ISSUE BRIEF
No. 6028 | NOVEMBER 20, 2020
ASIAN STUDIES CENTER

Supply Chains: The USTR Should Stop Its Unnecessary Investigation of Vietnam's Currency Practices

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KEY TAKEAWAYS

Vietnam has been one of the leading destinations for American companies moving operations out of China, but recent actions by the USTR could undermine that.

The midst of a pandemic is not the time for more uncertainty for those who rely on trade with Vietnam, nor is it time for another tax increase on Americans.

The USTR should stop its investigation into Vietnam's currency practices, while Congress should reform Section 301 of the 1974 Trade Act.

Since the U.S.–China trade war began in 2017, and the COVID-19 pandemic sparked a global recession in early 2020, companies have been looking to diversify their supply chains. For those few American companies that have managed to move operations out of China, Vietnam has been one of the leading destinations for investment. Now, the Office of the U.S. Trade Representative (USTR) wants to undo these efforts.

The USTR wants to use the same authority it used to apply tariffs on hundreds of billions worth of imports from China to investigate Vietnam's currency practices, determine whether they have harmed the U.S. economy, and potentially apply tariffs to roughly $3 billion worth of imports from Vietnam.

The U.S. economy will most likely be in better shape by the time the USTR finishes its investigation, and the President decides whether to take any action

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against Vietnam. However, even the threat of action against Vietnam now creates uncertainty and undermines companies' efforts to shift supply chains out of China.

While Vietnam has its share of bad economic practices, targeting Vietnam's currency practices gives the USTR a blank check to target any imports it wants—a concern for every American importer who sources products from Vietnam. This action by the USTR further highlights the need for Congress to reform Section 301 of the Trade Act of 1974 as soon as possible. In the meantime, the USTR should stop its investigations into Vietnam's currency practices.

A Snapshot of U.S.–Vietnam Trade

The amount of trade between the U.S. and Vietnam has effectively doubled in the past six years. In 2019, the U.S. and Vietnam shared $77.5 billion worth of goods, making Vietnam America's 13th-largest trading partner. The U.S. is Vietnam's greatest export destination. The U.S. imported $66.6 billion goods from Vietnam last year, including consumer electronics ($11.6 billion), apparel ($7.7 billion), and furniture ($7 billion).[1] Meanwhile, the U.S. exported $10.9 billion goods, including cotton ($1.4 billion), semiconductors ($1.1 billion), and civilian aircraft parts ($0.8 billion).[2]

The U.S.–Vietnam trade relationship, though increasing in value, has its history of troubles. The Department of Commerce still considers Vietnam a non-market economy and maintains more than a dozen antidumping measures on imports from Vietnam.[3] Vietnam also scores a low 58.8 out of 100 in The Heritage Foundation's *Index of Economic Freedom*, placing it in the category of a *mostly unfree* economy.[4]

The Invisible Hand of the USTR

To investigate the currency practices of Vietnam, the USTR is using the authority of the Trade Act of 1974, commonly referred to as Section 301.[5] Section 301 allows the USTR to investigate any action it believes unreasonably burdens or restricts U.S. commerce. This is the same authority it used to tax hundreds of billions worth of products coming from China and the European Union.

Through its use of Section 301, the Administration has so far collected over $65 billion in new taxes from Americans who buy goods from China and other countries, including France, Germany, Spain, and the United Kingdom. In fact, in September, about 3,500 American companies filed lawsuits against the USTR for its abuse of authority under Section 301.[6] While the

USTR initially found that China's practices harm the U.S. economy by $50 billion a year, it has unreasonably targeted hundreds of billions of imports from China.[7] And, even though the U.S. has a decades-long dispute with the European Union over civilian aircraft production, tariffs were applied to imports from countries in Europe that had no part in the initial dispute.

Vietnam's Currency Practices

In its current investigation, the USTR is essentially trying to answer four questions: (1) Did Vietnam undervalue its currency against the U.S. dollar? (2) How much did Vietnam's practices harm the U.S. economy? (3) Were these practices unreasonable? and (4) Which actions, if any, should the USTR take against Vietnam?

According to a recent letter from the Treasury Department to the Commerce Department, Vietnam's purchases of foreign currency did undervalue the Vietnamese dong by 4.7 percent against the U.S. dollar in 2019.[8] But was this unreasonable and does this require the USTR to take action?

Evaluating currency valuation can be difficult. According to the International Monetary Fund (IMF), by one measure, the dong has been appreciating in recent years and leveled off in 2017 and 2018.[9] When simply looking at the bilateral exchange rate between the dong and the dollar, there is nothing to suggest abnormality: the dong has merely depreciated against the dollar as the dollar's value has continued to increase. Even then, by a third measure, the dong has been overvalued for years.[10]

More important, the Treasury Department found Vietnam's recent accumulation of foreign reserves to be reasonable, even though it has led to a devaluation of the dong against the dollar.[11] That is because Vietnam's foreign reserves are below the level recommended by the IMF. According to the IMF, Vietnam's "reserves remain well under the regional emerging market countries' average of nine months."[12]

It appears that Vietnam's practices are reasonable, so should action be taken? Specifically, should the USTR take action given that currency exchange issues are under the purview of the Treasury Department?

Now, given that U.S.–Vietnam trade of goods was $77.5 billion in 2019, and that the Treasury determined that Vietnam's practices undervalued the dong by 4.7 percent in 2019, the USTR may believe that these practices harmed the U.S. economy by as much as $3.6 billion.[13] And, there is nothing to stop the USTR from targeting any variety of imports from Vietnam, whether cell phones, laptops, furniture, sweaters, or shoes, beyond the will of the White House.

Recommendations for the USTR and Congress

It is not obvious why the USTR is targeting Vietnam's currency practices at a time when the U.S. and its allies are encouraging companies to diversify away from China. The USTR has even rejected the idea of using Section 301 to address currency issues in the past. But it is increasingly obvious that the USTR's new preference for Section 301 may be against America's economic interests. To that end:

- **The USTR should stop its investigation into Vietnam's currency practices.** There is nothing to suggest that Vietnam's practices are unreasonable or require the USTR to take action. If there ever is an issue with Vietnam's currency practices, it should be handled by the experts at the Treasury Department.

- **Congress should reform Section 301.** The ability to take action against a limitless amount of imports from China or to indiscriminately target goods from various European countries shows the extent of Section 301's flaws. So far, these flaws have resulted in billions of new taxes collected from Americans, even during a once-in-a-lifetime pandemic, and continue to remain in place.

Now is not the time for more uncertainty for those who rely on trade with Vietnam. Nor is it time for another increase in taxes on Americans.

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Endnotes

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13. 4.7 percent of $77.5 billion equals $3.6 billion.