

The Unlikely, Indispensable U.S.-Vietnam Partnership

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The U.S.-Vietnam relationship has been on an upward trajectory defined by common interests since diplomatic relations between the two countries normalized a quarter-century ago. Vietnam was one of two Southeast Asian countries specifically referenced in the Biden administration's [Interim National Security Strategic Guidance](#), demonstrating the extent to which it has become an increasingly critical part of U.S. defense planning for the region. Bilateral trade has [grown](#) over 200-fold since normalization. People-to-people ties have also grown as Vietnam's tourism industry has developed. Since normalization, Vietnam has welcomed U.S. tourists, former Vietnam War veterans, and even former refugees and their families. U.S. schools and companies in turn have attracted Vietnamese students and recent graduates, who are among the [best educated](#) in the world despite the country's lower level of economic development.

Recent points of friction carried over from the Trump administration regarding the bilateral trade deficit and allegations of currency manipulation are on the mend, and Vietnam has so far managed the Covid-19 pandemic well. As a result, it has emerged in an even stronger economic position compared to many of its neighbors. But challenges remain. The Vietnamese government's desire to tightly control the country's digital ecosystem remains a drag on investment. The Biden administration, for its part, is hesitant to engage in regional free trade negotiations, including entering the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The U.S. government has also continued a Trump-era policy of [deporting](#) Vietnamese refugees convicted of crimes, many of whom have lived in the United States for decades and arrived as children. However, the overall economic relationship appears to be moving in the same direction as the strategic relationship: upward.

The current depth and breadth of the U.S.-Vietnam partnership was not a foregone conclusion. It is the result of decades of hard work and perseverance from both sides. Positive trends in the relationship today can be traced to collaborative efforts to resolve legacies of war, as well as shared threat perceptions regarding China. There are potential roadblocks ahead, including concerns regarding human rights and the threat of secondary sanctions on Vietnam related to Russian arms procurement. But the U.S.-Vietnam partnership will remain important to the Biden administration's vision for an Indo-Pacific region that is "[free, open, resilient, and inclusive](#)." And there are steps the United States can take in the months ahead to invest in this crucial partnership.

Resolving Trade Frictions

Throughout his presidency, Donald Trump expressed frustration with the United States' increasing bilateral trade deficits around the world, including with Vietnam. By September 2020, the U.S. trade deficit with Vietnam had **reached** \$49.5 billion, trailing only those with China and Mexico. On October 2, 2020, the Office of the United States Trade Representative (USTR) launched two Section 301 investigations into Vietnam, including one on whether Vietnam was **undervaluing** its currency as a kind of export subsidy, undermining the competitiveness of U.S. firms.¹ This was the latest in a string of escalatory trade-related actions by the United States, including an earlier **determination** by the Treasury Department that Hanoi had been undervaluing its currency, as well as an investigation into whether to apply **countervailing duties** on passenger vehicle and light truck tire imports from Vietnam.

On President Trump's last full day in office, USTR **announced** that Vietnamese currency practices were "unreasonable," but that the United States would not take retaliatory action. Since then, the Biden administration has not made public statements or announced major policy actions on the matter. Rather, his administration has worked quietly with Vietnam to reduce the trade deficit and increase economic integration. Vietnamese imports of U.S. goods **increased** in recent months, especially in the services and **agricultural** sectors. In April, Treasury **removed** Vietnam from its list of currency manipulators. But the Section 301 investigation remains open—a potential landmine for bilateral relations—and USTR is expected to announce further findings in July.

Another recent point of friction sprung from President Trump's withdrawal from the Trans-Pacific Partnership, the predecessor of the CPTPP, in 2017. President Biden's team is hesitant to pursue free trade initiatives given the difficult politics of the Democratic caucus. As a result, the new administration has shown no enthusiasm for joining the CPTPP or pursuing new free trade agreements (FTAs). But Washington needs to do something to show that it has a regional economic agenda. One option could be to pursue a multi-lateral agreement on **digital trade** in the Indo-Pacific, which would include Vietnam. This could be based on the rules for this sector **written into** the CPTPP, the U.S.-Mexico-Canada Agreement, and the U.S.-Japan Digital Trade Agreement.

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Leaders in Vietnam hope that the Biden administration will ultimately choose to join the CPTPP. The United States' inclusion in that FTA would confer significant economic benefits for Vietnam. Barring that, Hanoi is likely open to negotiating a bilateral FTA, though that could prove at least as difficult politically for the White House as rejoining CPTPP. But Vietnam recently wrapped up FTA negotiations with the **United Kingdom** and the **European Union**, creating significant incentives for the United States to follow suit, either bilaterally or multilaterally.

