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Vietnam in Trade War 2.0

Facing the risk of reciprocal tariffs

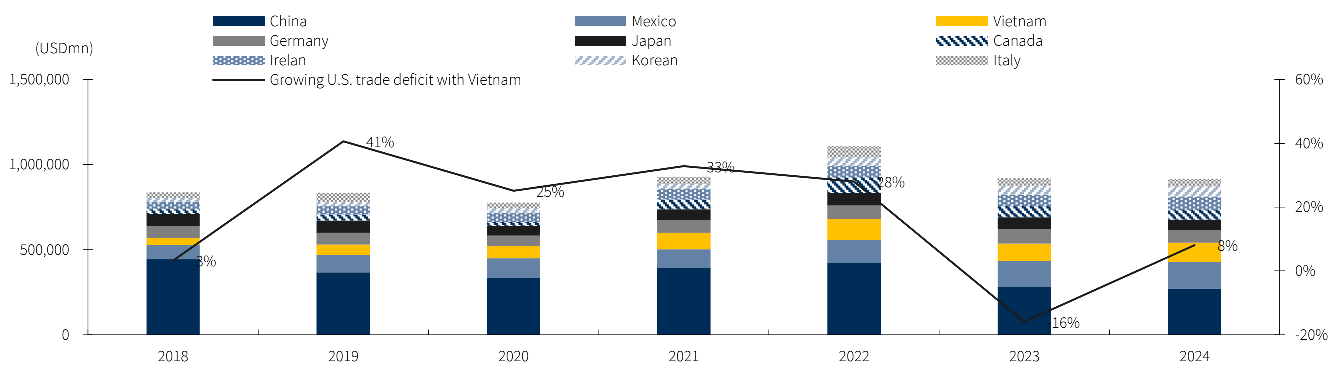
— **On April 1, 2025, the US Trade Representative will submit to President Donald Trump a report reviewing trade partners that may have unfair trade practices with the US**. Vietnam is at the risk of being cited in this report and subject to reciprocal tariffs since (1) it is in the top three countries with which the US has the largest trade deficit; and (2) it is currently imposing a higher average tariff on imports from the US than vice versa.

— **In the bear case, Vietnamese exports may be levied a reciprocal tariff of up to 11%**, which could make the national GDP growth drop 0.7-1.3% from the baseline growth rate of 7% (A report by Goldman Sachs showed that Vietnam's GDP might drop 1.5% under a spectre of a 13% increase in reciprocal tariffs).

— **Vietnam Government has proactively taken steps to balance trade with Trump Government**, which may lower the possibility of being imposed additional levies but not eliminate the risk. However, even if the tariffs are imposed, we expect Vietnam government can undermine their impacts by introducing new policies to help improve the reciprocity between the two countries, creating a basis for discussions on tariff elimination.

— **The Ministry of Finance of Vietnam has proposed cutting the Most-favored-nation (MFN) tariffs on 14 commodities mainly exported from the US**. However, it is only a proposal, so we have not included it in our assessment. If the proposal is approved, the tariff gap between the two countries could be significantly narrowed,

Fig 1. Global – Top US trade deficit partners since Trade War 1.0 (USDmn)



Source: Bloomberg, KB Securities Vietnam

Vietnam may be subject to the reciprocal tariffs

Vietnam is at the risk of being subjected to reciprocal tariffs from the US

On April 2, 2025, Trump Administration will announce the new reciprocal tariffs on the US trading partners which initially mean all nations. Although the specific calculation has not been published, the components may include VAT, extraterritorial taxes, and non-tariff barriers.
However, on March 23, 2025, the White House said that the US significantly narrowed the scope of the tax, possibly focusing only on the "Dirty 15", including countries that violate two criteria: (1) imposing unfair tariffs on the US commodities and (2) causing the US to suffer a large trade deficit (according to Bloomberg).

Accordingly, we believe that Vietnam is among the most vulnerable countries to the US reciprocal tariffs as it violated both criteria:

(1) Vietnam is imposing an average tariff 5.8% (or even 11% if VAT included) higher than the rate applied by the US.
Our calculation was based on the weighted average cost method using weighted averages of Vietnamese goods imported to the US. As a result, we found that (i) Vietnam's average tariff on the US commodities is 9.3%; and (ii) the US's average tariff on Vietnam is 3.5% (Table 1).

(2) Vietnam is in the top three countries with which the US has the largest trade deficit (Figure 1).

