

CRS Report for Congress

U.S.-Vietnam Relations: Background and Issues for Congress

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Summary

After communist North Vietnam's victory over U.S.-backed South Vietnam in 1975, U.S.-Vietnam relations remained essentially frozen for over 15 years. Since then, bilateral ties have expanded remarkably, to the point where the relationship has been virtually normalized. Congress played a significant role in this process, which has been controversial. Some argue that improvements in bilateral relations should be conditioned upon Vietnam's authoritarian government improving its record on human rights, particularly in the Central Highlands region. Voices favoring improved relations have included those reflecting U.S. business interests in Vietnam's reforming economy and U.S. strategic interests in expanding cooperation with a populous country — Vietnam has around 85 million people — that has an ambivalent relationship with China.

For Vietnam, the United States has loomed large in the three-pronged national strategy that Hanoi essentially has adopted since the mid-1980s: prioritize economic development through market-oriented reforms; pursue good relations with Southeast Asian neighbors; and repair and deepen relations with China, while simultaneously buttressing this by seeking a great power counterweight to Chinese ambition. In recent years, Vietnamese leaders have sought to upgrade relations with the United States, perhaps because of worries about China's expanding influence in Southeast Asia and the need for U.S. support for Vietnam's bid to enter the World Trade Organization (WTO). Many argue, however, that there is little evidence that Hanoi seeks to balance Beijing's rising power and point out that some Vietnamese remain suspicious that the United States' long-term goal is to end the Vietnamese communist party's monopoly on power through a "peaceful evolution" strategy.

Economic ties are perhaps the most mature aspect of the bilateral relationship. Since the United States extended conditional normal trade relations (NTR) to Vietnam in 2001, bilateral trade — primarily imports from Vietnam — has increased more than fivefold, to the point where the United States is now Vietnam's largest export market. The final step toward full economic normalization was accomplished in December 2006, when Congress passed and President Bush signed H.R. 6111 (P.L. 109-432), extending permanent normal trade relations (PNTR) status to Vietnam. For years, the United States has supported Vietnam's economic reforms, which many credit with Vietnam's extraordinary economic performance; annual gross domestic product (GDP) growth has averaged over 7% for the past twenty years. Since the early 1990s, poverty levels have been halved, to less than 30%.

In the past four years, the United States and Vietnam have expanded political and security ties, symbolized by the Vietnamese Prime Minister's visit to the United States in June 2005, the first such trip by a Vietnamese head of state. Both leaders spoke of their desire to move bilateral relations to "a higher plane" and President Bush reciprocated by traveling to Vietnam in November 2006. In 2005, the United States and Vietnam signed an international military education training (IMET) agreement. Vietnam is one of the largest recipients of U.S. assistance in East Asia; U.S. aid in FY2006 surpassed \$75 million, much of it for health-related activities.

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U.S.-Vietnam Relations: Background and Issues for Congress

Developments in the Fall of 2006¹

Passage of Vietnam PNTR Legislation. On December 8, 2006, the House passed legislation (212-184) to grant Vietnam permanent normal trade relations (PNTR) status as part of a more comprehensive trade bill (H.R. 6406). Pursuant to H.Res. 1100, the bill was then coupled with a tax-extension bill (H.R. 6111) and sent to the Senate. The Senate passed the combined bills on December 8 (79-9). On December 20, President Bush signed the measure into law (P.L. 109-432). For more on the legislative history of the PNTR legislation, see **Box 2** in the Economic Ties section.

President Bush's Trip to Vietnam. From November 17-20, President Bush visited Hanoi and Ho Chi Minh City Vietnam. While in Hanoi, in addition to meeting various APEC leaders, the President met with Vietnam's leadership troika: President, Prime Minister, and General Secretary of the Vietnamese Communist Party. President Bush also visited an ecumenical church and the Joint P.O.W./M.I.A. Accounting Command, which searches for the remains of Americans still listed as missing in the Vietnam War. In Ho Chi Minh City, Vietnam's economic and financial capital, the President met with business leaders at the country's stock exchange and toured a Vietnamese government-run Pasteur Institute to highlight work on avian flu and AIDS prevention and treatment.

Box 1. Vietnam Country Data

Area: 329,560 km² (slightly larger than New Mexico)

Population: 84.4 million (July 2006 est.)

Population Growth Rate: 1.02% (U.S. = 0.91%)

Median Age: 25.9 years (U.S. = 36.5 yrs.)

Life Expectancy: 70.9 years (U.S. = 77.9 yrs.)

