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Credit Insights

Higher US tariffs will challenge Vietnam's manufacturers and policymakers

On March 26, the Vietnamese government announced it would cut import duties on certain US imports, including automobiles, ethanol, and liquified natural gas (LNG), by the end of March 2025. This plan is part of the government's efforts to boost the import of US products into Vietnam, reduce Vietnam's trade surplus with the US, and avoid being hit by new US tariffs expected to be announced by the US government on April 2.

As shown in Exhibit 1, Vietnam stands out as being among the countries globally with a sizable trade surplus with the US, for which the US government has signaled that it will impose reciprocal tariffs under its 'America First Trade Policy'. To date, the US government has identified Canada, China, and Mexico, as well as certain sectors like automobile, aluminum, and steel, for higher tariffs on exports to the US.

Like the above-mentioned countries, Vietnam's trade surplus with the US has grown substantially over the past decade, because of increasing exports and a higher tariff differential with the US. The US is Vietnam's single largest export destination, accounting for almost 30% of total Vietnamese exports in 2024 (Exhibit 2). Over the years, Vietnam has benefited from foreign investment inflow and shifts in global supply chains to grow into a key manufacturing hub for many multinational corporations.

Given the US government's on-again-off-again tariff announcements of late, there is a great deal of uncertainty about the extent of the new US tariffs on April 2. If additional tariffs are imposed on Vietnam, we think the key industry sectors that will be impacted and vulnerable are electronics, machinery equipment, textiles, footwear, and wooden furniture (Exhibit 3). These sectors collectively make up the majority of exports to the US, and many rely heavily on the US market for their export sales. However, we expect the impact may vary across sectors and companies.

Multinational companies producing electronics and machinery equipment in Vietnam are likely to be able to respond to the tariffs by redirecting some part of their manufacturing activity or finished goods to other locations.

But local manufacturers of textiles, footwear, and wooden furniture may have limited options to pivot and find alternative markets for their goods. Those heavily reliant on export sales will face higher costs, lower sales, and poorer operating cash flow.

Among the local textile manufacturers, Song Hong Garment (MSH) has 80% of its revenue from exports, TNG Investment & Trading (TNG) 46%, Vietnam National Textile & Garment Group (VGT) 35%, Thanh Cong Textile (TCM) 25%. Savimex Corporation (SAV), a large furniture manufacturer, has 50% of its revenue from exports.

Over the past few weeks, the Vietnamese and the US governments met on multiple occasions to negotiate new trade measures and adjust policies in response to potential tariff risks. In addition to the lower tariffs on US imports, the Vietnamese government approved new deals for US corporations to operate in Vietnam. For example, the US's SpaceX received approval to launch its Starlink satellite internet service trial in Vietnam.

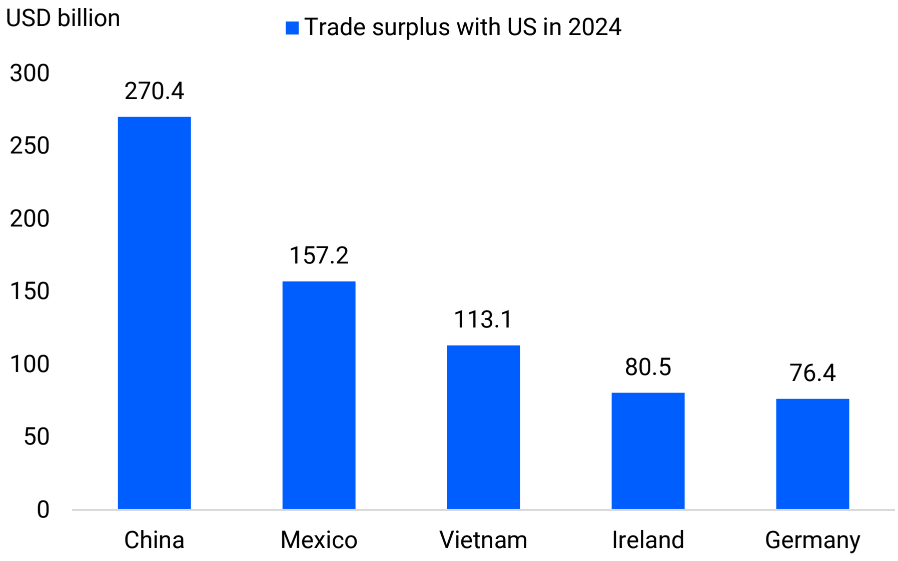
These measures will, in theory, help to boost US imports and reduce Vietnam's trade surplus with the US over time. But we think it will be the ongoing and future negotiations between the two governments that will determine how high the new tariffs will be and for how long.

