

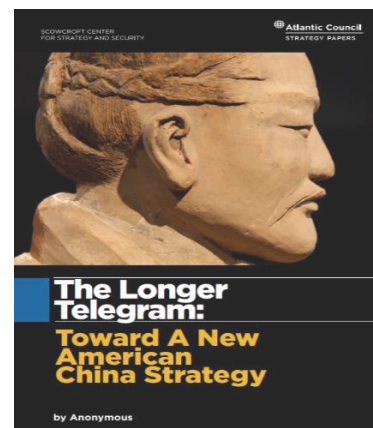
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## RECENT APPOINTMENTS REDUCE VIETNAM'S "TRUMP RISK" FOR INVESTORS

Vietnam was Asia's biggest beneficiary of the first Trump administration. While Trump 2.0 will probably not be as beneficial to Vietnam as Trump 1.0 was, we see minimal risk that Trump's tariff policies will derail Vietnam's growing economy – in sharp contrast to claims made in some articles published since his election. Last week, Trump picked the best possible Treasury Secretary for Vietnam, Scott Bessent, who has repeatedly said Trump's tariff proposals are "maximalist" positions that would likely be watered down in negotiations; Trump's recent announcement that he intends to impose 25% tariffs on Canada and Mexico should probably be viewed in that vein.

More importantly for Vietnam, Bessent favors considering US geopolitical objectives when determining tariff levels on individual countries<sup>1</sup>. The details of how exactly this could function as well as other specifics of Trump's likely tariff strategy are outlined in a white paper titled "A User's Guide to Restructuring the Global Trading System", which circulated widely after Trump's election, and was written by a senior economic policy advisor in Trump's first Administration and who holds an Economics PhD from Harvard University and is reportedly close to Bessent<sup>2</sup>.



That 40-page report mentions considering geopolitical factors to determine tariffs on individual countries over 20 times. In short, the bipartisan belief in Vietnam's usefulness to the US to help it achieve its geopolitical objectives essentially ensures that Vietnam will not be singled out for overly

<sup>1</sup> [Scott Bessent: Let's talk tariffs. It's time to revitalize Alexander Hamilton's favorite tool – Fox News](#)

<sup>2</sup> [A Users Guide to Restructuring the Global Trading System](#)

harsh tariff treatment by Trump. Before the Biden administration came into office, there were many concerns that Vietnam would not fare as well under Biden as it had during the Trump-instigated, US-China trade war. The January 2021 publication of the Atlantic Council's "The Longer Telegram" dispelled those concerns and made it clear that the US-Vietnam relationship would continue to strengthen under Biden.

We have highlighted both of these policy papers because the 2021 "Longer Telegram" report was a preview of the Biden administration's stance towards Vietnam (which we characterize as "unambiguously positive treatment") and the 2024 "User's Guide" report hints at how Vietnam is likely to be treated by the next Trump administration (we expect "neutral to slightly positive" treatment). Finally, the "User's Guide" policy paper details how tariffs could be used to encourage the re-shoring of manufacturing jobs back to the US via a sophisticated strategy that would resemble the 1985 "Plaza Accord" agreement to weaken the US Dollar but that would also strengthen the Dollar's role as the world's reserve currency.

## Media Pessimism

Trump's re-election prompted several international business publications to warn that his tariff policies could drastically derail Vietnam's economy. Articles with titles such as, "*A Rough Four Years Await Vietnam*" were published and claims that "*Vietnam's economic growth – which was 5 per cent last year – could shed up to 4 percentage points*" were published and were, in our view, extremely pessimistic because the assertions were not accompanied with any evidence to explain why Vietnam would suffer such a severe decline in GDP.

One article published by a prominent newspaper asserted that South Korean firms might delay or reduce their investments in Vietnam if Trump were to proceed with his plans to put 10-20% blanket tariffs on all countries (ex-China). But investments by major Korean companies continue to flow into Vietnam<sup>34</sup> because factory wages in Korea are nearly 10x those in Vietnam, and Korea is ageing at a faster pace than Japan did at the peak of its demographic decline. Companies are unlikely to change plans to produce in Vietnam if exports from Korea and Vietnam to the US were to suffer from the same tariff burdens, and it is possible that Vietnam may even get favorable tariff treatment vis-à-vis its Asia exporting peers under Trump.

