

# US–Vietnam Trade Ties

## Challenge Ahead

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### Abstract

This article offers an overview of the history of US–Vietnam trade relations, focusing on the most contentious issue, Vietnam’s trade surplus with the United States. Since the normalization of bilateral relations in 1995, trade has become the fastest-growing and most critical aspect of the relationship. The article explains how Vietnam became a major supplier of goods to the United States, while many US companies gained a foothold in Vietnam’s market. However, Vietnam’s growing trade surplus with the United States is a cause for concern. The article examines the reasons for this surplus, including the compatibility between each country’s trade structure and Vietnam’s export-led growth model, and explores the potential impact of a protectionist turn in US international trade policy. Overall, the article provides valuable insights into the complex dynamics of US–Vietnam trade.

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Since the normalization of bilateral relations in 1995, trade has evolved into the fastest-growing and most critical aspect of US–Vietnam relations. Over time, Vietnam has become a major supplier of goods for the US market, while many US companies have become household names in Vietnam. Despite concerns over weakening demand, the prospects for bilateral trade remain bright. However, a major challenge in the relationship is Vietnam’s ballooning trade surplus with the United States, which is driven by the compatibility of each country’s trade structure. This essay provides an overview of the history of US–Vietnam trade relations and examines the most contentious issues in bilateral trade. It is essential to recognize that a shift in US international trade policy toward protectionism, contrary to the previously pro–free trade consensus, could further worsen the situation and trigger possible frictions.

## A History of US–Vietnam Trade Relations

Following the end of the Vietnam War, Washington imposed a trade embargo and severed diplomatic ties with a reunified Vietnam. For 19 years, both countries had virtually no trade relations until 3 February 1994, when the United States lifted the trade embargo following notable progresses in reconciliation. This move opened the way for the normalization of relations between the two former enemies. In July 2000, Hanoi and Washington reached a significant milestone with the signing of a bilateral trade agreement that granted Vietnam temporary most-favored-nation (MFN) status, which reduced tariffs on Vietnam's exports.<sup>1</sup> Six years later, the two sides signed a Trade and Investment Framework Agreement, which established a US–Vietnam Council on Trade and Investment, jointly chaired by the Office of the United States Trade Representative (USTR) and Vietnam's Ministry of Trade.<sup>2</sup>

Vietnam's participation in the Trans-Pacific Partnership (TPP), a proposed trade agreement that aimed to connect the US economy with 11 countries in the Pacific Rim, was anticipated to be a significant moment in the country's trade relations with the United States. However, President Donald Trump's decision to withdraw the United States from this landmark agreement was a disappointment to Vietnamese leaders. Despite several trade disputes during Trump's term, bilateral trade continued to flourish during the Trump administration. In 2021, the trade volume exceeded USD 138 billion, with Vietnam exporting more than USD 129 billion in goods to the US.<sup>3</sup> Moreover, Hanoi joined consultations for the Indo-Pacific Economic Framework for Prosperity (IPEF), a regional initiative proposed by the Biden administration to promote cooperation, economic integration, and sustainable development in the region.<sup>4</sup> The growing influx of investment by US businesses in Vietnam, driven by worsening US–China relations and growing uncertainty in doing business in China, suggests a positive outlook for bilateral trade.

<sup>1</sup> *The U.S.–Vietnam Bilateral Trade Agreement* (Washington, DC: Congressional Research Service, 9 September 2002), 1, <https://www.everycrsreport.com/>.

<sup>2</sup> Office of the United States Trade Representative, *2007 Trade and Investment Framework Agreement between the Government of the United States of America and the Government of the Socialist Republic of Vietnam* (Washington, DC: United States Trade Representative, 2007), 3, <https://ustr.gov/>.

<sup>3</sup> United States Census Bureau, "Trade in Goods with Vietnam," n.d., <https://www.census.gov/>.

<sup>4</sup> "Statement on Indo-Pacific Economic Framework for Prosperity" (press release, The White House, 23 May 2022, <https://www.whitehouse.gov/>).

## **Vietnam’s Growing Trade Surplus with the United States**

Vietnam’s ballooning trade surplus with the United States is a significant aspect of bilateral trade, with the country ranking as the US’s sixth-largest supplier of goods imports in 2020<sup>5</sup> and the twenty-eighth-largest goods export market.<sup>6</sup> In 2022, total US trade in goods with Vietnam was estimated to be worth USD 138 billion, with imports from Vietnam accounting for USD 127.5 billion and exports to Vietnam amounting to USD 11.3 billion.<sup>7</sup> This has resulted in a substantial trade imbalance and large trade deficits for the United States, primarily in goods trade. Over the past decade, Vietnam’s trade surplus with the United States has grown exponentially, increasing from USD 39 billion in 2012 to USD 116 billion in 2022 (table 1).

