

State Policy and the Development of Vietnamese Automobile Industry

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ABSTRACT

This paper examines the role of state capacity in the development of Vietnam's automobile industry from the perspective of developmental state theory. It argues that the Vietnamese state functions as the central actor in shaping the industry through strategic planning, industrial policies, and selective intervention toward multinational corporations (MNCs), domestic firms, and consumers. Using a qualitative political economy approach, the study analyzes four key dimensions of state capacity: developmental purpose, policy instruments, empowerment, and dependence. The findings show that Vietnam's automobile development has evolved through three major stages. The first stage was characterized by an MNC-driven strategy in which foreign automobile corporations were expected to provide capital, technology, managerial expertise, and integration into global production networks. However, limited technology transfer and low localization rates prompted the state to shift toward a second stage focused on domestic firm-driven development. In this phase, the government increasingly supported national champions such as THACO, TC Motor and VinFast to strengthen industrial self-reliance and technological capability. A future third stage may involve a more consumer-oriented development model associated with rising middle-class demand and pressures for lower automobile prices. The study concludes that Vietnam's automobile industry reflects a quasi-developmental state model in which strong state intervention coexists with market mechanisms and global integration. Despite significant progress, major challenges remain, including technological dependence, weak supporting industries, low localization rates, and policy inconsistency.

Keywords: Vietnam; developmental state; automobile industry; state capacity; industrial policy.

INTRODUCTION

Does State Policy Matter for Automobile Industry Development?

In 1986, facing severe economic crisis and growing pressures for regime survival, the Communist Party of Vietnam initiated the *Doi Moi* (Renovation) reforms, marking a historic transition from a centrally planned economy toward a socialist-oriented market economy. Since then, Vietnam has experienced profound economic transformation characterized by market liberalization, international integration, industrial expansion, and rapid economic growth. Over nearly four decades of reform, the Vietnamese leadership has continuously adjusted and refined its understanding of an appropriate political-economic development model capable of sustaining economic modernization while preserving political stability under one-party rule.

Despite these achievements, debates concerning Vietnam's long-term development trajectory remain highly significant. Among Vietnamese political elites and policy makers, there has been increasing interest in the concept of the developmental state, particularly since the early 2010s. The term "developmental state" officially emerged in Vietnamese policy discourse around 2011, when state leaders began emphasizing the need to build a "development-oriented and constructive government" capable of accelerating industrialization, enhancing national competitiveness, and facilitating technological upgrading. Drawing inspiration from the successful industrialization experiences of East Asian economies such as Japan, South Korea, and Taiwan, Vietnamese policy makers increasingly view the developmental state model as a potentially suitable pathway for Vietnam's long-term modernization strategy. Nevertheless, it is important to emphasize that Vietnam cannot yet be

classified as a fully developed East Asian-style developmental state. Rather, Vietnam represents what may be described as a quasi-developmental state or an emerging developmental state characterized by strong state intervention combined with transitional market institutions. Unlike the classical developmental states of Northeast Asia, Vietnam continues to face significant institutional constraints, including relatively weak bureaucratic capacity, fragmented industrial coordination, technological dependence, corruption, rent-seeking practices, and underdeveloped supporting industries. However, one defining characteristic remains consistent with developmental state theory: the state continues to hold substantial political and economic power and plays a central role in directing national development strategies.

In the economic sphere, the Vietnamese state maintains extensive involvement in industrial governance through strategic planning, regulatory intervention, investment incentives, trade protection measures, and state-business coordination mechanisms. As argued in developmental state literature, effective state intervention can facilitate industrial transformation and accelerate economic upgrading when the state possesses sufficient institutional capacity and developmental commitment (Beeson, 2012; Leung, 2001). In the Vietnamese context, the state not only formulates long-term industrialization strategies but also actively intervenes in markets to shape industrial outcomes and allocate developmental resources. The automobile industry provides an important case through which to examine the developmental role of the Vietnamese state. Since the 1990s, the automobile sector has been identified as a strategic industry with strong linkages to broader industrialization objectives, including technological learning, manufacturing capability enhancement, supporting industry development, employment generation, and integration into global value chains. Consequently, the Vietnamese government has implemented a wide range of industrial policies to promote the growth of the automobile industry, including tariff protection, tax incentives, localization requirements, investment preferences, and infrastructure support.

Within this framework, the state performs multiple developmental functions simultaneously. First, it acts as a regulator by designing industrial policies, establishing market rules, and guiding the strategic orientation of the automobile sector. Second, the state functions as a facilitator by supporting business activities, attracting foreign direct investment, and creating favorable conditions for industrial expansion. Third, consistent with the infant industry argument, the state also assumes a protective role by constructing what may be described as a “greenhouse” of tariffs and non-tariff barriers designed to shield domestic automobile producers from external competition during the early stages of industrial development. However, the effectiveness of these state interventions remains a matter of considerable debate. After more than three decades of policy support, Vietnam’s automobile industry has achieved substantial market growth and increased production capacity, yet it continues to face major structural weaknesses. Localization rates remain relatively low compared to regional competitors such as Thailand and Indonesia; supporting industries are still underdeveloped; dependence on imported components remains significant; and domestic firms continue to struggle with technological limitations and economies of scale. These persistent challenges raise an important theoretical and empirical question: to what extent has state policy actually contributed to the development of Vietnam’s automobile industry?

