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U.S.-Vietnam Economic and Trade Relations: Key Issues in 2018

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Summary

President Trump's decision in January 2017 to withdraw the United States from the proposed Trans-Pacific Partnership (TPP) trade agreement removed a major focus of trade relations with the Socialist Republic of Vietnam (Vietnam) since 2008. As a result, trade relations are likely to refocus onto various bilateral trade issues such as the rising U.S. bilateral merchandise trade deficit with Vietnam, Vietnam's desire to be recognized as a market economy, and various elements of each nation's trade policies and regulations. Congress may play a role in each of these trade issues.

Over the last 20 years, the U.S. merchandise trade balance with Vietnam has gone from a surplus of $110 million in 1997 to a deficit of more than $38 billion in 2017. The 2017 bilateral merchandise trade deficit with Vietnam was the 5th largest for the United States. U.S. exports declined in 2017 by nearly $2 billion compared to 2016, while U.S. imports from Vietnam increased by more than $4 billion. Given President Trump's focus on nations with which the United States has a bilateral merchandise trade deficit, Vietnam's trade policies and practices may face increased scrutiny from his Administration in the months ahead.

One issue that was prominent during the TPP negotiations, and will likely remain an issue during the 115th Congress, were changes in U.S. laws regulating catfish imports that the Vietnamese government saw as protectionist, including the 2008 Farm Bill (P.L. 110-246) which shifted the inspection of catfish from the Food and Drug Administration (FDA) to the U.S. Department of Agriculture (USDA). Given the views expressed by some Senators, catfish import regulation may be addressed if the Senate considers the Agriculture and Nutrition Act of 2018 (H.R. 2).

A new trade issue that may arise is U.S. arms sales to Vietnam. In May 2016, President Obama ended the remaining restrictions on lethal arms sales to Vietnam that had been in place since the end of the Vietnam War in 1975. President Trump has indicated that he sees U.S. arms sales to Vietnam as an important method of reducing the bilateral merchandise trade deficit. While Vietnam has made few purchases of U.S. military equipment and materials since the removal of the restrictions, Vietnamese officials indicate that more requests may be submitted. In certain circumstances, Congress can play a role in the approval or disapproval of such arms sales.

Each nation has raised other concerns about the other's trade policy. Vietnam would like the United States officially to recognize it as a market economy and sign a bilateral investment treaty (BIT). The United States would like Vietnam to increase U.S. imports, reduce certain technical barriers to trade, and implement various labor reforms.

The importance of Vietnam's trade relations with the United States may be influenced by two proposed regional trade agreements. Vietnam is a party to the 11-member Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP), which was signed in March 2018, as well as the proposed Regional Comprehensive Economic Partnership (RCEP); the United States is not. The implementation of either trade agreement is likely to increase Vietnam's trade flows to the other nations in the trade agreements, and decrease its trade with the United States.

The 115th Congress may play an important role in one or more of these issues, as have past Congresses. No legislation has been introduced regarding trade relations with Vietnam, but other legislation, such as H.R. 2, may contain relevant provisions.

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Introduction

From the mid-1970s to the mid-1990s, economic and trade relations between the United States and Vietnam remained virtually frozen, in part a legacy of the Vietnam War. On May 2, 1975, after the Democratic Republic of Vietnam (North Vietnam) defeated U.S. ally the Republic of Vietnam (South Vietnam), President Gerald R. Ford extended President Richard M. Nixon's 1964 trade embargo on North Vietnam to cover the reunified nation.[1] Under the Ford embargo, bilateral trade (including arms sales) and financial transactions were prohibited.

Economic and trade relations between the two nations began to thaw during the Clinton Administration, building on joint efforts during the Reagan and George H. W. Bush Administrations to resolve a sensitive issue in the United States—recovering the remains of U.S. military personnel declared "missing in action" (MIA) during the Vietnam War.[2] The shift in U.S. policy also was spurred by Vietnam's withdrawal from Cambodia.[3] President Bill Clinton ordered an end to the U.S. trade embargo on Vietnam on February 3, 1994,[4] and on July 11, 1995, the United States and Vietnam restored diplomatic relations.[5] Two years later, President Bill Clinton appointed the first U.S. ambassador to Vietnam since the end of the Vietnam War.

Bilateral relations also improved in part due to Vietnam's 1986 decision to shift from a Soviet-style central planned economy to a form of market socialism. The new economic policy, known as *doi moi* ("change and newness"), ushered in a period of 30 years of rapid growth in Vietnam. Since 2000, Vietnam's real GDP growth has averaged over 6% per year. Much of that growth was generated by foreign investment in Vietnam's manufacturing sector, particularly its clothing industry.

The United States and Vietnam signed a bilateral trade agreement (BTA) on July 13, 2000, which went into force on December 10, 2001.[6] As part of the BTA, the United States extended to Vietnam conditional most favored nation (MFN) trade status, now known as normal trade relations (NTR). Economic and trade relations further improved when the United States granted

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[1] Office of Foreign Assets Control, Department of the Treasury, "Foreign Assets Control Regulations," 40 *Federal Register* 19202-3, May 2, 1975. For more information on the history of U.S. trade sanctions on North Vietnam and the Socialist Republic of Vietnam, see CRS Report 94-633, *Vietnam: Procedural and Jurisdictional Questions Regarding Possible Normalization of U.S. Diplomatic and Economic Relations*, by Vladimir N. Pregelj et al. (out of print; available to congressional clients from the author upon request).

[2] For more information about the thaw in U.S.-Vietnam relations, see CRS Report R40208, *U.S.-Vietnam Relations in 2014: Current Issues and Implications for U.S. Policy*, by Mark E. Manyin.

[3] After the Communist Party of Kampuchea (a.k.a. "Khmer Rouge") took power in Cambodia in April 1975, isolated fighting occurred between Vietnam and the renamed Democratic Kampuchea. On December 25, 1978, the Vietnamese government launched a military invasion of Democratic Kampuchea to oust the Khmer Rouge and end its reign of terror in which an estimated 2 million people had been killed. Initially hailed as liberators, the popular view in Cambodia of Vietnam had changed by the time Vietnamese troops withdrew in September 1989, leaving in power the government of Prime Minister Hun Sen. For more about Vietnam's invasion of Cambodia, see Kevin Doyle, "Vietnam's Forgotten Cambodian War," *BBC*, September 14, 2014.

[4] The action came after many months of high-level U.S. interaction with Vietnam in resolving MIA cases and a January 27, 1994 vote in the Senate urging that the embargo be lifted, language that was attached to broad authorizing legislation (H.R. 2333). The language was controversial in the House, but H.R. 2333 passed Congress; it was signed into law (P.L. 103-236) on April 30, 1994.

[5] William J. Clinton, "Remarks Announcing the Normalization of Diplomatic Relations With Vietnam," July 11, 1995. Online by Gerhard Peters and John T. Woolley, The American Presidency Project, http://www.presidency.ucsb.edu/ws/?pid=51605.

[6] For more information about the BTA, see CRS Report RL30416, *The Vietnam-U.S. Bilateral Trade Agreement*, by Mark E. Manyin.

