



Vietnam's GDP Growth: The Interplay of State Policy, Foreign Direct Investment, and Global Integration

Shaina Neysa Hanifa¹

Universitas Muhammadiyah Yogyakarta, Indonesia

Abstract

The recent escalation of the US–China trade war since 2018 has reshaped the global investment landscape and encouraged the relocation of supply chains, positioning Vietnam as a major beneficiary. The surge in Foreign Direct Investment (FDI) into this country is predominantly concentrated in the manufacturing and technology sectors. This study analyses the role of Vietnam's political and economic policies in attracting FDI through a neo-mercantilist approach. The findings indicate that Vietnam's success is driven not only by geographical factors and labour costs, but also by strategic state interventions, including fiscal incentives, investment deregulation, bureaucratic reform, and the development of industrial zones and trade agreements. Nevertheless, Vietnam still faces significant challenges, including dependency on Chinese raw materials, vulnerability to US tariff measures, and persistent issues related to corruption and legal inconsistent application. These findings underscore that amid growing turbulence in the global economic landscape, a hybrid approach combining market liberalization with strategic state intervention is key for developing countries, such as Vietnam, to maintain their competitiveness. This study recommends strengthening regulatory transparency and enhancing domestic industrial capacity as a foundation for sustainable, long-term economic growth.

Keywords: Vietnam, Foreign Direct Investment (FDI), Neo-mercantilism, Trade War, Economic Policy, State Strategy, Globalization

¹ Corresponding e-mail: shainaney@gmail.com

Introduction

For over a decade, the trade war between the United States and China, which escalated significantly in 2018, has had profound implications for the global economy (MS Research Hub, 2025). The imposition of heavy tariffs, export controls, and supply-chain disruptions triggered a realignment of global production networks as many multinational corporations seek to reduce their dependence on China (Hong, 2025). In light of this, the Southeast Asian nation of Vietnam has emerged as one of the greatest beneficiaries of this shift, experiencing a sharp surge in foreign direct investment (FDI) and establishing itself as a major manufacturing hub in Asia taking control of several traditionally Chinese dominated industries (The Investor, 2025; Meshworks, 2025).

According to a report by the Institute of Chartered Accountants in England & Wales (ICAEW), Vietnam achieved economic growth of 6.7 per cent in the second quarter of 2019, making it one of the fastest-growing economies in Southeast Asia. This remarkable growth, frequently dubbed “Vietnam’s Miracle” , is especially notable given that just three decades earlier the country had been counted among the poorest globally. The reform program known as *Đổi Mới*, introduced in 1986, stands as a watershed pivot: a market-oriented economic system within a socialist framework which enables Vietnam to attract increasing FDI, enhance its competitive position, and fuel robust economic growth (Vietnam News, 2019).

The US–China trade war has further accelerated the flow of investment into Vietnam. Rising production costs in China due to high tariffs and US protectionist policy encouraged many companies to seek new production sites, with Vietnam rapidly emerging as the preferred destination. For example, research by Yamashita and Ha (2024) highlights the so-called “third-country effect” wherein firms shifted production to Vietnam to evade US tariffs on Chinese goods.⁽¹⁾ According to Banh, Fan, and Zhang (2024), Vietnam’s cost-competitive labour and geographic proximity to China, combined with incentives and administrative reforms have made it an attractive destination for firms relocating operations. Moreover, Narmamatovich, Le, and Coffelt (2022) argue that the U.S.-China trade war further enhanced Vietnam’s competitive advantage in labour-intensive industries. Vietnam’s comparative advantages, lower labour costs, strategic geographic proximity, simplified licensing procedures, and government incentives made it attractive for firms relocating operations. Data from Vietnam’s Ministry of Planning and Investment indicate FDI inflows of \$USD 16.74 billion in Q1 2019, underscoring Vietnam’s growing role as a major beneficiary of the US–China trade conflict.

Vietnam did not simply ride the wave of diverted investment; it actively reshaped its domestic conditions to seize it. The government implemented deregulation, streamlined bureaucratic procedures, improved infrastructure, and negotiated trade agreements to enhance its investment climate. For instance, its participation in major trade pacts such as the CPTPP, EVFTA, and RCEP significantly boosted its appeal to global investors. Vietnam’s rapid ascent is not without structural vulnerabilities. A heavy reliance on imported raw materials particularly from China constitutes a major risk: disruptions in China could directly affect Vietnamese manufacturing. Indeed, studies show that a large share of Vietnamese export production remains based on foreign-sourced inputs (OECD, 2025). Moreover, despite its status as an export hub, Vietnam still needs to strengthen its high-technology industrial base and upgrade logistics infrastructure to remain globally competitive. Empirical work highlights that much of the FDI remains concentrated in low-and medium-tech industries (Wicaksa, Jamaan & Hidayati, 2025).