Further to that last point, the common thread between "The Longer Telegram" and "User's Guide" policy papers is that geopolitical considerations should shape US economic relationships with countries around the world. That is ideal for Vietnam because of the country's adept "Bamboo Diplomacy" strategy of befriending both China and the US/Friendshoring cohort of countries (The

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<sup>3</sup> [Samsung plans to invest \\$1.8 bln more in Vietnam for OLED manufacturing | Reuters](#)

<sup>4</sup> [South Korean LG Display to invest additional \\$1 bln in Vietnam, local govt says | Reuters](#)

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Longer Telegram<sup>5</sup> is a deep discussion of the intertwining of US geopolitical and economic strategy in Asia – which has been characterized<sup>6</sup> as a “New Washington Consensus” that will continue under Trump).

## Vietnam is Well Positioned – With Some Caveats

On November 7<sup>th</sup> we published [this report](#) titled “Trump’s Election Should Have Little Impact on Vietnam”, in which we opined that Vietnam can be helpful to wean the US off of China-made goods which cost too much to manufacture at home. Last week, [this article](#) in *Forbes* quoted a supply chain expert who said, “*If previously it was made in China, now it’s going to be made in Vietnam*” because “*production is not coming back to America.*” Another article quoted the CEO of Black and Decker, who said his company is unlikely to move manufacturing jobs back to the US because “*it’s just not cost effective.*”

The *Forbes* article also quoted a US-based economist who essentially said he expects China to continue moving factories to Vietnam during Trump’s administration. We agree, but Vietnam’s FDI inflows could fall somewhat next year because it will take some months before it becomes clear what Trump will actually do on tariffs. There’s also a possibility that the US will clamp down on Chinese factories moving to Vietnam at some point in the future, but we expect the Trump administration’s initial focus will be on imports from China and on products produced by Chinese companies in Mexico.

Mexico will come under considerable scrutiny because of US voter concerns about illegal immigration and speculation about the degree to which Mexico is helping China circumventing US tariffs (a recent report<sup>7</sup> by the Rhodium Group titled “A Closing Back Door?” asserted that “*Chinese FDI in Mexico is significantly higher than shown in official statistics*”). In contrast, according to recent Harvard University<sup>8</sup> research, the amount of re-routing of Chinese products to the US via Vietnam (in order to circumvent tariffs) may be as low as ~2% of Vietnam’s total exports to the US. That said, US trade officials will likely insist on more stringent mechanisms to prevent transshipment via Vietnam in exchange for lenient tariff treatment.

## Understanding Trump’s Objectives & Strategy

Donald Trump wants to re-shore manufacturing jobs back to the US. Trump was very vocal about his intention to use tariffs to achieve that objective throughout his campaign - although the threat to

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<sup>5</sup> [The-Longer-Telegram-Toward-A-New-American-China-Strategy.pdf](#)

<sup>6</sup> [The New Washington Consensus - The Atlantic](#)

<sup>7</sup> [A Closing Back Door? China’s Evolving FDI Presence in Mexico | China Cross-Border Monitor](#)

<sup>8</sup> [Exports in Disguise? Trade Rerouting during the US-China Trade War](#)

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impose tariffs on China also appealed to one of his key constituencies: disaffected blue-collar workers.

The bare bones essence of Trump's likely tariff strategy is using tariffs to:

- 1) Compel China, Germany, etc. to build factories in the US, and
- 2) Compel widespread cooperation for a "Plaza Accord 2.0" to depreciate the USD by ~20%

The latter would encourage the re-shoring of jobs to the US and would be good for Vietnam because the State Bank of Vietnam has loosely pegged the VND exchange rate to the US Dollar (a cheaper VND would unambiguously boost Vietnam's export competitiveness to the rest of the world<sup>9</sup>). Note also that Bessent and others advocate implementing tariffs gradually to avoid market dislocations and/or boosting US inflation (for example, an initial 2% tariff could be imposed on a country with the threat of increasing those tariffs by 2%pts per month).

