

Vietnam

Why Vietnam risks ending up a big loser from Trump's tariffs

Hanoi could become a victim of its own success after building up a huge trade surplus with the US

A. Anantha Lakshmi in Jakarta YESTERDAY

Vietnam was one of the biggest beneficiaries of Donald Trump's trade war with China during his first term in office. But Hanoi could become a victim of its own good fortune, business groups and analysts have warned, if the president-elect follows through on threats of blanket tariffs when he returns to the White House.

[Vietnam](#) has racked up the fourth-largest trade surplus with the US in recent years — trailing China, Mexico and the EU — as global manufacturers shifted factories away from China to avoid the impact of Trump's tariffs.

But that “China plus one” success has put Vietnam in a vulnerable position. Its economy has become heavily dependent on the US, which accounts for nearly 30 per cent of all of Vietnam's exports.

“Vietnam is now likely to face stricter scrutiny, especially for goods transiting through Vietnam to bypass tariffs on China,” said Marco Förster, Asean director at Dezan Shira & Associates in Ho Chi Minh City.

Trump has [vowed to impose tariffs](#) of 60 per cent on imports from China and up to 20 per cent on goods from all other countries. Economists at Singaporean bank OCBC have warned that Vietnam's economic growth — which was 5 per cent last year — could shed up to 4 percentage points under such measures.

“If tariffs were to be imposed on Vietnam, the effects could be catastrophic,” Förster said.

While Trump did not mention Vietnam during the recent presidential election campaign, he called out the country in 2019 as “almost the single worst abuser of everybody”.

“Vietnam takes advantage of us even worse than China,” he told Fox Business.

Businesses are already rattled. “Certain Korean enterprises in Vietnam are concerned about potential tariffs from the new Trump administration,” said Hong Sun, chair of the Korea Chamber of Business in Vietnam. South Korea has long been one of Vietnam’s top sources of foreign direct investment, and electronics group Samsung is the single largest investor in the country.

Should Washington impose tariffs on Vietnamese goods, South Korean companies might delay or reduce investments and production in the country, Hong said.

Vietnamese officials are well attuned to the potential risks of Trump’s trade hostility. Vietnam’s President Luong Cuong delivered a thinly-veiled warning at the Asia-Pacific Economic Cooperation summit in Peru last week that “isolationism, protectionist policies and trade wars lead only to economic recession, conflict, and poverty”.

“Now, more than ever, it’s critical to transcend the ‘zero-sum game’ mindset and guard against nationalism skewing policy decisions,” he said.

While south-east Asia as a whole benefited from the [US-China trade war](#), no country has been as successful as Vietnam at drawing investment thanks to its proximity to China, business-friendly policies and incentives.

Foreign investment hit \$36.6bn last year, while Vietnam's trade surplus with the US soared to more than \$104bn, nearly three times its level of \$38bn in 2017, when Trump took office. Thailand is a distant second in the region, with a US trade surplus of nearly \$41bn.

The US-Vietnam relationship has strengthened since Trump left office. The two countries upgraded their relationship last year to a "[comprehensive strategic partnership](#)", the highest level of diplomatic ties afforded by Hanoi. President Joe Biden called Vietnam "a critical power in the world and a bellwether in this vital region", and removed the "currency manipulator" label imposed by Trump.

Washington has also supported efforts to [boost semiconductor production](#) in Vietnam, as part of its campaign to limit China's access to advanced chipmaking.