A deeper critical lens reveals caveats. First, while Vietnam has attracted substantial investment relocation, some of this is less about establishing high-value manufacturing ecosystems and more about assembly or trans-shipment-oriented operations. For example, the recent investigation by the Institute of Developing Economies found that among foreign firms in Vietnam, those with Chinese ownership post-2018 have a lower propensity for substantive trade orientation, and tend to act as conduits rather than fully integrated production sites.⁽³⁾ Second, Vietnam's heavy export orientation especially to the US exposes it to potential retaliatory policy. Reuters (2025) reports Vietnam's trade surplus with the US reached a record high in 2024, exceeding \$USD 123 billion, raising concerns about potential US tariff retaliation, Vietnam's transformation must be viewed as a 'moment of opportunity' rather than a secure long-term guarantee. To sustain its trajectory, Vietnam must strengthen domestic supplier linkages, upgrade technological capabilities, and reduce dependence on imported components. As the OECD (2025) states, while Vietnam appears to have gained more FDI from the US–China trade dispute than any other nation, sustaining productivity growth will require embedding foreign investment within domestic value chains.

The US–China trade war catalyzed a structural shift in global investment flows, and Vietnam was uniquely well-positioned to capture these flows. It converted external geopolitical disruption into an opportunity by combining reforms, trade liberalization, and investment attraction. Yet, the same features that enabled its rise export orientation, reliance on foreign inputs, and external dependency pose medium-term challenges. Vietnam stands at a critical juncture: to move from being the 'China plus one' factory to becoming a higher-value, more resilient, innovation-driven economy. The trade war may have unlocked the door; now the crucial task is walking through it sustainably.

Literature Review and Theory

Neo-Mercantilism and the Strategic Reassertion of the State

In the evolving architecture of the global economy, capitalism remains the central paradigm shaping state behaviour and policy direction. Market mechanisms, cross-border trade, and capital flows have historically been celebrated as engines of global integration, advancing prosperity through liberal interdependence. According to Held and McGrew (in *From Industrial to Global Capitalism*, 2019), globalized capitalism is underpinned by capitalist norms of profit-driven accumulation, market exchange, and cross-border capital mobility. Fan et al. (2024) similarly argue that dominant capitalist countries use globalization to expand capital opportunity space and entrench liberal economic interdependence. The liberal ideal rooted in the belief that free trade and comparative advantage lead to mutual gains has underpinned the international order since the post-Cold War era. Yet, the dislocation produced by financial crises, widening inequality, and geopolitical rivalries has exposed the limits of globalization. As Ohmae (2005) envisioned in his borderless world thesis, globalization was once assumed to render state boundaries obsolete. Paradoxically, the twenty-first century has instead witnessed a renaissance of state agency, as governments reassert control over markets to protect national interests and technological sovereignty (The Economist, 2025).

Wigell (2016, pp. 138–139) argues that neo-mercantilist states pursue economic power not merely through trade surpluses but via industrial capacity, technological mastery, and state-led financial autonomy. This renewed emphasis on state power signals the re-emergence of neo-mercantilism, a contemporary reinterpretation of classical mercantilist thought. While classical mercantilism (1500–1750) linked national prosperity to the accumulation of bullion and trade surpluses, its modern counterpart locates power within industrial capacity, technological mastery, and financial autonomy. Within this shifting context, two concepts, autarky and neo-mercantilism, re-emerge as critical frameworks to interpret the state's evolving economic behavior. Autarky, historically associated with self-sufficiency and the insulation of domestic production from external dependencies, offers an extreme expression of sovereignty in economic policy. Neo-mercantilism, by contrast, represents a more pragmatic synthesis: it embraces participation in global trade while selectively intervening to secure national advantage, technological control, and strategic autonomy (The Economist, 2025). Autarky, derived from the Greek *autarkeia* meaning “self-reliance,” was once conceived as the ideal of economic independence pursued by states seeking to minimize exposure to external shocks or coercion. Classical examples include the inter-war protectionism of 1930s Europe or post-revolutionary regimes that sought to produce internally all essential goods. In modern discourse, however, autarky is rarely pursued as absolute isolation; instead, it functions as a conceptual pole signalling the desire for strategic self-sufficiency. Contemporary versions such as China's dual-circulation model or the United States' push for domestic semiconductor manufacturing reflect 'partial autarky': the selective localization of production in critical sectors like energy, defence, and technology (OECD, 2022). These measures are not meant to sever global ties but to hedge against systemic interdependence that could translate into vulnerability during geopolitical crises.

