating capacity but with larger cylinder capacity will be subject to higher tax rates. At the same time, regulation of engine capacity also contributes to better regulating income from tax budget because with large cylinder capacities are more expensive than those with smaller ones at the same number of seats.

According to the WTO's principle of non-discrimination, it is not possible to distinguish tax rates between imported and domestically produced goods. Accordingly, the issuance of preferential tax on domestically produced vehicles such as those in practice from 1999 to 2006 will not be implemented. Special sales tax will be applied uniformly between domestic vehicles and imported vehicles.

Accordingly, in upcoming time, for automobiles that need to be promoted domestically (strategic vehicle), it is necessary to set the appropriate tax rates that are lower than other models to increase consumer demand and markets for businesses to invest in this industry. At the same time, passenger cars are subject to special consumption tax but do not belong to the strategic vehicle group with increased taxes, in order to encourage consumers towards buying strategic vehicles that the Government has developed. However, to support the implementation of this regulation, it is necessary to identify which strategic vehicle that should be prioritized for development, as a key product to focus on in future by increasing the localization rate, and reducing domestic price; and the development of all

types of vehicles is not currently encouraged. Determining which automobiles is the strategic vehicle type will be discussed in the section below.

5.3.4 Other taxes, fees and charges policies

Except for the registration fee, basically any other tax, fee and fee policies (value added tax, fees and charges) are kept in line with international practice. The Tax System Reform Strategy 2011-2020 stated: “...*Amendment and supplement in the direction of reducing the number of groups of goods and services not subjected to value added tax; reduce the group of goods and services subjected to the tax rate of 5% ...*”. Thus, according to the Strategy, there is no adjustment of the VAT rate (10%) for automobiles. VAT is a tax on the added value of goods and services arising in the course of production, circulation and consumption. Manufacturers selling automobiles will be credited with input VAT on goods and services used to produce goods which are subjected to VAT themselves. If tax rates are applied between different stages of production are not consistent, the manufacturer will not be deducted of input VAT, which in turn will drive up input cost.

At present, fees and charges are collected related to the process of registration and use of automobiles, including: registration fee, plate number; Inspection fees; Fee for granting certificates of assurance of technical safety; Road tolls levied annually on the land-road motorised traffic. The policy of fees and charges does not affect the price of automobiles, which in turn affects the demand for automobiles, of which the two most impacted are: registration fee and personal transportation fee. For other fees and charges, they basically do not significantly affect the demand for automobiles because the fee is not large, only to cover the costs of collecting fees and charges (excluding the fee for posting sign and issuing number plates in Hanoi and Ho Chi Minh City).

Recently, registration fees have been reduced significantly from before. However, at the minimum rate of 10% at present, calculated based on the final value of the price of import duty, which in the case for imported vehicles would be tax and VAT, registration fee rates for the current automobile price is quite high. High levels of fees are also inconsistent with the nature of registration fees. As such, in future, it is possible to further study the reduction of registration fee. This reduction may apply to vehicles identified as priority strategic vehicle. However, in the longer term, research should be done to adjust the appropriate registration fee policy accordingly. In fact, many of the contents of current registration fee policies are more taxable than fees. In essence, the fee is the amount of money that an organization or individual has to pay when it is collected by state agencies or organizations authorized to perform state management work. How to collect registration fees for automobiles on the value of goods of great value such as automobiles (but not limiting the ceiling as some other items) is a point that does not conform to this principle. Experience shows that registration fees (registration fees) are usually collected at absolute rates.

As the remaining charge and fee policies no longer affect the demand for automobiles, there is no need to change. But it is also necessary to have periodic reviews to make adjustments accordingly.

5.4 Selection of the strategic vehicles for development and appropriate preferential policies

Due to a narrow automobile market, given a large number of manufacturers with different types of vehicles, it is difficult to promote enterprises pour their money in supporting industries, leading to a very low localisation rate. Experiences on automotive industry development of others countries, including Thailand and Indonesia, implies a recommendation of focusing on a certain types of car with a sufficiently large volume as a foundation for the sustainable development of the local automotive industry. Successful development of strategic vehicles might result in improvement in localisation rate and decline in costs. However, it is important to identify such strategic types of automobiles. The selection should be based upon the following three requirements: ensuring national interests; ensuring consumers' interests and ensuring enterprises' interests of enterprises.

