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Background Briefing:

United States Strips Vietnam of Developing Country Status

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On 10 February the Office of the United States Trade Representative lowered the threshold for triggering an investigation into whether nations are harming U.S. industries with unfairly subsidised exports. Following this decision, the Trump Administration eliminated its special preferences for a list of self-declared developing economies that includes Brazil, China, South Korea, Singapore, Thailand, Malaysia and Vietnam.

The U.S. Trade Representative's decision will affect US - Vietnam trade relations as well as Vietnam's export industry in general.

We request your assessment of the following five issues:

Q1: The Trump administration has been criticizing World Trade Organization (WTO) and the "developing countries rules" for a long time. But why did USTR start doing this at this time?

ANSWER: On 26 July last year, President Trump issued an Executive Memo entitled, "Reforming Developing-Country Status in the World Trade Organisation." This memo directed the Office of the United States Trade Representative (USTR) to "no longer treat as a developing country for the purposes of the WTO any WTO Member that in the USTR's judgment is improperly declaring itself a developing country."

The USTR was directed to determine whether or not there had been "substantial progress" by the World Trade Organisation to limit the number of states considered developing countries. If no "substantial progress" was made in ninety days, President Trump declared that the United States would act unilaterally.

The result was that the USTR reviewed its lists of least-developing and developing countries and updated the criteria for classification. In other words, the USTR's 10 February Notice in the *Federal Register* was the outcome of a bureaucratic review initiated by Trump's Executive Memo.

Q2: What does it mean for countries who "lost" their developing status in this case?

ANSWER: Countries, like Vietnam, who were taken off the developing countries list will no longer receive preferential treatment. Also, they will be subject to a lower threshold for triggering a U.S. Countervailing Duties investigation into whether their exports are unfairly subsidized by the state and harm U.S. industries.

Q3: Considering the importance of export to the economy of those countries, who will be affected the most? And what about the situation in Vietnam, which is now the US' third largest trade partner?

ANSWER: China, South Korea, India, and Brazil will be hurt the most because of their volume of their world trade. They rank first, sixth, ninth and twelfth, respectively, on the ladder of the United States' top fifteen trade partners.

Hong Kong and South Africa will also be affected. Brazil, Singapore and South Korea individually agreed to relinquish their developing country status in future trade negotiations with the U.S.

Vietnam (16th largest US trade partner) joins Malaysia (17th), Singapore (18th), Thailand (21st) and Indonesia (27th) in losing its developing country status because each has at least a 0.5% share of global trade. Their exports to the U.S. will be more expensive because of the elimination of preferential tariffs.

Q4: Does the move have anything to do with the current US - China trade frictions, and which ways do it affect the US - China negotiations (a potential phase 2, for example)?

ANSWER: The U.S.-China tariff war and the redesignation of countries by the USTR as least developed and developing are related only in the sense that Donald Trump believes the United States has been taken advantage of by its trade partners. In Trump's view China and India have benefitted unfairly by the World Trade Organisation (WTO) that considers them developing countries. China is also accused of theft of American intellectual property.

The USTR's removal of China from its list of developing countries will impact marginally on phase two of U.S.-China trade negotiations because China is still subject to unilateral tariffs imposed by President Trump. Also, the United States will not recognize China's status as a developing country by the WTO in future trade negotiations.

Q5: The US would hurt Vietnam, Malaysia and Thailand's economies. How does such move affect the US' calculations over Washington's diplomatic and security relations in the region, especially when the foreign ministers are set to meet in Washington next month?

ANSWER: Since 2017, ASEAN leaders clearly understood that Trump would pursue a policy of "free and reciprocal trade" bilaterally and not through multilateral arrangements such as the Trans-Pacific Partnership. President Trump did not consult Southeast Asian countries after he imposed tariffs on Chinese goods. And Trump did not notify the affected countries that they would be taken off the list of developing countries. Malaysia, Thailand and Vietnam will have to negotiate bilaterally with the United States to secure their interests.

Trump's actions will only reinforce negative views of the United States held by regional elites. In late 2019, the ASEAN Studies Centre at the Yusof Ishak Institute of Southeast Asian Studies in Singapore conducted a survey of 1,308 Southeast Asian elites of whom 11.6% were Vietnamese.

When asked who was the most influential economic power in Southeast Asia, 79% of Southeast Asia's respondents said China, while only 8% chose the United States. This was a rise of nearly six percent from the previous year.

When asked to identify which country championed free trade, 27.6% picked Japan, the U.S. came fourth at 14.5% after the EU and China.

When asked to assess U.S. engagement in the region, 36.4% said it had decreased significantly and 40% said it had decreased while only 9.9% thought it had increased or increased significantly.

When asked is the US reliable strategic partner, only 35% has some or full confidence in the U.S, while 47% had little or no confidence in the U.S.

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