The revival of autarkic tendencies thus dovetails with neo-mercantilism, a framework emphasizing that wealth and power are interdependent, and that the state must actively shape markets to maintain international competitiveness. Whereas classical mercantilism pursued bullion accumulation through trade surpluses, its modern counterpart defines wealth in terms of productive capacity, innovation, and technological sovereignty (Cohn, 2010, p. 50; Smith, 2018, p. 12). Neo-mercantilist states perceive globalization not as a benign process of mutual benefit, but as a contested arena in which control over supply chains, standards, and resources translates into geopolitical leverage (Hettne, 1993, p. 211-232). According to Helleiner (2024), the COVID-19 pandemic, sanctions, and energy shocks have accelerated a shift from efficiency to resilience, challenging the liberal belief that economic interdependence ensures peace and prosperity.

The US Inflation Reduction Act and China's techno-industrial expansion under *Made in China 2025* illustrate this logic vividly. Both deploy state subsidies, industrial policies, and export controls to nurture domestic champions and secure command over strategic industries (Steinberg, 2023). Yet this trend is not limited to great powers. Middle-income economies such as Vietnam are adopting a strategic neo-mercantilist posture, balancing openness with control to leverage globalization for national development. For emerging economies, the challenge is not to retreat into autarky but to manage interdependence intelligently, attracting foreign capital and technology while ensuring these flows reinforce domestic capabilities rather than dependency (The Economist, 2025). Vietnam provides an instructive case of this hybrid strategy. Since the *Đổi Mới* reforms of 1986, the country has combined market liberalization with state-directed industrial

policy. Far from embracing laissez-faire capitalism, Vietnam treats foreign direct investment (FDI) as a strategic instrument of national modernization. The state deliberately channels investment into export-oriented manufacturing and high-technology sectors, imposing localization requirements and encouraging technology transfer. This selective openness has produced extraordinary results: by 2024, Vietnam attracted over \$USD 25 billion in new FDI, an increase of 9.4 percent from the previous year, making it one of Southeast Asia's most dynamic manufacturing hubs (CNBC Indonesia, 2025).

From a theoretical standpoint, Vietnam's trajectory demonstrates how neo-mercantilist logic operates under global capitalism. Rather than rejecting integration, the Vietnamese state instrumentalizes globalization to strengthen domestic autonomy, an approach that echoes Friedrich List's nineteenth-century developmentalism more than Adam Smith's liberal universalism. Infrastructure investment, preferential tax regimes, and educational partnerships with multinational corporations form a coherent architecture of state-guided globalization (Baccini, Impullitti, & Malesky, 2019, pp. 80–82; Masina, 2010, pp. 15–18; Le, Chi, & Diem, 2019, pp. 12–15). The result is not autarky, but what might be termed managed interdependence: Vietnam remains deeply enmeshed in global value chains yet retains strategic discretion over how these linkages serve national objectives (Yamashita & Ha, 2024). Autarkic aspirations, in this sense, persist as symbolic counterpoints within Vietnam's developmental discourse. While full self-sufficiency is neither feasible nor desirable, the government prioritizes domestic capacity-building in critical sectors notably semiconductors, renewable energy, and defense manufacturing, to reduce reliance on external suppliers. Policies promoting *Make in Vietnam 2025* mirror global trends toward supply-chain sovereignty and technological nationalism. These initiatives highlight that neo-mercantilism does not simply re-impose protectionism; rather, it integrates selective protection with outward engagement, reflecting a pragmatic recalibration of the state's role in an era of volatile interdependence (World Bank, 2023).

Critically, this synthesis challenges the long-standing liberal assumption that state intervention undermines efficiency. The Vietnamese case shows that strategic state intervention can coexist with market dynamism, especially when directed toward industrial upgrading and knowledge diffusion. As Anantha Lakshmi (2024) argues, the success of this model lies in its adaptive capacity, the state's ability to act entrepreneurially, fostering public-private synergies that sustain competitiveness without succumbing to dependency. In this sense, neo-mercantilism emerges not as a retreat from globalization but as its re-politicization, wherein the state reclaims economic agency to mediate between global markets and national security imperatives. The conceptual relationship between autarky and neo-mercantilism thus reveals a continuum of state control rather than a dichotomy. While autarky embodies the aspiration for total self-reliance, neo-mercantilism represents its moderated realization within a globalized context. Both share the same ontological premise that markets must serve the state, not the other way around. Yet their strategic divergence lies in degree: neo-mercantilism substitutes isolation with selective connectivity, constructing economic sovereignty not through withdrawal but through negotiation and leverage within the international system.

As global competition intensifies around semiconductors, critical minerals, and clean energy technologies, this paradigm will likely define the political economy of the twenty-first century. For Vietnam, sustaining its success will require balancing foreign dependence with indigenous

innovation anchoring openness within the framework of resilient sovereignty. The pursuit of autarkic elements within a neo-mercantilist architecture, therefore, reflects not regression but maturity: a recognition that genuine independence in the modern world derives not from isolation, but from the strategic management of interdependence (The Economist, 2026).

