

## Assessing the impact of the US-Vietnam trade deal

Vietnam is the first Asian country to secure a trade deal with the US, avoiding punitive 'reciprocal tariffs'. While higher tariffs on value-added exports and potentially significant transshipments could hurt GDP growth, favourable tariff differentials might accelerate the supply chain shifts Vietnam has been benefiting from



A textiles factory in Vietnam

### Trump announces new trade deal with Vietnam

President Trump announced a new trade deal with Vietnam yesterday. Under the agreement, imports from Vietnam will face a 20% tariff, while transhipped goods from third countries will be subject to a higher rate of 40%. This makes Vietnam the first Asian country to secure a trade deal with the US.

While the outcome isn't as favourable as the current 10% tariff rate, it's still better than the potential 46% reciprocal tariff Vietnam might have faced after the 90-day tariff pause ends on 9 July. Therefore, it's a bit of a mixed result.

## Negative impact on GDP growth as large value-added exports get taxed at a higher rate

The differentiation between value-added exports and transshipment exports will be key in assessing the overall impact on Vietnamese exports, though it is far from clear what transshipment means. From a value-add perspective, Vietnam's total exposure to US imports is estimated at around 12% of GDP. A 20% tariff, assuming demand elasticity of 1, could put 2.5% of Vietnam's GDP at risk.

Many companies use Vietnam as an assembly point for manufactured components imported from China, or add enough value to the products to legally change their place of origin. However, some companies merely slap a "Made in Vietnam" label on China-made goods, making it an illegal but difficult-to-trace practice.

Studies estimate that "indirect Chinese content" in Vietnam's exports to the US ranged between 16-28% in 2021/22, indicating potential areas for further disruption.

While transshipment goods don't add to GDP directly, they generate economic activity and revenue through services such as storage, handling, and transportation, contributing to the service sector. Therefore, the impact on GDP growth is expected to be more significant than the impact of tariffs on value-added goods.

## Transshipment flows from China have risen recently and will impact Vietnamese exports

Trade data for 2025 shows a notable rise in imports from China and re-exports to the US in countries like Vietnam and Thailand. For instance, Vietnam's exports to the US are valued at \$132bn, while imports from China surged to \$174bn in the 12 months to May 2025. Since February 2025, imports from China have jumped by 24% year-over-year. Key sectors showing strong signs of transshipments include machinery and equipment, insulated wires and cables, and computer and electrical products.

In 2024, China's exports of machinery and electrical equipment to Vietnam totalled \$77.2bn, accounting for 47.6% of China's total exports to Vietnam, while Vietnam subsequently exported roughly \$45.3bn of machinery equipment and electrical products to the US, representing 40.9% of Vietnam's total exports to the US.

This is a remarkable shift from 2017 levels (pre-US China trade war), when China's exports of machinery and electrical equipment to Vietnam was \$26.9bn and accounted for approximately 16.6% of China's total exports to Vietnam, while Vietnam's machinery equipment and electrical products to the US totalled just \$5.9bn and accounted for only around 5.3% of total exports to the US. Some of this change could be attributed to Vietnam's own domestic demand, but the rapid surge on both ends suggests significant transshipment activity.

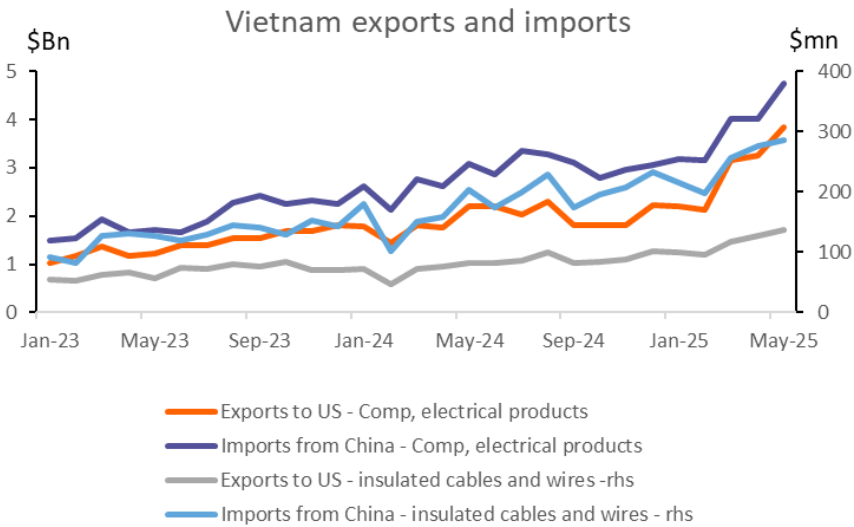
While directly gauging the extent of transshipments is difficult, the weakness in the local manufacturing sector production despite robust export growth suggests limited domestic value-add. In response, Vietnam's trade ministry has issued a directive to crack down on illegal transshipment of goods to the United States and other trading partners by electronically centralising the issuance of certificates of origin.

## Recent surge in Vietnamese exports to US could be driven by transshipments



Source: CEIC

## Significant transshipment activity likely in machinery, and electrical products



Source: CEIC

## Benefits from supply chain diversification in the long-term

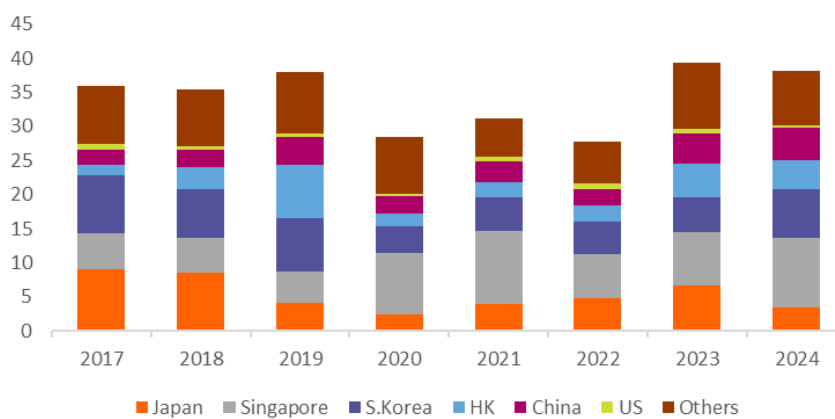
While a reduction in transshipment flow might be negative for Vietnam in the short term, the persistent tariff differentials could further accentuate the supply chain shift trend that Vietnam has been benefiting from. If tariff rates revert to reciprocal rates next week, Vietnam will be at the lower end of the range in Asia – below 24% for Malaysia and Japan, the other strong electronics

exporters in the region. Additionally, Vietnam will benefit significantly in the low-value-added apparel and garments sector, especially with competitors like Cambodia facing 49% tariffs.

Vietnam is seeing a substantial surge in FDI inflows from countries outside of China, particularly from Singapore and South Korea, as businesses diversify their supply chains. In the electronics sector, Vietnam has experienced one of the largest increases in export market share to the US, thanks to the China+1 production model. Major US companies such as Intel, Cargill, Boeing, and Apple have made significant investments in Vietnam.

## 55% of FDI into Vietnam came from Singapore, Japan and South Korea in 2024

Vietnam FDI inflows - registered capital - by source country (USD bn)



Source: CEIC

### Author

**Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

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