Vietnam permanent normal trade relations (PNTR) status on December 29, 2006, as part of Vietnam's accession to the World Trade Organization (WTO).[7] In June 2007, the United States and Vietnam signed a Trade and Investment Framework Agreement (TIFA), and set up a ministerial-level Trade and Investment Council to discuss issues related to the implementation of the TIFA and WTO agreements, as well as trade and investment policies in general.

Since signing the TIFA, Vietnam has indicated a desire to foster closer trade relations. In 2008, Vietnam applied for acceptance into the U.S. Generalized System of Preferences (GSP) program and the two nations started negotiations of a bilateral investment treaty (BIT). Both those initiatives, however, receded in importance once Trans-Pacific Partnership (TPP) negotiations got underway in 2008.[8] The United States also has expressed an interest in closer economic relations, but has told the Vietnamese government that it needs to make certain changes in the legal, regulatory, and operating environment of its economy to conclude the BIT agreement or to qualify for the GSP program.

For the first few years following the end of the U.S. embargo in 1994, trade between the two nations grew slowly, principally because of Vietnam's lack of NTR (see **Figure 1**). However, following the granting of conditional NTR in December 2001, trade flows between the United States and Vietnam grew quickly. According to both nations' official trade statistics, merchandise trade nearly doubled between 2001 and 2002. Bilateral trade continued to climb after the United States granted PNTR status to Vietnam in 2006. U.S. imports from Vietnam slid 4.7% in 2009 because of the U.S. economic recession, but have rebounded sharply since 2010. According to U.S. trade statistics, U.S. exports to Vietnam declined by nearly $2 billion in 2017, but Vietnamese trade statistics show an increase in imports from the United States of almost $500 million.[9]

The growth in bilateral trade also has created sources of friction over specific goods. A rapid increase in Vietnam's clothing exports to the United States led to the implementation of a controversial monitoring program from 2007 to 2009.[10] The growth in Vietnam's catfish exports (also known as *basa*, *swai*, and *tra*) has also generated tensions between the two nations (see "Catfish" section below). The recent growth of new merchandise exports from Vietnam, such as electrical machinery, may become subject to future bilateral trade friction.

[7] CRS Report RL33490, *Vietnam PNTR Status and WTO Accession: Issues and Implications for the United States*, by Mark E. Manyin, William H. Cooper, and Bernard A. Gelb (out of print; available to congressional clients from the author upon request).

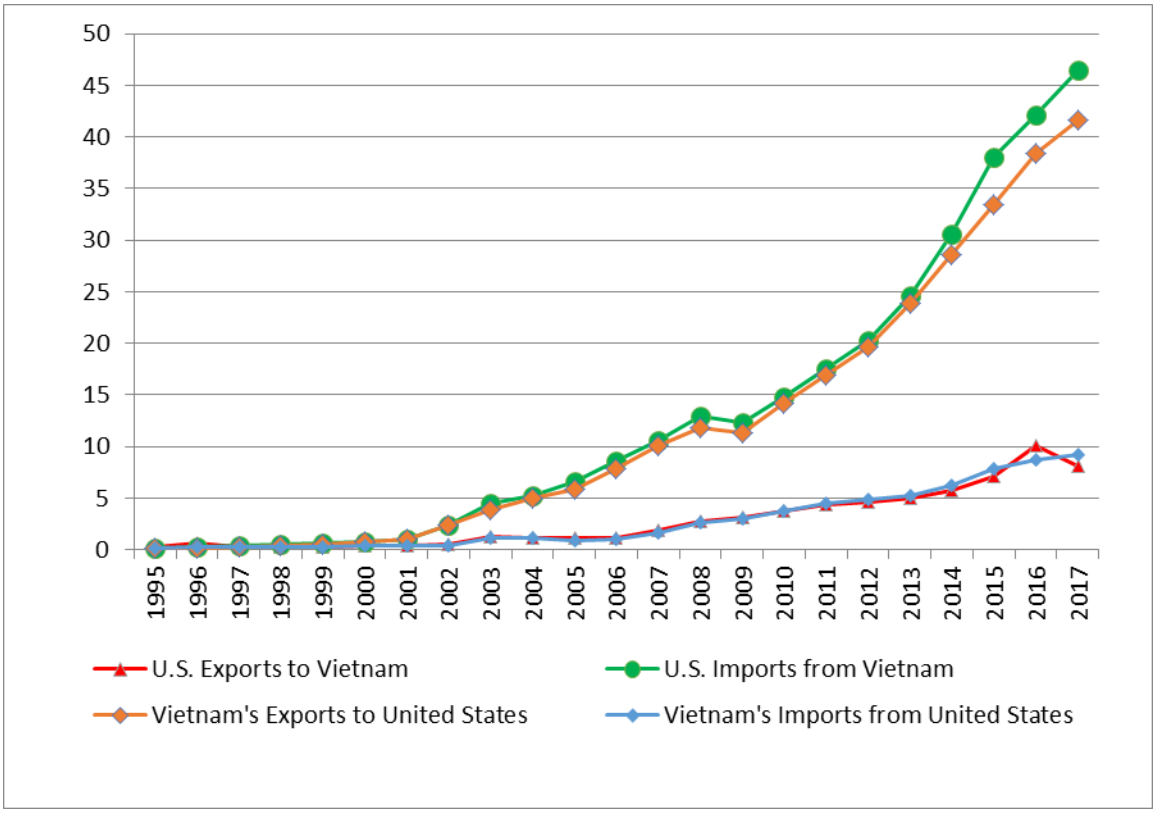
[8] The Trans-Pacific Partnership was a proposed trade agreement between 12 nations—Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The text of the agreement was signed on February 4, 2016. President Trump withdrew the United States from the proposed trade agreement in January 2017. On March 8, 2018, the remaining 11 nations signed the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP), which is based on the text of the TPP agreement.

[9] Official bilateral trade statistics between nations often differ for a variety of reasons. For a discussion of the issue with respect to U.S. trade with China, see CRS Report RS22640, *What's the Difference?—Comparing U.S. and Chinese Trade Data*, by Michael F. Martin.

[10] For more information on the clothing monitoring program and its impact on U.S. trade with Vietnam, see CRS Report RL34262, *U.S. Clothing Imports from Vietnam: Trade Policies and Performance*, by Michael F. Martin.

Figure 1. U.S.-Vietnam Bilateral Merchandise Trade

Official trade figures in billions of U.S. dollars



Source: U.S. International Trade Commission; General Statistics Office (GSO) of Vietnam and Vietnam Customs. See Appendix for details.

A possible area for growth in U.S. exports to Vietnam is arms sales (see "Arms Sales" section below). In May 2016, President Obama announced that he would lift the remaining restrictions on arms sales to Vietnam.[11] The Trump Administration has repeatedly signaled its interest in increasing arms sales to Vietnam, and has reportedly made such sales a priority for the Defense Department, the State Department, and the U.S. embassy in Hanoi.[12] So far, such arms sales have been limited, despite the expressed interest displayed by both governments.