Ethnic Groups: Kinh (Viet) 86.2%

Per Capita GDP: \$2,800 (2005) purchasing power parity basis (U.S. = \$41,600)

Primary Export Partners: US 21.2%, Japan 13.3%, Australia 8.4%, China 7.5% (2005)

Primary Import Partners: China 16.3%, Singapore 12.8%, Taiwan 11.7%, Japan 10.4%, South Korea 9.9% (2005)

Dollar:Dong Exchange Rate: 16,037 (2006 est.), 15,855 (2005), 15,746 (2004).

Sources: CIA *World Factbook*, December 19, 2006; 2006 exchange rate estimate is from the Economist Intelligence Unit.

President Bush's visit appears to have generated little in the way of tangible developments in U.S.-Vietnam relations, with the exception of the Administration's decision to remove Vietnam from the list of the world's worst violators of religious freedom (see below). Throughout his visit, the President praised Vietnam's

¹ Information for this report not otherwise sourced came from a variety of news articles, scholarly publications, government materials, and interviews by the author.

economic development and “reiterated his firm support for the earliest possible Congressional approval of Permanent Normal Trade Relations.” He invited Vietnamese President Nguyen Minh Triet to visit the United States in 2007. Vietnamese leaders “urged” the U.S. side to increase humanitarian assistance. In a joint statement, the two sides rhetorically agreed that it would be beneficial to jointly clean contamination from former dioxin (“Agent Orange”) storage sites.²

The visit was markedly more low-key than President Clinton’s six-day trip in 2000. President Bush made few public outings and no public speeches. In contrast, President Clinton gave a nationally televised address at Vietnam National University and made several public outings, during which thousands of ordinary Vietnamese thronged to greet or catch a glimpse of the President. These spontaneous outbursts, combined with Clinton’s public and private remarks about human rights and democratization, were sufficiently large that they triggered criticism from conservative Vietnamese leaders. Unlike the 2006 presidential trip, the 2000 visit did not coincide with a major international conference and unlike President Bush, President Clinton was not preoccupied with a major regional crisis such as the North Korean nuclear situation. President Bush’s traveling team also was confronted with questions about parallels between the Iraq and Vietnam Wars, a comparison Administration officials said was not apt.³

Human Rights. The human rights situation in Vietnam, along with the place of human rights in U.S.-Vietnam relations, continued to display contradictory trends in the fall of 2006. On November 13, 2006, the State Department announced that because of “many positive steps” taken by the Vietnamese government since 2004, the country was no longer a “severe violator of religious freedom” and had been removed from the CPC list. The announcement, which came two days before President Bush was due to depart to Hanoi for the APEC summit, cited a dramatic decline in forced renunciations of faith, the release of religious prisoners, an expansion of freedom to organize by many religious groups, and the issuance of new laws, regulations, and stepped up enforcement mechanisms.⁴ Over the course of 2006, as part of the bilateral U.S.-Vietnam human rights dialogue, Vietnam released a number of prominent dissidents the Bush Administration had identified as “prisoners of concern.” Vietnam also reportedly told the United States in October that it would repeal its administrative decree allowing detention without trial.⁵

² “Joint Statement Between the Socialist Republic of Vietnam and the United States of America,” White House Office of the Press Secretary, November 17, 2006.

³ David Sanger and Helene Cooper, “Unlike Clinton, Bush Sees Hanoi in Bit of a Hurry,” *New York Times*, November 19, 2006; Press Gaggle by Tony Snow Aboard Air Force One en route to Hanoi, White House Office of the Press Secretary, November 16, 2006.

⁴ State Department Special Briefing, “Ambassador-at-Large for International Religious Freedom John V. Hanford III on the Release of the State Department’s 2006 Designations of Countries of Particular Concern for Severe Violations of Religious Freedom,” November 13, 2006.

⁵ P. Parameswaran, “Vietnam to Abolish Detention without Trial ahead of Bush Visit: Official,” *Agence France Presse*, October 31, 2006.

On the other hand, some Members of Congress and human rights groups point to continued signs of human rights abuses by the Vietnamese government. The U.S. Committee on International Religious Freedom, for instance, disputed the Administration's factual basis of the decision to remove Vietnam from the CPC list, arguing that abuses continue and that lifting the CPC label removes an incentive for Vietnam to make further improvements.⁶ Additionally, some Members of Congress have called attention to individual human rights cases involving Vietnamese-Americans detained during trips to Vietnam.

Signs of Vietnamese Cooperation on North Korea. At the request of the United States, Vietnamese state-run banks appear to be closing accounts linked to North Korea. In September 2006, U.S. Treasury Secretary Hank Paulson reportedly thanked Vietnam for co-operating with the U.S. scrutiny of North Korean financial activities by investigating North Korean bank accounts.⁷ Vietnam maintains relations with North Korea.