Other aspects of the strategy are detailed in the "User's Guide" report, which we have summarized separately. The original report, which is fairly technical, can be found on the website of Hudson Bay Capital, a USD 31b hedge fund where the author, Stephen Miran, is a Senior Strategist; he previously served as Trump's Senior Advisor for Economic Policy at the US Treasury Department and is reportedly close to the US Treasury Secretary nominee Scott Bessent.

CLICK [HERE](#) FOR OUR SUMMARY OF "A USER'S GUIDE" REPORT

We should also mention that Miran characterizes the report as a summary of the economic tools available to the Trump administration to achieve major re-shoring of manufacturing jobs. However, we believe this report should be viewed as a preview of the incoming administration's likely tariff policies and strategy, which are likely to be more sophisticated and nuanced than most mainstream media have given Trump credit for given their perceived bias during the campaign.

### Recognizing the Risks

We believe the strategy described above – using tariffs as a negotiation strategy to help bring manufacturing jobs back to the US – will be economically neutral to Vietnam at worst for several reasons. However, we need to recognize the fact that Trump's negotiation and communication style during his first term was erratic, and consequently, we are concerned that his off-the-cuff comments and social media posts could impact stock markets around the world - including Vietnam's.

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<sup>9</sup> The SBV targets a stable USD-VND rate to encourage FDI inflows, so a weaker Dollar would drive more exports and FDI to Vietnam

That said, it is possible that markets will be more immune to Trump's bombastic rhetoric this time around. In the past, venture capitalist Peter Thiel said that Trump should be taken "seriously, but not literally," and a research report published by Barclays last week echoed that sentiment. Even the Nikkei article we mentioned above ("*A Rough Four Years Await Vietnam*") admitted that "Trump's bark was worse than his bite."

Next, most of the announced members of Trump's incoming economics team have expressed reticence about imposing large tariffs on US trading partners. For example, Kevin Warsh, who teaches at Stanford University and is likely to be the next Fed Chairman, wrote an op-ed in the *Wall Street Journal* some years ago advising policy makers to "resist the rising tide of economic populism" at that time. Our biggest concern is that the economic strategy discussed above gets derailed by infighting or by resignations, bearing in mind the extreme turnover of senior staff in Trump's first administration.

### ***Vietnam Specific Risks***

All of that said, the most immediate risk for Vietnam's stock market (and all EM stock markets) is the possibility of a continued increase in the value of the US Dollar. The US Dollar/DXY Index surged by about 7% in the lead-up to and aftermath of the election, driven in-part by tariff concerns (the "User's Guide" strategy includes a "Plaza Accord 2.0" agreement to offset a tariff-driven stronger USD). The USD-VND exchange rate depreciated by nearly 5% YTD as of this writing and would certainly pass the psychologically important 5% YTD level were the DXY to continue climbing, prompting the SBV to tighten monetary policy/raise interest rates to support the VN Dong.

Finally, Vietnam's circa USD 100b trade surplus with the US is the third largest of any single country after Mexico and Canada. To put that figure in context, the US Treasury Department has three criteria for a country to be considered a "Currency Manipulator", one of which is persistent trade surpluses of over USD 30b. For this and other reasons (i.e., Trump is very focused on the numerical trade balance between the US and its trading partners), the Vietnamese need to take urgent steps to reduce its trade surplus with the US by purchasing more products from the US (e.g., LNG, aircraft jet engines, etc.). Yesterday, Bloomberg reported some encouraging initial indications that this is likely to happen<sup>10</sup>.

### **Conclusions**

The second Trump administration will probably not be as beneficial to Vietnam's economy as the first one was, but we see minimal risk that Trump's tariff policies will derail Vietnam's healthy economic trajectory – in contrast to the warnings of a plethora of pessimistic newspaper articles. Trump's announced economic team mostly view tariffs as a negotiation tool. Furthermore, it looks

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<sup>10</sup> [Vietnam Vows to Buy More US Aircraft, LNG in New Tariff Era - Bloomberg](#)

likely that the incoming Trump administration will take geopolitical considerations into account when determining tariffs for individual countries; this will be good for Vietnam, given bipartisan agreement that it is useful to the US to achieve its regional geopolitical objectives./.

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