



Factors Affecting Vietnam's Potential to Become a Free-Trade Nation

Dinh Thi Hieu Ngan

Hanoi Metropolitan University, Hanoi, Vietnam

ABSTRACT: In the context of increasingly deep globalization, many countries pursue the free trade model as a long-term development strategy to optimize competitive advantages and enhance economic position in the international arena. Vietnam is one of the fastest integrating economies in the world with a large network of free trade agreements (FTAs) and a trade/GDP ratio among the highest in the world. However, to become a truly free trade country, Vietnam needs to meet a series of conditions that go beyond tariff reduction. By analyzing secondary data from the WTO, OECD, NCTAD, and the World Bank, the paper identifies key factors shaping this process, including institutional quality, policy transparency, logistics efficiency, digital transformation capabilities, human resource quality, and domestic enterprise competitiveness. The findings show that Vietnam has many important advantages but still faces structural barriers that, if not addressed, will hinder its goal of becoming a free-trade nation in the next decade.

KEYWORD: Digital transformation capacity, free trade liberalization, institutional quality, logistics efficiency, policy transparency.

1. INTRODUCTION

During its transition from a centrally planned economy to a socialist-oriented market economy, Vietnam has achieved remarkable feats. Stable economic growth, impressive inflows of FDI, and the expansion of its FTA network have positioned the country as one of the most dynamic markets in Asia. According to the World Bank (2023), trade in goods and services accounts for about 165% of the country's GDP—a testament to Vietnam's high level of openness and deep integration into global markets. This paper employs a qualitative research approach, synthesizing data from domestic and international institutional reports to examine the factors influencing Vietnam's path toward becoming a free-trade nation.

On the other hand, what makes a country truly a free-trade nation is not merely market openness. It requires transparent institutions, predictable policymaking, modern logistics infrastructure, globally competitive enterprises, and advanced technological capabilities. These factors have become increasingly critical amid the restructuring of global supply chains and the heightened scrutiny from major trading partners. Recently, the United States has raised import tariffs on selected Vietnamese products due to alleged tariff circumvention involving Chinese-origin goods, signaling that Vietnam must address structural bottlenecks to sustain its integration trajectory.

2. THEORETICAL FRAMEWORK

International scholarship on free trade shows that the concept of a "free-trade nation" needs to be understood in a far broader sense than is conveyed by simple tariff cuts. In the modern approach, trade liberalization is a systemic element that requires coordination at the level of institutions, policies, and the operational capabilities of the entire economy. Reports and policy analyses released by the WTO (2023) suggest that one can consider a country as highly liberalized only when it meets several structural conditions simultaneously.

First, the levels of tariffs for both goods and services are to remain at a low threshold, while being oriented toward the abolition of most tariff lines over the long run. Second, non-tariff restrictions—quota, licensing, or overly burdensome technical inspections—are to be minimized to avoid unintentional limitation on market access. Third, the trade policy framework should be transparent, predictable, and depoliticized from abrupt changes in regulatory policies that may interfere with business plans. Fourth, the logistics ecosystem, from transport networks to trade-support services, is to function efficiently so that transaction costs of firms remain competitive. Fifth, the domestic business environment has to foster a level and vibrant competitive landscape, free from distortions due to preferential treatment or undue interventionism. Lastly, supply chains, especially cross-border ones, have to be governed by clear rules on origin, quality conformance, and conformity with international standards.



From an institutional perspective, OECD (2022) emphasizes that sustainable trade liberalization in emerging economies cannot rely solely on signing free trade agreements, but must be built on a strong institutional foundation and modern infrastructure. Strong institutions here include a clear, consistent legal framework, high law enforcement, a reliable dispute resolution mechanism and long-term policy-making capacity. Modern infrastructure is not only the road system, seaports, airports, but also includes digital infrastructure, data platforms for customs management, logistics and supply chain monitoring. OECD (2022) studies show that in countries where institutional reforms do not keep up with the pace of trade openness, the benefits from liberalization are often undermined by high transaction costs, corruption, or lack of transparency in policy implementation.