The compatibility between each country’s trade structure, in which Vietnam’s export-led growth model provides consumer products, electric machinery, and equipment to a consumption-oriented American economy, can explain Vietnam’s ballooning surplus. Vietnam’s export sector accounted for 93.3 percent of its GDP in 2021, while this figure is only 10.9 percent in the United States. Since 2012, the export sector has accounted for more than 60 percent of Vietnam’s GDP, and its share keeps growing. In contrast, since 2012, the US export sector has been below 15 percent and continues to fall (table 2). Vietnam is poised to become a major supply-chain hub in the region, as international businesses diversify their manufacturing lines to Vietnam as a hedge against US–China political and economic tensions, pandemic-related supply-chain bottlenecks, and uncertainty in China’s Zero-COVID policies.<sup>8</sup> This investment wave will accelerate demand for products assembled in Vietnam. At the same time, the United States has become Vietnam’s most important export market. The share of Vietnam’s exports to the United States has climbed precipitously from one-fifth to more than one-quarter of Vietnam’s total exports, while the share of other partners rose more slowly, for example, China, or declined—i.e., Japan and South Korea (table 3).

<sup>5</sup> Office of the United States Trade Representative, “Vietnam,” n.d., <https://ustr.gov/>.

<sup>6</sup> Office of the United States Trade Representative, “Vietnam.”

<sup>7</sup> United States Census Bureau, “Trade in Goods with Vietnam.”

<sup>8</sup> Govi Snell, “Vietnam Eyes China’s Tech Crow as Firm Tire of ‘Zero COVID,’” *Aljazeera*, 6 October 2023, <https://www.aljazeera.com/>.

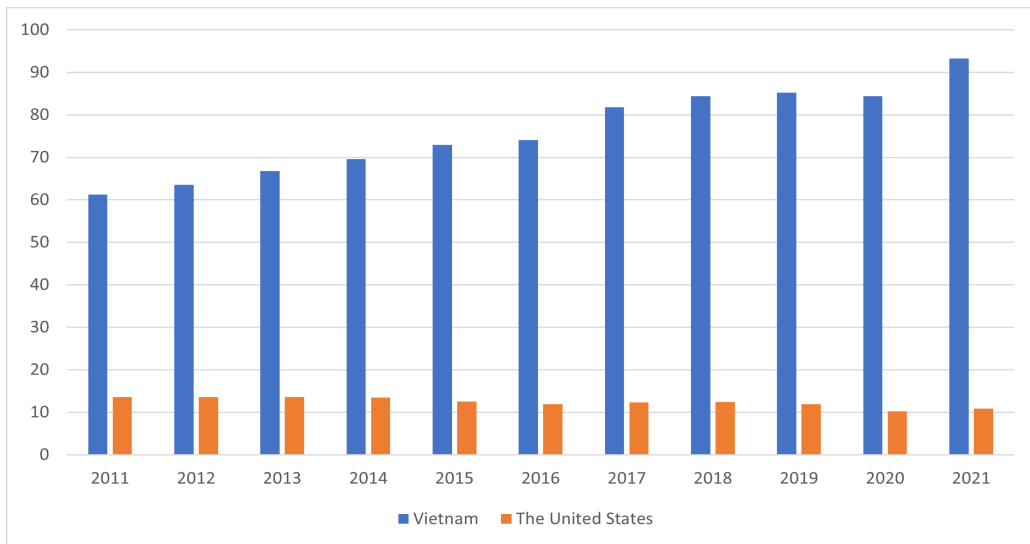
**Table 1. US–Vietnam trade balance (2012–2022)**



Source: The US Census Bureau

Note: All figures are in millions of US dollars on a nominal basis, not seasonally adjusted.

**Table 2. Exports of goods and services as percentage of GDP: Vietnam and the United States (2012–2022)**



Source: World Bank Data

**Table 3. Vietnam’s top-five export partners (2018–2020)**

Export Partners	Shares in Vietnam’s Total Export Volume (as a percentage)		
	2018	2019	2020
United States	19.52	23.21	27.38
China	16.97	15.66	17.37
Japan	7.73	7.72	6.85
South Korea	7.48	7.46	6.8
Other partners	48.3	45.95	41.6

Source: World Integrated Trade Solutions (WITS), Vietnam’s export partner share by countries