Results and Discussion

Vietnam's Economic Reforms and FDI Appeal

Since the launch of the *Đổi Mới* (Renewal) reform program in 1986, Vietnam has undergone a profound transformation from a centrally planned socialist economy to a more market-oriented, open economy. The early phase of this reform (1986 to early 1990s) saw the incremental liberalization of prices, coupled by the decentralization of state enterprises and encouragement of private and co-operative activity. The full effects of institutional change, however, only manifested in the early 1990s as structural reforms deepened, and the economy began to embrace global integration more comprehensively. One landmark institutional shift was Vietnam's accession to the World Trade Organization (WTO) in 2007, which not only signalled Vietnam's embrace of the multilateral trading system but also necessitated wide-ranging reforms to trade, investment and regulatory regimes (OECD, 2025). Post-WTO, Vietnam committed to lowering tariffs, opening sectors to foreign investment and enhancing its trade agreements network. As a result, average manufacturing tariffs decreased significantly and trade as a share of GDP rose dramatically. For instance, the OECD reports that total trade flows, measured as imports plus exports, rose to 184 per cent of GDP by 2022, listing Vietnam among Asia's most trade-dependent economies. (OECD, 2025).

Investment policy shifted in tandem: the state adopted a proactive posture towards attracting FDI. Initially, FDI inflows were modest and concentrated in labour-intensive sectors. Over time, especially in the 2010s and early 2020s, Vietnam increasingly directed FDI toward manufacturing, technology and higher-value sectors (InvestGlobal, 2025). For example, in 2024 the manufacturing and processing sector alone accounted for approximately 73.3 per cent of total FDI volume, with realized inflows of US\$20.62 billion (InvestGlobal, 2025). These reforms and investment flows fundamentally altered Vietnam's economic structure. Capital accumulation, labour reallocation from agriculture to manufacturing, and increasing the openness of global value chains to underpin the high-growth trajectory. The OECD Economic Survey notes that between 1990 and 2023 real GDP in Vietnam grew at an average 6.7 per cent per annum, while per-capita GDP increased roughly 5.7 times over the same period (OECD, 2025). Moreover, FDI inward stock grew at 13.1 per cent per annum since 2007, and FDI accounted for around 15 per cent of total investment in recent years (OECD, 2025). The proliferation of free trade agreements (FTAs) has further entrenched Vietnam's openness and attractiveness as a production base. As of September 2022, Vietnam had signed 15 FTAs, with FTA coverage reaching 63 per cent of its exports and 81 per cent of its imports (ERIA, 2023). These agreements reduce trade barriers and enhance access to key markets, thereby increasing the appeal for foreign firms seeking regional hubs. They also signal to investors that Vietnam has stable and predictable trade linkages and institutional commitments to international norms.

FDI inflows have not only provided capital and job creation but also facilitated technology transfer, management know-how, and integration into global supply chains. The OECD report emphasizes that foreign-owned firms in Vietnam export at higher productivity levels, invest more

in R&D (26 per cent versus 15 per cent for domestic firms), and support urbanization and industrial upgrading (OECD, 2025). For example, multinational firms now account for about three-quarters of Vietnam's exports; in key products such as phones and computers, this share rises to 90 per cent (OECD, 2025). Yet the story is not one of broad and homogeneous success. Scholars caution that despite strong growth, Vietnam's productivity remains relatively low, and the economy faces the risk of the middle-income trap (OECD, 2025). A critical challenge concerns linkages between FDI and domestic firms: imports account for a high share of the inputs into Vietnam's exports (about four-fifths), meaning that much of the value-added of the export process remains foreign-owned (OECD, 2025). Without stronger domestic supplier networks and higher local value-added, the benefits of FDI may be constrained. Another point of critique is that the quality of FDI and policy coherence will determine future growth sustainability. While Vietnam remains a top destination for FDI, for example, in the first half of 2025, FDI inflows reached US\$21.51 billion, a 32.6 per cent increase. However, year-on-year nascent challenges such as rising global trade tensions, supply-chain disruptions and shifting investment priorities mean that Vietnam must adapt its strategy (VietnamBriefing, 2025). The shift from quantity to quality in FDI is gaining momentum; policymakers emphasize selective attraction of high-tech, green-economy and innovative projects rather than labor-intensive assembly (VOV, 2025).

However, Vietnam's economic reforms beginning with *Đổi Mới*, deepened through WTO accession and expansive FTA negotiation, and operationalized via an active FDI strategy have formed a coherent, state-mediated model of growth that combines openness, external integration and targeted intervention. The empirical results are compelling: robust growth rates, rising per-capita incomes and rapid export expansion. Nonetheless, the present phase of development demands refinement: enhancing domestic linkages, raising productivity, managing external vulnerabilities and moving beyond the assembly-based model toward innovation and higher value-added. The structural path ahead requires that Vietnam not only attract capital, but also embed it domestically, thereby safeguarding the sustainability of its growth momentum.

