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**ANALYSIS OF IMPORT AND EXPORT OF AUTOMOBILES IN VIETNAM  
UNDER THE EVFTA**

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## **Abstract**

The Vietnamese automobile industry has experienced significant transformations in recent years, driven by global economic trends, technological advancements, and the country's increasing integration into international trade agreements. One of the most notable developments has been Vietnam's participation in the European Union-Vietnam Free Trade Agreement (EVFTA), which came into effect in August 2020. This trade pact has opened up new opportunities for both imports and exports of automobiles, creating a more competitive and dynamic market. The EVFTA promises to reduce tariffs, simplify customs procedures, and provide favorable conditions for the automotive sector, presenting both challenges and opportunities for manufacturers, exporters, and policymakers in Vietnam. This paper aims to analyze the impact of the EVFTA on the import and export of automobiles in the Vietnamese market through 2 case studies: “BMW’s exports into Vietnam under EVFTA” and “VinFast’s entry to the European market under the effect of EVFTA”.

**Keywords:** EVFTA, imports and exports, automotive, BMW, VinFast, Vietnamese and European market

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## **PHÂN TÍCH HOẠT ĐỘNG XUẤT NHẬP KHẨU CỦA NGÀNH Ô TÔ VIỆT NAM DƯỚI EVFTA**

### **Tóm tắt**

Ngành công nghiệp ô tô Việt Nam đã trải qua những biến chuyển đáng kể trong những năm gần đây qua sự thúc đẩy bởi các xu hướng kinh tế toàn cầu, tiến bộ công nghệ và quá trình hội nhập ngày càng sâu rộng vào các hiệp định thương mại quốc tế của đất nước. Một trong những bước

phát triển nổi bật nhất là việc Việt Nam tham gia Hiệp định Thương mại Tự do Việt Nam – Liên minh châu Âu (EVFTA). Hiệp định thương mại này đã mở ra nhiều cơ hội mới cho cả hoạt động nhập khẩu và xuất khẩu ô tô, góp phần tạo nên một thị trường cạnh tranh và năng động hơn. EVFTA sẽ giảm thuế quan, đơn giản hóa thủ tục hải quan và tạo điều kiện thuận lợi cho ngành công nghiệp ô tô, từ đó đặt ra cả những thách thức lẫn cơ hội cho các nhà sản xuất, doanh nghiệp xuất khẩu và nhà hoạch định chính sách tại Việt Nam. Bài viết này nhằm phân tích tác động của EVFTA đối với hoạt động nhập khẩu và xuất khẩu ô tô tại thị trường Việt Nam thông qua hai nghiên cứu tình huống: “Xuất khẩu của BMW vào Việt Nam dưới tác động của EVFTA” và “VinFast thâm nhập thị trường châu Âu dưới ảnh hưởng của EVFTA”.

**Từ khóa:** EVFTA, nhập khẩu và xuất khẩu, ngành xe ô tô, BMW, VinFast, thị trường Việt Nam và Châu Âu

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## 1. Introduction

The automobile market in Vietnam is growing but is heavily dependent on imports with minimal domestic manufacturing. Asian marques such as Mitsubishi, Hyundai, and Toyota top the market, with affluent consumers favoring European marques. Electric vehicles (EVs) are gaining traction with tax credits and better charging infrastructure. VinFast has revolutionized the industry as Vietnam's first automobile producer since 2017, targeting the sale of its EVs worldwide. With environmentally friendly initiatives, Vietnam's automobile market will prosper in the near future.

The European automotive market expanded 0.9% to nearly 13 million registrations in 2024, which is 3 million short of pre-pandemic levels, led by hybrid-electric cars (HEVs). The industry encountered regulatory and economic barriers during the transition to electrification, such as EV take-up and regulatory compliance.

## 2. Research methodology

We apply qualitative research to determine EU and Vietnamese market changes and opportunities, a method used effectively in previous studies by Nguyen, Hoang, Le, and Nguyen. The majority of data will be from secondary sources. Qualitative data will be obtained from the

General Statistics Office of Vietnam, Ministry of Planning and Investment, State Bank, external databases such as the World Bank and UNCTAD, investment reports, and official government reports supplying context and numerical analysis.

The study employs statistics in estimating EVFTA's impact on Vietnam-EU auto trade. Descriptive statistics identify time and sector patterns in data. Content Analysis derives themes from policy documents and the press in an effort to identify investor opinions and policy effects. The method gives a clear image of EVFTA's impact on Vietnam's EU auto trade.

### **3. Theoretical background**

#### ***3.1. About EVFTA***

Free trade increases Vietnam-Europe trade. Negotiation of the European Union-Vietnam Free Trade Agreement (EVFTA) is between 27 EU member countries and Vietnam. In addition to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), both of these are Vietnam's principal FTAs. There were 14 rounds from October 2012 to December 2015. On June 26, 2018, the EVFTA was bifurcated into the Free Trade Agreement (EVFTA) and Investment Protection Agreement (EVIPA), with its legal review concluded in August 2018. It will increase Vietnam-EU trade, replacing previous agreements. As of 2019, Europe was Vietnam's 5th largest trade partner and its second largest market of exports, following the U.S.

