Presentation of a Financing Method in the Automotive Industry with a Competitive Approach in Terms of Sanctions

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Abstract

Automotive industry is one of the leading industries in the modern world. It can provide requirements of any society based on the principles of quality and competitiveness, and also can follow creating wealth and increasing GDP as well as improving employment to achieve international markets. In Iran, due to the roots of the automobile industry in state thought and existing monopoly caused by high import tariffs has led to manufacturing low quality products with high cost. Because of lack of entering science and technology on one hand and the improper international conditions by imposing sanctions, it leads to customer dissatisfaction and also it faced many problems due to the inability to attract foreign markets which a part of it is due to problems including financing and working capital to sell more based on more production and diversity in selling methods. So here, according to an applied study, we have tried to examine the automotive industry financing aligned and integrated with the reduction of the market monopoly and competitiveness approach to develop this industry regarding the increasing volume of sanctions and change this threat to opportunity and take a major step for the dynamism of this industry.

Introduction

In recent years, financing projects and firms is one of the main challenges in the development of the private sector and thus for the acceleration. In fact, without enough financial resources, we cannot expect the national production to have adequate capacity.

Meanwhile, considering that the automotive industry in Iran is an industry that relies on government and has become a monopoly industry relying on high tariffs of car imports in Iran and given the issue of monopoly of manufactured vehicles and lack of major and stylist competitors and lack of knowledge of production and technology in this context in terms of price and standards are very different. Although, the cost is much lower than their selling price and most importantly, the quality of domestic cars is very low compared with the global automakers, the most pressure of car monopoly is on the people shoulders because they are forced to buy products with high price and low quality.

Although, Iran automotive industry could be a lucrative industry due to the commercial closed space, but the presence a non-competitive environment for the automotive industry, has stopped the country of the need to understand the global market and subsequently change in productive thinking [6].

Generally, for production and competition in the automotive industry, the following indicators are introduced:
- Quality, including fuel consumption and safety features
- Vehicle price
- Speed and facilities

Therefore, given the supply of domestic products, these features are very different from their foreign equivalent. In addition, the factors that can be overshadowed the customer satisfaction in the manufacture of cars will be referred which is due to the following factors:

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1. The cost of the domestically manufactured cars is high due to the lack of competitiveness of this industry.

2. Lack of proper management, instant decisions, no long-term planning (long-term strategy)

3. Lack of modern and updated technology and lack of internal use of best practices in the industry, including the timely production, lean production

4. Low technology of companies manufacturing the components and not outsourcing to overseas

5. Not valuing the customer, low quality of products and exclusive production allows companies to force customer to purchase the low quality expensive goods in any way

6. Low level of after sales services, warranty, parts supply and products' quality

7. Illiquidity, high bank interest, long-term processes to receive loans has made the small and medium-sized enterprises don’t develop and implement the required safety standards for cars in the production of parts, raw material supply and payment of salary

8. Lack of proper understanding of the market: due to presence of inefficient managers, the environmental opportunities and threats are not considered practically and automakers produce the out of service vehicles of the advanced countries with massive publicity.

9. Presence of comprehensive sanctions and poor communication between industry and university

As mentioned above, some of the problems in automotive industry are referred. Here, we are seeking to solve some of the problems in the auto industry. So the quality and exclusive production which are important issues in this industry which are due to the high tariffs and following the currency shock, increasing the exchange prices caused by the bank and commercial sanctions have increased the price of imported cars and narrows the field of competitiveness. So, according to the statistics, less than 5% of license plated vehicles in Iran are foreign cars and non-native products. Generally, the market share of Iran of the foreign cars is very trivial, so to improve the conditions, some strategies should be proposed to lower the pressure as a result of custom duties(business profits). This is to get the car market out of the monopoly to competitive market in sanctions, despite the reluctance of foreign direct investment; however, we should take steps to support national production by creating a competitive environment.