Political and Trade Factors Affecting FDI

Since the early 2010s, the political and trade architecture shaping Vietnam's foreign direct investment (FDI) environment has undergone seismic shifts. On the trade front, Vietnam's strategic accession to "new-generation" free trade agreements (FTAs) such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in January 2019, the EU-Vietnam Free Trade Agreement (EVFTA) in August 2020, and the RCEP in January 2022 has significantly elevated Vietnam's standing within global manufacturing and supply-chain networks (Nguyen & Ha, 2024; World Bank, 2022; Thanh Hoan, 2025)¹. Empirical analyses show that participation in the CPTPP alone is associated with an average export growth boost of around 1.9 per cent, underscoring Vietnam's rising role as a global manufacturing hub (Nguyen, 2019). Moreover, under the EVFTA, the elimination of nearly 99 per cent of tariffs between Vietnam and the EU is credited with fostering robust growth in the electronics and agriculture sectors which in turn enhance FDI attractiveness and export diversification (GAJEB, 2023). RCEP membership further bolsters Vietnam's integration by harmonizing tariff and regulatory frameworks across the Asia-Pacific, thereby supporting its export-oriented strategy and post-pandemic resilience (World Bank, 2022; Thanh Hoan, 2025)⁴. Through this deep trade-regime embedding, Vietnam not only

widens market access but also upgrades the quality, structure and strategic direction of FDI inflows (JISEM, 2024).

Politically and institutionally, Vietnam's one-party governance structure provides a compelling mix of continuity and investment stability. This political stability is increasingly underpinned by ambitious bureaucratic reform. Between December 2024 and June 2025, for example, the government eliminated approximately 20 per cent of ministries and state apparatuses, a move aimed at boosting administrative efficiency without disrupting ongoing investment projects (Reuters, 2024; Reuters, 2025). Government assurances that the approval processes for foreign investment projects would remain uninterrupted during the administrative overhaul bolstered investor confidence (Reuters, 2024; Reuters, 2025). On the legal front, revisions to the Investment Law and Capital Market Regulations (2020–2025) removed restrictions on foreign ownership, increased market transparency, and strengthened legal certainty for foreign investors (Vietnam Briefing, 2025). Meanwhile, digitalisation of services such as the *FDI.gov.vn* single-window platform reduced licensing processing times from 45 to 15 days, signalling strong state commitment to an improved investment climate (DNP, 2025).

Moreover, Vietnam's policy strategy for FDI has become increasingly selective and forward-looking. The government now emphasises the attraction of high-technology and sustainable sectors via fiscal and sector-specific incentives: tax reductions, subsidy schemes for R&D, and favourable land rentals for projects in semiconductors, artificial intelligence (AI) and green energy (FT, 2024; Reuters, 2025). Strategically located industrial zones in Bac Ninh, Binh Duong and Hai Phong offer modern infrastructure ports, highways, logistics and simplified licensing to facilitate multinational corporations relocating production bases from China (DNP, 2025).¹¹ Added to this, Vietnam has adopted golden visa and financial liberalization policies allowing up to 49 per cent foreign ownership in certain sectors and long-term investor visas of up to 10 years, especially in planned financial centers such as Ho Chi Minh City and Danang (Reuters, June 11 2025; Reuters, March 2025). These moves illustrate how Vietnam is positioning itself as a technology and clean-energy hub in Southeast Asia, with global corporations such as Google, Qualcomm, SK/Iskvina and Intel establishing R&D and manufacturing presence in the country (White & Case, 2025; DNP, 2025).

