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## The Vietnam-U.S. Bilateral Trade Agreement

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# The Vietnam-U.S. Bilateral Trade Agreement

## Summary

On July 13, 2000, U.S. and Vietnamese negotiators signed a sweeping bilateral trade agreement (BTA). Under the deal, which requires Congressional approval, the U.S. will extend temporary most-favored nation (MFN, also known as normal trade relations [NTR] status) status to Vietnam, a step that would significantly reduce U.S. tariffs on most imports from Vietnam. The World Bank has estimated that Vietnam's exports to the U.S. would rise to \$1.3 billion – more than double 1999 levels – in the first year of MFN status, as U.S. tariff rates on Vietnamese exports would fall from their non-MFN average of 40% to less than 3%. In particular, Vietnamese garment exports are expected to record a tenfold increase in the first year after receiving MFN treatment.

In return, Hanoi agreed to undertake a wide range of market-liberalization measures, including extending MFN treatment to U.S. exports, reducing tariffs on goods, easing barriers to U.S. services (such as banking and telecommunications), committing to protect certain intellectual property rights, and providing additional inducements and protections for inward foreign direct investment. Vietnam is the world's 13<sup>th</sup> most populous country, with 78 million inhabitants, roughly equal to the population of Germany. The U.S. and Vietnam reached an agreement in principle in July 1999, but for nearly a year Vietnam delayed finalizing the deal because of intense divisions among the Vietnamese Communist Party (VCP) leadership.

The Clinton White House, citing the crowded Congressional calendar, did not transmit the BTA to the 106<sup>th</sup> Congress. Once the President transmits the agreement, it is subject to special “fast-track” procedures, under which amendments are not permitted and under which Congress must vote on the measure within 75 session-days.

Under the requirements of Title IV of the Trade Act of 1974 – Section 402 of which is commonly referred to as the “Jackson-Vanik amendment” – signing a bilateral trade agreement is a necessary step for the U.S. to restore MFN treatment to certain non-market economies, including Vietnam. Should Congress approve the agreement, the President would then be able to extend MFN treatment to Vietnam. Such MFN status would be conditional because – as with all Title IV agreements – it would require annual Presidential extensions, which Congress could disapprove.

This report outlines the terms of the BTA, identifies U.S. and Vietnamese motivations for entering into the deal, analyzes the reasons for Vietnam's delay in signing the agreement, and explains Congress' role in the process of restoring normal trade relations treatment to Vietnam. This report will be updated periodically. Further information on U.S.-Vietnam relations is available in CRS Issue Brief IB98033, *Vietnam-U.S. Relations*.

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# The Vietnam-U.S. Bilateral Trade Agreement

## Background

On July 13, 2000, after nearly five years of bargaining, the U.S. and Vietnam announced they had signed a bilateral trade agreement (BTA).<sup>1</sup> The deal requires congressional approval before it becomes effective. If approved by Congress, the agreement would be a major step toward normalizing U.S.-Vietnam commercial relations, as it would restore reciprocal most-favored-nation (MFN, also known as normal trade relations [NTR]) treatment between the two countries, and commit Vietnam to undertake a wide range of market-oriented economic reforms.<sup>2</sup> Extending MFN treatment to Vietnam would significantly reduce U.S. tariffs on most imports from Vietnam.

## Congress' Role in the Normalization of U.S.-Vietnam Trade Relations<sup>3</sup>

For nearly two decades after the end of the Vietnam War in 1975, U.S.-Vietnam commercial relations remained frozen, with the U.S. imposing a trade embargo on Vietnam. Following improvements in the late 1980s and early 1990s on the issues of Vietnam's activities in Cambodia and American prisoners of war (POWs) and missing-in-action (MIA) personnel in Vietnam, Washington and Hanoi gradually began to normalize relations. In 1994, after the preliminary relaxations of some restrictions, President Clinton ordered the lifting of the trade embargo against Vietnam. The following year, the two countries established ambassadorial-level diplomatic relations. In 1998, President Clinton granted Vietnam a waiver from the requirements of the so-called **Jackson-Vanik amendment** (contained in the Trade Act of 1974, Title IV, section 402), which prohibit the President from normalizing

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<sup>1</sup> The text of the agreement – along with a separate Annex on Services and two separate letters on investment – may be found on the home page of the United States Trade Representative [<http://www.ustr.gov>] and on the home page of the United States-Vietnam Trade Council [<http://www.usvtc.org>]. The White House has prepared a “fact sheet” on the BTA. It may be found at the following internet address: [<http://www.usinfo.state.gov/regional/ea/vietnam/whtrd713.htm>].

<sup>2</sup> In 1998, legislation was enacted to replace the term “most-favored-nation” treatment in existing and future legislation with the term “normal trade relations” (NTR). The former term is used in this report for reasons of historical continuity and because of its continued use in international trade relations, including in U.S. bilateral trade agreements. See CRS Issue Brief IB93107, *Most-Favored-Nation (Normal-Trade-Relations) Policy of the United States*, by Vladimir N. Pregelj.

<sup>3</sup> Vladimir Pregelj, CRS Specialist in International Trade and Finance, provided extensive assistance with this section.

commercial relations with selected socialist and formerly socialist countries if they do not meet certain requirements regarding freedom of emigration. President Clinton also granted waivers in 1999 and 2000. Congress may reject the annual waiver by passing a joint disapproval resolution. In 1998, 1999, and 2000, the House defeated disapproval resolutions of the Presidential waiver. Each year, the margin of House support for the waiver broadened: the 2000 disapproval resolution received 39 fewer votes than it had in 1999, and 72 fewer votes than it had in 1998. As explained below, until the U.S.-Vietnam BTA goes into effect the waiver does not change Vietnam's current, non-MFN, trade status with the United States. Instead, it allows the U.S. Overseas Private Investment Corporation (OPIC) and the U.S. Export-Import Bank to support U.S. businesses exporting to and/or operating in Vietnam.<sup>4</sup>

**Restoration of Temporary MFN Status to Vietnam.** The U.S. denied MFN treatment to communist-controlled areas of Vietnam in August of 1951. At that time, under Section 5 of the Trade Agreements Extension Act of 1951, MFN tariff rates were suspended for all countries of the Sino-Soviet bloc.<sup>5</sup> When communist North Vietnamese forces unified the country in 1975, MFN status was suspended for the entire country.

