Opportunities in Vietnam's Automotive Industry from the Perspective of Reciprocal Tariffs (Part 1)

1. Vietnam Develops Its Own Car Brands, Striving for Industrial Transformation

Vietnam is located on the eastern part of the Indochina Peninsula, bordered by the Gulf of Tonkin and the South China Sea to the east and south, adjacent to Yunnan and Guangxi Provinces of China to the north, and neighboring Laos and Cambodia to the west. It covers an area of 331,000 sq km with a coastline of over 3,200 km. Since the end of 2024, its population has exceeded 0.1 bn. Since implementing its Renovation policy in 1986 and establishing a socialist-oriented market economy in 2001, Vietnam's national economy has developed rapidly, becoming one of the fastest-growing economies in Asia and the world. Its annual GDP growth rate has consistently remained above 6%, propelling the country from one of the poorest in the world into the ranks of middle-income countries.

Vietnam has been in a state of prolonged war since the mid-20th century, and it was only after the reunification of North and South Vietnam that the country began to recover and rebuild. Due to the prolonged conflict and communist rule, Vietnam severely lacked the conditions necessary for developing its automotive industry, resulting in weak R&D capabilities and production technology in this sector. Before the reform and opening-up, Vietnam's domestic demand for cars primarily relied on importing complete vehicles from the former Soviet Union or importing auto chassis from East Germany, which were then assembled into medium- and large-sized passenger vehicles at factories in locations such as Tinh Hoà Bình, Ba Dinh, Nam Ha, Haiphong, and Da Nang. Following the dissolution of the Soviet Union and the reunification of East and West Germany, Vietnam lost its original import sources. To ensure the supply of the domestic car market, the Vietnamese government established policies allowing foreign investment to set up car assembly plants in Vietnam. In 1991, two joint-venture (JV) car assembly plants were established: the Vietnam Mekong Automobile Company, a JV between S. Korea and Vietnam, and the Vietnam Motors Corporation (VMC), a JV between Japan, S. Korea, and Vietnam. These JV assembly plants gradually laid the foundation for Vietnam's automotive industry.

In 2024 Vietnam's total vehicle ownership was estimated to reach approx. 900,000 units, with 48.4% being commercial vehicles and buses and 51.6% being small and medium-sized passenger vehicles and microcars. Vietnam's auto parts manufacturing, assembly, and production capabilities are insufficient, with most vehicles being assembled and sold locally by int'l brands. Most auto parts manufacturers are foreign-owned, and key components for passenger vehicles, commercial vehicles, or trucks are largely dependent on imports.

In recent years Vietnam's economy has grown rapidly, domestic demand has expanded, and it has signed tariff and trade agreements with many countries, making it the core of economic development among ASEAN. Its automotive industry has seen active investment and expansion. In addition to domestic carmakers (e.g., VinFast and Thaco) actively expanding their production, Korean Hyundai has partnered with Vietnamese carmakers to establish a JV for car production. Since Jan. 2018, ASEAN have abolished import and export tariffs on cars, which could pose **risks of decline for Vietnam's car manufacturing and parts industries due to car and part imports from Thailand and other ASEAN. The Vietnamese government is actively cultivating strategic car models for the market, developing supporting industries, and expanding resource integration plans for car manufacturers. Simultaneously, it is actively constructing steel mills required for the automotive industry and large-scale car factories, striving for industrial transformation.**

2. Vietnam Actively Signs FTAs to Strengthen Its Int'l Economic Position

Vietnam is actively integrating into the int'l community and has signed several FTAs with other countries. A recent report released by its Ministry of Industry and Trade (MIOT) points out that the new FTAs have not only brought Vietnam hundreds of millions of USD in export revenue each year, but also have helped Vietnam attract foreign investment.

Vietnam's exports to major FTA markets, such as the EVFTA, the CPTPP, and the UKVFTA, have all shown a growth trend. In terms of the CPTPP, Vietnam's trade value with CPTPP member countries in 2024 increased by 12.1% compared to 2023, reaching US$134.5 billion. Vietnam's exports to Canada grew by over 18.9%, and exports to Brunei grew by over 151.2%. With the signing of the EVFTA, Vietnam's trade value with the EU in 2024 increased by 7.8% compared to 2021; meanwhile, the value of goods imported by the EU from Vietnam reached 76.54 billion USD. Regarding the UKVFTA, Vietnam's trade surplus with the UK in 2024 exceeded 7.83 billion USD.

Although Vietnam's exports to the aforementioned markets have grown, the share of these markets in Vietnam's total exports remains relatively small (even less than 10% in some provinces). Notably, Vietnam's FTA utilization rate is lower than expected, with the EVFTA at 26.1%, the UKVFTA at 24.4%, and the CPTPP at just 5.0%. Vietnamese enterprises exporting products to FTA markets are relatively few in number, primarily due to the fact that most Vietnamese products fail to meet the quality, food safety, and manufacturing technology standards required by FTA markets. Currently, many FTA import markets are raising technical standards and imposing non-tariff barriers, while Vietnamese enterprises have not proactively enhanced their capabilities to meet the qualifications required for FTA preferential treatment.

The vast majority of Vietnam's export products are raw materials or products manufactured by foreign importers. Very few Vietnamese companies are able to export their own brand products to FTA markets, and there is still room for improvement in terms of brand building and positioning. In comparison, high-yield products exported by European, US, and Japanese invested companies still account for the vast majority of Vietnam's export revenue, including footwear, mobiles & components, machinery & equipment, as well as motor vehicles such as cars, motorbikes, components, etc.