Introduction

Since the early 1990s, U.S.-Vietnam relations have gradually been normalizing, as the end of the Cold War erased the need for the United States to attempt to isolate the communist government that defeated the U.S.-backed South Vietnam in 1975. Currently, factors generating interest in the relationship include growing trade and investment flows, the large ethnic Vietnamese community in the United States, the legacy of the Vietnam War, increasing interaction through multilateral institutions, and shared concern over the rising strength of China. U.S. goals with respect to Vietnam include developing more amicable relations, bringing the country more into the mainstream of nations, opening markets for U.S. trade and investment, furthering human rights and democracy within the country, and maintaining U.S. influence in Southeast Asia. The array of policy instruments the United States employs in relations with Vietnam includes trade incentives, foreign assistance, cooperation in international organizations, diplomatic pressures, and educational outreach.

For Vietnam's part, since the mid-1980s, Hanoi essentially has pursued a three-pronged national strategy, in which the United States has loomed large: (1) prioritize economic development through market-oriented reforms; (2) pursue good relations with Southeast Asian neighbors that provide Vietnam with economic partners and diplomatic friends; and (3) repair and deepen its relationship with China, while simultaneously buttressing this by seeking a great power counterweight to Chinese ambition.⁸ There are a number of possible reasons Vietnam has sought to upgrade

⁶ "USCIRF Disappointed About Removal of Vietnam from U.S. Government's List of Religious Freedom Violators," USCIRF Press Release, November 13, 2006.

⁷ Anna Fifield and Amy Kazmin, "Vietnam Bank Tightens Screw on Pyongyang," *Financial Times*, December 28, 2006.

⁸ Marvin Ott, "The Future of US-Vietnam Relations," Paper presented at The Future of Relations Between Vietnam and the United States, SAIS, Washington, DC, October 2-3, (continued...)

its relationship with the United States. Vietnam had an interest in facilitating its application to join the World Trade Organization (WTO), a move that required U.S. (and congressional) approval. At the strategic level, Vietnam may be seeking to offset China's increased economic, political, and cultural influence in Southeast Asia. Additionally, the Vietnamese undoubtedly hoped to smooth the way for President Bush's trip to Hanoi in 2006, when Vietnam hosted the Asia-Pacific Economic Cooperation (APEC) forum summit. With the summit out of the way and WTO accession secured, it will be interesting to see if Vietnam continues its outreach to the United States.

Throughout the process of normalizing relations with Vietnam, Congress has played a significant role. Not only has Congress provided oversight and guidance, but it has shaped the interaction by imposing constraints, providing relevant funding, or by its approval process for agreements.

This report provides an overview of U.S. relations with Vietnam, including policy issues, the economic and political situation in Vietnam, and a list of pertinent legislation. The key issues in the relationship include how far to pursue strategic and military-to-military ties; whether to impose curbs on surges in imports of certain items from Vietnam; how much and what types of bilateral economic assistance to provide; whether and how to try to improve the human rights situation in Vietnam; and how to clear up legacy issues from the Vietnam war.

U.S.-Vietnam Relations, 1975-2000

U.S.-Vietnam diplomatic and economic relations were virtually nonexistent for more than 15 years following communist North Vietnam's victory in 1975 over U.S. ally South Vietnam. During that time, the United States maintained a trade embargo and suspended foreign assistance to unified Vietnam.

Policy Initiatives During the Carter Administration

Early in his term, President Carter's Administration took several steps to improve relations with Vietnam. In 1977, the United States dropped its veto of Vietnam's application for U.N. membership, and the United States proposed that diplomatic relations quickly be established between the United States and Vietnam, after which the United States would lift export and asset controls on Vietnam. The Vietnamese responded that they would neither agree to establish relations nor furnish information on U.S. POW/MIAs until the United States pledged to provide several billion dollars in postwar reconstruction aid, which they claimed had been promised by the Nixon Administration. Subsequently, they modified this position and provided some limited information on MIAs, even though the United States provided no aid. In 1977, both houses of Congress went on record as strongly opposing U.S. aid to Vietnam.

⁸ (...continued)
2003.

Vietnamese actions in 1978 in particular had a long-term negative effect on U.S.-Vietnamese relations. Vietnam expelled hundreds of thousands of its citizens (many of Chinese origin) who then became refugees throughout Southeast Asia; aligned itself economically and militarily with the USSR; and invaded Cambodia, deposing the pro-Chinese Khmer Rouge regime and imposing a puppet Cambodian government backed by 200,000 Vietnamese troops. China conducted a one month military incursion along Vietnam's northern border in 1979 and kept strong military pressure on the North until 1990. In the face of these developments, the Carter Administration halted consideration of improved relations with Vietnam. It worked closely with the members of the Association of Southeast Asian Nations (ASEAN — then made up of Indonesia, Malaysia, the Philippines, Singapore, and Thailand) to condemn and contain the Vietnamese expansion and to cope with the influx of refugees from Indochina.