In 1974, the U.S. issued strict conditions for restoring MFN status to those non-market economies (NMEs) subject to Section 5 suspension (in practice, the new conditions applied to virtually all countries of the former Sino-Soviet bloc). Under Title IV of the Trade Act of 1974, MFN treatment may be restored to NME countries after both of the following two requirements have been met:

- a) The President issues a determination that the country is not in violation of the freedom-of-emigration requirements of the Jackson-Vanik amendment.<sup>6</sup> To date, Vietnam has not been found to be in full compliance with Jackson-Vanik requirements. Alternatively, subject to certain conditions, the President may waive these requirements, as President Clinton did for Vietnam in 1998, 1999, and 2000. Jackson-Vanik waivers must be

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<sup>4</sup> For a summary of U.S.-Vietnam relations since the end of the Vietnam War, see CRS Issue Brief IB98033, *Vietnam-U.S. Relations: Background, Recent Developments, and Issues for Congress*, by Mark Manyin.

<sup>5</sup> Section 5 of the Trade Agreements Extension Act of 1951 (65 Stat. 73), which Congress passed in response to the outbreak of the Korean War, required the President to suspend the application of MFN tariff rates to the Soviet Union and all countries or areas under the control of international communism. Yugoslavia, a non-Soviet bloc country, was the one exception. For more on the history of the U.S.'s MFN policy, see CRS Issue Brief IB93107, *Normal-Trade-Relations (Most-Favored-Nation) Policy of the United States*, by Vladimir Pregelj. Currently, the U.S. denies MFN treatment to only six countries – Afghanistan, Cuba, Laos, North Korea, Vietnam, and Yugoslavia (Serbia and Montenegro).

<sup>6</sup> After the issuance of a determination of full compliance with the Jackson-Vanik amendment's freedom-of-emigration requirements, the President must issue semiannual reports to Congress arguing that the relevant country is not in violation of the freedom-of-emigration requirements. The President's end-of-year report is subject to congressional disapproval by joint resolution.

renewed annually, and Congress may reject them by passing a joint disapproval resolution.

- b) The completion of a bilateral trade agreement that contains certain required provisions, including a reciprocal MFN clause. Such an agreement would require approval by the Congress (and by the Vietnamese National Assembly). If approved, the President could extend *temporary* (as opposed to permanent) MFN tariff treatment to Vietnam. The MFN treatment would be temporary because it is contingent upon the President renewing a Jackson-Vanik waiver, which must be done annually and is subject to congressional review. This is the same process through which Congress has reviewed China's temporary MFN status.<sup>7</sup>

**Congressional Procedures for Considering a U.S.-Vietnam BTA.** Title IV bilateral trade agreements must be approved by a joint resolution of Congress. Once the President introduces an approval resolution in both Houses, it is subject to special “fast-track” procedures, under which amendments are not permitted in either chamber. Additionally, there are deadlines of 45 session-days for committee consideration (by the House Ways and Means and the Senate Finance Committees), and 15 session-days for floor debate in both chambers. This breaks out as a maximum of 75 days for Congress to act on the resolution: 45 days for committee consideration in both chambers, 15 days for floor debate in the House, and 15 days for floor debate in the Senate (because the resolution is considered to be a “revenue” measure, the Senate must vote on a House-passed bill).<sup>8</sup>

On July 25, 2000, the White House issued a statement that “it does not appear practical...to transmit the BTA to Congress” in 2000 due to “the extremely crowded Congressional Calendar and limited number of legislative days in the 106<sup>th</sup> Congress.”<sup>9</sup> Other factors reportedly contributing to the decision included the belief that Congress was exhausted from trade battles earlier in the year (notably the debate over whether to restore permanent MFN treatment to China), and the concern about antagonizing labor unions and other opponents of the agreement on the eve of Presidential and Congressional elections. No specific deadline governs the President’s transmission of Title IV BTAs to Congress, though such an act must be carried out “promptly.”<sup>10</sup>

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<sup>7</sup> Note that Vietnam’s MFN treatment would be temporary regardless of whether it received a Jackson-Vanik waiver or a Presidential report that Vietnam is in full-compliance with the Jackson-Vanik amendment. In the case of the latter, the President’s annual year-end report would be subject to congressional review, and therefore could be rejected by a joint disapproval resolution.

<sup>8</sup> See CRS Report 96-317, *Extension, Renewal, or Denial of Most-Favored-Nation Status to Nonmarket Economy Countries*, by Vladimir Pregelj, April 9, 1996, p. 5.

<sup>9</sup> As of July 15, 2000, according to the Senate’s legislative calendar, there were fewer than 40 session-days remaining in the 106<sup>th</sup> Congress.

<sup>10</sup> Sec. 407(a); 19 USC 2437(a)

As with most trade agreements with non-market economies, the U.S.-Vietnam BTA would remain in effect for a 3-year period and would be extended automatically unless renounced by either party. Additionally, each extension would require a presidential determination that Vietnam is satisfactorily extending reciprocal MFN treatment to U.S. exports.

**Extending Permanent MFN Treatment to Vietnam.** If Congress passes the BTA, the next step toward normalizing U.S.-Vietnam commercial ties would be restoring permanent MFN status (also known as permanent NTR or PNTR status) to Vietnam, a process that would require Congress to “graduate” Vietnam from the group of non-market economies that are denied unconditional MFN treatment. This would be done by terminating the application of the relevant Title IV provisions to Vietnam, as has been done for several countries, including Bulgaria, the Czech Republic, Slovakia, Hungary, and Romania. In May 2000, the House voted to give permanent MFN status to China.

**Table 1. Vietnam’s Path to Normalization of Trade Relations with the United States**

Step 1.	Removing the U.S. trade embargo. (In February 1994, President Clinton ordered the embargo on Vietnam lifted.)
Step 2.	Granting an annual waiver of Jackson-Vanik restrictions on OPIC and Ex-Im Bank operations in the country, and one-time waivers of Foreign Assistance Act and Export-Import Bank Act restrictions. <sup>11</sup> (President Clinton issued waivers for Vietnam in 1998, 1999, and 2000. In 1998 and 1999, disapproval resolutions were defeated in the House. The waivers paved the way for OPIC and EXIM Bank support for U.S. businesses exporting to and/or operating in Vietnam.)
Step 3.	Signing a bilateral trade agreement, subject to Congressional approval, that includes an extension of conditional MFN treatment. (An agreement was signed in July 2000)
Step 4.	Restoring permanent MFN status by passing a law “graduating” Vietnam from its status as a non-MFN country.

