Statement by David French

Before the
Section 301 Committee

Regarding
Section 301 Investigation: Vietnam's Acts, Policies, and Practices Related to the Valuation of its Currency (USTR-2020-0037)

Good morning/afternoon Mr. Chairman and members of the committee. My name is David French, and I am senior vice president, government relations for the National Retail Federation.

NRF is the world's largest retail trade association, representing all retail sectors. Retail is the nation's largest private-sector employer, contributing $3.9 trillion to annual GDP and supporting one in four U.S. jobs — 52 million working Americans. For over a century, NRF has been a voice for every retailer and every retail job, educating, inspiring and communicating the powerful impact retail has on local communities and global economies.

On behalf of the retail industry, thank you for the opportunity to testify during today's hearing on Vietnam's acts, policies and practices on currency valuation. As we have indicated in our initial submission when the investigation was launched, we are concerned about this investigation moving forward and the potential for tariffs to be placed on imports from Vietnam as a result.

If the investigation does find that Vietnam does engage in currency manipulation, we strongly encourage the administration to follow traditional mechanisms as expressly authorized by Congress under the *Omnibus Trade and Competitiveness Act of 1988* and the *Trade and Enforcement Act of 2015* for Treasury to lead on efforts regarding currency manipulation. The administration should use these tools as designed and work collectively with Treasury to lead consultation and negotiations with Vietnam. Tariffs should not be a consideration for enforcement in this matter.

U.S. trade with Vietnam has grown significantly over the past two years as a direct consequence of the ongoing trade dispute with China. Companies have begun the difficult process of shifting some of their supply chains out of China to Vietnam and other countries because the administration's application of Section 301 tariffs to U.S. imports from China. In fact, the administration publicly suggested companies should shift sourcing out of China, even to Vietnam, and many retailers responded by moving production as a result.

NRF members are extremely concerned about the potential for tariffs to be now placed on their imports from Vietnam as a result of this investigation. Tariffs are taxes that are paid by U.S. businesses and their customers. These U.S. consumers have paid over $68 billion in tariffs as a result of the current trade war.

As companies continue to recover from the ongoing economic damage caused by the coronavirus pandemic, new tariffs on imports from Vietnam will further harm these U.S. companies and will result in higher costs for their consumers, many who themselves are recovering as well.

NRF commissioned a study from Trade Partnership Worldwide to estimate the potential impacts on the U.S. economy of four potential tariff options applied to all goods imported into the United States from Vietnam. The study also 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. The analysis considers the potential shifts that would occur from Vietnam to other sources of supply (including the United States and China) were the United States to impose tariffs on imports from Vietnam. We have included a copy of the study for your review.

In summary, the study found that the proposed tariffs would increase costs to consumers (businesses and their customers, including American families) at a particularly challenging time — 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. Notably, the tariffs on imports from Vietnam would shift some trade *back* to China, even with tariffs of equal size imposed on imports from that source.

Here are some examples of the impacts that tariffs would have on NRF's members:

- A furniture retailer has told us that a 10% - 25% tariff would be very damaging. Currently, Vietnam (without penalty tariffs) is not a lower cost alternative to China (with penalty tariffs). But Vietnam still provides a strong manufacturing alternative, even with higher labor and raw materials costs, to China which is now burdened by Section 301 tariffs. Imposing penalty tariffs on imports from Vietnam will completely upend this already difficult margin pressure. The bottom-line impact on this retailer is that it will be forced to raise retail prices, ultimately penalizing the American consumer and not the country of origin.

- Another retailer told us that it shifted over 75% of its sourcing from China to Vietnam was the only alternative source that offered cost and quality parity with China for the items produced there.

- An apparel retailer has said that they have shifted a lot of their sourcing and supply chain to Vietnam and had done so even before the China 301 tariffs went into effect. The China tariffs accelerated an exit that was already happening. As a result of the shift, Vietnam has become their number one supplier. They indicated that there are not other alternatives at their scale after they shifted away from China. This production will not shift again and we can anticipate that increased costs would result in higher prices for consumers.

- Another retailer who recently shifted production out of China told us that if tariffs were put in place on products from Vietnam they would likely need to move production back to China given the complexity of their supply chain and the need to keep up with American consumers who demand low price products.

- Another retailer believes tariffs will impact a wide range of its consumer products and would lead to Americans paying more during a time of increasing financial stress and hardship. In addition, the retailer speculates the downstream impact will negatively impact retail enabled jobs in physical stores, warehouses, and associated logistics and construction jobs.

As NRF and many other businesses and industry groups testified during the China Section 301 hearings, global supply chains are complex. It is difficult to shift sourcing and find vendors who can meet all of the requirements a business has with regards to quality and quantity – and, for many consumer goods, that meet all of the different regulatory requirements as well. This is even more difficult during the current pandemic when travel is extremely limited to try to find new vendors.

We are also concerned that Vietnam may retaliate against U.S. exports if USTR decides to apply tariffs to Vietnamese imports. U.S. manufacturers, farmers and exporters are already hurting because of the retaliation and losses in the China market. Vietnam will certainly retaliate against these sectors as well, further harming exporters' recovery as well.

Vietnam has become an increasingly important political and economic ally and partner to the United States, countering the influence of China in the region. It is important that this relationship not only continue but expand as the global economy continues to recover from the coronavirus pandemic. Imposition of penalty tariffs on imports from Vietnam will have the opposite impact.

Thank you again for the opportunity to testify today.