Insight

Vietnam: To Be or Not to Be a Market

JACOB JENSEN | AUGUST 14, 2024

Executive Summary

- The United States has deepened its diplomatic and economic collaboration with Vietnam in recent years, both to curb Chinese influence and to capitalize on burgeoning Vietnamese industries; this has resulted in the establishment of a "comprehensive strategic partnership."
- Despite this progress, the Department of Commerce decided on August 2, 2024, that it will maintain the non-market economy (NME) distinction for Vietnam after deliberating the country's status since October 2023; notably, it is unclear why Vietnam seems to have received stricter scrutiny than countries with even less market-based economies, such as Laos.
- This decision will ensure that, for the foreseeable future, Vietnamese imports will effectively be subject to higher tariffs in any antidumping case to offset supposed NME price distortions; this may strain the U.S.-Vietnam trading partnership.

Introduction

On August 2, the Department of Commerce (DOC) decided to maintain Vietnam's status as a non-market economy (NME) after deliberating for several months and pushing back the final decision date by a week.[1] Shortly after the decision's release, Vietnam's Ministry of Industry and Trade stated that it would begin the process for reapplication.[2] Simply put, the NME distinction means that imports from Vietnam are subject to valuations calculated by DOC due to potential economic manipulations by the government. NME status is important when calculating U.S. antidumping duties and impacts tariff values placed upon imports in these cases. NME status certainly leaves a sour taste in the mouths of both business leaders and Vietnamese officials, who originally petitioned for a review of NME status.

DOC's decision to maintain Vietnam's classification as an NME comes during a time of competing U.S. trade priorities: expanding the economic partnership with Vietnam as a bulwark against China or holding strong to protectionist policies to benefit some U.S. companies. The investigation into whether Vietnam should be re-classified as a market economy was under intense scrutiny by vice presidential candidate JD Vance, who is a strong proponent of protectionist barriers.[3] Moreover, organizations such as the American Iron and Steel Institute commend the rejection of Vietnam's market status as a key step in preventing Chinese goods from flowing through the country to avoid tariffs.[4] Evidence that China is using Vietnam as a conduit for Chinese products to avoid U.S. tariffs is mounting as Vietnamese imports from China are growing at about the same pace as Vietnamese exports to the United States.[5]

A Brief Look at U.S.-Vietnam Trade

When thinking of Vietnam, many Americans may think of the history of U.S. intervention in the country and its socialist political structure. Many may not realize that renewal of diplomatic and trade relations between

Vietnam and the United States occurred in the 1990s, with Vietnam now becoming one of the fastest-growing trade partners of the United States. Between 1994 and 2023, U.S. imports from Vietnam experienced the third largest percentage growth, behind only Cambodia and the small island nation of Niue.[6] Additionally, the United States saw 24 percent median annual growth in imports from Vietnam during this same period, as Figure 1 displays. While Mexico and China represent most of the total value of import growth since 1994, their median rates of growth are two to three times lower than Vietnam's.

Figure 1: United States Import Growth Between 1994 and 2023

Country	Total Import Value Growth (Billions of Dollars)	Country	Median Annual Import Growth Rate
Mexico	$426	Burma	34%
China	$388	Djibouti	32%
Canada	$290	Bermuda	27%
Germany	$128	Georgia	25%
Vietnam	$114	Vietnam	24%

Since the COVID-19 pandemic and subsequent shutdowns of vital global manufacturing hubs within China, many companies have sought to de-risk from an over-reliance on Chinese factories. Vietnam has been a major beneficiary of this shift, with increased exports into the United States in recent years. Foreign direct investment (FDI) displays this trend as the median growth in annual FDI has been a steady 6 percent since 1994, but in 2022 it shot up to 14 percent.[7] Some estimates put FDI much higher at over $36 billion in 2023, representing a 32-percent increase from the prior year.[8]

If current trading trends continue, Vietnam has the chance to become the largest exporter to the United States by 2035, or at the very least join the top three alongside Mexico and China. It is difficult to say for certain, but as competition with China escalates (thereby straining trade relations), Vietnam may become more enticing for U.S. imports regardless of its NME status. The only foreseeable hurdle are concerns from U.S. companies and consumers that Vietnamese goods are "flooding" the market, just as outcry grew alongside imports from Japan and China in the past.

