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## The U.S. Tariff War under Trump 2.0 and Its Impacts on Vietnam's Economy

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### Abstract

*This paper analyzes the economic effects of the U.S. tariff escalation under the Trump 2.0 administration on Vietnam within the framework of neo-protectionism and global value chain reconfiguration. The study finds that Vietnam's export and FDI gains largely reflect trade diversion and supply-chain substitution following rising U.S.–China trade costs, rather than endogenous upgrading. Empirical evidence identifies four main transmission channels of negative spillovers: anti-circumvention risks, import compression from China, exchange rate pressures, and weakening global demand. Together, these channels create a condition of “double exposure,” as Vietnam depends on the U.S. market for exports while relying heavily on Chinese inputs for production. The paper argues that these externally driven benefits are inherently temporary and structurally fragile, highlighting the need for industrial upgrading, supply-chain resilience, and strategic diversification to sustain growth amid an increasingly fragmented global trade order.*

**Keywords:** Tariff escalation, Neo-protectionism, Vietnam, Trade diversion, U.S.–China trade war

### 1. Introduction

The U.S. – China trade war, which was initiated in 2018 through the imposition of tariff measures by the United States on Chinese goods, has been relaunched and significantly intensified following the re-election of President Donald Trump in 2025, while simultaneously expanding its scope to encompass a broader range of trading partners on a global scale. This development has been particularly evident in the United States' imposition of export controls on rare earths, which has resulted in supply shortages of

critical minerals essential for high-technology products, ranging from semiconductor chips to electric vehicle batteries (CFR, 2025). The second trade war under the Trump administration is expected to accelerate the trend of decoupling between the United States and China, thereby heightening concerns regarding the fragmentation of the global economy. For Vietnam, this trend has exerted a tangible influence on national policy choices in balancing relations with both the United States and China, while at the same time

generating a combination of opportunities and challenges for the Vietnamese economy in the coming period. Against this backdrop, this article aims to elucidate the multidimensional impacts of the tariff war under the Trump 2.0 period on Vietnam's economy, to more clearly identify Vietnam's position within the evolving global trade landscape, and to contribute to policy-oriented insights that may help enhance adaptive capacity and strengthen national competitiveness in the post-"Trump 2.0" era.

In the context of the Trump 2.0 administration reactivating large-scale tariff policies on the occasion of the "Liberation Day Tariffs," this issue has become a focal point of extensive scholarly inquiry and has been approached from multiple disciplinary perspectives.

Studies on the tariff war by Ignatenko and her co-authors have assessed the impacts of the "Liberation Day" tariff package, particularly in relation to its stated objectives of reducing the trade deficit and revitalizing domestic manufacturing (Anna Ignatenko et al., 2025). Similarly, research by Bouët and his colleagues presents findings indicating a significant decline in global trade and GDP, with pronounced spillover effects transmitted through supply chain disruptions and trade diversion mechanisms (Antoine Bouët et al., 2025). In line with Bouët's conclusions, McKibbin's study also demonstrates that the new U.S. tariff packages lead to a slowdown in global economic growth, an increase in inflationary pressures, and heterogeneous impacts depending on each economy's degree of participation in import-based global value chains (Warwick J. McKibbin et al., 2025).

From a different perspective, studies conducted by the IMF, the World Bank, and Harvard University argue that this tariff war has, to some extent, incentivized global firms to diversify their supply sources and reduce dependence on a single country, thereby enhancing the resilience of the global trading system against geopolitical risks, pandemics, and natural disasters (Lorenzo Rotunno & Michele Ruta, 2025). This dynamic is expected to reorient global trade routes through trade diversion toward third countries in order to circumvent tariffs or take advantage of preferential market access, thereby creating greater opportunities for third countries to integrate into global value chains (Ebehi Iyoha et al., 2025; JaeBin Ahn & Brandon Joel Tan). Both the United States and China are thus compelled to reform their development models and undertake strategic adjustments in response to intensified competition, particularly in the technological domain. Existing studies further indicate that this competition affects not only the United States and China but also economies closely interconnected with these two major powers, especially in the context of global and regional economic restructuring.

Recent scholarly works have largely focused on measuring the impacts of U.S. tariffs on economic growth, trade flows, and supply chains. However, substantial gaps remain in the analysis of developing economies such as Vietnam. Accordingly, the present study seeks to address these gaps by combining qualitative and quantitative approaches, with a specific focus on impact transmission channels, sectoral effects, and Vietnam's policy responses within the context of the global tariff war under the Trump 2.0 period.

## 2. Theoretical Framework

Trade protectionism refers to a set of economic measures employed by a country to protect domestically produced goods from competition with imported products. These measures may

include tariffs, quotas, subsidies, and technical regulations (Paul R. Krugman et al., 2018). At its core, protectionism involves the use of economic or political power to weaken other countries, serving key objectives such as: (i) safeguarding national interests; (ii) ensuring political autonomy; and (iii) protecting infant industries.

Since the early development of international trade, European kingdoms employed tariffs, quotas, and trade monopolies to accumulate gold and silver and to protect domestic production as a means of wealth accumulation during the sixteenth to eighteenth centuries. However, in the context of contemporary globalization, protectionism has re-emerged in the form of "neo-protectionism," characterized by selective state intervention motivated not only by economic considerations but also by concerns related to security, technology, employment, and geopolitics (Anh, 2018). Under President Donald Trump, particularly during the period commonly referred to as "Trump 2.0," newly introduced tariff policies have clearly demonstrated the resurgence of protectionism within the framework of the "America First" trade policy. The United States imposed high tariffs on imports from China as well as from close allies such as the European Union, Japan, and South Korea, arguing that "trade policy is an essential component of national security and has reduced our nation's reliance on other countries to meet critical security needs" (Register, 2025). In this context, tariffs have been utilized as instruments to ensure national security through sanctions, to exert negotiating pressure in order to achieve new trade agreements, and to protect domestic industries, depending on specific policy decisions. These instruments have been legally justified through various statutory authorities underpinning the administration's tariff measures, including the International Emergency Economic Powers Act (IEEPA), Sections 201, 232, and 301, each corresponding to particular objectives pursued by the United States (Council, 2025; Erica York & Alex Durante, 2025).

This study employs the theory of trade protectionism to analyze the tariff war as a means of examining the political objectives through which the United States seeks to rebalance global power by using economic instruments. At the same time, it investigates the impacts of this policy on global trade, with Vietnam serving as a representative case. Vietnam, given its intermediary position within East Asian supply chains and its large export volume to the United States, is subject to a dual impact: (1) direct effects stemming from tariff fluctuations and changes in U.S. import demand, and (2) indirect effects resulting from shifts in global investment, production, and trade patterns driven by the U.S.–China tariff conflict. On this basis, the study assesses how Vietnam adapts to this "external shock" by adjusting its policies in order to avoid being drawn into U.S.–China competition, while simultaneously safeguarding national interests related to market diversification, export reorientation, the attraction of new investment flows, and the exploitation of opportunities arising from global supply chain reconfiguration.

