

VIETNAM

U.S.-Vietnam Relationship

Economic and Trade Relations

2020 marks the 25th anniversary of the establishment of diplomatic relations between the United States and Vietnam. Since 1995, U.S.-Vietnam economic and trade relations have rapidly expanded. Just last year, the United States was Vietnam's 2nd largest trading partner (after China) and Vietnam was the United States' 13th largest trading partner.¹ In 2019, bilateral trade between the two countries increased by almost 32% and the U.S. trade deficit with Vietnam rose to approximately \$56 billion, which is an increase of 42% over 2018.¹

Trade

Total merchandise trade between Vietnam and the United States has risen \$1.5 billion in 2001 to \$77.6 billion in 2019 according to U.S. trade statistics.¹ Vietnam is the 7th-largest source of U.S. imports and the 27th-largest destination for U.S. exports.¹ Additionally, the U.S. merchandise trade deficit with Vietnam increased from \$592 million in 2001 to more than \$39 billion in 2018, making it the 5th largest U.S. bilateral trade deficit (after China, Mexico, Japan, and Germany).¹ Vietnam's trade statistics indicate that bilateral trade totaled \$75.7 billion in 2019, with a bilateral trade surplus of \$47 billion.¹

Increased trade with Vietnam has been spurred by the end of the Vietnam War-era U.S. trade embargo, which ended in 1994; U.S. granting Vietnam conditional normal trade relations in 2001; Vietnam joining the World Trade Organization (WTO) in January 2007, requiring the U.S. to grant Vietnam permanent normal trade relations (NTR) status meaning there is to be free trade between the U.S. and Vietnam; and given the current trade tensions between the People's Republic of China and the United States in 2019.

Vietnam has become a major exporter of electrical machinery to the U.S. The top five goods (electrical machinery, knitted or crocheted clothing, furniture, footwear, non-knitted and non-crocheted clothing) constituted almost 74% of Vietnam's exports to the United State in 2019.¹ In 2019, the top five U.S. exports to Vietnam (in order) were electrical machinery, cotton, aircraft, plastic articles, and oil seeds.¹

The U.S. importation of catfish from Vietnam has become a sticking point in recent years between the two countries. The United States imported over \$327 million Vietnamese catfish in 2019.¹ The 2008 Farm Bill (P.L. 110-246) transferred catfish inspection to the U.S. Department of Agriculture (USDA) from the Food and Drug Administration (FDA). Vietnam protested this change as USDA inspection procedures are considered more stringent than those of the FDA.

¹ Congressional Research Service. U.S.-Vietnam Economic and Trade Relations: Issues in 2020. (IF111107 February 13, 2020). Prepared by Michael F. Martin.

Vietnam claims the change constitutes a non-tariff trade barrier, which harms the livelihood of Vietnamese catfish farmers. On January 12, 2018, Vietnam filed a request for consultations with the WTO's Dispute Settlement Body (DSB) about United State imposition of anti-dumping duties and cash deposit requirements on Vietnamese frozen fish fillets.¹ DSB review panel final report was scheduled for release in early December 2019. On February 22, 2018, Vietnam also filed a WTO complaint against the U.S. inspection program, claiming the program violates the WTO Sanitary and Phytosanitary Agreement.¹ Both cases are still pending.

Economic Recognition

Vietnam would like the United States to change Vietnam's official designation under U.S. from nonmarket economy (NME) to market economy under 19 U.S.C. 1677(18). For the Vietnamese government, this status change would symbolize "normalized" relations.

Vietnam's WTO accession agreement with the United States requires Vietnam to remain an NME under U.S. law for up to one year after its January 2007 accession or until Vietnam meets U.S. criteria for a market economy designation.¹ 19 U.S.C. 1677 defines a NME as "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."¹

Since 1986, when Vietnam launched its "doi moi" (renovation) reforms, the country has been shifting from a centrally planned economy to a market economy.¹ The country has also allowed private enterprise to develop and grow and competitive market allocation for most goods and services. Despite this, the Vietnamese government still maintains some formal and informal mechanisms to manage the economy.

