SWOT Analysis of Chinese Iron and Steel Enterprises’ Investment in Vietnam Under the Background of New Policy and Economy in Vietnam

Zhong-xiao CHEN¹,a,*, Lin-lin ZHAO²,b

¹,²Shanghai University, Chengzhong Road, Shanghai 201800, China

ª1758636868@qq.com, ‡807870969@qq.com

*Corresponding author

Keywords: SWOT Analysis, Iron and Steel Enterprises, Vietnam Investment.

Abstract. After decades of development, China’s iron and steel industry has made great achievements, steel production has been greatly improved in both quantity and quality with the deepening of economic globalization, the international investment has become an important factor of national economy, for the steel big country like China, foreign investment is a good opportunity for the development of their own. With the close relationship between China and Vietnam, domestic investors are interested in investing in Vietnam, looking for opportunities to invest in Vietnam, however they don’t know much about Vietnam’s investment environment, new policy changes and economic environment in Vietnam, which have an impact on investment decisions. Therefore, this paper briefly describes the policy and economic situation in Vietnam, then according to the investment process of Chinese iron and steel enterprises in Vietnam, it analyzes the advantages and disadvantages of the enterprises, the external environment opportunities, and provides suggestions for Chinese enterprises.

1. Vietnam Investment Environment Analysis

1.1 Policies to attract foreign investment in Vietnam

In order to attract foreign investment more effectively, the Vietnamese government has adopted a series of new measures, including: foreign investors reduce costs, improve enterprise competitiveness and operational efficiency; simplified foreign investors for investment on export formalities; a high proportion of export products in the production of raw materials and the use of multiple use of Vietnam foreign labor preferential policies. The government also encourages foreign businesses in remote mountainous areas, underdeveloped areas and need to use the Vietnamese domestic material sector, the implementation of preferential policies [1].

“Foreign investment law in Vietnam” the benefits rules, the encourage policy:

➢ The preferential tax rate is applicable to foreign investment enterprises and foreign joint ventures, and is applicable to the special encouraged investment projects and to encourage investment in the area of the entire directory of activities within the time limit.

➢ In particularly to encourage investment in the region of investment projects and encourage investment projects, from the profit-making year since 4 years are exempt from income tax, over the next four years halved.

➢ Enterprises in the production of export products, within the “import and export tax law” time limit, the import of raw materials used for the production of export goods, to postpone the payment of import duties.

➢ To calculate the import tax on taxable goods at the invoice price of the imported goods. No invoice to determine the taxable price according to the provisions of the Ministry of finance.

➢ For the enterprises to increase the fixed assets and the import of equipment, machinery, special vehicles, domestic still cannot produce building materials for production line equipment, machinery manufacturing and import raw materials, materials, or with the various parts of the equipment, machinery can be exempt from import duty.
In the course of business, foreign companies can be the loss of any one tax year will enter the next tax year, and deducted from the next year’s profits, but not more than five years.

Allow the sale of products in the Vietnamese market by the enterprise’s own direct sales or through the agency sales, product sales are not subject to geographical restrictions.

The foreign exchange balance of the State Bank of Vietnam to ensure that the infrastructure, the production of alternative import must be goods, as well as an important project announced by the Ministry of planning investment.

Enterprises operating in Vietnam, have the right to own property, according to the law of the pawn and mortgage loans.

Diversification of investment organization. In the past can only set up a limited liability company, is now allowed to set up a joint stock company.

1.2 The current situation and prospect of Vietnam steel market

(1) Vietnam iron and steel market situation

2015 would be the domestic iron and steel enterprises in Vietnam faced many difficulties of the year. The reason is that Vietnam is not only domestic enterprises in the production of steel oversupply, and from Russia and China’s steel imports of iron and steel enterprises in Vietnam caused by pressure, is even worse for domestic enterprises of the living environment. At present, the price of cheap alloy steel from China is still a large influx of the Vietnamese market, making China’s production of steel into oversupply situation. And steel from Russia is waiting to enter the Vietnamese market through the tariff concessions. Expected, in accordance with the Vietnam - Russia, Russia and Kazakhstan customs union free trade agreement (VCUFTA), if the import tariffs reduced from Russia’s imports of steel, Vietnam, the operation of domestic steel manufacturers will be more difficult. Vietnam Steel Association predicted that in 2015 the demand for domestic steel in Vietnam would not increase a lot. Construction steel demand would reach nearly 5.97 million tons, steel pipe demand would reach 1.36 million tons, and galvanized steel demand would reach 3.25 million tons [2].