## 3. The US trade war and its global implications

### 3.1. "Liberation Day" Tariffs

Immediately after being re-elected in 2025, President Donald Trump issued an executive order on regulating imports through reciprocal tariffs in order to rectify practices that contribute to large and persistent annual United States trade deficits. This policy was officially announced as "Liberation Day" on April 2, 2025. The

administration argued that an unusual and extraordinary threat to the national security and economic stability of the United States stems from the tariff policies, non-tariff barriers, and broader economic policies adopted by its trading partners. Given that a country's domestic manufacturing capacity constitutes a fundamental pillar of both national security and national economic strength, the United States has experienced a significant decline in its manufacturing capabilities relative to other competitors across several industrial sectors, including automobiles, shipbuilding, pharmaceuticals, technology products, machine tools, and basic and fabricated metals (White House, Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits, 2025). As a consequence, the United States has become increasingly dependent on foreign producers, thereby rendering U.S. supply chains more vulnerable to geopolitical disruptions and supply shocks. Accordingly, the administration emphasized the necessity of adopting strong measures to reverse these losses and reshore manufacturing activities, create jobs for American workers, and restore domestic industrial capacity through robust tariff policies. This policy was applied to all U.S. trading partners and implemented through three primary approaches: (i) negotiating new trade agreements; (ii) imposing economic sanctions through tariff increases and the application of new tariffs; and (iii) safeguarding U.S. security and national interests by protecting domestic industries and increasing government revenue from import duties. To achieve these objectives, the administration of President Donald Trump invoked specific legal authorities, resulting in the introduction of six new categories of tariffs.

(i) The International Emergency Economic Powers Act (IEEPA) is intended to authorize sanctions, asset freezes, and restrictions on trade (imports) in response to "unusual and extraordinary" foreign threats to the national security, foreign policy, or economy of the United States. The President invoked the IEEPA to increase tariffs by 25 percentage points on Canada and Mexico, and by 10 percentage points on China. It was also applied to Brazil in relation to content censorship and legal issues involving a former Brazilian president, and to India due to its imports of Russian oil (Keigh E. Hammond & William F. Burkhart, 2025, p. 2; TPC, 2025).

(ii) Section 232 of the Trade Expansion Act of 1962 is designed to impose additional sector-specific tariffs on national security grounds. The President may respond by imposing tariffs or quotas to address unfair trade practices under Section 301 of the Trade Act of 1974. This provision has been applied to products such as steel, aluminum, automobiles, copper, trucks, buses, and wood products, regardless of their country of origin (TPC, 2025).

(iii) Section 301 of the Trade Act of 1974 aims to investigate foreign trade practices that violate trade agreements or disadvantage U.S. commerce. If an investigation confirms the existence of unfair foreign trade practices, the executive branch may respond with a range of trade measures, including the suspension or withdrawal of benefits under a trade agreement, as well as the imposition of import tariffs. This authority has been invoked with respect to certain specific Chinese products.

(iv) "Reciprocal" tariffs are established on a country-by-country basis, with a minimum tariff rate set at 10 percent.

(v) Existing tariff rates derived from previous trade statutes and agreements, as summarized in Chapters 1–97 of the Harmonized

Tariff Schedule, also referred to as Most-Favored-Nation (MFN) tariffs.

(vi) Anti-dumping duties and countervailing duties.

In addition, studies estimate that if all announced policies are fully implemented, the average tariff rate on all imported goods would reach 21.0 percent. The tariffs announced by the Trump administration as of November 20, 2025, are projected to generate approximately USD 2.3 trillion in revenue over the period from 2026 to 2035, of which USD 247 billion would be collected in 2026 alone (Erica York & Alex Durante, 2025). Tariffs imposed under Section 232 are expected to increase U.S. federal tax revenue by an additional USD 602 billion over the next decade, while tariffs implemented under the IEEPA are projected to generate an additional USD 1.5 trillion in revenue during the same period (TPC, 2025).

In essence, the IEEPA measures initially targeted countries such as China, India, Mexico, and Brazil, all of which are large economies associated with the BRICS group and have expressed intentions to promote the use of a single BRICS currency for international trade. By doing so, these countries seek to remove a major obstacle to their efforts to reduce dependence on the hegemony of the U.S. dollar (Sullivan, 2023). Consequently, the newly introduced tariffs have been employed as instruments of trade punishment against these countries in situations where other financial tools have proven ineffective or overly coercive. Moreover, the new U.S. tariff policy is designed to facilitate strategic competition between the United States and China and to secure an advantage in the technological race, in which the United States maintains leadership in certain critical areas while China is rapidly catching up or leading in several others. In this context, the complexity of supply chains related to semiconductors and rare earths plays a particularly significant role. Given that many U.S. high-technology products remain dependent on production or raw materials sourced from China or from countries considered "satellites" within China's industrial ecosystem, a complete decoupling from Chinese supply chains would be highly costly and time-consuming (Allison Nathan et al., 2025). Accordingly, the new tariff policy provides exemptions for products containing at least 20 percent U.S.-origin petroleum components, critical minerals, metals, rare earth elements, and organic and inorganic chemicals (Kholofelo Kugler & Tani Washington, 2025). This approach aims to safeguard U.S. strategic interests in the technological race while protecting sectors in which the United States retains advantages in foundational technologies, such as artificial intelligence, software, chip design, and private capital ecosystems. This objective is further underscored by the announcement of the action plan titled "Winning the AI Race: America's AI Action Plan" in July 2025, which asserts that "artificial intelligence is a revolutionary technology with the potential to transform the global economy and alter the balance of power worldwide. To maintain its position as the world's leading economic and military power, the United States must win the AI race" (White House, 2025).

### 3.2. *The impact of the trade war on the globe*

The new U.S. tariff policy has generated global impacts across two principal dimensions: (i) its effects on global trade and supply chains, and (ii) its implications for security and foreign policy.

#### *Impacts on Global Supply Chains and Trade*

At the global level, the new tariff policy targets countries perceived as posing security threats to the United States; however, it has also



generated significant spillover risks for world trade. Global trade is estimated to have declined by 1.5 percent in 2025, while North America experienced a sharp contraction, with exports falling by 12.6 percent and imports by 9.6 percent, resulting in weakened regional performance and negative growth outcomes. In practice, Canada and Mexico have been the most severely affected, as trade with the United States accounts for approximately 70 percent of GDP in both countries, directly threatening key sectors such as agriculture, electronics, oil, and automobiles (Shannon K. O'Neil & Julia Huesa, 2025). The Asian region also recorded limited growth in both exports and imports at only 1.6 percent, while Europe experienced export growth of 1.0 percent and import growth of 1.9 percent (WTO, 2025). These developments are likely to incentivize other economies to seek market diversification by reactivating free trade agreement negotiations in order to offset export losses to the United States. The European Union has concluded three free trade agreements, with the Mercosur bloc in South America, Mexico, and Indonesia, and is pursuing a fourth agreement with India by the end of 2025. Mercosur has also signed a free trade agreement with the European Free Trade Association, comprising four countries, and has resumed trade negotiations with Canada that had been suspended in 2021. India and New Zealand have resumed negotiations after a decade-long hiatus, while the United Arab Emirates signed three trade agreements in January 2025 alone (Blenkinsop, 2025). ASEAN also signed an upgraded free trade agreement with China in October 2025 (Post, 2025).

