MACRO UPDATE

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SECTION 301 & IMPACTS ON VIETNAM

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ACBS

SECTION 301 & IMPACTS ON VIETNAM

- **The legal foundation of U.S. tariff policy changed in 2026, but the direction of policy did not.** The Supreme Court removed IEEPA as the basis for the contested emergency tariffs; Section 122 supplied a 150-day bridge; USTR then advanced separate Section 301 cases supported by their own administrative records. This modular structure matters for Vietnam because the forced-labor action, the excess-capacity investigation and the intellectual-property case can be negotiated, modified or litigated independently. Relief in one proceeding would not close the others, while Section 232, safeguards and trade-remedy cases remain available alongside Section 301.

- **The 12.5% forced-labor tariff effective from 24 July is important but narrower than the headline rate suggests.** Core technology lines and products already covered by specified Section 232 measures are excluded, concentrating the direct burden on apparel, footwear, bags, toys, seafood and selected consumer products. Vietnam also starts from a weaker relative position than Bangladesh, Cambodia, Indonesia and Malaysia, which received a 10% rate and a textile/apparel quota (TRQ) mechanism tied to U.S. inputs.

- **The backdrop behind headline export growth is less encouraging.** In 8M2026, exports rose 22.4% YoY to USD374.84bn, but imports increased much faster, by 35.3% YoY to USD395.30bn, pushing the trade balance from a USD14.02bn surplus in the same period last year to a USD20.46bn deficit. Over the same period, the FDI sector's surplus fell from USD32.07bn to USD10.14bn, while the domestic sector's deficit widened from USD18.08bn to USD30.60bn. In other words, the current cycle remains led primarily by technology and the FDI sector, while domestic and labor-intensive manufacturing is considerably weaker.

- **The next policy risk is therefore about production structure rather than the current tariff alone.** On a trailing-12-month basis to August 2026, Vietnam imported roughly USD78.7bn of electronics from China and exported approximately USD54.7bn of electronics to the United States; the two flows increased by around 73% and 62%, respectively, compared with the previous 12-month period. Machinery shows the same direction, though at a slower pace. These corridors are central to Vietnam's industrial success and increasingly central to U.S. origin enforcement. The durable advantage will come from demonstrable transformation, local procurement and auditable supply chains—not from final assembly by itself.

KEY TAKEAWAYS

Section 301, origin scrutiny and the transmission

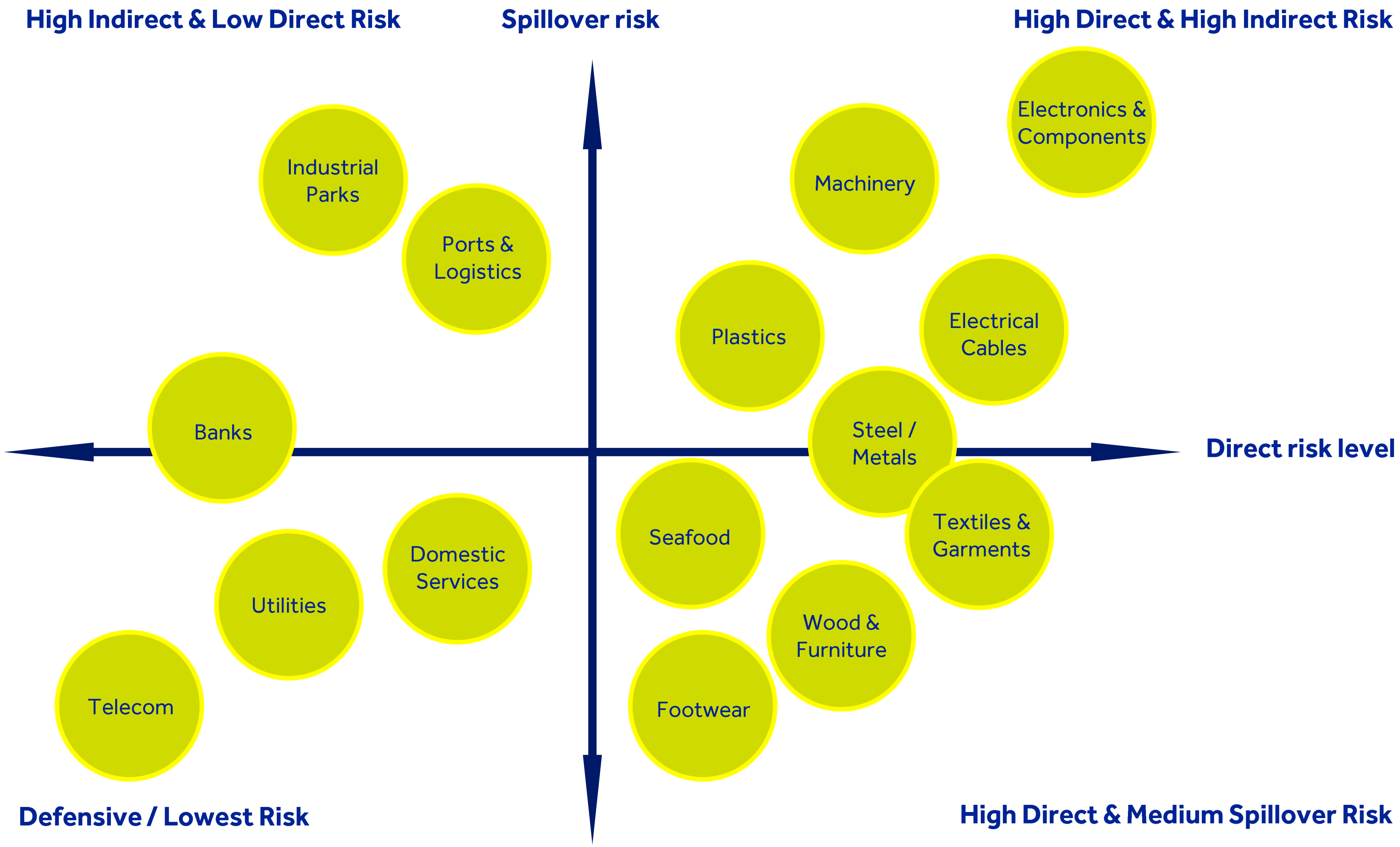
- The forced-labor tariff is a concentrated cost for labor-intensive exporters. The unresolved excess-capacity case is the measure that could challenge the wider FDI-led manufacturing model.