This study argues that understanding Vietnam’s automobile industry requires moving beyond purely market-centered explanations toward a more state-centered analytical perspective. Specifically, the paper examines how state capacity, developmental objectives, and industrial policy interventions shape the evolution of the automobile sector within the context of Vietnam’s hybrid political-economic system. In doing so, the study contributes to broader debates on developmental state theory by exploring how state-led industrialization operates under the conditions of a socialist-oriented market economy in contemporary Vietnam. More broadly, the Vietnamese case offers important theoretical implications for the study of developmental states in late-industrializing economies. While classical developmental state literature often focuses on highly capable bureaucratic systems and coherent industrial coordination, Vietnam illustrates a more complex and hybrid model in which strong state intervention coexists with institutional weaknesses and market inefficiencies. The automobile industry therefore represents a particularly useful sector for evaluating both the opportunities and limitations of state-led industrial development in Vietnam’s contemporary political economy.

Current Situation of Vietnam’s Automobile Industry Development

Vietnam’s automobile industry has experienced remarkable expansion over the past two decades, transforming from a relatively small assembly-based market into one of Southeast Asia’s most dynamic automotive industries.

Between 2005 and 2024, automobile consumption increased dramatically, reflecting rapid economic growth, rising household incomes, accelerated urbanization, and the emergence of a growing middle class. Total market sales increased from approximately 59,200 vehicles in 2005 to more than 340,000 vehicles sold by VAMA members in 2024. If Hyundai Thanh Cong and VinFast are included, the total market size in 2024 is estimated to have approached or exceeded 500,000 vehicles, nearly equal to the historical peak recorded in 2022. A notable feature of Vietnam’s automobile market is the coexistence of domestic assembly (CKD) and imported completely built-up (CBU) vehicles. During the 2005–2018 period, domestically assembled vehicles generally dominated the market due to high import tariffs and government protection policies. However, after the implementation of the ASEAN Trade in Goods Agreement (ATIGA), which reduced intra-ASEAN import tariffs on automobiles to 0% from 2018 onward, imported vehicles increased significantly. Imported vehicle sales rose from only 21,279 units in 2005 to 167,412 units in 2024, representing nearly half of total VAMA sales.

Table 1. Assembled, Imported and Total Vehicle Sales in Vietnam (2005–2024)

Year	Domestically Assembled Vehicles	Total Market Sales	Imported Vehicles
2005	35,264	59,200	21,279
2010	112,224	112,300	53,899
2015	244,914	192,800	126,163
2018	288,683	268,900	82,865
2019	322,322	330,000	142,000
2020	323,892	296,634	105,207
2021	299,800	314,149	160,503
2022	439,600	508,547	173,467
2023	181,380 (VAMA CKD)	301,989 (VAMA only)	120,609
2024	172,730 (VAMA CKD)	340,142 (VAMA only)	167,412

Source: VAMA, General Statistics Office of Vietnam (GSO), industry reports.

The increasing penetration of imported vehicles demonstrates that Vietnam’s domestic automobile manufacturing industry still faces major structural limitations in terms of production scale, localization capacity, cost competitiveness, and technological capability. Although Vietnam possesses an estimated production capacity of approximately 680,000–700,000 vehicles annually, actual utilization rates remain relatively low and fluctuate considerably according to domestic demand conditions. The industry also experienced substantial volatility during the post-pandemic period. In 2022, the Vietnamese automobile market achieved a record expansion with sales exceeding 500,000 vehicles, supported by economic recovery and strong consumer demand. However, the market sharply contracted in 2023 when VAMA sales declined by approximately 25% to 301,989 units due to slowing economic growth, tightened consumer credit, and declining purchasing power. Nevertheless, the market recovered in 2024 with VAMA sales increasing by 12.6% to 340,142 vehicles, supported by government stimulus policies such as the 50% reduction in vehicle registration fees for domestically assembled cars.

Another important transformation in Vietnam’s automobile industry is the rapid emergence of electric vehicles (EVs) and hybrid vehicles. The rise of domestic EV producer VinFast has significantly changed the market structure. In 2024 alone, VinFast reportedly delivered around 87,000 EVs domestically and internationally, making it one of the largest automobile brands in Vietnam by sales volume. This indicates that Vietnam is gradually transitioning from a conventional internal combustion engine (ICE)-dominated market toward a greener and more technology-oriented automotive ecosystem. In addition, several Chinese EV brands such as BYD, Wuling, and GAC Aion have entered the Vietnamese market, intensifying competition and accelerating EV adoption.

Table 2. Localization Rates in Thailand, Indonesia, Malaysia and Vietnam

Country	Vehicle Production (2022)	Estimated Localization Rate
Thailand	1,800,000	>80%
Indonesia	1,464,439	~55%
Malaysia	697,273	65–70%
Vietnam	~439,600	10–30% (passenger cars); higher for trucks and buses

Source: ASEAN automotive industry reports, Ministry of Industry and Trade of Vietnam, industry statistics.

Despite substantial market growth, Vietnam's automobile industry continues to lag behind major ASEAN automotive manufacturing hubs such as Thailand and Indonesia. The most critical weakness is the relatively low localization rate. While Thailand has achieved localization rates above 80% and Indonesia around 55%, Vietnam's localization rate for passenger cars generally remains between 10% and 30%, depending on vehicle segments and manufacturers. Localization rates are higher in commercial vehicles and buses. Some domestically produced trucks and buses have reached localization rates of 40–60%, while several THACO bus products exceed 60%. However, for passenger vehicles, Vietnam still depends heavily on imported core components such as engines, transmissions, electronic control systems, semiconductors, sensors, and battery cells. Consequently, domestic assemblers struggle to achieve economies of scale and cost competitiveness comparable to regional manufacturing centers.