Developments During the Reagan and Bush Administrations

The Reagan Administration opposed normal relations with Hanoi until there was a verified withdrawal of Vietnamese forces from Cambodia, a position amended in 1985 to include a verified withdrawal in the context of a comprehensive settlement. Administration officials also noted that progress toward normal relations depended on Vietnam fully cooperating in obtaining the fullest possible accounting for U.S. personnel listed as prisoners of war/missing in action (POW/MIAs).

As Vietnam withdrew forces from Cambodia in 1989 and sought a compromise peace settlement there, the Bush Administration decided in 1990 to seek contacts with Hanoi in order to assist international efforts to reach a peace agreement in Cambodia. Regarding the issue of the POW/MIAs, following a visit to Hanoi in 1987 by General John Vessey, President Reagan's Special Emissary for POW-MIA Issues, Vietnam returned hundreds of sets of remains said to be those of U.S. MIAs. Some, but not most, were confirmed as American. Altogether, from 1974 to 1992, Vietnam returned the remains of more than 300 Americans. Virtually all U.S. analysts agree that the Vietnamese "warehoused" several hundred remains and tactically released them in increments.

In April 1991, the United States laid out a detailed "road map" for normalization with Vietnam, welcomed Vietnam's willingness to host a U.S. office in Hanoi to handle POW/MIA affairs, and pledged \$1 million for humanitarian aid (mainly prosthetics). The U.S. office began operation in mid-1991. Also in 1991, the United States eased travel restrictions on Vietnamese diplomats stationed at the United Nations in New York and on U.S. organized travel to Vietnam.

In 1992, Vietnamese cooperation on POW/MIA matters improved, especially in the area of allowing U.S. investigators access to pursue "live sightings" reports. That year, the United States provided \$3 million of humanitarian aid (mainly prosthetics and aid to abandoned or orphaned children) for Vietnam; restored direct telecommunications with Vietnam; allowed U.S. commercial sales to meet basic human needs in Vietnam; and lifted restrictions on projects carried out in Vietnam by U.S. nongovernmental organizations. The United States provided aid to Vietnamese flood victims and provided additional aid for combating malaria problems.

Coinciding with these developments, the Senate Select Committee on POW/MIA affairs conducted what many consider the most extensive independent investigation of the POW/MIA issue ever undertaken. The committee, chaired by John Kerry and vice-chaired by Bob Smith, operated from August 1991 to December 1992. In early 1993, the committee issued its report, which concluded that there was “no compelling evidence” that POWs were alive after the U.S. withdrawal from Vietnam, and that although there was no “conspiracy” in Washington to cover up live POWs, the U.S. government had seriously neglected and mismanaged the issue, particularly in the 1970s. The committee’s televised hearings arguably helped lay the domestic political foundation for the incremental breakthroughs in U.S.-Vietnam relations that followed.

Apart from Cambodia and the POW/MIA matter, the Reagan and Bush Administrations concerned themselves with a third problem — humanitarian issues. Major progress in negotiations with Vietnam resulted in plans to: (1) facilitate emigration from Vietnam of relatives of Vietnamese-Americans or permanent Vietnamese residents of the United States; (2) regulate the flow of Vietnamese immigrants to the United States and other countries under the so-called Orderly Departure Program (ODP) managed by the U.N. High Commissioner for Refugees; (3) resolve the issue of the estimated several thousand Amerasians (whose fathers are Americans and whose mothers are Vietnamese) who reportedly wished to immigrate from Vietnam to the United States; and (4) obtain release from Vietnamese prison camps and the opportunity to immigrate to the United States of thousands of Vietnamese who worked for the United States in South Vietnam or were otherwise associated with the U.S. war effort. Meanwhile, U.S. officials in Congress and the Administration expressed repeatedly their concern about the large numbers of political prisoners said to be in Vietnam.

Developments During the Clinton Administration

Early moves to improve relations during the Clinton Administration included the President’s announcement on July 2, 1993, that the United States would no longer oppose arrangements supported by France, Japan, and others allowing for resumed international financial institution aid to Vietnam; however, he said the U.S. economic embargo on Vietnam would remain in effect. A high-level U.S. delegation visited Hanoi in mid-July to press for progress on POW/MIAs. The delegation also disclosed that U.S. consular officials would henceforth be stationed in Hanoi. President Clinton’s September 13, 1993 renewal of his authority to maintain trade embargoes included a less restrictive version of the one on Vietnam that allowed U.S. companies to bid on development projects funded by international financial institutions in Vietnam. Also in September 1993, the Administration approved \$3.5 million in U.S. aid to extend two humanitarian programs (prostheses and orphans) in Vietnam. Members of Congress played an important behind-the-scenes role in encouraging the Clinton Administration to take many of these, and subsequent, steps.⁹

⁹ 2001 conversations with senior congressional staffers involved in the normalization debates of the 1990s.