Research method:
Generally, the problem here is the automobile monopoly in Iran and the provision of financing to exit the recession and reduction of monopoly in Iranian car market. A method should be used in this study to answer the current situation in the automotive industry that must be applicable, systematic and have a different look. According to applied method, the domestic product is supported by non-monopoly helps. In addition, the statistics and information are compiled and collected based on official and non-official documents.

Theoretical Framework:
Financing has an important role for profitable projects in the growth of the company. The ability of firm to determine the potential financial resources, both internally and externally to provide investment for funds and preparations of financial plans are the factors of development and progress (Gholamhossien Taqi Nattaj)

Due to the lack of financial discipline and adopting wrong strategies in banking facilities, excessive and critical financial innovation, poor judgment of borrowers and lenders due to lack of market transparency, extensive and excessive speculation in financial markets, deregulation of financial markets and weaknesses in monitoring and regulating the market indicate that instead of focusing on the type of market financial structure, we should focus on how to organize them based on proper and just laws and regulations.

Financing and development that have a direct relationship are the perquisite of achieving the economic growth and development of funding resources for various economic sectors that equipping the financial resources for infrastructure and developmental parts is one of the main concerns of governments in recent years.

The concept and performance of competitiveness are those capabilities that a business, industry, region or country have and can maintain in them to create high rate of return in production factors in the international arena of competitiveness and keep their human resources at high levels. [1]

According to a survey based on data pattern, output, the Jensen and West study shows that the direct and indirect role of automotive industry in Iran makes up about 2.4 percent of the national GDP and has the greatest impact on services and products.

On one hand, the presence of monopoly in the market of product sale and purchase has harmed the industry from two directions. First, because exclusive firms have no rival in the product market sell poor quality goods with high price and earn monopoly profits and have no reason to raise productivity and improve the quality. On the other hand, firms that have monopoly in the market of purchasing agents usually buy intermediating agents from smaller firms that produce intermediate goods. Large firms with their monopoly power usually pay the lowest price possible to purchase the products of small firms and appropriate the possibility for small firms to grow.
Results indicate that in spite of the international economics movement towards a competitive market, unfortunately our car industry had a reverse move and has moved toward more monopoly and reduction of the welfare of society, so it seems that the major decision makers of the country should pay more attention to this issue. For this purpose, approving the anti-monopoly law in the country, reducing import tariffs and moving toward engagement with global markets could also be helpful in boycott in terms of investing and science and technology.

One of the key roles of financial markets is transferring the savings and allocating them as sources of funding. Thus, in financial markets two groups are as the main participants:

1. Group who have savings, but have no proper opportunities for investment that is, investing in productive economic activities. Households, individuals and some companies who enter financial markets to provide their own funds are often known as saving surplus units.

2. Group that has required facilities to invest in real productive activities, but does not have the funds necessary for this purpose. These groups are individuals and companies who pay and receive funds from these markets and are known as deficit units.

Following, to understand and be familiar with the financing as an instrument for the reduction of the monopoly, we introduce the methods relating to it as follows:

- Capital of friends and acquaintances (small and micro units)
- Banks and financial institutions
- Venture capitalists
- Commercial banks
- Financial and expert institutions
- Offering of shares by manufacturing companies
- Public assistance

Given that companies and institutions need to access financial resources to expand their activities. So in such cases, we can provide an opportunity to invest. Therefore, given that the country's auto industry is limited to public funds and commercial banks, and in some cases, its uses its properties as tender and supply of shares to obtain working capital, but it is not accountable and adequate for mobility and financial mutation in the industry.

Therefore, an instrument can be provided for financing through investment and national participation with an approach to remove the rights and tariffs, and this is, by proposing financing for public for profit from it, the tariffs for importing foreign cars will be reduced or eliminated. Given that the unproductive liquidity in country causes inflationary pressures and recession for the manufacturing units, part of liquidity is directed toward investment that the investment with a focus on competitiveness is considered that will be discussed following.