The number of enterprises participating in Vietnam's automobile and supporting industries has steadily increased. Vietnam currently hosts hundreds of automotive-related enterprises, including assembly firms, component manufacturers, and supporting industry suppliers. Most major global automobile manufacturers, including Toyota, Honda, Ford, Hyundai and Kia, have established production and assembly operations in Vietnam. Simultaneously, domestic enterprises such as THACO, TC Motor and VinFast have emerged as major market players with expanding market shares and increasing production capabilities. Among domestic firms, VinFast represents a particularly significant development because it reflects Vietnam's ambition to participate more deeply in global automotive and EV value chains. VinFast has invested aggressively in EV manufacturing, battery production, charging infrastructure, and international expansion. In 2024, the company announced plans to construct a second manufacturing complex in Ha Tinh province with an additional annual production capacity of 300,000 vehicles. Although debates remain regarding the actual localization rate and commercial sustainability of VinFast's business model, the company has nevertheless accelerated industrial upgrading, technology transfer, and ecosystem development in Vietnam's automotive sector.

From a broader developmental perspective, Vietnam's automobile industry currently stands at an important transitional stage. On the one hand, the country possesses strong market potential due to rising incomes, relatively low automobile ownership rates compared with neighboring countries, and increasing demand for personal transportation. On the other hand, the industry still faces numerous structural constraints, including small production scale, weak supporting industries, dependence on imported components, limited R&D capacity, and intense regional competition. In the coming years, the future development of Vietnam's automobile industry will likely depend on several strategic factors: (1) the ability to enhance localization and supporting industries; (2) the successful transition toward EV manufacturing and green mobility; (3) government industrial policies and incentives; (4) integration into regional and global automotive supply chains; and (5) the technological upgrading capacity of domestic enterprises. If these challenges are addressed effectively, Vietnam could gradually evolve from an assembly-based automobile market into a more competitive regional automotive manufacturing hub.

Research Framework on State Capacity and Automobile Industry Development in Vietnam

As a one-party socialist state under the leadership of the Communist Party of Vietnam, the Vietnamese state plays a dominant and interventionist role in economic governance and industrial development. Within the national industrialization and modernization strategy, the automobile industry has consistently been identified

as a strategic sector with strong spillover effects on technological upgrading, industrial transformation, supporting industries, and national competitiveness. Consequently, the state has adopted a comprehensive set of industrial policies aimed at fostering the growth of Vietnam's automobile industry through market regulation, investment incentives, localization policies, infrastructure development, and institutional support. This study conceptualizes the automobile industry as a state-led developmental ecosystem in which the state constitutes the central coordinating actor. The analytical framework focuses on the interactions between the state and three principal market actors: multinational corporations (MNCs), domestic automobile firms, and consumers. The relationship between the state and these actors is examined through four interrelated dimensions: (1) developmental objectives, (2) policy instruments, (3) capacity enhancement and empowerment, and (4) structural dependence on the state.

Within this framework, the state formulates differentiated developmental objectives for each category of actors and subsequently designs policy mechanisms to shape their behavior in accordance with broader national industrial goals. The automobile industry therefore becomes not merely a market-driven sector but a strategically governed domain in which state intervention substantially influences industrial outcomes. For multinational corporations, the Vietnamese state aims to attract foreign direct investment, advanced technologies, managerial expertise, and global production networks. MNCs such as Toyota, Honda, Ford, Hyundai and Kia, occupy dominant positions within Vietnam's automobile market due to their superior technological capabilities, financial resources, production experience, and brand competitiveness. Through preferential investment policies, tariff protection, tax incentives, and market access arrangements, the state expects these corporations to generate positive spillover effects for the domestic economy, particularly in technology transfer, human resource development, supplier upgrading, and integration into global value chains.

At the same time, the Vietnamese state has increasingly prioritized the development of domestic automobile enterprises as part of a broader strategy to strengthen national industrial autonomy and reduce dependence on foreign firms. The emergence of major domestic manufacturers such as THACO, TC Motor and VinFast reflects the state's ambition to cultivate nationally competitive automotive champions capable of participating more deeply in regional and global production networks. Through various policy supports—including investment incentives, preferential land access, credit facilitation, infrastructure support, and industrial protection—the state seeks to enhance the productive capacity and competitiveness of domestic firms. These enterprises are expected not only to expand domestic production but also gradually to compete with foreign manufacturers in higher value-added segments, particularly in electric vehicles and supporting industries.

Consumers constitute the third major actor within the analytical framework. From the perspective of developmental state theory, consumers play a crucial role in expanding domestic market size and sustaining industrial growth through increasing purchasing power and consumption demand. Rising income levels, urbanization, and the expansion of the middle class have significantly enlarged Vietnam's automobile market over the past two decades. The state therefore views domestic consumption as an important mechanism for achieving economies of scale and supporting industrial expansion. Nevertheless, despite the empowerment of these actors, all three groups remain structurally dependent on the state to varying degrees. Multinational corporations continue to rely heavily on state-provided incentives, regulatory preferences, and favorable investment conditions in order to maintain profitability and market access. Their production strategies in Vietnam are strongly influenced by changes in taxation, localization policies, environmental regulations, and trade agreements.

The dependence of domestic firms on the state is even more pronounced. Most Vietnamese automobile enterprises continue to face significant structural constraints, including limited financial capacity, technological dependence, weak research and development capabilities, underdeveloped supporting industries, and shortages of highly skilled labor. Moreover, the relatively modest size of Vietnam's automobile market constrains the ability of domestic firms to achieve economies of scale, thereby limiting competitiveness and profitability. Under such conditions, state protection and industrial support remain essential for the survival and expansion of domestic automobile manufacturers. Consumers are similarly affected by the state-centered structure of the automobile market. In the context of a developmental and partially protectionist industrial strategy, consumers often bear relatively high automobile prices compared to neighboring ASEAN markets. Import tariffs, special consumption taxes, registration fees, and localization-oriented protection policies increase vehicle costs and limit

market competition. As a result, consumers remain relatively dependent on state regulatory frameworks and policy decisions that directly shape automobile affordability and accessibility.

