

# The Next Battleground in Trump's Trade War: Vietnam

**Vietnam is likely the Trump administration's next trade target. But the calculus differs in key ways from China.**

By Alexander Hitch

While escalating trade tensions between the United States and China have commanded attention, an emerging player in global trade has quietly reaped the benefits, becoming an alternative for companies looking to diversify their supply chains and hedge against rising political uncertainty.

Vietnam, one of the world's fastest growing economies, has opened its markets in recent years, joining the CPTPP trade pact, landing companies and supplier networks decamping from China, and recently inking a free trade agreement with the European Union.

One result of this success: Vietnam's trade surplus in goods with the United States has soared from \$31.98 billion in 2016 to \$39.49 billion in 2018, and is up 39 percent through June of this year. The Trump administration has taken notice, launching fusillades about how Vietnam is "even worse than China" and must work to reduce the "unsustainable trade deficit."

With the Trump administration and trade balances, what's past is likely prologue: **Tariffs on Vietnam are coming. But there are two problems with this course of action.** First, a trade deficit remains a bad way to assess a trading relationship. Second, applied to Vietnam, tariffs risk key security goals of the administration vis-à-vis China.

On the trade balance, while Vietnam has become a labor-intensive manufacturer of choice, a large reason for the recent growth of the trade deficit is likely transshipment of goods from China via Vietnam.

Transshipment fraud – the process of relabeling or making minimal modifications to goods in a third country to avoid tariffs – has concerned U.S. policymakers regarding Chinese-made goods for years. Data on transshipment is spotty, but evidence suggests that firms looking to avoid U.S. tariffs are using Vietnam as a staging area as the U.S.-China trade war intensifies. Because transshipment issues have now become entangled in the dispute between the world's two largest economies, **Vietnam could be caught in the crossfire.**

**Other forces are in play, however. A growing bipartisan consensus in Washington holds that an unchecked China poses a major security threat, and strong U.S.-Vietnam relations are seen as increasingly important in balancing Chinese influence in the region.**

To that end, Vietnam was included in the forming of the U.S.-spearheaded Trans-Pacific Partnership trade agreement (now CPTPP without the United States) to cement political and economic partnerships with countries in the region. Just in 2016, the United States ended its arms embargo on Vietnam and recently provided patrol boats to the Vietnamese coast guard. For its part, Vietnam is wary of its northern neighbor's influence in the South China Sea, and has developed security ties with regional powers such as India and Japan.

Vietnam may not be the perfect partner, of course. It is a single-party state that curtails dissent and manages a controlled economy with state-owned enterprises similar to those that trouble U.S. policymakers about China.

The Trump administration is also unlikely to spare a country even more at arm's length than U.S. security allies such as Japan and South Korea, which have already been placed in the administration's trade crosshairs for dubious national security reasons.

All the same, trying to fix the trade balance through tariffs will only alienate a key player in a region where the United States hopes to maintain its influence.

Instead, the Trump administration should work constructively with Vietnam to curb transshipment and in the process strengthen the security relationship. This could be done by engaging with the Vietnamese government on regional trade and development policy, while also providing an opportunity to discuss common concerns regarding China. Such an approach would reduce President Trump's erroneous focus on the trade deficit and potentially bring Vietnam closer to the U.S. orbit.

But with the announcement to place tariffs on the remainder of Chinese imports to the United States, few will likely hold their breath that Vietnam will be spared.

#### **The Author**

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