Exports amount to 85% of Vietnam's GDP in 2024, and hence, are a key driver of economic growth. Higher tariffs on Vietnam's exports to the US will drive higher prices for US consumers and weaken demand for and sales of Vietnam's products. The slowdown in the export industries will hurt domestic consumption, as export businesses employ 30% of Vietnam's workforce.

Increasing trade restrictions will also affect Vietnam's ability to attract future investment inflows and dampen Vietnam's prospects of achieving its 8% GDP growth target for 2025.

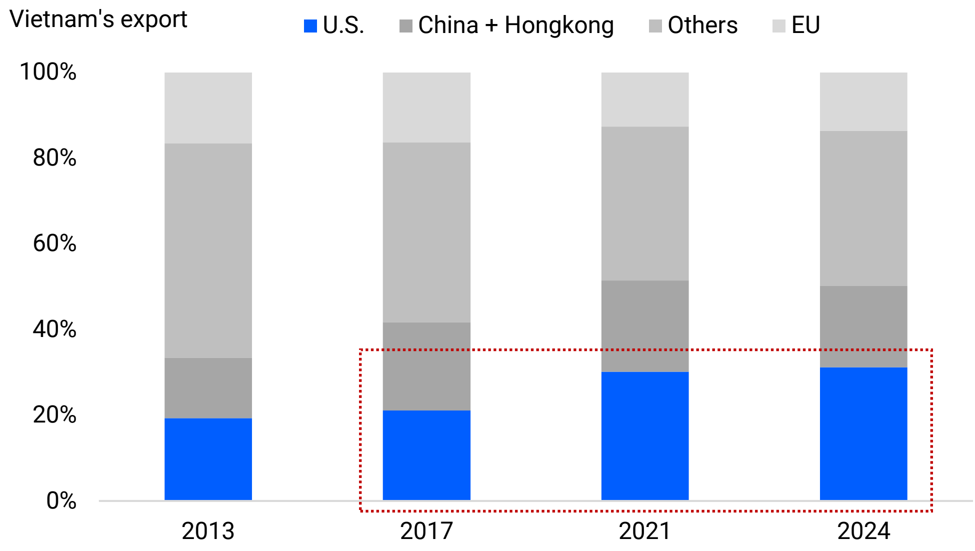
Vietnam's strong economic ties with the US and a high tariff will pose challenges to the government's 8% GDP growth target in 2025

Exhibit 1: Vietnam is among the top trading partners with the highest trade surplus with the US



Source: United States Census Bureau

Exhibit 2: US market's share in Vietnam's total exports has increased over recent years



Note: 2018 was the first year US enact significant tariff on Chinese goods based on Section 301

Source: Vietnam's General Statistic Office (GSO), VIS Rating

Exhibit 3: Export to the US concentrated in four product categories

Vietnam's exports to the US (2024): USD 120 billion

% of Vietnam's total exports: 30%

USD 15 billion Vietnam's imports from the US (2024)

% of total exports to the US	Product category	US contribution in category exports	Sub products	Key exporting firms
19%	Computers, electrical products	32%	Processing units, laptops, data storage, processing modules	Intel, HP, Dell, Amkor, Samsung, Victory Giant, Saigon Fabrication
18%	Machine, equipment, tools	42%	Construction tools, solar panels, machine controllers, electric converters	Rockwell Automation, Techtronic, First Solar, Trina Solar, JA Solar
13%	Textiles and garments	43%	Sweaters, jeans, shirts, jackets, vests, handbags, backpacks	Crystal Group, Vinatex, Song Hong Garment, Thanh Cong Textile
8%	Mobile phones	18%	Smartphones, phone components and accessories	Samsung, Foxconn, Luxshare, Goertek, SMP Holdings
8%	Wooden products	55%	Wooden furniture, accessories, toys for kids, wood pellets	Phu Tai, Savimex, AA Corporation, An Viet Phat, Eastwood, Kim Tin Group
7%	Footwear	36%	Sportshoes, sneakers, leather shoes, boots	PouYuen, Vinagiay, TBS Group, Bitis, Thuong Dinh
3%	Automobiles and spareparts	22%	Fully built cars, car components, motor engines, trucks	Thaco, Honda, Vinfast, Ford
2%	Fishery products	18%	Catfish, shrimps, prawns, cuttlefish	Minh Phu, Vinh Hoan, Hung Vuong, An Giang, Stapimex, Sao Ta Foods
22%	Others	21%	Cashews, coffees, steel and aluminium	Long Son Foods, Olam Vietnam, Intimex, Ton Dong A, Nam Kim

Source: GSO, Department of Vietnam Customs, VIS Rating

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