The EVFTA took effect from 1 August 2020, a turning point in EU-Vietnam relationships. It consists of 17 trade chapters to reduce 99% of tariffs. From 2020 to 2023, Vietnam's GDP is expected to increase by 2.18%-3.25% while in 2024 it is expected to increase by more than 4% (Vu, 2022). It facilitates removal of tariffs through investment, recognition of standards, and improved market access and integration.

EU-Vietnam trade agreement accelerates the auto sector. EVFTA cut EU import tariffs on vehicles in 2020. Vietnam will phase out EU tariffs on autos within 10 years, will boost imports. EVFTA assisted Vietnam in rapidly overcoming COVID-19 economic difficulties in 2020.

#### ***3.2. Main contents of EVFTA***

On August 1st 2020, EVFTA, an Agreement that made way for many opportunities between Vietnam and the EU to liberate trade, finally came into force. The Agreement consists of

17 chapters, 2 protocols, and some understandings that cover a wide range and high degree of commitments. They include Trade in goods, rules of origin, Sanitary and Phytosanitary (SPSs), Technical barriers to trade (TBTs), trade in services, intellectual property, investment, customs and trade facilitation, trade and sustainable development, government procurement, trade defense, legal and institutional issues, etc. The scope of this research paper focus on the trade in goods, automobiles in specific, includes 2 key areas presented as follows:

### *3.2.1. The reduction of tariffs*

With the launch of the EVFTA, the European Union will immediately remove a substantive 85.6% of tariff lines accounting for a whopping 70.3% of the entire export that Vietnam currently makes to the European Union. Throughout the period of seven years, this dismantling or eradication of tariffs and trade barriers will ultimately account for an astonishing 99.2%. The remaining 0.8%, consisting of a specific list of certain agricultural produce, will Obtain benefits through the use of tariff-rate quotas (TRQs), are certain trade mechanisms permitting a 0% tariff import to be imposed, subject to the imports staying within the quota limits.

In summary, the EU-Vietnam Free Trade Agreement, abbreviated as the EVFTA, will effectively and effectively eradicate almost all the tariffs that currently exist on goods trade between the two parties. the two parties within a relatively short time frame (maximum 7 years for the EU and 10 years. For Vietnam, this is especially important. Most importantly, the European Union offers an exceptionally low import tariff rate of 0% for specific goods that are included within specified quotas reserved for priority Vietnamese imports and exports related to agriculture and fisheries.

### *3.2.2. Non-tariff measures*

Non-Tariff Measures (NTMs) address areas beyond tariffs that can hinder trade. The EVFTA also tackles several NTMs to streamline trade processes.

Technical Barriers to Trade (TBT): Both Vietnam and the EU will strengthen their implementation of World Trade Organization (WTO) TBT Agreement rules. Vietnam expressly commits to applying further international norms to its regulations, simplifying compliance for EU exporters. Additionally, Vietnam permits the use of the "Made in EU" label on non-

agricultural goods, excluding pharmaceuticals), simultaneously providing distinctive origin labels from specific European Union Nations.

Sanitary and Phytosanitary Measures (SPS): Vietnam and the EU established the basic principles to facilitate trade in animal and plant products (food safety standards or animal health inspection)

Other Non-Tariff Measures: The agreement also includes obligations to reduce other trade barriers such as export/import licensing and customs procedures. This could involve simplifying documentation, optimizing the evaluation process, and reducing time taken for imported and exported goods.

### ***3.3. The EVFTA and its Provisions Related to the Automobile Industry***

#### ***3.3.1. EVFTA's Tariff commitments***

Regarding automobiles, it is considered one of the most important commodity groups mentioned in the EVFTA. Therefore, there are many different commitments in the group of whole cars and components, spare parts for cars. When it comes to Vietnam's market access tariff commitments, there are four commitments, including:

1. Large displacement engine cars (over 2500 cm<sup>3</sup> for diesel cars, over 3000 cm<sup>3</sup> for gasoline cars) will have an import tariff of 0% after 9 years
2. Other types of cars are eligible for a 10-year tariff reduction commitment
3. Import duties will be eliminated for all types of auto parts after 7 years
4. Motorbikes and motorcycles over 150 cm<sup>3</sup> will have 0% import tariff after 10 years and 7 years respectively

#### ***3.3.2. Technical Barrier to Trade (TBT)***

The EU-Vietnam Free Trade Agreement (EVFTA) contains non-tariff commitments for motor vehicles and motor bikes. Chapter 2's Annex 2-B deals with technical trade barriers and automotive TBT commitments.

Vietnam and the EU accept the UNECE regulations as sufficient international vehicle safety, environmental, and public health requirements. They will not impose different national

trade regulations unless on the grounds of science. Any deviations will be notified, justified and explained and reviewed periodically.

Vietnam will accept EU certifications according to the UNECE 1958 Agreement and implement a vehicle approval system. At accession, the EU will accept Vietnam's certifications. As a non-signatory country, Annex 2-B makes special commitments upon Vietnam. The Agreement has provisions for accession in the future. Vietnam will accept M1 vehicles on the basis of legitimate UNECE IWVTA certificates from the EU without testing, although local certification will be necessary when imported.

Between years five and twelve, Vietnam will receive EC Certificates of Conformity on completed cars to guarantee they will conform to domestic standards. This will harmonize Vietnamese regulations with worldwide car standards and provide market access for EU manufacturers.