The purpose of this study is therefore to examine the role of state capacity in shaping the development trajectory of Vietnam's automobile industry. To achieve this objective, the paper employs a qualitative research approach grounded primarily in developmental state theory. However, rather than mechanically applying conventional East Asian developmental state models, the study argues that Vietnam's developmental state possesses distinctive institutional and political characteristics rooted in its one-party political system and transitional socialist-oriented market economy. More specifically, Vietnam's developmental state is shaped by a combination of political centralization, state-led industrial governance, relatively weak technological foundations, an underdeveloped supporting industry system, institutional fragmentation, corruption risks, rent-seeking behavior, and the influence of vested interest groups. These structural characteristics differentiate Vietnam from the classic developmental states of East Asia such as Japan, South Korea, and Taiwan, which historically possessed stronger bureaucratic autonomy, higher technological capacity, and more effective state-business coordination mechanisms.

Accordingly, the Vietnamese case demonstrates a hybrid form of developmental state in which strong state intervention coexists with significant institutional limitations and market inefficiencies. This combination creates a distinctive pattern of industrial policymaking that shapes the evolution of Vietnam's automobile industry in unique ways. The study therefore seeks to contribute to the broader literature on developmental states by examining how state capacity operates within the specific political-economic context of contemporary Vietnam and how such capacity influences the opportunities and constraints facing the country's automobile industrialization process.

The Role of State Capacity in Vietnam's Automobile Industry Development: Existing Structural Problems

Despite more than three decades of state-led industrial policies and substantial market expansion, Vietnam's automobile industry continues to face several deep structural constraints that limit its competitiveness and industrial upgrading. From the perspective of developmental state theory, these limitations reveal important challenges regarding state capacity, technological capability, and industrial coordination. In particular, three major problems remain persistent: (1) technological dependence and limited innovation capability, (2) low localization rates, and (3) the underdevelopment of supporting industries. These structural weaknesses significantly constrain Vietnam's ambition to become a regional automotive manufacturing hub.

Technological Dependence and Limited Industrial Upgrading

The first major challenge confronting the Vietnamese state is the limited technological capability of the domestic automobile industry. Although Vietnam has participated in the global automobile production network for over three decades, its role within the international automotive value chain remains concentrated primarily in low value-added segments, particularly assembly operations. Most domestic production activities continue to focus on basic manufacturing stages such as welding, painting, and assembling, which require relatively modest technological sophistication compared to higher value-added activities such as engine production, semiconductor manufacturing, transmission systems, electronic control systems, and automotive software development.

At present, Vietnamese automobile manufacturers have not yet mastered core automotive technologies. Production systems in many automobile joint ventures still operate mainly through CKD (Completely Knocked Down) and IKD (Incomplete Knocked Down) assembly models, in which a substantial proportion of components are imported and only assembled domestically. Consequently, Vietnam remains highly dependent on multinational automobile corporations for technology, components, production standards, and supply chain coordination. Technology transfer from foreign automobile corporations to domestic firms has also remained relatively limited. Multinational corporations tend to preserve technological advantages and maintain strategic dependence within host economies rather than fully transferring core technologies to local partners. This pattern is particularly evident in Vietnam, where foreign investors often prioritize market expansion and assembly

operations over deep technological localization. In many cases, Vietnam functions primarily as a consumption and assembly market rather than a major center for automotive innovation and research.

From a state capacity perspective, this problem also reflects weaknesses in Vietnam's industrial policy framework. Although the state has implemented various incentive policies to attract foreign investment, policies specifically designed to promote domestic technological innovation, research and development (R&D), and industrial learning remain insufficiently effective. Investment in domestic R&D institutions, automotive engineering capabilities, and advanced manufacturing technologies remains relatively limited compared to regional competitors such as Thailand, South Korea, and China. Moreover, linkages between universities, research institutes, and automobile enterprises remain weak, thereby constraining the formation of an integrated national innovation ecosystem for the automotive industry. As a result, Vietnam's automobile sector continues to experience technological dependence, limiting its capacity for industrial upgrading and reducing its ability to participate in higher value-added segments of global automotive production networks.

Low Localization Rates and Weak Domestic Value Creation

The second major challenge is the persistently low localization rate within Vietnam's automobile industry. Despite more than 30 years of industrial development policies, localization rates for passenger vehicles remain relatively low, particularly when compared to regional automotive manufacturing hubs. In many passenger car segments, localization rates remain only around 7–10%, far below earlier government targets of 30–40% by 2020. Currently, only a small number of firms have achieved relatively significant localization levels. For example, Toyota Vietnam has reportedly achieved localization rates of approximately 37% for selected vehicle models, while THACO has reached localization rates of roughly 15–25% for some automobile products. Nevertheless, these figures remain considerably lower than those achieved in Thailand, Indonesia, or China, where strong localization ecosystems have enabled the development of highly integrated domestic supply chains.

Several structural factors explain Vietnam's low localization performance. First, multinational automobile corporations operating in Vietnam generally do not prioritize deep localization strategies because they already possess highly efficient regional production bases in countries such as Thailand and Indonesia. These countries benefit from larger domestic markets, more developed supplier ecosystems, stronger supporting industries, and greater economies of scale. Consequently, foreign automobile firms often prefer importing complete component systems into Vietnam for assembly rather than investing heavily in localized production networks that may initially involve higher costs and lower efficiency.

Second, Vietnam's domestic automobile market remains relatively modest in size compared to major regional automotive producers. Limited market demand constrains production volume and prevents firms from achieving economies of scale, which are essential for reducing production costs and encouraging supplier investment. In the automobile industry, large-scale production is a crucial condition for localization because component manufacturing becomes economically viable only when production output reaches sufficiently high levels. The experience of Thailand clearly illustrates this relationship. Thailand's localization rates increased significantly only after annual vehicle production exceeded approximately 300,000 units and eventually expanded into a large export-oriented automotive manufacturing base.

