

Opportunities in Vietnam's Automotive Industry

from the Perspective of Reciprocal Tariffs (Part 2)

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Low Localization of Automobiles in Vietnam Leads to International Leaders Deploying Vietnamese Supply Chains

Vietnam's automobile industry clusters are mainly concentrated in two major economic zones. One is centered around the capital, Hanoi, and includes the Tra Noc Industrial Zone in Can Tho City in southern Vietnam, as well as places like Thai Nguyen and Hai Phong. The other is centered around Ho Chi Minh City, including economic zones in Dong Nai Province, Binh Duong Province, and the assembly base in Thanh Hoa. Both major economic zones are close to ports with convenient transportation and serve as logistics hubs for the north and south respectively. They have higher income levels and greater purchasing power. Meanwhile, these two main industrial clusters host many large state-owned conventional machinery manufacturing enterprises with better technical labor foundations. Leading automobile manufacturers choose these two economic zones to establish production or sales locations, forming an automobile industry cluster.

To encourage automobile manufacturing, assembly, and production of automotive components, Vietnam integrates and allocates parts resources in three major key economic zones and adjacent areas. These include the Northern economic triangle: Hanoi, Hai Phong Province, and Ninh Binh Province; Central Vietnam: Da Nang City and Khanh Hoa Province; and Southern Vietnam: an automobile industry cluster composed of four economic zones around Ho Chi Minh City, Ba Ria – Vung Tau Province, Dong Nai Province, Binh Duong Province, plus Can Tho City.

To improve the localization rate of automobiles, the Vietnamese government has implemented a series of measures including providing low-interest loans and preferential tax policies to domestic manufacturers. It sets import tariff rates based on different components, replacing the original tariffs on complete knockdown (CKD) kits, and proposes preferential mechanisms for manufacturing automobile engines, transmissions, drive systems, and producing special and regular vehicles. It also expands exports of automotive components to neighboring countries and regions. However, most key components, such as engines, transmissions, chassis, and suspension systems, are still imported.

Leading Vietnamese automobile manufacturers include Vinamotor, Veam, Vinacoal, and SAMCO, all investing in automobile and related parts manufacturing and assembly. Vinamotor focuses on manufacturing and assembling passenger cars, light and medium trucks, automotive engines, gears, and transmission modules. Veam is engaged in manufacturing and assembling passenger cars, light and medium trucks, engines, and transmission system parts. Vinacoal manufactures and assembles medium and large trucks, special vehicles, and related parts. SAMCO manufactures and assembles passenger cars and produces automobile parts.

According to statistics from Vietnam's Ministry of Industry and Trade, more than 30 companies (mainly in northern Vietnam) have been authorized to import automotive components for vehicle assembly. Almost all imported automotive components come from China. There are 11 Chinese vehicle models assembled in Vietnam, including Dongfeng, Qingqi, Great Wall, Lifan, Jinbei, Beiqi Foton, and K City Automobile. In northern and southwestern Vietnam, there are 25 automobile sales agents representing nine Chinese car brands, mainly trucks with load capacities from 700 kilograms to 2.5 tons and medium-sized passenger vehicles seating 8 to 29 people.



There are about 200 automobile component manufacturers in Vietnam, mainly small and medium-sized enterprises. The government set localization targets of 40% by 2005 and 60% by 2010, but as of the end of 2024, the localization rate for automotive components was only 34.8%. Vietnam's automotive supply chain is incomplete across upstream, midstream, and downstream sectors. Precision machinery and manufacturing technologies are still lacking. Even international joint ventures find that up to 70.5% of passenger cars, large passenger vehicles, or buses produced domestically still rely on imported components.

International leading manufacturers have deployed in Vietnam's industry supply chains producing automotive parts. Examples include Japan's Denso, GS (battery), Sanyo, Yokohama, and South Korea's Kymbo, mainly manufacturing plastic and rubber components, connector parts, screws, throttle pedals, and other metal mechanical parts. Vietnam's automobile and component industry development faces several key challenges:

(1) Insufficient industrial basic research capabilities. Related industries such as metallurgy, materials, electronics, chemicals, and machinery are underdeveloped. Most production focuses on rubber/plastic parts, body sheet metal, and tires, while critical key components like engine assemblies, manual and automatic transmissions (including gear sets), and brake servo systems still depend on imports.

(2) General lack of high-level technical personnel and weak R&D and design capabilities.

(3) Deficient after-sales service, market research, information gathering abilities, and relatively incomplete transportation infrastructure compared to other ASEAN countries such as Thailand, Malaysia, or Indonesia.