Bilateral Trade Balance

The Trump Administration has indicated that reducing U.S. bilateral trade deficits will be a priority in its trade policy. During a June 2017 meeting with South Korea's President Moon Jae-in, President Trump reportedly said, "The United States has trade deficits with many, many countries, and we cannot allow that to continue."[13] The $32 billion bilateral merchandise trade deficit with Vietnam in 2016 was reportedly a major issue during President Trump's May 2017

[11] Matt Spetalnick, "U.S. Lifts Arms Ban on Old Foe Vietnam as China Tensions Simmer," *Reuters*, May 21, 2016.

[12] Mike Stone and Matt Spetalnick, "Trump to Call on Pentagon, Diplomats to Play Bigger Arms Sales Role," *Reuters*, January 9, 2081.

[13] The White House, "Remarks by President Trump, President Moon, Commerce Secretary Ross, and NEC Director Cohn in Bilateral Meeting," June 30, 2017.

meeting at the White House with Vietnam's Prime Minister Nguyen Xuan Phuc.[14] The bilateral trade deficit also was discussed during President Trump's meeting with Vietnam's President Tran Dai Quang in Hanoi in November 2017.[15]

Since 2001, the U.S. merchandise trade deficit with Vietnam has risen significantly, resulting in its rise from 45th largest in 2001 to the 5th largest bilateral deficit in 2017 (see **Table 1**).[16] The increase in the U.S. trade deficit with Vietnam has been largely driven by substantial and successive increases in the import of new types of goods from Vietnam, starting in the early 2000s with clothing, apparel and footwear, and then from 2012 to 2017 expanding into electronics and machinery. This growth largely reflects changes in Asia's regional supply chains, in which major manufacturers from China, Japan, South Korea, the United States, and other nations have relocated some of their production facilities to Vietnam, resulting in an increase in Vietnamese exports.[17]

Table 1. Rise in U.S. Bilateral Merchandise Trade Deficit with Vietnam

Value (in US$ millions) and Ranking

Year	Value	Ranking
2001	592	45th
2006	7,466	25th
2011	13,173	17th
2017	38,319	5th

Source: U.S. International Trade Commission.

The joint statement issued following Prime Minister Phuc's May 2017 meeting with President Trump identified a number of measures to be taken to "actively promote mutually beneficial and ever-growing economic ties to bring greater prosperity to both countries."[18] The measures included

- Both nations "creating favorable conditions for the businesses of both sides, particularly through the effective use of the Trade and Investment Framework Agreement to address issues in United States-Vietnam relations in a constructive manner";
- Vietnam pursuing "a consistent policy of economic reform and international integration, creating favorable conditions for foreign companies, including those of the United States, to do business and invest in Vietnam";

[14] Roberta Rampton and David Brunnstrom, "Trump Hails Deals Worth 'Billions' with Vietnam," *Reuters*, May 31, 2017.

[15] "Trump Makes Sales Pitch to Vietnam as Energy and Aviation Deals Are Signed in Hanoi," *Straits Times*, November 12, 2017.

[16] The United States has a modest surplus (approximately $1 billion) in the bilateral trade in services, which is insufficient to offset the merchandise trade deficit. See "Trade in Services" below.

[17] The apparent increase in Vietnamese exports is an artifact of U.S. "rules of origin" for international trade that attribute all the value of the product to the country in which the last significant transformation of the product took place. For more about "rules of origin" and their impact on international trade statistics, see CRS Report RL34524, *International Trade: Rules of Origin*, by Vivian C. Jones.

[18] White House, "Joint Statement for Enhancing the Comprehensive Partnership between the United States of America and the Socialist Republic of Vietnam," press release, May 31, 2017.

- Vietnam protecting and enforcing intellectual property;
- Vietnam "bringing its labor laws in line with Vietnam's international commitments"; and
- Both nations pledging "to continue to work together constructively to seek resolution of other priority issues of each country, including those related to intellectual property, advertising and financial services, information-security products, white offal, distiller's dried grains, *siluriformes*, shrimp, mangos, and other issues."[19]

Following their November 2017 meeting, President Quang and President Trump released a joint statement that stated:

> The two leaders pledged to deepen and expand the bilateral trade and investment relationship between the United States and Vietnam through formal mechanisms, including the Trade and Investment Framework Agreement (TIFA). … The leaders committed to seek resolution of remaining agricultural trade issues, including those regarding *siluriformes*, shrimp, and mangoes, and to promote free and fair trade and investment in priority areas, including electronic payment services, automobiles, and intellectual property rights enforcement.[20]

In addition, Vietnam's Minister of Trade and Investment Tran Tuan Anh met with U.S. Trade Representative Robert Lighthizer on May 30, 2017, and asked that the United States recognize Vietnam as a market economy, lift the new catfish inspection regulations, and accelerate the licensing of Vietnamese fruit exports to the United States.[21]

Trade and Investment Framework Agreement (TIFA)

As both joint statements indicate, the United States and Vietnam have agreed to utilize the 2007 bilateral TIFA, and its Trade and Investment Council (the Council), as a major vehicle to discuss trade and investment issues.[22] According to Article Two of the TIFA, the Council "shall endeavor to meet no less than once a year."

The two nations held the first Council meeting since 2011on March 27-28, 2017, in Hanoi.[23] During the meeting, Assistant U.S. Trade Representative Barbara Weisel urged Vietnam to address certain bilateral trade issues, such as agriculture and food safety, intellectual property, digital trade, financial services, customs, industrial goods, transparency and good governance, and illegal wildlife tracking. During a May 2017 meeting with U.S. Trade Representative Robert Lighthizer, Minister of Industry and Trade Tran Tuan Anh urged the United States to recognize Vietnam as a market economy, repeal the special catfish inspection procedures (see "Catfish" below), and reduce barriers to Vietnamese fruit imports.[24]

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[19] *Siluriformes* is the genealogical order for catfish.

[20] White House, "Joint Statement Between the United States of America and the Socialist Republic of Vietnam," press release, November 12, 2017.

[21] "Vietnam, US Hold Trade Meeting in Washington," *Vietnam Net*, May 31, 2017.

[22] A copy of the 2007 bilateral TIFA is available online at https://ustr.gov/sites/default/files/uploads/agreements/tifa/asset_upload_file81_12935.pdf.

[23] U.S. Trade Representative, "United States and Vietnam Renew Trade Dialogue During Trade and Investment Framework Agreement (TIFA) Meetings," press release, March 28, 2017.

[24] "Vietnam, US Hold Trade Meeting in Washington," *VietnamNet*, May 31, 2017.

Catfish

Catfish have been a source of trade friction between the United States and Vietnam since 2002. Vietnam is a major exporter of frozen fish fillets using certain varieties of fish—known as *basa*, *swai*, and *tra* in Vietnamese—that are commonly referred to as catfish in the global fish market.[25] Since 1999, Vietnamese exports of *basa*, *swai*, and *tra* frozen fish fillets have secured a growing share of the U.S. market, despite the objections of the U.S. catfish industry and the actions of the U.S. government. In 2017, the United States imported almost $345 million in catfish from Vietnam.[26]

Table 2. U.S. Imports of Vietnamese Catfish

In Millions of U.S. Dollars

Year	Value of Imports
2001	40.110
2002	65.968
2003	53.203
2004	72.227
2005	54.838
2006	76.855
2007	85.663
2008	108.870
2009	142.834
2010	173.837
2011	341.443
2012	341.991
2013	339.244
2014	314.122
2015	321.273
2016	368.698
2017	344.903

Source: USITC.