¹ **Section 301** of the Trade Act of 1974 is designed to address foreign unfair trade practices. It authorizes the president to take retaliatory actions against any government that the United States determines has violated an international trade agreement or whose practices burden or restrict U.S. commerce. After an initial investigation, USTR has a range of options which include seeking to negotiate a settlement involving compensation or elimination of the trade barrier in question, or imposing retaliatory tariffs.

Attracting Investment

Since the two countries normalized relations in 1995, Vietnam has vaulted onto the shortlist of countries of greatest interest to U.S. investors. U.S. foreign direct investment into Vietnam has **grown from under \$1 billion in 2011 to over \$2.6 billion in 2019**. The U.S. trade war with China that started in 2017 lured some manufacturing out of China as U.S. companies sought to diversify supply chains. Vietnam's proximity to China, alongside its **improving** business environment, young and highly educated workforce, and entrepreneurial mindset helped make it one of the few beneficiaries of the U.S.-China trade war. However, challenges remain to U.S. investment, including entrenched corruption, a weak legal system, unwillingness to enforce intellectual property rights, a shortage of skilled vocational labor, restrictive labor regulations, obstacles to investment in infrastructure, and the government's slow decision-making process.

Vietnam has taken concrete, proactive measures to increase U.S. investment. The State Department's 2020 Investment Climate Statement on Vietnam **notes**,

In particular, the government [of Vietnam] issued Resolution 55, which aims to attract USD 50 billion of foreign investment by 2030 by amending regulations that inhibit foreign investments and by codifying quality, efficiency, advanced technology, and environmental protection criteria. In addition, Vietnam passed the 2019 Securities Law, which states the government's intention to remove foreign ownership limits (but does not give specifics) and the 2019 Labor Code, which adds flexibility for labor contracts.

Vietnam emerged early as a leader in combatting and containing the Covid-19 pandemic—a feat made more impressive by its status as a developing country and its proximity to China. Vietnam's strategy was simple: wash hands, wear masks, stay at home. Leaders framed the pandemic as an enemy and quickly issued transparent public health messaging. The government mobilized health professionals and civil society in the war against Covid-19. Vietnam's vast network of communist party officials and informants embedded in neighborhoods aided the government's ability to track public compliance and quickly respond to emerging hotspots. Vietnam's economy was hit by the pandemic, but it was one of the few countries in the world to **avoid a recession** in 2020, achieving 2.9 percent growth. Vietnam's strong handling of the pandemic speaks to the economy's surprising resiliency and has increased its attractiveness as an investment destination.

A major area of concern for potential U.S. investors has been Vietnam's intrusive cybersecurity law passed in 2019, which gives authorities wide latitude to monitor online activity, demand data localization, and force the removal of objectionable content. The law has not come fully into effect, as its associated implementing decrees were drafted and then withdrawn. But if and when it does, the new law will not only affect tech firms but all companies which rely on unrestricted access to and full use of the internet. Over two-thirds of the Vietnamese population uses Facebook. Online collaboration gives rise to innovation and creativity. The law is likely to come into effect soon—after further tweaking by the government—and when it does, it will likely be a drag on foreign investment.

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Energy Cooperation

In October 2019, the United States and Vietnam signed a [memorandum of understanding](#) establishing a comprehensive energy cooperation partnership. Vietnam is [projected](#) to increase its already heavy reliance on coal for electricity generation. But Vietnamese officials have expressed a desire to [transition](#) to cleaner, more renewable forms of energy, including wind and solar, for which Vietnam is well-positioned. In the interim, Vietnam hopes to rely on the United States for liquefied natural gas (LNG) imports. Toward that end, Vietnam recently [completed](#) construction of its first LNG import terminal in the Ba Ria-Vung Tau province and it could begin receiving shipments in 2022. Foreign investors are laying plans for larger important terminals in a bid to increase Vietnam's capacity to import U.S. LNG.

Resolving Legacies of War

The United States and Vietnam continue to take significant steps toward resolving war legacies, including accounting for U.S. and Vietnamese soldiers missing in action and the remediation of unexploded ordnance (UXO) and dioxin/Agent Orange. Building on [earlier successes](#) in dioxin cleanup in Danang, the United States and Vietnam in December 2019 began remediation work at [Bien Hoa air base](#). They completed the first phase, covering approximately 5,300 square meters of contaminated ground, in January 2021. These initiatives have run parallel to [expanded efforts by the U.S. Agency for International Development](#) to enhance the capacities of Vietnamese counterparts to identify human remains from the war.

Efforts to address war legacies, rooted in strident support from key figures in Congress like Senator Patrick Leahy and the late Senator John McCain, have played an invaluable role in shoring up support for the U.S.-Vietnam partnership. These efforts fostered the mutual trust that undergirds U.S.-Vietnam ties today and underscores the significant progress made in the relationship since normalization.