Diplomatic Relations

The Trump Administration has recognized Vietnam as an important partner in promotion of a "free and open Indo-Pacific." President Trump has held three summits with Vietnamese leaders. President Trump hosted Prime Minister Nguyen Xuan Phuc in May 2017 and Prime Minister Phuc hosted President Trump in Hanoi in February 2019. In addition, President Tran Dai Quang met with President Trump in Hanoi in November 2017. Vietnam is the only Southeast Asian country that President Trump has visited two times in his first term.

United States-Vietnam bilateral relations are limited by several factors:²

- Hanoi is hesitant to take large-scale diplomatic moves, especially with the U.S., without consideration of China's reaction.
- Many Vietnamese officials remain skeptical that the United States' long-term goal is to end the Vietnamese Community Party's power monopoly.
- Vietnam's human rights record has deteriorated in recent years, specifically regarding freedoms of association, speech, and press.

² Congressional Research Service. U.S.-Vietnam Relations. (IF 10209 June 9, 2020). Prepared by Mark E. Manyin and Michael F. Martin.

U.S. Foreign Assistance to Vietnam

The U.S. trade embargo in 1975 banned U.S. military sales to all of Vietnam.¹ President Obama eliminated the remaining U.S. restrictions on sales of lethal weapons and the like to Vietnam in May 2016.¹ The United States has conducted few, if any, military sales to Vietnam. The Obama and Trump Administration prioritized bilateral maritime assistance. The U.S. delivered a refurbished Hamilton-class cutter to Vietnam, a coast guard ship, via the Excess Defense Article (EDA) program and several new coast guard patrol boats, which were financed through the Foreign Military Financing (FMF) program.¹ Another U.S. Coast Guard Hamilton-class cutter is scheduled to arrive in 2020.

According to Section 36(b) of the Arms Export Control Act, Congress may exercise oversight of some exports of military items to Vietnam.¹ The President must notify the Speaker of the House, the Senate Foreign Relations Committee, and the House Foreign Affairs Committee before the Administration can conclude a government-to-government or commercially licensed arms sale over a specified monetary threshold.¹

Congress appropriated over \$159 million in bilateral assistance to Vietnam, 6% more than the Administration's \$141 million request.² In FY2019, the U.S. obligated over \$135 million in foreign assistance to Vietnam.² In FY2018 and FY2019, Congress's aid appropriations to Vietnam (\$149 and \$151 million respectively) were almost double the Administration's requests.²

U.S. actions to provide maritime-related assistance to countries in the South China Sea (SCS) region are being carried out largely under the Indo-Pacific Maritime Security Initiative (IP MSI), an initiative announced in May 2015 by the Obama Administration and subsequently legislation by Congress to provide \$425 million in maritime security assistance over a five-year period to Indonesia, Malaysia, Philippines, Thailand, Vietnam, Sri Lanka, and Bangladesh.³

Additionally, Vietnam donated COVID-19 test kits and protective equipment to several countries, including the U.S.

China-Vietnam Relationship

China is Vietnam's most important bilateral relationship. Both China and Vietnam have Communist Party-led political systems, which provide a party-to-party channel and contribute to similar world views.² In addition to the party-to-party channel, Vietnam and China have created new communications channels including defense-focused dialogues and a direct phone line for handling emergencies in the SCS.⁴ Additionally, China is Vietnam's largest bilateral trading partner.

³ Congressional Research Service. U.S.-China Strategic Competition in South and East China Seas: Background and Issues for Congress. (R42784 August 28, 2020). Prepared by Ronald O'Rourke.

⁴ Carnegie Endowment for International Peace. Rough Waters Ahead for Vietnam-China Relations. September 30, 2020. Authored by Huong Le Thu.

To protect its interests from China, Vietnam has sought to diversify its network of diplomatic partners, including the U.S., Japan, the EU, Australia, and India.