In essence, the new tariff policy has compelled trading partners to open their markets and commit to purchasing U.S. goods, reflecting a form of “managed trade” led by the United States. Reciprocal tariff rates were initially set at very high levels (25 percent or higher) and were subsequently reduced to ceilings of 15 percent or 19 percent for specific groups of countries. In exchange, these countries were required to substantially liberalize market access for U.S. goods and investment, commit to large-scale purchases of U.S. products - including energy, agricultural commodities, aircraft, and semiconductors - and implement multiple layers of non-tariff measures related to investment, labor, and digitalization that favor U.S. interests. As a result, the administration used tariffs as leverage to exert negotiating pressure on more than 80 trading partners over both tariff and non-tariff issues, and subsequently completed adjustments to reciprocal tariff rates for more than 100 trading partners (TPC, 2025; Keigh E. Hammond & William F. Burkhart, 2025, p. 2; Ana Elena Sancho et al., 2025).

With regard to North America, which is institutionally linked to the United States through the Free Trade Agreement (USMCA), Canada and Mexico have been required to further open their markets and prioritize U.S. goods through stricter rules of origin. Within the framework of the USMCA, imports from Canada and Mexico generally continue to enjoy tariff exemptions, particularly for automobiles and automotive parts that meet quota requirements and intra-regional conditions, despite the United States imposing new tariffs of up to 25 percent on imports from these two countries (Messerly, 2025). In the case of steel and aluminum, all imports from Canada and Mexico are subject to a 25 percent tariff; however, derivative products are exempt if they meet minimum requirements for U.S.-produced steel or aluminum content, based on the domestic “melted and poured” criterion, and are accompanied by valid certification approved by U.S. Customs and Border Protection (CBP) (PwC, 2025). This demonstrates that both Canada and Mexico have been compelled to negotiate in order to

preserve preferential access and avoid escalation, while simultaneously maintaining and safeguarding the USMCA by complying with rules of origin as well as labor and environmental standards to qualify for preferences and avoid inclusion in tariff lists. In doing so, the policy incentivizes manufacturers to locate additional production stages or value-added activities within the United States, indirectly generating increased demand for U.S. inputs and services.

China, by contrast, has responded forcefully to the new tariff policy, although the tariff rates have recently been reduced to 10 percent and 30 percent, respectively. Despite extensive negotiation efforts, the United States has continued to raise import tariffs on steel and aluminum to 25 percent (Liew, 2025). Overall, the tariff measures target entire value chains in strategic sectors such as electric vehicles, lithium-ion batteries, solar energy components, steel, aluminum, and semiconductors. Tariffs on Chinese electric vehicles exceed 100 percent, solar panel tariffs have increased to 50 percent, and lithium-ion batteries were subject to a 25 percent tariff in 2024. Under the revised Section 301 measures, semiconductor imports are expected to face tariffs of up to 50 percent in 2025 (Medina, 2025). These sectors are also those in which China possesses strong competitive advantages and significant capacity for rapid market expansion. Following negotiation meetings in Busan, reciprocal tariff rates were reduced to 10 percent and extended until November 2026 (Huld, 2025). China has also responded by intensifying trade relations with external partners such as the European Union, Mexico, and ASEAN in order to mitigate the impact of the additional 10 percent tariffs imposed on Chinese exports to the United States (Shannon K. O'Neil & Julia Huesa, 2025).

#### *Impacts on the International System*

The new tariff policy has contributed to a reconfiguration of the economic structure in the Indo-Pacific region. The U.S. approach of imposing high reciprocal tariffs followed by bilateral bargaining has undermined the WTO's principle-based multilateral framework. Bilateral agreements concluded by the United States with the United Kingdom and China violate the non-discrimination obligation under the Most-Favored-Nation (MFN) principle (Article I of the GATT), as these arrangements are not applied uniformly to all WTO members, thereby running counter to the WTO's core objective of promoting multilateral trade negotiations (Article XXVIIIbis) (Henrik Horn & Petros C. Mavroidis, 2025). Moreover, these new tariff measures have pushed the international system closer to a network of bilateral consensuses that depend largely on each country's capacity and willingness to accept U.S. conditions. Empirical developments indicate that ongoing trade negotiations with India have yet to yield concrete outcomes, and the United States has expressed readiness to carry out its threat of imposing an additional 25 percent tariff, raising the total tariff level to 50 percent. Trade negotiation rounds between the two sides have stalled, as the United States has demanded that India substantially open its agricultural and dairy sectors and has also called on India to cease purchasing Russian oil, which Washington argues contributes to Russia's war against Ukraine (Yerushalmy, 2025). In a context in which the United States places particular emphasis on India's role as a strategic partner in the Indo-Pacific region, these tariff measures are not solely directed toward economic objectives but are also employed as instruments of pressure to encourage India to more clearly articulate its strategic alignment and policy positioning in support of the United States.

In addition, the expansion of U.S. tariff policies to third-country transshipment hubs reflects an increasingly pronounced trend of polarization in U.S.–China strategic competition. These measures are not only intended to directly restrict Chinese goods but also aim to accelerate the relocation of global supply chains away from China, thereby weakening China’s central role in international production networks. In response to mounting pressure, China has simultaneously pursued a strategy of trade and investment diversification, expanding economic relations with alternative partners in order to mitigate the negative effects of U.S. tariff barriers. Chinese firms have increasingly sought out lower-cost destinations such as Africa, Mexico, Vietnam, and Cambodia, while also scaling up investment in countries with close political ties to offset the contraction of access to the U.S. market. China has introduced additional economic incentives, including tariff reductions such as duty-free access for African countries, the strengthening of political ties with Southeast Asian states, and expanded financial incentives and infrastructure development support for Vietnam and Cambodia. China has also made efforts to promote trilateral cooperation with Japan and South Korea in order to expand market access in Northeast Asia, as well as to deepen cooperation with the European Union despite bilateral tensions arising from China’s imposition of anti-dumping duties on European brandy (Zeng, 2025). Furthermore, China has strengthened political relations with Russia, as both countries seek to reshape the international order in ways that constrain U.S. and Western dominance. These converging interests help explain China’s willingness to expand substantial support for Russia and to cooperate closely in maintaining bilateral ties, enhancing strategic alignment, deepening cooperation across multiple sectors, and achieving more tangible outcomes in order to better serve the development and national rejuvenation objectives of both countries (Xinhua, 2025). As a result, China’s economic ties with Russia have intensified, with exports routed through Russia increasing by 70 percent between 2021 and 2024 and during the first half of 2025, particularly in sectors such as machinery, electrical equipment, and automobiles. Imports from Russia have also risen by 13 percent, primarily consisting of oil and coal between 2022 and 2024 (Alessia Caruso & Tim Rühlig, 2025).