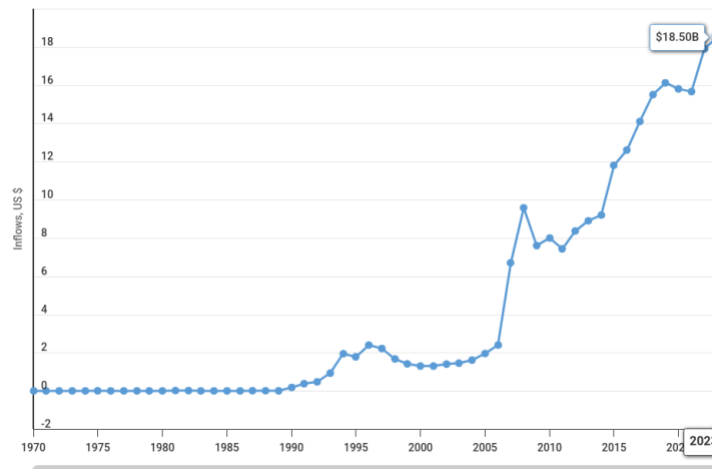
However, these ambitious reforms are not without significant challenges. Rising US tariff pressures altogether potential levies up to 46 per cent on certain Vietnamese exports, pose a direct threat to export growth and may force Vietnam to diversify trade partners toward Europe and Japan (Reuters, June 13 2025).¹⁴ Institutional weaknesses persist, for example, corruption remains entrenched, with some surveys indicating that 65 per cent of the population perceive corruption as a serious issue, undermining legal certainty and investor-confidence (Transparency International, quoted in "Wikipedia", 2025).¹⁵ Structural concerns remain as well: while Vietnam's reform rhetoric is strong, abrupt policy reversals and legal inconsistencies continue to trigger investor wariness (The Investor, 2025). Vietnam's evolving political-trade nexus demonstrates how trade integration, institutional reform and strategic FDI policy converge to produce an increasingly sophisticated investment ecosystem. The interplay of trade-regime binding via FTAs, state-led governance reform and selective investment targeting enables Vietnam to harness global capital flows while maintaining state agency. Yet, the sustainability of these gains will depend on the

country's ability to deepen domestic value-added linkages, improve institutional governance and manage external shocks in a geopolitically volatile era.

The Impact of the US–China Trade War on Investment Flows to Vietnam

The escalation of the trade war between the US and China, has significantly reshaped global investment patterns and production networks. As the two largest economies in the world imposed reciprocal tariffs on hundreds of billions of dollars in goods, multinational corporations faced the dual pressure of rising production costs in China and heightened uncertainty surrounding global trade stability (Bown, 2020). In this context, Vietnam emerged as one of the most prominent beneficiaries of supply-chain restructuring, attracting a surge of manufacturing relocations and foreign direct investment (FDI) inflows from firms seeking to circumvent the escalating US-China tariffs (The Economist, 2024).

From a theoretical standpoint, Vietnam's strategic response to these developments aligns closely with the neo-mercantilist perspective. Neo-mercantilism, as elaborated by Chang (2002), highlights the role of state intervention in promoting national competitiveness, export surplus, and economic security through strategic industrial and trade policies. Vietnam's post-2018 approach exemplifies this logic: rather than passively receiving redirected investment, it proactively used fiscal incentives, regulatory reforms, and industrial planning to capture a significant portion of the manufacturing exodus from China. In effect, Vietnam leveraged a geopolitical rift into an economic advantage, an archetypal neo-mercantilist maneuver prioritizing national resilience within the global market system (Banh, Fan & Zhang, 2024).



Picture 1. Foreign direct investment in Vietnam (US\$ billions) from MacroTrends. Adapted from “Vietnam – Foreign Direct Investment | Historical Chart & Data”, by MacroTrends, 2025, retrieved from <https://www.macrotrends.net/global-metrics/countries/vnm/vietnam/foreign-direct-investment>

Empirical data confirm the magnitude of this shift. According to the Ministry of Planning and Investment, FDI inflows into Vietnam reached \$USD 19.1 billion in 2018 and exceeded \$USD 20 billion in 2019, marking the highest levels since the country's WTO accession (UNCTAD, 2021). The OECD (2025) reports that during the peak of tariff escalation (2018–2020), Vietnam's share of total FDI inflows to ASEAN rose from 10.6 per cent to 15.8 per cent, while China's declined

proportionally. This surge was especially pronounced in the electronics, semiconductors, textiles, and consumer goods sectors industries most affected by the US tariff measures. The Economist (2024) further observes that Vietnam's manufacturing exports to the US increased by over 34 per cent between 2018 and 2022, with many multinational firms re-routing supply chains through Vietnamese subsidiaries to maintain market access.

The relocation trend is visible across multiple industries. Tech and electronics giants such as Apple, Samsung, and Foxconn expanded or established new facilities in northern Vietnam, while automotive, furniture, and apparel manufacturers followed suit (Reuters, 2025). This wave of production migration is not merely a coincidence of cost efficiency; it reflects deliberate state strategy. The Vietnamese government introduced targeted tax holidays, land-lease incentives, and simplified investment procedures to attract high-value manufacturing projects (OECD, 2025). These initiatives were complemented by investments in industrial parks, ports, and logistics networks, enabling faster integration of new factories into global supply chains. As a result, Vietnam transformed from a peripheral manufacturing site into a strategic node within the regional production system (The Economist, 2024).

