Estimated Impacts of Potential Tariffs on Imports from Vietnam: All Goods Imports and Apparel

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Some policymakers have questioned whether Vietnam's currency is undervalued and constitutes an unfair subsidy that warrants action by the United States.[1] Others who believe that it is an unfair subsidy have gone a step further and proposed that the United States impose a tariff on all imports from Vietnam at a rate that would offset the subsidy (8.4%).[2]

This study estimates the potential impacts on the U.S. economy of four tariff options, in the event interest in action against Vietnam moves forward in the tariff direction. We modeled four tariff options applied to all goods imported into the United States from Vietnam: 8.4%, 10%, 15% and 25%. We took a closer look at the potential impacts of these tariffs on apparel/footwear trade, given Vietnam's importance as a supplier to the United States of those products. We employed a model, described in Appendix A, that considers the potential shifts that would occur from Vietnam to other sources of supply (including the United States) were the United States to impose tariffs on imports from Vietnam.

In summary, we find that the proposed tariffs would increase costs to consumers at a particularly challenging time in their economic lives — even after retailers attempt to adjust by changing sourcing, yet again. Consumers would pay as much as $9 billion more for goods imported from Vietnam. Apparel and footwear would be especially hit, as tariffs on these items from Vietnam would add to the high duties American consumers already pay for these goods.

All Goods

Most of the goods imported from Vietnam in 2019 were finished consumer products. Chief among them were apparel, footwear, furniture and cellphones. In most cases Vietnam is now the second largest foreign supplier to the U.S. market, after China, of these consumer products. It has become increasingly important as retailers and others move production out of China in response to the imposition in 2018 and 2019 of tariffs on imports from China.

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[1] The Trump administration has initiated a Section 301 investigation of Vietnam's acts, policies and practices related to currency valuation. See Office of the U.S. Trade Representative, "Initiation of Section 301 Investigation: Vietnam's Acts, Policies, and Practices Related to Currency Valuation," 85FR63637, *Federal Register*, October 8, 2020, https://www.federalregister.gov/documents/2020/10/08/2020-22271/initiation-of-section-301-investigation-vietnams-acts-policies-and-practices-related-to-currency.

[2] Thomas Conway, Chair, Labor Advisory Committee on Trade Negotiations and Trade Policy, Comments submitted November 12, 2020 on Initiation of Section 301 Investigations: Vietnam's Acts, Policies and Practices Related to Currency Valuation, Docket USTR-2020-0037, https://www.bls.gov/cex/csxresearchtables.htm#allnew.

Table 1
Leading U.S. Goods Imports from Vietnam, 2019
(Millions of Dollars by Two-Digit HTS Chapter)

HTS Chapter(s)	Product	Value	Rank
85	Electrical machinery & equipment and parts	$19,318.2	4th
	- Cellphones	4,228.2	2nd, after China
61, 62	Apparel	13,875.6	2nd, after China
94	Furniture, bedding, lamps	7,186.5	3rd
64	Footwear	6,930.4	2nd, after China
84	Machinery	3,609.2	15th
	- Computers & printers	2,231.0	6th
42	Leather goods	1,358.4	3rd
95	Toys, games and sports equipment	1,275.2	2nd, after China
	Subtotal (82.6% of total)	53,553.5	
	Total	64,826.2	6th

Source: USITC DataWeb

The imposition of tariffs would have a net negative impact on U.S. consumers. Our analysis of the likely impacts of the imposition of additional duties on all goods imported from Vietnam shows that prices for goods rise across the board. Prices of goods from Vietnam would increase by 8-23%, triggering a hunt for new sources of supply. Overall U.S. prices for goods generally (from the U.S., Vietnam and other countries, combined) would rise. As a result, U.S. consumers reduce overall purchases. Some of the imports from Vietnam shift back to China, even with the Section 301 tariffs: Vietnam is no longer a competitive alternative to China with tariffs of its own in place. Manufacturers abroad account for about 60 percent of the shift in sourcing that results from the imposition of tariffs on Vietnam. American consumers, on the other hand, would be forced to pay more, as not all goods can shift away from the tariffs. The value of this extra cost would range from $4 billion to $9 billion in higher prices. After accounting for domestic manufacturing gains and new tariff revenue, the result is a net $1 billion to $5 billion loss for the U.S. economy, with the burden carried by U.S. consumers.

