

Foreign Direct Investment and Trade Dynamics in Vietnam after the US–PRC Trade Dispute

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Abstract

This paper examines Vietnam’s responses to the US-People’s Republic of China (PRC) trade dispute by analyzing trade, regional development, and FDI dynamics. This paper contributes to the literature in three ways. First, using a triple-difference strategy and an event-study with continuous treatment, we estimate the effects of US tariffs targeting PRC on Vietnam’s trade flows. A one percentage point increase in US tariffs on Chinese goods led to 4.7% increase in Vietnam’s exports to the US and 1.9% increase in its imports from China. Second, shift-share estimates show that regions more exposed to the trade war shock experienced stronger short-term economic expansion: one percentage point increase in exposure led to 1.9% increase in district sales, 2.1% increase in employment, and 2.6% increase in the number of firms. Finally, firm-level customs and investment data reveal that the entry of new MNEs, particularly those from PRC, accounted for a substantial part of the growth in trade. Access to road and port infrastructure as well as the presence of industrial zones significantly influenced MNE’s location choices. Taken together, our findings highlight the interplay between transport infrastructure, FDI, and trade policy in determining the spillover effects of the trade dispute.

Keywords: Trade, ports, roads, US-China trade dispute, Vietnam, PRC

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