Statement of the U.S. Chamber of Commerce

ON: “Section 301 Investigation on Vietnam's Acts, Policies, and Practices Related to Currency Valuation”

TO: Office of the U.S. Trade Representative

BY: U.S. Chamber of Commerce

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The Chamber’s mission is to advance human progress through an economic, political, and social system based on individual freedom, incentive, initiative, opportunity, and responsibility.

The U.S. Chamber of Commerce ("Chamber") appreciates the opportunity to present the following comments to the Office of the U.S. Trade Representative ("USTR") on its Section 301 investigation into "Vietnam's Acts, Policies, and Practices Related to Currency Valuation" pursuant to Federal Register Notice USTR 2020-0037. The Chamber has four primary concerns about the investigation and the implied proposal to impose tariffs on imported goods from Vietnam in connection with the alleged undervaluation of its currency, which we detail below.

First, the United States government did not designate Vietnam as a currency manipulator or conclude that its currency is undervalued in its latest statutorily-required report on these issues. The Treasury Department in January 2020 issued its most recent report entitled "Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States" which included Vietnam on its monitoring list of major trading partners that merit attention to their currency practices and macroeconomic policies. In that report, the Treasury determined that neither Vietnam nor any other major trading partner met all three criteria that "provide insight into possibly unfair currency practices," or what is commonly referred to as currency manipulation. To summarize, those criteria are (1) a significant bilateral trade surplus with the United States of at least $20 billion over 12 months, (2) a current account surplus of at least 2% of GDP, and (3) persistent, one-sided intervention in foreign exchange markets with net purchases of foreign currency totaling at least 2% of GDP over 12 months. Furthermore, of the ten countries indicated for additional monitoring in the report, Vietnam hardly stood out: It met just one of the statutory criteria (the first).

Absent such a designation by the Treasury, the present Section 301 investigation is putting the cart before the horse. The Treasury's recent engagement with the Department of Commerce on a countervailing duty case relating to passenger vehicle and light truck tire imports from Vietnam is an insufficient substitute for a full analysis by the Treasury published in its regular, statutorily-required reports.

Second, even if the Treasury were to make such a designation, the absence of any agreed methodology for measuring with any degree of precision the undervaluation or overvaluation of currencies casts uncertainty on the course of the investigation and the possibly application of tariffs. Even the International Monetary Fund employs no single model to estimate equilibrium exchange rates, which might serve as a basis against which currencies' valuation could be measured. Estimates of whether a given currency is "properly" valued in exchange rate markets are notoriously subjective. Further, gauging whether a currency is under- or overvalued against a basket of currencies is one matter; translating any such finding into a conclusion about bilateral exchange rates is an even more subjective undertaking.

The United States has found itself with its shoe on the other foot on these matters in the recent past in ways that raise the possibility of unforeseen negative consequences for the United States in the future. In the wake of the 2008-2009 global financial crisis, the U.S. Federal Reserve engaged in "quantitative easing" that had the unintended effect of causing the dollar to depreciate against other major currencies. These entirely appropriate monetary policy actions were implemented in pursuit of economic policy goals that were overwhelmingly domestic in nature, but a number of foreign governments objected and characterized U.S. actions as "currency manipulation." It is not far-fetched to consider that, if the United States proceeds down the path of applying Section 301 tariffs against goods from a country whose currency the United

States unilaterally deems undervalued, current or future Federal Reserve actions could lead to foreign tariffs being applied to U.S. exports.

Third, the motivation to initiate a Section 301 investigation appears to be primarily due to a rising U.S. bilateral trade deficit with Vietnam. While there is an overwhelming consensus among economists that a bilateral trade balance with any given country is the wrong yardstick for gauging the possible benefits of that trade relationship, Trump administration officials have often described bilateral merchandise trade deficits as a matter of concern.

However, it is widely acknowledged that the growth in this particular bilateral trade deficit is to a large degree the direct result of the U.S. imposition of Section 301 tariffs on more than $350 billion of goods imports from China due to Chinese practices relating to innovation, intellectual property, and technology transfer. Indeed, many companies have shifted supply chains from China to other countries, including Vietnam, in response to those tariffs on imports from China. Threatening to impose tariffs on imports from Vietnam now creates additional uncertainty for manufacturing businesses—at a time when supply chains around the globe are stretched thin—weakening the global competitiveness of U.S. firms and threatening American jobs. Further, this new Section 301 investigation, with the inherent possibility that the United States will impose tariffs on goods from Vietnam, is at odds with the oft-stated goal of the Trump administration to favor diversification of supply chains in the Asia-Pacific in a manner favoring countries such as Vietnam rather than China.

The United States is currently working with Vietnam and other partners in the Indo-Pacific region to enhance trade ties and mitigate supply chain risks. To illustrate, the U.S. Secretaries of State, Commerce, and Energy and officials from other U.S. agencies co-hosted the third annual Indo-Pacific Business Forum in Hanoi, Vietnam, on October 28-29 to advance this objective. (The U.S. Chamber of Commerce was pleased to partner with the administration in organizing this event.) The Forum was designed to advance "U.S.-Indo-Pacific partnerships and commercial opportunities… [and] showcase[d] high-impact private sector investment and government efforts to support market competition, job growth, and high-standard development for greater prosperity in the Indo-Pacific," according to a press release from the State Department. The implied threat of Section 301 tariffs—issued with little or no advance consultation with Vietnamese officials—is in conflict with strategic goals frequently touted by senior administration officials, including in connection with the aforementioned Forum.

Fourth and finally, by initiating a Section 301 investigation focusing on currency, the administration risks taking its eye off the principal challenges in the U.S.-Vietnam commercial relationship. As noted above, Vietnam is a valuable partner, and the commercial and geostrategic value of fostering this relationship are potentially high. However, U.S. businesses continue to compete against European, Chinese, and other Asian businesses for export deals in Vietnam's booming market, and a bilateral tariff war would diminish U.S. exports' ability to compete for those contracts and raise the significant risk of Vietnamese retaliation against U.S. products (similar to what happened in the Section 301 tariffs against China). Moreover, while the United States and Vietnam have successfully resolved numerous bilateral irritants in recent years, the U.S. business community has identified a number of remaining problematic policies in Vietnam affecting U.S. exports, including the Law on Cybersecurity, Decree 72, Decree 6, and many others. By diverting attention to currency matters, attention on these important issues will inevitably be reduced. To be clear, the Chamber is not urging the administration to apply Section

301 tariffs on Vietnam as a way to address these concerns; direct engagement and diplomacy is indicated at present. Nonetheless, the Chamber would prefer the administration focus its trade engagement with Vietnam more specifically on these issues.

Thank you for considering our views. Please do not hesitate to reach out with any questions you may have.

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