Notes: Includes HTSUS codes 030272, 030324, 030420, 030429, 030432, 030451, 030462, and 030451.

Over the last 16 years, the United States has taken several actions that have had an impact on the import of Vietnamese catfish (see **Table 2**). In 2002, Congress passed legislation that prohibited

[25] *Basa* (*Pangasius bocourti*), swai (*Pangasius pangasius*), and *tra* (*Pangasius hypophthalmus*) are fresh-water fish from the Mekong River basin of Vietnam. U.S. catfish (*Ictalurus punctatus*)—also known as channel catfish—are also fresh-water fish, typically raised for commercial purposes in aquaculture ponds. All three species are siluriformes, with the characteristic barbels (whiskers) from which the name catfish was derived.

[26] Based on U.S. International Trade Commission (USITC) online trade data (http://dataweb.usitc.gov/), includes imports under HTSUS codes 030272, 030324, 030432, and 030462. More than $343 million of the imports were in the form of frozen catfish fillets (030462).

the labeling of *basa*, *swai*, and *tra* as "catfish" in the United States.[27] In August 2003, the U.S. government imposed antidumping duties on "certain frozen fish fillets from Vietnam," including *basa*, *swai*, and *tra*.[28] In June 2009, the ITC determined to keep the duties in place "for the foreseeable future." According to the Vietnam Association of Seafood Exporters and Producers (VASEP), the number of companies exporting catfish to the United States declined from 30 to 3 following the imposition of antidumping duties.[29] Although U.S. imports of Vietnamese catfish declined in 2003 and 2005, possibly as a result of legislation and antidumping duties, after 2005, U.S. imports of *basa*, *swai*, and *tra* from Vietnam continued to rise.

In the 2008 Farm Bill (P.L. 110-246), Congress transferred catfish inspection (including *basa*, *swai*, and *tra*) from the Food and Drug Administration (FDA) to the U.S. Department of Agriculture (USDA); Congress confirmed that transfer in the Agriculture Act of 2014 (P.L. 113-79). The Secretary of Agriculture sent draft regulations to the Office of Management and Budget (OMB) in November 2009; the final regulations were published in December 2015. The new regulations took effect on March 1, 2016, but provided a transition period lasting until September 1, 2017, before full implementation would take place.[30] The inspection program was implemented as scheduled.

Vietnam's Response

In the eyes of the Vietnamese government, the U.S. response to the growth of Vietnam's *basa*, *swai*, and *tra* exports constitutes a case of trade protectionism designed to shelter U.S. catfish producers from legitimate competition. Following the passage of the 2008 Farm Bill, then-Ambassador to the United States Le Cong Phung sent a letter to nearly 140 Members of Congress, suggesting that a reclassification of *basa* and *tra* as catfish would call into question the U.S. commitment to the WTO and endanger the jobs of more than 1 million Vietnamese farmers and workers. In addition, an opinion article in the *Wall Street Journal* referred to the possible reclassification of *basa*, *swai*, and *tra* as catfish as "protectionism at its worst."[31] Vietnam also pointed to U.S. anti-dumping measures on Vietnamese shrimp and plastic bags as an indication of U.S. protectionism.

Starting in 2010, Vietnam's Ministry of Agriculture and Rural Development (MOARD) tightened export hygiene standards for *basa*, *swai*, and *tra*, in anticipation of the new U.S. inspection regulations. Effective April 12, 2010, all *basa* and *tra* exported from Vietnam needed certificates for hygiene and food safety issued by the National Agro-Forestry-Fisheries Quality Assurance Department.[32] In addition, MOARD and the Ministry of Industry and Trade contracted U.S.-based

[27] Language was introduced into the Farm Security and Rural Investment Act of 2002 (P.L. 107-171) that restricted the legal definition of catfish to the family Ictaluridae, effectively banning the use of the term "catfish" for *basa* and *tra*.

[28] International Trade Administration, "Notice of Antidumping Duty Order: Certain Frozen Fish Fillets from the Socialist Republic of Vietnam," 68 *Federal Register* 47909, August 12, 2003. Antidumping duties are penalties imposed on goods imported at what is determined to be less than "fair value." For more about antidumping duties in the United States, see CRS Report RL32371, *Trade Remedies: A Primer*, by Vivian C. Jones.

[29] "Low Prices of Vietnam's Catfish Lead to Export Dilemma," *VietNamNet*, February 11, 2015.

[30] United State Department of Agriculture Federal Safety and Inspection Service, "Mandatory Inspection of Fish of the Order Siluriformes and Products Derived from Such Fish," 80 *Federal Register* 75590-75630, December 2, 2015. For more about the transition period and the USDA catfish inspection program, see https://www.fsis.usda.gov/wps/portal/fsis/topics/inspection/siluriformes.

[31] "A Fish by Any Other Name," *Wall Street Journal*, May 20, 2009.

[32] "Catfish Quality Tests Tightened for Export Hygiene Standards," *Vietnam News*, April 15, 2010.

Mazzetta Company to train Vietnamese fish breeders on how to comply with U.S. standards.[33] In 2011, then Prime Minister Dung reportedly approved a 10-year, $2 billion "master plan" for the development of Vietnam's fish farming industry that is designed to promote infrastructure and technological development, disease control, and environmental improvement.[34]

Following the publication of the new U.S. catfish regulations, a spokesperson for Vietnam's Ministry of Foreign Affairs reportedly expressed disappointment, stating the new regulations are unnecessary, could constitute a nontariff trade barrier, reduce Vietnamese exports, and harm the lives of Vietnamese farmers.[35] Vietnamese officials also reportedly indicated that the 18-month transition period to comply with the new U.S. standards was much shorter than the customary five years granted to developing nations, and suggested that the new regulations may violate the WTO sanitary and phytosanitary (SPS) Agreement.[36]

On February 22, 2018, Vietnam filed a WTO complaint that the U.S. inspection program for catfish imports violates the WTO SPS Agreement.[37] In its complaint, Vietnam asserted that the United States had no scientific basis for subjecting imported catfish to a special inspection program. Under WTO procedures, Vietnam is requesting consultation with the United States to resolve the dispute. If, after 60 days, the two nations cannot resolve the dispute, Vietnam can request a formal WTO panel to review and adjudicate the complaint.

The Antidumping Sunset Review on Catfish

While the USDA prepared the new catfish regulations, the ITC issued, on June 15, 2009, a final determination in its five-year (sunset) review of the existing antidumping duties on "certain frozen fish fillets from Vietnam."[38] In a unanimous decision, the six ITC commissioners voted to continue the antidumping duties "for the foreseeable future." In April 2014, the Department of Commerce lowered the antidumping duties on Vietnam's catfish exports to the United States.[39]

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.[40] On March 8, China submitted a request to be a party to the consultations, noting, "A substantial portion of China's Pangasius seafood product is exported to the United States' market."[41] The United States has 60 days in which to respond to the request and resolve the

[33] "US Firm to Help Train Vietnamese Fish Farmers," *Thanh Nien News*, March 27, 2010.