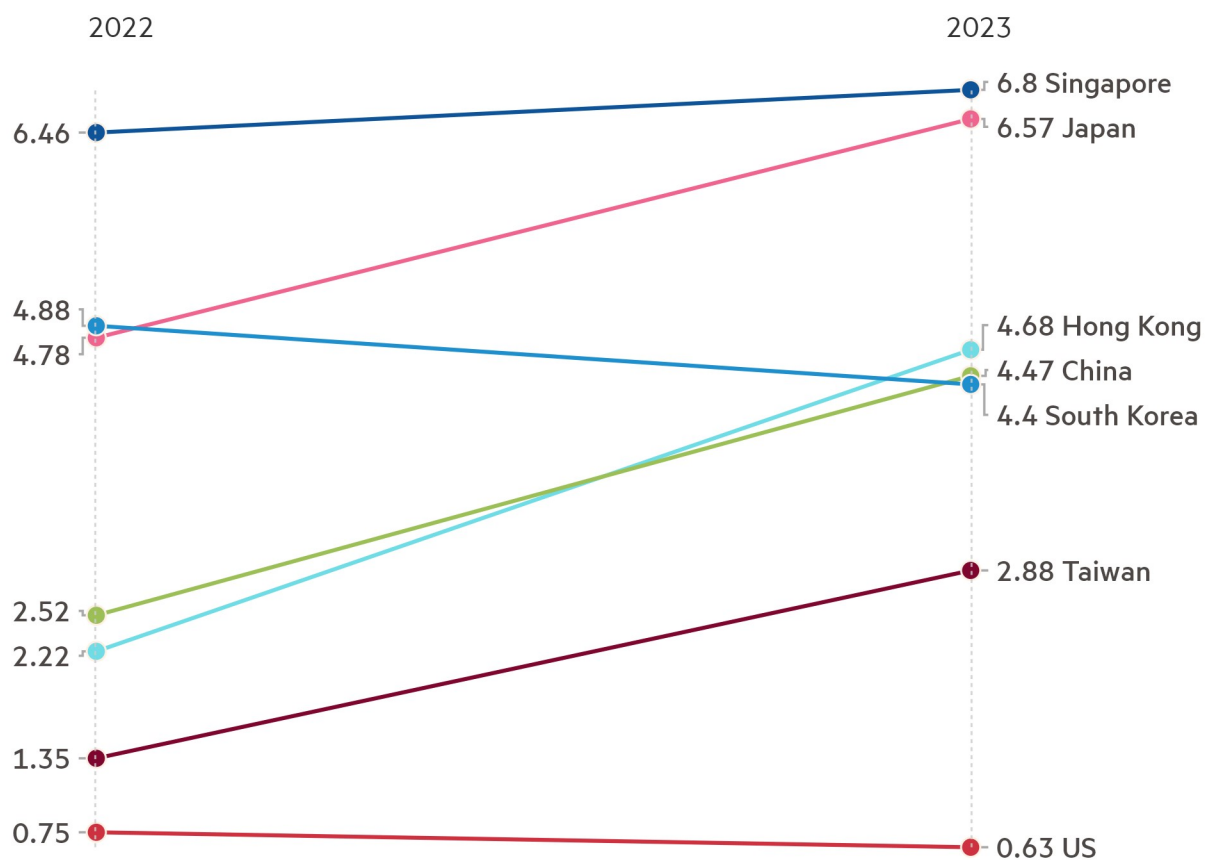
Experts said Vietnam could increase scrutiny of Chinese investments or launch anti-dumping investigations to appease Trump, or take steps to narrow its trade surplus by purchasing military equipment, civilian aircraft or liquefied natural gas from US companies.

“The broader challenge is that Vietnam’s relatively small economy has only so much capacity to ramp up imports from the US,” said Peter Mumford, south-east Asia head for Eurasia Group.

“On the FDI front, Hanoi could modestly boost investment in the US, but this would do little to appease Washington’s trade concerns.”

Vietnam’s FDI inflow from China soared almost 80% last year

FDI inflow from counterparts (\$bn)



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Source: Ministry of Planning and Investment of Vietnam

Vietnam has [cultivated friendly ties](#) with both the US and China under its non-aligned foreign policy known as “bamboo diplomacy”. But with any increase in purchases

from the US, Vietnam would have to be careful to avoid angering China, its largest trading partner and neighbour.

Investments from China have also surged — along with broader FDI — rising 80 per cent in 2023. China accounted for the biggest number of new projects in Vietnam this year.

Förster noted that many Chinese goods were being routed through Vietnam “to circumvent tariffs, sometimes under questionable rules of origin or even fake ‘Made in Vietnam’ labels”.

He said Hanoi was working to establish stricter criteria for product labelling, a move that could help avoid some of the incoming US administration’s ire.

Thuy Anh Nguyen, a director at Vietnam-focused asset manager Dragon Capital, said investments from Chinese companies might face extra scrutiny from Hanoi, but Vietnam would still attract more FDI as manufacturers continue to shift from China.

Hanoi is “likely to proactively adjust import-export practices, negotiate trade agreements, and strengthen compliance with origin rules to mitigate tariff risks”, she added.

Additional reporting by Haohsiang Ko in Hong Kong

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