On February 3, 1994, President Clinton ordered an end to the U.S. trade embargo on Vietnam. The action came after many months of high-level U.S. interaction with Vietnam on resolving POW/MIA cases, and a January 27, 1994 vote in the Senate urging that the embargo be lifted, language that was attached to broad authorizing legislation (H.R. 2333 of the 103rd Congress). The language was controversial in the House, but H.R. 2333 passed Congress and was signed into law (P.L. 103-236) in April 1994.

On January 25, 1995, the United States and Vietnam settled bilateral diplomatic and property claims and opened liaison offices in Washington and Hanoi. In early August 1995, the two countries opened embassies in Washington and Hanoi. The following month, an attempt in the Senate to restrict trade ties with Vietnam failed. The FY1996 State Department Appropriations bill (H.R. 2076 of the 104th Congress) included language barring funding for full diplomatic relations with Vietnam until more progress was made on POW/MIA issues. President Clinton vetoed H.R. 2076 in December 1995. Controversy continued in 1995 and 1996 over provisions in legislation (H.R. 1561 of the 104th Congress) that would place conditions on upgrading U.S. relations with Vietnam, and that would admit additional boat people from camps in Hong Kong and elsewhere to the United States. H.R. 1561 passed Congress in March 1996, but was vetoed by the President, and the veto was sustained on April 30, 1996. A modified version of the Vietnam provisions in H.R. 2076 was signed by President Clinton on April 26, 1996, as part of H.R. 3019, the Omnibus Appropriations bill (P.L. 104-134). To comply with the provisions, President Clinton issued Presidential Determination 96-28 on May 30, 1996, saying that Vietnam was cooperating in full faith with the United States on POW/MIA issues. On April 10, 1997, the Senate approved former Vietnam War POW and Member of Congress Pete Peterson as U.S. Ambassador to Vietnam.

Economic relations steadily improved over the next several years, culminating in the signing of the landmark U.S.-Vietnam bilateral trade agreement (BTA) in 2000 (see below). While visiting Vietnam in late June 1997, Secretary of State Madeleine Albright urged greater economic reform and better human rights. In December 1997, National Security Adviser Sandy Berger said the Administration was consulting with Congress on granting Vietnam a waiver from the Jackson-Vanik amendment that would smooth the way for the Overseas Private Investment Corporation (OPIC) and Export-Import Bank to support U.S. business activities in Vietnam. On March 11, 1998, President Clinton granted the waiver, and a formal agreement on OPIC was signed eight days later. In each subsequent year of his term, President Clinton granted a Jackson-Vanik waiver to Vietnam. In November 1999, OPIC signed its first financing agreement for an American business in Vietnam since the end of the Vietnam War, a \$2.3 million loan to Caterpillar Inc.'s authorized dealership in Vietnam.

U.S.-Vietnam Relations, 2000-2006

Prime Minister's June 2005 Trip to the United States

In the future, Vietnamese Prime Minister Phan Van Khai's June 2005 trip to the United States may be viewed as a landmark in the improvement of relations between the two countries. Not only was the trip the first such visit to the United States by a Vietnamese Prime Minister since the end of the Vietnam War, but also it — combined with President Bush's November 2006 visit to Vietnam — appeared to focus the attention of the leaders in Washington and Hanoi upon how they could improve the overall relationship. While Khai was in Washington, he and President Bush issued a joint statement expressing their "intention to bring bilateral relations to a higher plane." President Bush expressed "strong support" for Vietnam's accession to the World Trade Organization (WTO), pledged to attend the November 2006 Asia Pacific Economic Cooperation (APEC) summit in Hanoi, and welcomed Vietnam's efforts on human rights and religious freedom issues, about which the two leaders agreed to continue "an open and candid dialogue."¹⁰ The two countries signed an agreement on implementing a bilateral International Military Education Training (IMET) program to send two Vietnamese officers to the United States for training, under which two Vietnamese officers will attend English classes in 2006 at the U.S. Air Force's Defense Language Institute at Lackland Air Force Base in San Antonio. The two sides also announced an agreement to resume U.S. adoptions of Vietnamese children, which Hanoi halted in 2002. Protesters, mainly Vietnamese-Americans, appeared at every stop on Khai's trip.

Economic Ties

Economic ties are perhaps the most mature aspect of the bilateral relationship.

