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Unpacking the US Rejection of Market Economy Status for Vietnam

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SYNOPSIS

Despite active lobbying by the Vietnamese government, the US Commerce Department announced on 2 August that it would not grant Vietnam market economy status, ostensibly due to domestic pushback. This development is a setback for nascent US-Vietnam cooperation and it will be difficult for an incoming administration in Washington to regain Hanoi's trust.

COMMENTARY

When US national security advisor Jake Sullivan met with Vietnamese prime minister Pham Minh Chinh in September 2023, he made a [promise](#): to help Hanoi push for the conferment of market economy status to Vietnam. The fact that the message was conveyed directly to the prime minister instead of an economic official underscores its strategic importance.

Since 2002, Vietnam has been designated as a non-market economy (NME) by the US government, exposing the country to potential anti-dumping duty measures. An estimated [56 trade remedy investigations](#) were conducted against Vietnam by August 2023 due to concerns about unfair competition, resulting in outcomes such as a [26% tariff](#) on Vietnamese exports of frozen farmed shrimp.

NME status may not have stopped the United States from becoming Vietnam's [biggest export market](#). However, it did point to the lingering legacies of the Cold War, with most NMEs being former Soviet or Soviet-aligned states.

Vietnamese leaders strongly felt that their country had reformed sufficiently to attain market economy status and push beyond this old paradigm. Thus, when the US Commerce Department [announced](#) on 2 August that they had rejected Vietnam's case, it came as a great disappointment. Regaining the trust between the two countries that has been undermined as a consequence will not be an easy task for Washington.



The US Commerce Department rejected Vietnam's case for market economy status, despite active lobbying by the Vietnamese government. Rebuilding trust with Vietnam will prove to be an uphill task for Washington. *Image from Wikimedia Commons.*

The Case for a Status Upgrade

To its credit, Vietnam has made numerous policy adjustments since 2002 to meet the Commerce Department's criteria for market economy status. Eric Emerson, the US lawyer representing Vietnam's Ministry of Industry and Trade before the US Commerce Department, [argued](#) that Vietnamese state firms received less government support than their Indian counterparts while remaining more open to foreign investment than US-designated market economies such as the Philippines and Canada.

There were also sound strategic reasons behind Vietnam's case. The United States had [already ramped up](#) its engagement with Vietnam, including through "friendshoring" efforts to de-risk supply chains away from China. Indeed, one can think of the push for market economy status as a follow-up to the elevation of US-Vietnam ties to a comprehensive strategic partnership in September 2023. That elevation was not just about removing barriers to more trade, but also about signifying a mutual sense of trust in their deepening ties.

Vietnamese leaders were hardly subtle in emphasizing the importance of the upgrade. Vietnam's official request for market economy status coincided with US president Joe Biden's trip to Hanoi to sign the comprehensive strategic partnership agreement in September 2023. Scores of Vietnamese leaders called on their US counterparts to hasten the recognition process, and the Vietnamese ambassador to the United States,

Nguyen Quoc Dzong, even [warned](#) that it would be “very, very bad for the two countries” if the request was rejected.

Perceptions of Domestic Priorities

It is conceivable that the Commerce Department arrived at their decision without political interference. Vietnam’s currency has yet to attain the convertibility that the Commerce Department requires, while Human Rights Watch has [raised concerns](#) about the independence of Vietnamese unions.

Yet it is also hard to isolate the Commerce Department’s decision from broader political trends, specifically the collapse of the Indo-Pacific Economic Framework’s (IPEF) trade pillar following pushback from lawmakers such as Senator Sherrod Brown (D-Ohio). Senator Brown’s seat is critical for Democrat control of the US Senate, but he faces a tough re-election race in a trade-sceptic state. To cater to his constituents, he has been outspoken against policies that promote trade, including the [IPEF](#) and [Vietnam’s upgrade](#) to market economy status.

The White House [adopted](#) a policy of “[doing] right by [Senator Brown]” when he spoke out against the IPEF in 2023, even to the extent of torpedoing Mr. Biden’s own initiative. Senator Brown was equally outspoken on Vietnam’s status upgrade. He was joined by Republican senators and representatives of the US catfish and steel lobbies in his pushback.

Ultimately, whether it was due to set rules or political interference, the reasons behind the decision might matter less than the implications that it will have for Hanoi’s expectations.

Tough for the United States to Rebuild Trust

The rejection of Vietnam’s elevation from NME status underscores a clear message, whether intentionally or not: American domestic imperatives take priority over strategic needs, especially during election season. It was a blow to efforts to build mutual trust.

This incident is only the latest in a long trend of the United States spurning Southeast Asian partners on trade. From the last-minute [dropping](#) of the IPEF’s trade pillar to [looming tariffs](#) on solar panels from Southeast Asia, the United States has an unfortunate image of reneging on trade issues due to domestic pushback.

Vietnam’s prospects for a successful resubmission of their upgrade request will largely depend on the outcome of the upcoming US elections. It is unclear whether a Trump presidency would push for market economy status for a country the former president [once called](#) the “single worst [trade] abuser of everybody”, especially if he takes an axe to Mr. Biden’s accomplishments. He is also likely to be preoccupied with domestic issues in his first year in office.

In comparison, a government run by Vice President Kamala Harris should be more open to the logic of a status upgrade for Vietnam. Ms. Harris visited Vietnam in 2021, during which time she made an early call to [elevate](#) their relationship to a strategic partnership. Unburdened by electoral baggage, her administration might be more

open to revisiting and passing Vietnam's upgrade to market economy status, or other measures to deepen economic ties.

Either way, Washington will face an uphill climb as the new president engages Southeast Asia, and Vietnam specifically. Having been spurned more than once, most governments are likely to demand concrete assurances that the United States would live up to its word. Washington would need to put its money and policies where its mouth is if it intends to expand its economic influence in the region as an alternative partner to China.

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