**Vietnam and the World Trade Organization (WTO).** Vietnam applied to join the WTO in 1995. Many observers believe that Vietnam is a number of years away from meeting the requirements for WTO membership. As a practical matter, countries seeking to enter the WTO must obtain the consent of all WTO member countries. Typically, these bilateral negotiations focus on tariff concessions and other market access issues that will govern bilateral trade relations after the applicant becomes a member. Thus, at some point in the future, Vietnam and the U.S. are likely to engage in another set of negotiations about the changes Vietnam must make to its trade regime before the U.S. will support Vietnam’s application for WTO membership. Upon completion of this agreement, it is likely that the U.S. president

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<sup>11</sup> Alternatively, as described earlier, this step could be taken through a Presidential determination that Vietnam is in full compliance with the Jackson-Vanik amendment’s freedom-of-emigration requirements. Along with China and Belarus, Vietnam has not been certified to be in full compliance with the Jackson-Vanik requirements.



will ask Congress to extend permanent MFN treatment to Vietnam, much as President Clinton did after completing WTO accession negotiations with China in November 1999.<sup>12</sup>

## U.S. and Vietnamese Interests in a Bilateral Trade Agreement

**U.S. Interests in a Bilateral BTA.** U.S.-Vietnam trade and investment flows are extremely low. Although Vietnam is the world's 13<sup>th</sup> most populous country, with nearly 80 million people, for the past several years annual U.S. exports have hovered in the \$200-\$300 million range (see Table 2 below), a figure roughly equivalent to three days' worth of exports to Japan, and roughly one-fifth the amount the U.S. exported to South Vietnam in 1970.<sup>13</sup> Major U.S. exports to Vietnam include aircraft, fertilizer, telecommunications equipment, and general machinery. Cumulative foreign direct investment (FDI) by U.S. companies in Vietnam is also low, valued at about \$1 billion, making the United States the ninth-largest source of investment in Vietnam.

**Table 2. U.S.-Vietnam Trade, 1994-2000**  
(millions of dollars)

	U.S. Imports from Vietnam	U.S. Exports to Vietnam	Trade Balance
1994	50.45	172.22	121.77
1995	198.97	252.86	53.89
1996	319.04	616.05	297.01
1997	388.19	277.79	-110.40
1998	553.41	274.22	-279.19
1999	601.90	277.30	-324.60
Jan - Oct 1999	465.20	225.30	-239.90
Jan - Oct 2000	691.30	279.10	-412.20
Major Imports from Vietnam	footwear, shrimp, coffee, cashew nuts, crude oil		
Major Exports to Vietnam	industrial & office machinery, fertilizer, footwear parts, telecommunications equipment		

**Source:** U.S. Department of Commerce. Data are for merchandise trade on a customs basis.

<sup>12</sup> If Vietnam acceded to the WTO before the U.S. extended to it permanent MFN status, its WTO membership could place the U.S. in violation of the WTO requirement that unconditional MFN treatment be applied to all WTO members. The U.S. could avoid this by invoking the WTO's non-application article (Article XIII) prior to Vietnam's accession to the WTO. Thus, if Vietnam were to join the WTO, Hanoi's accession would not in and of itself alter the status of U.S.-Vietnam trade relations, which would continue to be governed by Title IV of the Trade Act of 1974, as well as the U.S.-Vietnam BTA. However, the U.S. would not be guaranteed all the benefits of Vietnam's accession to the WTO, including the use of the WTO's dispute resolution mechanism to deal with U.S.-Vietnam trade disputes.

<sup>13</sup> In 1970, the United States exported \$342 million to South Vietnam. Adjusted for inflation, this amount equals approximately \$1.5 billion today.

To boost U.S. exports and investment, U.S. negotiators demanded that Vietnam provide more comprehensive and detailed concessions in the areas of services, investment, and market access than had been obtained in previous bilateral trade pacts with other Jackson-Vanik countries. As discussed in the following section, it appears the U.S. successfully obtained most of these negotiating objectives.

Following the signing of the agreement, Clinton Administration officials and business representatives were careful not to argue that the BTA will significantly boost U.S. exports and investment to Vietnam right away. Rather, they stressed that U.S. exporters and investors will benefit most in the medium to long-term, as Vietnam continues market-oriented reforms, becomes more developed and integrated into the global economy, and as Vietnam phases in more and more of the BTA's requirements. Moreover, exports to and investment in Vietnam are expected to increase as Hanoi and other members of the Association of Southeast Asian Nations (ASEAN) – a 10-country, 500-million person market – follow through on commitments to reduce trade barriers by 2006. Ultimately, U.S. trade and investment opportunities in the future will depend on a) Hanoi's implementation of the BTA; b) Vietnam's progress on moving toward a more market-oriented economy; and c) Vietnam's rate of economic growth.

In the short- to medium-term, the BTA will require Vietnam to improve the climate for foreign investors. U.S. businesses in Vietnam will receive legal protections that are unavailable today. More sectors will be open to U.S. multinationals. Additionally, the BTA will help make the Vietnamese business environment more predictable and transparent. Currently, a frequent complaint from foreign executives in Vietnam is the lengthy delay in obtaining investment licenses from the government. To make matters more difficult, foreign investors often are not aware of all the regulatory requirements for obtaining licenses, leading to complaints of arbitrary treatment by local and central government authorities.

Many of the agreement's proponents also contend that the bilateral trade pact will nudge Vietnam toward a more democratic society by committing the government to enact market-oriented reforms, weakening the government's tight political controls, solidifying the rule of law, integrating Vietnamese enterprises more fully into the global economy, and economically empowering individuals. The BTA also will help to bring Vietnam closer to compliance with WTO rules, facilitating Hanoi's eventual WTO accession. Once Vietnam joins the WTO, its trade policies will be subject to even greater international scrutiny and disciplines. Strategically, the Administration argues that the U.S.-Vietnam BTA, together with BTAs recently completed with Cambodia and Laos, will promote regional stability by smoothing the integration of Indochina into the regional and global community.<sup>14</sup>

**Arguments Against the BTA.** The agreement's critics argue that Vietnam's government is likely to fall short on implementing the agreement and/or is likely to

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<sup>14</sup> Testimony of Ambassador Charlene Barshevsky before the Senate Foreign Relations Subcommittees on International Economic Policy and Asia-Pacific Affairs, August 4, 1999. Note that Congress has approved the U.S.-Cambodia BTA, which is now in force, but has yet to approve the agreement with Laos.