South China Sea

Vietnam's coastline, which borders the South China Sea (SCS) is over 3,000 kilometers long.⁴ For over a decade, conflict has intensified over the two countries' competing territorial claims in the SCS, particularly China's claims to much of the Vietnamese Exclusive Economic Zone (EEZ). This has led Vietnam to expand its maritime capacities and strengthen relations with other maritime powers, including the United States, Japan, and India.

China has increased its seizures of Vietnamese fishing boats, warned Western energy companies not to work with Vietnam in the disputed waters, and extensively reclaimed several features in the SCS. China went so far as to threaten Vietnam with military action in late July 2017 and earlier this year if it did not stop oil and gas exploration in the Vietnamese EEZ.³ On the other hand, China has protested Vietnam's expansion of its offshore energy exploration and development in disputed areas, oil exploration and fishing in disputed waters, and seizures of Chinese fishing boats.

Specifically within the SCS, Vietnam disputes ownership with China over the Paracel Islands, which are claimed by both China and Vietnam, but are occupied by China.³ On April 4, 2020, a Vietnamese fishing vessel was fishing near the Parcel Islands when it was rammed and sunk by a Chinese Coast Guard vessel.³ Hanoi submitted documents to the UN in protest of China's actions.

There is also a dispute over the Spratly Islands in the SCS, which are claimed entirely by China, Taiwan, and Vietnam, and in part by the Philippines, Malaysia, and Brunei.³ These islands are occupied in part by all the countries except Brunei.³ Incidents such as this are a stark contrast to the United States' vision of a free and open Indo-Pacific region, in which all nations are secure in their sovereignty, free from coercion, and able to pursue economic growth in accordance with international rules and norms.

Mekong River

For the second year in a row, the lower Mekong basin has hit a record low water flow, which has affected irrigation, rice production, and fisheries in the region. The record drought in 2019 damaged crops in Thailand and Vietnam, two leading rice exporters, which triggered a surge in international rice prices.⁵

Some of the water loss is due to a reduction in rainfall. However, upstream hydropower dams in China have held back a large amount of water. The Mekong River originates in southern China and courses over 4,000 kilometers through Myanmar, Thailand, Laos, Cambodia, and Vietnam before emptying into the SCS.⁵

⁵ Nikkei Asia. US and China Lock Horns Over Mekong River Data Management. September 10, 2020. Authored by Marimi Kishimoto.

China has received criticism for releasing spotty information about river flows. Traditionally, China had provided its water level and rainfall data only during the flood season (from June through October) from two of its many stations on the Upper Mekong, an amount that has been deemed insufficient for water management purposes by the Mekong River Commission.⁵

On August 24, 2020, Chinese Premier Li Keqiang unveiled a plan to establish a platform for sharing data to deal with floods and droughts.⁶ Details were not shared, but it is believed that the platform will be used to allow countries to share information such as participation amounts and water levels.⁶ China continues to call claims that its dams on the upper parts of the river are causing the water levels to decline “groundless” and has blamed the reduction in rainfall for the drought.

Recommendations for U.S. Policy

Comprehensive and Progressive Agreement for Trans-Pacific Partnership

The United States should reevaluate the CPTPP’s strengths and consider a revised version. The CPTPP could be used as tool to counter China. For example, with free trade between Vietnam and the United States, countries like Vietnam would become less reliant on trade with China. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) went into effect for Vietnam on January 2019.¹

Mekong River

On September 11, 2020, Secretary Pompeo co-chaired the inaugural Mekong-U.S. Partnership ministerial meeting, which launched the new framework for cooperation with the foreign ministers of Cambodia, Laos, Myanmar, Thailand, Vietnam, and the ASEAN secretary-general.⁵ This new partnership will expand on cooperation that started in 2009 under the Lower Mekong Initiative.⁵ Continuing to have these partnership meetings and laying out mutually agreed to agendas to hold China accountable for reporting water data can help to mitigate the situation.

Additionally, the Mekong River Commission (MRC), a framework for multilateral cooperation over the waterway with support from the U.S. and Japan, has been operating a system to share water data to help forecast floods and droughts.⁶ Continuing this dialogue and information sharing will remain beneficial.