#### **4. Overview of Vietnam Automobile import and export**

##### ***4.1. Overview of Vietnam automobile import***

Before the implementation of EVFTA, the figure for Vietnam's automobile import from European Union is modest, with the main provider being Germany. According to General Department of Vietnam Customs, in 2018, 1,197 imported automobiles from Germany is registered in Vietnam (1).

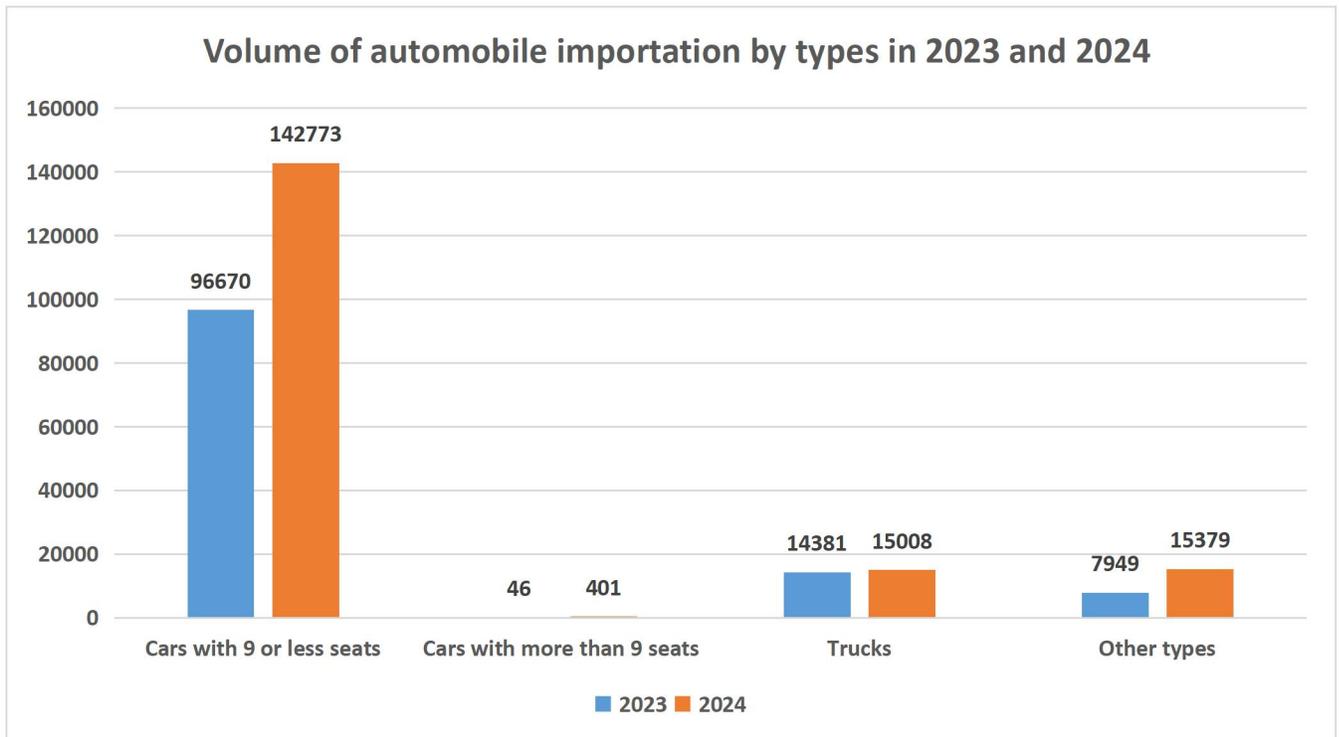
For the first 10 months of 2024, the turnover for imported "Whole cars of all kinds" from EU into Vietnam was only around 16.39 million dollars, witnessed a year-on-year decrease of 84.15% (2). These figures suggest the insignificant impact of EVFTA implementation on the import of automobiles from EU in the initial phase.

The actual growth of import of automobiles from EU in the initial years after EVFTA implementation is lower than the previous estimation. This can be attribute to the gradual tariffs elimination schedule of Vietnam, with some categories of vehicles up to 10 years, meaning that the imports from European Union can only achieve price advantages in the later period (3). the competition from ASEAN is also an impediment. Under the ASEAN Trade in Goods Agreement

(ATIGA), tariffs for automobiles in the region is at 0% - since 1st, January, 2019 (3) (6). This makes ASEAN made cars possess a price advantage to the European counterparts.