erect new, hidden barriers to imports and foreign investment, while low-cost Vietnamese exports – particularly textiles – to the U.S. will increase. Some U.S. trade unions have criticized the pact's lack of provisions on minimum labor standards and environmental protection. Vowing to fight the agreement in Congress, AFL-CIO President John Sweeney has argued that "it [the BTA] is missing what we've been championing – core labor standards, human rights and environmental protection." Textile manufacturers and other groups have said they will lobby Congress and the Administration for changes to safeguard their industries from low-priced Vietnamese imports.<sup>15</sup> Many observers, including labor groups, also oppose the pact on human rights grounds, arguing that human rights considerations should take priority over trade ties and/or that Hanoi's ruling elite would capture most of the gains from increased globalization. In its annual review of Vietnam's human rights situation, the U.S. State Department reported that Hanoi continues "to repress basic political and some religious freedoms and to commit numerous abuses," notably "not tolerating most types of public dissent."<sup>16</sup>

**Vietnam's Interests in a BTA.** After recording impressive growth for much of the 1990s following Hanoi's launch of the *doi moi* (economic renovation) reforms, Vietnam's economy has staggered since the 1997-99 Asian financial crisis, which originated in nearby Thailand. Annual economic growth declined from a peak of 9.5% in 1995 to less than 5% in 1999. Foreign direct investment – a major stimulus for the country's growth – dwindled from over \$8 billion in 1996 to \$600 million in 1999, the lowest level since 1992.<sup>17</sup>

It is likely that the deterioration in Vietnam's economic fortunes played a major role in jump-starting the BTA talks with the U.S. in the spring of 1999, as a significant portion of Vietnam's leadership came to see increased U.S. investment and MFN access to the U.S. market as major ways for Vietnam to reverse its declining growth rates. To date, the United States is only the ninth largest source of foreign investment in Vietnam and absorbs less than 5% of Vietnam's exports. The bilateral trade agreement presumably would increase these levels considerably by conferring to Vietnamese exporters the same tariff rates that are applied to other MFN-recipient countries. The World Bank has estimated that Vietnam's exports to the U.S. would rise to \$1.3 billion – more than double 1999 levels – in the first year of MFN status, as U.S. tariff rates on Vietnamese exports would fall from their non-MFN average of 40% to less than 3%.<sup>18</sup>

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<sup>15</sup> "U.S. Labor Vows Fight Against Vietnam Trade Pact," *ABCnews.com*, accessed July 17, 2000; see also "Clouds Part Over Vietnam's Bumpy Road to Reform," *Reuters*, July 18, 2000.

<sup>16</sup> U.S. Department of State *1999 Report on Human Rights Practices in Vietnam*, released February 26, 1999, available at [[http://www.state.gov/www/global/human\\_rights/](http://www.state.gov/www/global/human_rights/)].

<sup>17</sup> For more on Vietnam's economic situation, see CRS Report 98-551, *Vietnam: Economic Reforms and Commercial Relations with the United States*, by Raymond J. Ahearn, and CRS Issue Brief IB98033, *Vietnam-U.S. Relations*, by Mark Manyin.

<sup>18</sup> Fukase, Emiko, and Will Martin, *The Effects of the United States Granting Most-Favored-Nation (MFN) Status to Vietnam*, (Washington, DC: World Bank Development and Research

Obtaining MFN status is likely to dramatically transform the product mix of Vietnam's exports to the U.S. Since the trade embargo was lifted in 1994, most of Vietnam's exports to the U.S. have been in items that either receive duty-free treatment (zero tariffs) or that have identical tariffs for MFN and non-MFN countries. In the short term, the BTA is likely to increase Vietnam's exports of labor-intensive manufacturing with large differences between the MFN and non-MFN tariff rates. Judging by Vietnam's leading exports to the European Union and Japan (see **Figure 1** below), exports of the following items are likely to increase substantially: garments, leather products, footwear, household plastic products and processed foods.<sup>19</sup>

**Vietnam's Clothing Exports.** In particular, Vietnam's clothing exports are expected to increase dramatically. Vietnam currently exports few apparel products to the U.S. – less than \$40 million in 1999 – because of the higher, non-MFN, tariff rates it faces. In contrast, Vietnamese garment exports to Japan and the 15 countries of the European Union in 1999 totaled more than \$500 million and \$640 million, respectively (see **Figure 1**). Based on the experience of Cambodia – which was granted MFN status in 1996 – the World Bank estimates Vietnamese apparel exports will increase nearly tenfold – to \$384 million – in the first year after receiving MFN status.<sup>20</sup>