In addition to the theoretical framework of trade liberalization, recent studies have also shown that geopolitical fluctuations are reshaping the entire global trade structure, thereby directly affecting the path to becoming a free-trade country of developing countries, including Vietnam. The US-China trade war is not simply a matter of two large economies increasing tariffs back and forth, but also leads to the separation and restructuring of the global supply chain. Many multinational corporations are implementing the “China + 1” strategy, which means reducing dependence on China by transferring part of their production to other locations in Asia, of which Vietnam is one of the prominent destinations. This creates great opportunities for Vietnam to attract FDI, expand export production and enhance its role in the regional value chain.

However, along with opportunities come significant challenges. Faced with the risk of Chinese goods “evading” tariffs by transiting or minimally processing in third countries, the United States has increased its investigation measures and imposed anti-avoidance tariffs on a number of exports from Vietnam, typically steel, wood, energy batteries, and a number of other industrial products. This reflects the trend that major markets are not only interested in the tax rates stipulated in the agreement, but also pay special attention to the substance of origin, domestic added value and the level of transparency of the supply chain. In that context, the “China + 1” strategy not only provides incentives to attract investment but also puts Vietnam under pressure to prove that it is more than just a “transit station” in the global trade chain.

It can be seen that the progress towards the goal of becoming a free trade country of Vietnam needs to be viewed in two layers: (i) the internal structural layer - including institutional reform, reducing non-tariff barriers, improving logistics efficiency, ensuring fair competition and enhancing supply chain transparency; and (ii) the international context layer - where fluctuations such as the US-China trade war, the trend of imposing anti-avoidance tariffs, and the shift in global supply chains have both opened up opportunities and posed new challenges. It is the interaction between these two layers that will determine the level and quality of trade liberalization that Vietnam can achieve in the coming period.

3. DISCUSSION RESULTS

3.1 Factors affecting Vietnam's ability to become a free trade country

(1) *Institutional quality and policy transparency*: Institutions play a central role in the trade liberalization process and determine Vietnam's ability to integrate deeply into the global trading system. Although Vietnam has made many reform efforts, including simplifying administrative procedures, modernizing customs and enhancing policy dialogue, practice shows that the legal system still has overlaps between ministries and branches, making it difficult for businesses to predict and comply with trade policies. Vietnam's customs clearance time and transaction costs are still high compared to international standards, reflecting the need for stronger reforms in policy coordination and transparency.

As key export markets such as the United States and the European Union tighten requirements on traceability, compliance with rules of origin and supply chain transparency, Vietnam's institutions need to move closer to international standards of transparency, stability and policy predictability. This will not only help Vietnam avoid trade risks, but also enhance its reputation as a reliable trade partner in the context of increasingly fierce global competition.

(2) *Non-tariff barriers and rules of origin requirements*: Although Vietnam has significantly reduced tariffs through new-generation FTAs, non-tariff barriers remain a significant challenge. Though Vietnam has significantly cut tariffs through new generation FTAs, non-tariff barriers remain a big challenge. According to Hoa (2025), a report by UNCTAD shows that the compliance cost with SPS (Sanitary and Phytosanitary Measures), TBT (Technical Barriers to Trade) and specialized inspections in Vietnam can be as high as 10–15% of the good value. This significantly reduces the ability of businesses to take advantage of tariff preferences.. This significantly reduces the ability of businesses to take advantage of tariff incentives.



The impact of the US-China trade war has made the United States particularly cautious about the issue of rules of origin. The United States is concerned that a part of Chinese goods are "disguised" as originating from Vietnam to avoid taxes, so it has applied anti-tax evasion investigation measures on many Vietnamese goods. This puts great pressure on the management agency to improve the origin verification system, and forces Vietnamese enterprises to demonstrate a higher level of domestic added value. In this context, Vietnam's ability to build an independent production capacity, without relying too much on imported raw materials from China, becomes a key factor in determining the sustainability of the free trade goal.