Vietnam and the Quad

Relative to its neighbors in Southeast Asia, Vietnam has been supportive of the emergence of the Quad partnership between the United States, Australia, India, and Japan. A [CSIS survey in late 2019](#) found that a plurality of Vietnamese respondents saw the Quad as the region's most important institutional framework, far outstripping support for other organizations, including the Association of Southeast Asian Nations (ASEAN), which Vietnam was chairing that year. Another survey conducted by the [Australian Strategic Policy Institute](#) in 2018 found that 77 percent of Vietnamese respondents expressed support for the Quad, higher than any other country in the region.

Vietnam's support for the Quad emanates not only from its increasingly close ties with the United States but also growing bilateral cooperation with the other [three Quad members](#). But while Vietnamese strategic thinkers largely approve of the Quad, those positive sentiments will not necessarily translate into vocal support or active involvement in all Quad-led initiatives. Indeed, while leaders in Hanoi might choose to engage in select "Quad-plus" activities, these steps will be carefully calibrated so as not to upend Vietnam's delicate relations with its northern neighbor, China.

Partners in the South China Sea

The fast-growing nature of the U.S.-Vietnam partnership can be ascribed in part to shared threat perceptions regarding China, particularly in relation to Chinese encroachments into contested waters in the South China Sea. As a claimant state in these disputes, Vietnam issued a [defense white paper](#) in 2019 that discussed "unilateral actions, power-based coercion, violations of international law, militarisation, change

in the status quo, and infringement upon Viet Nam’s sovereignty, sovereign rights, and jurisdiction”—a clear reference to Chinese conduct in the South China Sea.

China’s maritime militia and coast guard have hampered Vietnam’s efforts to exploit natural resources within its exclusive economic zone. Under pressure from Beijing, Vietnam in 2020 **canceled** planned drilling operations by Russia’s Rosneft to explore an oil field near Vanguard Bank. This followed **harassment** of Russian drilling in the same offshore block the year before. And in early 2021, Rosneft **sold its rights** to the block, and all other offshore rights in Vietnam, to Russia’s state-owned Zarubezhneft. Vietnam also pulled out of exploration agreements with Repsol and Mubadala in recent years due to similar pressures, **incurring costs of up to \$1 billion** in compensation to these two companies.

Vietnam has responded to China’s increasing pressure with significant naval and air modernization and improvements to its military posture in the region. Vietnam has acquired six advanced Kilo-class submarines along with Gepard-class frigates and Sukhoi Su-30 fighter jets—all purchased from Russia—to strengthen deterrence against China. U.S. arms transfers remain modest by comparison. But in June 2021, Hanoi took delivery of a second decommissioned Hamilton-class coast guard cutter and received permission to purchase T-6 trainer aircraft from the United States. Vietnam has also made modest but **significant upgrades** to the air, naval, artillery, and sensing capabilities on its own facilities in the Spratly Islands to make them more defensible and capable of holding Chinese bases at risk. And, most controversially, Vietnam has funded an expansion of its own **maritime militia** , presumably to better compete with Chinese paramilitaries in operations short of war.

The United States has a key role to play in preserving free and open access to the South China Sea, and Vietnam by necessity will be an indispensable partner in those efforts. This is demonstrated in part by port visits to Danang conducted by the *USS Carl Vinson* in 2018 and the *USS Theodore Roosevelt* in 2020. These were the first such visits by U.S. carriers since the end of the Vietnam War. Beyond their symbolic significance in laying to rest the ghosts of that conflict, these visits are emblematic of the growing centrality of Vietnam to U.S. maritime strategy in the region.

Political Challenges Ahead

While the U.S.-Vietnam security relationship largely trends positive, a handful of unresolved issues could spoil further growth. For instance, Vietnam is a longstanding beneficiary of Russian defense diplomacy, and **much of its military systems remain Soviet- or Russian-built** . This reliance is path dependent; the preponderance of Russian-made defense platforms in Vietnam makes it cumbersome to incorporate U.S.-made weapons platforms into existing systems. Moreover, the high cost of U.S.-made arms means that defense planners in Hanoi tend to favor Russian-made systems that are more affordable in the short term.

President Biden’s **tougher stance on Russia** could put Hanoi in the crossfire if his administration chooses to pursue stricter enforcement of sanctions under the Countering America’s Adversaries Through Sanctions Act (CAATSA). This legislation imposes penalties on countries that procure Russian military equipment. But these have been **invoked sparingly** , and some countries have sought waivers to avoid sanctions. So long as Vietnam continues to **procure arms from Russia** , and in the absence of a CAATSA waiver, the looming threat posed by sanctions could prove to be a major point of contention between Hanoi and Washington. Both sides will need to work closely together—in public and private—to protect Vietnam from secondary sanctions where necessary and provide realistic and cost-effective alternatives to Russian defense platforms where possible.

