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Vietnam, with larger trade surplus than Japan, draws US ire

Currency manipulator label likely to hamper 'China plus one' strategy

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HANOI -- Washington's decision to designate Vietnam as a currency manipulator was triggered by the Southeast Asian country's rapidly expanding trade surplus against the U.S.

Vietnam's surplus has grown to $58 billion in the past 12 months leading up to June, ranking Hanoi fourth among American trade partners and surpassing Japan's $57 billion. In the first 10 months of this year, Vietnam ranks in the top three, trailing only China and Mexico.

The currency manipulator label, applied by the U.S. Treasury Department on Wednesday, likely will impact Vietnam's national strategy of attaining economic development by luring foreign direct investment.

The designation is based on the size of a country's trade surplus with the U.S., the level of its current-account surplus and whether the nation has repeatedly intervened in the currency market. Vietnam met all three criteria.

In its semiannual report submitted to Congress, the Treasury accused Vietnam of devaluing its currency for "purposes of preventing effective balance of payments adjustments and gaining unfair competitive advantage in international trade."

The U.S. has applied pressure on Vietnam over the past few years. In 2018 and 2019, Washington slapped punitive tariffs on Vietnamese-made steel products.

President Donald Trump has called Vietnam the "single worst abuser of everybody."

"A lot of companies are moving to Vietnam, but Vietnam takes advantage of us even worse than China. So there's a very interesting situation going on there," he said in an interview with Fox Business Network, ahead of the Group of 20 summit in Osaka in June 2019.

Vietnam has become a poster child for the "China plus one" business strategy in which many companies have diversified production away from Chinese soil. Vietnam's expansive workforce helped draw a record $38 billion in approved foreign direct investment last year, up 7.2% from 2018 and an 80% leap from a decade earlier.

In 2019, Samsung Electronics relocated all of its smartphone production in China to Vietnam. The South Korean tech giant accounts for one-quarter of Vietnam's total exports by value.

Other Asian giants with plants in Vietnam include, Canon, Toyota Motor, Honda Motor, Panasonic, LG Electronics, Hyundai Motor, TCL Technology and Foxconn Technology.

The coronavirus pandemic also served to lift Vietnam's exports to the U.S. Vietnam quickly contained the first wave of infections, which proved key in helping companies avoid major obstructions to manufacturing activities. Manufacturers in surrounding countries experienced interruptions in the supply chain, prompting them to move part of their production capacity to Vietnam.

The weak dong, Vietnam's currency, has been a another major factor in luring foreign companies. Over the past decade, the dong has depreciated 16% against the dollar, giving it an export advantage.

When measured by the real effective exchange rate, which takes into account trade flows and home country price levels, it has risen 23% over the same period.

The Treasury report on Wednesday noted that the dong was 8.4% undervalued on a real effective basis in 2018, citing estimates from the International Monetary Fund.

"Vietnam intervened largely in one direction in 2019 and the outset of 2020, purchasing large amounts of foreign exchange reserves during a period of ample global liquidity, while net purchases then declined notably as global financial conditions tightened amid the COVID-19 pandemic," the Treasury wrote. "Throughout this period and amid drastically changing global conditions, the authorities allowed almost no movement of the dong against the U.S. dollar."

The State Bank of Vietnam, the central bank, responded Thursday by saying the country's management of the exchange rate contributed to stabilizing the macroeconomy. The bank also said it has lower foreign currency reserves than do surrounding countries.

Vietnam likely will attempt to avoid sanctions by engaging with the U.S. at the negotiating table.

"Even if they are able to escape sanctions, the U.S. pressure on Vietnam regarding trade will continue," said Koji Sako, a senior analyst at Mizuho Research Institute.

The tensions between Washington and Hanoi amid the transition to President-elect Joe Biden's White House could impact Southeast Asia and the surrounding region. Vietnam is a key partner in the American campaign to counter China's expansionist activities in the South China Sea.

China is Vietnam's largest trading partner. Hanoi has worked to combat that dependency by coaxing Japanese and South Korean companies to set up shop in Vietnam. This policy has produced a larger trade surplus with the U.S.

"If investors pull money from Vietnam's financial assets, it could shake the stability of the dong," said Toru Nishihama, chief economist at Dai-ichi Life Research Institute. Such a development could alter how multinationals select manufacturing locations, the economist said.