(3) *Logistics and infrastructure*: Low logistics costs, fast transportation capability, and well-connected infrastructure are indispensable for any efficient free trade. According to the World Bank (2019), logistics costs in Vietnam account for about 21% of GDP, much higher than the average of 10-12% in developed economies. The high cost arises from very limited multimodal connectivity, low rail transport rates, local congestion at key ports, and limited automation in logistics. Vietnam does invest urgently in deep-water ports, large-scale industrial parks, and modern logistics centers. Improvement in the aforementioned areas would lower transaction costs and increase supply chain reliability, helping Vietnam move closer to a free trade nation. However, Vietnam has to continue optimizing multimodal transport and keep upgrading railways and seaports, while developing high-tech logistics to keep pace with the demands of a restructuring global supply chain.

(4) *Technological capacity and digital transformation*: In the context of global trade that has increasingly depended on digital platforms, digital transformation has become an inseparable element of new-generation trade liberalization. However, R&D spending in Vietnam at present is only about 0.42% of GDP (UNESCO, 2022), much lower than that of the newly industrialized economies. Such a low investment level leads to limitations in the application of important technologies, such as blockchain in traceability, Big Data in market forecasting, and customs automation.

The fact that Vietnam has the advantages of a strong and effective e-customs system, yet still hasn't achieved the advanced stages of data system integration as in higher-income countries, shows a huge disparity. While major export markets like the European Union, Japan, or the United States have very high standards on food safety, labor, environment, and supply chain transparency, without an effective technology platform, it is rather difficult for Vietnamese businesses to fully meet all of them. In such a situation, it will remain very difficult for Vietnam to go as deeply into the new generation of free trade, where competition will increasingly depend not only on labor costs but also on management quality and technology.

(5) *Domestic enterprise capacity and dependence on the FDI sector*: According to Viet (2025), Vietnam's export growth over the past two decades has been largely based on the FDI sector, which contributes more than 70-79% of total export turnover. This reflects the important role that FDI has played in the integration process but also shows domestic enterprises' limitation in the global value chain participation. Many Vietnamese enterprises stop their operations at the simple stages of processing and assembly, having low value-added content and relying significantly on imported raw materials from China, Korea, and ASEAN countries.

In the context of the trade war, such a heavy dependence exerts additional risks. In case FDI adjusts according to the investor country's policy, Vietnam's supply chain may be strongly affected. Thus, domestic enterprise capacity needs to be developed to make Vietnam a free trade country, together with the promotion of supporting industries and the increasing localization rate in manufacturing industries.

(6) *Global FDI shifts and dual impacts on Vietnam*: The reshaping of the global supply chain is creating a "golden window of opportunity" for Vietnam. According to Anh (2025), in just 10 months of 2025, the total registered FDI capital in Vietnam reached 31.52 billion USD, an increase of 15.6% over the same period; disbursed capital reached 21.3 billion USD - the highest level in 5 years; of which the processing and manufacturing industry attracted up to 7.97 billion USD. This reflects the attractiveness of Vietnam as an alternative destination in the "China + 1" strategy of multinational corporations.

However, opportunities always come with challenges. The United States has imposed additional tariffs on rolled steel, plywood, solar panels and some electronic equipment exported from Vietnam, citing suspicions of tax evasion by Chinese enterprises through Vietnam. These moves directly impact Vietnam's image in free trade, while also posing urgent demands for supply chain transparency, origin control, and improving domestic value-added capacity.

Certainly, the dual influence of this process is evident: on the one hand, FDI enhances production capacity, diversifies supply chains, and creates more export opportunities; while on the other hand, Vietnam risks losing tax incentives in the US, being in a position to require much stricter controls, with continued political and trade pressure. Thus, this confirms that if Vietnam wants



to become a free trade country, it cannot rely solely on FDI capital flows but must create internally strong enough competitiveness to stand firm against turbulence in the international trade context.

3.2 Policy implications for Vietnam to become a free trade country

The analysis results show that Vietnam's progress toward a free trade country model depends closely on institutional quality, policy transparency, the ability to control non-tariff barriers, logistics capacity, technological level, and the autonomy of the domestic business sector. Therefore, policy solutions need to be implemented in a comprehensive and interconnected manner instead of a single approach as before.