From a state perspective, national interests must be at the forefront of strategic vehicle choices. By 2018 CEPT will be reduced to 0%. That means that the domestic industry, especially the domestic automobile industry, will face fierce competition with imported vehicles. Until then, if Vietnam does not have a product capable of competing with imported vehicles, Vietnam will have to accept the fact that imported automobiles will dominate the entire Vietnamese automobile market, and there will be no auto industry as the Government has intended.

From a state perspective, national interests must serve the most decisive role in the selection of strategic vehicles. By 2018, CEPT will be reduced to 0%, which means the automotive industry, indifferent from any local industries, especially automobile, will face a fierce competition from imported cars. When the time comes, if Vietnam still have no capable product to compete with imported vehicles, the imported cars will probably dominate the entire local automobile market. As a result, no set objectives are fulfilled.

In addition to meeting the national interests, strategic vehicles must satisfy customers' demands, which is also their only way to achieve sufficient and sustainable sales to become strategic vehicles. In order to meet Vietnamese customers' demands, strategic vehicles are required to have reasonable price, and match Vietnamese consumers' taste, comply with the Government's Orientation on promoting green growth consistent with the direction of green growth, and maintain effective production (large scale production).

The automotive market from 2018 is projected to be attended by major automakers while the rest may turn to CBU cars import. Financial goal is the main driving force for any enterprises, which can only be

met by satisfying market demands. Therefore, it is important to identify enterprises expecting to continue operating in Vietnam to devote more attention. The selection of strategic vehicles should take into consideration in-depth analyses by concerning agencies, especially the Ministry of Industry and Trade. At the same time, requirements for the focused cars should be laid down upon the local market size, infrastructure planning, and orientation for development of supporting industries by the Government, and sustainable development trend worldwide.

CHAPTER 6: CONCLUSIONS

The automobile industry serves a fundamental role in the process of industrial restructuring, industrialisation and modernisation of many countries across the world, while Vietnam's automobile industry is still nascent. Yet, it has gained certain achievements. In particular, the industry has successfully built a number of automotive assembly factories, continuously gathered skilled workers, technicians and experts in the automobile industry.

However, the industry is yet to fully tap its potentials. Preferential policies, including tax incentives, have been introduced, yet the sector's growth rate still stays modest, mostly assembling with a low localisation rate compared to the set objectives. Vietnam has not yet had an automobile manufacturing company of regional scale to be able to compete and export. The industry's unimpressive growth which is insufficient to stimulate supporting industries.

With a view to boosting the development of the domestic automotive industry, Vietnam has also promulgated a number of tax incentive policies, aiming at two main goals of investment attraction and domestic protectionism. Accordingly, preferential policies on corporate income tax and on import tax have been issued to encourage enterprises to invest in the car industry. Meanwhile, protectionist policies on the local automotive sector have been deployed upon excise duty and import tax. For excise duty, Vietnam had adopted a policy on reducing excise duty on locally assembled cars until 2007 as it violates the principle of national treatment by WTO. In terms of import tax, Vietnam still apply an acceptable protectionist mechanism to domestic assembled automobiles in line with commitments declared in the context of integration. However, development enterprises benefiting from the mechanism has still fallen short of expectation when they fail to meet the localisation schedule.

The Draft Master plan on Vietnam's automobile industry development by 2020, with a vision towards 2030 is being developed by the Ministry of Industry and Trade in collaboration with other corresponding ministries and agencies. Over the past time, tax policies constitute an indispensable element in the formation and development of the automobile industry as. They also act as a management tool to assist the industry's growth. Many factors may affect the development the auto sector, including tax policies. In Vietnam, the tax policies, fees and charges in general and those applied to automotive industry in particular gradually approached the international practice. Many recent tax policies have been adjusted recently in line with the trend of tax reforms in the world. The adjustment of policy on excise duty for cars which are classified by cylinder capacity and types of vehicles. Accordingly, the lower tax rate applied to small cylinder capacity and environmentally friendly vehicles, contributing to energy saving and environmental protection.