RISKS ARE CONCENTRATED IN A FEW SECTORS

Trade war

Direct impacts are concentrated in Vietnam's traditional and highly labor-intensive sectors.

- Vietnam currently faces a 12.5% tariff under Section 301 forced-labor provisions, while the U.S. trade overcapacity investigation remains ongoing without a final determination as of September 14, 2026.
- Existing enforced tariffs have not created systemic drag on broader macroeconomic growth, as major high-value exports like consumer technology remain on exemption lists.
- The primary long-term threat is not incremental minor tariff adjustments, but whether USTR targets the structural trade pipeline—specifically Asian intermediate input sourcing combined with Vietnamese final assembly bound for the U.S. market.



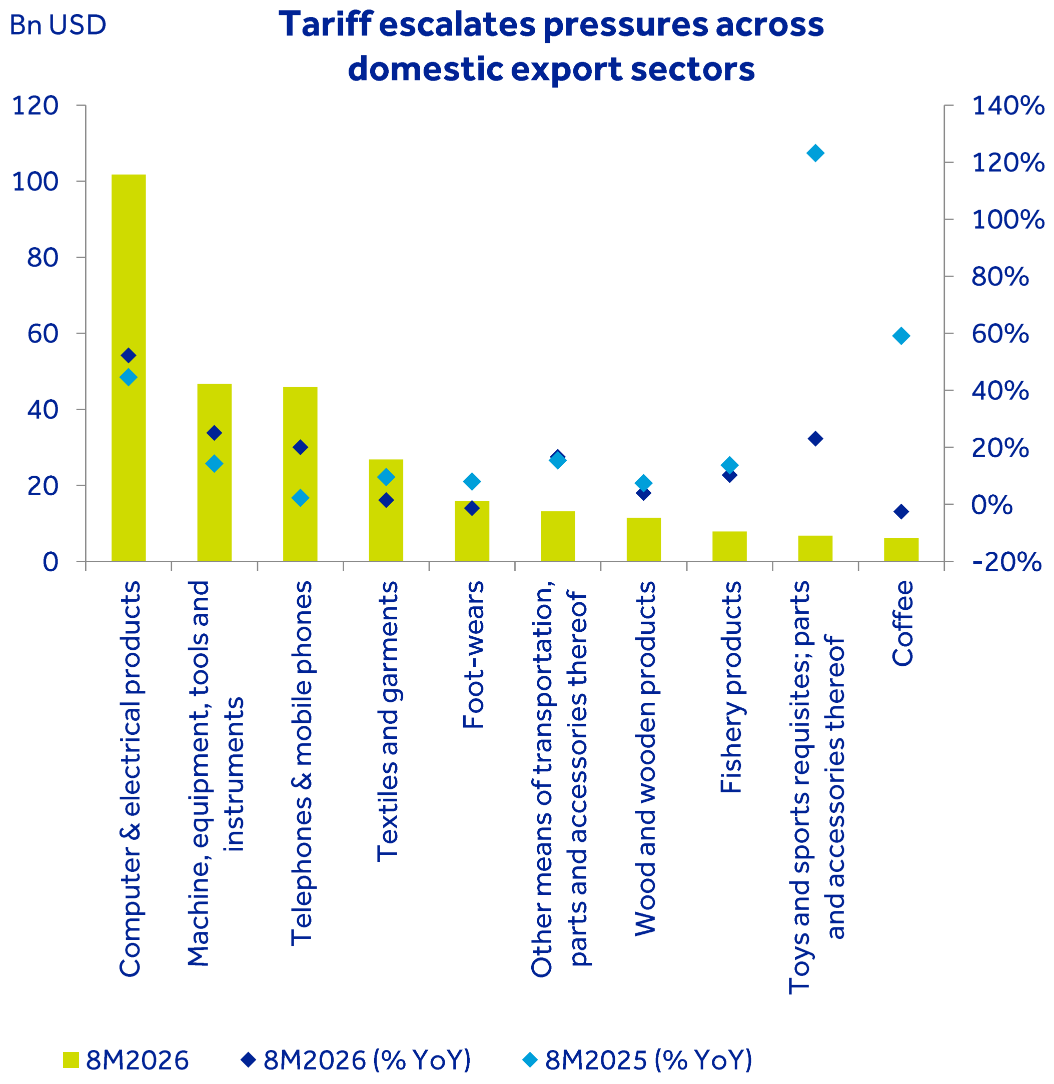
THE AUTHORITY CHANGED; THE STRATEGY BECAME MORE MODULAR