[34] "Vietnam to Inject US$2 Billion into 10-Year Fisheries Plan," *CPA Vietnam*, March 11, 2011.

[35] "Vietnam Says New US Rule on Catfish Inspection Disappointing, Unnecessary," *Tuoi Tre News*, December 1, 2015.

[36] "Vietnam's Question on Catfish," *Washington Trade Daily*, March 21, 2016.

[37] Alex Lawson, "Vietnam Opens WTO Case Against US Catfish Inspections," *Law 360*, February 27, 2018.

[38] Under the provisions of the Uruguay Round Agreements Act (P.L. 103-465), antidumping duties must be revoked after five years unless the DOC and the ITC determine that revoking the duties would lead to the continuance or recurrence of dumping and cause material injury within a foreseeable time period.

[39] "US Imposes Unfair, but Bearable, Anti-Dumping Tax on VN's Catfish," *VietNamNet*, April 4, 2014.

[40] World Trade Organization, "Viet Nam Files WTO Complaint over US Anti-Dumping Duties on Fish," press release, January 12, 2018.

[41] World Trade Organization, *Request to Join Consultations: United States—Certain Measure Concerning Pangasius Seafood Products from Viet Nam, Communication from China*, WT/DS540/2, March 9, 2018.

matter. After 60 days, Vietnam may request adjudication by a WTO dispute panel. As of mid-April, Vietnam has not requested a formal review.

Arms Sales

In 1975, U.S. military sales to Vietnam were banned as part of the larger U.S. ban on bilateral trade.[42] In 1984, the U.S. government included Vietnam on the International Traffic in Arms Regulations (ITAR) list of countries that were denied licenses to acquire defense articles and defense services. The ITAR restrictions on arms sales remained in effect after President Clinton lifted the general trade embargo in February 1994. In April 2007, the Department of State amended ITAR to permit "on a case-by-case basis licenses, other approvals, exports or imports of non-lethal defense articles and defense services destined for or originating in Vietnam." To the Vietnamese government, the continuing restrictions on trade in military equipment and arms were a barrier to the normalization of diplomatic relations and constrained closer bilateral ties.

Table 3. Foreign Military Financing for Vietnam

in millions of U.S. dollars

Fiscal Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
Amount	0.5	2.0	2.0	2.3	9.5	10.0	10.8	10.8	12.0

Source: CRS analysis of U.S. budget data.

Vietnam was subsequently permitted to participate in the Foreign Military Financing (FMF) program, administered by the State Department, starting in fiscal year 2009 (see **Table 3**). Via FMF, Vietnam was able to purchase spare parts for Huey helicopters and M113 Armored Personnel Carriers captured during the Vietnam War. According to the Defense Security Cooperation Agency (DSCA), U.S. military sales agreements with Vietnam rose from $653,000 in fiscal year 2011 to $20 million in fiscal year 2016.[43]

In October 2014, as relations continued to deepen, the Obama Administration partially relaxed U.S. restrictions on the transfer of lethal weapons and articles to Vietnam to permit "future transfer of maritime security-related" defense articles, again on a case-by-case basis. The Department said that the move would help the United States "integrate Vietnam fully into maritime security initiatives" by helping Vietnam to "improve its maritime domain awareness and maritime security capabilities."[44] While in Hanoi in May 2016, President Obama announced the removal of remaining U.S. restrictions on sales of lethal weapons and related services to Vietnam.[45] At the time, U.S. officials and some observers argued that such an action would help improve Vietnam's capacity to respond to China in the South China Sea and solidify the growing strategic partnership between the United States and Vietnam. Others, however, called the move premature without improvements in human rights conditions in Vietnam.

[42] During the Vietnam War, the United States imposed a complete embargo on arms sales to North Vietnam, and then expanded it to cover the entire country after the end of the war.

[43] Defense Security Cooperation Agency, *Foreign Military Sales, Foreign Military Construction Sales, and Other Security Cooperation: Historical Facts*, September 30, 2016.

[44] State Department Daily Press Briefing, Jen Psaki Spokesperson, October 2, 2014.

[45] White House, "Remarks by President Obama and President Quang of Vietnam in Joint Press Conference," press release, May 23, 2016.

The Trump Administration has indicated that it sees increased U.S. arms sales to Vietnam as one means of reducing the bilateral merchandise trade deficit, as well as strengthening the security partnership with Vietnam. The State Department reportedly is encouraging Vietnam to diversify its source of arms away from its "historical suppliers" (such as Russia) and include more U.S. equipment.[46] Overseas U.S. weapons sales also are an important part of the Trump Administration's "Buy American" proposal, which reportedly will require the Pentagon and U.S. diplomats to play a more active role in promoting arms trade, as well as possible easing of ITAR restrictions.[47]

The impact of removing the restrictions on arms sales to Vietnam is unclear. Following the 2014 partial easing of the arms export ban, few lethal defense articles were sold or transferred to Vietnam from the United States. A refurbished Hamilton-class cutter was transferred to Vietnam through the Excess Defense Article (EDA) program on May 25, 2017. Also in May 2017, the first tranche of six Metal-shark patrol boats were delivered, financed via the FMF program.[48] The State Department anticipates that Vietnam will use future FMF funding to acquire additional U.S.-origin defense articles. Vietnam reportedly is interested in obtaining F-16 fighter aircraft, P-3C Orion maritime patrol aircraft, and maritime intelligence surveillance and reconnaissance (ISR) equipment.[49]

The potential sale of arms to Vietnam had been a source of some controversy for Congress. While some Members support the provision of lethal assistance, others object in part because of Vietnam's alleged human rights record. Congress will have 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). That law requires the executive branch 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. For potential sales to Vietnam, the Administration is required to notify the congressional committees and leadership 30 calendar days before concluding sales of major defense equipment, defense articles, defense services, or design and construction services meeting certain value thresholds.

Non-Market Economy Designation

Vietnamese leaders would like the United States to change Vietnam's official designation under U.S. law from "nonmarket economy" to "market economy."[50] The United States' designation of Vietnam as a non-market economy, which, according to the Vietnamese government, will expire in 2019 under the terms of its accession to the World Trade Organization (WTO), generally makes it more likely that antidumping and countervailing duty cases would result in the Commerce Department issuing adverse rulings against Vietnamese companies' exports to the United States.

[46] Minh Minh, "US Encourages Vietnam to Buy More of Its Weapons, Diversify from Russia: Report," *VN Express*, February 8, 2018.

[47] Mike Stone and Matt Spetalnick, "Trump to Call on Pentagon, Diplomats to Play Bigger Arms Sales Role," *Reuters*, January 9, 2018.

[48] Prashanth Parameswaran, "US Delivers Six Patrol Vessels to Vietnam in Defense Boost," *The Diplomat*, May 25, 2017.

[49] Prashanth Parameswaran, "US-Vietnam Defense Relations: Problems and Prospects," *The Diplomat*, May 27, 2016.

[50] For example, during an April 2015 meeting with USTR Froman, Vuong Dinh Hue, head of the Vietnam's Communist Party Central Committee's Economic Commission, urged the United States to soon recognize Vietnam as a market economy. "Party Official Discusses TPP with US Trade Representative," *VietNamNet*, April 23, 2015.

