

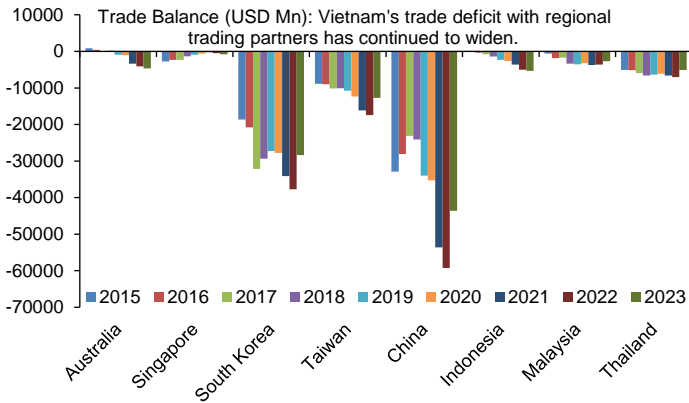
# Mizuho Chart Speak: Vietnam

Economics & Strategy | Asia ex-Japan

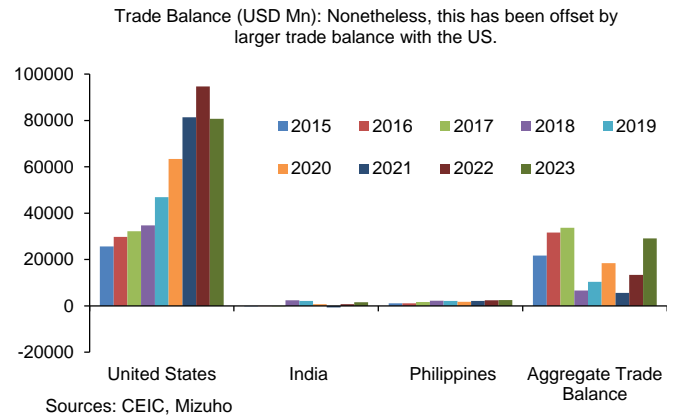
7 November 2024 | Tan Boon Heng | Market Economist

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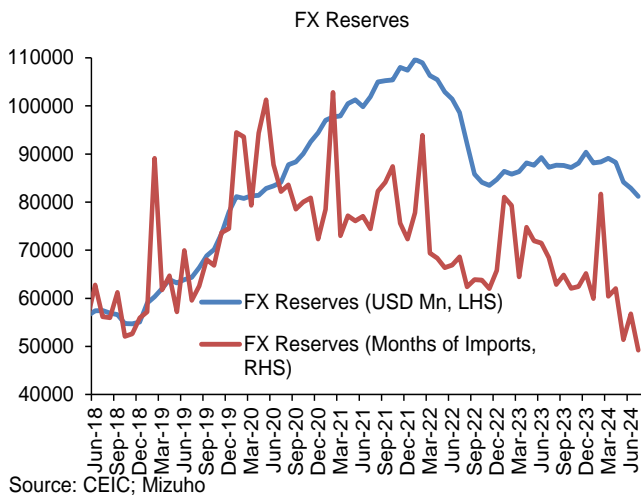
## Vietnam and the VND: China + 1 In the Crosshairs?