According to the analytical reports on tax policy development process by the Tax Policy Department,

Ministry of Finance, in order to maximise the effect of the automobile industry progress, fees and charges policies must be constructed and completed based on the following guiding principles:

Firstly, preferential policies and progressive treatment must be selective. There should be no suggestions for a common preferential policy across the automobile industry. The selection of which vehicle to be the strategic one for preferential development must be considered on Vietnamese market's actual situation and characteristics. Without a concrete guideline, a failure can be foreseen given the modest local market size at present.

Secondly, the tax, fee and charge system must be designed simultaneously on a reasonable level, maintaining long term stability and consistency, appropriate for global integration trends, creating trust for both customers and producers, in order to generate stable demand and prelude for investments.

Thirdly, the completion of a taxes, fees and charges policies must have its effect on controlling the amount of imported vehicles, minimising the negative impact on the national transport infrastructure in accordance with international commitments. The adjustment of import taxes on car must both strictly comply to WTO's and regional international commitments, and must have a reasonable and scientific plan to decrease said amount to ensure policy transparency and to have orientation impact on car producers or manufactures' production and investment plans.

Fourthly, the implementation and issuance of tax policies to advocate the automobile industry's growth must aim for a balance between the economy's interests, between automobile manufacturing and assembly firms' and transportation firms towards lessening input taxes for production and imports.

However, policies on taxes, fees and charge are not the only factor affecting demand for cars. The demand for cars depends on several factors, including: (i) average income which shows the ability to buy and use cars of the people; (ii) transport infrastructure of the whole country and each area (including static and dynamic transport infrastructure); (iii) behaviour of consumers (including consumer trends and consumer psychology).

Accordingly, other policies also perform a crucial role. Therefore, policy makers should not consider tax policies a master key while turning a blind eye to others. Tax policies facilitate and support the automobile sector right from its early stages of development. Determinants of the automobile industry might include the macroeconomic environment, investment policies (investment licensing in such fields of car manufacturing and assembly) or import-export policies.

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APPENDIX

Appendix 1

Import turnover of automobiles in 2000-2012

CBU cars (Completely Built Up)	In 2000		In 2001		In 2002		In 2003		In 2004		In 2005		In 2006		In 2007	
	Quantities	Compared to the previous year														
Totals	16.362		28.269	73%	29.355	4%	21.355	-27%	24.961	17%	21.279	-15%	12.496	-41%	30.471	144%
- Types of 12 seats or less	252		920		757		1.436		3.542		5.447		3.199		14.605	
- Types over 12 seats	1.996		3.066		1.161		1.006		1.059		749		850		1.257	
- Lorries	13.048		22.168		24.911		16.094		16.445		12.334		7.676		10.447	
- Others	1.066		2.115		2.526		2.819		3.915		2.749		771		4.162	

CBU cars	In 2008		In 2009		In 2010		In 2011		In 2012	
	Quantities	Compared to the previous year								
Totals	51.059	68%	80.596	58%	53.841	-33%	54.619	1%	27.427	-50%
- Motor cars of 9 seats or less					35.000		34.892		13.697	
- Motor cars over 9 seats					376		177		163	
- Lorries					14.159		16.041		9.912	

Appendix 2

Statistical table import duty rate for cars from 2001 to 2013

Years	01	02	03	04	05	06	2007	2008		2009		2010		2011		2012		2013	
	MF N	MF N	MF N	MF N	MF N	MF N	MFN	MFN	FTA (Asean)	MFN	FTA (Asean)	MFN	FTA (Asean)	MFN	FTA (Asean)	MFN	FTA (Asean)	MFN	FTA (Asean)
Motor vehicles for the transport of ten or more persons (8702)	100	100	100	100	90	90% 5%	90% 5%	60% (then be adjusted up 70% from the date of 4/4/2008 and up 83% from 22/4/2008), 5%	83%, 0%	83% 0%	83% 0%	83% 5%	83% 0%	70% 5%	70% 0%	70% 5%	70% 0%	70% 5%	60% 0%
Motor vehicles for the transport under 10 persons (8703)																			
- Gasoline cars	100	100	100	100	90	90	90	60%, then be adjusted up 70% from the date of 4/4/2008 and up 83% from 22/4/2008	83	83%, Private four-wheel drive, exceeding 3,000cc is 81%	83	83%; Private of a cylinder capacity exceeding 3,000cc is 77% and 80% for others	83	82%; Private of a cylinder capacity exceeding 2,500cc: 77%, four-wheel drive, exceeding 3,000cc	70	78%; Private of a cylinder capacity exceeding 2,500cc: 74%, four-wheel drive, exceeding	70	74%; Private Motor-homes and exceeding 2,500cc: 74%, four-wheel drive, exceeding	60

