

US Vietnam sign “TOTAL ACCESS” deal: Impact on Indian businesses?

The global trade landscape is undergoing a profound transformation, marked by a renewed emphasis on bilateral agreements, supply chain resilience, and the strategic re-calibration of economic partnerships. A pivotal development in this evolving scenario is the recent trade deal between the United States and Vietnam, announced by President Donald Trump.

The US-Vietnam "TOTAL ACCESS" Deal: Key Provisions

President Trump's announcement heralds a new era for US-Vietnam trade relations, characterized by two primary components:

- 1. Tariff on Vietnamese Goods Entering the US:** Vietnam will now face a **20% tariff** on the majority of its goods imported into the United States. This represents a substantial reduction from the more aggressive 46% tariff that had been initially proposed, signalling a negotiated compromise. This revised tariff, however, is a notable increase from Vietnam's previous preferential rates, which historically ranged from 2-10% under its 2000 Bilateral Trade Agreement (BTA).
- 2. Tariff on "Transhipped" Goods:** A more stringent **40% tariff** will be applied to goods identified as "transhipped." This measure is clearly designed to combat the practice of routing products from third countries (most notably China) through Vietnam to circumvent existing U.S. tariffs. While the intent is clear, the precise definition and enforcement mechanisms for "transshipping" remain subjects of clarification and potential contention.
- 3. Vietnam's Market Access for US Products:** In a significant reciprocal move, Vietnam has committed to granting the United States **"TOTAL ACCESS"** to its markets. This groundbreaking concession implies that American products will now be sold into Vietnam at **zero tariffs**, opening up new avenues for US exports, particularly in sectors like large-engine vehicles (e.g., SUVs), which President Trump explicitly highlighted.

This agreement, concluded just ahead of the critical July 9th deadline (which could have triggered higher reciprocal tariffs), temporarily defuses immediate trade tensions between the two nations. However, many crucial details regarding its implementation, specific purchasing commitments, and the resolution of Vietnam's long-standing quest for market economy status are yet to be fully clarified.

Opportunities for India: A Strategic Advantage in Supply Chain Restructuring

While there will be competitive dynamics, the overall thrust of this agreement leans towards potential strategic benefits for Indian businesses:

1. Accelerated Supply Chain Diversification: The "China-Plus-One" Imperative The imposition of a 20% tariff on Vietnamese goods, despite being lower than the initially threatened 46%, fundamentally alters Vietnam's cost advantage in the US market. This increased cost structure for Vietnamese exports will likely compel global corporations, already seeking to de-risk and diversify their manufacturing and sourcing bases away from over-reliance on China, to explore additional alternatives.

India, with its vast and increasingly skilled workforce, is uniquely positioned to capitalize on this imperative for supply chain diversification. Sectors that have already witnessed substantial investment shifts, including **electronics, textiles, footwear, and automotive components**, are particularly poised for accelerated growth towards India. Companies seeking robust and resilient supply chains will find India's growing manufacturing ecosystem, coupled with its democratic framework and commitment to international trade norms, an increasingly attractive destination.

2. Levelling the Playing Field: Addressing Transshipment Challenges The explicit introduction of a 40% tariff on "transhipped" goods is a direct response to concerns about products (primarily from China) being re-routed through third countries to bypass higher U.S. tariffs. While the legal nuances of this provision are subject to debate (as traditional rules of origin dictate that a good's origin does not change merely by transit), its intent is clear: to reduce unfair competition.

For Indian manufacturers producing genuine Indian-origin goods, this measure could significantly **level the competitive landscape in the U.S. market**. By reducing the ability of third-country goods to masquerade as Vietnamese exports at lower tariff rates, Indian products that are genuinely manufactured and substantially transformed within India will gain a more equitable footing. This can enhance the competitive edge of Indian exports in critical sectors where price sensitivity and origin integrity are paramount.

Open Questions and Future Considerations

Despite the announcement, significant details of the US-Vietnam deal remain unclarified, presenting a series of open questions that warrant close monitoring by Indian businesses and policymakers:

1. **Tariff Structure Clarification:**

- o Is the 20% tariff on Vietnamese goods in addition to existing regular duties, or does it **replace them entirely**? The financial impact on businesses hinges critically on this distinction.
- o Will this new tariff regime **override sectoral tariffs** already in place, such as Section 232 tariffs on steel and aluminium?

2. **"Transshipping" Definition and Enforcement:**

- o What exact criteria will define "transshipping" under the 40% tariff?
- o How will U.S. customs authorities effectively distinguish between illegal transshipment (e.g., simple re-labelling) and legitimate "substantial transformation" of goods within Vietnam? This is a highly complex legal and logistical challenge.
- o Is the 40% tariff specifically targeting Chinese-origin goods or components processed in Vietnam, or does it have broader implications for all third-country content?
- o What specific documentation and rigorous rules of origin will be required to prove the legitimate origin of goods and avoid the higher tariff?

3. **Vietnam's Market Access Implementation:**

- o What does Vietnam's commitment to "TOTAL ACCESS" actually entail in practical terms?
- o Which specific sectors and products beyond SUVs will benefit from zero tariffs, and what is the timeline for these changes?

4. **Regional and Global Trade Implications:**

- o How might China officially and unofficially respond to measures perceived as directly targeting its trade flows through Vietnam? This could lead to retaliatory actions or further shifts in regional supply chains.
- o What template does this deal set for U.S. negotiations with other Asian economies, such as Thailand and South Korea, which are also facing the July 9th deadline for reciprocal tariffs?

5. **Enforcement Mechanisms and Effective Dates:**

- o What specific mechanisms will the US implement to monitor compliance with these new transshipment rules and the 20% tariff?

- o When do these new tariffs officially take effect, and what is the product scope (i.e., is it an across-the-board tariff on all Vietnamese exports, or limited to specific sectors)?

Conclusion

The US-Vietnam trade deal signifies a dynamic shift in global trade paradigms. While it offers immediate relief from escalating reciprocal tariffs for Vietnam, its broader impact will be felt across Asia and within intricate global supply chains. For Indian businesses, this development underscores the strategic imperative of robust supply chain planning and diversification. India's burgeoning manufacturing ecosystem, coupled with its proactive industrial policies, positions it favorably to attract investments seeking alternatives to established production hubs. By closely monitoring the unfolding details of this agreement and drawing crucial lessons for its own trade negotiations, India can further solidify its position as a reliable and competitive partner in the evolving global economic order.

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