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## Vietnam goes from trade war winner to Trump target



*Vietnam has steadily opened up to foreign investors over the years to become a manufacturing hub in Asia. PHOTO: AGENCE FRANCE-PRESSE*

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**HANOI** • After US President Donald Trump slapped higher tariffs on China, production in neighbouring Vietnam went into overdrive.

Chinese manufacturers, who face a 55 per cent US tariff on their goods, relocated some production to Vietnam, while local businesses saw a jump in orders. Last month alone, US imports of solar cells from Vietnam surged 656 per cent from a year ago. That trade boom - in everything from Ikea furniture to Nike shoes - is now prompting more scrutiny from the United States and making businesses like local solar panel maker IREX Energy concerned.

"We are worried that the US may raise tariffs on our solar panels," the firm's chief operating officer Pham Thi Thu Trang said from Ho Chi Minh City. "Though the US market is huge, it is a complicated market when it comes to its politics."

Communist Party-led Vietnam has steadily opened up to foreign investors over the years to become a manufacturing hub in the region, with household names such as Samsung Electronics, Intel and Nestle setting up factories there. Its trade openness, as well as its low-cost labour and proximity to China, have helped Vietnam successfully navigate growing global protectionism as companies seek refuge from the trade war.

It has quickly climbed the ranks to become a significant US trade partner. Vietnam's annual trade surplus with the US has exceeded US\$20 billion (S\$27.2 billion) since 2014, reaching US\$40 billion last year, the highest going back

to 1990, official US data shows. However, the Trump administration is now pressuring the nation of 97 million people to slash its trade surplus, threatening one of the fastest-growing economies in the world. Trouble began in May, when the US Treasury added Vietnam to a watch list of countries being monitored for possible currency manipulation.

Then, in response to US pressure, Vietnam announced a crackdown on Chinese exporters rerouting products through the South-east Asian nation with fake Made-in-Vietnam labels to bypass Mr Trump's tariffs.

Mr Trump described Vietnam last month as "almost the single-worst abuser of everybody" when asked if he wanted to impose tariffs on the nation. And just last week, the US slapped duties of more than 400 per cent on steel imports from Vietnam which originated in South Korea and Taiwan.

Vietnam officials have been left reeling. The government says it is committed to buying more American products - from Boeing jets to energy goods - to help narrow its trade surplus with the world's largest economy. And Prime Minister Nguyen Xuan Phuc last week told officials to monitor US reactions to the nation's monetary policy more closely.

"They are very nervous and confused. They don't know what Trump's next move will be," said Dr Alexander Vuving of the Daniel K. Inouye Asia-Pacific Centre for Security Studies in Hawaii.

Capital Economics estimates that if Mr Trump levied a 25 per cent tariff on imports from Vietnam, as he did with Chinese goods, Hanoi would see a 25 per cent drop in export revenue, equivalent to more than 1 per cent of the nation's gross domestic product. That would erase the estimated 0.5 percentage-point gain it has had over the past year as a beneficiary of the trade war.

Even before the trade tensions, Vietnam was benefiting from businesses looking for low-cost alternatives to China as wages there grew. That trend will likely continue, which should help to sustain Vietnam's economic trajectory, said Mr Adam McCarty, chief economist at Mekong Economics in Hanoi. "It's not going to stop the underlying economic motivation to move basic factory work from China to Vietnam," he said. "China is getting too expensive."

Vietnam's leaders have also long worked to buffer the country from trade shocks by hedging its reliance on any single market, including the US, the nation's largest export destination. Vietnam has inked more than a dozen free trade agreements such as the recently signed deal with the European Union and the revamped Trans-Pacific Partnership.

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