POLICY ARCHITECTURE

Date	Legal step	Target
Feb 20	IEEPA tariff invalidated	The universal emergency-tariff route closed.
Feb 24–Jul 24	Section 122 surcharge	A time-limited bridge preserved negotiating leverage.
From Mar 2026	Separate Section 301 cases	Country practices are tested through independent records and remedies.

- **The sequence from IEEPA to Section 122 and then to Section 301 is the core legal development.** On February 20, The Supreme Court invalidated IEEPA tariffs. The administration responded with a 10% import surcharge under Section 122 from 24 February, using the maximum 150-day statutory window. That bridge preserved pressure while USTR built country- and practice-specific proceedings with a stronger administrative record.
- **Section 301 fits the post-IEEPA strategy because it combines wide remedial discretion with a formal process:** investigation, consultations, hearings, a determination and then action against a practice judged unjustifiable, unreasonable or discriminatory and burdensome to U.S. commerce. The forced-labor process demonstrates the model. It began in March, moved through consultations and public submissions, and culminated in 60 country actions in July. The accompanying severability language was deliberate: each action is intended to stand independently, reducing the risk that one successful legal challenge collapses the wider tariff framework.
- **Section 301 is central, but it is not the only instrument:**
    - Washington retains a layered trade-policy toolkit. Section 232 targets national-security sectors such as steel, aluminum, autos, copper, wood and semiconductors. Section 201 safeguards respond to import injury without requiring an unfair-practice finding. Antidumping and countervailing duties operate at product and producer level, while Section 338 remains available against discriminatory treatment. The practical implication is that a Vietnamese product can move between legal channels over time; an exclusion in the forced-labor action does not immunize it from a later excess-capacity, security or trade-remedy case.
    - The underlying objective is better understood as selective reindustrialization and geoeconomic leverage than universal reshoring. USTR has linked the excess-capacity investigation to critical supply chains and U.S. manufacturing employment, while the forced-labor exclusions protect many technology inputs whose disruption would raise costs inside the United States. The likely policy test for Vietnam is therefore not whether every factory relocates to America. It is whether production reduces strategic dependence on China, creates verifiable local value, complies with labor and IP standards, and supports U.S.-preferred sourcing or market-access outcomes.
- **Three proceedings, three transmission channels**
    - The forced-labor action changes near-term relative prices. The excess-capacity case can reach machinery, electrical equipment, metals, plastics and selected technology products, connecting tariffs to FDI and the current account. The IP case is slower-moving but supplies bargaining leverage over enforcement, counterfeit control, copyright and technology rules. Their common feature is not a single tariff rate, but a durable shift toward practice-specific pressure.