Under U.S. trade law (19 U.S.C. 1677), the term "nonmarket economy country" 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." "Nonmarket economy" status is particularly significant for antidumping (AD) and countervailing duty (CVD) cases heard by the U.S. International Trade Administration (ITA) and ITC. In making such a determination, the administrating authority of the executive branch (the Department of Commerce) is to consider such criteria as the extent of state ownership of the means of production, and government control of prices and wages. However, the General Agreement on Tariffs and Trade (GATT), the forerunner of the World Trade Organization (WTO), implicitly defines a "non-market economy" for purposes of trade as "a country which has a complete or substantially complete monopoly of its trade and where all domestic prices are fixed by the State."[51]

For over 20 years, Vietnam has been transitioning from a centrally planned economy to a market economy. Under its *doi moi* policy, Vietnam has allowed the development and growth of private enterprise and competitive market allocation of most goods and services. Although most prices have been deregulated, the Vietnamese government still retains some formal and informal mechanisms to direct or manage the economy.

Vietnam's Economy at a Glance

In 1986, Vietnam started the transformation of its Soviet-style centrally planned economy into a market-oriented economy. Its agricultural sector, which was decollectivized in the 1990s, remains the main source of employment in the country, but provides about 20% of GDP. The industrial sector, which contributes about 40% of GDP, has also undergone a gradual shift from state-owned to privately owned production. Vietnam's industrial output currently is produced by foreign-owned enterprises (about 45% of industrial output), privately owned domestic companies (about 35% of industrial output), and state-owned enterprises (about 20% of industrial output). Vietnam's services sector (about 40% of GDP) has also transitioned from primarily government-run to primarily private providers. Most goods and services are now distributed using market mechanisms, but there remains significant government intervention via subsidies for key industries and selected consumer goods. Vietnam's financial system is still dominated by state-owned banks, but some private banks have emerged.

Vietnam's GDP grew by 6.8% in 2017, fueled by construction and industrial sector growth. Inflation in Vietnam in 2017 was 3.5%. The unemployment rate remained low, but Vietnam continues to have significant underemployment. Vietnam's total exports were $214 billion; imports were $211 billion.

Although the shift in economic policy has led to strong growth, it has also brought many of the traditional problems of market-oriented economies. Vietnam has periodically struggled with inflation, fiscal deficits, trade imbalances, and other cyclical economic phenomena common to market economies. Vietnam has also seen a rising income and wealth disparity, which at times has fueled discontent among Vietnam's poor and lower-income population. Vietnam's economic priorities for 2018 are reforming its state-owned enterprises and maintaining macroeconomic stability.

Source: General Statistics Office of Vietnam.

State-Owned Enterprises

For the United States, one of the main concerns about Vietnam's economy is the continued importance of state-owned enterprises (SOEs) in the nation's industrial sector. In the early 1990s, the number of SOEs in Vietnam declined from more than 12,000 to fewer than 7,000. By 2001, the number of SOEs had reduced to fewer than 5,400, and between 2001 and 2005, more than 40% of the SOEs had been partially privatized. Between 2005 and 2013, the portion of Vietnam's GDP produced by SOEs declined from 37.6% to 28.7%.[52] However, SOEs continue to dominate key sectors of Vietnam's economy, such as mining and energy.

[51] Ad Note to Article VI:1 of the GATT.

[52] Based on data from Vietnam's General Statistics Office. Most recent data available.

Many of Vietnam's SOEs have been converted into quasi-private corporations through a process known as "equitization," in which some shares are sold to the public on Vietnam's stock exchange, but most of the shares remain owned by the Vietnamese government. According to the Vietnam Economic Institute, 530 SOEs have been equitized over the last five years.[53]

Following the 12th National Congress of the Communist Party of Vietnam (CPV) in January 2016 and the introduction of a new government led by Prime Minister Nguyen Xuan Phuc, Vietnam seemingly made plans for the equitization of more SOEs. In February 2017, the government promulgated a directive requesting the Ministry of Finance to enact regulations and procedures to facilitate equitization of SOEs. In May 2017, the government approved a blueprint for SOE restructuring in the 2016-2020 period, under which the government aims to equitize 137 more SOEs by 2020, including many of the larger SOEs. These include Agribank, Mobifone, PV Power, PV Oil, Saigon Jewelry Company (SJC), Saigon Trading Group (Satra), Saigon Tourist Vietnam Multimedia Corporation (VTC), Vietnam Posts and Telecommunications Group (VNPT), Vietnam Rubber Group (VRG), Vinacafe, Vinachem, Vinacomin, Vinafood 2, and Vinataba. The pace of equitization for the first half of 2017, however, was relatively slow, with 19 SOE equitization plans approved.[54]

To some analysts, however, the retention of a controlling interest in the shares of the companies provides the Vietnamese government with the means to continue to manage the operations of the equitized SOEs. According to one Vietnamese economist, although 96% of the remaining SOEs have been equitized, only 8% of the capital has been transferred to private investors, as the share of equity sold has been kept low.[55]

Price and Wage Controls

The *doi moi* process has led to the gradual deregulation of most prices and wages in Vietnam. However, the Vietnamese government maintains controls over key prices, including certain major industrial products (such as cement, coal, electricity, oil, and steel) and basic consumer products (such as meat, rice, and vegetables). On wage control, Vietnamese government workers are paid according to a fixed pay scale, and all workers are subject to a national minimum wage law. Workers for private enterprises, foreign-owned ventures, and SOEs receive wages based largely on market conditions. The Vietnamese government asserts that most of the prices and wages in Vietnam are market-determined, especially the prices of goods exported to the United States.

Vietnam's View

The Vietnamese government maintains that its economy is as much a market economy as many other nations around the world, and actively has sought formal recognition as a market economy from its major trading partners. A number of trading partners—including the Association of Southeast Asian Nations (ASEAN), Australia, India, Japan, and New Zealand—have designated Vietnam a market economy for purposes of international trade. Under the terms of its WTO accession agreement with the United States, Vietnam is to remain a non-market economy for up

[53] "530 SOEs Equitized in the Last Five Years," *Vietnam Net*, December 24, 2017.

[54] "SOE Equitization Remains Tardy," *Vietnam Economic Times*, July 2, 2017. In November 2017, Vietnam auctioned off shares in Vietnam Dairy Products Joint Stock Company (Vinamilk) and in December sold equity in Saigon Alcohol and Beer Beverages Corporation (SABECO).

[55] "Little State Capital Sold in SOE Equitization," *Vietnam Economic Times*, September 11, 2017.

to 12 years after its accession (i.e., 2019) or until it meets U.S. criteria for a "market economy" designation.[56]

Designation as a market economy has both symbolic and practical value for Vietnam. The Vietnamese government views market economy designation as part of the normalization of trade relations with the United States. In addition, Vietnam's designation as a nonmarket economy generally makes it more likely that AD and CVD cases will result in adverse rulings and higher imposed duties against Vietnamese companies.[57] The 115th Congress could consider legislation weighing in on the designation of Vietnam as a market or nonmarket economy by amending or superseding existing U.S. law.