South China Sea

Strategic partnerships with South Korea, Australia, the Philippines, India should all be leveraged by Vietnam to mitigate the actions China continues to take in the region. The United States should integrate and operate with their forces and provide them with higher-end capabilities to counter China’s attacks in the SCS.

⁶ Bloomberg Green. China’s Dam-Building Is Harming the Mekong River. September 7, 2020.

The Trump Administration's Strategy for Competing Strategically with China in the SCS includes:³

- Criticizing China's actions in the SCS and reaffirming the United States' stance on SCS issues consistently;
- Conducting naval presence and freedom of navigation operations in the SCS using U.S. Navy ships and U.S. Coast Guard cutters;
- Conducting overflight operations in the SCS using U.S. Air Force bombers;
- Bolstering U.S. military presence and operations in the Indo-Pacific region and developing new U.S. military concepts of operations to counter Chinese military forces in the region;
- Maintaining and strengthening diplomatic ties and security cooperation with and providing maritime security assistance to SCS countries;
- Encouraging allies and partners in the region to do more individually and in coordination with each other to defend their SCS interests.

Vietnamese Foreign Exchange Students

At the beginning of this year, there were approximately 30,000 Vietnamese students studying at educational institutions at all levels (i.e. post-secondary, secondary, and primary) in all 50 states.⁷ Encouraging these programs and an increase in enrollment will make it easier to trade with the country and will strengthen relations between the participating countries. Additionally, the U.S. knowledge transfer via education in courses such as agriculture, water conservation, soil conservation, clean air, manufacturing efficiency, and technology innovation will be made easier. These actions will over time strengthen the relationship between Vietnam and the United States.

U.S. International Development Finance Corporation

The U.S. can also encourage and continue direct foreign investment (DFI) to Vietnam through the U.S. International Development Finance Corporation (DFC). The Indo-Pacific region is home to many DFC investments that are addressing development challenges and helping to transform the region into a global leader in trade, innovation and technology.⁸ The DFC is promoting a free and open Indo-Pacific by prioritizing financial viability, ensuring transparency, respecting the rule of law and individual freedoms, fostering competitive markets, and employing the local workforce.⁸

By utilizing the financial abilities of the DFC, important infrastructure projects can be developed to attract manufacturers. This will lead to a stronger economy and job creation in Vietnam to benefit the Vietnamese citizens and the country as a whole in the future. Some of the investment ideas talked about are as follows.

⁷ University World News. Vietnamese Student Enrollment in the U.S. Holds Steady. February 8, 2020. Authored by Mark A. Ashwill.

⁸ U.S. International Development Finance Corporation. Indo-Pacific Investment Stories.

Possible investment opportunities for the DFC to finance include: creating an open fish farm and using sustainable fish techniques to reduce food waste and methane emissions given Vietnam's large population of Asian sea bass (barramundi); investment in Vietnamese management, scientific, and technical consulting services;⁸ financing renewable energy projects, such as solar power plants; investing in Vietnam's manufacturing and processing in areas such as textile, leather, footwear, mechanics, electricity and electronics, and wood processing; and investment in retail and wholesale through mergers and acquisitions, franchising, and other partnerships.⁹

Additional Recommendations

The U.S. should take the lead in redirecting manufacturing through the “Anywhere But China” (ABC) policy, which incentivizes manufacturers to invest ABC, including places like Vietnam, until China abides by international laws and norms and honors the sovereignty of other nations and their territories.

Finally, the U.S. and Vietnam need to continue high level meetings between officials from both countries. Continuing these conversations and building on this alliance will help both the U.S. and Vietnam in their mutual interest in countering the threat posed by China, especially in the SCS, which has become a physical manifestation of China's flexing its dominance.

⁹ Vietnam Briefing from Dezan Shira & Associates. FDI in Vietnam—Where is the Investment Going? June 7, 2020. Authored by Pritesh Samuel.