THE 12.5% TARIFF IS CONCENTRATED, NOT ECONOMY-WIDE



Source: GSO

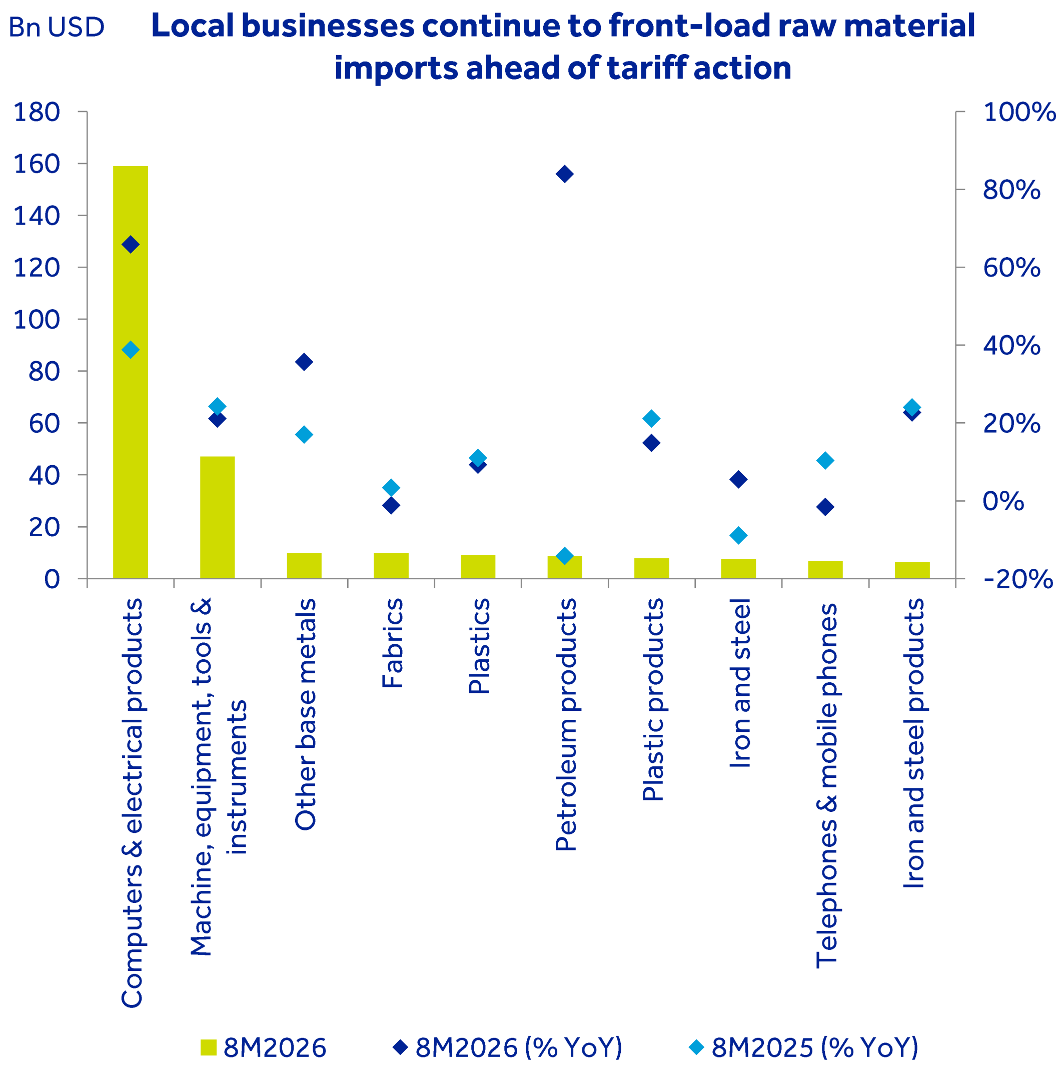
- **Subject to the published exclusions, covered goods face the normal tariff plus 12.5 ppts from July 24, 2026.** The rate does not apply uniformly to Vietnam's USD122bn of 8M26 exports to the United States. Computers and computer parts, semiconductor-manufacturing equipment, smartphones, selected data-transmission equipment, semiconductor devices and integrated circuits include important excluded lines. Specified products already captured by Section 232 are also carved out of this Section 301 action.

- **The product architecture splits gross trade exposure from actual near-term incidence.** Electronics and phones have enormous U.S. sales but much lower direct exposure under the forced-labor action than their export value implies. Apparel, footwear, bags, toys and much of seafood have fewer protections and face a clearer price shock. Vietnam's relative position also matters: Bangladesh, Cambodia, Indonesia and Malaysia received a 10% rate and a three-year textile/apparel quota mechanism linked to U.S. cotton and textile inputs. Vietnam received neither concession.

- **The sector cycle amplifies the tariff asymmetry.** Electronics exports increased 51%, machinery exports rose 26%, and phones and components increased 19% in 8M2026, while textiles and footwear combined grew by only around 1.3%. The current action therefore lands most on industries that were already missing the export acceleration. These sectors also have higher domestic employment intensity and more visible listed-company exposure than the foreign-invested technology complex.

- **The immediate effect should remain contained because the most dynamic export categories retain broad exclusions and the U.S. tariff cost will be shared among importers, retailers, consumers and suppliers.** For the economy, the current action is primarily an earnings, employment and order-flow dispersion event. It becomes a wider growth issue only if it weakens labor-intensive manufacturing at the same time that the pending case reaches the FDI-led industrial core.