Years	01	02	03	04	05	06	2007	2008		2009		2010		2011		2012		2013	
	MFN	MFN	FTA (Asean)	MFN	FTA (Asean)	MFN	FTA (Asean)	MFN	FTA (Asean)	MFN	FTA (Asean)	MFN	FTA (Asean)						
								08						is 72%.		3,000cc is 68%.		g 3,000cc is 64% and 62%.	
- Diezel cars	100	100	100	100	90	100	90	60%, the be adjusted up 70% from the date of 4/4/2008 and up 83% from 22/4/2008	83	83	83	83	83	82	70	78	70	74	60
Motor vehicle for the transport of goods:																			
- Gross vehicle weight not exceeding 5 t:	100	100	100	100	80	80	80	80	5	80	5	80	5	68	5	68	5	68	5
- Gross vehicle weight exceeding 5 t but not exceeding 6 t:	100	100	100	100	80	80	60	58	5	56	5	54	5	50	5	50	5	50	5
- Gross vehicle weight exceeding 6 t but not exceeding 10 t:	100	100	100	100	80	80	60	58	5	56	5	54	5	50	5	50	5	50	5
- Gross vehicle weight exceeding 10 t but not exceeding 20 t:	100	100	100	100	80	80	30	30	5	30	5	30	5	30	5	30	5	30	5
- Gross vehicle weight exceeding 20 t but not exceeding 24 t:	100	100	100	100	80	80	20	20	5	20	5	20	5	20	5	20	0	20	0
- Gross vehicle weight exceeding 24 t but not exceeding 45 t:	100	100	100	100	80	80	20	20	5	20	5	20	5	15	5	15	0	15	0
- Gross vehicle weight exceeding 45 t:	100	100	100	100	80	80	0	0	5	0	5	0	5	0	5	0	0	0	0

Appendix 3

Summary table of tax policy, charges and fees for automobiles industry

(i) Import duty, excise duty and value added tax

Types of motor vehicles		Import duty 2013		Excise duty	Value added tax	Import duty 2014	Import duty 2015	Import duty 2016	Import duty 2017	Import duty 2018	Import duty 2019		
CBU cars (NEW)	<i>Motor Vehicles for the transport under 10 persons</i>	Of a cylinder capacity not exceeding 1.000 cc	MFN	74%	45%	10%	70	70	70	70	70	70	
			ATIGA	60%			50%	35%	20%	10%	0%	0%	
		Exceeding 1.000 cc to 1.500 cc	MFN	74	45%	10%	70	70	70	70	70	70	70
			ATIGA	60%			50%	35%	20%	10%	0%	0%	
		Exceeding 1.500 cc to 1.800 cc	MFN	70%, 74%	45%	10%	67%, 70%	64%, 70%	61%, 70%	58%, 70%	55%, 70%	52%, 70%	
			ATIGA	60%			50%	35%	20%	10%	0%	0%	
		Exceeding 1.800 cc to 2.000 cc	MFN	70%, 74%	45%	10%	67%, 70%	64%, 70%	61%, 70%	58%, 70%	55%, 70%	52%, 70%	
			ATIGA	60%			50%	35%	20%	10%	0%	0%	
		Exceeding 2.000 cc to 2.500 cc	MFN	70%, 74%	50%	10%	67%, 70%	64%, 70%	61%, 70%	58%, 70%	55%, 70%	52%, 70%	
			ATIGA	60%			50%	35%	20%	10%	0%	0%	
		Exceeding 2.500 cc to 3.000 cc	MFN	70%, 74%	50%	10%	67%, 70%	64%, 70%	61%, 70%	58%, 70%	55%, 70%	52%, 70%	
			ATIGA	60%			50%	35%	20%	10%	0%	0%	
		Exceeding 3.000 cc	MFN	64%, 70%	60%	10%	59%, 67%, 70%	55%, 64%, 70%	51%, 61%, 70%	47%, 58%, 70%	47%, 55%, 70%	47%, 52%, 70%	
			ATIGA	60%			50%	35%	20%	10%	0%	0%	
			AKFTA				From 2015-2021: 20-70%						
			ANZ				In 2022: 50%						
<i>Motor vehicles for the</i>		From 10 seats, but not exceeding 16 seats	MFN	70%	30%	10%	70%	70%	70%	70%	70%	70%	
			ATIGA	60%			50%	35%	20%	10%	0%	0%	

