

INITIAL TAKEAWAYS FROM U.S. TARIFFS ON VIETNAM

Release date: 3 April 2025



Dear Investors,

The United States has announced new tariff measures targeting imports from Vietnam. While Donald Trump’s rhetoric surrounding the announcement was dramatic – “Vietnam: great negotiators, great people, they like me. I like them. The problem is they charge us 90%. We’re going to charge them 46% tariff.” - the implications deserve a clear, measured analysis.

Below is our summary of what’s happening, why it matters, and how we see it playing out.

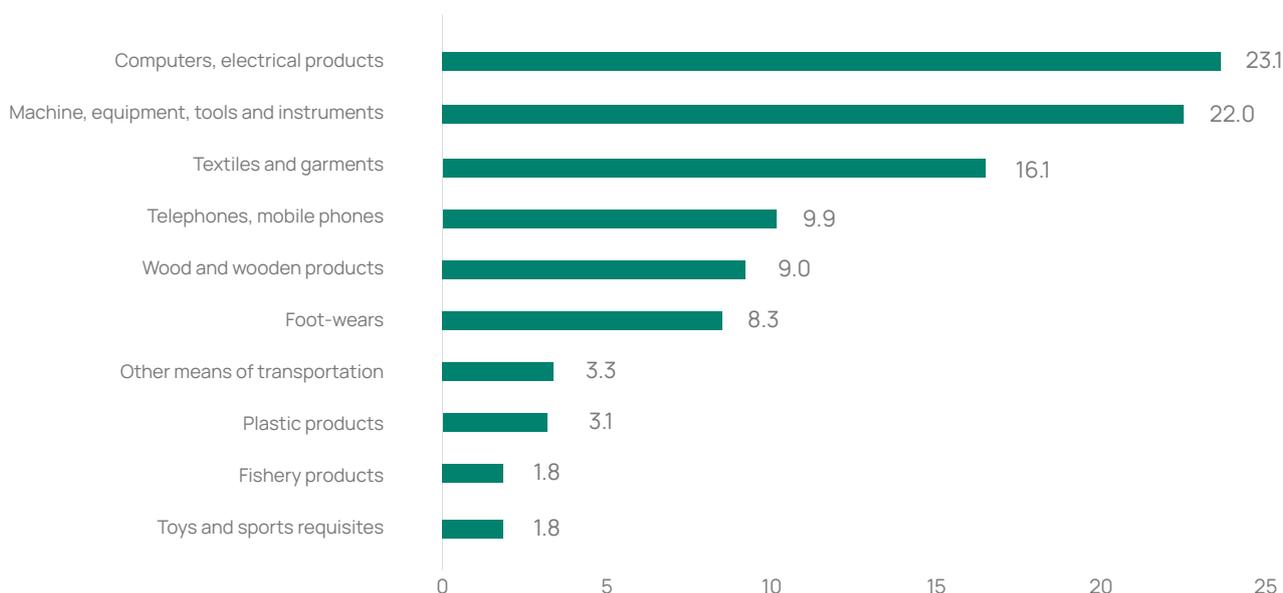
- Based on tariffs of 46% we estimate the impact to Vietnam’s GDP at between 1.4-2.0%
- Today was an opening salvo, but the key date is 9 April when the tariffs go into effect. We expect Vietnam to be proactive with both economic transactions and non-trade negotiations to target a tariff level on par with regional peers.
- Our equity market outlook is for volatility in the short term, with the government’s decisive reform efforts favouring domestic consumption prevailing over the medium-to-long term.

1. TRADE SNAPSHOT AND VIETNAM’S EXPOSURE

Vietnam exported \$136.6 billion to the U.S. in 2024 and imported just \$13.1 billion, leaving a large bilateral trade surplus. Total exports amounted to \$405 billion, supported by strong participation from foreign direct investment (FDI), which accounts for 72% of Vietnam’s exports and employs 5.2 million workers (8.5% of the labour force). Trade activity contributed roughly 8% of the GDP.

Among Vietnam’s top exports to the U.S. are computers, electrical products, machinery, apparel, and footwear. These categories overlap directly with other major exporting countries to the U.S. such as China, Mexico, Thailand, and South Korea – making the relative tariff burden critical.

Table 1: Top 10 Components of Vietnam Exports to the U.S. (\$bn)



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2. RELATIVE TARIFFS AND COMPETITOR BENCHMARKING

No U.S. goods are taxed by Vietnam at 90%. The 90% figure appearing in the announcement of the “tariffs charged to the U.S.A including currency manipulation and trade balances” would appear to have been calculated by the following formula:

$$\left(\frac{\text{U.S trade surplus with a country}}{\text{U.S total imports from that country}} \right) \div 2$$

For Vietnam, this number stands at ~46%. However, it overlooks recent progress in the U.S.–Vietnam economic relationship. Comparatively:

- China faces average U.S. tariffs of ~54%
- Mexico ~25%
- Thailand ~36%
- South Korea ~25%
- Weighted average of Vietnam’s competitors: ~31.5%

The average gap between Vietnam’s new tariff and its competitors is approximately 14.5%, which may erode part of Vietnam’s relative cost advantage – especially in price sensitive industries.

