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U.S.-Vietnam Economic and Trade Relations: Issues in 2019

Over the past decade, U.S.-Vietnam economic relations have expanded rapidly. According to Vietnam's trade statistics, the United States was the nation's 3rd largest trading partner in 2018; according to U.S. trade statistics, Vietnam was the 16th largest trading partner in 2017 (latest available annual figures). Bilateral economic issues likely to arise in 2019 include the impact of Vietnam's membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); market economy status for Vietnam; trade in catfish; U.S. arms sales to Vietnam; and a possible bilateral investment treaty. Following his withdrawal of the United States from the Trans-Pacific Partnership (TPP), President Trump initially indicated some interest in negotiating a bilateral trade agreement with Vietnam, but appears to have dropped the idea.

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 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). According to Vietnam's trade statistics, bilateral trade in 2018 totaled $60.3 billion.

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.

Trends in Bilateral Trade

Although the Vietnam War-era U.S. trade embargo on Vietnam ended in 1994, bilateral trade only started to grow significantly 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 Five 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 (see **Table 1**). In 2017, the leading U.S. exports to Vietnam were electrical machinery, cotton, fruit and nuts, machinery, and oil seeds.

Regional Trade Agreements

In January 2019, the CPTPP went into effect for Vietnam, one month after it did for six other members of the regional trade agreement (RTA). The CPTPP is the world's 3rd largest RTA (in terms of GDP) and is expected to result in a modest increase in trade and investment among CPTPP members, and a slight decline in trade with non-members, including the United States. This could lead to an increase in the U.S. trade deficit with Vietnam in 2019 and beyond.

Vietnam is also a potential party to another proposed RTA—the Regional Comprehensive Economic Partnership (RCEP) involving up to 16 Asian nations, but not the United States—that would have similar indirect effects on U.S.-Vietnam trade as the CPTPP. Projections of RCEP's trade effects 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. Vietnam also has negotiated a trade agreement with the European Union that is awaiting ratification.

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," and may increase its efforts to obtain market economy status. 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 also would symbolize that relations have become "normalized."

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 2007 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." 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 shifting 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, the Vietnamese government still retains some formal and informal mechanisms to direct or manage the economy.

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, generating 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 U.S. International Trade Commission 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.

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. On March 22, 2018, China asked to be part of the inspection complaint consultations. The WTO did not report any subsequent actions with regard to either submission in 2018; the case is still pending.

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. The United States also has provided several new 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.

Bilateral Investment Treaty (BIT) Negotiations

In June 2008, President George W. 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. BIT negotiations may resume. However, BIT negotiations were not mentioned in either joint statement issued following President Trump's 2017 meetings with Vietnamese leaders.

For more about U.S. trade relations with Vietnam, see CRS Report R45172, *U.S.-Vietnam Economic and Trade Relations: Key Issues in 2018*.

Michael F. Martin, Specialist in Asian Affairs

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