Types of motor vehicles		Import duty 2013		Excise duty	Value added tax	Import duty 2014	Import duty 2015	Import duty 2016	Import duty 2017	Import duty 2018	Import duty 2019
<i>transport of 10 or more person</i>											
	From 16 seats, but not exceeding 24 seats	MFN	70%	15%	10%	70%	70%	70%	70%	70%	70%
		FTA	60%			50%	35%	20%	10%	0%	0%
	For the transport of 24 persons or more	MFN	5%, 70% (committed: 25%, 35%, 70%)	0%	10%	5%, 70% (committed: 25%, 35%, 70%)	5%, 70% (committed: 25%, 35%, 70%)	5%, 70% (committed: 25%, 35%, 70%)	5%, 70% (committed: 25%, 35%, 70%)	5%, 70% (committed: 25%, 35%, 70%)	5%, 70% (committed: 25%, 35%, 70%)
		FTA	5%, 60%			0%, 50%	0%, 35%	0%, 20%	0%, 10%	0%	0%
		AKFTA				From 2015 to 2021 decreased 25-70% for motor cars under 30 seats; exceeding 30 seats: 5%					
<i>Lorry</i>	Gross vehicle weight not exceeding 5 t	MFN	62%, 68% (committed: 62%, 74%)	0%	10%	59%, 70%	56%, 70%	53%, 70%	50%, 70%	50%, 70%	50%, 70%
		FTA	5%			5%	0-5%	0-5%	0-5%	0%	0%
	Exceeding 5 t but not exceeding 10t	MFN	50% (committed: 62%, 50%)	0%	10%	59%, 50%	56%, 50%	53%, 50%	50%	50%	50%
		FTA	5%			5%	0-5%	0-5%	0-5%	0%	0%
	Exceeding 10 t but not exceeding 20t	MFN	30% (committed: 62%, 30%, 45%)	0%	10%	59%, 30%, 45%	56%, 30%, 45%	53%, 30%, 45%	50%, 30%, 45%	50%, 30%, 45%	50%, 30%, 45%
		FTA	5%			5%	0-5%	0-5%	0-5%	0%	0%
	Exceeding 20 t but not exceeding 24t	MFN	20% (committed: 62%, 20%, 35%)	0%	10%	59%, 20%, 35%	56%, 20%, 35%	53%, 20%, 35%	50%, 20%, 35%	50%, 20%, 35%	50%, 20%, 35%
		FTA	0%			0%	0%	0%	0%	0%	0%

Types of motor vehicles		Import duty 2013		Excise duty	Value added tax	Import duty 2014	Import duty 2015	Import duty 2016	Import duty 2017	Import duty 2018	Import duty 2019	
	Exceeding 24 t but not exceeding 45t	MFN	10%, 15%	0%	10%	10%, 15%, 25%	10%, 15%, 25%	10%, 15%, 25%	10%, 15%, 25%	10%, 15%, 25%	10%, 15%, 25%	
		FTA	0%			0%	0%	0%	0%	0%	0%	0%
	Exceeding 45 t	MFN	0%	0%	10%	10%	10%	10%	10%	10%	10%	
		FTA	0%			0%	0%	0%	0%	0%	0%	0%
			AKFTA				From 2015 to 2021: 20-35%, to 2021 is 25%					
	<i>Special purpose motor vehicles</i>		MFN	0%, 5%, 15%	0%; 15%	10%	0%, 5%, 15%	0%, 5%, 15%	0%, 5%, 15%	0%, 5%, 15%	0%, 5%, 15%	0%, 5%, 15%
		FTA	0%, 5%	0%			0%	0%	0%	0%	0%	0%
<i>Motor cars not exceeding 10 seats</i>	Under 1.000cc	3.500		45%	10%	The same as the current						
	From 1.000cc but not exceeding 1.500cc	8.000		45%	10%							
CBU cars (used)	From 1.500cc but not exceeding 2.500cc	X + 5.000		45%; 50%	10%	The same as the current						
		X + 15.000		50%; 60%	10%							
	<i>From 10 seats, but not exceeding 15 seats</i>	Under 2.000cc	9.500		30%							10%
		Exceeding 2.000cc, but not exceeding 3.000cc	13.000		30%							10%
		Exceeding 3.000cc	17.000		30%							10%
	<i>Exceeding 15 seats</i>		150%		15%; 0%							10%
	<i>Lorry</i>	Not exceeding 5 t	150%		0%							10%
		Exceeding 5 t	(X) x 1,5		0%							10%

