U.S. Finds Vietnam Manipulated Currency

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The Treasury Department has determined that Vietnam depressed its currency in 2019, a finding that will open the door to tariffs on tires from Vietnam and provide the first test case of a Trump administration initiative to tariff countries for alleged currency manipulation.

The Treasury's determination, published late on Monday, marks the first case the department has weighed in on since new regulations took effect in April allowing currency-focused tariffs.

The administration has largely focused on the issue of currency manipulation in the context of China, which it has accused of depressing its exchange rate to cheapen the price of Chinese manufactured goods on international markets, boosting its own industries at the expense of American and other global competitors.

In recent years, however, China hasn't taken clear-cut actions to depress its exchange rate, and so the first test of the policy fell on Vietnam.

The particular case is limited in scope, and the tariffs being pursued in the case will affect only passenger vehicle and light truck tires from Vietnam, of which the U.S. imported about $470 million in 2019, less than 1% of imports from Vietnam that year, which totaled about $67 billion.

But trade analysts say the finding has broad implications because it implies that all goods from Vietnam in 2019 benefited from the subsidy.

By showing the Treasury's willingness to endorse currency-related tariffs, it could open a floodgate of copycat cases clamoring for tariffs against their competitors, citing exchange rates as justification, said Scott Lincicome, a senior fellow in economic studies at the Cato Institute, a libertarian think tank in Washington, D.C.

"Once Treasury announces this undervaluation, then that's it: Every product now shipped from Vietnam supposedly benefits from this subsidy," said Mr. Lincicome. The policy, he said, is "a classic example of China creep. It's implemented theoretically to counter China, but ends up being used against other countries."

Vietnam's trade minister Tran Tuan Anh has disputed claims that it devalued its currency. In a letter filed as part of the case, he said Vietnam has simply conducted normal monetary policies, and that the policies are "not designed for the purpose of creating a competitive advantage for exports."

He also said there is no clear methodology for determining how much a currency is undervalued and that currency policies should be addressed at the International Monetary Fund or World Trade Organization, rather than through unilateral tariffs.

The Treasury's finding is part of a broader case under the anti-dumping and countervailing duty system that allows American companies to seek redress for foreign government subsidies.

The case in question accuses Vietnam of giving a range of unfair government subsidies to manufacturers of tires for passenger vehicles and light trucks. In addition to currency devaluation, the Commerce Department has said it is investigating Vietnam's use of tax programs, import substitution subsidies, grants and government-provided loans to boost its tire industry. Aside from the currency investigation, the other aspects of the case are routine.

As part of this investigation, the Treasury said Monday that Vietnam's currency, the dong, was undervalued by 4.7%. The Treasury also concluded that Vietnam's government took specific action, through the State Bank of Vietnam, to depress the exchange rate by purchasing $22 billion of foreign exchange reserves.

The Commerce Department hasn't set the final tariffs in the case, but normally the type of tariffs in question, known as countervailing duties, are set at a rate that offsets the advantage of the subsidy. A finding that the currency is undervalued by about 5% might merit an additional 5% tariff.

The specificity of this finding is suspect, said Mark Sobel, a former senior U.S. Treasury official during administrations of both parties.

"There is no precise, agreed method to measure currency undervaluation, let alone of a bilateral exchange rate pair," said Mr. Sobel. "The estimates clearly run afoul of the fallacy of false precision. If other countries follow suit or react, it could be quite damaging to the international monetary system."

The U.S. could potentially tweak its methodologies to determine that a range of currencies were undervalued, boosting tariffs against many countries, said Mr. Sobel.

Other countries could follow suit, for example, by claiming that actions of the Federal Reserve to lower interest rates and purchase government bonds have the effect of depressing the U.S. exchange rate. They could invent their own methodologies to impose tariffs of their own.

The International Monetary Fund has faulted the U.S. currency tariffs, saying in a formal review of American policies last month that "currency-based countervailing duties could lead to retaliation, to other countries replicating such policies with their own approach and methodologies, and to increase trade tensions."