IPR Protection

The U.S. government remains critical of Vietnam's record on intellectual property rights (IPR) protection. Vietnam was included in the "Watch List" in the U.S. Trade Representative's *2017 Special 301 Report*, an annual review of the global state of IPR protection and enforcement.[58] Vietnam remained on the Watch List because of its continuing issues with online piracy and the sales of counterfeit goods. The report states:

> Enforcement continues to be a challenge for Vietnam. Piracy and sales of counterfeit goods online remain common. Unless Vietnam takes stronger enforcement action, online piracy and sales of counterfeit goods are likely to worsen as more Vietnamese people obtain broadband Internet access and smartphones. Counterfeit goods, including counterfeits of high-quality, remain widely available in physical markets, and, while still limited, domestic manufacturing of counterfeit goods is emerging as a concern.

Bilateral Investment Treaty (BIT) Negotiations

During their June 2008 meeting, President Bush and Prime Minister Dung announced the launch of talks to establish a bilateral investment treaty (BIT). BITs are designed to improve the climate for foreign investors by establishing dispute settlement procedures and protecting foreign investors from performance requirements, restrictions on transferring funds, and arbitrary expropriation. The United States currently is a party to 40 BITs; Vietnam has signed over 50.

The first round of BIT negotiations was held in Washington, DC, on December 15-18, 2008. Since then, two more rounds of talks have been held—one on June 1-2, 2009, in Hanoi, and another on November 17-19, 2009, in Washington, DC. A proposed fourth round of talks that was to be held in early 2010 did not happen. According to the State Department, no BIT talks were held after the two nations joined the TPP negotiations, presumably because the TPP agreement would have encompassed those issues that would be addressed in the BIT.

The existing 2001 Bilateral Trade Agreement (BTA) between the United States and Vietnam included provisions in Chapter 4 governing investment and the future negotiation of a BIT.[59]

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[56] Other countries considered non-market economies by the United States include Armenia, Azerbaijan, Belarus, China, Georgia, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan.

[57] Because Vietnam is considered a "non-market economy," the U.S. International Trade Administration uses a "proxy nation" to determine the "market prices" of goods produced by Vietnam in AD or CVD cases. For more about this subject, see CRS In Focus IF10018, *Trade Remedies: Antidumping and Countervailing Duties*, by Vivian C. Jones.

[58] For a copy of the 2017 report, see https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/april/ustr-releases-2017-special-301-report.

[59] For the complete text of the 2001 BTA, go to http://www.usvtc.org/trade/bta/text/.

Specifically, Article 2 commits both nations to providing national and MFN (NTR) treatment to investments. Article 4 provides for a dispute settlement system for bilateral investments. Article 5 requires both nations to ensure that the laws, regulations, and administrative procedures governing investments are promptly published and publicly available. Article 11 pertains to compliance with the provisions of the WTO Agreement on Trade-Related Investment Measures (TRIMs). Article 13 states that both nations "will endeavor to negotiate a bilateral investment treaty in good faith within a reasonable period of time."

If the United States and Vietnam successfully complete the negotiations of a BIT during the 115th Congress, the treaty would be subject to Senate ratification. As of mid-April 2018, BIT negotiations had not resumed. Action on the part of Congress as a whole may be required if the terms of the BIT require changes in U.S. law.

Possible Regional Trade Agreements

Although the United States has withdrawn from the TPP, the remaining 11 nations, including Vietnam, signed a proposed regional trade agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), on March 8, 2018.[60] In addition, Vietnam is among 16 nations negotiating another proposed RTA, the Regional Comprehensive Economic Partnership (RCEP).[61]

If either agreement is implemented, projections of the trade effects of both RTAs show a slight increase in Vietnamese exports to the United States, and a small decrease in U.S. exports to Vietnam, leading to an overall increase in the bilateral trade deficit. According to Vietnam's projections, the CPTTP will increase Vietnam's GDP by 1.32%, its exports by 4.0% and its imports by 3.8%.[62]

Key Trends in Bilateral Trade

The preceding sections of the report have focused on current and past issues in U.S.-Vietnam trade relations. The final section of the report attempts to identify potential sources of future trade friction by examining trends in bilateral trade and investment statistics. The focus is on three aspects of recent trade relations—merchandise trade, trade in services, and foreign direct investment (FDI).

Merchandise Trade

Over two decades have passed since the opening of trade relations between the United States and Vietnam. As previously mentioned, the rapid growth in Vietnam's export of two types of products—clothing and catfish—quickly made them sources of trade tension between the two nations. However, other commodities that contribute more to U.S.-Vietnam trade flows could also become touch points for challenges in bilateral trade relations.

[60] The 11 nations are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. For more about the CPTTP, see CRS Insight IN10822, *TPP Countries Sign New CPTPP Agreement without U.S. Participation*, by Ian F. Fergusson and Brock R. Williams.

[61] The 16 nations are: Australia, Brunei Darussalam, Burma, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam. For more about RCEP, see CRS In Focus IF10342, *What Is the Regional Comprehensive Economic Partnership?*, by Michael F. Martin et al.

[62] "What Does Vietnam Expect from the 'TPP Without the US'?," *Vietnam Net*, November 20, 2017.

Table 4. Top 5 U.S. Exports to Vietnam and Imports from Vietnam

(According to U.S. trade statistics for 2017; U.S. $ millions)

Top 5 U.S. Exports to Vietnam		Top 5 U.S. Imports from Vietnam	
Product	**Value**	**Product**	**Value**
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (HTS85)	2,135	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (HTS85)	10,940
Cotton, including yarns and woven fabrics thereof (HTS52)	1,079	Articles of apparel and clothing accessories, knitted or crocheted (HTS61)	6,759
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof[a] (HTS84)	452	Footwear, gaiters and the like; parts of such articles (HTS64)	5,526
Edible fruits and nuts; peel of citrus fruit or melons (HTS8)	395	Articles of apparel and clothing accessories, not knitted or crocheted (HTS62)	4,706
Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder (HTS12)	375	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated nameplates, and the like; prefabricated buildings (HTS94)	4,692
Total trade	8,164		46,483

Source: U.S. International Trade Commission.

Notes: Products categorized by HTS chapters.

a. Most of these exports consist of machinery, mechanical appliances, and their parts.

According to U.S. trade statistics, the top U.S. imports from Vietnam in 2017, besides clothing, were: electrical machinery; footwear; and furniture and bedding (see **Table 4**). The top U.S. exports to Vietnam included aircraft; electrical machinery; cotton; machinery and mechanical appliances; edible fruit and nuts; and oil seeds. The juxtaposition of these two lists reveals product categories that may warrant watching for their emerging importance in bilateral trade, as well as a connection between some of the top trade commodities. Particularly noticeable in 2017 was the rise of electrical machinery as the leading import from Vietnam; in 2014, it was the third largest import after the two apparel categories. Similarly, footwear rose from being the fourth largest import in 2014 to the third largest import in 2017.

Product Interplay

There is also a discernable interplay between Vietnam's top exports to the United States and the top U.S. exports to Vietnam. Vietnam imports substantial amounts of cotton from the United States, which is then used to manufacture clothing to be exported to the United States. Similarly, Vietnam imports wood from the United States that may end up in the furniture that is imported by the United States from Vietnam. There is also a significant amount of cross-trade in electrical

machinery as parts and components are shipped back and forth across the Pacific Ocean. The implication is that potential efforts to curtail the growth of certain top exports of Vietnam to the United States could result in a decline in U.S. exports to Vietnam.