(1) *Enhance the institution's quality and the transparency of the trade policy itself:* The institutions are regarded as a prerequisite for a country to operate a free trade model according to international standards. In the context of Vietnam's legal system still having overlaps and rapid changes, the requirement is to reform towards increasing the stability and predictability of policies. To do this, Vietnam needs to accelerate the process of standardizing and unifying regulations related to trade, investment, logistics, and customs to eliminate legal conflicts between ministries and branches.

Another significant expansion is to enhance transparency in policy making and promulgation. This can be achieved through the establishment of a mandatory consultation mechanism regarding businesses, industry associations, and major trading partners before implementing or enacting regulations that directly affect the business environment. Additionally, application of the digital technology within State administration such as open data systems, shared database, and digital platforms will result in a reduction of compliance costs, increasing market confidence, and moving closer to standards of governance.

On the whole, improving institutional quality contributes not only to enhancing policy stability but also to making Vietnam a reliable trade partner in the eyes of demanding markets like the US and EU.

(2) *Perfecting the mechanism for controlling non-tariff barriers and increasing compliance with rules of origin:* In the context of many tariff barriers being reduced thanks to new generation FTAs, non-tariff barriers have become a factor that governs the market penetration capacity of Vietnamese enterprises. In order to reduce the costs of SPS, TBT, and specialized inspection, which currently account for a high proportion of the value of Vietnamese goods, it is necessary to strongly shift to a technology-based risk management model, replacing the manual inspection mechanism that is time-consuming and costly.

At the same time, the requirement to comply with the origin is more urgent than ever. Vietnam needs to build an international standard electronic traceability system, capable of tracing raw materials and components from input to finished products. This is the condition to prove that Vietnamese goods are genuine production, not related to tax evasion activities in the US-China trade war.

The more structural solution is to build domestic supporting industries to enable a higher level of domestic value added in sectors such as electronics, mechanics, textiles and energy. This would help not only reduce anti-circumvention duties but also allow Vietnam to participate more deeply in the global value chain.

(3) *Enhancing logistics capacity and modernizing trade infrastructure:* High logistics costs remain one of the major structural impediments to Vietnam's export competitiveness and deeper integration into global value chains. In order to effectively address this bottleneck, there should be an integrated national logistics strategy with a high emphasis on enhanced inter-regional connectivity, decreasing reliance on road transport and developing multimodal transport-oriented infrastructure.

Synchronously implementing planning for coastal economic corridors, international intermodal railways, deep-water port systems, and specialized logistics centers should be done on the basis of optimizing connectivity with industrial parks and production networks. The application of digital technologies such as the IoT, AI, smart warehouse management systems, and data analytics platforms is considered crucial for shortening storage time, improving the efficiency of transport, and reducing the total logistics cost in the chain. In terms of procedures, the encouragement of e-customs and transformation toward a "Smart Customs" model holds an important position in the integration process. A comprehensive, highly automated, and digital customs system that allows real-time data sharing will contribute to significantly shortening customs clearance times for goods.

(4) *Promote digital transformation and enhance national technological capacity:* In the context of international trade entering a competitive stage based on knowledge and technology, digital capacity becomes a decisive factor for effective participation in global value chains. Therefore, it is necessary to identify digital transformation as one of the strategic pillars in the process of bringing Vietnam closer to the model of a free trade country. One of the important requirements is to increase investment



in R&D, promote innovation in enterprises, and at the same time form a technology ecosystem closely linked with key export industries.

Meanwhile, the encouragement of enterprises to apply advanced digital technologies, such as blockchain for traceability, AI in supply chain management, and big data analysis in market research, has played an important role in enhancing the transparency, predictability, and efficiency of operations. These technologies bring competitive advantages not only to businesses but also contribute to strengthening customs authorities' and specialized management agencies' abilities to control quality and origin and ensure compliance with international standards in goods trade.

