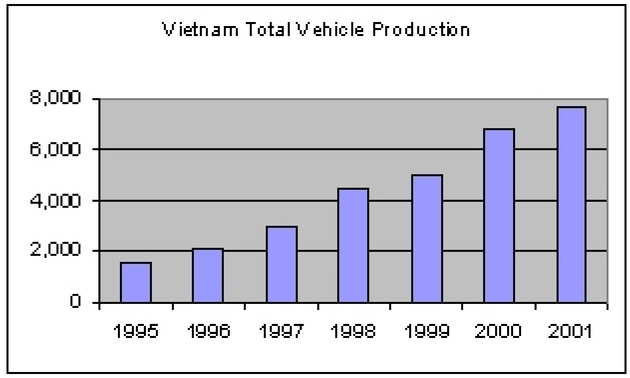
Vietnam
Motor Vehicle Market Overview



* Chart Source: Automotive News

Exports

Total U.S. exports to Vietnam in actual U.S. dollars and units

Type	2000	2001	2002
Passenger Vehicles & Light Trucks	$605,950	$2,071,343	$966,335
Passenger Vehicles & Light Trucks-UNITS	65	164	102
Medium & Heavy Trucks and Tractors	$175,000	$2,250,200	$4,1818,410
Medium & Heavy Trucks and Tractors-UNITS	22	215	618

*Data Source: compiled from tariff and trade data from the U.S. Department of Commerce, U.S. Treasury, and U.S. International Trade Commission

Market Summary

Vietnam is a member of the Association of South East Asian Nations (ASEAN), a regional economic grouping with combined annual vehicle sales of 1.5 million units in 2003 (see companion paper on the ASEAN Auto market). Vietnam has one of the smaller auto markets in ASEAN and is well below the sales levels of Thailand, Malaysia, Philippines and Indonesia, ASEAN's "Big Four".

Vietnam's population has a fairly low per capita income ($436 in 2002) level compared to the "Big Four" countries in the ASEAN region, although it has experienced high levels of growth throughout the late 1990s and into 2004. It is unlikely that Vietnam will be a major auto market anytime in the near future. This is largely due to recent legislation passed by the Government of Vietnam (GVN) that does not support existing automotive industry investment. The Government of Vietnam is using protectionist measures by raising tariffs and the special consumption tax on Completely Knocked-Down (CKDs). Thus, vehicles in Vietnam have exorbitant prices as a result of manufacturers forced to incorporate high tax and tariff into the cost of the vehicle. The high vehicle cost will lower volume in Vietnam, which translates into lower economies of scale and lowers the likelihood of localization investment.

Motor vehicle sales reached 19,380 units in 2002, which demonstrate a steady increase in sales since the Asian Financial Crisis. However, recent reports claim that as consequence of GVN automotive policies, demand may shrink in 2004 due to elevated prices. Since the increased taxes and duties went into effect in January 1st, the auto industry has experienced steeply declining sales and reduction in the workforce.

Vietnam has installed production capacity many times its annual sales volume. There are currently eleven vehicle manufacturers with operations in Vietnam. Most automakers intend for these production facilities to act as an export base for the rest of the region. Estimates put the total installed capacity at over 120,000 vehicles per year. Originally in 1994, the Government of Vietnam granted licenses to only four foreign manufacturers (Toyota, Isuzu, Ford and Chrysler.) Upon reconsideration, the market was opened up to a much wider number of participants. Ford currently has an assembly facility in Vietnam. General Motors has a Daewoo plant and DaimlerChrysler has a Mercedes plant. Nonetheless, most vehicles produced in Vietnam rely entirely on imported components.

In 2000, the U.S. and Vietnam signed a Bilateral Trade Agreement (BTA). The BTA works to protect U.S. investment in Vietnam, however, it has not been able to shield the automotive industry from the harmful policy decisions that the Government of Vietnam has made. GVN legislation continues to have a negative impact on the investment climate. While the BTA does not specify that automotive tariff increases are inconsistent with the agreement, the agreement supports claims that the automotive policies do violate transparency provisions and investment measures issues.

Motor Vehicle Investment

Ford:
Ford was granted a license to produce motor vehicles in Vietnam in 1995. Ford's assembly plant opened in 1997 in Hai Duong, just East of Hanoi, and has mainly produced vehicles for export to the rest of the region. Ford has invested $102 million in Vietnam and currently holds 11 percent car market share. The Ford plant produces a limited number of vehicles (Laser, Ranger, Escape, Transit) for domestic use and export.

DaimlerChrysler:
Chrysler was one of the four foreign manufacturers originally granted a license to set up

production facilities in 1994. When the GVN decided to open up vehicle production to a wider number of participants Chrysler canceled its production plans. DaimlerChrysler currently produces Mercedes badged vehicles in a joint venture with Saigon Automobile. DaimlerChrysler holds 10 percent truck market share.

General Motors:
GM owns Daewoo Motor Company (Vidamco) manufacturing plant, which has 31.5 percent car market share in Vietnam.

Toyota:
Toyota is Vietnam's largest assembler and has announced plans to set up an export center in Vietnam. The facility in Vinh Phuc Province will source parts from local manufacturers and export to Toyota plants worldwide. The sourcing program will begin in June 2004.

Trade Barriers

Taxes/Tariffs

- Tax and tariff rates for CKD are set to increase substantially between 2003-2007.

- In May 2003, the Vietnamese National Assembly passed a Ministry of Finance proposal to impose a 10 percent VAT on all cars and increase the Special Consumption Tax (SCT) on cars manufactured from CKDs starting in 2004. SCT on locally manufactured vehicles is 24 percent in 2004, 40 percent in 2005, 25 percent in 2006, and up to 80 percent in 2007.

- The GVN has also completed a 2004-2010 roadmap for the harmonization of tariff rates applied to CKDs and CBUs. Under this roadmap, the MFN rates applied to CKDs will rise 5-10 percent each year until 2008.

- Policy decisions to raise tariffs were passed to push the implementation of localization. By 2005, the GVN wanted 25 percent localization and would offer special incentives for those companies that produce using local content.

- In addition to the GVN's Ministry of Finance efforts to raise import duties on automobile kits last year, Vietnam's National Assembly voted in June to reduce a tax break for the country's eleven joint-venture automotive assemblers.

- The revised law took effect January 1, 2004 and will gradually phase out the tax break by 2007. The assemblers had previously enjoyed a 95 percent break on the 100 percent special consumption tax charged on imported passenger vehicles. Over the same period, the tax rate will be reduced from 100 percent down to 70 percent in 2004 to 50 percent in 2005 down to no tax break in 2007.

Investment

- The decision to raise taxes and tariffs on auto producers is likely to have a negative impact on Vietnam's investment climate.

  - Vietnam is a small market and competitiveness depends on production and market size. For future development of the automotive industry, the market size must be big enough to justify capital investment.

- Only the companies with parts manufacturing plants in ASEAN Free Trade Area (AFTA) will be able to compete because imports from the ASEAN region are subject to lower rates under Common Effective Preferential Tariff (CEPT).

<u>Other Measures:</u>

Local Content Requirements:

- From 2000 on, as outlined in the Investment License, component and parts companies in Vietnam are required to use parts and accessories domestically manufactured at a rate increasing annually to reach at least 30 percent of the automotive value by 2007.

- The GVN has continued to request that automakers implement the localization commitment outlined in the Investment License. However, rules for calculating local content have not been defined.

Prohibitions:

- Beginning in 1998, Vietnam prohibited the importation of used passenger vehicles.