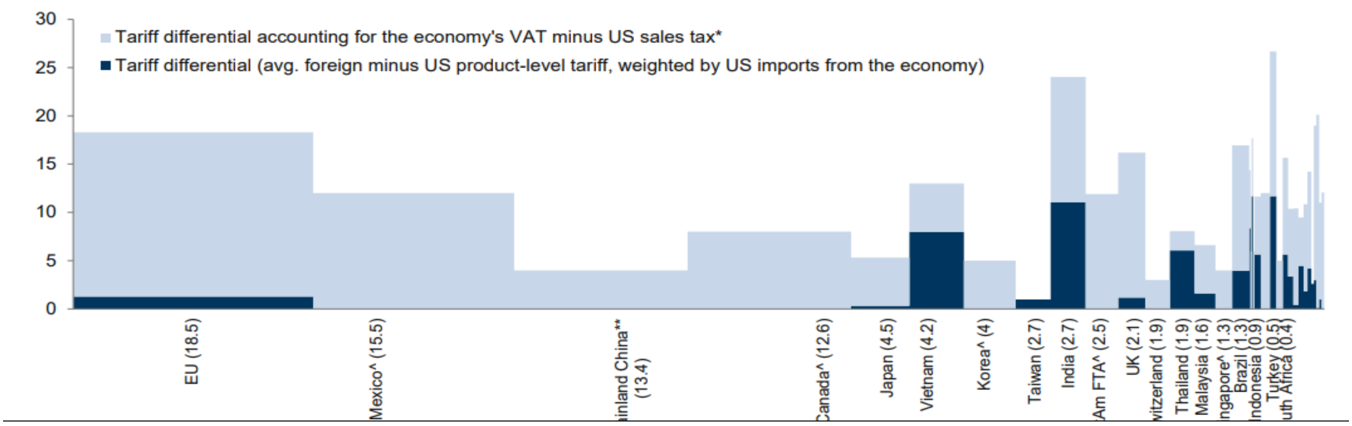
Table 1. Vietnam, US – Average tariff on imports

HSCODE	Commodity	Contribution to Vietnamese imports to the US (2023, %)	Average US tariff on Vietnamese imports (%)	Average Vietnam tariff on the US imports (%)	Tariff gap (%)
		100%	3.5*	9.3*	5.8*
'85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers	35%	1	2	1
'84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	15%	1	2	1
'94	Mattress supports; articles of bedding and similar furnishing	10%	1	18	17
'64	Footwear and gaiters, leggings and similar articles, and parts thereof	7%	12	22	10
'61	Apparel and clothing accessories, knitted or crocheted	7%	14	20	6
'62	Apparel and clothing accessories, not knitted or crocheted	6%	11	20	9
'95	Toys, games and sports requisites; parts and accessories thereof	2%	1	13	12
'39	Plastics and plastic products	2%	5	5	0
'40	Rubber and rubber products	1%	2	7	5
'90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus	1%	1	1	0
'73	Articles of iron or steel	1%	1	8	7
'42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers	1%	9	24	15
'99	Goods not elsewhere classified	1%	0	0	0
'87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	1%	3	31	28
	Others	10%			

Source: International Trade Centre, KB Securities Vietnam

Note: Our calculation was based on 97 HSCODE codes (two digits) for specific items. However, due to the relatively large data, we only show 90% of the value of Vietnam's exports to the US. There are many different ways of calculation based on the weight of the US imports from Vietnam, the weight of Vietnam imports from the US, or the weight of the total basket of goods imported by Vietnam..., hence differences in the final results between studies.

Fig 2. Global – Tariff differentials between the US and its major trade partners (%)



Source: Goldman Sachs

Note:

- *The width of each column represents the proportion of US imports from each country.*
- *The US sales tax (similar to VAT) varies between states and is averaged at 5%.*
- *Goldman Sachs calculations show that Vietnam's tax burden is slightly higher than KBSV's estimate due to differences in calculation methods, but the difference is not significant.*

Impacts from the reciprocal tariffs on Vietnam

According to the World Bank, approximately 50% of Vietnam's GDP and employment depend directly or indirectly on exports, with the US market accounting for 30% of total export turnover. We estimate that if the US imposes reciprocal tariffs on Vietnamese goods, Vietnam's GDP could decline by 0.7% to 1.3% from the baseline growth rate of 7%. A report by Goldman Sachs forecasts that Vietnam's GDP could drop by around 1.5% if Vietnamese exports face an average reciprocal tariff increase of ~13%.