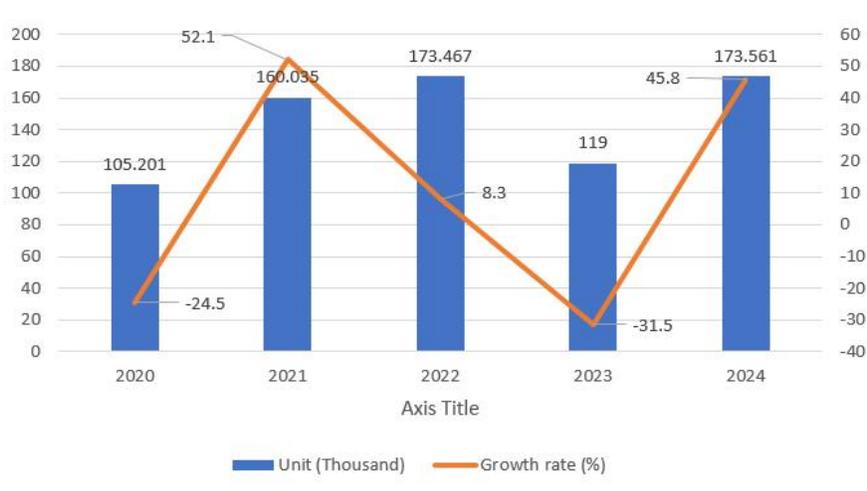
From 2012 to 2020, due to the Strategies and Plans for Vietnam’s automobile industry development for 2025 - vision for 2035, as well as surging demand for automobile transportation, reduction of tariffs for automobiles importation from ASEAN (10% per year from 2014-2017) according to WTO commitment, the automobile market of Vietnam has experienced a steady increase of around 27,6% per year (6).

In the 12 months of 2024, the volume of imported automobiles is 173.561 units, an increase of 45,8% compared to the same period last year. "Passenger cars with up to 9 seats" contributed 142.773 units, made up about 82,26% of total import and increased by 47,7% from 2023. The figure for “commercial transport vehicles” is 15.008 units, witnessed an upsurge of 4,4% (1). The total value of import reached about 3,62 billion USD, an increase of 27,6% compared to 2023 (2).z



**Figure 1:** Volume of automobile importation by types in 2023 and 2024. (Vietnam Customs)

From 2020 to 2024, the volume of automobile import rose steadily from 105.201 units to 173.561 units in 2024, despite a significant fall of 54.525 units in 2023. The growth rate of automobile import increase from -24,5% in 2020 to 45,8% in 2024. In 2020, due to the effect of the Covid 19 pandemic, disrupt the supply chains and diminish the domestic demand through global recession, the volume of import saw a sharp decline of 24,5% compared to the previous year. The import soon recovered in 2021 with a significant increase of 51,2%, continue to 2022 with an increase of 8,3% compared to 2021 – peaking at 173.467 units. after that, the figure witnessed dramatic decrease rate of 31,5% to 118.942 units, although it is still higher than 2020 (3).



**Figure 2:** The volume of imports of automobiles from 2020 to 2024 (Vietnam Customs) (3)

According to the Vietnam Customs, in 2022, the major source countries/regions for Vietnam’s importation of automobile is Thailand, Indonesia and China, accounting for 93,4% of import volume. Indonesia and Thailand dominated the import of automobiles to Vietnam in term of volume, accounting for about 83,4% in 2022 (41,9% for Indonesia and 41,5% for Thailand). the import value from Thailand is higher, 1,43 billion USD, compared to 1,05 billion USD of Indonesia. China ranked third with 17,340 units of import, contribute 10% in volume and valued at 0,714 billion USD. The main categories of import from China are transport vehicle and specialized vehicles (5).

#### **4.2. Overview of Vietnam automobile export**

From the 1986 "Doi Moi" reform, Vietnam implemented a socialist market economy to improve GDP and technology. As of 2007, the automobile industry was regarded as a pivotal industry for upgrading industrial capacity with high-level technology. It was prioritized as an important industry in 2004 (7).

Vietnam's automotive sector comprises FDI companies and domestic companies. In 2015, the FDI sector made an investment of 920 million USD and produced 220,000 units annually, specializing in passenger vehicles, multipurpose vehicles, and trucks. Domestic sector comprises 7 companies with some 2.500 billion VND invested and manufacturing buses, passenger vehicles, heavy trucks, and special-purpose vehicles.

The majority of Vietnam's car makers are FDI joint ventures. Mekong Auto, the first, was formed by Japanese, Korean, and Vietnamese investors to make cars for Fiat and Ssangyong. "Vietnam's automotive industry started in the mid-1990s with joint ventures by Mitsubishi (1994), Toyota, Isuzu (1995), Ford, and Hino (1996) for local vehicles. This was followed by Honda (2005), Mercedes-Benz (2007), and GM (2011)." (7). International producers now include Mercedes-Benz, BMW, Toyota, Nissan, Mitsubishi, Mazda, Isuzu, Suzuki, Hino, Honda, Ford, GM, Sanyang, Hyundai, Kia, and others (8).

Before implementation of EVFTA, little data for Vietnam's direct exports of automobiles to EU. The reason for this are the limited capacity of Vietnam's automobile manufacturing industry for export, the strict quality standards prevalent in the EU market, the EVFTA's rules of origin, as well as the tariffs imposed by the European Union.

The Vietnamese automotive industry is highly dependent on imports. In 2021, the average localization rate in this sector is only 10 to 15%, one of the lowest in the region (4) (6). The local manufacturers have not been able to master core technology such as engine and transmission system. The localized parts are mainly low-technology product such as tires, interiors and batteries. About 80-90 percent of the main raw materials used to manufacture components are still imported (1). This has an impact on the cost of production has become 10-20% higher for vehicles produced in Vietnam than for those from other ASEAN countries. This also presents the difficulties in obtaining preferential treatment due to the "Rule of origin". Under EVFTA, 55%

of the value of finished automobiles should be from Vietnam to be considered originating from Vietnam (5).

