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Why Vietnam Looks Like the Next Target of Trump's Tariffs

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Is it Vietnam's turn in Donald Trump's barrel? In a rambling interview last week with Fox News, Trump unexpectedly blasted Vietnam, a growing American partner in Southeast Asia and the host of Trump's highly anticipated but ultimately failed summit with North Korean leader Kim Jong Un in February. Vietnam is "almost the single worst abuser of everybody," Trump declared in response to a question about imposing tariffs on the country, adding that "a lot of companies are moving to Vietnam, but Vietnam takes advantage of us even worse than China."

It was a moment that Vietnamese officials have been dreading ever since President Trump took office. Within hours of his inauguration in January 2017, Trump took the U.S. out of the Trans-Pacific Partnership, or TPP, the centerpiece of President Barack Obama's trade policy. It would have bound the U.S., Vietnam, and ten other Pacific Rim countries in the world's boldest free trade deal, a pact covering a third of world trade in goods and services and setting high standards for working conditions, environmental stewardship and protection of intellectual property.

The TPP's negotiation was a coming-out of sorts for Vietnam. Hanoi had seized an opportunity to advance, under the patronage of the U.S. and its allies in Asia, toward an elite level in the world trading system. Trump's nixing the deal was just the first of many moves for a White House that views foreign and especially trade policy as simply a matter of, "What's in it for us?" Trump has fixated in particular on countries with large trade imbalances with the United States. Given Vietnam's large and growing trade surplus—$42 billion in exports to the U.S. and $10 billion in imports in 2016—the clock was ticking.

In May 2017, Prime Minister Nguyen Xuan Phuc visited Washington and pledged big purchases of American products to placate Trump. In subsequent months, he and other senior leaders of Vietnam's ruling Communist Party reminded the U.S. at every opportunity of Vietnam's value as a foil to China. Hanoi's leaders bent over backwards to ingratiate themselves as useful friends, to the extent of biting their tongues as Trump and his surrogates held up Vietnam as a shining example of what North Korea could become if Pyongyang would only give up its nuclear dreams.

What Vietnamese officials couldn't do was prevent the bilateral trade imbalance from swelling further. One thing they could have done, perhaps, but haven't, was to deter Chinese companies from rebranding billions of dollars' worth of Chinese-origin goods as "made in Vietnam."

The rebranding phenomenon, what U.S. trade officials call "transshipment," isn't new. Almost as soon as Chinese exports bumped up against quotas in Europe and the U.S. a dozen years ago, Chinese firms sought out, or set up, Vietnamese companies to put the finishing touches on garments and footwear imported from China and then send it on to so many Walmarts and

Euromarchés.

In 2015, when the Obama administration imposed anti-dumping charges on Chinese makers of cold-rolled steel, Vietnam allowed those Chinese manufacturers to very slightly transform their products in Vietnamese mills and then re-export it to the U.S. Washington was slow to react, but in May 2018, the Trump administration slammed the door shut, imposing heavy countervailing duties on these allegedly Vietnamese products. Hanoi hardly bothered to protest.

Then, in July 2018, the Trump administration's decision to impose 25 percent tariffs on some $200 billion of Chinese goods generated a new wave of rebranding scams. Within weeks, Chinese goods were being rerouted to neighboring countries with well-developed port infrastructure, pliant customs officials and an already large palette of manufactured exports to the U.S.—that meant Vietnam most of all. Sometimes with nothing more than a change of labels, goods were then transshipped to U.S. ports.

Take solar panels, for example. Since 2012, Washington has tried hard to keep a few U.S. solar panel producers afloat by slapping anti-dumping duties on their allegedly subsidized, technology-copying Chinese competitors. With the first round of Trump tariffs in mid-2018 adding to already heavy countervailing duties, Chinese solar cells and panels were no longer viable in the American market. Meanwhile, according to Chinese Chamber of Commerce data, in the first quarter of 2019, solar panel exports from China to Vietnam jumped to $739 million from near zero a year earlier.

It was clear, reported the Hong Kong-based South China Morning Post, "that Chinese companies are using Vietnam as a tariff workaround: selling their parts to companies in Vietnam for finishing and assembling, significantly altering the goods so that they meet country of origin standards, then exporting to the U.S. market and the end consumer."

In 2018, according to American customs data, the U.S. imported $49.2 billion of Vietnamese goods and services while exporting to Vietnam a mere $9.7 billion-worth. Data from the first months of 2019 show Vietnam's exports surging further in all the categories covered by the U.S. tariffs. That's a big bump in bilateral trade, but not a really huge distortion in a multilateral trading world. The U.S. typically sells a lot less stuff to developing countries than it imports from them. And ironically, Vietnam already has all it needs to do very well in global trade without switching the labels on Chinese goods, and thereby setting itself up for punishment from the U.S. and perhaps other trading partners. It has a relatively young, low-wage workforce and imposes few burdens on foreign investors. It is part of a comprehensive trade agreement with all the nations that negotiated the TPP, but now minus the U.S.; and, as of June 30, it has a free trade deal with the European Union. It's the current darling of high-tech multinational firms looking for places other than China to build their products.

Vietnam is well aware that there is a chronic transshipment problem. National newspapers have reported that Vietnam's Customs Agency is scrambling to police dubious certificates of origin on exports. The Vietnamese media might say a lot more, if the state censor would allow them. They'd likely speculate that Hanoi has allowed Chinese firms to dodge American tariffs as a concession to its powerful neighbor.

Transshipment is the sort of shady practice that Hanoi needs to stop in order to gain a secure place in the world-trading club. Vietnam earns a lot of ill will and almost no profit when Chinese or other foreign goods pass through its factories and ports just to get a new label. Although the Trump administration may have tunnel vision on most trade matters, on transshipment it is right. As long as Vietnam accommodates Chinese ploys to evade U.S. trade restrictions, it doesn't have a chance of getting U.S. recognition that it has become a "market economy," a status that would accord it substantial protection against American anti-dumping and countervailing duties.

Trump's trade quarrels with Vietnam are still an inconsequential sideshow to a possibly catastrophic American showdown with China. It is obviously in Vietnam's interest to keep them that way by shutting down the transshipment dodge. Fortunately for Vietnam, there's a simple solution that would strengthen its own economy. It can slap a healthy export tax on any goods that do not embody, say, 5 percent value-added in Vietnam. Alternatively, it could simply ban the export of such goods.

Every fast-industrializing Asian nation has been at first indulged by the U.S. and other major Western trading partners and then, as its market power became formidable, pressed to play by the rules of international trade. Japan, Taiwan, South Korea, Singapore and Taiwan all cleared that hurdle years ago, none without considerable turmoil. Vietnam is still on probation, and must find the self-discipline to prioritize its larger interests.

David Brown is a freelance writer on contemporary Vietnam's political and economic life, international relations, media culture and environmental challenges. Brown's commentary frequently appears in Asia Sentinel, East Asia Forum and other publications of regional scope. He has also been published by Foreign Affairs, Yale Global and the Brookings Institution. His reportage also appears in translation on Vietnam's leading political affairs blog, Anh Ba Sam.