However, the trend of “decoupling” between the United States and China is not driven solely by actions taken by either Washington or Beijing, but is also shaped by the responses of third countries as they adjust their strategies to limit dependency risks and avoid being drawn deeply into U.S.–China polarization. African countries have adopted cautious responses to U.S. tariff policies, seeking to de-risk their economic relations while maximizing opportunities arising from U.S.–China divergence in order to secure additional economic benefits. Although some African countries are directly affected by U.S. tariffs, many others benefit from relatively lower tariff rates or retain export advantages to the U.S. market under the African Growth and Opportunity Act (AGOA). Many African governments are concerned that openly opposing U.S. tariff policies could lead to reduced exports, particularly in sectors such as steel, aluminum, light industrial goods, and processed agricultural products, and disrupt regional value chains linked to the U.S. market. As a result, the prevailing approach among African countries has been one of dialogue and diplomatic engagement rather than direct tariff retaliation, accompanied by a continued commitment to supporting the WTO’s multilateral trade order and its vision of “close cooperation to shape the future of the global trading system.” Conversely, the new

U.S. tariff policy has also created bargaining opportunities for African countries, as the United States increasingly views Africa as a source of strategic minerals—including cobalt, lithium, manganese, and clay—essential for supply chains related to batteries, electric vehicles, and clean energy, as well as a key arena for competing with China for influence. Leveraging these advantages, African countries are able to assert their strategic relevance by promoting preferential trade arrangements focused on products of particular interest to the United States, in exchange for long-term investment commitments in extraction, processing, and industrial development within Africa. At the same time, African countries continue to maintain and expand economic relations with China, especially in infrastructure investment, resource development, and industrial sectors, thereby capitalizing on U.S.–China competition to optimize their development outcomes (Kholofelo Kugler & Tani Washington, 2025).

However, a notable feature of the United States’ bilateral tariff agreements with its trading partners is their explicit objective of closing loopholes in U.S.–China trade by restricting trade diversion through third markets, particularly by imposing high tariffs on goods transshipped from China. In order to maintain tariff advantages, manufacturers in ASEAN are now required to demonstrate substantial transformation, meaning that production processes must fundamentally alter the essential character of a product or result in a change in its tariff classification. As a consequence, ASEAN has begun to shift from functioning primarily as a transshipment hub toward developing a production ecosystem that complies with U.S. regulatory requirements (Medina, 2025). Under Malaysia’s leadership as ASEAN Chair in 2025, the bloc has clearly articulated a position of refraining from retaliatory tariffs and has reaffirmed its commitment to a rules-based multilateral trading system through the World Trade Organization (WTO). ASEAN has also agreed to establish an ASEAN Geo-economic Task Force to assess long-term strategic impacts, to strengthen supply chain resilience, and to enhance cooperation with the United States as well as other major trading partners in order to maintain strategic balance (Medina, 2025).

## 4. The Impacts of the Trump 2.0 Tariff War on Vietnam’s Economy

### 4.1. Benefits Arising from the Restructuring of Global Supply Chains

While China has faced an unprecedented tariff shock, Vietnam has emerged as one of the major “beneficiaries,” primarily due to structural dynamics at the moment of supply chain reallocation rather than newly acquired intrinsic competitive advantages. Recent studies (Simone C. et al., 2021; Alfaro and Chor, 2023) indicate that the majority of the market share gains captured by Vietnam have resulted from a substitution effect, whereby tariffs eroded China’s competitiveness in labor-intensive industries and sectors highly dependent on exports to the United States. In this context, Vietnam has functioned as an intermediary node within the “China +1” strategy - an option that allows firms to maintain access to the U.S. market while avoiding the additional costs associated with trade protectionism (Shekhar Aiyar et al., 2023). Vietnam replaced approximately 45–50 percent of the export market share lost by China in the U.S. market during the 2017–2022 period (Alfaro, Laura, and Davin Chor, 2023), leading to an increase in Vietnam’s exports to the United States from USD 46.4 billion in 2017 to USD 136.5 billion in 2024, with an estimated USD 130 billion in 2025 (Ha, 2025).

Similarly, the U.S.–Vietnam framework agreement of July 2025, further expanded on the sidelines of the ASEAN Summit in October 2025, officially reduced the general tariff rate to 20 percent while establishing a 40 percent tariff for transshipped goods, in exchange for Vietnam’s strong commitments to further open its market to U.S. agricultural and technology products. These arrangements have generated a degree of short-term stability, despite a substantial increase in export costs (The White House, 2025). Such policy adjustments reinforce Vietnam’s position as a close partner within the United States’ supply chain reconfiguration strategy. However, the resulting benefits remain largely temporary, as they are heavily contingent upon tariff fluctuations and Washington’s shifting political priorities across different periods.

From a theoretical perspective, these developments are consistent with the logic of neo-protectionism and international economic models that emphasize trade and investment diversion effects (Amiti et al., 2019; Escaith, 2021). When transaction costs rise between two major economies, trade and foreign direct investment tend to be redirected toward third countries that offer lower costs and reduced policy risk (Bagwell & Staiger, 2011). Vietnam with a high degree of trade openness approaching 200 percent of GDP and a geographic position embedded within Asian production networks, has thus emerged as a natural choice within the de-risking strategies of international firms (VCCI, 2025).

This pattern is also consistent with the gravity model, which predicts that when trade costs increase between two large partners, trade flows are redirected toward countries that are geographically proximate, lower-cost, and possess institutional structures supportive of trade. Shift – share analyses in numerous studies on Vietnam indicate that most of the growth in Vietnam – U.S. trade during this period has stemmed from structural reallocation effects rather than from an expansion of global demand or improvements

in domestic value added. This represents a characteristic feature of value chain restructuring driven by external policy shocks and further reinforces the argument advanced by Bagwell and Staiger (2011) regarding the unintended spillover effects of trade protectionism.

4.2. Transmission Channels of U.S. Tariffs: Structural Vulnerabilities and the Limits of Short-Term Gains

Despite the evident benefits achieved, Vietnam’s position within the new trade structure remains inherently fragile. As warned by Krugman (1987) and Baldwin (2022), gains arising from geoeconomic fragmentation tend to be cyclical and reversible, particularly when they are contingent upon unilateral policy decisions by major powers. In Vietnam’s case, export expansion is heavily dependent on three external variables: U.S. tariff policy, China’s adjustment responses, and the willingness of multinational corporations to sustain fragmented supply chains (Wei Luo et al., 2025). Consequently, these benefits do not represent a long-term equilibrium but rather a short-term “window of opportunity” created by heightened volatility in U.S.–China trade relations. Within this context, the impact of tariffs on Vietnam under the Trump 2.0 period reveals a degree of structural vulnerability, not only due to the large scale of bilateral trade but also because of spillover effects extending to investment flows, labor markets, and regional supply chains. The phenomenon of “decoupling” between growth and exports, where GDP growth remains robust while exports to the United States decline, reflects the restructuring dynamics of the economy in response to trade shocks. Ossa (2014) argues that such effects are characteristic of unilateral protectionism, whereby shocks generated by large economies can lead to welfare losses in smaller and more open economies. On this basis, four primary transmission channels can be clearly identified in the case of Vietnam.