Third, policy inconsistency has also contributed to localization difficulties. Over time, Vietnam's automobile policies have frequently shifted between protectionism, liberalization, and regional integration commitments. Such policy fluctuations create uncertainty for investors and reduce long-term incentives for firms to commit substantial resources to domestic component production and supplier development. As a consequence, Vietnam continues to rely heavily on imported automotive parts and components, thereby limiting domestic value creation and weakening industrial spillover effects. This dependence not only reduces the competitiveness of domestic automobile production but also exposes the industry to external supply chain disruptions and international market volatility.

Underdeveloped Supporting Industries

The third major structural problem is the underdevelopment of Vietnam's automobile supporting industries. Supporting industries play a decisive role in the competitiveness of the automotive sector because they determine

the availability, quality, cost efficiency, and technological sophistication of domestically produced components and materials. However, Vietnam's supporting industry ecosystem remains relatively weak and fragmented. Currently, Vietnam has only a few hundred enterprises participating in automotive supporting industries, most of which operate at relatively low technological levels. Compared with regional competitors, this number remains extremely limited. Thailand, for example, possesses a highly developed automotive supplier network consisting of hundreds of Tier 1 suppliers and thousands of Tier 2 and Tier 3 suppliers integrated into global automotive value chains. In contrast, Vietnam's supporting industry system remains narrow in both scale and technological capability.

Most Vietnamese component suppliers specialize primarily in labor-intensive and low-technology products such as seats, mirrors, wiring systems, plastic components, and simple mechanical parts. The production of technologically sophisticated components—including engines, semiconductors, sensors, battery systems, electronic control units, and precision mechanical systems—remains highly dependent on imports. Consequently, Vietnam continues to import large volumes of automobile components and spare parts annually, mainly from countries such as Japan, China, South Korea, and Thailand. Several factors contribute to the weakness of supporting industries. First, limited domestic market size reduces incentives for large-scale supplier investment. The number of orders generated by domestic assemblers is often insufficient to justify substantial investment in advanced component manufacturing facilities. Second, weak technological capability among domestic enterprises constrains their ability to participate in higher value-added production segments. Most Vietnamese firms still lack the technological expertise, capital resources, engineering capacity, and skilled labor necessary for manufacturing complex automotive components.

Third, state policy contradictions have also affected industrial development. On the one hand, the government seeks to promote domestic automobile production and localization. On the other hand, relatively high automobile taxes and restrictive ownership-related costs have constrained domestic market expansion, thereby indirectly limiting production scale and supplier development. This contradiction weakens the formation of a sufficiently large domestic market capable of supporting industrial deepening. More broadly, the underdevelopment of supporting industries reflects limitations in Vietnam's overall industrial ecosystem. Weak linkages between assemblers and local suppliers, insufficient technological upgrading mechanisms, limited industrial clustering, and low investment in advanced manufacturing all reduce the competitiveness of domestic component production.

Structural Implications for State Capacity

Taken together, these three structural challenges demonstrate that Vietnam's automobile industry remains trapped in a relatively dependent and assembly-oriented development model. Although the state has played an active role in promoting the sector through protectionist policies, investment incentives, and industrial planning, the overall effectiveness of these interventions remains constrained by limited technological capability, weak supporting industries, and insufficient industrial coordination. From a developmental state perspective, these problems highlight the gap between policy ambition and institutional capacity. Vietnam's experience suggests that state intervention alone is insufficient for successful industrial transformation unless accompanied by strong technological capability, coherent industrial coordination, effective state-business collaboration, and sustained investment in innovation systems. Consequently, enhancing state capacity in the automobile sector requires not only protective industrial policies but also deeper reforms aimed at strengthening technological learning, supporting industries, human capital development, and long-term industrial competitiveness.

State, Multinational Corporations, Domestic Firms, and Consumers in Vietnam's Automobile Industry Development

State and Multinational Corporations (MNCs) in Automobile Industry Development

Developmental Objectives toward MNCs

During the early stages of industrialization, the Vietnamese state regarded multinational corporations (MNCs) as a crucial driving force for the development of the domestic automobile industry. From the perspective of

Vietnamese policy makers, foreign direct investment (FDI) was expected to compensate for the country's structural deficiencies in capital, technology, managerial capability, and industrial experience. As a late-industrializing economy with a relatively weak manufacturing base, Vietnam entered the automobile industry from a very low starting point. Consequently, the state viewed the participation of MNCs as essential for accelerating industrial modernization and integrating Vietnam into global automotive production networks. Consistent with the broader developmental state literature (Premachandra, 2012; Sajid, 2010; Aksenova, 2010; Nguyen, 2020), the Vietnamese leadership believed that the presence of MNCs could generate substantial developmental spillover effects. Foreign automobile corporations were expected to contribute not only capital inflows and advanced production technologies, but also managerial expertise, labor training, engineering skills, and industrial discipline (Newman, 2014; Anwar, 2010). Through cooperation with global automotive firms, Vietnam aimed to strengthen domestic manufacturing capability and gradually develop a modern industrial workforce.

Moreover, attracting MNCs served broader strategic objectives beyond industrial policy alone. The Vietnamese state viewed economic integration with multinational firms as an important mechanism for deepening Vietnam's integration into the global economy, diversifying external economic relations, and reducing excessive dependence on any single foreign power. In this regard, the attraction of MNCs was closely aligned with Vietnam's broader foreign policy strategy of multilateralization and diversification. The state also expected MNCs to generate indirect and direct spillover effects for domestic enterprises. Indirect spillovers could emerge through competitive pressure, labor mobility, and demonstration effects, while direct spillovers might occur through subcontracting, outsourcing, supplier linkages, licensing arrangements, and technology-sharing activities. In theory, these interactions would contribute to the upgrading of domestic firms and supporting industries over time.