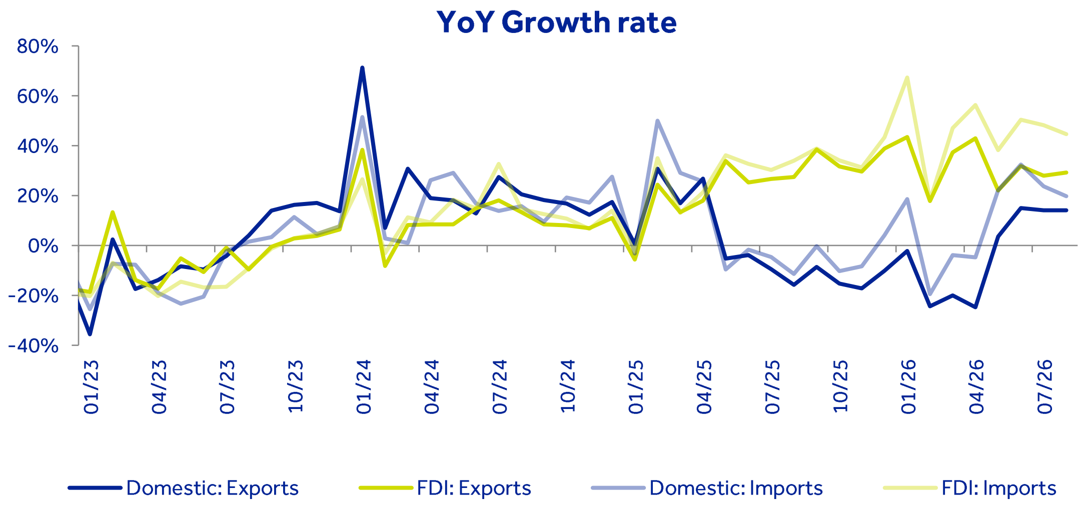
STRONG EXPORTS CONCEAL A SHARP DETERIORATION IN TRADE COMPOSITION

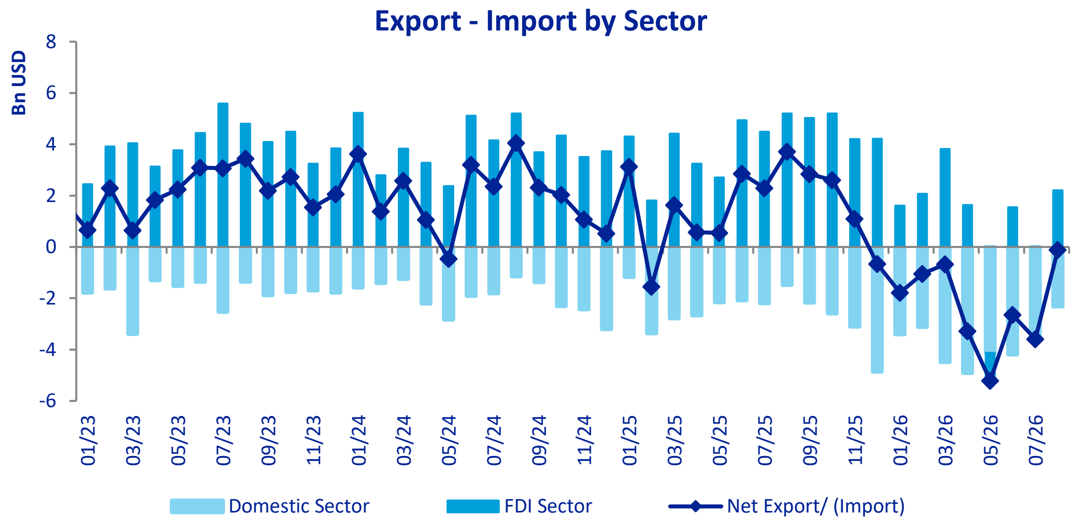


Source: GSO

- **Vietnam's trade cycle accelerated into 2026, but imports accelerated faster.** The trade deficit reached USD20.46bn in 8M2026, compared with a USD14.02bn surplus in the same period last year.
- **The deterioration reflects both cyclical strength and a less favorable production mix.** Strong greenfield and expansion activity increases machinery, equipment and intermediate-input imports before new capacity reaches steady export production. Electronics imports surged by around 68.4% YoY in 8M2026 to USD161.63bn, while electronics exports increased 51.1% to USD101.06bn. Machinery imports rose 22.0% to USD47.40bn, while machinery exports increased 26.5% to USD47.29bn. The import surge is therefore partly the cost of a larger industrial platform, not simply a collapse in competitiveness.
- **Yet the quality of the export impulse remains uneven.** The technology and capital-goods complex is predominantly foreign-invested, while textiles, footwear, wood and seafood carry more domestic employment and listed-equity exposure. A 22.4% headline export increase consequently overstates the improvement in the part of manufacturing most sensitive to household income and local corporate earnings. Over the 12 months through August 2026, the United States absorbed roughly 32.4% of Vietnam's total exports, while China alone supplied around 41.2% of total imports. That combination leaves Vietnam exposed to both U.S. final-demand policy and the cost, origin and availability of Asian inputs.
- **For 2H2026–2027, the trade balance is the fastest macro confirmation signal.** A stabilisation in capital-goods imports accompanied by stronger labor-intensive orders would indicate that new capacity is broadening the cycle. Continued import outperformance alongside stagnant textiles and footwear would instead point to a narrower, more import-intensive expansion and a weaker current-account buffer.