To this end, the factors affecting the attraction of investment are referred:

- ROI to the rate of inflation and bank interest
- The ownership and influence as a shareholder in decision-making
- Credit and ease in the business environment and rules relevant to it is cited as the stability and economic security
- Having political security in investment place that depends on the interaction and relationship with neighbors and non-neighbor countries
- Terms of investment deposits

Besides these effective factors, the period of depositing is also effective that we will have a quick look at it. Therefore, to determine the period of investment deposit, two factors are effective that include:

- Bank interest rates: to understand the reality that the bank or nominal interest rate differs from market rate, a rate is considered here that is more than the rates set by the Money and Credit Council.
- The tariff interval: which is variable between 30 to 40% that for heavy vehicles 100% numbers are suggested.

- Inflation: The other issue that will have a significant impact on determining deposit is inflation that is to what extent the increase in the general price level changes and fluctuates.

Following this issue, due to high rates of inflation in Iran economy caused by the sanction and the stagnation from the productive sectors in the supply and excess demand, the inflation and deposit rate differ that can improve the conditions to attract the deposits. Elimination and reduction of tariffs on foreign cars is compatible with the inflation rate.

So, to be able to consider the time of investment compatible with the elimination of custom tariffs to import the foreign cars, it should be noted that for each year, investment, or better to say depositing will be done by the applicant. That is, for each year, a deposit is provided for people that a proportional interest is allocated as cost of using capital and its compliance with the tariff reduction and elimination.

Following, according to the table provided, we observe the difference between the sales price in the international and domestic markets that this difference is caused by exclusive factors that are ruled in this industry.
According to the above table, it can be seen that foreign car prices have a difference more than double the average with domestic market prices that is 238.8%.

Despite the fact that domestic prices are based on representation prices, in such circumstance, the project of deposit provided the removal of car import can be very welcomed and have very high efficiency. On the other hand, to prevent overwhelming or marginalization of the monetary and financial markets that have negative impacts, special conditions and terms should be ordained in the event of occurrence of possibilities in the beginning of deposit that some of these terms are proposed as follows:

- Legal and natural depositors should have no outstanding debt to the banking system, and the country's tax and insurance systems. This will be due to economic problems and respecting the economic laws of the society and defending it.
- All scientific and research elites and athletes will be in the priority of registration of depositors.
- Due to the lack of standards and effective database for uncertainty of income in the case of implementation of excluding people of top deciles and prosperous people from receiving the cash subsidies, the people will be placed in these groups and will be the next priority of registration.
- Those who received banking facilities over 2 billion Rials, because they have the ability to pay the installments are next will be placed on the next list of priorities.

**How to finance and supply liquidity to domestic automakers:**

Due to the undesirablesituation of technology in segmentation units which is mainly due to the lack of financial resources, it is recommended that the government provides the financial resources needed by the industry to buy technical knowledge.

Therefore, by opening deposit in the acting banks by the state (Ministry of Mines and Industry and Commerce and the Central Bank), it is determined that the terms of deposit will be determined so that the depositors can enjoy the discounts specified or exempts by omitting the commercial benefits completely and other expenses, including the costs of clearance and even plating.

**Determination of investment period:**

To attract and encourage individuals and investors in the country, the following factors can be considered:

- We define the minimum time that people will be benefited from the expected profits in the short term.
- This period should be increasing and have a good range not to affect and fluctuate other markets.
- In determining the term of deposit, the rate of inflation, i.e. the value of money as well as the bank deposit interest rates by money and credit council can be examined and enforced. That is, to make the auto industry competitive, the most important step will be reduction and elimination of the entry fee to make the existing prices transparent and actual.

**Depositor risk and its analysis:**

Any investor has a comparative and profitable advantage. Besides we will witness the investor's investment risk. Therefore, the risk factors causethis type of deposit that are as follows:

The price of imported cars is done based on the global inflation. It should be noted that here the least single rate will fluctuate around 7 to 8 percent.

The second risk for depositor is increasing the exchange price and retaining the value of the national currency against other foreign currencies.