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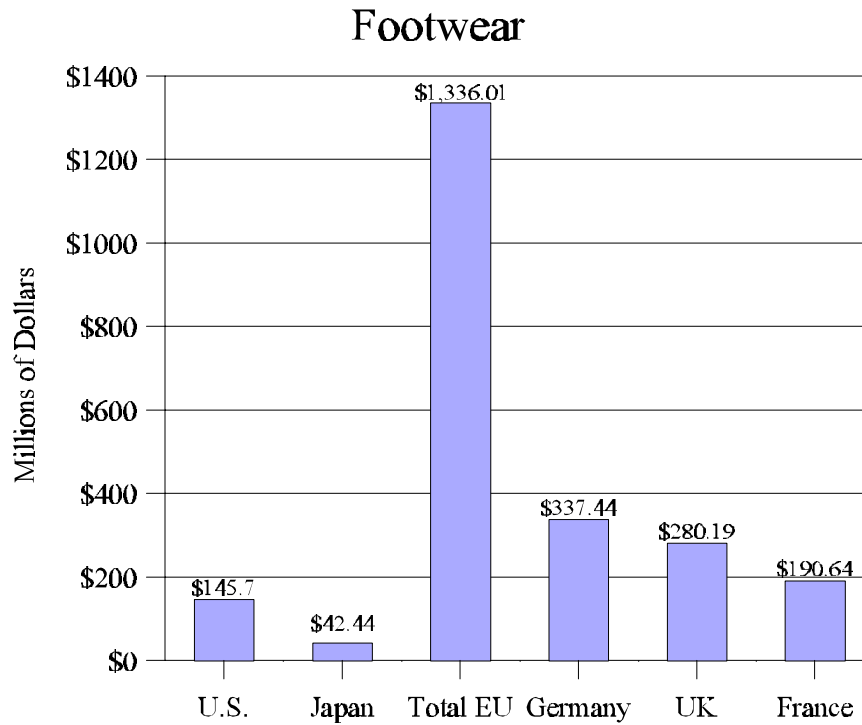
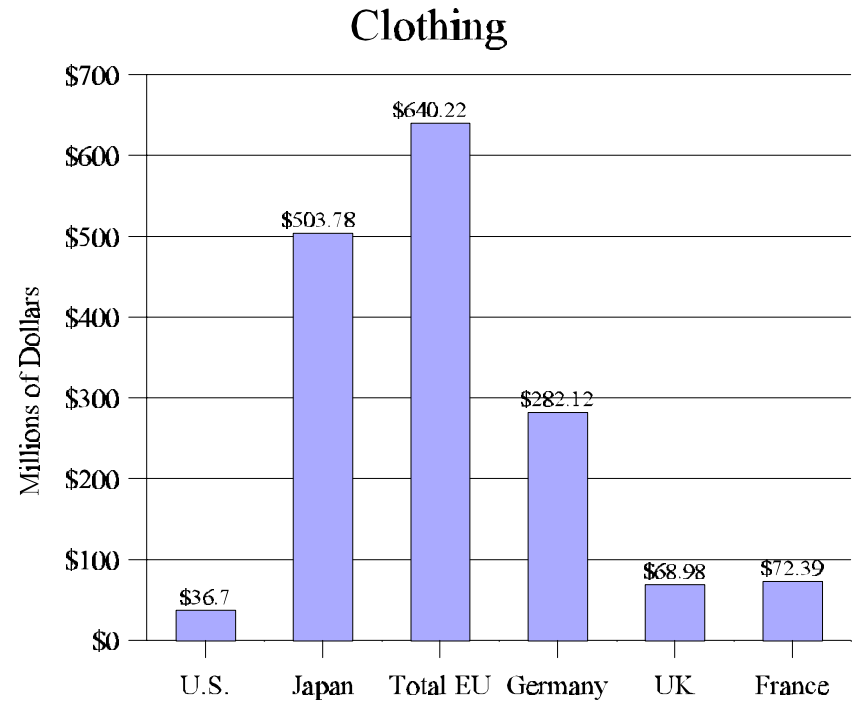
<sup>18</sup> (...continued)

Group, 1999). In a 1998 report, the World Bank estimated that half of the projected increase in exports to the U.S. will consist of clothing items. The rest is likely to consist of manufactures and processed agricultural goods. See World Bank, *Rising to the Challenge*, 1998, available at [<http://www.worldbank.org.vn/rep1/rep001.htm>].

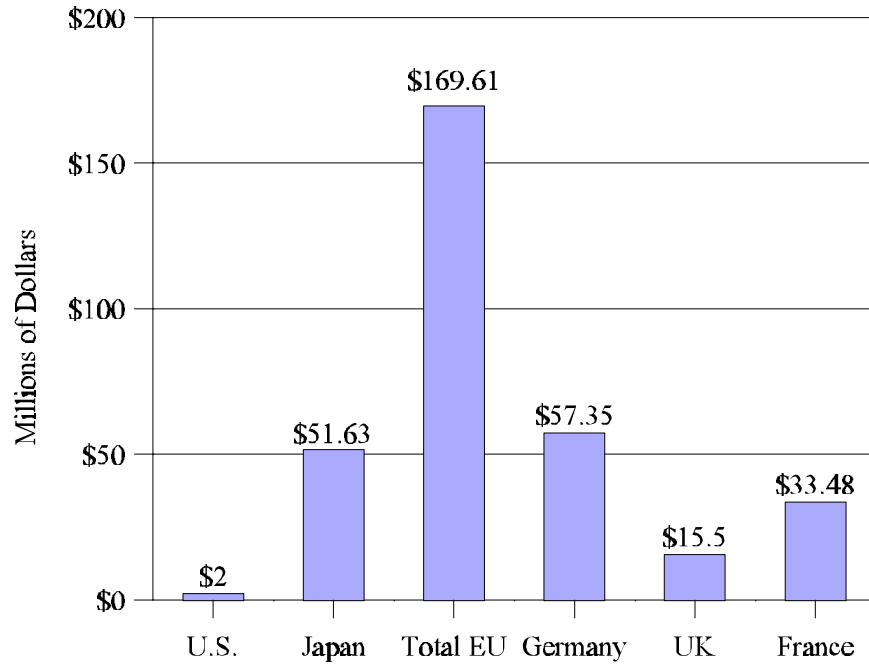
<sup>19</sup> EUROSTAT Internal and External Trade of the EU Database; *2000 Japan Statistical Yearbook*; *AsiaPulse*, [<http://sg.dailynews.yahoo.com/headlines/asia/>], accessed on August 18, 2000.

<sup>20</sup> Fukase and Martin, *The Effects of the United States Granting Most-Favored-Nation (MFN) Status to Vietnam*, p.12.

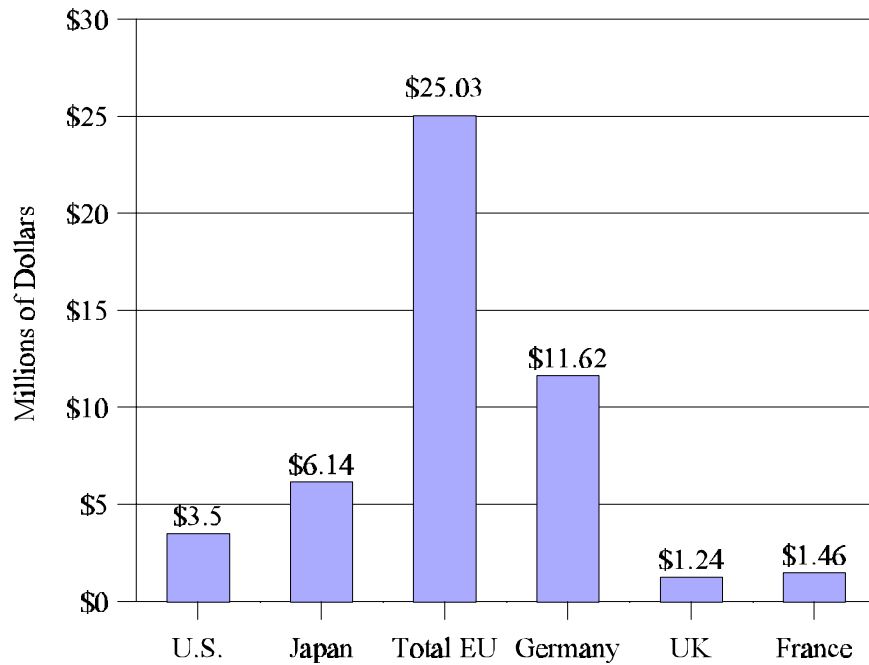
**Figure 1. Imports from Vietnam, Selected Countries & Products**