However, the impact of the US–China trade war on Vietnam extends beyond short-term FDI growth. The relocation boom underscores Vietnam's deepening integration into the global economy but also exposes vulnerabilities characteristic of a neo-mercantilist strategy. Much of the investment remains export-oriented, with limited linkages to local suppliers and low domestic value-added. OECD (2025) data indicate that foreign-invested enterprises account for nearly 74 per cent of Vietnam's total exports yet rely heavily on imported intermediate goods. This asymmetry suggests that while Vietnam captures significant production volume, it accrues a smaller share of the value chain, thus reinforcing dependency on global supply networks.

Critically, the trade war catalyzed Vietnam's effort to diversify its trade relationships beyond reliance on either the US or China. In line with neo-mercantilist logic, the state pursued broader market access through an accelerated schedule of free trade agreements (FTAs). The implementation of the CPTPP in 2019, EVFTA in 2020, and RCEP in 2022 reflect this diversification agenda. These agreements collectively extend preferential access to more than 60 markets and create a stable institutional foundation to attract FDI from firms seeking tariff-free production bases (World Bank, 2022; Thanh Hoan, 2025). As Reuters (2025) noted, Vietnam's participation in these "new-generation" FTAs signals its ability to combine open trade regimes with state-orchestrated industrial development, a balance typical of modern developmental states in Asia.

Nevertheless, structural risks accompany Vietnam's rapid integration. The very factors that make Vietnam attractive for its open trade framework and dependence on export markets also heighten its exposure to global volatility. Any escalation in US protectionism, such as renewed tariffs targeting re-routed exports, could quickly erode these gains. Furthermore, Vietnam's currency management and trade surplus with the US have periodically drawn criticism from Washington, raising the spectra of future economic frictions (Reuters, 2024). Domestic institutional challenges persist as well: bureaucratic inertia, inconsistent enforcement of investment laws, and corruption continue to generate uncertainty for foreign investors (Transparency International, 2024). These issues risk diluting the long-term benefits of trade-war-induced investment inflows if structural reforms are not sustained.

A more critical interpretation of the trade-war dividend views Vietnam's success as contingent, not structural. While the country has captured significant FDI inflows, much of the relocation is efficiency-seeking rather than strategic in nature. In other words, firms relocate to Vietnam to minimize tariff exposure, not necessarily to establish durable production ecosystems. Without stronger domestic technological upgrading and industrial linkages, Vietnam risks becoming a trans-shipment base rather than an innovation hub (Yamashita & Ha, 2024). From a neo-mercantilist viewpoint, this implies an incomplete developmental trajectory: Vietnam has mastered the attraction of capital but must still master its retention and internalization.

However, the US–China trade war has both challenged and empowered Vietnam's economic trajectory. The country's capacity to capture diverted FDI, expand export markets, and reposition itself within global production networks exemplifies a strategic and state-directed adaptation to shifting geopolitical realities. Yet, the neo-mercantilist pursuit of national advantage through export-driven industrialization carries intrinsic limitations, dependency on external markets, low domestic absorption of technology, and vulnerability to trade politics. To translate short-term advantage into sustainable growth, Vietnam must deepen industrial upgrading, strengthen institutional integrity, and foster indigenous innovation. The trade war may have opened the door, but long-term prosperity will depend on how effectively the state transforms this geopolitical windfall into endogenous development capacity.

Impact of the Trade War on ASEAN Stability

The trade war between the US and the China), stands as one of the most consequential economic confrontations of the twenty-first century. Both powers imposed steep tariffs on each other's imports, restricted market access, and leveraged trade and technology as instruments of strategic competition. The conflict was rooted not only in a trade imbalance, US reported \$USD 419 billion deficit with China in 2018, but also in a broader struggle over technological leadership, as evidenced in China's *Made in China 2025* strategy and US export controls on firms such as Huawei Technologies and ZTE Corporation (Lee, 2020). The consequences of this confrontation extend far beyond the bilateral arena, reaching deep into the economic and political dynamics of the Association of Southeast Asian Nations (ASEAN) region.

At the economic level, the trade war has heightened production costs and consumer prices globally, as tariffs of up to 25 per cent on some goods created ripple effects. For instance, research from the Peterson Institute for International Economics estimates an average annual loss of \$USD 800 in real household income in the US as a direct result of tariffs on Chinese goods. Moreover, multinational firms such as Apple and Toyota Motor Corporation experienced surging production cost burdens as Asian supply chains became destabilized (Lovely & Yang, 2021). As the global manufacturing system reeled, many firms explored relocation of production from China to alternative jurisdictions among ASEAN countries. Prior analysis shows that while some ASEAN states benefited by attracting relocated manufacturing, the transition was neither simple nor cost-free, owing to persistent dependence on Chinese intermediate inputs and logistic bottlenecks (WTO, 2020).