THE SURPLUS BUFFER IS NARROWING WHERE GROWTH IS STRONGEST





Source: GSO

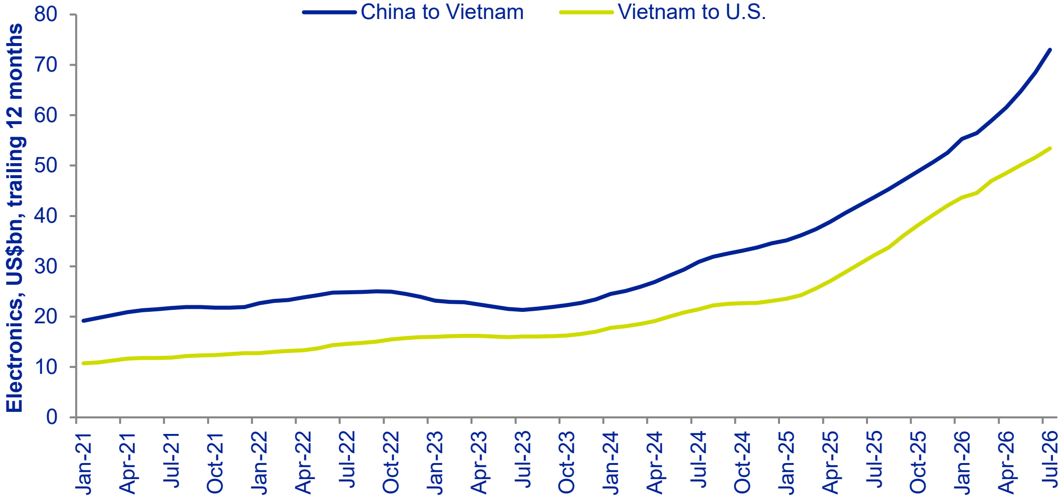
- **The trade-balance decomposition shows why the headline deficit deserves attention.** In 8M2025, the FDI sector generated a trade surplus of USD32.07bn, more than enough to offset the domestic sector's USD18.08bn deficit. One year later, the FDI surplus had fallen to USD10.14bn, while the domestic-sector deficit widened to USD30.60bn. On a rolling-12M basis through August 2026, the FDI-sector surplus declined from approximately USD46.5bn to USD26.2bn, while the domestic-sector deficit widened from around USD26.4bn to USD40.6bn.

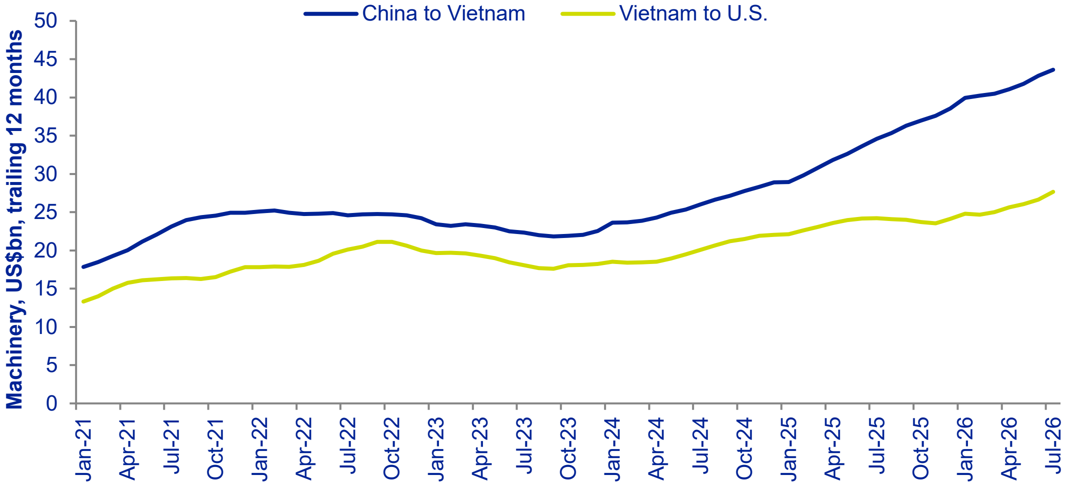
- **Foreign investment remains an important structural support.** Total registered FDI reached USD40.63bn in 8M2026, up 55.4% YoY, while realized FDI increased 12.0% to USD17.25bn. Looking at newly registered and additional capital, manufacturing and processing attracted USD20.18bn, equivalent to 59.5% of the total; the sector also recorded USD14.24bn of realized FDI, or 82.6% of total FDI disbursement. Newly registered capital reached USD21.71bn, while additional registered capital amounted to USD12.21bn.

- **The composition prevents a simple reading of the headline, however.** Capital contributions and share purchases reached USD6.70bn, of which roughly USD4.15bn did not increase the charter capital of recipient companies, while around USD2.55bn did. Those transactions change ownership without creating the same near-term demand for construction, equipment, labor or local suppliers as a new plant. Investor nationality also identifies the legal funding jurisdiction rather than ultimate ownership, particularly for Singapore and Hong Kong.