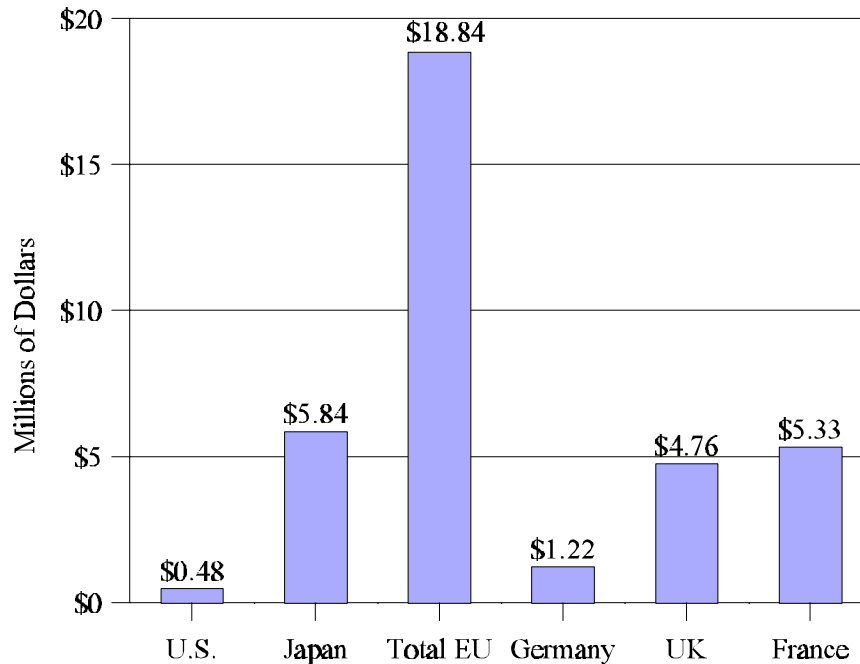
### Leather Goods



### Rubber Goods



## Manufactured Wood Products



U.S. International Trade Commission, EUROSTAT, and Japan Tariff Association)

The BTA agreement contains no provisions on Vietnamese textile exports to the U.S., but the safeguard provision would allow the U.S. to impose quotas on textile imports in the event of a surge of imports. In private, U.S. and Vietnamese officials have said they expect to begin negotiating a bilateral textile agreement, which presumably would set quotas for Vietnamese textile exports, soon after a Congressional vote on the BTA. In the case of Cambodia, the U.S. has applied quotas on most clothing imports, significantly reducing the annual increase in imports of Cambodian apparel items.

Signing a trade agreement could also bring Vietnam closer to receiving U.S. trade benefits under the generalized system of preferences (GSP), which allows many imports from less-developed countries to enter the U.S. market duty-free.<sup>21</sup> Furthermore, Vietnamese officials see the bilateral trade agreement as an important stepping stone to joining the WTO, providing them with non-discriminatory access to all WTO members. Not only do they regard the BTA as necessary to obtaining U.S. support for Vietnam's application for WTO membership, but they also see the processes of negotiating and implementing the agreement as useful for raising Vietnam's legal, regulatory, and economic systems to the WTO's standards.

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<sup>21</sup> Under Section 502 of the Trade Act of 1974, to be eligible for GSP treatment, Communist countries, in addition to meeting other conditions required of recipient developing countries, must receive MFN treatment, and belong to the WTO and the IMF. Paragraph I:3:8 of the Vietnam-U.S. BTA states that "the United States shall consider Vietnam's eligibility for the Generalized System of Preferences."

## Overview of the Vietnam-U.S. Bilateral Trade Agreement<sup>22</sup>

The trade agreement consists of four parts: market access, trade in services, intellectual property rights, and investment.

### 1) Market Access

Vietnam has agreed to take the following steps to open its markets:

- guarantee most-favored-nation (MFN) treatment to U.S. goods;
- treat imports the same as domestically produced products (also known as “national treatment”);
- eliminate quotas on all imports over a period of 3 to 7 years;
- make its government procurement process more transparent;
- allow for the first time all Vietnamese enterprises to trade all products;
- allow for the first time U.S. companies and U.S.-invested companies to import and export most products (to be phased in 3-6 years). (Presently, foreign companies have to rely on licensed Vietnamese importers, most of which are state-owned enterprises.)
- ensure that state enterprises comply with WTO rules;
- adhere to WTO rules in applying customs, import licensing, technical standards, and sanitary and phytosanitary measures

**Tariff Concessions.** The U.S.-Vietnam BTA is unique in that, in contrast to previously negotiated bilateral trade agreements between the U.S. and Jackson-Vanik countries, it includes specific commitments by Vietnam to reduce tariffs on approximately 250 products, about four-fifths of which are agricultural goods. Typically, the cuts range from 33% to 50% and are to be phased in over a three-year period. Vietnam’s tariffs are not considered to be extremely high for a developing country (the U.S. Foreign Commercial Service estimates that Vietnam’s average tariff line is 15%-20%).

The Clinton Administration considers Vietnam’s move to guarantee MFN-level tariffs as particularly significant, as Vietnam since January 1999 has imposed a 50% tariff surcharge on imports from countries with which it has not exchanged reciprocal MFN treatment. While Hanoi and Washington were negotiating the BTA, Vietnam did not levy the surcharge on U.S. imports.

Also in the area of market access, the agreement includes a **safeguard** provision that would allow either side to raise tariffs temporarily if it encounters a surge of imports.

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<sup>22</sup> In addition to the text of the agreement itself, this section borrows from “Vietnam Trade Agreement: Summary of Key Provisions,” *Reuters*, July 13, 2000.



## 2) Intellectual Property Rights

Vietnam has pledged to phase in the World Trade Organization Agreement on Trade-Related Intellectual Property Rights (TRIPs) over 18 months. The bilateral TRIPs agreement goes above and beyond the WTO's TRIPs agreement by including Vietnamese commitments to protect satellite signals within 30 months.

