November 12, 2020

Joseph Barloon, *General Counsel*
Office of the U.S. Trade Representative
Executive Office of the President
600 17th Street NW
Washington, DC 20508

Re: Initiation of Section 301 Investigation: Vietnam's Acts, Policies, and Practices Related to Currency Valuation [Docket USTR–2020–0037]

Dear Mr. Barloon:

The Coalition for a Prosperous America (CPA) submits the following comments regarding Vietnam's currency. In sum, we believe that Vietnam is deliberately causing its currency (the dong) to be undervalued. Doing so violates Section 301 of the Trade Act of 1974, and strong action is needed to remediate the damage to U.S. producers while persuading the government of Vietnam to end such practices.

1. Vietnam's currency undervaluation.

The Vietnamese dong is undervalued by a significant percentage. The dong is undervalued because Vietnam has a large and growing current account surplus. The surplus was $13.1 billion last year, or 5% of Vietnamese GDP, per the World Bank database[1].

In its Article IV report of 2019[2], the IMF estimated the dong's undervaluation at 15%. Other estimates are available. These estimates compare the current level of the dong to its real equilibrium exchange rate or REER. The REER is an estimate of an exchange rate's fair value based on historical levels. A more relevant way to value a currency is by comparing it to its fundamental equilibrium exchange rate or FEER. A FEER is the exchange rate for a currency that would achieve balance in its current account. Balanced current accounts are the ideal target for all national economies. In economic theory, endorsed by the IMF and many other economic institutions, only if all currencies are at, or trending toward, levels that balance their current accounts can the global economy achieve maximum output and a fair distribution of output between nations. This is why the IMF publishes annual reports on "global imbalances" that highlight the locations of the largest imbalances.

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[1] https://data.worldbank.org/indicator/BN.CAB.XOKA.CD?locations=VN
[2] https://www.imf.org/en/Publications/CR/Issues/2019/07/16/Vietnam-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-47124

On a FEER basis, we estimate that the Vietnamese dong is some 20% undervalued against the US dollar. Absent a detailed analysis, but based on FEER analyses of other Asian currencies with large balance of payments surpluses, this is our best "guesstimate" today.

2. Vietnam's acts, policies, and practices that contribute to undervaluation.

Vietnam operates a policy of pegging its currency to the US dollar in order to promote Vietnamese exports and a current account surplus. Its current target rate is about 23,175 dong to $1. Although the State Bank of Vietnam (SBV) has said it aims to keep the dong within a range of plus or minus 3% of that central rate, in practice it operates a tighter band, on the order of 1%, rarely allowing the dollar to deviate more than about 200 dong from the central rate. The SBV is able to achieve this because its capital controls, combined with the government's tight control over Vietnamese banks and industry, enable it to dominate and control the foreign exchange market in dong.

Vietnam's government operates a centrally planned Communist system that targets rising exports to the US and other markets. Wage levels are restrained by pervasive government control of the entire economy. This enables a focus on exports and a rising current account surplus.

As one more example, in June 2018, Vietnam's government decided to devalue the dong by 2% despite the fact that Vietnam's monthly trade balance[3] was then rising. This devaluation was successful and set the dong at the current central rate, which the SBV has since maintained since.

3. Extent to which Vietnam's acts, policies, and practices contribute to the undervaluation.

If the Vietnamese dong was freely traded, it should appreciate to a competitive level, driven upwards by the growing export revenue earned by the country. The government's control of its currency is entirely responsible for the undervaluation of its currency.

4. Whether Vietnam's acts, policies, and practices are unreasonable or discriminatory.

The policy of a targeted undervaluation of the dong is unreasonable and discriminatory against the US. Our system of ad valorem tariffs under the GATT was premised on fixed, mutually accepted exchange rates. As a result, it is very important to use Section 301 to address currency manipulation. Last year, the US goods deficit with Vietnam rose 44%, to $56 billion dollars. It has been rising further this year, and looks set to finish 2020 in the $65 billion to $70 billion range. Using the common back-of-the-envelope metric of each $1 billion of the trade deficit costing 6,000 jobs, we could say that a $70 billion goods deficit with Vietnam costs the US 420,000 jobs. Along with these lost jobs goes lost revenue and lost investment, chiefly in manufacturing sectors like tires, apparel, and, more recently, consumer electronics. These are all industries in which Vietnam is increasing its global presence.

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[3] https://tradingeconomics.com/vietnam/balance-of-trade

5. The nature and level of burden or restriction on US commerce caused by the undervaluation of Vietnam's currency.

The US goods trade deficit with Vietnam now accounts for about 10% of the total US trade deficit, which is on the order of $600 billion. The trade deficit, and growing import penetration of US industry and US agriculture, is one of the largest problems facing the US economy—and has been for more than three decades. The burden placed on the US economy is large, affects the manufacturing sector primarily, and affects poorer and rural regions of the US. It also affects communities where people of color make up a relatively larger share of the population.

6. The determinations required under Section 301 of the Trade Act, including what action, if any, should be taken.

USTR should recommend that the president impose tariffs on Vietnamese imports into the US in an amount equal to the IMF's estimate of a 15% undervaluation multiplied by the total amount of exports and imports to and from Vietnam during the manipulation period. That is because all imports from Vietnam benefitted from the currency subsidy and all US exports to Vietnam were burdened by it. Additionally, there would have been more exports to Vietnam if not for such undervaluation. Any 301 tariffs should be applied to all Vietnamese imports because these imports benefit from the undervaluation of the dong.

Additional tariffs should be considered to pressure the Vietnam government to end all acts, policies, and practices that cause undervaluation of the dong.

Sincerely,

Daniel R. DiMicco

Daniel DiMicco, Chairman

Michael C. Stumo

Michael Stumo, CEO