After the implementation of EVFTA, no significant increase in the volume of automobile export from Vietnam to EU in the short term. According to “Trading Economics”, in 2024, the values for export of “Vehicles other than railway, tramway” from Vietnam to EU was 785.75 million USD, a small percentage of the total export turnover to EU. These categories also include other vehicles than automobiles (5). While the EVFTA offers a long term benefit to Vietnamese automobile exporters, in order to actualize these advantages, the problem of reliance on imported material and lack of core technology need to be addressed to meet EU strict standards and rule of origin.

### ***4.3. BMW's exports into Vietnam under EVFTA***

#### *4.3.1. Overview of BMW*

Bayerische Motoren Werke AG, known as BMW Group, is a German multinational manufacturer of luxury vehicles and motorcycles headquartered in Munich, Bavaria. Founded in 1916, the company has evolved from producing aircraft engines to becoming one of the world's leading automotive brands. BMW's product lineup includes automobiles under the BMW, Mini, and Rolls-Royce brands, and motorcycles marketed under the BMW Motorrad brand. In 2023, BMW was the world's ninth-largest producer of motor vehicles, with 2,555,341 vehicles produced that year.

#### *4.3.2. BMW's exports to Vietnam under EVFTA*

Before the EVFTA, import duties on European automobiles entering Vietnam were substantial, with rates reaching up to 78%. The EVFTA outlines a progressive tariff reduction schedule, aiming to eliminate these duties entirely within nine to ten years, depending on the vehicle category. This reduction enhances the competitiveness of European car manufacturers in the Vietnamese market.

In alignment with these tariff changes, BMW partnered with Vietnam's Truong Hai Auto Corporation (THACO) to commence local production in 2022. THACO has more than 20 years of experience in the automotive industry, manufacturing and trading everything from passenger cars to trucks for THACO and a variety of global brands, making them one of the oldest and

most well-established automotive manufacturers in Vietnam. On BMW's side, meanwhile, standardized processes and structures across the production system ensure consistent premium quality and allow a high degree of customization of products. This collaboration allows BMW to assemble models such as the 3 Series, 5 Series, X3, and X5 at THACO's facility in Chu Lai, Quang Nam Province. The move aims to meet the growing demand for luxury vehicles while benefiting from reduced import tariffs. This has resulted in a marked increase in sales for BMW. In 2022, BMW sold 973 cars in Vietnam, while in 2023, despite the Vietnamese automobile market experiencing a downturn, BMW made strides, selling 2023 cars and securing the second position in the luxury segment with a 108% increase from the previous year. This rise is attributed to BMW's manufacture in Vietnam by THACO.

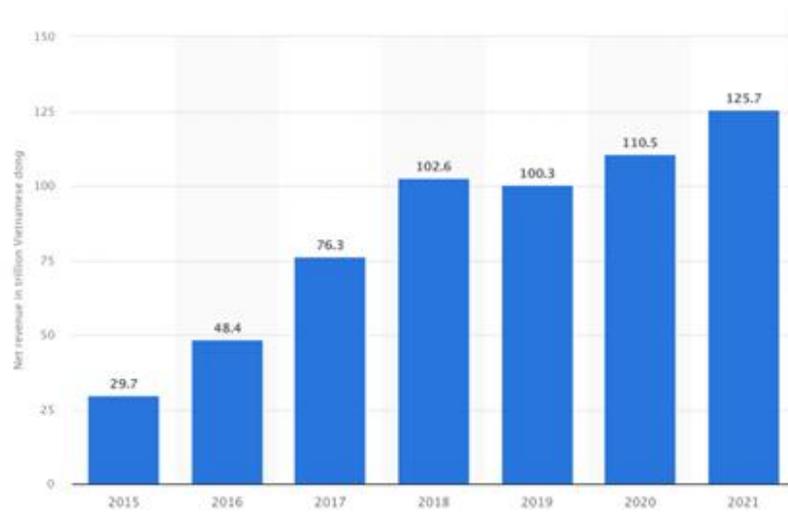
The key feature of EVFTA is the tariffs reduction on goods traded, including automobiles and automobiles components. the bilateral tariffs reduction schedule is asymmetrical, with 10 years for Vietnam's and 7 years for EU's reduction of automobile import duties to 0% (5). This reflects the Vietnam's strategic vision of developing the domestic automobile industry by providing manufacturer with time to adapt to anticipated competition for European manufacturers. In this context, the partnership between BMW and THACO can benefits from these provisions. By concentrating on developing domestic manufacturing capability via reduction in components import duties, combined with THACO inherent market knowledge and means of productions, the partnership could expand its market shares before facing full competition from other European corporations.

The EVFTA also address the non-tariffs measures (NTMs) impeding trade. BMW's export to Vietnam could benefit specifically from Vietnam's recognition of certifications issued by the EU that adhere to the principles of the United Nations Economic Commission for Europe (UNECE) 1958 Agreement for certain categories of motor vehicles and automotive parts (6). Specifically, Vietnam has verified the import of whole motor vehicles falling under UNECE category M1 (passenger cars) accompanied by UNECE International Whole Vehicle Type Approval certificates as complying to Vietnam's quality standard (7). Under Decree No. 60/2023, the effective date is set to August 1, 2025 (5). This is expected to simplify the bureaucratic and legal procedure of obtaining the required certificate for European exporters of components and complete automobile unites, including BMW.

