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U.S.-Vietnam Economic and Trade Relations: Issues in 2018

Over the past decade, U.S.-Vietnam economic relations have expanded rapidly, and Vietnam has become a significant U.S. trade partner. In 2017, the Trump Administration focused on the nearly $32 billion U.S. merchandise trade deficit in 2016 with Vietnam, while the Vietnamese government emphasized its desire to further "normalize" bilateral trade relations as part of the two nation's "comprehensive partnership." In addition to the bilateral trade balance, other issues likely to arise in 2018 include market economy status for Vietnam; U.S. arms sales to Vietnam; trade in catfish; a possible bilateral investment treaty; and Vietnam's potential membership in two regional trade agreements.

The main vehicle at which these and other trade issues may be discussed is the Trade and Investment Council (TIC), established by the 2007 bilateral Trade and Investment Framework Agreement (TIFA). The two nations held the first TIC meeting since 2011 on March 27-28, 2017, in Hanoi. During the meeting, the United States reportedly urged Vietnam to address certain trade issues, such as agriculture and food safety, intellectual property, digital trade, and financial services. Vietnam has asked that the United States recognize Vietnam as a market economy and lift the new catfish inspection regulations.

Bilateral Trade Balance

According to U.S. trade statistics, total merchandise trade between the United States and Vietnam has grown from $1.5 billion in 2001 to $54.6 billion in 2017, transforming Vietnam into the 12th-largest source of U.S. imports and 32nd-largest destination for U.S. exports. In addition, the U.S. merchandise trade deficit with Vietnam rose from $592 million in 2001 to more than $38 billion in 2017, the 5th largest U.S. bilateral trade deficit (after China, Mexico, Japan, and Germany). The United States had a $1.0 billion surplus in services trade with Vietnam in 2016.

The U.S. trade deficit with Vietnam was a topic of conversation when President Trump hosted Prime Minister Nguyen Xuan Phuc in May 2017, and again when President Tran Dai Quang met with President Trump in Hanoi in November 2017. In the joint statements issued following those meetings both nations pledged to make efforts to expand trade relations, as well as take measures to address some of their bilateral trade issues. While the Trump Administration's focus is currently on renegotiating trade agreements with Canada, Mexico, and South Korea, the Administration may increase its attention to trade relations with Vietnam in 2018, given the merchandise trade deficit.

Trends in Bilateral Trade

Although the Vietnam War-era U.S. trade embargo on Vietnam ended in 1994, bilateral trade only started to grow after the United States granted Vietnam conditional "normal trade relations" (NTR) in 2001. Bilateral trade growth—and the U.S. trade deficit with Vietnam—accelerated following Vietnam's accession to the World Trade Organization (WTO) in December 2006, under which the United States was obligated to grant Vietnam permanent NTR status.

Table 1. Vietnam's Top 5 Exports to the United States (by HTS Chapter) in 2017
in billions of U.S. dollars

Type of Product	Value
Electrical Machinery (85)	10.940
Knitted or Crocheted Clothing (61)	6.759
Footwear (65)	5.526
Non-knitted and Non-crocheted Clothing (62)	4.706
Furniture (94)	4.692
Total Exports	46.483

Source: U.S. International Trade Commission.
Note: HTS = U.S. Harmonized Tariff Schedule.

Following the granting of conditional NTR, clothing was Vietnam's largest export to the United States, accounting for over half of its exports in 2003. Subsequently, footwear and furniture became major exports to the United States, each topping $1 billion in 2007. More recently, Vietnam has become a major exporter of electrical machinery, machinery, and leather goods to the United States. In 2017, the top five goods constituted more than 70% of Vietnam's exports to the United States. In 2017, the leading U.S. exports to Vietnam were electrical machinery, cotton, fruit and nuts, machinery, and oil seeds.

U.S. Arms Sales

In 1975, U.S. military sales to all of Vietnam were banned as part of the U.S. trade embargo. In April 2007, the Department of State began to grant, on a case by case basis, licenses for bilateral trade in defense articles and services. In May 2016, President Obama announced the removal of remaining U.S. restrictions on sales of lethal weapons and related services to Vietnam. Thus far, the United States has transferred few, if any, lethal defense articles to Vietnam. In May 2017, the United States delivered a refurbished Hamilton-class cutter to Vietnam through the Excess Defense Article (EDA) program, as well as the first tranche of six coast guard patrol boats, financed via the Foreign Military Financing (FMF) program.

Congress may exercise oversight of some exports of military items to Vietnam pursuant to Section 36(b) of the Arms Export Control Act (AECA, P.L. 90-629). The AECA requires the President to notify the Speaker of the House, and the Senate Foreign Relations and the House Foreign Affairs Committees, before the Administration can take the final steps to conclude either a government-to-government or commercially licensed arms sale over a certain monetary threshold.