Types of motor vehicles		Import duty 2013		Excise duty	Value added tax	Import duty 2014	Import duty 2015	Import duty 2016	Import duty 2017	Import duty 2018	Import duty 2019
	<i>Special purpose motor vehicles</i>		(X) x 1,5	0%; 15%	10%						
Accessories, parts	<i>Motor cars not exceeding 10 seats</i>	MFN	18%-20%	Not have to pay tax upon import. 40%-50%-60% depending on type when sold	10%	Reviewing and increasing taxes to the highest level as committed to WTO for key mechanical products regulated in Decision No. 10/2009/QD-TTg and those products in the List of Products of Support Industries Prioritized for Development under Decision No. 1483/QD-TTg by the Prime Minister					
		ATIGA	0% (excluding Chassis and Bodies used for Motor cars of heading 8703 is 5%)								
		AKFTA	15%-30%								
	MFN	10,5%-15,35%									
<i>Motor vehicles for the transport of 10 or more person</i>		ATIGA	0% (excluding Chassis and Bodies used for Motor cars of heading 8703 is 5%)	Not have to pay tax upon import. 30%-15%-0% depending on type when sold	10%						
		AKFTA	15%-30%								
		<i>Lorries</i>	7-15%			0%	10%				

Types of motor vehicles		Import duty 2013		Excise duty	Value added tax	Import duty 2014	Import duty 2015	Import duty 2016	Import duty 2017	Import duty 2018	Import duty 2019
	<i>Special purposes motor vehicles</i>		12,8%	Not have to pay tax upon import. 15%-0% depending on type when sold	10%						

(ii) Import tax policies for imported automobile components:

Enterprises that import components in the form of discrete components synchronous or asynchronous is classified under tariff classification and tax at the preferential import duty rates of individual components and spare parts if it meets the conditions¹³:

Components must be guaranteed by the Criteria of automobile-manufacturing and/or- assembling enterprises stipulated by the Ministry of Industry and Trade directly imported to manufacture, trust import or import business. Case of trust import must have entrusted contract, case of import business must have purchase contract with qualified firms for assembling car under the provision of the Ministry of Industry and Trade to carry out customs procedures for import.

Knocked-down details (detail assemblies) and components (component assemblies) in complete sets or incomplete set of details and components with the maximum knock-down rate for automobile localisation regulated by the Ministry of Science and Technology.

Synchronous and asynchronous components with one or more details which fail to meet the maximum knock-down rate are classified upon commodity code and may benefit from tax incentive for complete sets of details with correlating commodity code if enterprises commit to fulfil following requirements:

¹³ In cases imported components for automobile manufacture and assembly do not meet those requirements, it is recommended that commodity codes should be identified and tax preferentials applied upon Chapter 98 (heading 98.21), depending on the types of vehicles (equal to the tax rate of CBU cars).

- The total value of imported components that fail to meet the regulated knock-down levels must not exceed 10% of the total value of components (imported and domestically purchased, if any) for production or assembly into complete automobiles or Chassis cars (regardless of vehicle types, but based on actual vehicles manufactured or assembled by the automakers within a fiscal year). Of which, the total value of components (imported or domestically purchased, if any) for production or assembly into complete cars consist of self-manufactured, processed and assembled parts if any.
- Components are not: chassis, body, trunk (regardless of car types); and cabin (for trucks).