Table 2
Estimate Impacts of Tariffs on Goods Imports from Vietnam

	8.4%	10%	15%	25%
Change in Cost of Vietnamese Imports	+7.6%	+9.1%	+13.8%	+23.4%
Change in Vietnamese Production	-0.6%	-0.7%	-0.9%	-1.1%
Change in U.S. Production	+0.03%	+0.03%	+0.04%	+0.1%
Change in Cost of U.S.-Produced Products	+0.03%	+0.04%	+0.1%	+0.1%
Change in Prices to U.S. Consumers	+0.1%	+0.1%	+0.1%	+0.2%
Impact on Consumption	-0.1%	-0.1%	-0.1%	-0.3%
Higher Prices Paid by Consumers	$4.3 bill.	$5.0 bill.	$6.6 bill.	$8.7 bill.
Net Loss to U.S. Economy	-$1.4 bill.	$1.8 bill.	-$2.9 bill.	-$5.0 bill.

Apparel/Footwear

As Vietnam is a key source of supply, the case of apparel and footwear warrants closer examination. A wide range of apparel products comprised U.S. imports from Vietnam in 2019, from sweaters to suits to coats to underwear and pajamas. Nearly half of footwear imported from Vietnam has "textile uppers" (e.g., athletic footwear). These are price-sensitive products at retail, and avoiding tariff costs is important to providing consumers with quality products at affordable prices.

While Vietnam has long been an important source of apparel and footwear for the U.S. market, that importance has grown with the imposition — or threat of imposition — of tariffs on imports of similar products from China in 2018 and 2019. Increasing sourcing of these products from Vietnam in response to the China tariffs has been a lengthy and difficult task for retailers. Still, while Table 1 notes that Vietnam is the next largest foreign source of apparel and footwear after China, it is important to know that volumes out of China are still large, double that of Vietnam. As competitive as it is, retailers struggled to find sufficient capacity from quality suppliers in Vietnam able to meet our often short "time-to-market" requirements.

Table 3
Leading U.S. Apparel and Footwear Imports from Vietnam, 2019
(Millions of Dollars by Four-Digit HTS Chapter)

HTS	Product	Value
Apparel		
6110	Sweaters, pullovers, sweatshirts	$2,706.7
6104	Women's and girls' knit suits, dresses, skirts, etc.	1,704.3
6204	Women's and girls' woven suits, dresses, skirts, etc.	1,633.6
6203	Men's or boys' woven suits, trousers, etc.	955.7
6202	Women's and girls' overcoats, raincoats, etc.	522.6
6201	Men's or boys' overcoats, raincoats, etc.	516.3
6102	Men's or boys' knit shirts	511.2
6103	Men's or boys' knit suits, trousers, blazers, etc.	467.6
6108	Women's or girls' panties, pajamas, bathrobes, etc.	452.4
	Apparel Subtotal (68.5%)	9,510.5
	Apparel Total	13,875.6
Footwear		
6404	Footwear with textile uppers	3,173.4
6403	Footwear with leather uppers	2,424.2
6402	Rubber or plastic footwear	1,231.7
6405	Other footwear	74.6
6406	Footwear parts	23.8
6401	Waterproof footwear	2.6
	Footwear Total	6,930.4

Source: USITC DataWeb

Our analysis of the likely impacts of the imposition of additional duties on the apparel and footwear imported from Vietnam shows that prices rise across the board. Prices of goods from Vietnam would increase by 6-20%, and by 2-3% for products from U.S. suppliers. As a result, U.S. consumers reduce overall purchases by 1-2%. The biggest winners from tariffs on Vietnamese apparel and footwear are producers in other countries. Other countries capture over 90% of the shift in sourcing out of Vietnam — again, including China, despite the Section 301 tariffs raising the costs of apparel and footwear sourced from China. American consumers, again, would pay more; low-income families would be particularly affected. The value of this extra cost would be as high as $2.6 billion. Low-income households spend 3 times as much of their after-tax income on apparel and footwear as do high-income households.[3] After accounting for domestic manufacturing gains and new tariff revenue, the result is a net $418 million to $2 billion loss for the U.S. economy, with the burden carried by U.S. consumers.