Catfish

Vietnam is a major exporter of certain varieties of fish—known as *basa*, *swai*, and *tra* in Vietnamese—that are commonly referred to as catfish. Since 1999, Vietnamese exports of frozen catfish fillets have secured a growing share of the U.S. market, and catfish continue to be a regular source of trade friction between the United States and Vietnam. In 2017, the United States imported over $345 million in catfish from Vietnam.

In 2002, Congress passed legislation that prohibited the labeling of *basa*, *swai*, and *tra* as "catfish" in the United States. In August 2003, the U.S. government imposed antidumping duties on "certain frozen fish fillets from Vietnam," including *basa*, *swai*, and *tra*. In June 2009, the ITC determined to keep the duties in place "for the foreseeable future."

The ongoing tensions around catfish trade were heightened by the passage of the 2008 Farm Bill (P.L. 110-246), which transferred catfish inspection (including *basa*, *swai*, and *tra*) from the Food and Drug Administration (FDA) to the U.S. Department of Agriculture (USDA). USDA inspection procedures are generally considered more stringent than those of the FDA. The transfer was confirmed in the Agriculture Act of 2014 (P.L. 113-79). The USDA published final regulations for imported catfish inspection in the *Federal Register* on December 2, 2015. Congress will have another opportunity to examine catfish inspection in the 2018 Farm Bill.

After the final catfish inspection regulations were published, Vietnam's Ministry of Foreign Affairs stated the new regulations could constitute a non-tariff trade barrier, harming the livelihood of Vietnamese catfish farmers. On January 12, 2018, Vietnam filed a request for consultations with the WTO's Dispute Settlement Body (DSP) regarding the imposition of anti-dumping duties and cash deposit requirements by the U.S. Department of Commerce on "Certain Frozen Fish Fillets" from Vietnam. On February 22, 2018, Vietnam filed a WTO complaint that the U.S. inspection program for catfish imports violates the WTO SPS Agreement. The United States has 60 days to respond to Vietnam's requests.

Market Economy Recognition

Vietnamese leaders would like the United States to change Vietnam's official designation under U.S. law from "nonmarket economy" (NME) to "market economy." NME status is particularly significant for antidumping (AD) and countervailing duty (CVD) cases because it often results in higher tariffs being imposed. For the Vietnamese government, being granted "market economy" status is also part of "normalizing" bilateral relations. A number of trading partners—including the Association of Southeast Asian Nations (ASEAN), Australia, India, Japan, and New Zealand—have designated Vietnam a market economy for purposes of international trade.

For more than 20 years, Vietnam has been transitioning from a centrally planned economy to a market economy. Under its *doi moi* policy, Vietnam has allowed the development and growth of private enterprise and competitive market allocation of most goods and services. However, although most prices have been deregulated, the Vietnamese government still retains some formal and informal mechanisms to direct or manage the economy.

Under the terms of its WTO accession agreement with the United States, Vietnam is to remain a NME under U.S. law for up to 12 years after its January 2017 accession or until it meets U.S. criteria for a "market economy" designation. Under 19 U.S.C. 1677, NME means "any foreign country that the administering authority determines does not operate on market principles of cost or pricing structures, so that sales of merchandise in such country do not reflect the fair value of the merchandise." In 2018, Vietnam may increase its efforts to obtain market economy status in or before 2019, and is likely to closely monitor how the United States handles China on the same issue.

Bilateral Investment Treaty (BIT) Negotiations

In June 2008, President Bush and Prime Minister Nguyen Tan Dung announced the launch of talks to establish a bilateral investment treaty (BIT). A proposed fourth round of talks that was to be held in early 2010 did not happen, presumably because the two nations were focused on negotiating the proposed Trans-Pacific Partnership (TPP) trade agreement. Given that President Trump in 2017 withdrew the United States from the proposed TPP, BIT negotiations may resume. However, BIT negotiations were not mentioned in either joint statement issued following President Trump's 2017 meetings with Vietnamese leaders.

Possible Regional Trade Agreements

Vietnam is a party to two potential regional trade agreements (RTAs)—the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)—that could have indirect effects on U.S.-Vietnam trade. RCEP is a proposed RTA being negotiated by 16 Asian nations. The CPTPP, which was signed in March 2018, is a separate RTA negotiated by the 11 remaining TPP parties. Projections of the trade effects of both RTAs show a slight increase in Vietnamese exports to the United States, and a small decrease in U.S. exports to Vietnam, leading to an overall increase in the bilateral trade deficit.

For more about U.S. trade relations with Vietnam, see CRS Report R41550, *U.S.-Vietnam Economic and Trade Relations: Issues for the 114th Congress*.

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