

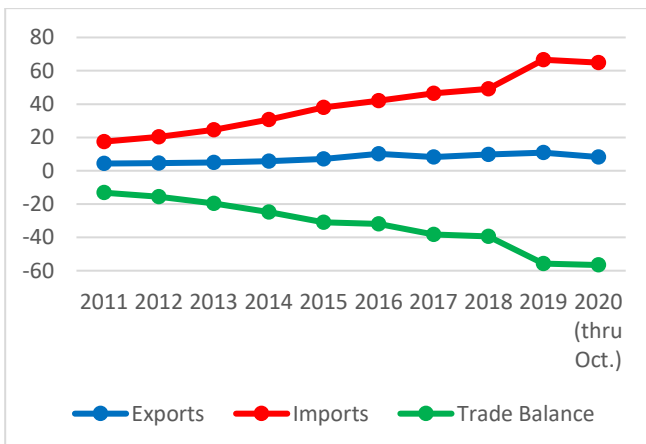
February 1, 2021

# Vietnam's Economy and U.S. Trade: Key Issues in 2021

Over the last decade, Vietnam has emerged as a major manufacturing center in Asia, and has risen to become one of the top 10 trading partners for the United States. The expansion of Vietnam's export-oriented manufacturing sector contributed to Vietnam experiencing rapid economic growth during most of the decade. Vietnam's rise to be a major U.S. trading partner was stimulated in part by shifts in regional supply chains, driven by rising production costs in the People's Republic of China (China, or PRC), as well as trade tensions between the PRC and the United States.

The expansion of bilateral trade has resulted in a major increase in the U.S. merchandise trade deficit with Vietnam (see **Figure 1**). The growth in trade also contributed to other forms of trade friction. The Trump Administration accused Vietnam of unfair trade practices, including an allegation of currency manipulation. Vietnam has claimed that the U.S. government has utilized unwarranted trade restrictions and regulations to block Vietnamese exports to the United States, particularly exports of catfish.

**Figure 1. Growth in U.S.-Vietnam Merchandise Trade**  
Billions of U.S. dollars



Source: CRS, based on U.S. International Trade Commission data

## Vietnam's Economy

According to the International Monetary Fund (IMF), Vietnam was one of 26 economies that experienced positive growth in 2020. Vietnam's General Statistics Office (GSO) reported 2.9% real gross domestic product (GDP) growth in 2020, down from 7.0% in the two previous years. According to GSO, the growth was relatively balanced across all sectors, and led by strong domestic investment and expanding international trade.

Over the last 10 years, Vietnam has benefited from shifting regional manufacturing supply chains, which has seen the nation diversifying beyond its role as a regional clothing manufacturing hub into new products, such as consumer

electronics. Vietnam's importance in regional industrial production may also have benefited from newly-established regional trade agreements (RTAs), such as the 11-nation Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that went into effect in early 2019, and may similarly benefit from the 15-nation Regional Comprehensive Economic Partnership (RCEP) that was concluded in late 2020. In addition, the continuing trade tensions between the PRC and the United States likely contributed to Vietnam's positive GDP growth in 2020.

## Growth in Bilateral Trade

According to the U.S. International Trade Commission (USITC), bilateral merchandise trade has nearly quadrupled in size between 2011 and 2020. Most of that growth is due to the rapid rise in U.S. imports from Vietnam. As a result, the trade deficit with Vietnam was the 3<sup>rd</sup> largest for the United States for the first 10 months of 2020, after the PRC and Mexico, respectively. According to GSO, in 2020, the United States was Vietnam's largest export market, its 5<sup>th</sup> biggest source of imports, and 2<sup>nd</sup> largest trading partner (after the PRC). GSO says Vietnam's trade surplus with the United States in 2020 was \$63.4 billion.

## Bilateral Trade Issues

The rapid growth in bilateral trade has given rise to several trade issues. Some U.S. companies have made allegations of unfair competition by Vietnamese companies. Vietnamese companies have similarly accused the United States of unwarranted and discriminatory trade regulations and restrictions designed to reduce Vietnam's exports to the United States.

## Special 301 Investigation

On October 2, 2020, USTR announced that it was "initiating an investigation of Vietnam's acts, policies, and practices related to the import and use of timber that is illegally harvested or traded." According to the USTR announcement, "Evidence indicates that much of the timber imported by Vietnam was harvested against the laws of the source country." USTR's interest in Vietnam's timber trade may have been influenced by the rapid increase in Vietnam's furniture exports to the United States over the last 10 years. USTR held a public hearing on Vietnam's alleged illegal import and use of timber on December 28, 2020. For more about this issue, see CRS In Focus IF11683, *Section 301 Investigations: Vietnam's Timber Trade and Currency Practices*.

## Allegations of Currency Manipulation

USTR also announced on October 2, 2020, an investigation into "whether Vietnam's acts, policies, and practices related to the valuation of its currency are unreasonable or discriminatory and burden or restrict U.S. commerce."