(2) Vietnam steel apparent consumption status

With the economy grew at an average annual rate of 7%-8% of the speed, Vietnam’s domestic infrastructure, such as highways, railways, ports, airports and city facilities construction work in full swing. February 2009, Vietnam decided to build a total length of 1555km of high-speed railway from Hanoi to Hu Zhiming, the investment of 55.7 billion USD, it was expected to complete in 2035 across the board. In addition, Vietnam made great efforts to develop the shipbuilding industry, in 2015 to become the world’s fourth largest shipbuilding country, and Vietnam’s shipbuilding steel almost all rely on imports.

Vietnam’s existing 11 joint venture car factory, the total design capacity of 150 thousand per year, mainly imported from Japan and South Korea. According to Vietnam 2011-2020 development plan, the average growth rate of the total number of vehicles in Vietnam is 8%. According to this calculation, in 2010, the country’s car ownership will reach 1.2 million, and in 2020 it will reach 2.62 million units [3].

(3) Vietnam iron and steel industry development goals

According to the Vietnamese formally introduced strategy of iron and steel industry development planning, is a target for the development of iron and steel industry in Vietnam, not only to meet by the country, the economic development of the huge demand for steel products, and plans to steel exports to neighboring countries. Specific objectives are: 2010 production of pig iron 1.5-1.9 million tons, 3.5-4.5 million tons of billets, and finished steel 6.3-6.5 million tons; 2015 production of 5-5.8 million tons iron, 6-8 million tons billet, 11-12 million finished steel; 2025 production 10-12 tons iron, 12-15 million tons billet, 19-22 million tons finished steel (which 0.2 million tons of special steel).

2007-2025, Vietnam will invest 6 major iron and steel projects: Ha tinh steel factory (with a capacity of 4.5 million tons per year), Rong orange iron and steel plant (production capacity of 5
million tons per year), South Korea Pohang iron and steel company in Vietnam and Pakistan, Vung Tau Province Investment in the construction of 1.2 million tons of cold-rolled roll plant and 3 million tons of hot rolling plant, Indian ESSA company investment 2 million tons per year production of high speed wire rod factory, 1.5 million tons per year old steel mill and Taiyuan, iron and steel plant expansion project. According to the 2007-2025 development strategy planning, the Vietnamese steel industry needs to invest 10-12 billion USD, in 2007-2015 investment of 8 billion USD, 2015-2025 reinvestment 4 billion USD. By then, the domestic crude steel annual production capacity will reach 25 million tons [4].

2. Chinese Iron and Steel Enterprises to Invest in Vietnam SWOT Analysis

2.1 The strengths of the investment environment in Vietnam

(1) The pattern of economic development and cultural background is the same
Vietnam needs to follow China’s economic development model, including the formulation of economic policies and regulations. Vietnam is deeply influenced by Confucian culture, which is similar to the cultural customs of our country. In terms of language, in addition to the general language, but also have a bit more Chinese, English and French. Compared with other ASEAN countries, China and Vietnam in the communication is more convenient, therefore, the Chinese businessmen are more likely to integrate into the Vietnamese community.

(2) The obvious geographical advantages
Traffic between Vietnam and China is very convenient. Especially the Pan Asian Highway and the completion of the project, to Singapore, Malaysia, Thailand, Cambodia, Vietnam and Kunming, China connected, to bring great convenience to foreign investment. In addition, China and Vietnam in the customs, ethnic, cultural, language and other aspects are very similar. These common points are conducive to the Chinese enterprises to quickly open and integrate into the Vietnamese market, is a great advantage for Chinese investors.

2.2 The weaknesses of Vietnam’s investment environment

(1) Chinese enterprises lack of foreign investment funds
Most of the iron and steel enterprises lack of foreign investment funds, it is difficult to enter the threshold of higher capital market direct financing. The poor financing ability is an important reason for the investment disadvantage of Chinese iron and steel enterprises.

(2) Chinese enterprises lack of senior personnel familiar with the Vietnamese market
China’s iron and steel enterprises lack a number of familiar with the Vietnam Economic and trade rules and enterprise operation and management of the Vietnamese, foreign trade, finance, marketing, business administration, finance, and technology professionals. The lack of talent, not only seriously restricts the improvement of the inner quality of enterprise employees, but also can not meet the needs of overseas investment.