#### 4.4. VinFast's entry to the European market under the effect of EVFTA

##### 4.4.1. Overview of VinFast

VinGroup Joint Stock Corporation, formerly Technocom Group, began in 1993 within Ukraine's food sector. It opened in Vietnam in 2000, entering the real estate and tourism sectors with VinPearl and Vincom. It became VinGroup in January 2012 and diversified into Vinhomes, Vincom, VinPearl, VinPearl Land, VinMec, VinSchool, VinCommerce, VinEco, and Almaz. In 2021, VinGroup made around 125.7 trillion VND from technology, real estate, retail, health care, and hospitality.



**Figure 4:** VinGroup JSC annual net revenue from 2015 to 2021 (Statista 2022)

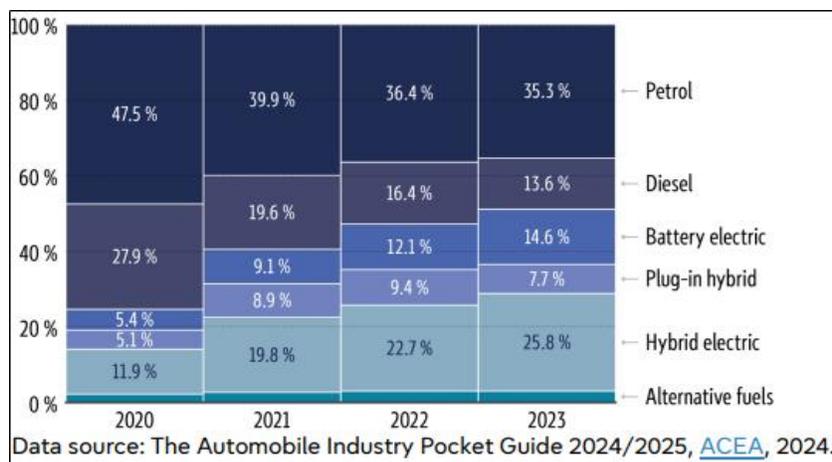
In 2017, VinFast Manufacturing and Trading Company Limited was established as a subsidiary of VinGroup Corporation, becoming the group's 7th core business. VinFast's vision is to become a global leader in intelligent electric vehicles. The company specializes in electric cars, buses, and motorbikes, focusing on continuous innovation, research, and development to deliver high-quality products and services. Through this operation, it aims to accelerate the transition from gasoline-powered to electric vehicles (7).

##### 4.4.2. Overview of the EV market in EU

The development in the field of Electric Vehicles (EVs) is threatening the long standing automobile industry of the EU, has been a key sector in its economy for decades. Traditionally, the automobile producers of the EU concentrate in the field of Internal Combustion Engine (ICE) vehicles. Specifically in the field of Original Equipment Manufacturer (OEMs), they has set the

standard for automobile engineering. It is estimated that the automobile sector generated 8% of EU's total GDP in 2023, about 1,9 trillion in Gross Value Added (GVA) and contributes roughly 12% of all manufacturing jobs (1). The EU automotive industry employs 13.8 million people (directly and indirectly), representing 6.1 % of total EU employment (5). It produced 14.8 million vehicles in 2023, including 12.2 million cars, a figure that remains lower than pre-pandemic levels. the auto industry fuels innovation by investing \$64 billion in R&D each year—more than 30 percent of total EU R&D spending. Some of the world's leading carmakers and automotive suppliers originate from the EU, and it remains a net exporter of cars (5).

The European automotive market is undergoing deep structural changes with global energy transition commitments and the EU goal of being a 2035 zero-emissions target zone (5). Electrification is the primary emission reduction tool from conventional ICE vehicles. As such, EU demand for EVs has accelerated, with sales increases of over 50% from 2020 to 2023 (1). In 2023, 12 million vehicles were bought in Europe, with BEVs representing 16 percent (6). Worldwide, 14 million electric vehicles were purchased, with nearly 25% of new registrations in Europe. The proportion of battery electric vehicles in the EU nearly tripled from 2020 to 2023 (5). More than 1 in 5 new car registrations in the EU are electric, amounting to nearly 3.2 million electric vehicles in 2023 (2). This shows the EU electric car market is growing up, with potential for international exporters.

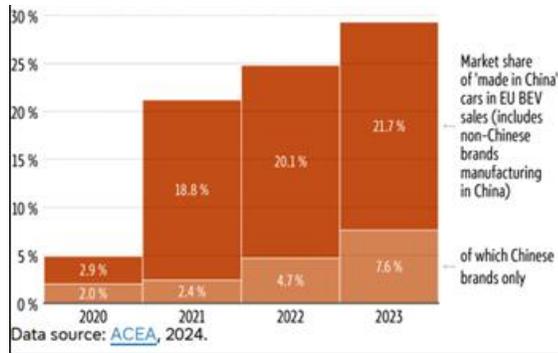


**Figure 5:** New car sales in the EU by power source, 2020 -2023

Although the Electric Vehicle market is still growing, and Europe's leadership in the ICE vehicles industry, most European companies are behind in EV innovation. Despite EV being more simple to assemble than traditional ICE vehicles, Europe is a late starter in this field and lags behind the US and China. BEVs made up 2% of the region's 294 million registered vehicles (6).

