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## Can VinFast Turn Vietnam Into an Electric Vehicle Powerhouse?

**The competition to become the main player in the production of EVs in Southeast Asia is starting to heat up.**

By James Guild

Vietnam, led by private conglomerate Vingroup, has plans to become a major player in the auto industry, and is looking to break into the EV market to help it get there. As I wrote last year, within Southeast Asia Thailand has long dominated the sector by specializing in exports and pursuing market reforms that made it attractive to foreign car companies looking for a regional manufacturing hub. More recently, Indonesia, driven mainly by the strength of domestic demand, has started to catch up and challenge Thailand's dominant position. Now Vietnam has entered the race and wants to push EVs hard. How realistic are these ambitions?

It clearly aligns with the overall export-led industrialization that has been driving Vietnam's rapid economic growth. Making cars is a fairly high value-added manufacturing activity, and industrializing countries often prioritize the development of a domestic auto industry. The end goal, particularly for Vietnam which relies on current account surpluses to boost growth, is to become an export hub, but the country is not quite there yet. According to the Vietnam Automobile Manufacturers' Association, 283,983 units were sold in 2020. Of that, about two thirds were assembled in domestic facilities and the remainder were fully built-up imports.

As reported by Hanoi Times, car imports to Vietnam in 2020 were worth \$2.35 billion, with Indonesia and Thailand being two of the leading providers. As a point of comparison, Indonesia and Thailand regularly produce and sell over a million vehicles annually and are both net exporters. So Vietnam has quite a lot of ground to close before it can challenge the regional leaders. Moreover, much of the automobile production in Vietnam involves local factories that are licensed by foreign carmakers to assemble vehicles from imported kits.

This kind of activity is lower down on the value chain, because the high-tech components like engines are designed and often manufactured overseas and then shipped to Vietnam for final assembly. The real prize is for domestic companies to acquire the capability to build and design such major components themselves. That involves a high level of investment in R&D, human capital, and technology transfer, the very things that will drive growth over the long-term.

Enter Vingroup. Vingroup is Vietnam's largest private conglomerate. In true conglomerate fashion, the firm has interests in industrial manufacturing, real estate, education, health care, and smartphones, among other things. One of Vingroup's more recent ventures is VinFast, an automobile manufacturing company founded in 2017. According to Vingroup's Annual Report, VinFast sold 31,500 cars and 45,400 electric motorcycles in 2020, which is pretty fast growth for a company that is only a few years old. VinFast is now trying to aggressively move into the manufacture of EVs.

According to shareholder data, Vingroup has no state ownership at all. Given the huge role of the state as a direct equity participant in much of the Vietnamese economy, one could argue

that Vingroup presents an example of what private capital can do more efficiently than state-owned companies. In this case, it's been pretty good at leveraging technology to boost innovation and drive fast growth in products that are knowledge and skill-intensive, such as automobiles.

We see similar patterns in other countries with large state-owned sectors, like Indonesia, where tech start-ups such as Go-Jek have been pushing the frontiers of innovation in many different areas (including its own recently announced EV venture). Unburdened by ossified state structures of ownership and control, these privately held companies appear to be pretty good at innovating.

But will this be enough to give VinFast an edge in the EV race? The field is already crowded, with both Thailand and Indonesia also setting their sights on a hoped-for coming electric vehicle boom. And in both cases, their EV schemes are being backed by the state in one way or another. Indonesia has been leveraging its control of raw nickel ore, an essential input in the manufacture of lithium-ion batteries, to encourage downstream investment in electric vehicle production. In Thailand, which already has well-developed auto manufacturing infrastructure, state-owned oil and gas giant PTT is joining forces with a Chinese EV company to scale up production.

Will VinFast be able to go toe-to-toe with these ventures without more explicit backing from the Vietnamese state? Can it out-compete Thai and Indonesian companies in areas like innovation and design? We'll have to wait and see, but one thing appears pretty clear at this point: the race to capture a dominant share of the EV market in Southeast Asia is on.

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