(3) Chinese enterprises lack accurate and timely market information in Vietnam
China’s iron and steel enterprises, foreign direct contact less, the public information service system is still not perfect, leading to the lack of access to the market information of the iron and steel enterprises in the Vietnamese market norms, fast and effective channels. Because the information is not smooth, the iron and steel enterprises can not accurately understand the relevant information on investment projects, leading to investment failure, some steel companies thus lost the enthusiasm of foreign investment. Information is not clear to become an important factor in the development of foreign investment in iron and steel enterprises, the future of steel enterprises to better development, the need to better grasp the market information in a timely and accurate manner.

2.3 The opportunity of Vietnam’s investment environment

(1) Vietnam government constantly improves investment regulations
The government has issued more than 70 laws relating to foreign investment, including corporate law, civil contract law, banking law, land law and a series of laws, the legal system has been gradually improved. Vietnamese government in more than 20 years, the legal provisions continue to modify and supplement, especially the “foreign investment law” has gone through 6 different degrees of correction. The purpose of these laws is to adapt to international standards, to protect investors, to create a fair and equitable, transparent and convenient legal environment for foreign investors. In addition, the license for foreign investment projects, the original provisions of the Vietnamese government must be issued by the Ministry of investment, and now to authorize the provincial municipal administration issued by the Department of investment.

The Vietnamese government will continue to provide preferential policies such as tax relief, in the next 5-10 years, with low taxes, tax free investment policies and the advantages of cheap labor, Vietnam will show the advantages of attracting foreign investment. Vietnam’s 50 economic zones and implement the preferential tax policy has attracted a number of multinational companies to invest and set up factories in southern Mupai port urban and Industrial Trade Zone invest and set up factory of foreign enterprises in the first four years of the can enjoy duty-free treatment, to enjoy the treatment of 9 years of 50% tax, and then enjoy 2 years is only 10% of the tax treatment, and here the artificial wage is only equivalent to 50% in Thailand [5].

(2) Vietnam investment cost is low, cheap labor

Vietnam’s biggest opportunity is low cost, including labor costs, material costs, land rent, etc.. For example, foreign enterprises in Hanoi, Vietnam, the minimum wage equivalent to about 600 RMB per month, equivalent to 1/3 of the minimum wage in china. As of April 20, 2015, the national investment certificates of new projects a total of 448, the registered capital of 2676 million USD, equivalent to 82.9% over the same period in 2014; capital projects 167, capital funds for 1040 million USD, equivalent to 64.3% over the same period in 2014, while Vietnam back to foreign investment in poor areas provide preferential tax rate. In the next period of time, Vietnam investment costs compared to China still have a comparative advantage, therefore, the current investment in Vietnam has a huge attraction for Chinese enterprises [6].

In addition, Vietnam has cheap labor, which has a population of about 81.6 million, 65 years of age or older population accounted for only 5.6% of the total population of 60% of the total population, the average age of only 24.5 years old. The national literacy rate has reached 94%, most of the completion of high school education. At the same time, low labor costs, the average monthly wage of about 190-210 USD.

(3) Vietnam’s rapid economic development, market prospects

Vietnam needs to follow China’s economic reform, from the planned economy to the market economy, the economic leap forward development. According to statistics, Vietnam in 2011 to 2015 the average annual GDP growth rate reached 7.2%, ranks second in the world. Therefore, Vietnam was named one of the reform of the global economy the top ten economies. Vietnam has become one of the most dynamic emerging economies in East Asia, which has been the most attractive emerging market for foreign investment after the BRIC countries. Vietnam joined the WTO, APEC and other international organizations also with India, Australia, the European Union, Japan, the United States, a number of countries and regions set up free trade area, enjoy low tax rates and preferential treatment to Vietnam has stronger market advantage [7].

Vietnam steel market demand is huge. The next four years, the average annual economic growth of Vietnam plans to about 7.5%. To further expand the scale of the ports, highways, railways, urban construction and other infrastructure; with the increase of the size and number of foreign investment, electric power facilities, and other infrastructure requirements improved, the rapid development of infrastructure for steel demand for larger.

2.4 The threat of Vietnam’s investment environment

Iron and steel enterprises should also see the risk factors in Vietnam investment.