Figure 1. Transmission channels of negative spillover effects from the U.S. tariff war (Trump 2.0) on the Vietnamese economy, 2024–2026.

Transmission Channel	Negative Impact Mechanism	Illustrative Data (2024–2025)
Trade deflection & anti-circumvention risk	The US suspects Vietnam is a "back door" for Chinese goods → anti-circumvention tariffs (Sections 301, 232)	Solar Panels: 14.5–271% (DOC conclusion 6/5/2025); Core Steel: 195.23% Dual AD + CVD (10/2024); Plywood: 152% (6/2025) (USTR, 2024)
Import compression from China	Cheap Chinese goods flood the market due to the loss of the US market, leading to fierce competition with domestic businesses.	China's trade deficit: \$84.79 billion (September 2025) (Le, 2025)
Exchange rate & monetary policy pressure	VND depreciates by 3.5% (December 2025) → increased import costs of raw materials, imported inflation.	The State Bank of Vietnam (SBV) sells foreign currency to intervene in order to stabilize the market (Lan, 2025).
Global demand slowdown & inventory overhang	Global "overproduction crisis" → export orders decline from Q4/2025	Forecasted global export growth of only 3–5% (2026), Vietnam's GDP will reach approximately 6.1% in 2026 (Nhi, 2025)

Source: Author’s elaboration using data from USTR (2025), GSO (2025), SBV (2025), and World Bank (2025).

First Channel – Risks of Trade Diversion and Anti-Circumvention Measures

The first transmission channel arises from the diversion of Chinese goods toward Vietnam in order to circumvent U.S. tariffs, thereby exposing Vietnam to the risk of being perceived as a “backdoor”

transshipment hub within global supply chains. Data from the U.S. Trade Representative (USTR, 2024–2025) indicate that Washington has expanded anti-dumping (AD) and countervailing duty (CVD) investigations across multiple product categories that incorporate Chinese inputs or components (My, 2025). In addition to the general tariff rate of 20 percent applied since August 2025, the United States has implemented a 40 percent anti-transshipment tariff, alongside intensified enforcement of rules of origin, anti-dumping measures, and actions targeting tariff evasion (Reuters,



2025). According to UNDP (2025), the economic costs arising from tariffs and anti-circumvention measures could reach USD 19–25 billion, equivalent to approximately 3–4 percent of GDP, if maintained over time (Guarascio, 2025). The rate of supply chain rerouting within Vietnam is estimated at around 16 percent (Ebehi Iyoha et al., 2025). In the context of a rapidly expanding Vietnam–U.S. trade surplus, the likelihood that the United States will further broaden AD/CVD investigations and intensify currency monitoring has also increased. These factors collectively constitute a form of “structural vulnerability,” compelling firms and regulators to confront higher compliance costs, greater legal risks, and the potential inflow of tariff-driven foreign direct investment originating from China.

From a theoretical perspective, this situation reflects the “terms-of-trade” mechanism within the framework of neo-protectionism articulated by Bagwell and Staiger (2011), whereby large countries employ tariffs to improve their own terms of trade while shifting adjustment costs onto smaller economies. For Vietnam, the primary consequences of this transmission channel include: (i) a sharp increase in legal and tariff-related risks due to the expanded scope of U.S. investigations; (ii) rising compliance costs associated with rules of origin, particularly in sectors heavily dependent on Chinese inputs; and (iii) the risk of declining quality in new foreign direct investment inflows as some Chinese firms relocate production lines to Vietnam primarily to gain access to the U.S. market. Together, these dynamics create a “structural vulnerability” that heightens uncertainty within Vietnam’s trade environment.

#### *Second Channel: Import Compression from China and Domestic Competitive Pressure*

This channel arises from the reconfiguration of trade flows as Chinese goods face restricted access to the U.S. market, leading low-priced products to be increasingly diverted toward neighboring markets, particularly Vietnam. This dynamic generates an import compression shock, manifested in an influx of low-cost goods that intensifies competition with domestic firms, especially in labor-intensive and low-margin sectors such as textiles and garments, footwear, furniture, steel, construction materials, and consumer electronics. Data indicate that Vietnam’s trade deficit with China increased from USD 82.8 billion in 2024 to USD 84.79 billion as of September 2025, the highest level on record. Imports from China rose by 27.94 percent year-on-year, reaching USD 134.41 billion compared to the same period in 2024, with electronic components accounting for 28.6 percent and machinery, equipment, tools, and spare parts comprising 20.9 percent (Lê, 2025). This structure reflects a rising share of labor costs, heightened sensitivity of production costs to exchange rate fluctuations, and deeper dependence of domestic firms on Chinese supply chains. These trends are consistent with warnings in global value chain theory that economies overly reliant on import-based assembly often face the risk of “production without upgrading,” whereby manufacturing output expands without corresponding improvements in technological capability, value added, or positioning within value chains (Gereffi, 2018; Miroudot & Cadestin, 2017). Under conditions in which imported inputs constitute a high proportion of production costs, firms struggle to accumulate endogenous capabilities, resulting in compressed profit margins and constrained reinvestment capacity. This outcome aligns with Baldwin’s (2016, 2022) argument that dependence on cross-border production networks, particularly when concentrated

in low value-added segments, exacerbates “structural vulnerability” in emerging economies. For Vietnam, this production structure generates heightened cyclical and policy risks, increasing vulnerability to trade shocks, exchange rate volatility, and fluctuations in global demand amid deepening geoeconomic fragmentation.

#### *Third Channel: Exchange Rate Pressures and Monetary Policy Management*

The U.S. tariff shock has significantly intensified pressure on the VND/USD exchange rate through trade fluctuations and capital flow dynamics. In 2025, the Vietnamese dong depreciated by approximately 3.5 percent, driven primarily by three factors: a sharp increase in demand for U.S. dollars to finance imports of intermediate inputs; the withdrawal of short-term capital from emerging markets as real interest rates in the United States rose; and a prolonged trade deficit with China. To stabilize the exchange rate, the State Bank of Vietnam (SBV) intervened by selling foreign currency and, on December 5, implemented 14-day foreign exchange swap operations with credit institutions to support U.S. dollar liquidity within the banking system (Lan, 2025). These measures have resulted in three main consequences: a decline in foreign exchange reserves, thereby increasing the financial system’s vulnerability to external shocks, a phenomenon described by the IMF (2023) as “external buffer erosion”; imported inflation in sectors heavily dependent on imported inputs (Miroudot & Cadestin, 2017); and a narrowing of monetary policy space, consistent with the argument concerning the trade-off between exchange rate stability and monetary autonomy in open economies (Obstfeld et al., 2010).