- **Under tighter origin enforcement, FDI quality will increasingly be measured by processing depth.** A factory that imports capital equipment, develops local suppliers, employs skilled labor and performs substantial transformation strengthens Vietnam's external position even if the construction phase initially widens the deficit. A final-assembly operation with limited domestic procurement creates less income, a thinner current-account buffer and a more fragile claim to Vietnamese origin. This distinction will shape the relative value of industrial parks, logistics nodes and supplier ecosystems more than aggregate registration figures alone.

THE POLICY FOCUS IS SHIFTING FROM SHIPMENT TO ECONOMIC VALUE





Source: GSO, FiinX

- **The U.S. transshipment narrative is a response to the large tariff differentials created between China and third-country suppliers.** Those differentials can produce three outcomes: genuine relocation of production, legal substantial transformation in a new country, or relabelling and minimal processing. USTR and Customs are increasingly focused on where value is created, the depth of processing and the consistency of supplier, product and origin records.

- **The political estimates are wide.** The White House's August transshipment report ("The Great Transshipment Scam") cited assessments ranging from roughly US$40bn to US$303bn, with intermediate estimates around US$60–75bn. The range is too broad to describe the scale of illegal trade precisely, but it demonstrates the policy salience of the issue. U.S. Customs is expanding anomaly-based analysis, while the United States and Vietnam opened a joint anti-transshipment and trade-fraud workshop in Hanoi at the end of July.

- **Historical data explain why electronics remains a central focus of origin verification even though many products are currently exempt from the tariff.** Over the 12 months through August 2026, Vietnam imported approximately USD78.7bn of electronics from China and exported around USD54.7bn to the United States. The two flows increased by roughly 73% and 62%, respectively, from the previous 12-month period, while the gap between them widened to around USD23.9bn. For machinery, imports from China reached approximately USD44.3bn, compared with USD28.5bn of exports to the United States, implying a gap of roughly USD15.8bn; machinery imports from China rose about 26%, compared with approximately 18% growth in exports to the United States.

- **China is not Vietnam's only upstream supplier.** South Korea and Taiwan supplied an additional USD127.1bn of imports over the same rolling-12M period, bringing the combined share of China, South Korea and Taiwan to approximately 64.0% of Vietnam's total imports. This regional structure is compatible with deep manufacturing supply chains, but it also increases the premium on auditable transformation. The highest enforcement risk sits where imported intermediate content rises rapidly, processing is limited and production records cannot reconcile material inputs with output. Chinese sourcing by itself is not the weakness; low demonstrable Vietnamese value added is.

THE CURRENT TARIFF AND THE PENDING CASE RANK SECTORS DIFFERENTLY

SECTOR & COMPANY EXPOSURE

- **The forced-labor action and the excess-capacity investigation should be mapped separately.** Apparel, footwear and seafood face the clearer current price shock. Machinery, electrical equipment, plastics, metals and selected electronics carry greater risk from the unfinished investigation because their rapid capacity expansion, U.S. penetration and upstream Asian sourcing fit more closely with the policy concern. Wood and furniture sit between the two: immediate treatment depends on Section 232 classification, while origin risk depends on whether processing in Vietnam is substantive.

Sector	Exports to U.S (8M26)	U.S. share of sector exports	YoY growth to U.S.	China sourcing proxy	Exposure assessment
Computers and electronics	USD38.73bn	38.3%	+48.4%	36.7%	Low-to-mixed direct forced-labor 301 exposure; high origin and pending-policy scrutiny
Machinery and equipment	USD19.60bn	41.5%	+29.0%	64.5%	Mixed current exposure; high excess-capacity / origin-policy risk
Textiles and garments	USD12.42bn	46.2%	+2.9%	63.4–70.2% across major inputs	High direct tariff exposure; elevated sourcing/origin scrutiny
Phones and components	USD8.62bn	18.9%	+14.5%	81.1%	Low-to-mixed direct exposure; high supply-chain scrutiny
Footwear	USD6.46bn	39.9%	+6.4%	High upstream linkage	High direct exposure, subject to HTS-level confirmation
Wood and wood products	USD5.91bn	50.1%	-4.7%	37.6%	Mixed Section 301/232 treatment; high origin scrutiny
Toys and sporting goods	USD3.49bn	51.9%	-6.7%	n.a.	Likely high direct exposure; HTS mapping pending
Plastic products	USD2.80bn	50.6%	+14.2%	64.6%	Mixed-to-high direct exposure; high excess-capacity-policy risk
Bags, wallets and luggage	USD1.55bn	46.4%	+17.9%	High linkage to textile/leather inputs	Likely high direct exposure; elevated textile/leather sourcing risk
Electrical wire and cable	USD1.47bn	40.0%	+50.6%	67.6%	Mixed current exposure; very high China-sourcing proxy
Seafood	USD1.25bn	15.7%	+1.5%	10.1%	High direct exposure; additional product/company-specific trade-remedy risk
Iron and steel products	USD1.22bn	31.6%	+21.3%	75.1%	Lower incremental forced-labor 301 exposure where Section 232 applies; high excess-capacity-policy risk