The Vietnamese MIOT believes that it is necessary to accelerate the compilation and publication of legal documents related to FTA commitments and conduct regular reviews. It hopes to collaborate with other ministries and local governments to build an ecosystem that fully leverages the opportunities presented by FTAs. Funding should be set aside to support enterprises in fully utilizing FTAs, especially new small and medium-sized enterprises, and to seek financing sources from int'l financial institutions.

Since joining the WTO in 2007, Vietnam has actively developed industrial parks through policy incentives and foreign investment, fostering an export-oriented economy and attracting global industrial supply chain shifts. It has emerged as a key destination for overseas investment and a rising manufacturing hub in Asia, transitioning from an agricultural nation to a major producer and exporter of electronic products. Since 2012, electronic products have become Vietnam's largest export commodity. Since 1991, Vietnam has established JV car assembly plants and now possesses its own domestically developed car brands.

Vietnam is the only country that has signed FTAs with major trading partners such as the US, Japan, China, the EU, S. Korea, and the UK. It has joined or is negotiating a total of 19 FTAs, of which 15 have taken effect, one has been negotiated and is awaiting signature, and three are currently under negotiation. **Table 1** shows the countries/regions with which Vietnam has signed FTAs and their implementation schedules. The aforementioned 19 FTAs provide Vietnamese enterprises with advantages, effectively promoting trade activities, business connections, and bringing Vietnamese products to end consumers in many major markets. Meanwhile, the number of goods eligible for preferential tariffs under FTAs has also increased. In 2024, the total export value under FTAs using preferential Certificates of Origin (C/O) reached US$108.4 billion, representing 33.8% of Vietnam's total export value of US$320.7 billion to FTA-signed markets.

Table 1. The Countries/regions with Which Vietnam Has Signed FTAs and Their Implementation Schedules

	FTA	Note
1	AFTA	Effective 1993
2	ACFTA	Effective 2003
3	AKFTA	Effective 2007
4	AJCEP	Effective 2008
5	VJEPA	Effective 2009
6	AIFTA	Effective 2010
7	AANZFTA	Effective 2010
8	VCFTA	Effective 2014
9	VKFTA	Effective 2015
10	VN-EAEU FTA	Effective 2016
11	CPTPP	Effective 2019
12	AHKFTA	Effective 2019
13	EVFTA	Effective 2020
14	UKVFTA	Effective 2021
15	RCEP	Effective 2022
16	VIFTA	Signed on 07/25/2023
17	VIETNAM-EFTA FTA	Negotiation initiated on 05/2012
18	ASEAN-CANADA	Re-negotiation initiated on 11/2021
19	VIETNAM-UAE FTA	Negotiation in progress

Source: ISTI(2025/08)

Vietnam has reduced import tariffs on car components since Jan. 2008, cutting rates by 3–5% for components of small passenger vehicles with 5–7 seats and vehicles with 16+ seats. Import tariffs on components for small passenger vehicles with 5–7 seats in Vietnam range from 20–25%, while those for vehicles with 16+seats range from 13–17%. In line with the development of Vietnam's automotive industry, import tariffs on cars will continue to decrease annually. In 2014, the import tariff on cars within ASEAN was 50%. It then reduced to 35% in 2015, 20% in 2016. 10% in 2017, and 0% in 2018. The import of cars has impacted Vietnam's domestically produced cars, making many car manufacturers hesitant to invest. To mitigate the risks associated with the gradual tariff reduction, the government has implemented industrial policies to increase the localization rate of car assembly and components in Vietnam.

The Vietnamese government adheres to focusing on the automotive industry as the core of industrial development, hoping to increase the domestic production ratio of auto parts, assembly, and complete vehicle production. In response to requests from car manufacturers, Vietnam has repeatedly lowered import tariffs on complete vehicles in order to stimulate car assembly production. Meanwhile, in order to foster the development of the automotive industry, “automotive” has been designated as a highly protected industry and subject to high tariffs, including import tariffs and special consumption taxes. According to the ASEAN FTA and Vietnam's trade liberalization commitments, the government is preparing countermeasures. The Vietnamese Minstry of Commerce has recommended developing the automotive industry through tax policies, pointing out that large enterprises should be encouraged to develop the automotive industry on the basis of equal treatment for domestic and foreign manufacturers, and that car manufacturers and parts assemblers should develop peripheral industries to deepen their integration into the global automotive industry’s value chain.

Many car assembly manufacturers continue to request tax incentives from the government. The car manufacturing industry is eligible for tax incentives and preferential policies for acquiring land for factory construction. The Vietnamese Ministry of Finance, in cooperation with the Ministry of Commerce, has submitted a proposal to the Central Government for approval and has formulated preferential policies for automotive investment and production, including the implementation rules for the Special Consumption Tax Law on Cars. **In 2018, Vietnam abolished import tariffs on ASEAN cars in accordance with the ATIGA, completely opening up its domestic car market. Coupled with the implementation of the ASEAN FTA and a significant amount of domestic demand, this has actively attracted more int’l car manufacturers to set up operations in Vietnam.**

Vietnam encourages int’l leading car manufacturers to establish a presence in Vietnam. To enable the domestic industry to prepare early, the MOIT has introduced policies to assist the Vietnamese automotive industry in enhancing its competitiveness. Under these policies, Vietnam imposes high tariffs on imported luxury vehicles and **incentivizes domestic enterprises or JV to engage in auto parts production or complete vehicle assembly (CBU) within the country. The government also reduces tariffs on exports.** The Vietnamese government's adjustments to policies related to the automotive industry and components aim to promote reform, openness, and internationalization. The government is developing the automotive sector as a key industry, not only to meet domestic demand but also to enter ASEAN and the int’l market. ■