U.S.-Vietnam Trade Flows. The signing of the U.S.-Vietnam BTA in 2000 led to a sharp rise in U.S.-Vietnam trade, primarily because the two countries extended normal trade relations (NTR) to one another, thereby lowering tariff levels on the other country's imports. Total merchandise trade flows in 2005 exceeded \$7.6 billion, more than five times the level in 2001 (the year before the BTA came into effect), and nearly thirty times the level when diplomatic relations were normalized in 1994 (see **Table 1**). Total trade for 2006 is on a pace to surpass \$9 billion, up over 25% from 2005 levels. Over 80% of the increase in trade since 2001 has come from the growth in imports from Vietnam. The United States is now Vietnam's largest export market and according to one study, U.S. firms constitute the single largest

¹⁰ White House Office of the Press Secretary, "Joint Statement Between the United States of America and the Socialist Republic of Vietnam," June 21, 2005.

source of foreign direct investment (FDI) in Vietnam.¹¹ In 2005, Vietnam ranked 38th as a source of U.S. imports and 58th as a U.S. export market.

Rising imports have led to trade disputes over imports of Vietnamese clothing, catfish, and shrimp. Additionally, some in the United States also have complained about Vietnam's currency policies, under which the Vietnamese *dong* does not float freely against the U.S. dollar and other currencies. Instead, the State Bank of Vietnam maintains a "managed float" via a daily trading band limiting the fluctuation of the *dong* to plus or minus 0.5%, a spread that was doubled in early 2007 and is up from the 0.1% that was maintained in 2001.¹² Under the terms of its entry into the WTO, Vietnam will retain its designation as a "nonmarket economy" until 2019, making it procedurally easier in many cases for U.S. companies to initiate and succeed in bringing anti-dumping cases against Vietnamese exports. Since 2002, Vietnam has run an overall current account deficit with the rest of the world.

Table 1. U.S.-Vietnam Merchandise Trade

(millions of dollars)

	U.S. Imports from Vietnam	U.S. Exports to Vietnam	Total Trade		Trade Balance
			Volume	Change from prior yr.	
1994	50.5	172.2	222.7	—	121.7
2000	827.4	330.5	1,157.9	—	-496.9
2001	1,026.4	393.8	1,420.2	23%	-632.6
2002	2,391.7	551.9	2,943.6	107%	-1,839.8
2003	4,472.0	1,291.1 ^a	5,763.1	96%	-3,180.9
2004	5,161.1	1,121.9 ^a	6,283.0	9%	-4,039.2
2005	6,522.3	1,151.3	7,673.6	22%	-5,371.0
Jan - Oct 2005	5,440.0	839.2	6,279.2	—	-4,600.8
Jan - Oct 2006	7,068.8	789.2	7,858.0	25%	-6,279.6
Major Imports from Vietnam	clothing, footwear, wooden furniture, frozen shrimp, petroleum products, cashew nuts, coffee				
Major Exports to Vietnam	aircraft, mining equipment, electronic machinery, steel wire, raw cotton, plastics				

Source: U.S. International Trade Commission. Data are for merchandise trade on a customs basis.

a. U.S. exports from 2003 include Vietnam Airlines' \$700 million purchase of several Boeing 777s. Subsequently, U.S. aircraft exports to Vietnam were around \$350 million in 2004 and 2005, and dropped to around \$5 million in the first ten months of 2006.

¹¹ Vietnamese Ministry of Planning and Investment, *The Impact of the U.S.-Vietnam Bilateral Trade Agreement on Overall and U.S. Foreign Direct Investment in Vietnam*, (Hanoi: National Political Publisher, 2005). USAID provided funding and technical support for the development of the Vietnamese report. Economist Intelligence Unit, *Vietnam Country Report*, April 2006; USTR, *2006 National Trade Estimate Report on Foreign Trade Barriers*, March 31, 2006.

¹² Catherine McKinley, "Vietnam Widens Forex Band, But Dong Won't Rise," *Dow Jones Newswires*, January 3, 2007.

Imports of Vietnamese Clothing. Most of the increase in U.S.-Vietnam trade since 2001 has come from a sharp rise in clothing imports from Vietnam, which were over \$2.6 billion in 2005, up from the \$45 million-\$50 million range that Vietnam recorded in 2000 and 2001. For the first eight months of 2006, clothing imports from Vietnam were up by over 20% compared with the same period a year earlier. By dollar value, clothing is the largest item the United States imports from Vietnam. In 2005, Vietnam was the sixth largest exporter of clothing to the United States, providing about 4.3% of total U.S. clothing imports (up from 1.4% in 2002 and 0.1% in 2001, before the BTA went into effect). In 2006, clothing and textile products were Vietnam's second-largest export item by value (after crude oil), generating around \$5.8 billion.¹³

The BTA contained no restrictions on Vietnamese clothing exports to the United States, but a safeguard provision allowed the United States to impose quotas on textile imports in the event of a surge of imports. Similarly, Vietnam's WTO accession agreement does not contain a special safeguard provision. However, criticism of the deal from textile interests led the Administration to establish a mechanism to monitor imports of textiles from Vietnam and have the Commerce Department self-initiate antidumping investigations when warranted.