### Trade Frictions

Despite the significant growth in bilateral trade, the relationship between the US and Vietnam was occasionally disrupted by trade disputes, most notably over catfish imports. The Catfish Farmers of America (CFA) became concerned about declining profits due to increased catfish imports from Vietnam and therefore lobbied the US Department of Commerce to impose a ban. The CFA alleged that Vietnamese catfish was raised under unhygienic conditions in the Mekong River and that Vietnamese farmers did not comply with strict food safety regulations.<sup>9</sup> The CFA later accused Vietnam of “dumping” its catfish in the US market at a lower price due to government subsidies.<sup>10</sup> Hanoi rigorously protested all such claims, arguing that these actions represented unfair and protectionist trade practices.<sup>11</sup> Despite Vietnam’s objections, the CFA won its case in 2003, resulting in tariffs of up to 64 percent on Vietnamese catfish.<sup>12</sup> A quality inspection requirement for all catfish production also subjected Vietnamese catfish to costly inspection rounds.<sup>13</sup> However, the dispute did not lead to a setback in bilateral relations, thanks to a convergence of strategic interests between the two countries in countering China in the South China Sea. Furthermore, bilateral trade continued to expand, with Vietnam posting an even higher trade surplus with the United States.

<sup>9</sup> Seth Mydans, “Americans and Vietnamese Fighting over Catfish,” *New York Times*, 5 November 2002, <https://www.nytimes.com/>.

<sup>10</sup> Mydans, “Americans and Vietnamese Fighting over Catfish.”

<sup>11</sup> “Bộ Ngoại giao Việt Nam phản đối quyết định của USITC [Vietnam’s Ministry of Foreign Affairs opposes USITC’s decision],” *VnExpress*, 25 July 2003, <https://vnexpress.net/>.

<sup>12</sup> “Cá basa thua kiện tại Mỹ [Vietnamese firms lose case on catfish in the U.S.],” *VnExpress*, 24 July 2003, <https://vnexpress.net/>.

<sup>13</sup> Bill Tomson, “Vietnam Takes Gripes on USDA Catfish Inspection to WTO,” *Agri Pulse*, 30 March 2016, <https://www.agri-pulse.com/>.

This particular aspect of bilateral trade became a contentious issue during the Trump administration, which pursued a highly protectionist trade agenda. During his 2017 visit to Da Nang, President Trump emphasized that “the United States will no longer turn a blind eye to violations, cheating, or economic aggression.”<sup>14</sup> In his meeting with Vietnam’s President Trần Đại Quang, Trump emphasized that “all countries must play by the rules” in trade and he was “seeking two-way trade with Vietnam that will benefit both countries.”<sup>15</sup> Concerned about Trump’s tariff threats, Vietnam quickly offered to buy more US goods and services, including high-profile deals with General Electric and Boeing to purchase aircraft engines and technologies, power generation, and services.<sup>16</sup> Yet, Trump continued to attack Hanoi on the trade deficit, branding Vietnam as “the single worst abuser” in trade during an interview with Fox Business News in September 2019.<sup>17</sup> In October 2020, the USTR initiated two investigations on Vietnam’s acts, policies, and practices related to the import and use of illegal timber and currency valuation under Section 301 of the 1974 Trade Act.<sup>18</sup> In December 2020, the US Department of the Treasury identified Vietnam as a currency manipulator.<sup>19</sup>

Bilateral trade disputes between the United States and Vietnam have persisted during the Biden administration. However, most of them have been settled bilaterally. In October 2021, the USTR announced a bilateral agreement to resolve the timber dispute, which includes Vietnam’s commitments to prevent illegal timber

<sup>14</sup> “Remarks by President Trump at APEC CEO Summit” (press release, The White House, 10 November 2017), <https://trumpwhitehouse.archives.gov/>.

<sup>15</sup> Steve Herman, “Trump Touts Benefits of Trade with Vietnam,” *Voice of America*, 12 November 2017, <https://www.voanews.com/>.

<sup>16</sup> See, “Vietnam to Sign Deals for up to \$17 Billion in U.S. Goods, Service: Prime Minister,” *CNBC*, 31 May 2017, <https://www.cnn.com/>; and Rebecca Morin, “Trump Hails \$20 Billion in Boeing Orders by Vietnam,” *Politico*, 27 February 2019, <https://www.politico.com/>.

<sup>17</sup> “Trump Says Vietnam Worse than China on Trade,” *Business Standard*, 26 June 2019, <https://www.business-standard.com/>.

<sup>18</sup> See, Office of the United States Trade Representative, “Initiation of Section 301 Investigation: Vietnam’s Acts, Policies, and Practices Related to the Import and Use of Illegal Timber,” 8 October 2020, <https://ustr.gov/>; and Office of the United States Trade Representative, “Initiation of Section 301 Investigation: Vietnam’s Acts, Policies and Practices Related to Currency Valuation,” 8 October 8, 2020, <https://ustr.gov/>.

