

Vietnam Goes From Trade War Winner to Trump Target

By John Boudreau and Mai Ngoc Chau

- Vietnam had a \$40 billion trade surplus with U.S. in 2018
- It's seeking out new trade deals to offset U.S. dependence

Americans are buying solar panels from Vietnam like never before, but local manufacturer IREX Energy JSC isn't celebrating.

After U.S. President Donald Trump slapped higher tariffs on China, production in neighboring Vietnam went into overdrive. Chinese manufacturers, who face a 55% U.S. tariff on their goods, relocated some production to Vietnam, while local businesses saw a jump in orders. In June alone, U.S. imports of solar cells from Vietnam surged 656% from a year ago.

That trade boom in everything from Ikea furniture to Nike Inc. shoes is now prompting more scrutiny from the U.S. and making businesses like IREX concerned.

"We are worried that the U.S. may raise tariffs on our solar panels," Pham Thi Thu Trang, the company's chief operating officer, said from Ho Chi Minh City. "Though the U.S market is huge, it is a complicated market when it comes to its politics."



Communist Party-led Vietnam has steadily opened up to foreign investors over the years to become a manufacturing hub in the region, with household names like Samsung Electronics Co., Intel Corp. and Nestle SA setting up factories there. It's that trade openness, as well as its low-cost labor and proximity to China, that's helped Vietnam successfully navigate growing global protectionism as companies seek out refuges from the trade war.

It's very quickly climbed the ranks to become a significant U.S. trade partner. Vietnam's annual trade surplus with the U.S. has exceeded \$20 billion since 2014 and reached \$40 billion last year, the highest in records going back to 1990, according to U.S. Census Bureau data. For the first five months of the year, the surplus is already 43% higher than a year ago at \$21.6 billion.

The Trump administration is now pressuring the nation of 97 million people to slash its trade surplus, threatening one of the world's fastest-growing economies.



Trouble began in May, when the U.S. Treasury added Vietnam to a watchlist of countries being monitored for possible currency manipulation. Then, in response to U.S. pressure, Vietnam announced a crackdown on Chinese exporters rerouting products through the Southeast Asian nation with fake Made-in-Vietnam labels to bypass Trump's tariffs.

Trump described Vietnam last month as "almost the single-worst abuser of everybody" when asked if he wanted to impose tariffs on the nation. And just last week, the U.S. slapped duties of more than 400% on steel imports from Vietnam which originated in South Korea and Taiwan.

Vietnam officials have been left reeling. The government says it's committed to buying more U.S. goods, from Boeing Co. jets to energy products to help narrow its trade surplus with the world's largest economy. Prime Minister Nguyen Xuan Phuc last week told officials to monitor U.S. reactions to the nation's monetary policy more closely.

“They are very nervous and confused. They don’t know what Trump’s next move will be,” said Alexander Vuving, a professor at the Daniel K. Inouye Asia-Pacific Center for Security Studies in Hawaii.

Vietnam has not been adept at responding to charges against its trading practices in Washington, where a cadre of lawyers are needed to quickly engage the government, said Nestor Scherbey, a licensed U.S. customs broker and consultant based in Ho Chi Minh City. “It’s like being charged in court and not showing up.”

Cheap Labor

Capital Economics Ltd. estimates that if Trump levied a 25% tariff on imports from Vietnam as he did with Chinese goods, Hanoi would see a 25% drop in export revenue, equivalent to more than 1% of the nation’s gross domestic product. That would erase the estimated 0.5 percentage-point gain it has had over the past year as a beneficiary of the trade war.

Even before the trade tensions, Vietnam was benefiting from businesses looking for low-cost alternatives to China as wages there grew. That trend will likely continue, which should help to sustain Vietnam’s economic trajectory, according to Adam McCarty, chief economist with Mekong Economics in Hanoi.

“It’s not going to stop the underlying economic motivation to move basic factory work from China to Vietnam,” he said. “China is getting too expensive.”

Vietnam’s leaders have also long worked to buffer the country from trade shocks by hedging its reliance on any single market, including the U.S., the nation’s largest export destination.

Vietnam has inked more than a dozen free trade agreements such as the just-signed deal with the European Union that will eliminate 99% of customs duties, and the revamped Trans-Pacific Partnership, which eventually provides duty-free access to markets such as Canada and Japan for many products.

“Vietnam’s foreign policy for decades has been the opposite of what Groucho Marx said: he’d never want to join a club that would have him,” McCarty said. “The Vietnamese approach is to join every trade and investment club they possibly can.”

For manufacturers like IREX, Trump’s recent action means they can’t sit back either.

“Our sales department is looking for new markets, so if the U.S. increases Vietnam tariffs it won’t impact IREX’s business much,” said Trang, the company’s COO.