Intellectual Property Rights (IPR). Since 2002, the Bush Administration has placed Vietnam on its "Special 301 watch list" for poor protection of intellectual property rights, particularly in the areas of music recordings and trademark protection.¹⁴ The BTA required Vietnam to make its IPR regime WTO-consistent in 2003. Although it has made numerous regulatory and legal changes to this end, the Vietnamese government's IPR enforcement has been widely faulted. In November 2005, Vietnam's National Assembly passed a new, comprehensive IPR law.

PNTR/WTO Membership. The final step toward full economic normalization between the United States and Vietnam was accomplished in December 2006, when Congress passed and President Bush signed H.R. 6111 (P.L. 109-432), extending permanent normal trade relations (PNTR) status to Vietnam. Previously, Vietnam had *conditional* NTR status, in that it was subject to annual

¹³ "Vietnam's Trade Deficit Rises Before WTO Entry," *International Herald Tribune*, January 3, 2007.

¹⁴ "Special 301" refers to Section 182 of the Trade Act of 1974. Since the start of the Special 301 provision in 1989, the USTR has issued annually a three-tier list of countries judged to have inadequate regimes for IPR protection, or to deny access: (1) priority foreign countries are deemed to be the worst violators, and are subject to special investigations and possible trade sanctions; (2) priority watch list countries are considered to have major deficiencies in their IPR regime, but do not currently warrant a Section 301 investigation; and (3) watch list countries, which maintain IPR practices that are of particular concern, but do not yet warrant higher-level designations. See CRS Report 98-454, *Section 301 of the Trade Act of 1974, As Amended: Its Operation and Issues Involving Its Use by the United States*, by Wayne Morrison.

Presidential and congressional review under the U.S. Trade Act of 1974's Jackson-Vanik provisions, which govern trade with non-market economies.¹⁵

The decision to extend PNTR status to Vietnam was debated in the context of Vietnam's bid to enter the World Trade Organization (WTO), which is scheduled to occur in early January 2007. Under WTO rules, it was necessary for the United States to extend PNTR in order for it to enjoy the benefits of the trade concessions that Vietnam grants to all WTO members. The United States was a major player in Vietnam's accession process; Hanoi's bilateral WTO accession agreement with Washington was the last — and according to most observers, the most difficult — of the 28 bilateral agreements Vietnam completed. Vietnam's entry into the WTO will not establish any new obligations on the part of the United States, only on the part of Vietnam. However, Vietnam's accession to the WTO requires the United States and Vietnam to adhere to WTO rules in their bilateral trade relations, including not imposing unilateral measures, such as quotas on textile imports, that have not been sanctioned by the WTO.¹⁶ Thus Vietnam's accession requires the United States to terminate the quota program it negotiated with Vietnam in 2003, under which quotas were placed on 38 categories of Vietnam's clothing exports.

The Bilateral Trade Agreement (BTA). On December 10, 2001, a bilateral trade agreement (BTA) between the United States and Vietnam entered into force. (See CRS Report RL30416, *The Vietnam-U.S. Bilateral Trade Agreement*.) Under the BTA, which required congressional approval, the U.S. extended conditional normal trade relations (NTR) status to Vietnam, a move that significantly reduced U.S. tariffs on most imports from Vietnam. In return, Hanoi agreed to undertake a wide range of market-liberalization measures, including extending NTR 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 foreign direct investment.

¹⁵ Every year between 1998 and 2006, Vietnam received a presidential waiver from the restrictions of the Jackson-Vanik provisions. From 1998 to 2002, congressional resolutions disapproving the waivers failed in the House. Disapproval resolutions were not introduced from 2003-2006. The passage of H.R. 6111 effectively "graduated" Vietnam from the list of countries affected by the Jackson-Vanik provisions. See CRS Report RS22398, *The Jackson-Vanik Amendment and Candidate Countries for WTO Accession: Issues for Congress*, by William Cooper.

¹⁶ For more information on the issues of PNTR for Vietnam and accession to the WTO, see CRS Report RL33490, *Vietnam PNTR and WTO Accession: Issues and Implications for the United States*, by Mark E. Manyin, William H. Cooper, and Bernard A. Gelb.