(1) Vietnam legal policy often changes, some officials have low quality
In order to attract foreign investment, the Vietnamese government with the economic situation, the rapid development of legal provisions and constantly revised. A large number of single line method has been developed rapidly, inevitably produce the content of cross duplication. Arise some negative problems, on the one hand is investors face a number of policies and regulations, it is difficult to choose suitable for their own laws; the second is due to frequent changes in laws and regulations, the lack of policy continuity, let investors at a loss, affect the company’s normal operations. Vietnam economic development time is short, started late, social legal consciousness is relatively weak, resulting in the problem of abuse of power by government officials of corruption and lax enforcement of the law.

(2) The quality of the labor force is low, there is no environmental awareness

Although the cost of Vietnamese workers is low, the quality is generally not high. Local staff lack of labor skills required by enterprises, the lack of professional and technical personnel and senior management personnel, the development of enterprise technology level and the expansion of the scale of a lot of obstacles. In addition, compared with the Chinese workers, Vietnamese workers work efficiency is very low and very lazy, generally do not want to work overtime, if long hours of overtime will be resisted by the local Vietnamese workers and even lead to strike. On the other hand, Vietnam’s natural resource dry up, and environment worsen, disaster is occurring frequently. Vietnam frequent hurricanes, floods, landslides and droughts of various natural disasters, not only destroyed houses, farmland, destroyed roads and bridges etc. infrastructure, also caused many people missing or injured. To this end, the UK Global Risk Analysis Company released the latest report, Vietnam as one of the world’s most affected countries by natural disasters, one of the 10 largest economies [8]. Such natural environment brings adverse effects to the people's life and the foreign investment, and the risk exists at the moment.

(3) The inflation is very serious, the infrastructure is backward

Vietnam has been affected by the impact of inflation, into the past few years is still maintained at a high of two digits. Prices continue to rise sharply, resulting in a substantial increase in labor costs, transportation costs and raw materials costs, increase the cost of foreign investment in the foreign investment which is not conducive to the expansion of trade, the risk of operating losses. Vietnam, on the other hand, is a developing country, the economy starts late, is restricted by the technical level and the capital, the infrastructure is quite weak. “2015-2016 annual global competitiveness report” announced that Vietnam’s infrastructure quality ranks 56 in the world’s 144 countries. Traffic facilities lag behind to cause road congestion, low transport capacity, lack of power and water supply, communication facilities are poor quality and Vietnam telephone communication cost and water and electricity charges is relatively higher than that of other countries in the ASEAN region, making the production and operation of foreign-funded enterprises affected.

3. The Proposal of Enterprise Investment

Through the SWOT analysis of the investment environment in Vietnam, some suggestions for Chinese investors to invest in Vietnam:

- Vietnam government regulations usually change, corruption is serious, China’s iron and steel enterprises should be familiar with and follow up the foreign investment law and economic policy, the examination room market research and coordination relationship with the Vietnamese government departments. And make full use of the Vietnamese government to give preferential policies to the industry, combined with the enterprise’s own technology, management and other advantages, rational investment products market potential, good efficiency of the industry.

- Localization strategy, including product, management and localization of the company’s style, so that enterprises in Vietnam to gain a firm foothold and expand market share. In addition, improve the quality of services and products, establish a brand image of China’s steel industry, and accumulate international experience, the market will expand to more countries and regions from Vietnam.

- To strengthen the training of professional talents and reserve. China Iron and steel
enterprises overseas investment experience, lack of international talent is almost all enterprises generally exist, the need to increase attention in personnel training. To send domestic skills and high quality personnel to work in Vietnam, appropriate to strengthen the training of local staff, to establish a team to meet the needs of Vietnam.

➢ Select the appropriate investment area and partner. Enterprises foreign investment is simply to obtain resources, open up the market or learn advanced production technology to reduce costs and improve production efficiency. China’s iron and steel enterprises should according to their own development needs, select the appropriate investment in the region in order to achieve access to the rich resources, convenient mining and transportation conditions, and ultimately reduce costs; to choose suitable partners, both sides to improve the operating efficiency, complementary advantages, to allow foreign investment in China’s iron and steel enterprises can be more smoothly carried out.

References


[6] Dai Xianglong, the international direct investment in the post crisis period, China finance, 2010 (13).