State Policies toward MNCs

To attract major automobile MNCs, the Vietnamese government implemented a broad range of preferential policies and investment incentives. These included tax reductions, land-use incentives, tariff protection, and favorable regulatory conditions. In terms of corporate taxation, foreign automobile investors were granted substantial preferential tax rates, including corporate income tax rates as low as 10% for up to 15 years and 20% for up to 10 years depending on investment scale and location. Profit remittances abroad were generally exempt from taxation. In addition, many foreign automobile projects benefited from "tax holidays," including full corporate income tax exemption during the first two years of operation and a 50% reduction for subsequent years. In some cases, total tax incentive periods extended up to 13 years.

Land-related incentives were also significant. The state reduced land-use fees and land rental payments for investment projects, especially in economic zones and industrial parks. In several strategic economic zones, automobile investors enjoyed exemptions from land and water surface rents for periods ranging from 7 to 15 years. These incentives reflected the state's broader strategy of using industrial zones as platforms for attracting strategic manufacturing investment. In addition to financial incentives, the Vietnamese state established institutional channels for policy consultation and state-business coordination. Ministries such as the Ministry of Industry and Trade, the Ministry of Finance, and the Ministry of Transport regularly organized automobile industry conferences involving major automobile enterprises, particularly foreign-invested firms. These forums enabled MNCs to express policy concerns, propose regulatory changes, discuss production difficulties, and strengthen communication with state agencies. Such interactions illustrate an important feature of developmental governance in Vietnam: relatively close state-business consultation within a centralized political framework.

The state also deliberately diversified foreign participation in the automobile industry by attracting firms from multiple countries rather than relying excessively on a single national source of investment. This strategy sought to avoid overdependence on any one foreign actor and maintain a degree of geopolitical and economic balance within the sector. At the same time, the Vietnamese government implemented protectionist measures to support the development of the domestic automobile market. Import tariffs on completely built-up (CBU) vehicles were historically maintained at very high levels—sometimes exceeding 100%—while tariffs on imported components for assembly operations remained considerably lower. Additional protection mechanisms included excise taxes, technical barriers, import quotas, and quality-control regulations. These measures effectively created a protected

“greenhouse” environment intended to nurture the domestic automobile industry during its early developmental stages.

Empowerment of MNCs

Benefiting from favorable state policies and superior technological capabilities, MNCs rapidly became dominant actors within Vietnam’s automobile industry. Most foreign automobile firms entered Vietnam through joint ventures with domestic enterprises, many of which were state-owned enterprises affiliated with ministries or local governments. In these joint ventures, foreign partners typically held dominant ownership shares, often contributing approximately 70% of total investment capital compared to roughly 30% from Vietnamese partners. The contributions of domestic firms frequently consisted primarily of land-use rights rather than technological or financial assets. As a result, foreign corporations generally maintained greater control over strategic decision-making, production planning, technological standards, supply chain management, and component sourcing.

Due to their superior financial resources, technological expertise, and managerial capability, MNCs exercised substantial influence over Vietnam’s automobile market. They controlled major market segments, dominated vehicle sales, and shaped industrial standards. Japanese and South Korean automobile manufacturers became especially influential, mirroring broader patterns across Southeast Asia where Japanese automotive firms have historically maintained dominant positions. Foreign automobile firms also established the Vietnam Automobile Manufacturers' Association (VAMA), which became an important institutional actor representing the interests of automobile producers. Although domestic firms also participate in VAMA, foreign-invested corporations remain highly influential within the association. VAMA functions as a major channel for policy advocacy, regulatory consultation, and coordination between automobile enterprises and the Vietnamese government.

Dependence of MNCs on the State

Despite their dominant market position, MNCs remain significantly dependent on the Vietnamese state. This dependence stems primarily from Vietnam’s large long-term market potential, favorable demographic structure, growing middle class, and improving infrastructure conditions. With a population exceeding 100 million people and relatively low automobile ownership rates compared to neighboring ASEAN countries, Vietnam represents one of the most promising automobile markets in Southeast Asia. However, production costs in Vietnam remain relatively high compared to regional manufacturing hubs such as Thailand and Indonesia. Factors including limited economies of scale, high logistics costs, underdeveloped supporting industries, and relatively high taxes and administrative fees reduce the competitiveness of domestically assembled vehicles. Consequently, MNCs continue to rely on state support measures, including tax incentives and industrial protection policies, to maintain profitability and competitiveness within Vietnam.

The relationship between MNCs and the Vietnamese state is therefore characterized by both cooperation and tension. While the government consults foreign enterprises on industrial policy matters, policy-making processes remain highly centralized and sometimes unpredictable. Frequent adjustments to import tariffs, component taxes, and industrial regulations have occasionally created uncertainty for foreign investors. In many cases, automobile firms have had limited influence over final policy decisions despite participating in consultation mechanisms.

State and Domestic Firms in Automobile Industry Development

Developmental Objectives toward Domestic Firms

Although MNCs have played a central role in Vietnam’s automobile industry, the limitations of foreign-led industrialization—including low localization rates, weak technology transfer, and dependence on imported components—have increasingly encouraged the Vietnamese state to prioritize the development of domestic automobile enterprises. The long-term strategic objective of the Vietnamese government is not merely to host foreign assembly operations but to establish an autonomous and nationally competitive automobile industry led increasingly by domestic firms. This objective reflects broader ambitions associated with industrial self-reliance, technological upgrading, and national industrial modernization. Vietnamese political elites have increasingly promoted the concept of “national champions,” namely large domestic corporations capable of competing

regionally and globally. This strategy resembles aspects of the South Korean developmental model, where state support facilitated the emergence of large industrial conglomerates such as Hyundai and Kia.

