Opinion: Vietnam is copying China's aggressive currency playbook

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Americans are well aware of the simmering tensions between the United States and China. For years, Beijing has used a host of predatory trade practices to undercut U.S. manufacturers.

But just when the United States is finally confronting Beijing for its trade cheating, a new challenge is emerging in the global arena. Vietnam has suddenly and swiftly moved to the fore as an aggressive competitor. And Vietnam appears to have stolen a page directly from China's playbook — and is now working to outcompete U.S. manufacturers and agricultural producers by violating global trade rules.

Vietnam has done something very opportunistic. It's following the example set by China back in 1994 — and deliberately undervaluing its currency to make exports cheaper in the U.S. market.

Currency manipulation is a violation of International Monetary Fund (IMF) rules. But that never troubled Beijing — since currency undervaluation successfully boosted China's trade surplus with the United States. Now, Vietnam is using the same tactics to enjoy a similar windfall.

A look at America’s trade deficit with Vietnam demonstrates just how profitable this currency manipulation can be. From 2009 to 2019, America’s annual goods trade deficit with Vietnam soared from $9.2 billion to $55.8 billion. In fact, the 2019 U.S. goods deficit with Vietnam rose by a staggering 44% from 2018. And it’s on track to finish 2020 by reaching at least $65 billion.

This is a stunning jump for a country that once offered little more than sporadic textile and apparel exports.

In response, U.S. Trade Representative (USTR) Robert Lighthizer recently announced a Section 301 trade case to determine whether Vietnam’s currency, the dong, is deliberately undervalued. Bringing such a trade case would be the first step in taking formal action against Vietnam.

There’s little doubt the Vietnamese dong is being artificially devalued. In 2019, the IMF estimated the dong to be 15% undervalued. This is now a clear challenge for U.S. manufacturers.

The USTR's office estimates that every $1 billion of the U.S. trade deficit costs 6,000 domestic jobs. That means a $70 billion annual goods deficit with Vietnam in 2020 could end up costing America 420,000 jobs.

Lighthizer has already suggested that Vietnam’s currency moves are adversely impacting U.S. manufacturers and agricultural producers. And since the dong is undervalued by roughly 15%, the U.S. response should be clear — impose tariffs, both to send a message that trade cheating is unacceptable, and to start leveling the playing field.

With the COVID-19 pandemic still hammering the U.S. economy, there’s little margin left to allow such predatory trade — particularly when America’s manufacturers already play by the rules of global commerce. Domestic companies should not be forced to compete with exporters backed by the full weight of the State Bank of Vietnam. It makes little sense to encourage such behavior, particularly when Vietnam’s government exercises tight control over its national economy while also restraining wages.

The USTR should swiftly complete its trade case against Vietnam. And after finding clear evidence of currency manipulation, it should recommend tariffs on Vietnamese imports. Doing so would begin to counter the ongoing undervaluation of the dong.

America’s growing trade deficit with Vietnam poses a real challenge for the U.S. economy, and places an unfair burden on the nation’s manufacturers and agricultural producers. Action is needed, particularly at a time of hardship during the coronavirus pandemic.