Vietnam's automobile and component industries are exploring development strategies. In recent years, relying on advantages such as cheap labor and demographic dividends, Vietnam has actively expanded exports of some automotive components. However, due to stagnant domestic demand, the automobile and related components industry has struggled to grow smoothly. Recently, with the rise of ASEAN regional economies, Vietnam is viewed as a base to manufacture and export to ASEAN countries and Japan. The number of related automotive component manufacturers has increased noticeably, although a large proportion of them mainly produce low value-added plastic components.

Local Vietnamese automobile component manufacturers can only produce some simple parts such as rearview mirrors, car seats, and batteries, which have low added value and mostly do not reach economic scale. Due to a more developed local motorcycle industry and larger market size, many manufacturers focus primarily on motorcycle components with automotive parts as a secondary focus. Under these conditions, critical key components are mostly imported. The increase in import tariffs has caused vehicle prices to remain high.



Impact of Reciprocal Tariffs on Vietnam's Automobile Industry

On July 2, 2025, the U.S. and Vietnam announced in Washington, D.C., the conclusion of the "U.S.-Vietnam Tariff Agreement," which ended fears of a 46% reciprocal tariff and officially set a new milestone for the global supply chain landscape after 2025. Previously, Vietnam leveraged the "China+1" advantage to become the leading destination for industry transfers in electronics, garments, motor vehicles, motorcycles, and bicycles. The 20% tariff and stricter 40% transshipment provisions will change business models. Under the U.S.-Vietnam reciprocal tariff agreement, goods exported from Vietnam to the U.S. will be subject to a 20% tariff, while transshipment goods face a 40% tariff. The agreement's impact on Vietnam's automobile industry must consider both tariff adjustments and market openness.

Effects of Reciprocal Tariffs on the Automobile Industry:

(1) Tariff Reduction:

Goods exported from Vietnam to the U.S. previously faced tariffs as high as 46%, now reduced to 20%. This benefits Vietnam's automobile and parts exports, especially for labor-intensive conventional industries like textiles, footwear, and components, where Vietnam is an important production base.

(2) Increased Tariff on Transshipment Goods:

Tariffs on complete vehicles, parts, and semi-finished products transshipped through Vietnam will rise to 40%. This may affect countries relying on Vietnam for transshipment and could encourage Vietnam to develop more local industries to reduce dependence on transshipment.

(3) Market Opening:

The agreement also mentioned Vietnam will further open its market, meaning more U.S. automobiles and related products will enter Vietnam easily. This presents both challenges and opportunities for Vietnam's automobile and parts industries.



(4) Challenges and Opportunities for Vietnam's Automobile Industry:

Easier entry of U.S. vehicles and parts due to increased competition, tariff reductions and market opening will pressure domestic automobile brands. To compete with imported brands, Vietnam's vehicle and parts industries need to adjust strategies and accelerate technological upgrades to improve product quality and competitiveness. Market openness and competitive pressure will foster accelerated transformation toward high-end and smart automotive development, introduce advanced technologies, and support overall improvement of Vietnam's automobile industry strength.

Vietnam's Measures to Prevent Product Origin Washing

The U.S. and China are Vietnam's largest and second-largest export destinations respectively. Vietnam has traditionally maintained equidistant diplomacy, but to escape the pressure of the U.S. imposing a 46% tariff and to shed the label of "origin washing" on Chinese goods, Vietnam aims to negotiate a reduction of reciprocal tariffs to 22–28%. To this end, Vietnam is preparing to crack down on "transshipment abuses" and strengthen oversight of sensitive products exported from China to the U.S. through Vietnam.

Many multinational companies adopt a "China +1" strategy by setting up factories in Vietnam to reduce over-reliance on China. Many goods exported from Vietnam to the U.S. contain Chinese components, and Chinese companies also manufacture in Vietnam for export to the U.S. This has led to criticism from the U.S. that China and Vietnam are abusing transshipment trade—sending goods to Vietnam for processing, relabeling, and re-exporting to avoid high tariffs in the country of origin. Some Chinese products briefly stay at Vietnamese ports, receive a "Made in Vietnam" certification, and are then shipped to the U.S.



To avoid high U.S. tariffs, Vietnam's Ministry of Trade issued an order to strictly combat illegal transshipment to the U.S. and other trade partners and origin washing of goods. According to a Reuters document, this order took effect on April 15. The new Vietnamese legislation introduces stricter inspection procedures, including enhanced on-site audits and increased scrutiny in issuing Certificates of Origin to prevent loopholes exploited by officials or manufacturers, though specific penalties have not yet been listed.