Within this framework, enterprises such as VinFast, Thaco and TC Motor have received strong political and institutional backing. Vietnamese leaders increasingly regard these firms as strategic actors capable of reducing dependence on foreign manufacturers and strengthening national industrial capacity. Particularly notable is the rise of VinFast, which symbolizes Vietnam's ambition to participate in technologically advanced automotive sectors such as electric vehicles (EVs). VinFast's strategy involves cooperation with international technology providers while simultaneously attempting to increase domestic localization and manufacturing capability.

Policies toward Domestic Firms

Domestic automobile firms enjoy extensive state support through financial incentives, tax preferences, credit assistance, and industrial protection measures. The government has provided substantial financial support for industrial development programs, including subsidized credit, preferential loans, and investment support for supporting industries. Domestic automobile enterprises also benefit from preferential corporate income tax rates, VAT exemptions, import tax reductions for components, and excise tax incentives. Special economic zones such as Dinh Vu–Cat Hai and Chu Lai offer additional land and infrastructure incentives for automobile projects. Land lease exemptions and reduced infrastructure costs have played an important role in attracting large-scale domestic automobile investment.

The state has also implemented regulatory measures to protect domestic manufacturers from external competition. Technical barriers, restrictions on used-car imports, and Decree 116 regulations concerning vehicle certification and quality standards effectively limited imported automobile competition while favoring domestic assemblers. These policies demonstrate the developmental state's attempt to combine industrial protection with selective market liberalization in order to nurture domestic automobile enterprises.

Empowerment of Domestic Firms

Although MNCs continue to dominate significant portions of the market, domestic firms have expanded rapidly in recent years. Private corporations rather than state-owned enterprises have increasingly become the leading force within Vietnam's automobile industry. Among domestic firms, VinFast, THACO, and TC Motor have significantly increased production capacity and market influence. VinFast alone has developed one of the largest automobile manufacturing complexes in Southeast Asia and continues expanding production capacity domestically and internationally. Domestic firms have also begun participating in export activities. THACO exports buses, trucks, and passenger vehicles to regional and international markets, while VinFast has pursued ambitious export strategies targeting ASEAN countries, North America, and Europe. The growing competitiveness of domestic firms reflects gradual improvements in industrial capability and the effectiveness of selective state support policies.

Dependence of Domestic Firms on the State

Despite increasing market strength, domestic automobile enterprises remain heavily dependent on state support. Most Vietnamese firms continue to face financial constraints, technological limitations, weak R&D capacity, and restricted access to low-cost capital. Domestic firms are particularly vulnerable to policy instability and regulatory uncertainty. Frequent policy changes concerning taxation, import regulations, and industrial incentives complicate long-term business planning and investment decisions. Moreover, access to credit remains a major challenge. While MNCs can obtain financing from international banking systems at relatively low interest rates, Vietnamese firms often face significantly higher domestic borrowing costs. Consequently, close relationships with state institutions remain crucial for business survival and expansion. The collapse of Vinaxuki illustrates the importance of state support within Vietnam's automobile industry. Despite relatively high localization rates and competitive pricing, the company failed after losing financial support and access to credit following the 2008 economic crisis. The case demonstrates how domestic automobile firms remain structurally dependent on state protection, policy support, and financial assistance.

State and Consumers in Automobile Industry Development

Developmental Objectives toward Consumers

From the perspective of the Vietnamese state, automobile consumption is closely associated with economic modernization, rising living standards, and middle-class expansion. Increasing automobile ownership contributes not only to market expansion but also to political legitimacy by demonstrating improvements in material welfare under state leadership. As Vietnam's middle class expands, automobile ownership increasingly symbolizes social mobility, economic success, and improved quality of life. The state therefore seeks to stimulate automobile consumption while simultaneously maintaining macroeconomic and social stability.

Policies toward Consumers

The government has introduced several institutional mechanisms aimed at protecting consumers, including the Consumer Protection Law and the establishment of consumer protection agencies under the Ministry of Industry and Trade. The state also regulates vehicle quality and safety standards, particularly for imported vehicles, through technical certification systems and emission standards. Such policies aim to protect consumers while simultaneously strengthening regulatory control over imports. At the same time, trade liberalization agreements and tariff reductions have gradually reduced automobile prices and expanded consumer access to vehicles.

Empowerment of Consumers

Vietnamese consumers have become increasingly influential due to rising incomes, expanding digital communication, and the gradual development of civil society networks. Consumer demand for automobiles has grown rapidly over the past decade and is expected to continue expanding due to relatively low vehicle ownership rates compared with neighboring ASEAN countries. Consumers increasingly express dissatisfaction regarding high automobile prices, protectionist policies, and limited product diversity. Through social media and mass communication channels, consumers have become more capable of criticizing manufacturers, exposing unfair business practices, and demanding improved quality standards.

Consumer Dependence on the State

Nevertheless, consumers remain structurally weaker than both producers and the state within Vietnam's automobile policy framework. Due to the limited role of civil society organizations and the centralized nature of policy-making, consumers possess relatively little direct influence over industrial regulations. The Vietnamese state continues to prioritize industrial protection and fiscal revenue objectives over consumer interests. High excise taxes, registration fees, and protectionist measures significantly increase automobile prices relative to average income levels. Furthermore, limited competition within the industry creates oligopolistic market conditions that disadvantage consumers. The dominance of a small number of large producers restricts price competition and product diversity. As a result, Vietnamese consumers often face higher automobile prices than consumers in neighboring countries despite lower per capita income levels.