We assess three possible scenarios if Vietnam is included in the list of countries subject to reciprocal tariffs:

- **1st scenario (40% probability): Vietnam faces reciprocal tariffs excluding VAT**
  The US may raise the average tariff rate on imports from Vietnam by 5.8% (Table 1).
- **2nd scenario (40% probability): Vietnam faces reciprocal tariffs including VAT**
  Trump may factor in additional trade barriers, such as VAT, that other countries impose. Under this approach, the tariff rate could be adjusted by adding the difference between Vietnam's VAT rate (10%) and the average US state sales tax (5%), resulting in a total reciprocal tariff of ~11%.
- **3rd scenario (20% probability): Vietnam is not subject to reciprocal tariffs**
  The Vietnamese government has proactively strengthened diplomatic ties with the US, notably, becoming a comprehensive strategic partner in September 2023. Vietnam has plans to increase imports from the US, including liquefied natural gas (LNG), aircraft, agricultural products, and food. Additionally, the US has also acknowledged Vietnam's efforts to prevent the transshipment of Chinese goods disguised as Vietnamese exports. If these actions are viewed favorably, there remains a possibility that Vietnam will not be included in the list during this review period.

Even if Vietnam is subjected to reciprocal tariffs, we believe the Vietnamese government can still mitigate the impact by proactively introducing policy adjustments to balance trade relations and strengthen its negotiating position with the US. Most recently, on March 26, the Ministry of Finance proposed lowering the MFN tariff rates on 14 key US export products. This move could lay the groundwork for further negotiations, and we are closely monitoring further developments.

The key economic impacts and affected industries are summarized in the table below:

Table 2. Vietnam – Impacts of Donald Trump's 2.0 tariff policy

	1st scenario: Vietnam subject to reciprocal tariff excluding VAT (Average increase of 5.8%)	2nd scenario: Vietnam subject to reciprocal tariff including VAT (Average increase of 11%)	3rd scenario: Vietnam not subject to reciprocal tariffs
Impact on GDP growth compared to the base case scenario without reciprocal tariffs (7%)	- GDP may decrease by 0.7%.	- GDP may decrease by 1.3%.	- Minimal or no impact
Notable macroeconomic changes	- Exports to the US decline, while domestic businesses have yet to pivot to alternative markets. - FDI inflows decrease as Vietnam may no longer be seen as an ideal alternative to China. - Exchange rate pressure increases due to a reduction in USD supply.		- Minimal or no impact
Affected sectors	- Textiles, footwear The extent of the negative impact will depend on the reciprocal tariff rates imposed by the US on Vietnam's key competitors in these industries. - Industrial real estate, logistics The negative impact is expected to be short-term, as FDI enterprises may temporarily pause to assess the situation. In the long run, Vietnam retains its competitive advantages in abundant labor supply, low labor costs, and strategic geographical location, allowing it to continue attracting FDI. - Machinery, electronics, seafood The impact is expected to be minimal, as Vietnam maintains its competitive edge and the import tariff gap between the two countries remains relatively small.	Textiles, footwear, seafood, machinery, electronics, industrial real estate, logistics	- Minimal or no impact

Source: KB Securities Vietnam

Table 2. US – Tariff timeline

	Tariff policies on imports to the US	Notes
Feb 1, 2025	- An additional 10% tariff imposed on China - The previously proposed 25% tariff on Canadian and Mexican goods postponed	
Feb 13, 2025	- The implementation of reciprocal tariffs on all US trade partners announced by Trump	Reciprocal tax is a type of tariff that the US applies as a retaliatory measure against other countries. For example, if Country X imposes a 20% tariff on imports from the US, the US may respond by applying a 20% tariff on imports from Country X.
Feb 26, 2025	- Reciprocal tariffs to take effect from April 2, 2025, as declared by Trump	
Mar 3, 2025	Additional 10% tariff on Chinese imports imposed, bringing the total to 20%	
Mar 4, 2025	- A 25% tariff imposed on Canadian and Mexican imports to the US (except for Canada's energy sector, which will be taxed at 10%)	
Mar 6, 2025	- Tariff exemptions for products from Mexico and Canada under the United States-Mexico-Canada Agreement (USMCA) postponed until April 2, 2025	The USMCA agreement covers approximately 50% of imports from Mexico and 36% of imports from Canada.
Mar 12, 2025	- A 25% tariff imposed on steel and aluminum products	
Apr 1, 2025*	- A report by the US Trade Investigation Agency submitted to President Trump, assessing trade partners for asymmetries and negative impacts on US trade	Evaluation criteria for reciprocal tariffs may include: - Unfair trade practices with the US (For example, if Country A imposes higher import taxes on US goods than the US imposes on Country A's goods) - US trade deficit with Vietnam - Existing trade agreements with the US - Countries under US scrutiny for currency manipulation
Apr 2, 2025*	- Reciprocal tariffs applied to all US trade partners - A 25% tariff imposed on all Canadian and Mexican goods - An additional 10% tariff imposed on China	

Source: KB Securities Vietnam

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Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market