Known goods frequently used by Chinese manufacturers for origin washing in the U.S. market include wooden furniture, plywood, mechanical components, bicycles, batteries, wireless earphones, and other electronic products. The U.S. Department of Commerce report lists multiple fraudulent methods, such as forging documents, obtaining Vietnamese Certificates of Origin fraudulently, or moving counterfeit goods overland to Vietnam for container shipments and resale. The preliminary U.S.-Vietnam agreement lacks a clear definition of "illegal transshipment." Without explicit wording, the 40% tariff's discretion could limit Vietnam's trade development. The U.S. urges Vietnam to reduce dependence on Chinese imported components, especially in electronics, including automotive electronic parts.

The U.S. pressure through tariff negotiations to curb China's use of "origin washing" has shown initial effects. During the reciprocal tariff postponement, many countries launched new negotiation rounds with the U.S., prompting Vietnam and Cambodia to express their cooperation in preventing transshipment fraud. Vietnam's Ministry of Industry and Trade issued orders combatting fraudulent transshipment of goods to the U.S. and other trade partners. Although the directive does not specify source countries, in 2024 Vietnam imported nearly 40.3% of its goods from China, and the U.S. has criticized China's use of Vietnam as a transshipment hub to bypass tariffs. The order requires strengthened inspection and verification of the origin of imported goods, including raw materials used for production and export, implementing stricter factory inspection processes, and supervising the issuance of "Made in Vietnam" labels.

Vietnam's Government Measures to Prevent Origin Washing:

1. Strengthen Management of Certificates of Origin

Vietnam's Ministry of Industry and Trade requires the Import-Export Department and the General Department of Customs to strictly review the source of imported raw materials, especially those used in export manufacturing, to ensure compliance with origin regulations. Enterprises with abnormal increases in certificate of origin applications will be subject to focused monitoring.

2. Amend Origin-Related Laws and Regulations

The Ministry of Industry and Trade has instructed legal departments and the Import-Export Bureau to review and revise current origin-related legal documents to adapt to the complexity of current international trade and to maintain the reputation of Vietnamese goods in the international market.



3. Strengthen Customs Cooperation with the U.S.

Vietnam's General Department of Customs is enhancing cooperation with U.S. Customs to implement the Container Security Initiative (CSI). This includes joint scanning of goods exported to the U.S. at key ports and promoting agreements on cargo declaration to prevent origin washing.

4. Strict Investigation of Suspicious Enterprises and Goods

Vietnam's government has established a list of enterprises suspected of origin fraud and illegal transshipment. These enterprises will face strict monitoring, especially regarding imported raw materials with unclear sources, to protect domestic industries.

5. Promote Digitization and Transparency

The Ministry of Industry and Trade plans to upgrade the electronic certificate of origin system (eCoSys) to improve the efficiency and transparency of issuing certificates of origin and reduce administrative burdens on enterprises.



Opportunities for Taiwanese Companies to Invest in Vietnam

Vietnam's main trade partners include China, the U.S., South Korea, Japan, and Taiwan. The U.S. is Vietnam's largest export destination, while China is Vietnam's largest import source. Trade relations between Vietnam and Taiwan are also significant, with Taiwan ranking as Vietnam's fifth-largest trade partner. Vietnam's exports to Taiwan mainly consist of electronic components, while Taiwan primarily exports machinery equipment, textiles, and other products to Vietnam, and is Vietnam's third-largest import source.

Vietnam has fewer than one million vehicles on the road, and its domestic automobile market is small. The export value of the automobile industry (including complete vehicles and parts) exceeds domestic sales, making Vietnam an export-oriented country. Vietnam's economic growth rates have remained between 6.5% to 7.0% in recent years,

and it is expected that purchasing power will rise rapidly in the future, leading to a leap in demand for complete vehicles and automotive components. Following government policies encouraging higher localization rates in automobile production, companies investing in Vietnam may benefit from related investment or tax incentives to respond to the growing demand for automotive components.

Vietnam is a member of ASEAN and has signed free trade agreements with most countries. Vehicles and parts exported to ASEAN countries enjoy zero tariffs, resulting in cost advantages. As advanced automobile markets in Europe, the U.S., and Japan approach saturation with slowing demand growth, emerging ASEAN countries are expected to become the world's fourth-largest automotive market. Using Vietnam as a second production base for Taiwanese enterprises,

the demand and market potential for automotive components are promising. Taiwan has about a dozen automobile and motorcycle parts manufacturers investing in Vietnam, mostly small-scale, primarily producing motorcycle components with automotive parts as a secondary focus. Vietnam's population dividend and lower wages compared to China give it a competitive labor cost advantage. Taiwan's automotive industry has high precision in stamping and fastener manufacturing, and its precision manufacturing technology complements Vietnam's strengths. Automotive components like electrical systems, brake system parts, aluminum alloy wheels, wiring harnesses, brake pads, and lighting are important worldwide and could fill gaps in Vietnam's automotive parts supply chain. It is recommended that Taiwanese companies use the Vietnamese market as a springboard to develop international business opportunities. ■