<sup>19</sup> Office of the International Affairs, US Department of Treasury, *Report to Congress: Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States* (Washington, DC: U.S. Department of Treasury), 4 December 2020, <https://home.treasury.gov/>.

from entering the commercial supply chain.<sup>20</sup> Additionally, the USTR determined that no further action should be taken regarding the currency-manipulation investigation. This decision was based on an agreement between the US Department of Treasury and the State Bank of Vietnam, in which Hanoi committed to refrain from the “competitive devaluation” of its currency to gain export advantages.<sup>21</sup>

The Biden administration may have realized that pursuing a hardline approach on trade issues could undermine Washington’s growing relations with Vietnam. This is particularly relevant at a time when Washington is courting Hanoi to join its network of allies and partners to counter China’s growing influence in the Indo-Pacific.

### **The Risk of Disputes Flaring Up Again**

Although most trade disputes were resolved, potential frictions could arise again. The US trade deficit with Vietnam has continued to grow at a rapid pace (table 1) and may increase in the future due to two factors: (1) the influx of manufacturing investments in Vietnam, and (2) the absence of imminent changes in the trade structures of either country. The US domestic outlook is another concern, as the country’s trade priority have shifted noticeably from trade promotion to trade rules enforcement due to the growing negative sentiment toward trade at home.<sup>22</sup> Despite President Joe Biden’s promise of a more predictable America after the Trump era, his administration is pursuing trade policies that are strikingly similar to Trump’s protectionist agenda. The Biden administration has not lifted many of tariffs implemented under the previous administration and has continued to block the appointments of new judges to the Appellate Body, a dispute-settlement mechanism within the World Trade Organization.<sup>23</sup> The US has also taken a hardline approach to sensitive and critical technologies like semi-

<sup>20</sup> Office of the United States Trade Representative, “USTR Announces Agreement between the United States and Vietnam to Resolve Timber Section 301 Investigation,” 1 October 2021, <https://ustr.gov/>.

<sup>21</sup> Office of the United States Trade Representative, “Determination on Action and Ongoing Monitoring: Vietnam’s Acts, Policies, and Practices Related to Currency Valuation,” 28 July 2021, <https://ustr.gov/>.

<sup>22</sup> Hanh Nguyen, “Why Is the U.S. Ambivalent about Trade Engagement in the Indo-Pacific,” *The Diplomat*, 9 June 2022, <https://thediplomat.com/>.

<sup>23</sup> See, “Biden Administration to Maintain China Tariffs while Reviews Continue,” *Reuters*, 3 September 2022, <https://www.reuters.com/>; and Simon Lester, “Ending the WTO Dispute Settlement Crisis: Where to From Here?” International Institute for Sustainable Development, 2 March 2022, <https://www.iisd.org/>.

conductors, using entity lists and export restrictions.<sup>24</sup> Several newly approved legislations, including the CHIPS and Science Act and the Inflation Reduction Act, offer tax breaks and incentives to businesses willing to raise the share of American parts and components in their manufacturing lines, which may become a contentious issue between the United States and its European Union partners.<sup>25</sup>

Looking ahead, US international trade policy will continue to be viewed through the domestic lens, which mainly concerns the hollowing manufacturing sector and loss of jobs as this approach resonates with US voters across the political spectrum. As a result, the US trade deficit with Vietnam may once again become a key issue. Any renewed trade disputes with the United States could create more confusion on Vietnam's part, leading Hanoi to view Washington as acting unfairly by demanding more trade concessions while simultaneously asking for support in containing China. This dynamic risk undermining the strategic trust between the two countries, especially given the ongoing skepticism within the Vietnamese Communist Party regarding Washington's promotion of democratic and liberal values. In the past, Vietnam has tried to ease trade tensions by wooing Trump and buying more US products. This approach may work again with the Biden administration, but it is only a temporary fix for a more long-term, structural issue that requires significant changes in both countries' trade structure and development trajectories.

## Conclusion

The history of US–Vietnam trade relations has been complex, with both countries benefiting from increased trade but also facing challenges related to trade imbalances and policy changes. Vietnam's significant trade surplus with the United States has become a contentious issue, raising concerns about fair trade practices and the potential impact of protectionist policies. However, the relationship between the two countries remains strong, and there is potential for further growth in bilateral trade. As Vietnam continues to develop and modernize its economy, it will be essential to address the structural issues that contribute to the trade surplus while also ensuring that both countries benefit from increased trade. The future of US–Vietnam trade relations will depend on continued dialogue,

<sup>24</sup> Matt Sheehan, "Biden's Unprecedented Semiconductor Bet," Carnegie Endowment for International Peace, 27 October 2022, <https://carnegieendowment.org/>.

<sup>25</sup> See, "Explainer: Why the U.S. Inflation Reduction Act has rattled Europe," *Reuters*, 2 February 2023, <https://www.reuters.com/>; and Sarah Kreps and Paul Timmers, "Bringing Economics Back into EU and U.S. Chip Policy," *Brookings*, 20 December 2022, <https://www.brookings.edu/>.



cooperation, and a shared commitment to fair and mutually beneficial trade practices ✪

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