Exchange rate depreciation has raised production costs in sectors that rely extensively on imported inputs. Given the high price elasticity of the U.S. market, exporting firms face difficulties in passing higher costs on to buyers, leading to compressed profit margins and weakened reinvestment capacity. This dynamic is particularly evident in the electronics sector: despite reaching an export value of USD 29.26 billion in the first quarter of 2025 (Vietnam Customs, 2025), exports to the United States declined by 24.38 percent in September 2025 (Reuters, 2025a). In response, foreign-invested enterprises have shifted part of their orders to the European Union and India to mitigate supply chain concentration risks. In labor-intensive sectors, especially textiles and garments as well as footwear, U.S. retailers have postponed orders to reassess cost impacts, resulting in reductions in working hours and employment across numerous factories (Business of Fashion, 2025). The wood processing sector has faced similar effects: although exports of wood and furniture reached USD 9.67 billion in the first seven months of 2025, prospects for the fourth quarter remain contingent upon the progress of U.S. tariff negotiations (Ministry of Industry and Trade, 2025).

#### *Fourth Channel: Declining Global Demand and Excess Capacity*

The tariff war has unfolded against the backdrop of a global excess capacity crisis in industrial goods, which has weakened global demand and reduced export orders. From the fourth quarter of 2025 onward, sectors such as electronics, textiles and garments, wood processing, and chemicals have recorded a marked decline in orders. International organizations project that Vietnam’s export growth could fall from 15–20 percent in 2024 to only 3–5 percent in 2026. At the same time, the manufacturing Purchasing Managers’ Index (PMI) is likely to decline below 45 points,

reflecting a contraction in the manufacturing sector. The inventory-to-revenue ratio has risen to its highest level since the COVID-19 pandemic, forcing firms to cut production, postpone investment, and adjust labor levels. Although cyclical in nature, the impact of this channel is amplified by the other three transmission channels.

The four transmission channels do not operate independently but instead interact and reinforce one another. Stricter rules-of-origin enforcement raises compliance and production costs; excess Chinese supply depresses domestic prices; exchange rate pressures increase the cost of imported inputs; and weakening global demand reduces the capacity to absorb export goods. Computable general equilibrium (CGE) simulations by CIEM (2025) indicate that the combined effect of these four channels could reduce GDP growth by 0.6–1.1 percentage points over the 2025–2026 period. Even after tariff rates were adjusted downward from 46 percent to 20 percent in July 2025, ambiguities surrounding anti-transshipment provisions have continued to constrain potential benefits for Vietnam (East Asia Forum, 2025). These findings suggest that medium-term risks extend beyond bilateral trade relations to encompass the broader process of value chain restructuring in which Vietnam is embedded. In an increasingly fragmented global trading system, the capacity to adapt and to expand domestic value added emerges as a decisive factor determining the sustainability of economic growth.

#### **4.3. Macroeconomic and Sectoral Impacts: An Empirical Assessment**

Based on quarterly data covering the period from Q1/2025 to Q3/2025, an empirical analysis is conducted to assess the impacts of U.S. tariff measures on Vietnam's economy, including transmission channels through trade, financial markets, and supply chain adjustments. Data from the General Statistics Office (GSO), the World Bank, CIEM, and the OECD provide a quantitative foundation for evaluating both a baseline scenario and an expanded tariff scenario for the 2025–2026 period. During the first three quarters of 2025, Vietnam's GDP grew by 7.85 percent, with contributions from agriculture (3.83 percent), industry–construction (8.69 percent), and services (8.49 percent) (Nguyen, 2025). Exports to the United States increased by 27.7 percent, reaching USD 112.8 billion, reflecting trade diversion effects as U.S. importers sought alternative suppliers outside China (General Statistics Office, 2025).

At the sectoral level, the evidence reveals a clear differentiation between benefiting industries and those experiencing vulnerability. Data indicate that labor-intensive assembly sectors with a high share of intermediate inputs have enjoyed short-term gains from supply chain relocation. Electronics and components recorded an increase of nearly 78 percent, reaching over USD 34 billion, the highest level in a decade, driven by strong demand from the United States and the “China +1” strategy adopted by foreign-invested multinational corporations (Vietnam Customs, 2025). The textile and garment sector grew by approximately 11.4 percent, reaching USD 14.81 billion; machinery and equipment expanded by 9.2 percent to USD 19.6 billion; and exports of phones and components reached USD 9.02 billion after two years of stagnation. The category of toys and sporting goods registered a dramatic surge of more than 255 percent, rising from USD 1.47 billion to USD 5.24 billion, reflecting a direct relocation of orders away from China. Other consumer goods also recorded growth, with wood and wood products reaching USD 7.8 billion (an increase of 6 percent), while transport equipment and parts grew by

nearly 11 percent. The agricultural and fisheries sector delivered particularly strong results, supported by elevated international prices and recovering demand in the United States. Fruit and vegetable exports increased by 58.5 percent, coffee exports rose by over 60 percent, and rubber exports grew by 51 percent. Fisheries exports recovered by 7.5 percent as U.S. inventories declined. Coffee exports reached nearly 1.35 million tons, valued at USD 7.64 billion—an increase of 62.6 percent in value and surpassing the 2024 record; cashew exports reached USD 4.51 billion, up 19.3 percent; and pepper exports amounted to USD 1.44 billion, exceeding their historical peak (Pham, 2025).

However, CGE simulations conducted by CIEM and the World Bank project negative medium-term impacts arising from the “Trump 2.0” tariff package. GDP is expected to decline by approximately 0.9 percentage points relative to the baseline scenario, driven primarily by higher input costs, compressed imports from China, depreciation pressures on the domestic currency, and weakening global demand (Dray et al., 2025). This assessment is consistent with the World Bank's view that trade defense measures targeting transshipment significantly increase adjustment costs for economies that are highly dependent on global value chains (GVCs).

Industries that rely heavily on inputs from China or face heightened exposure to trade remedy measures are under particularly severe pressure. The steel sector has become a focal point of anti-dumping and countervailing duty actions; the United States, previously the single largest market, fell to fourth place with a market share of 8.4 percent, representing a decline of up to 53 percent, following an increase in steel tariffs to 50 percent from June 2025 onward (Mi, 2025). The wood-processing sector, despite being the second-largest exporter to the United States, faces stricter origin verification requirements and heightened sectoral tariff risks due to partial reliance on timber sourced from China, resulting in profit margin compression of 7–10 percent (VCCI, 2025; Reuters, 2025d). The fisheries sector, particularly shrimp and pangasius, has traditionally been a Vietnamese strength, with exports to the United States reaching USD 14 billion in 2024. While a reciprocal tariff rate of 20 percent has allowed Vietnam to outperform Thailand and Indonesia, sector-specific tariffs could raise product prices and create opportunities for India, which has been expanding its U.S. seafood market share at an annual growth rate of approximately 12 percent. The textile and garment sector, which accounts for 16 percent of Vietnam's exports to the United States (approximately USD 19 billion in 2024), is particularly vulnerable due to its reliance on China for roughly 60 percent of fabric inputs. This dependence heightens exposure to transshipment-related tariffs and sectoral duties should rules-of-origin requirements be further tightened (VCCI, 2025). Such developments could increase production costs and divert orders toward India, which benefits from a domestic fabric supply and low-cost labor, or toward Bangladesh, which, although not an ASEAN member, remains a strong competitor due to its low production costs. Across these sectors, production contraction, declining profitability, and the need for strategic realignment to reduce dependence on the U.S. market have become increasingly evident.