Electrical Machinery

According to USITC, Vietnam's electrical machinery exports to the United States have grown significantly since 2001, from less than $1 million to just under $1 billion in 2011 and then increasing to more than $8.3 billion in 2015 and $11.0 billion in 2017. Electrical machinery constituted more than 23% of total U.S. imports from Vietnam in 2017. According to interviews with foreign investors in Vietnam, there is great potential for growth in this sector because of Vietnam's relatively inexpensive, skilled workers. Vietnamese economic officials have indicated that expanding the production of higher-valued consumer electronics and other electrical devices is a priority for the nation's transition to a middle-income economy.

Footwear

While most of the focus of bilateral trade discussions has been on the sizeable clothing imports from Vietnam, footwear constituted nearly 12% of total U.S. imports from Vietnam in 2017. Vietnam was the second-largest source of footwear imports for the United States in 2017 (after China), more than three times the size of imports from Indonesia (the next largest source).

Furniture and Bedding

Since 2004, Vietnam has risen from being the 62nd-largest source for furniture and bedding imports for the United States to being the 4th-largest source—surpassing past leaders such as Italy, Malaysia, and Taiwan. Furniture and bedding accounted for 10% of total U.S. imports from Vietnam in 2017.

Trade in Services

The United States has generally run a bilateral trade surplus in services with Vietnam, and perceives a trade advantage in several of the services sectors, especially financial services. According to the U.S. Bureau of Economic Analysis, the United States exported $2.2 billion in services to Vietnam in 2016, and imported $1.2 billion in services.[63] In the U.S. National Trade Estimate (NTE), the Office of the U.S. Trade Representative indicated that as part of the implementation of the 2001 BTA, Vietnam has committed to greater liberalization of a broad array of its services sectors, including financial services, telecommunications, express delivery, distribution services, and certain professions. It is likely that the United States will press Vietnam for more access during any BIT negotiations.

Foreign Direct Investment

In 2016, Vietnam licensed 2,613 foreign direct investment (FDI) projects worth $26.9 billion.[64] The leading source of FDI in 2016 was South Korea, with 849 projects worth $8.0 billion. The United States was the 13th-largest source of FDI in 2016 with 65 projects worth $430 million. The accumulated value of FDI in Vietnam for the period 1989-2016 is $293.7 billion. South Korea

[63] Latest figures are for 2016. See https://www.bea.gov/international/bp_web/tb_download_type_modern.cfm?list=44&RowID=342.

[64] Data from the General Statistics Office of Vietnam; latest available figures.

was the leading investor during this period, followed by Japan and Singapore. The United States was the 9th-largest investor, with 817 projects worth $10.1 billion.

U.S. interest in investment opportunities in Vietnam could have an impact on possible BIT negotiations. In addition, as more U.S. companies invest in Vietnam, there is the possibility of more business-to-business disagreements between U.S. and Vietnamese companies, and more constituent pressure on Congress to address perceived shortcomings in Vietnam's treatment of foreign-owned enterprises.

Looking Ahead

Prospects for U.S-Vietnam trade relations for 2018 and beyond will depend on various factors, including the growth in bilateral merchandise trade and the potential resolution of Vietnam's challenge of U.S. catfish regulations. According to the USITC, U.S. imports from Vietnam were up 5.2% year-on-year for the first two months of 2018, while U.S. exports to Vietnam were down 2.4%, possibly indicating that the U.S. bilateral merchandise trade deficit with Vietnam will continue to grow.

On April 29, 2017, President Trump issued Executive Order 13796, "Addressing Trade Agreement Violations and Abuses," which, among other things, requires the Secretary of Commerce, and the U.S. Trade Representative to "conduct comprehensive performance reviews" of "all trade relations with countries governed by the rules of the World Trade Organization with which the United States does not have free trade agreements but with which the United States runs significant trade deficits in goods." Vietnam is one such country.

The Agriculture and Nutrition Act of 2018 (H.R. 2, so called "2018 Farm Bill") was introduced in the House on April 12, 2018, and includes no provisions with regards to the catfish inspection program. On March 19, 2018, Senator John McCain and Senator Jeanne Shaheen, in a letter to U.S. Trade Representative Robert Lighthizer, asked the Trump Administration to terminate the catfish inspection program before the WTO consultation ended.[65] In the letter, the two Senators assert, "Since its implementation, the USDA Catfish Inspection Program has done nothing more than erect a damaging trade barrier against Asian catfish imports to protect a handful of domestic catfish farmers in Southern states."[66] It remains uncertain if a Senate version of the 2018 Farm Bill will address this issue.

[65] "Citing Vietnam WTO Case, Sens. McCain and Shaheen Urge 'repeal' of Catfish Inspection Program," *World Trade Online*, March 20, 2018.

[66] Letter from Senator John McCain and Senator Jeanne Shaheen to Robert Lighthizer, U.S. Trade Representative, March 19, 2018.

Appendix. Bilateral Merchandise Trade Data

The table below provides the official merchandise trade data for the United States and Vietnam.

Table A-1. Growth in Bilateral Merchandise Trade Between United States and Vietnam

(in millions of U.S. dollars)

	U.S. Data			Vietnamese Data		
Year	Exports to Vietnam	Imports from Vietnam	Trade Balance	Exports to United States	Imports from United States	Trade Balance
1995	253	199	54	170	130	40
1996	616	319	297	204	246	-42
1997	278	388	110	287	252	35
1998	274	553	-279	469	325	144
1999	291	609	-318	504	323	181
2000	368	822	-454	733	363	370
2001	461	1,053	-592	1,065	411	654
2002	580	2,395	-1,815	2,453	458	1,995
2003	1,324	4,555	-3,231	3,939	1,143	2,796
2004	1,163	5,276	-4,113	5,025	1,134	3,891
2005	1,192	6,630	-5,438	5,924	863	5,061
2006	1,100	8,566	-7,466	7,845	987	6,858
2007	1,903	10,633	-8,730	10,105	1,701	8,404
2008	2,790	12,901	-10,111	11,869	2,635	9,234
2009	3,108	12,290	-9,182	11,356	3,009	8,347
2010	3,710	14,868	-11,162	14,238	3,767	10,471
2011	4,341	17,485	-13,173	16,928	4,529	12,399
2012	4,623	20,266	-15,645	19,668	4,827	14,841
2013	5,013	24,649	-19,614	23,869	5,232	18,637
2014	5,725	30,584	-24,883	28,656	6,284	22,372
2015	7,072	37,993	-30,932	33,480	7,800	25,680
2016	10,151	42,109	-31,958	38,464	8,708	29,756
2017	8,164	46,483	-38,319	41,610	9,200	32,410

Source: U.S. data from International Trade Commission (ITC); Vietnamese data from General Statistics Office (GSO) of Vietnam and Vietnam Customs.

Notes: U.S. data valued at F.A.S. and customs value; Vietnam data valued at F.O.B. and C.I.F.

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