Overall, the Vietnamese automobile industry illustrates a highly state-centered developmental structure in which the state simultaneously manages, protects, and constrains different actors within the market. The relationships among the state, MNCs, domestic firms, and consumers reflect broader characteristics of Vietnam's hybrid developmental model, where industrial development is pursued through a combination of market mechanisms, strategic state intervention, and political centralization.

CONCLUSION

Vietnam's Emerging Development Model in the Automobile Industry

Vietnam's automobile industry illustrates the characteristics of what may be described as a quasi-developmental state model, in which the state plays a central and directive role in industrial development while simultaneously relying on market mechanisms and global integration. Within this model, the Vietnamese state acts as the dominant strategic actor that shapes the trajectory of the automobile industry through long-term planning,

industrial policies, investment incentives, and regulatory intervention. The state's developmental role is reflected not only in its ability to formulate strategic directions for the industry, but also in its differentiated policy approaches toward the three major actors within the automobile ecosystem: multinational corporations (MNCs), domestic firms, and consumers.

The findings of this study suggest that Vietnam's automobile development strategy has evolved through three interconnected stages. The first stage can be characterized as an MNC-driven development strategy. During the early phases of industrialization and market opening, the Vietnamese state prioritized the attraction of multinational automobile corporations in order to compensate for domestic shortages in capital, technology, managerial expertise, and industrial capability. Through preferential tax policies, investment incentives, tariff protection, and administrative support, the state sought to create a favorable investment environment capable of attracting major global automobile manufacturers. Within this framework, MNCs were expected to function as the principal drivers of industrial development by introducing advanced technologies, modern management systems, skilled labor training, and global production networks into Vietnam. More importantly, the state anticipated that foreign investment would generate broader spillover effects throughout the domestic economy, particularly in the areas of technological learning, supporting industry development, supplier upgrading, and integration into global value chains.

However, the expectations surrounding technology transfer and industrial spillovers from MNCs were only partially fulfilled. Although foreign corporations contributed significantly to market expansion and industrial production, Vietnam's automobile industry continued to exhibit relatively low localization rates, weak supporting industries, and persistent dependence on imported components and foreign technologies. In many cases, MNCs concentrated primarily on assembly operations rather than deep technological localization or domestic capability development. Consequently, the limitations of foreign-led industrialization became increasingly apparent over time. These structural constraints encouraged the Vietnamese state to shift gradually toward a second stage of development, namely a domestic firm-driven development strategy. In this phase, the state increasingly emphasized the promotion of domestic automobile enterprises and the construction of "national champions" capable of competing both domestically and internationally. The rise of firms such as VinFast, Thaco and TC Motor reflects this strategic transition.

This shift toward domestic industrial empowerment is closely linked to broader state objectives of economic self-reliance, industrial autonomy, and technological upgrading. Similar to elements of the South Korean developmental experience, the Vietnamese state increasingly views large domestic corporations as strategic vehicles for accelerating industrial modernization and reducing dependence on foreign firms. Through preferential credit, tax incentives, industrial protection, infrastructure support, and favorable regulatory treatment, the state seeks to strengthen the productive capacity and competitiveness of domestic automobile enterprises. At the same time, the Vietnamese automobile industry may gradually evolve toward a third stage characterized by a more consumer-oriented development strategy. At present, Vietnam's automobile policies remain largely producer-centered, with industrial protection and enterprise support continuing to dominate policy priorities. Although the state has implemented a number of measures aimed at protecting consumers and expanding automobile ownership, these policies remain relatively limited in scope and effectiveness. High taxes, registration fees, and protectionist measures continue to impose substantial costs on consumers, resulting in automobile prices that remain high relative to average income levels.

Nevertheless, the growing size of Vietnam's middle class, rising consumer purchasing power, and the expansion of digital communication platforms are increasing societal pressure for lower automobile prices, greater product diversity, and more market competition. Over the long term, the state may face increasing incentives to balance industrial protection objectives with broader consumer welfare considerations, particularly as domestic automobile producers become more competitive and technologically capable. Overall, the Vietnamese state's industrial policies have contributed significantly to the expansion of the automobile industry and the growing capacity of all three major actors. MNCs have become dominant participants in Vietnam's automobile market and have played a major role in industrial production and market development. Domestic enterprises have also expanded rapidly and increasingly emerged as important industrial actors with growing technological and production capabilities. Consumers, meanwhile, have gradually become more influential in demanding lower prices, better quality, and more rational market regulations.

However, the relationships between the state and these actors remain fundamentally asymmetric. The Vietnamese state continues to occupy the predominant position within the automobile industry, while MNCs, domestic firms, and consumers all remain heavily dependent on state policies, incentives, and regulatory decisions. In this sense, Vietnam's automobile industry reflects a broader pattern of state-led capitalism in which industrial development is shaped through a combination of market competition, strategic state intervention, and political centralization. From a theoretical perspective, the Vietnamese case demonstrates that developmental governance in late-industrializing economies does not necessarily replicate the classical East Asian developmental state model. Instead, Vietnam represents a hybrid developmental model in which strong state intervention coexists with institutional limitations, policy inconsistencies, technological dependence, and growing market forces. The automobile industry therefore provides an important case for understanding how developmental state capacity operates under the conditions of a socialist-oriented market economy integrated into global capitalism.

Looking forward, the future trajectory of Vietnam's automobile industry will likely depend on several critical factors: the ability to strengthen supporting industries, improve technological capability, increase localization rates, promote innovation and R&D, stabilize industrial policies, and successfully transition toward electric and environmentally sustainable vehicles. If these challenges are addressed effectively, Vietnam may gradually transform from an assembly-based automobile market into a more competitive regional automotive manufacturing center with stronger domestic industrial capacity and deeper integration into global value chains.

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