Table 4
Estimate Impacts of Tariffs on Apparel/Footwear Imports from Vietnam

	8.4%	10%	15%	25%
Change in Cost of Vietnamese Imports	+6.4%	+7.7%	+11.8%	+20.3%
Change in Vietnamese Production	-1.5%	-1.8%	-2.4%	-3.2%
Change in U.S. Production	+0.3%	+0.3%	+0.4%	+0.6%
Change in Cost of U.S.-Produced Apparel/Footwear	+0.3%	+0.3%	+0.6%	+0.8%
Change in Prices to U.S. Consumers	+0.8%	+0.9%	+1.2%	+1.7%
Impact on Consumption	-1.6%	-1.9%	-2.6%	-3.7%
Higher Prices Paid by Consumers	$1.1 bill.	$1.3 bill	$1.8 bill.	$2.6 bill.
Net Loss to U.S. Economy	-$418 mill.	-$543 mill.	-$978 mill.	-$1.9 bill.

[3] Bureau of Labor Statistics, "Quintiles of Income before Taxes: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey, 2019," https://www.bls.gov/cex/csxresearchtables.htm#allnew. "Low-income families" are those in the lowest 20 percent quintile; "high-income families" are those in the highest 20 percent quintile.

Appendix A
Methodology

We employed a modeling strategy for industry-focused globally linked partial equilibrium analysis of tariff policy. We have built a set of product-specific models based on the "global simulation model" framework (GSIM). Francois and Hall (2007) developed GSIM to allow detailed analysis of tariff scenarios across individual products and potentially all major trading countries and blocks. The World Bank and the United Nations adopted the GSIM framework, integrating it into the joint World Bank-UNCTAD trade data portal known as the "World Integrated Trade Solution," or WITS (see https://wits.worldbank.org/default.aspx).[4] The basic framework employed here can be implemented with a spreadsheet-based interface.

The basic approach involves specifying global supply and demand for each set of goods produced by a particular country as the sum of individual (national) sources of supply and demand. This is done for goods produced in all regions in the model. We are then able to reduce the solution set of the model to those global prices that clear global markets. Once we have a global set of equilibrium prices, we can obtain national results (changes in prices and quantities). Based on price and quantity changes, we in turn obtain estimates of changes in production, trade, consumer and producer surplus, and real national income that result from the imposition of tariffs on imports from Vietnam. Within this context, we work with a non-linear representation of import demand, combined with generic export-supply equations (see Francois and Hall 2007). We should stress that, in implementation, this set of models is structurally consistent with the recent class of Eaton-Kortum based structural trade models (see Bekkers et al, 2015; Costinot and Rodriguez-Clare, 2014 for example).

Data Sources

Trade data and tariffs are from "World Integrated Trade Solution," or WITS (see https://wits.worldbank.org/default.aspx) and the U.S. Census Bureau. We used trade weighted tariffs in effect in 2018, which therefore reflect Section 301 tariffs applied to imports from China as of 2018.

Production data (domestic sales) are based on country input/output tables from the Global Trade Analysis Project (GTAP version 11) (www.gtap.org), and from the US Department of Commerce (for U.S. shipments). All data are expressed in millions of US dollars, and benchmarked to 2018.

[4] Another application, the MRPE model, is a specialized, scalable extension of the GSIM framework for strategic trade policy assessments at the detailed sector level, developed for the European Commission.

Trade elasticities are from the Global Trade Analysis Project (GTAP) (see https://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=5760).

Country Disaggregation

Bangladesh	India	Nicaragua
Cambodia	Indonesia	Pakistan
Canada	Ireland	Sri Lanka
China	Italy	Switzerland
El Salvador	Japan	Taiwan
France	Jordan	United Kingdom
Germany	Korea	United States
Guatemala	Malaysia	Vietnam
Honduras	Mexico	Rest of World

Resources

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