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# U.S.-Vietnam Economic and Trade Relations: Issues in 2020

This year marks the 25<sup>th</sup> anniversary of the United States and Vietnam reestablishing diplomatic relations. Over the last 25 years, U.S.-Vietnam economic and trade relations have expanded rapidly (see **Figure 1**). The United States was Vietnam’s 2<sup>nd</sup> largest trading partner in 2019; Vietnam was the United States’ 13<sup>th</sup> largest trading partner. Bilateral trade increased by nearly 32% in 2019, and the U.S. trade deficit with Vietnam rose to nearly \$56 billion, an increase of 42% over 2018. Economic issues likely to arise in 2020 include the rising U.S. trade deficit with Vietnam; recent shifts in merchandise trade flows; Vietnam’s membership in regional trade agreements; trade in catfish; and possible U.S. arms sales to Vietnam.

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 \$77.6 billion in 2019, transforming Vietnam into the 7<sup>th</sup>-largest source of U.S. imports and 27<sup>th</sup>-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 \$39 billion in 2018, the 5<sup>th</sup> largest U.S. bilateral trade deficit (after China, Mexico, Japan, and Germany). According to Vietnam’s trade statistics, bilateral trade in 2019 totaled \$75.7 billion, with a bilateral trade surplus of \$47.0 billion.

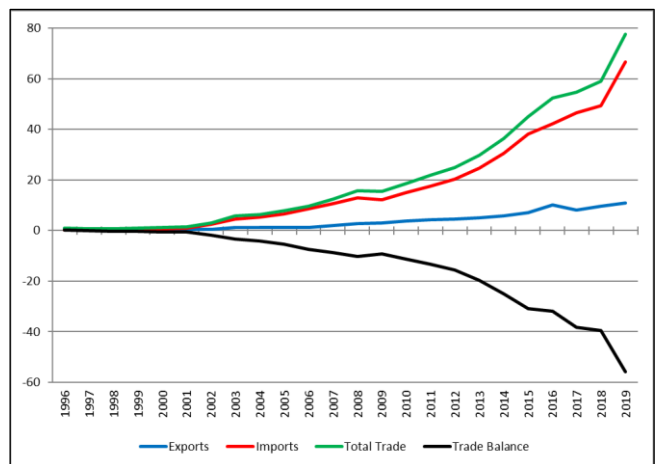
The U.S. trade deficit with Vietnam was a topic of conversation when President Trump hosted Prime Minister Nguyen Xuan Phuc in May 2017, and again when President Tran Dai Quang met with President Trump in Hanoi in November 2017. President Trump and Prime Minister Phuc noted the growth in bilateral trade when they met in Hanoi in February 2019.

## 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. Bilateral trade jumped in 2019, in part due to the trade tensions between the People’s Republic of China and the United States.

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



Source: CRS, using U.S. International Trade Commission statistics.

Initially, clothing was Vietnam’s largest export to the United States. 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, and machinery to the United States. In 2019, the top five goods constituted nearly 74% of Vietnam’s exports to the United States (see **Table 1**). In 2019, the leading U.S. exports to Vietnam were (in order) electrical machinery, cotton, aircraft, plastic articles, and oil seeds.

**Table 1. Vietnam’s Top Five Exports to the United States (by HTS Chapter) in 2019**

Type of Product	Value
Electrical Machinery (85)	21.507
Knitted or Crocheted Clothing (61)	7.714
Furniture (94)	7.191
Footwear (64)	6.991
Non-knitted and Non-crocheted Clothing (62)	5.764
<b>Total Exports</b>	<b>66.680</b>

Source: U.S. International Trade Commission.

Note: HTS = U.S. Harmonized Tariff Schedule.

## Regional Trade Agreements

In January 2019, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (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 3<sup>rd</sup> 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.

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. 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 their 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 nations—including Australia, India, and Japan—have designated Vietnam a market economy for purposes of international trade.

Since it launched its “doi moi” (renovation) reforms in 1986, Vietnam has been shifting from a centrally planned economy to a market economy. 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 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 2019, the United States imported over \$327 million in catfish from Vietnam.

Existing 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.

Vietnam maintains the new regulations 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 (DSB) 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. A final report by a DSB review panel was scheduled for release in early December 2019. On February 22, 2018, Vietnam filed a WTO complaint that the U.S. inspection program for catfish imports violates the WTO Sanitary and Phytosanitary Agreement. On March 22, 2018, China asked to be part of the inspection complaint consultations. The cases are 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 May 2016, President Obama removed the 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. The United States has delivered a refurbished Hamilton-class cutter to Vietnam through the Excess Defense Article (EDA) program, as well as 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, the Senate Foreign Relations Committee, and the House Foreign Affairs Committee 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.

## Pending Legislation

Bilateral relations have grown strong since the establishment of a comprehensive partnership in 2013. Legislation introduced in the 116<sup>th</sup> Congress generally reflect a desire by some to further develop the partnership. The Vietnam Human Rights Act of 2019 (H.R. 1383) would include the sense of Congress that “the United States should pursue trade policies with Vietnam that expand the information economy in Vietnam,” as well as opposition to the sale of “lethal defense articles or defense services” unless such sales ensure U.S. interests “in the free and open navigation of the South China Sea,” or Vietnam has made “additional, significant, and sustained steps to advance internationally recognized human rights.”

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