Vietnam's Progress Toward Free(er) Markets

Vietnam, officially the Socialist Republic of Vietnam, has undergone several economic liberalization initiatives known as "renovation" or "innovation," similar to that of China's reform and opening during the 1980s.[9] Beginning in the late 1980s and early 1990s, Vietnam opened the door for private firms, FDI, and started rolling back agricultural collectives in favor of smaller-scale family farms.

Trade: Vietnam has embraced international trade and taken to signing onto economic agreements such as the Association of Southeast Asian Nations (ASEAN) free trade area, the Trans-Pacific Partnership, the Indo-Pacific Economic Framework, and 16 other individual free trade agreements.[10] The gradual transition toward opening Vietnam to global trade has meant that the weighted average tariff rate has gone from around 18 percent in 2000 to about 4 percent in 2015.[11]

Firms: Reforms have made it possible for private enterprises to spring forth alongside foreign companies. There are still, however, state-owned enterprises (SOEs) that continue to play a role in the Vietnamese market, accounting for 28 percent of gross domestic product (GDP) and 30 percent of the government's budget.[12] The total number of SOEs has declined from 1.2 percent of total firms in 2010 to 0.4 percent in 2017. The number of SOE employees is also on the downtrend. While the situation is improving and more capital is being held by private companies, the Asian Development Bank suggests the larger size of SOEs provides advantages to financial access as well as government favor.

Investment: Restrictions on foreign investment have been gradually reduced, which has contributed to manufacturing growth and the now tens of billions of dollars in annual FDI. Reforms have made it easier for multinational firms to set up operations in the country and create limited-liability companies. This influx of capital into Vietnam has brought forth a growing tourism industry which contributes more than 6 percent of GDP, approaching that of France.[13] While foreigners can invest in Vietnamese companies, there is still room for improvement, as there are complicated regulatory features when compared to U.S. markets that create unpredictability.[14]

Currency: A barrier to Vietnam's early economic viability was high inflation and unpredictable currency exchange rates. The government undertook restrictive monetary and fiscal policy to combat inflationary pressures which have brought rates relatively under control for the past two decades.[15] Vietnam has not been able to shake accusations that it is a "currency manipulator" that often intervenes to devalue its currency to increase exports rather than having a market-based "floating" exchange rate.[16]

Other: It is worth mentioning that there is no direct private ownership of land in the country as land is state-owned. Instead, there is a secondary market that allows the transfer of leasing, land use, and capital rights between different parties.[17] This is a large technical hindrance to Vietnam being seen as a more market-centered economy but has so far not had a major influence on FDI, trade liberalization, or the ability for U.S. companies to enter the market.

Non-market Economy Decision and Comparison

There were a number of economic factors that DOC considered when examining the market status of Vietnam, with the five key considerations displayed in Figure 2. Vietnam was originally placed on the NME list in 2002 and is now among 11 other countries, including China and Russia.

Figure 2: U.S. Commerce Department NME Decision Criteria for Vietnam[18]

Decision Factors	Evidence For NME	Evidence Against NME
Currency Convertibility	Accused of currency manipulation in 2020 with estimated intervention of 5% of GDP to devalue the VND for increased exports	The U.S.-ASEAN Business Council states there is a "managed floating" exchange rate that adjusts daily with firms reporting no problems
Wage Bargaining	The government does not legally recognize independent labor unions, which may damage bargaining power with firms	U.S. companies offer to pay above the minimum wage, which is determined based on National Wage Council recommendations
Foreign Investment Permitted	Allegations that there is excessive red tape and limited protections for intellectual property rights	FDI continues to grow, with many U.S. companies involved in manufacturing within the country
Means of Production	SOEs continue to operate with beneficial access to finance and there is no private ownership of property	Private firms represent most businesses and employ the majority of workers while secondary markets exchange property/capital leasing rights