Beyond the direct economic effects, the trade war has also challenged ASEAN's regional trade structure and institutional alignment. Some ASEAN member states find themselves in a

strategic bind: deeply integrated economically with China while also reliant on the US as a security partner and export market. This dual dependence underlines ASEAN's vulnerability to external shocks and great-power rivalry. Empirical studies for ASEAN-4 (Indonesia, Malaysia, Thailand, Vietnam) show that trade-war related protectionism depressed investment and exports in the short-run, underscoring the fragility of ASEAN in the face of systemic shocks (Firdaus, Nurhayati & Irahma, 2022). Politically, the trade war has elevated the salience of patterning ASEAN responses amid geoeconomic fragmentation. ASEAN's institutional mandate emphasizes non-alignment, consensus decision-making and hedging strategies. Yet the US-China contest strains this posture: ASEAN is under immense pressure to side economically with one power or the other, thereby risking its unity and centrality. Literature indicates that ASEAN states are increasingly resorting to a flexibility in interdependence strategy, leveraging trade linkages while avoiding overt alignment so as to mitigate external coercion (Zuliyani & Alfian, 2024).

A regional consequence of this duopoly rivalry is the intensification of supply-chain realignment through ASEAN. As China firms relocate manufacturing to Southeast Asia partly to circumvent US tariffs, ASEAN countries become deeper nodes in global value chains (GVCs). A recent article argues that the US-China trade war offered the Global South, including ASEAN, opportunities to expand their GVC participation and upgrade employment and industry (Basundoro, Abrar & Sanjaya, 2023). However, while this relocation offers short-term gains, it also raises structural risks for ASEAN: dependency on China's upstream inputs, limited domestic value-added and vulnerability to future geopolitical shocks. Furthermore, the trade war has accelerated regional institutional initiatives. The formation and operationalization of agreements such as the RCEP and ASEAN's strengthened trade-diversification efforts reflect a proactive regional response to changed global conditions. Through these mechanisms, ASEAN seeks to reinforce resilience, reduce overreliance on any one power, and preserve its trade openness in the face of escalating protectionism (Hoekman & Mavroidis, 2020). The trade war thus acts as both a destabilizer and a catalyst for deeper regional economic integration.

The question of ASEAN stability also has a geopolitical dimension. As ASEAN countries become more integral to China-supply-chain rationales, the US view of Southeast Asia shifts from partner to theatre of competition. For example, Chinese investment in ASEAN soared in 2023, prompting concerns in Washington about trans-shipment and tariff-circumvention (Guardian, 2025). The resulting strategic recalibration means ASEAN states must navigate intensifying US pressure on issues such as 5G network exclusions and Chinese Belt and Road investments. The implicit risk is that economic cohesion among ASEAN members could fracture under divergent alignments, some moving closer to China, others hedging toward the US undermining regional consensus and unity (Time, 2024). In summary, the US-China trade war poses both systemic risks and potential opportunities for ASEAN stability. On the one hand, escalating tariffs, supply-chain disruption and uncertainty threaten ASEAN's export-led growth model and deepen external dependencies. On the other hand, the conflict compels ASEAN states to revisit old paradigms, accelerating regional integration, strengthening multilateral trade architecture, and upgrading their industrial capacities. Thus, ASEAN's stability in this context will hinge on its ability to manage the dual challenge of economic realignment and strategic autonomy. The trade war may have unsettled the global order, but it also offers ASEAN a critical juncture to reinforce its centrality and resilience in a structurally shifting international economy.

Conclusion

Vietnam has successfully positioned itself as a leading destination for Foreign Direct Investment (FDI) in Southeast Asia, particularly in the aftermath of the trade war between the US and China. Through the Đổi Mới economic reforms initiated in 1986, the country was able to transform its economic structure from a centrally planned system into a market-oriented and more open economy. This policy fostered the growth of the private sector, strengthened export capacity, and enhanced its appeal to global investors. The relocation of manufacturing facilities from China due to tariff tensions further accelerated the surge in FDI to Vietnam (CNBC, 2025; Bown, 2020). Vietnam is not merely dependent on low labor costs but also proactively applies a neo-mercantilist strategy by employing state intervention to direct FDI toward high-value-added sectors, such as technology and green industries. Fiscal incentives, infrastructure development, deregulation, and participation in free trade agreements, including the CPTPP, EVFTA, and RCEP, further consolidate Vietnam's integration into the global economy (White, 2024; Vietnam Briefing, 2025). Nevertheless, significant challenges remain. Dependence on Chinese raw materials, the threat of US tariffs, and persistent issues related to corruption and legal inconsistent application may undermine long-term investor confidence (Reuters, 2025). In a global context increasingly shifting toward selective protectionism, Vietnam must continually balance market openness with the safeguarding of its national economic interests. Overall, Vietnam's success in attracting FDI underscores the important role of state intervention in creating a stable and purposeful investment climate. The combination of an open market approach and strategic intervention has proven effective in promoting sustainable and globally competitive economic growth.

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