Source: GSO, FiinX.
**China's share of Vietnam's imports within the corresponding broad GSO commodity category. This is a supply-chain screening indicator only and does not measure Chinese value added embedded in U.S.-bound exports or establish transshipment.*

THE CURRENT TARIFF AND THE PENDING CASE RANK SECTORS DIFFERENTLY

- **The listed universe captures only part of Vietnam's export complex, while company disclosures illustrate how tariff incidence varies materially within the same sector.** Available disclosures suggest TNG remains more U.S.-exposed than TCM, although directly comparable 2026 market shares are unavailable. FMC combines substantial U.S. dependence with an active trade-remedy burden; VHC generated roughly one-third of June sales from the U.S.; and GDT expects U.S. concentration to rise as Costco orders scale. At company level, the critical variables are customer tariff-sharing, margin buffers, order relocation, input traceability and HTS-specific treatment.

- **The macro transmission however extends beyond exporters.** A sufficiently broad manufacturing shock would first weaken orders, payroll and supplier cash flow; it would then reach the trade balance and USD/VND, before affecting credit quality and domestic demand. Industrial parks and logistics retain structural support when investment represents genuine relocation and deeper local production. The value proposition weakens where projects add little transformation and rely on tariff differentials alone.

SECTOR & COMPANY EXPOSURE

Company	Updated exposure indicator	Assessment
TNG	The U.S. accounted for an estimated 43.8% of textile and garment revenue in 2025 and around 44% of total revenue in 1Q2026; Europe represented approximately 43% in 1Q2026.	Export-heavy apparel exposure remains material, but diversification has reduced U.S. concentration.
TCM	The U.S. accounted for 18.4% of the market mix in 5M2026; South Korea 22.9%, Japan 14.4%, and Canada 7.0%.	More diversified across Korea, Japan and the U.S.; lower direct U.S. concentration.
FMC	The U.S. remains the largest market; external estimates suggest approximately 50% of revenue.	High market concentration plus U.S. shrimp trade remedies; current Fimex AD review is an additional earnings risk.
VHC	The U.S. generated VND2.463tn out of VND6.944tn of revenue in 1H2026, equivalent to 35.5%; in 8M2026, U.S. revenue was still up around 5% YoY, despite falling 15% YoY in August alone.	U.S. demand remains a material earnings driver, although geographic diversification is meaningful.
GDT	The U.S. represented approximately 20% of exports in 2025; management expects the share to increase to 30–40% in 2026.	U.S. concentration is rising as Costco orders scale; 30–40% remains a forecast.

THE DETERMINATION AND PRODUCT ANNEX WILL SET THE PATH

OUTLOOK FOR 2H26 & 2027

- **The unresolved excess-capacity case is the principal event risk because its scope overlaps with the strongest part of Vietnam's current export and investment cycle.** USTR launched the investigation on 11 March against 16 economies and completed public hearings in May. As of 14 September, no determination or remedial action had been announced.
- **Key catalysts to monitor:**
  - The first read is legal scope: whether USTR makes an adverse finding against Vietnam and whether the remedy is tariff-based, negotiated or deferred. The second is product scope: the treatment of electronics, machinery, cables, plastics, metals and existing exclusions. The third is stacking: how the new action interacts with Section 232 and product-specific antidumping or countervailing duties. The fourth is origin administration: value-added thresholds, documentation, verification and enforcement intensity. Only then can company exposure be mapped with confidence.
  - Confirmation should follow in a fixed order. Export orders and factory utilization will show whether U.S. customers absorb, share or redirect the tariff. Imports of equipment and intermediate goods will show whether FDI expansion is continuing. New versus additional capital, realised manufacturing investment and ownership-only M&A will distinguish productive capacity from headline registrations. The trade balance and USD/VND will reveal whether the external buffer is rebuilding, while manufacturing employment, wages and bank asset quality will capture the domestic transmission.
- **Our view:** The implemented tariff does not yet justify a recession thesis nor it translates into a narrative of a weakening economy. Its direct incidence is concentrated and the technology complex retains important exclusions. The risk is that the current action becomes the first layer of a broader enforcement regime at the same time that Vietnam's growth is increasingly dependent on import-intensive FDI manufacturing. The policy outcome that matters most is therefore not another small change in the headline tariff. It is whether USTR begins to tax or constrain the production architecture linking Asian inputs, Vietnamese processing and U.S. final demand.

Scenario	Policy trigger	Transmission
Targeted or no material incremental action	Vietnam is excluded, receives limited product coverage, or gains a negotiated outcome.	The 12.5% action remains a sector issue. Clarification supports orders and reduces the trade-policy risk premium.
Sector-specific remedies	The product annex includes machinery, electrical equipment, plastics, metals or selected technology lines.	The shock moves into FDI manufacturing and capital goods. Margin pressure, order reallocation and a slower improvement in the trade balance become the central channels.
Broad or restrictive action	Vietnam receives wide product coverage, high rates or tight origin conditions across several industrial chains.	The issue becomes macro-systemic through FDI decisions, employment, the current account, USD/VND and credit.

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