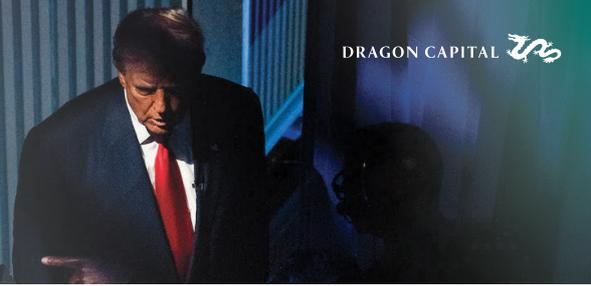
Table 2: Tariff Impacts on Vietnamese Exports, by sector

Top Products Export To The Us	Export Value (\$Bn)	Value / Vn Export To The Us	Us Import From Vietnam	Us Import From Other Countries	Vietnam Tariffs	Weighted Tariffs On Vietnam's Competitor	Difference Tariffs
Electrical, Electronic Equipment	42.6	29.9%	9%	91%	46%	31.9%	14%
Industrial Machinery	29.2	20.5%	5%	95%	46%	29.0%	17%
Furniture Lighting Signs, Prefabricated buildings	15.0	10.5%	21%	79%	46%	28.9%	17%
Footwear	9.1	6.4%	32%	68%	46%	27.8%	18%
Apparel	15.3	10.8%	18%	82%	46%	30.9%	15%
Plastics	3.7	2.6%	5%	95%	46%	32.4%	14%
Toys, Games, Sports Requisites	3.0	2.1%	7%	93%	46%	45.5%	1%
Commodities not specified according to kind	2.0	1.4%	2%	98%	46%	27.1%	19%
Rubbers	1.9	1.3%	5%	95%	46%	28.9%	17%
Optical, Photo, Technical, Medical apparatus	1.6	1.1%	1%	99%	46%	26.4%	20%
Leathers	1.5	1.1%	11%	89%	46%	29.0%	17%
Vehicles and Transportation	1.1	0.8%	0%	100%	46%	25.6%	20%
Wood and Articles of Wood, Wood charcoal	1.1	0.8%	5%	95%	46%	28.4%	18%
Fruits	1.1	0.8%	4%	96%	46%	29.0%	17%
Iron and Steel	2.5	1.7%	3%	97%	46%	27.1%	19%
Fisheries	1.1	0.7%	5%	95%	46%	31.1%	15%

Source: Customs Department

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3. ECONOMIC IMPACT ASSESSMENT

We approach the macroeconomic impact from two perspectives: demand-side contraction and supply-side relocation risk.

a. Demand-Side Impact

Using U.S. import data and elasticity estimates across product groups, our preliminary calculations indicate an impact of a decrease in U.S. imports from average effective tariffs in the range of 15-25% will reduce Vietnam's exports by \$10-15 billion. This incorporates pricing power, cost of goods sold, and partial pass-through to end consumers.

b. Supply-Side Risk

Multinational firms may begin reallocating supply chains if tariff differentials persist. We estimate this shift could reduce Vietnam's export value to the U.S. by an additional \$15-24 billion as production migrates to lower-tariff peers.

Combining both impacts, we tentatively estimate that between \$28.5-37.5 billion worth of Vietnamese exports are at risk, roughly equating to 1.4-2.0% of GDP, ceteris paribus. These estimates are subject to revision as market dynamics evolve.

c. Implications for FDI

Vietnam has been proactive in addressing structural concerns:

- Eliminated tariffs on U.S. imports.
- Signed \$93 billion in MOUs with the U.S. (energy, transport, agriculture).
- Took steps to curb transshipment risk by imposing tariffs on Chinese-origin goods.
- Approved Starlink operations in Vietnam.
- Facilitated Trump Organisation investments in tourism infrastructure.

Still, U.S. tariff decisions appear to be driven by politics and deal-making as much as trade data. Whether these tariffs are sustained may depend on Vietnam's ability to credibly mitigate transshipment issues – a key concern voiced by U.S. officials. If handled well, Vietnam could see the effective tariff rate revised downward.

The broader takeaway: While the tariff announcement introduces headwinds, Vietnam's long-term competitiveness relative to peers – especially under the "China+1" shift – remains the decisive factor for future FDI momentum. More clarity is expected after 9 April when the final tariff determinations are made.

4. RESILIENCE AND DOMESTIC POLICY RESPONSE

a. Currency

The VND has remained stable so far, depreciating just 0.1% on the day of the announcement. However, risks remain. While external factors like the DXY and Vietnam's balance of payments attract attention, domestic sentiment matters more.

The 2023 balance of payments "errors and omissions" amounted to -\$33 billion. This number reflects the wealth outside of the banking system, including assets such as gold and crypto. USD cash, gold, and crypto holdings domestically are larger than the central bank's reserves. Sentiment will determine whether this comes into the system or stays on the sidelines, meaning confidence drives capital flows.

We will monitor this closely in the coming weeks.

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b. Domestic Reform

The Prime Minister of Vietnam immediately established a steering committee following the announcement to analyse the impact and form immediate and longterm solutions, reasserting that the 8% GDP growth target for 2025 will remain unchanged.

Independent of external pressures, Vietnam has already set out a domestic reform agenda, focused on liberalising the legal system, streamlining regulatory bottlenecks, and improving private sector productivity. We anticipate that the current external shock will strengthen the political will to implement meaningful reforms, with added fiscal and monetary support likely in H2 2025.

CONCLUSION

This tariff shock is a stress test – not an endgame.

Vietnam is in the middle of a transition: graduating from a low-cost exporter to a strategic trading partner while navigating global protectionism. Tariffs of this magnitude are painful, especially for key sectors like electronics, machinery, apparel, and footwear. But the relative impact – when viewed against Vietnam's proactive diplomacy, ongoing structural reforms, and regional cost advantages – is likely manageable.

We are closely tracking the 9 April decision and ongoing negotiations. We will continue to position our portfolios accordingly – balancing short-term caution with long-term conviction in Vietnam's role as a regional manufacturing hub.

We will update you on 9 April as developments occur, but please contact us should you have any questions.