## 3) Trade in Services

In the area of services, Vietnam has committed to uphold WTO rules such as MFN, national treatment, and disciplines on domestic regulation. Additionally, Vietnam has agreed to allow U.S. companies and individuals to invest in markets in a wide range of service sectors, including accounting, advertising, banking, computer, distribution, education, insurance, legal and telecommunications. Most sector-specific commitments are phased in over three to five years. Vietnam's commitments in three of the largest U.S. service sectors – banking, insurance, and telecommunications – are highlighted below.

**Banking Services.** Vietnam agreed to the following liberalization measures: For the first nine years after the agreement goes into effect, U.S. banks may form joint ventures with Vietnamese partners, with U.S. equity between 30% and 49%. After nine years, 100% subsidiaries are permitted.

**Insurance.** Under the BTA, for “mandatory” insurance sectors (such as automobile and construction-related insurance), after three years Vietnam will allow U.S. companies to form joint ventures, with no limit on the U.S. equity share. After six years, 100% subsidiaries are permitted. For life insurance and other “non-mandatory” insurance sectors, after three years joint ventures are permitted, with a limit of 50% U.S. equity. After five years, 100% subsidiaries are allowed.

**Telecommunications.** Under the BTA, for higher-end telecommunications services (such as Internet, e-mail, and voice mail services), Vietnam will permit joint ventures after two years, with a 50% cap on U.S. equity participation. Internet services have a three-year phase in period. For basic telecommunications services (such as facsimile, cellular mobile, and satellite services), joint ventures are permitted after four years, with U.S. companies limited to a 49% stake. For local, long distance, and international voice telephone services, joint ventures are permitted after six years, with a 49% cap on U.S. ownership. Vietnam agreed that it will consider increasing the U.S. equity limits when the agreement is reviewed in three years.

## 4) Investment

Regarding **investment**, the U.S.-Vietnam trade agreement includes guarantees of MFN treatment, national treatment, transparency, and protection against expropriation. Additionally, Vietnam pledged to implement the following changes in its investment regime:

- Investment screening: Currently, foreign businesses must obtain government approval to invest in Vietnam. Under the BTA,

investment screening will be phased out for most sectors within two, six, or nine years, depending on the sector involved.

- **Profit repatriation:** Presently, Vietnamese enterprises have greater freedom than foreign multinationals to convert their Vietnam-earned profits into hard currency. The State Bank of Vietnam must approve the conversion of currency on behalf of foreign businesses, and the Bank does not give permission to convert currency to foreign-invested companies.<sup>23</sup> Under the BTA, foreign multinationals will receive the same rights for profit repatriation as Vietnamese firms; however, Vietnam's currency is still not fully convertible.
- **Capital contribution floors:** Currently, the U.S. stake in a joint venture must be at least 30%. This requirement will be eliminated in three years.
- **Personnel requirements for joint ventures:** Presently, Vietnam requires that certain board members of joint ventures be Vietnamese and requires that certain types of decisions be made by consensus (thereby granting veto power to the Vietnamese board members). Under the BTA, within three years Vietnam would allow U.S. multinationals to select top executives without regard to nationality.
- **Trade-related investment measures (TRIMs):** Vietnam has agreed to eliminate within five years all TRIMs that are inconsistent with the WTO, such as local content requirements.

## Implementation

### Comparison with the 1999 “Agreement in Principle”

In July 1999 the U.S. and Vietnam announced an “agreement in principle” on a BTA, but for nearly a year Vietnam delayed finalizing the deal because of intense divisions among the Vietnamese Communist Party (VCP) leadership (see the following section for an analysis of the reasons for Vietnam's hesitation). The Clinton Administration did not release the full terms of the July 1999 agreement in principle. According to one negotiator, the only significant differences between the final BTA and the 1999 agreement lie in the area of trade in services (Chapter III and Annex G), specifically in the area of telecommunications.<sup>24</sup>

**Telecommunications.** In general, the 1999 agreement in principle would have allowed U.S. companies the right to obtain a majority (51%) stake in certain Vietnamese telecommunications sectors after a certain number of years (often referred to as the “phase-in” period). Following the November 1999 U.S.-China agreement on China's WTO accession – which granted U.S. companies the right to a 49% maximum stake in Chinese telecommunications enterprises – the Vietnamese negotiators demanded that they receive similar equity caps. The U.S. agreed to this

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<sup>23</sup> United States Foreign Commercial Service, “Country Commercial Guide: Vietnam,” July 15, 1999.

<sup>24</sup> July 2000 interview with U.S. government official.

concession, but in exchange received significantly shorter phase-in periods. Vietnam also agreed to consider increasing the U.S. equity limits when the agreement is reviewed in three years.

Two telecommunications sectors, wireless and basic voice services, illustrate the differences between the 1999 and 2000 documents. In wireless telecommunications, under the 1999 agreement Vietnam would have allowed U.S. companies the right to set up joint ventures after three years, with a 51% maximum stake for U.S. companies. Under the 2000 BTA, Vietnam is to grant U.S. companies the right to set up wireless joint ventures after two years (three years for internet services), with a 50% cap on U.S. equity participation.

In the area of basic voice telecommunication services (local, long distance and international phone service), press reports indicate that the 1999 agreement would have phased-in a right to invest after 11 years, with a 51% maximum stake for U.S. companies. Under the 2000 BTA, Vietnam is to allow U.S. companies to set up joint ventures after six years, with a 49% cap on U.S. ownership.

**Insurance.** According to press reports, under the 1999 agreement Vietnam would have permitted U.S. companies to invest in its insurance sector in two to six years. The phase-in period varied by insurance sector. Details are unavailable on foreign equity caps.<sup>25</sup> Under the July 2000 BTA, Vietnam is to grant U.S. companies the right to set up 50-50 joint ventures in its insurance sector after three years, and wholly owned (100% stake) ventures after five years.

**Market Access.** The final BTA includes commitments by Vietnam to reduce tariffs on approximately 250 products, about four-fifths of which are agricultural goods. 1999 press reports implied that the agreement in principle contained 330 tariff items scheduled for tariff reduction. A U.S. official involved in negotiating the agreement, however, has argued that this number is incorrect, stating that the tariff changes in Annex E of the final BTA are essentially the same as those agreed upon in 1999.