Developments toward the end of 2025 further underscore the growing risk of order contraction. According to UOB (2025), export orders may weaken from 2026 onward as front-loading effects dissipate and rising prices suppress consumer demand in the United States (Lee, 2025). This pattern is consistent with observed



trends in highly price-elastic consumer goods such as footwear and furniture. The proposed 40 percent anti-transshipment tariff carries the potential to disrupt export flows for firms with low levels of processing or heavy reliance on Chinese inputs. The magnitude of these effects will depend critically on how U.S. Customs and Border Protection (CBP) enforces rules-of-origin requirements.

#### ***4.4. Strategic Dilemma and the Risk of the “Middle-Income Trap” in the Era of Trade Protectionism***

The resurgence of protectionism under Trump 2.0 places Vietnam in a structurally embedded strategic dilemma, a condition commonly faced by trade-dependent economies amid increasing fragmentation of the global economic order and intensifying geopolitical competition (Shekhar Aiyar et al., 2023). On the one hand, in order to maintain its critical economic and security relationship with the United States, Vietnam is compelled to strengthen controls against tariff circumvention and the transshipment of goods originating from China. Several key sectors steel, wood products, fisheries, and electronic equipment, have already fallen within the scope of investigations under Sections 301 and 232. Heightened requirements for origin tracing and supply chain verification have increased compliance costs and intensified short-term competitive pressures.

On the other hand, Vietnam remains deeply dependent on input supplies from China, a structural characteristic of economies positioned in low value-added segments of global supply chains (Gereffi, 2018; Miroudot & Cadestin, 2023). Electronic components, machinery, and raw materials account for nearly 50 percent of Vietnam’s imports from China, rendering production in these sectors highly reliant on the stability of Chinese supply chains. This dependence generates a dual risk: goods with a high Chinese input content are more likely to be subject to anti-circumvention or countervailing measures by the United States, the European Union, or the United Kingdom. Vietnam is therefore caught between two conflicting imperatives: tightening rules-of-origin controls in line with U.S. requirements while simultaneously maintaining Chinese input supplies to avoid production disruptions. This tension constrains Vietnam’s ability to optimize its trade strategy in an environment of heightened geopolitical competition and reflects a pattern of “incoherent incentives” commonly observed in economies positioned between two major centers of trade power (Wei Luo et al., 2025). At the same time, China’s excess industrial capacity following its loss of access to the U.S. market has resulted in an influx of low-priced goods into Vietnam, exerting pressure on sectors such as steel, chemicals, textiles, wood products, and household goods. Vietnam’s capacity to deploy strong protective measures is limited by its commitments under the CPTPP, EVFTA, and RCEP, thereby creating a “three-dimensional strategic risk”: maintaining relations with the United States, maintaining relations with China, and protecting domestic industries, three objectives that are difficult to optimize simultaneously.

Third, the intensification of trade defense measures by the European Union and the United Kingdom is amplifying Vietnam’s structural vulnerabilities. From September 2025, the EU imposed anti-dumping duties of 12.1 percent on hot-rolled coil (HRC) steel imports from Vietnam, while simultaneously expanding investigations into cold-rolled steel. These measures have been introduced in a context in which the Carbon Border Adjustment Mechanism (CBAM) is being fully implemented and proposals are under consideration to reduce the EU’s steel import quotas by

nearly 50 percent. The United Kingdom is also exploring the formation of a “trilateral steel alliance” with the United States and the EU to address excess Chinese steel capacity. These developments have had direct implications for Vietnam, as steel exports to the EU declined sharply during the first ten months of 2025, particularly in key markets such as Italy, Belgium, and Spain. This trend mirrors the already stringent tariff structures applied by the United States and Canada and signals a broader shift toward a global steel market increasingly regulated by carbon standards. Accordingly, the combined effects of carbon regulations, trade defense instruments, and geopolitically driven protectionism are generating multidimensional risks for Vietnam’s export-oriented manufacturing sectors.

Over the longer term, Vietnam faces the risk of falling into a “middle-income trap,” as its growth model continues to rely heavily on foreign direct investment and assembly-based production, with limited accumulation of endogenous industrial capabilities and technological innovation (Gereffi, 2018). The experiences of South Korea and Taiwan demonstrate that periods of trade volatility have been strategically leveraged to accelerate localization, develop supporting industries, and strengthen innovation capacity (Amsden, 1989; Wade, 1990). A risk of “double exposure” thus emerges when Vietnam is simultaneously subjected to external pressures, such as tariffs, trade defense measures, and anti-circumvention investigations, while lacking sufficiently strong internal foundations to absorb and withstand such shocks. In the context of Trump 2.0, which prioritizes the “America First” strategy and relies extensively on unilateral policy instruments, any expansion of tariff coverage or anti-circumvention investigations could rapidly erode existing gains if Vietnam fails to convert the current “window of opportunity” into sustainable long-term growth capacity.

## **5. Discussion and Policy Implications**

The analyses indicate that the tariff shock under Trump 2.0 has not only generated short-term trade reallocation but has also exposed the structural characteristics of Vietnam’s economic integration model in an era of rising trade protectionism. The Vietnamese case illustrates a central paradox of “neo-protectionism”: tariff measures imposed by a major power to safeguard national interests may create unintended benefits for third-country economies, while simultaneously restructuring new vulnerabilities along their development trajectories.

First, Vietnam’s export expansion amid U.S.–China competition is consistent with the logic of “second-best beneficiaries.” The evidence suggests that the gains accrued by Vietnam have largely stemmed from trade and investment diversion effects rather than from endogenous improvements in productivity or technological capability. This finding reinforces arguments in the global value chain literature that trade diversion does not equate to upgrading, particularly when benefiting sectors are concentrated in assembly-based, labor-intensive activities that rely heavily on imported inputs (Gereffi, 2018; Baldwin, 2016; Miroudot & Cadestin, 2023).

Second, the structure of “double exposure” is clearly confirmed in the case of Vietnam. The economy is simultaneously dependent on the United States as an export destination and on China as a source of production inputs. When either pole adjusts its policy stance, spillover effects are rapidly amplified across domestic production networks. This represents a typical risk faced by economies positioned in lower tiers of global value chains, where export

growth can coexist with increasing dependency and progressively thinner profit margins (Shekhar Aiyar et al., 2023).

Third, the negative transmission channels, including risks of anti-circumvention measures, import compression from China, exchange rate pressures, and weakening global demand, demonstrate that trade protectionism operates as a systemic shock rather than merely a bilateral trade issue. These channels interact and mutually reinforce one another, reflecting the mechanism through which adjustment costs are shifted from large economies to smaller and more open ones, consistent with Bagwell and Staiger's argument on terms-of-trade effects under unilateral protectionism.