Regarding the introduction of risk factors in the depository which is a new approach in financing of automotive industry, the global inflation is far smaller than the rate in the country on average and on the other hand, given the reduction of direct intermediation of car, the possibility of buying the car by buyer and valid and official sales representatives will be provided.

Considering that in following table is designed based on the deposit period with the situation in the car market that for each month, the commercial profit and other costs will be reduced in accordance with the table.

**Table 1: Car prices in world and domestic prices**

<table>
<thead>
<tr>
<th>Difference in</th>
<th>Domestic price in Rials</th>
<th>Price in Rials</th>
<th>World price in USD</th>
<th>Brand</th>
<th>Car Name</th>
<th>Row</th>
</tr>
</thead>
<tbody>
<tr>
<td>238</td>
<td>1840000000</td>
<td>77310000</td>
<td>24700</td>
<td>Hyundai</td>
<td>Santeffe</td>
<td>1</td>
</tr>
<tr>
<td>207</td>
<td>1270000000</td>
<td>611508000</td>
<td>19650</td>
<td>Suzuki</td>
<td>Grand Vitara</td>
<td>2</td>
</tr>
<tr>
<td>235</td>
<td>2310000000</td>
<td>980280000</td>
<td>31500</td>
<td>BMW</td>
<td>BMW Series I</td>
<td>3</td>
</tr>
<tr>
<td>201</td>
<td>1400000000</td>
<td>697080000</td>
<td>22400</td>
<td>Toyota</td>
<td>Camry</td>
<td>4</td>
</tr>
<tr>
<td>236</td>
<td>2380000000</td>
<td>106430000</td>
<td>34200</td>
<td>Hyundai</td>
<td>Genesis</td>
<td>5</td>
</tr>
<tr>
<td>194</td>
<td>1950000000</td>
<td>100170000</td>
<td>32300</td>
<td>Hyundai</td>
<td>Azera</td>
<td>6</td>
</tr>
<tr>
<td>308</td>
<td>78000000000</td>
<td>253653000000</td>
<td>81500</td>
<td>Lexus</td>
<td>Lx 570</td>
<td>7</td>
</tr>
<tr>
<td>269</td>
<td>1590000000</td>
<td>591280000</td>
<td>19000</td>
<td>Kia</td>
<td>Sportage</td>
<td>8</td>
</tr>
<tr>
<td>262</td>
<td>4500000000</td>
<td>154045000000</td>
<td>49500</td>
<td>Porsche</td>
<td>Baxter</td>
<td>9</td>
</tr>
</tbody>
</table>
provided. Therefore, given the amount of deposit by the depositor, they will benefit from the reduced custom duties, VAT and other expenses based on the percentage (of course the following table is proposed as model).

<table>
<thead>
<tr>
<th>Table 2: Table of custom duties discounts and other fees for depository (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 to 36</td>
</tr>
<tr>
<td>80</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>100</td>
</tr>
</tbody>
</table>

Based on the above table, by presentation of a pattern in a three-year period of deposit, the total cost related to the foreign car import will be removed and eliminated (of course different percentages and combinations can be presented that here we tried to present reasonable and proportionate figures to attract investment).

In case of cancellation of importing vehicles from the depositor, the interest payments is done based on the rated notified by the central bank.

**Phasing deposit based on vehicle size:**

Since the price of high-volume foreign cars are luxury and have a relatively high monetary value, and this causes to define a priority for the sanctions and the rate of foreign exchange intensity that these vehicles have; that is, light vehicles with low fuel consumption and have affordable price are at the first priority and we will take useful steps to deposit for high-volume and luxury cars by improvement and prosperity of economics and development of export with the growth of exchange resources in the next phases. So the following table shows the proposed model suitable for phasing imports based on engine size at specified intervals for depositing to reduce the cost of imports based on the term of deposit.