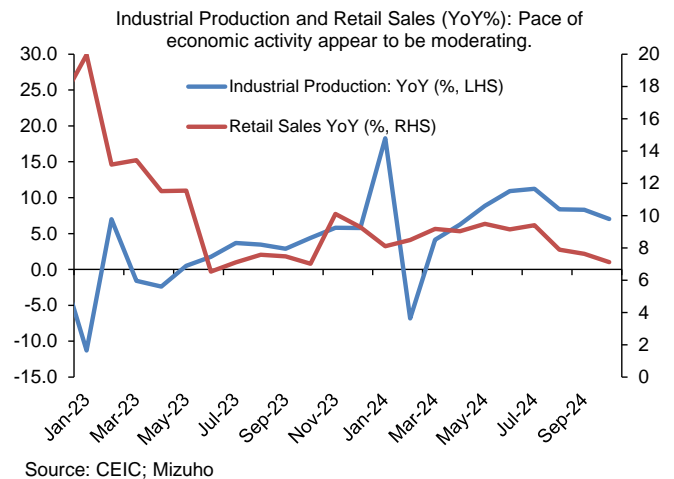
Sources: CEIC, Mizuho



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Source: CEIC; Mizuho

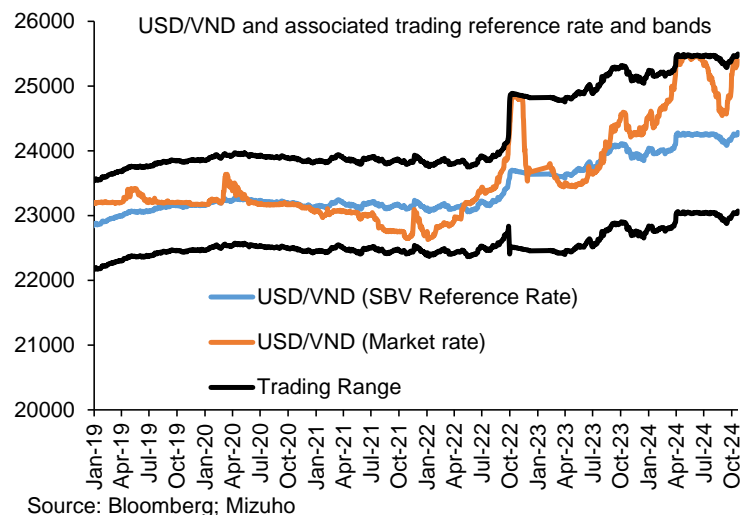


Source: CEIC; Mizuho

- With Donald Trump winning a second term as President of the United States, the flashback of tariffs and trade wars appear inevitable. While the antagonism with China and Mexico is well known as reflected by the MXN and CNH weakness in the aftermath of the US elections, **Vietnam's trade surplus with the US is a notable third**, coming in just behind China and Mexico and this also means that the **risks of catch-up VND depreciation should not be underestimated**.
- While reports of Trump organization investing in Vietnam for a golf course and hotel development as well as historical episodes of friendly visits and praises of General Secretary To Lam strike a positive note, these friendly overtures are not mutually exclusive with economic and trade tensions.
- Specifically, Vietnam remains highly vulnerable to be in the crosshairs of the Trump 2.0 administration as a target for enacting tariffs. After all, towards the end of the Trump's first term in 2020, Vietnam was labelled as a currency manipulator, though actual policy action was avoided under the Biden administration.
- Since then, **Vietnam's trade surplus with the US has grown an emphatic 72% in 2023 from 2019**

which accentuates the threat of being targeted under Section 301 of the U.S. Trade Act of 1974 which authorizes the President to take all appropriate action, including tariff-based and non-tariff-based retaliation.

- Given the popularity of China+1 strategy, investments from China, Korea and Taiwan also imply that **Vietnam has seen an attendant increase in trade deficit with these partners** as costly imports of inputs as well as capital and machinery are likely channeled into final products exported into the United States. In turn, it is not a remote risk that Vietnam will be targeted to plug the gap of Trump’s tariffs.
- Furthermore, it may also become more difficult for Vietnam to shed its tag of a non-market economy which typically implies higher duties for Vietnam’s exports. Even under the Biden administration, **opposition from Congress dented Vietnam’s chances** to obtain market economy status in the late August 2024 decision despite substantial reforms. These **opposing Senators include incoming Vice President JD Vance** who sent letters to Commerce Secretary to raise concerns.
- Domestically, the resurgent threat of being engulfed in tariffs comes at a rather unwelcomed moment as buffers for the VND have been weakening in recent months. FX reserves have been declining in recent months reaching US\$81bn in July 2024 which is a 10% decline from end-2023. The nominal 22% increase of FX reserves from 2019 average of US\$66bn is also hardly comfort as Vietnam’s import demand has clearly risen and reflected by **FX reserves to import coverage ratio declining** to just 2.5 months (average of May-July) compared to 2019’s 3.1 months.
- These buffers are critical given that they are utilized to defend the VND as it approached the upper limit of the SBV’s trading band. FX reserve depletion have coincided with periods of VND weakness despite substantial current account surplus (H1 2024: US\$9.7bn surplus).
- Economic activity also appears to be mildly moderating with retail sales and industrial production expanding at a slower pace in October. That said, manufacturing is likely to continue to remain robust as strength in electronics components and electrical equipment offset weakness in consumer electronics.
- Given the diminished buffers, **risks for VND weakness has risen** as it may become increasingly difficult for the SBV to raise rates to defend the VND in episodes of the raised threats under the Trump administration or even simply under periods of a stronger USD.



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