Meanwhile, concerns regarding human rights remain a challenge. **Human rights observers** have decried Vietnam’s lack of progress on key issues, pointing to the “[tightening of] restrictions on freedom of ex-

pression, association, peaceful assembly, movement, and religion” in the past year. While the Trump White House was content to **leave human rights on the back burner**, the Biden administration is expected to place a stronger focus on such issues. Leaders in Hanoi will need to adjust to the increased scrutiny that may come along with this new reality. Meanwhile, the Biden administration will need to walk a fine line, rightly calling out abuses as the situation demands while diplomatically pursuing discussions on constructive paths forward with Vietnamese counterparts.

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Strategic Partnership?

Vietnam and the United States **elevated their relationship** to a comprehensive partnership in 2013, and enhanced cooperation in the years since has led to speculation that an **upgrade to a strategic partnership** may be in the cards. Efforts to elevate the partnership during the Trump administration were stymied by the political and economic challenges described above. Notwithstanding these issues, **some Vietnamese officials** have described the U.S.-Vietnam relationship as a strategic partnership in all but name, owing to the depth and breadth of bilateral cooperation. While this may be the case, formally upgrading ties to a strategic partnership would serve to boost the relationship, match the aspirations both sides have for U.S.-Vietnam cooperation, and “signal a higher level of trust and provide a better framework for **alignment in human rights practices**.”

Recommendations

For the most part, overcoming the challenges and seizing the opportunities described above will be matters of long-term strategy over multiple administrations. But some relatively straightforward steps in the months ahead would help demonstrate U.S. seriousness and strengthen the foundations of the bilateral partnership:

- **Announce an intention to upgrade the U.S.-Vietnam comprehensive partnership to a strategic partnership.** Administration officials should publicly declare their intention to pursue this effort, which could ideally be announced by President Biden during a potential trip to Asia in the fall coinciding with the ASEAN Summit. Setting down this marker could provide incentives for both sides to make progress on contentious issues—for instance, through the U.S.-Vietnam Human Rights Dialogue and, on the U.S. side, potential CAATSA waivers.
- **Drop the threat of trade sanctions due to USTR’s 301 investigation.** USTR should complete its investigation and present its findings. But following the Treasury’s decision in April to remove Vietnam from its list of currency manipulators, any lingering disagreements should be addressed through negotiations rather than the threat of sanctions. Most importantly, this will remove the cloud of uncertainty hanging over the economic relationship for the last several years.
- **Deliver on vaccine diplomacy.** The announcement earlier this year of a Quad plan to jointly distribute one billion doses of Covid-19 vaccines in the Indo-Pacific was welcomed by the region. But India’s struggle with its most recent wave of infections, which has already caused delays in vaccine disburse-

ment by the global COVAX initiative, raised anxieties about that plan. President Biden's [announcement that the United States would ship 80 million doses of vaccines](#) abroad by the end of June—with a significant portion headed for the Indo-Pacific—could provide an important stopgap as COVAX and the Quad initiative regain momentum. Vietnam currently has the lowest rate of vaccination in Southeast Asia and would benefit enormously from U.S. vaccine donations in the months ahead. And the goodwill generated by such an effort, proving that the United States is still a leader in delivering global public goods, would pay enormous dividends.

- **Halt the deportation to Vietnam of refugees convicted of crimes who came to the United States as minors.** Sending U.S. green card holders who came to the United States as children following the Vietnam War to a country they barely remember is cruel and unnecessary. The U.S. justice system is more than capable of dealing with crimes committed by Vietnamese refugees without resorting to the double punishment of deportation after time served.
- **Launch a multilateral negotiation, including Vietnam, on an Indo-Pacific digital trade agreement.** The United States must show that there is an economic component to its oft-stated vision of a free and open Indo-Pacific. Domestic politics will likely make it impossible for the administration to pursue entry to the CPTPP, or bilateral FTAs in the region, until at least after the 2022 midterms. But a sectoral agreement modeled on the digital trade components of the CPTPP, U.S.-Mexico-Canada Agreement, and U.S.-Japan Digital Trade agreement would be a manageable but important step in the right direction.
- **Undertake a multilateral effort to monitor and identify Chinese militia actors.** In the wake of the Philippines' discovery of a large flotilla of more than 200 Chinese maritime militia boats at Whitsun Reef in the South China Sea in March 2021, both Manila and Hanoi have begun to [document and publicize](#) the locations and even hull numbers of individual Chinese militia vessels. The United States, along with like-minded partners including Australia, Japan, France, and the United Kingdom, should propose a multilateral initiative to help Vietnam and the Philippines collect and disseminate this data throughout the South China Sea to build a database of known offenders and impose diplomatic cost on Beijing for their continued use. ■

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