Resource and Price Controls	There are certain price mandates in place for essential products that permit intervention given excessive price fluctuations	The government has dropped price caps for goods and does not interfere with private enterprise decision making

DOC's decision to maintain Vietnam's NME status was likely a difficult one, with numerous behind-the-scenes factors influencing the final call. To further examine the disagreement surrounding the case, it is interesting to compare Vietnam to the status of Laos as a market economy. The Lao People's Democratic Republic is one of Vietnam's neighbors that is also socialist, has SOEs, and has extremely limited private property rights, especially for foreigners. In fact, Laos' SOE assets account for 80 percent of its GDP compared to roughly 30 percent in Vietnam. There is also no Laotian privatization program in place, while Vietnam implemented a program starting in 1998.[19] Laos has also implemented price controls on 23 products, has a "managed" rather than "free-floating" exchange rate, and is part of the ASEAN customs union alongside Vietnam, which means they have similar trade barriers.[20]

Figure 3: Comparison of Vietnam and Laos[21]

Decision Factors	**Vietnam**	**Laos**
Currency Convertibility	Managed floating exchange rate	Managed floating exchange rate
Wage Bargaining	Unions allowed but not formally recognized by government	The Lao Federation of Trade Unions is a primary representative of labor
Foreign Investment Permitted	Allowed and growing at 6% annually since 1994 Total: $18 billion in 2022	Allowed and growing at 8% annually since 1994 Total: $640 million in 2022
Means of Production	SOEs account for 28% of GDP No private property but secondary leasing market for capital and land	SOEs account for 80% of GDP No private property but secondary leasing market for capital and land
Resource and Price Controls	Price controls on 9 products	Price controls on 23 products

All of this raises the question of why Vietnam is considered an NME while Laos is not. One differentiation is that currently, the United States imports over $100 billion in goods from Vietnam and only $300 million from Laos. Another is that Vietnam has been accused of channeling Chinese goods into the United States to avoid tariffs placed directly on China. That neither of these reasons has much to do with supporters' reasons for levying trade barriers – that is, to protect national security – should be of some concern to proponents of countering China's influence in the region.

Conclusion

The debate surrounding whether Vietnam has made adequate economic reforms to be classified by the United States as a market economy is not going anywhere. After DOC's decision, Vietnam plans to reapply for market status consideration which will likely take up to another year of deliberation. If DOC decides to take up another re-examination case for Vietnam, the process could take another year, with results likely to be influenced by the next administration. Given other countries' absence from the NME list that manipulate their currency, engage in subsidization of domestic industry, or lack inherent market principles, it is strange to see that Vietnam is more heavily scrutinized. While NME status may hinder more rapid expansion of trade relations, current trends suggest that imports from Vietnam are here to stay and will continue to grow in the future.

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[4] AISI Applauds Commerce Denial of Vietnam Market Economy Status – American Iron and Steel Institute

[5] As US hikes China tariffs, imports soar from China-reliant Vietnam | Reuters

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[15] https://www.bis.org/publ/bppdf/bispap31t.pdf

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[17] Vietnam has "all the basics" of a market economy: US-ASEAN business council (theinvestor.vn)

[18] U.S. Treasury labels Switzerland, Vietnam as currency manipulators (cnbc.com); Vietnam has "all the basics" of a market economy: US-ASEAN business council (theinvestor.vn); Commerce Confirms that Vietnam Remains a Non-Market Economy: Wiley

[19] Laos – United States Department of State; Vietnam – United States Department of State

[20] Laos Expects Food and Other Product Prices to Increase by 10% This Year – Laotian Times; The Bank of the Lao PDR Mandates Exchange Bureaus to Tie Up With Commercial Banks – What to Expect? – VDB | LOI (vdb-loi.com)

[21] Lao PDR Foreign Direct Investment 1960-2024 | MacroTrends; Vietnam Foreign Direct Investment 1960-2024 | MacroTrends