According to USTR, its analysis indicates that “the dong was undervalued on a real effective basis” in 2017, 2018, and 2019. On January 15, 2021, USTR announced it was “not taking any specific actions in connection with the findings at this time.”

In December 2020, the U.S. Department of the Treasury (USDOT) designated Vietnam (along with Switzerland) as a country that manipulates its currency, in accordance with the 1988 Trade Act (P.L. 100-418) and the Trade Facilitation and Trade Enforcement Act of 2015 (P.L. 114-125). In November 2020, the U.S. Department of Commerce imposed a preliminary anti-subsidy tariff on car and truck tires from Vietnam in part based on USDOT evidence of currency manipulation.

Vietnam denies that it is manipulating the value of the dong to obtain trade benefits. According to Vietnam’s central bank, the State Bank of Vietnam, its monetary policies are designed to contain inflation and ensure macroeconomic stability. IMF studies have found that the dong is undervalued and overvalued, depending on the method of evaluation used.

### U.S. Regulation of Catfish

Vietnam is a major exporter of frozen fish fillets using certain varieties of fish—known as basa, swai, and tra in Vietnamese—that are commonly referred to as catfish in the global fish market. 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 the 2008 Farm Bill (P.L. 110-246), Congress transferred catfish inspection (including basa, swai, and tra) from the Food and Drug Administration (FDA) to the U.S. Department of Agriculture (USDA); Congress confirmed that transfer in the Agriculture Act of 2014 (P.L. 113-79). In December 2015, USDA released final regulations for catfish inspection.

The Vietnamese government views the U.S. response to the growth of Vietnam’s basa, swai, and tra exports as a case of trade protectionism designed to shelter U.S. catfish producers from legitimate competition. On February 22, 2018, Vietnam filed a WTO complaint that the U.S. inspection program for catfish imports violates the WTO SPS Agreement. That complaint is still pending.

### Key Issues in 2021

With a new Congress and a new President taking office in January 2021, it is unclear what may emerge as key economic and trade issues in U.S. relations with Vietnam during the year. Some of the known outstanding past issues are discussed below.

### Bilateral Trade Deficit

The U.S. bilateral trade deficit with Vietnam will likely to continue to increase, particularly as the effects of the CPTPP and RCEP alter regional trade flows. Simulations of the trade effects of both RTAs show Vietnam as one of the greatest “winners” and the United States as one of the major “losers” of the projected shifts in international trade.

However, it is not known if President Biden will be as concerned about bilateral trade deficits as his predecessor.

### Pending U.S. Trade Investigations

The Biden Administration will have the authority to determine whether or not to continue the Section 301 investigation of Vietnam’s timber trade and the investigation of Vietnam’s alleged intentional undervaluation of the dong. As Deputy Secretary of State during the Obama Administration, Secretary of State Antony Blinken was supportive of the growth in bilateral ties, and may caution against actions that could increase tensions between the two nations.

### Regional Trade Agreements

The impact of the coronavirus (COVID-19) pandemic on the global economy mitigated the anticipated effects of the implementation of the CPTPP in 2020. Assuming the distribution of the COVID-19 vaccines leads to a restoration of widespread economic growth, the CPTPP and RCEP will be factors in 2021 trade flows.

United States and Vietnam are not currently mutual parties to any comprehensive trade agreements. President Biden, as Vice President in the Obama Administration, was a supporter of the proposed Trans-Pacific Partnership (TPP), from which the Trump Administration withdrew, and may seek to join the CPTPP. As a presidential candidate, he stated his openness to the possibility, but indicated that significant investments in U.S. infrastructure and workers would be a higher priority. Similarly, he could open discussions with RCEP member about possible U.S. membership. Another option is to negotiate a bilateral trade agreement.

### Emerging Major Trade Products

Over the last 20 years, Vietnam has grown to become a major source for U.S. imports of clothing, footwear, and toys and games, and more recently, electrical machinery, furniture, and machinery. Through October, 2020, U.S. imports of electrical machinery from Vietnam, were up more than 20%. If the past is any indicator, U.S. companies may raise concerns in 2021 about Vietnam’s growing export of electrical machinery to the United States.

### New Leadership in Vietnam

In January 2021, Vietnam’s Communist Party (VCP) held its 13<sup>th</sup> National Congress at which it selected current General Secretary and President Nguyen Phu Trong, to serve an unprecedented third term as VCP General Secretary. VCP Congresses are held every 5 years. The 13<sup>th</sup> Congress’ appointees for Vietnam’s other top political positions—President, Prime Minister, and Secretary General of the National Assembly—are expected to be formally elected by the National Assembly in May. Trong’s continued term as VCP leader is expected to mean continuity in the overall direction of Vietnam’s domestic and foreign policies.

---

**Michael F. Martin**, Specialist in Asian Affairs

---

## Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.