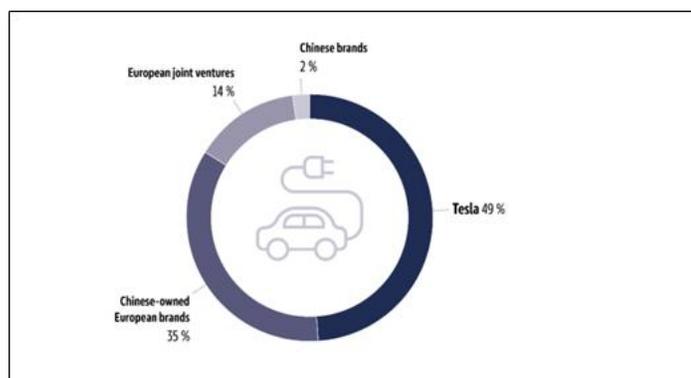
Despite the history in leading the ICE automobiles industry, European automakers face many difficulties in transitioning to the EVs market. For starters, the emergence of new forms of mobility and shifting consumer preferences—in particular, the desire for increased vehicle connectivity. Consumers in the EU are demanding vehicles to be able to exchange information with others and roadside infrastructures. Automobiles are also becoming more autonomous, which requires the integration of high-tech chips and software (5). As a result, value chains are shifting to accommodate differences in EV design and manufacturing, as EVs incorporate a 40 - 50% share of nontraditional car components (such as batteries and semiconductors) (6). EU manufacturers are struggling to produce profitable and affordable EVs, due to the high cost of batteries.

Furthermore, domestic OEMs face fierce competition from foreign OEMs that have already won a 55% share of the global EV market (6). In recent years, China has become the world's leading EV-producing country. China now makes 54% of the world's electric vehicles and an even higher share of car batteries. In 2024, China's BYD became the leading producer of EVs, surpassing Tesla (3). China is the main source of car imports for the EU. In 2022, 28 % of the EU's EVs were imported from China, this figure will increase by 40% in 2023. On the other hand, the EU is China's largest export market, with 40% of Chinese EV exports destined for Europe (4). Over the past 5 years, exports of European cars to China fell slightly while European imports of Chinese cars quadrupled, reversing the trade relationship in vehicles. While two-thirds of imports from China are from EU and US firms manufacturing in China, Western automobile makers' share of global EV markets has witnessed a downward trajectory, while Chinese manufacturers have risen (5). China also dominates the production of almost every raw material and component (batteries, chips) used to make EVs. Meanwhile Chinese investment in the EU along the whole EV value chain has been rising for the past few years (5).



**Figure 6:** Market share of Chinese-made cars in EU BEC sales (Including share of non-Chinese brands made in China)

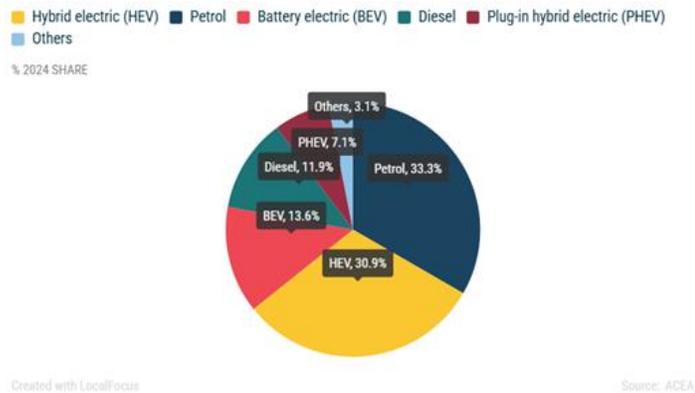
However, on 4 October 2023, the European Commission announced the initiation of EU anti-subsidy investigations into Chinese electric vehicle import. This anti-subsidy probe is the largest EU trade case against China in history, on the basis that Chinese EVs imports are being subsidized, therefore damaging the interest of EU domestic EVs industry. On 12 June 2024, the European Commission announced that its investigation had concluded that Chinese-made EVs benefit from unfair subsidies. In response, various countervailing duties were implemented by 4 July, namely 17.4 % for BYD, 20 % for Geely and 38.1 % for SAIC, as well as 21 % for other EV producers that cooperated with the investigation and 38.1 % for those that did not cooperate. In October, the Commission received the necessary support from Member States to impose definitive duties on Chinese EVs (3).



**Figure 7:** Chinese-made EV sales in Europe by producer (1/2021 – 3/2022) (3)

The overall market of EVs in the EU also experienced a short period of recession. Data released in September 2024 (Figure 2) concerning EU car registration showed a significant

decrease of 18.3 % compared with August 2023. In particular, registrations of battery-electric cars (BEV), on a downward trajectory, dropped more sharply by 43.9 % compared to last year (4).