<table>
<thead>
<tr>
<th>Table 3: Phasing depositary based on the volume of imported cars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start of depository</td>
</tr>
<tr>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>2016</td>
</tr>
<tr>
<td>2017</td>
</tr>
</tbody>
</table>

Classification based on the size of cars provides the opportunity and possibility for the presence of domestic producer competitiveness.

Generally, in addition to the price paid to sales agents and freight expenses, other expenses will be added to the cost of vehicle as soon as the vehicle is arrived at the country and they will be considered as other costs. In case of discount, it will be accrued according to the proposed table include the following.

**Other costs:**

- Storage costs: if the goods are sent to barge, fee will be received and if it is shipped with container, more charge for stripping container, storage and dislocating the containers must be paid.
- Container demurrage cost: which is free of charge up to ten days, but after ten days, the demurrage fees is exponentially increased.
- The customs clearance fees (depending on the vehicle’s value)
- The cost of transporting goods to the coding place
- Cost of coding the good

**Formation of fund for development of the automotive industry and its related industries:**

The total deposits of natural and legal persons form a fund to provide financing facilities for the automotive industry and its related industries which can be a huge asset for the growth of domestic production and its financial management is provided by establishment a fund to develop the automotive industry which will be available for the industry. The funds that are derived from depository will be available to them as facilities with appropriate and less bank interest than existing rates. In addition to the modernization of lines, with respect to the unprecedented increase in the price of car in recent years, the promotion of knowledge and technology can provide the terms of installment sale for internal applicants. This fund of the development of automotive industry is a suitable alternative for using the resources of the National Development Fund.

**Compensation of the government revenues reduction in the customs duties sector:**

Given that one of the effective and constructive solutions for the automotive industry competitiveness is the reduction of customs duties and other costs relating to the discharge, this paper tried to provide conditions through steps. For this purpose, as the governmental revenues in customs has been dropped over the import of
foreign cars, it must be offset to compensate the costs imposed on the budget, and don’t lead to borrowing from the central bank and sale of bonds.

As mentioned here, given that the public deposits is available to automakers and industrial partners by the management of automotive development fund, profit of facilities will be created at a lower and more suitable rate to support the local production that the profits from the facilities rate will be returned to the treasury account and it will be a suitable alternative to receive the custom duties.

Conclusions and recommendations:

- Given that the automotive industry has a significant role and share in GDP, the employment level and the supply chain is closely related to steel and petrochemical industries from raw materials to product in inferior section, the terms of the sale and production can be improved and upgraded by the funding method provided to boom this sector. Instead of releasing the interest all at once, the commercial interest can be excluded from the recession in terms of sanction a reasonable time and the level of production will be improved and promoted compared to the quantity and price level.

- Reducing the customs duties in the automotive industry, the competitiveness indicator will be improved and this will pave the way for the membership in the WTO by boosting the competitive market and this will facilitate way for Iran to reach the World Trade Organization.

- With the arrival of foreign vehicle to the country, we will witness the production and competition of domestic products with high quality and balanced price and the rate of car accidents will be reduced and factor of safety of people and their satisfaction of the vehicle will be increased and consequently, productions with the modern standards will be provided in the fuel consumption sector and observing environmental rights as the manufacturer.

- According to the unproductive liquidity level in the country, it will be associated with the inflation effects in market and production recession, it will largely show its intermediation rule. Through attraction of part of these wandering funds and injecting them into the production sector, we will witness the economic growth and increase in the employment levels rather than an unproductive economy.

- Here, this approach can also be extended to the truck and light truck and heavy vehicles, which this reduces transportation costs and reduces the cost of products and services, which causes positive and efficient effects in terms of sanctions.

- Due to the poor quality of domestic cars and transparency in the competitive market, the tendency of people to deposit will be high and other economic sectors can be funded by the resources from investments.

- As the prices of domestic vehicles are not transparent and caused the foreign cars to have unrealistic prices, so the foreign car should be available to the consumer directly and without mediation and false and growing dealing that some policies should be designed and implemented that can be done through registration of international and accredited agencies of the factory in addition to the domestic sale agents.

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