(5) Enhancing the capacity of local firms and lessening reliance on the FDI sector: A free trade model of sustainability needs to be based on the endogenous ability of the sector of domestic enterprises. The fact that the share of exports depends a lot on the FDI sector reflects weaknesses in technological capability, production scale, and the extent of participation of Vietnamese companies in high value added stages. Hence, the requirement is to build a systematic and long-term domestic enterprise development strategy.

To realize the above objectives, it is necessary that policies focus on the development and expansion of supporting industrial clusters to enhance linkages between domestic enterprises and FDI companies. Technology transfer programs, technical standards, quality management, and support for enterprise development to meet the requirements of global value chains must be widely implemented. Besides, the establishment of funds to support enterprises in technological innovation, machinery upgrading, improvement of production processes, and enhancement of design and R&D capacity is an important condition for Vietnamese enterprises to enhance their competitive position. The long-term objective is to transform Vietnamese enterprises' role from mere performers of simple processing stages to contributors in higher-value links of the global value chain, thus gradually overcoming dependence on the FDI sector and strengthening the foundation of economic autonomy in the process of deep integration.

(6) Proactively adapt to geopolitical competition and restructuring the global supply chain: In the context of US-China trade tensions, along with the increasing fragmentation of the global supply chain, Vietnam needs to deploy a proactive and long-term response strategy. That is to build and operate an effective trade defense system capable of protecting domestic manufacturing industries from unfair competition, while enhancing risk forecasting capacity to promptly respond to fluctuations in the international market. In addition, diversifying export markets is an urgent requirement to reduce dependence on a number of key markets, thereby strengthening the resilience of the economy to geopolitical shocks.

In attracting foreign investment, Vietnam needs to shift from "quantity" to "quality" strategy, prioritize high-tech and green FDI flows that have the ability to spread strongly to the domestic business sector. Along with that, it is necessary to increase requirements in terms of technology transfer, production linkages, and human resource training cooperation in order to enhance value localization and contribute to the development of national industrial capacity. At the same time, deeper involvement in new-generation free trade agreements will create momentum for institutional reform and improvement of governance standards, consolidate Vietnam's position in the global trading system.

4. CONCLUSION

Analysis shows that Vietnam has important favorable conditions to move closer to the model of a free trade country. Recently, foreign direct investment flows have still maintained a strong growth trend, of which the majority is concentrated in the processing-manufacturing sector, making significant contributions to strengthening production capacity and expanding export scale. The geopolitical position of Vietnam in the Asia-Pacific region also brings about important strategic advantages as the global supply chain is reshaping. Furthermore, a large network of free trade agreements has helped Vietnam penetrate high-standard markets, while simultaneously enhancing the prestige and level of trade integration of the economy.

However, the prospect of becoming a free trade country actually depends on Vietnam's ability to address internal limitations. Enhancing institutional transparency and improving the predictability of trade policy are important requirements to build trust for domestic and foreign enterprises. Along with that, Vietnam needs to speed up the upgrading of logistics infrastructure, increase efficiency of multi-modal transport, and reduce trade costs to enhance competitiveness. Comprehensive digital transformation in customs administration, traceability, and technical standard is an indispensable condition to meet the increasingly high requirements of the international market.



Along with the institutional and technological factors, enhancing the capacity of domestic enterprises will play a decisive role. If the domestic value-added ratio cannot be raised, Vietnam will continue to depend on imported components and run the risk of being investigated or taxed in the context of unpredictable global trade competition.

Finally, Vietnam has to proactively seize opportunities from the restructuring process of the supply chain in order to attract high-quality FDI and gradually build a sustainable production ecosystem. The facilitation of relevant factors-institution, infrastructure, technology, business capacity, and trade risk management-must be done simultaneously if Vietnam is to realize the goal of becoming a truly free trade country that is adaptable to global fluctuations and able to make a positive contribution to international trade flows.

Only when the factors of institutions, infrastructure, technology, business capacity, and trade risk management improve in a synchronous way will Vietnam be able to achieve the goal of becoming a truly free trade country that is able to adapt to fluctuations globally and contribute positively to international trade flows.

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