## Comparison with Past BTAs

In negotiating bilateral trade deals with Jackson-Vanik countries, U.S. negotiators generally have tried to break new ground with each successive agreement. As one indication of that policy, the 1979 agreement China was less than 10 pages, while the far more comprehensive U.S.-Vietnam BTA is more than ten times that length. The Vietnam-U.S. BTA goes beyond past agreements in its more detailed commitments in the areas of services and investment. Furthermore, Vietnam's tariff concessions represent a new development. Previous Jackson-Vanik BTAs contained few or no market access commitments because in those negotiations the U.S.

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<sup>25</sup> "USTR Lays Out Key Issues to be Resolved in U.S.-Vietnam Trade Deal," *Inside U.S. Trade*, July 30, 1999.

proposed to carry out tariff discussions at a future date, not as part of the final BTA itself.<sup>26</sup>

## Vietnam's Ambivalence toward Economic Integration

Though the U.S. and Vietnam reached an agreement in principle on the BTA in July 1999, for nearly a year Vietnam delayed signing the deal. What were the reasons for Vietnam's hesitancy?

### Internal Factors

**Consensus-Based Decision-Making.** Vietnam's official reason for the delay was that it needed time to vet the agreement among decision-makers in Vietnam. Vietnam's consensus-style of decision-making and the weakness of the country's current leadership probably extended this vetting process: The BTA is the most extensive agreement Vietnam has ever negotiated, and the assent of virtually all officials involved in implementing the deal was required before Hanoi would take such a radical step. Furthermore, the weakness of the country's current top leaders – VCP General Secretary Le Kha Phieu, Prime Minister Phan Van Khai, and President Tran Duc Luong – made it difficult for them to forge a consensus on such a controversial issue.<sup>27</sup>

**Questions from Vietnamese Conservatives.** Ever since the Vietnamese Communist Party's (VCP) 8<sup>th</sup> Party Congress in 1996, disagreements between reformers and conservatives in Vietnam's 19-member Politburo – the country's supreme ruling body – have paralyzed economic decision-making. As the bilateral trade agreement with the U.S. requires Vietnam to jump-start its reforms and deepen its integration into the global economy, it is not surprising that the Politburo also has been divided over whether to finalize the deal.

The conservatives fear that economic reform will undermine the “socialist foundations” of the country's economic and political systems, and thereby erode the VCP's legitimacy and monopoly on power. They also fear that Vietnam's sovereignty will be eroded by increasing Vietnam's economic dependence on the West and by increasing Vietnam's vulnerability to regional economic downturns such as the 1997-99 Asian financial crisis. Among their specific concerns, conservatives worry that shifting to a more market-oriented economy will force the Politburo to curtail subsidies to the country's state-owned enterprises, the backbone of the socialist economic system. Many conservatives are understandably worried that further rationalization will raise unemployment rates, which already exceed 10%, according to some estimates. Social and political pressures on the Party have already been heightened in recent years by peasant uprisings and widespread accusations of

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<sup>26</sup> November 1999 interview by the author with trade policy expert Craig VanGrasstek, President, VanGrasstek Communications.

<sup>27</sup> Zachary Abuza, “Leadership Transition in Vietnam since the Eighth Party Congress: The Unfinished Congress,” *Asian Survey*, (December 1998).

government corruption. High level U.S. pressure on Vietnam for its human rights record, applied during Secretary of State Madeleine Albright's September 1999 trip to Vietnam, is said to have further rankled conservative forces opposed to the trade agreement.

In January 2000, a group of reform-minded leaders were transferred to key economic and political posts. These moves, combined with the BTA signing, the unveiling of a new Enterprise Law, the passage of new amendments to the Foreign Investment Law, and the opening of Vietnam's first stock market on July 20, 2000, may be signs that Hanoi's policy logjam is breaking up in the reformers' favor.

**Opposition from Vested Interests.** Parochial interests also may have played a role in Vietnam's deliberations. According to many sources, Vietnam's military leaders have been among the staunchest opponents of the BTA. Many argue that the military – known as the People's Army of Vietnam – is worried that the trade deal would threaten its vast commercial interests. According to one estimate, the business enterprises of the People's Army of Vietnam generated over \$600 million in revenue in 1998, a figure equivalent to nearly 60% of the entire military budget.<sup>28</sup> Evidence of the military's influence can be seen in Vietnam's bargaining position on telecommunications liberalization during the BTA negotiations. Hanoi demanded an eleven-year phase-in period for FDI liberalization in cable communications, a sector in which the People's Army has invested heavily since 1995. In contrast, Vietnam's negotiators were willing to accept a four-year phase in for cellular communications, an area in which the Ministry of Defense has few investments.<sup>29</sup>

### **External Factors - Balancing China and the U.S.**

Yet another hypothesis is that Hanoi was concerned that a trade deal with the United States would antagonize China. Beijing and Hanoi recently have strengthened their ties, and conservative elements in Hanoi may be wary of upsetting Beijing by appearing too closely aligned with the U.S. In particular, the Vietnamese leadership may have wished to avoid jeopardizing negotiations with China over a land-border treaty, negotiations that were not concluded until December 1999. There are also reports that Chinese leaders warned the Vietnamese not to conclude the BTA before Beijing had finalized its own WTO accession negotiations with the U.S., talks that were concluded in November 1999. However, some analysts and Administration officials reject this reasoning as a stalling tactic by the Vietnamese, who are said to often use the Chinese as an excuse for delaying foreign policy moves about which they are uncertain. As one observer has pointed out, Chinese opposition did not prevent

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<sup>28</sup> Huw Watkin, "Proud Military Slips into Decline as Aid Dries Up," *South China Morning Post*, July 7, 1999, and Huw Watkin, "Military Puts Boot in as Treaty with US Seen Growing Threat to Business Empire," *South China Morning Post*, September 14, 1999.

<sup>29</sup> Zachary Abuza, "The Politics of Globalization: Explaining Vietnam's Rejection of the U.S. Trade Deal," (Boston, MA: Simmons College, 2000), p.20.

Vietnam from joining the Association of Southeast Asian Nations (ASEAN) in 1995.<sup>30</sup>

Most observers agree that, apart from the issue of unsubstantiated Chinese pressure, the China factor played a positive role in spurring the Vietnamese to move forward, due to Hanoi's fears of increased economic competition with Beijing following China's likely accession to the WTO in 2000 or 2001.

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<sup>30</sup> Abuza, "The Politics of Globalization," p.21-22.