(iii) Policies on excise duty:

For cars running on gasoline or diesel: Tax rate as mentioned in article (i).

Car running on both gasoline and electricity or bioenergy, the proportion of gasoline does not exceed 70% of total energy used. 70% of tax rates applied to the same types of cars.

Cars running on bioenergy: 50% of tax rates applied to the same types of cars.

Cars running on electricity:

- Passenger cars having 9 seats or fewer: 25%.
- Passenger cars having 10 – 15 seats: 15%.
- Passenger cars having 16 – 23 seats: 10%.

(iv) VAT policy

10% rate is applicable for both imported and locally manufactured.

(v) Corporate Income Tax incentives:

According to the law on Corporate Income Tax, enterprises established from projects in areas with extreme socio-economic difficulties, economic zones, and hi-tech zones; enterprises from the execution of new projects of investment, including: scientific research and technology development; application

of high technologies in the list of prioritized high technologies according to the Law on High Technologies; cultivation of high technologies, cultivation of hi-tech enterprises; high-risk investment in the development of high technologies in the list of prioritized high technologies according to the Law on High Technologies; investment in crucial infrastructure of the State; software production are entitled to:

The tax rate of 10% for 15 years. For special projects that need to attract a lot of investment and high technologies, the period of preferential tax rates may be extended, but the extension shall not exceed 15 years.

Tax exemption for no more than 4 years, and eligible for 50% reduction in tax for no more than the next 9 years.

(vi) Fees and charges policy:

Fees and charges regarding registration and ownership of automobiles include:

Registration fee: 10 – 20% for passenger car having 10 seats or fewer (*specified by each provincial and municipal People's Councils*); 2% for others types (regulated in Decree No.45/2011/ND-CP by the Government).

Fee for issuing license plate: 100,000 to 1,000,000 VND for a car to be granted with registration papers and number plates. For cars of under 10 seats (including driver's), not engaged in passenger transportation business in Hanoi and Ho Chi Minh city, the fee ranging from 2-20 million VND (*specified by the municipal People's Councils*) (prescribed by Circular No.212/2010/TT-BTC by the Ministry of Finance).

Charge for inspection: 160,000 to 400,000 per vehicle for each technical safety inspection of motor vehicles currently in circulation as follows (regulated in Decision No.101/2008/QD-BTC by the Ministry of Finance).

The charge for inspection of motor vehicles for the grant of provisional technical safety and environmental protection certificates: 50,000 to 100,000 VND/certificate (regulated in Decision No. 101/2008/QD-BTC by the Ministry of Finance).

Charge for land road use: As regulated in Decree No.18/2012/ND-CP by the Government and Circular No.197/2012/TT-BTC by the Ministry of Finance, the monthly charge ranges from 130,000 to 1,040,000 VND/month, depending on the car types.

Appendix 4

QUALITATIVE QUESTIONS

*(Evaluation of the tax policy for the development of
the automotive industry in Vietnam)*

With the purpose of evaluating of the roles and impacts of the tax policies for the development of the automotive industry in Vietnam, this study would like to ask experts from the Tax Policy Department, Ministry of Finance of Vietnam to provide honest answers to the following questions:

1. How do the tax policies impact on the development of the automotive industry?
2. Do regular tax policies affect the development of the automobile industry?
3. What is the importance of the tax policy system in foreign investment attraction in Vietnam in general and its automotive industry in particular?
4. How are the tax incentive policies to promote investment in the domestic automotive industry in the 2001-2015 period and the issues posed? (For example: Incentive policies on corporate income tax? Incentive policies on indirect taxes (import tax and excise duty))
5. How are the tax, fee, and charge policies for the import, purchase and circulation of cars in the 2001-2015 period?
6. Can you evaluate the implementation of the import tax policy for completely built up (CBU) cars and for automobile components parts in the past period?
7. Can you evaluate the implementation of the tax excise policy in recent years?
8. Do you have any comments on the tax policy for car industry in Vietnam over the past time?
9. How are the tax policy improvement for the automotive industry's growth in the coming period?
10. What are the tax policies to encourage firms' investment for the automobile industry in the coming period?
11. What should the import tax and excise duty policies for automobile and spare parts be changed?
12. Should a flagship vehicle model be selected to focus development and have appropriate incentive and investment attracting policies?