Fourth, the findings also indicate that Vietnam's policy space is simultaneously expanded and constrained. Vietnam is neither a clear "winner" of geoeconomic fragmentation nor merely a passive victim. Short-term gains from trade diversion coexist with heightened structural vulnerabilities, positioning Vietnam in an intermediate role within the reconfiguring global trade order. In comparison with earlier studies, the results suggest that Vietnam is undergoing a critical transition in its mode of integration into global value chains. Research from 2013–2020 emphasized Vietnam's role as a "low-cost manufacturing hub" in electronics, textiles, and wood products, benefiting from stable trade conditions and assembly-oriented foreign direct investment.

However, evidence from 2024–2025 indicates that Vietnam is gradually evolving into a "strategic production platform," selected by multinational corporations not only for cost considerations but also for purposes of risk diversification and geopolitical reconfiguration (VCCI, 2025). High-technology FDI inflows have increased rapidly—Samsung continues to expand its operations, Apple has increased the number of its suppliers, and U.S.–Korean semiconductor firms have launched new OSAT facilities (Duc N., 2025). These developments signal the emergence of a "multi-hub Asia" structure, in which Vietnam is becoming a new focal point. Nevertheless, domestic value chains have not kept pace with the rapid growth of FDI: backward linkages remain weak, domestic value-added ratios are limited, and the economy continues to exhibit a pattern of "production without upgrading," whereby output expands without a corresponding deepening in technological capabilities or movement into higher-value functions such as design and innovation (U. Korwatanasakul & S. Paweenawat, 2022).

From a national strategic perspective, the findings indicate that Vietnam is confronting a fundamental dilemma: how to sustain export-led growth in a context where global production networks are no longer driven primarily by efficiency, but increasingly by considerations of "supply chain security," "de-risking," and "geopolitical realignment." The United States' intensification of anti-circumvention investigations, tighter rules-of-origin requirements, and heightened demands for supply chain transparency mean that Vietnam can no longer rely indefinitely on a model based on Chinese inputs combined with exports to the U.S. market. Conversely, reducing dependence on China in the absence of sufficient domestic industrial capacity risks production disruptions and a loss of competitiveness.

Vietnam's experience is representative of a broader group of small and open economies in the era of neo-protectionism: temporarily benefiting from great-power competition, yet simultaneously exposed to asymmetric and highly reversible risks. Accordingly,

drawing directly from these findings, policy implications for Vietnam can be articulated at two levels: (i) short-term adaptive measures aimed at mitigating vulnerability to protectionist shocks; and (ii) structural adjustments designed to transform temporary gains into sustainable competitive capacity.

In the short term, the policy priority should not be to maximize gains from trade diversion, but rather to manage and mitigate the risks arising from U.S. trade protectionism. First, Vietnam needs to strengthen the enforcement of rules of origin and anti-circumvention measures by investing in traceability systems, enhancing supply chain transparency, and fostering close coordination between regulatory authorities and enterprises. These efforts are essential to reducing the risk of being subjected to systemic trade defense measures.

Second, in the context of rising inflows of low-priced goods from China, trade defense instruments should be applied selectively and in a manner consistent with existing free trade agreement commitments. The objective is not to erect new trade barriers, but to mitigate sudden competitive shocks that could undermine the resilience of domestic firms.

Third, macroeconomic stability, particularly with respect to the exchange rate and foreign currency liquidity, plays a critical role in containing the spillover effects of tariff shocks. Monetary policy should remain flexible while avoiding excessive erosion of external buffers in an environment of prolonged uncertainty.

Over the longer term, Vietnam's strategic challenge lies not in whether it benefits from trade protectionism, but in its ability to move beyond a passive beneficiary role within a fragmented trade order. Addressing this challenge requires a set of structural adjustments.

First, industrial policy should shift its focus from assembly-oriented foreign direct investment toward the development of a production ecosystem, by strengthening backward linkages, supporting industries, and technology absorption capacity. Absent such adjustments, Vietnam risks becoming "locked in" to low value-added segments even if export volumes continue to expand.

Second, reducing dependence on a single source of intermediate inputs, particularly China is a necessary condition for enhancing resilience to policy shocks. This does not imply self-sufficiency, but rather a strategy of supply chain diversification and selective localization.

Third, at the institutional level, Vietnam needs to enhance its capacity for policy forecasting and international trade negotiations. In the era of neo-protectionism, policy adaptability and proactive economic diplomacy have become forms of strategic competitive advantage, especially for small economies.

Overall, the Trump 2.0 tariff shock has generated short-term gains while simultaneously exposing deeper risks inherent in an FDI- and export-led growth model. The core policy value of the empirical findings lies not in maximizing the benefits of trade protectionism, but in the ability to design adaptive and upgrading strategies that ensure sustainable growth within an increasingly fragmented global trade order. Amid intensifying U.S.–China competition, Vietnam faces mounting pressure to "choose sides." Yet the opportunity lies in crafting a strategy of "active neutrality," grounded in high-technology investment, supply chain autonomy, and deeper integration within ASEAN thereby mitigating risks and

enhancing Vietnam's position in the reconfiguring global economic structure.

## 6. Conclusion

This article demonstrates that the tariff shock under Trump 2.0 has generated short-term gains for Vietnam in terms of trade and investment, while simultaneously exposing long-standing structural vulnerabilities embedded in an export- and FDI-led growth model. Empirical evidence indicates that the majority of Vietnam's gains have been driven by trade diversion effects and global supply chain reconfiguration rather than by endogenous upgrading in productivity or domestic value added. At the same time, rising risks associated with anti-circumvention measures, dependence on Chinese inputs, exchange rate pressures, and weakening global demand underscore the asymmetric adjustment costs borne by small and open economies in the era of renewed protectionism.

Nevertheless, the strategic relocation of multinational corporations in sectors such as electronics, semiconductors, smart devices, and clean technologies has also created a historic opportunity for Vietnam to reposition itself within regional production networks. This opportunity can only be translated into long-term advantage if Vietnam expands domestic localization capacity, upgrades supporting industries, standardizes supply chains in line with emerging requirements (CBAM, ESG, and traceability), and strengthens institutional capabilities in trade governance and economic diplomacy. Conversely, continued reliance on assembly-based manufacturing without technological upgrading would allow Vietnam to capture short-term benefits while forfeiting its ability to move into higher value-added segments.

These findings contribute to the literature on global value chains and trade fragmentation, while emphasizing that the Trump 2.0 tariff war signals Vietnam's entry into a new strategic phase, one in which economic growth and security are increasingly intertwined with the capacity to adapt to a fragmented and geopoliticized trade order. The most sustainable pathway forward lies in a strategy of "active neutrality": maintaining balanced relations with both the United States and China, while simultaneously building endogenous industrial capabilities, strengthening supply chain resilience, and pursuing proactive economic diplomacy. If successfully implemented, such a strategy would enable Vietnam not only to mitigate vulnerability to major trade shocks, but also to seize the structural transformation opportunities shaping the twenty-first-century global economy.

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