**Figure 8:** New EU car registration by power source (4)

#### 4.4.3. VinFast’s export to the EU market under the EVFTA

EVFTA begins from August 1, 2024, bringing about opportunities as well as challenges for companies like VinFast from Vietnam. Europe's well-established electric vehicle market poses great challenges to VinFast's development.

The most impactful provision of the Free Trade Agreement to the export of automobiles to Europe is tariffs elimination and reduction. According to the EVFTA’s provision, large displacement engine cars (over 2500 cm<sup>3</sup> for diesel cars, over 3000 cm<sup>3</sup> for gasoline cars) will have an import tariff of 0% after 9 years. Other types of cars are eligible for a 10-year tariff reduction commitment. This is the key benefit of the EVFTA to the export of Vietnam’s automobiles to Europe. The reduction in export duties will make the exports cheaper. As a result, VinFast automobiles will be able to compete using the competitive advantage of cost (9).

EVFTA increases trade collaboration and customs transparency. It eases rules for importing/exporting, reducing cost and delay. It also facilitates information exchange from Vietnam to the EU, and enhances regulatory transparency and reduces disagreements.

VinFast is confronted with difficulties in exporting EVs to Europe. Firstly, it has to adhere to the rules of origin under EVFTA. To be eligible for preferential tariffs, products need to have a

particular internal content ratio (8). Under EVFTA, 55% of the value of finished automobiles should be from Vietnam. Though VinFast achieves this at around 60%, it still relies on imported components. VinFast's EVs currently depend on imports for essential systems, with key components like battery cells and semiconductors being sourced from international suppliers, predominantly China and South Korea (9). According to the Ministry of Industry and Trade (2020), this dependence raises the cost of production and prices over regional rivals. It is essential to minimize dependence on imported components to reduce costs and be competitive in the EU (10).

Technical Barriers to Trade (TBT) influence Vietnam's exports to the EU. Vietnam is obliged under the EVFTA to implement EU automobile certification under the 1958 UNECE agreement within five years, which will complicate VinFast's situation owing to stringent EU regulations. Vietnam's quality management system is under development and is not sufficient. TBT compliance will entail high investment in manufacturing and quality checks, which will increase expenditures and decrease competitiveness.

Above all it's the competitiveness of the EU's EV market. As stated above, the EU's EVs market is currently dominated by exports from China, as well as EVs from Chinese-European joint ventures. Despite being the target of countervailing duties from the EU, Chinese electric vehicles manufacturers still account for a large share of the market, due to their competitive advantage of cheap price, developed technology and infrastructures (charging station, supply chain, integration of new technology) (5). As a result, in order to compete and expand, VinFast needs to determine a clear international business strategy.

## **5. Opportunities, Challenges, and Recommendations for Vietnam's automobile industry**

### ***5.1. Opportunities***

EVFTA stimulates Vietnam's automotive industry by eliminating tariffs and attracting foreign investment. EU auto tariffs will progressively phase out within ten years for Vietnamese components, to support manufacturing. It helps component suppliers access European supply chains. Tariff dismantling has attracted investments, with BMW and Peugeot opening factories in Vietnam, transferring technology and skills. Encouraging electric vehicles supports

sustainability targets, boosting Vietnam's market for electric vehicles, led by VinFast's international push.

### ***5.2. Challenges***

Vietnam's automotive industry has its weaknesses along with some strengths. Inbound duty-free imports from Thailand and Indonesia pose threats to domestic manufacturers. Cheap European vehicles create diluted brand identity due to competitive pressure. Weak supporting industries and localization at merely 7 to 10% lead to increased cost and the difficulty of enforcement of rules of origin from EVFTA. EU green regulations are expensive. Vietnam's price-conscious market is exposed to volatile demand for vehicles and tax barriers to industry development.

### ***5.3. Recommendations***

To achieve the maximum benefit from EVFTA, Vietnam needs to develop its domestic industry. Increasing competitiveness requires deepening supply chain, providing incentives, and investing in human resources. Cooperation with auto manufacturers will help facilitate technology transfer. Concentration in electric automobile technology will provide Vietnam with a competitive advantage in the market. Harmonizing regulations with the EU level will facilitate exports and lure investments. Resolving these issues will transform Vietnam's automobile industry from import to active engagement.

## **6. Conclusion**

The introduction of the EVFTA has caused changes, in Vietnam's car industry by opening up possibilities and difficulties as well. Reduced tariffs on cars have made it easier for international companies to enter the market while also pushing carmakers to enhance their competitive edge. Vietnam's potential to become a leading center is being supported by increased investments and technology exchanges in electric vehicles specifically. However, the industry still needs to address challenges such as local supply chains, obstacles related to EU standards. To maximize the advantages of the EVFTA agreement, with the EU Vietnam needs to develop a strategy that boosts production capacity, promotes creativity, and stays in tune with worldwide industry advancements. It's crucial to enhance supporting industries, increase investments in skill development, and foster collaborations with car manufacturers for lasting success. In addition,

government initiatives that proactively support EU standard compliance, increase investments in skill development and foster collaborations with car manufacturers for lasting success. In addition, government initiatives that proactively support EU standards compliance and back producers can position Vietnam as a contender, in the global automotive sector. Although there are still obstacles, to overcome by working together effectively - involving the government alongside industry players and international investors - Vietnams automotive industry can pave the way for development and enhanced participation, in value networks.

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