Box 2. Congressional Debate Over PNTR

The Administration's proposal to extend PNTR to Vietnam generated controversy in both chambers. Opposition primarily came from human rights advocates, Members sympathetic to the concerns of U.S. textile and clothing manufacturers, and those who argued that Vietnam has not done enough to account for U.S. prisoners of war/missing in action from the Vietnam War. On November 13, 2006, these groups succeeded in mustering enough votes in the House to prevent passage of the original PNTR bill (H.R. 5602); under suspension of the rules, the House voted 228-161 (Roll no. 519) in favor of H.R. 5602, short of the two-thirds vote necessary for passage. The vote came days before President Bush's trip to Vietnam and occurred on the first day of Congress' return from a recess for mid-term elections. Many observers and proponents of extending PNTR to Vietnam were critical of the way the bill was managed in the House.

In the Senate, Senators Elizabeth Dole (NC) and Lindsey Graham (SC) placed holds on the original Senate version of the PNTR bill, S. 3495, because of concerns about the potential impact of Vietnamese imports on the U.S. textile industry. The Bush Administration responded by establishing a mechanism to monitor imports of textiles from Vietnam and have the Commerce Department self-initiate antidumping investigations when warranted. However, other Senators, including Dianne Feinstein (CA) and Gordon Smith (OR), objected to this move because of its expected impact on U.S. clothing importers and retailers. They placed holds of their own on S.3495, and removed their objections only in the days before the final PNTR bill was passed in December.

Human rights cases also played a role in Senate consideration of PNTR. The arrest of one Floridian, Thong Nguyen Foshee, was raised by Secretary of State Condoleezza Rice with her Vietnamese counterparts and led Florida Senator Mel Martinez to temporarily place a hold on the Senate version of the PNTR bill (S. 3495). Foshee and several other individuals, including two other Vietnamese Americans, were arrested in September 2005 while visiting family members in Vietnam on charges of plotting violence against the Vietnamese government. After U.S. concerns were raised, Vietnamese authorities announced that Foshee and the six other individuals would be brought to trial, ending their indefinite detention. On November 10, Foshee and the others were tried, found guilty, and sentenced to 15 months in prison, with credit given for their time in detention before the trial. This put the seven defendants in a position to be released in December 2006. On November 12, however, Foshee's daughter reported that Vietnamese authorities had released and deported her mother for "humanitarian reasons." The following day, Martinez lifted his hold.

In a similar case, a California Vietnamese-American, Cong Thanh Do, was arrested in August 2006 on similar charges by Vietnamese authorities before being released after 38 days of detention. As in the Foshee case, Vietnamese authorities were criticized not only for the detentions themselves, but for their procedural slowness in handling the cases, such as detailing the charges against those arrested.

The BTA was a landmark in Vietnam's recent history. Not only did it pave the way for Vietnam to re-establish full economic ties with the United States, which since has become Vietnam's largest export market, but, as shall be discussed later, it also helped to smash the paralysis that had caused Hanoi's economic reform efforts to stall in the late 1990s.

U.S. Bilateral Economic Assistance to Vietnam

(For more on U.S. aid to Vietnam, see CRS Report RL32636, *U.S. Assistance to Vietnam*.) As the normalization process has proceeded, the U.S. has eliminated most of the Cold War-era restrictions on U.S. aid to Vietnam, and U.S. assistance has increased markedly since around \$1 million was provided when assistance was resumed in 1991. U.S. aid was over \$75 million in FY2006, about three-and-a-half times the level in FY2000, and is projected to surpass \$80 million in FY2007.¹⁷

By far the largest component of the current U.S. bilateral aid program is health-related assistance, which amounted to around \$40 million in FY2006. In particular, spending on HIV/AIDS treatment and prevention in Vietnam has risen since President Bush's June 2004 designation of Vietnam as a "focus country" eligible to receive increased funding to combat HIV/AIDS under the President's Emergency Plan for AIDS Relief (PEPFAR).¹⁸ The United States provided \$34 million in PEPFAR funds in FY2006. FY2007 funding levels are estimated at \$59 million. Other sizeable assistance items include food assistance, de-mining activities, educational exchanges, and programs assisting Vietnam's economic reform efforts. In recent years, some Members of Congress have attempted to link increases in non-humanitarian aid to progress in Vietnam's human rights record. (See the "Human Rights and Religious Freedom" section.)

In May 2004, Vietnam was not selected as one of the first 16 countries eligible for the Millennium Challenge Account (MCA), President Bush's foreign aid initiative that links U.S. assistance to governance as well as economic and political freedoms. Vietnam was deemed ineligible despite meeting the technical requirements for MCA eligibility because it scored very low on some of the indicators used to measure political freedom. For FY2005 and 2006, Vietnam again received low scores on the indicators of political and civil liberties maintained by the Millennium Challenge Corporation to determine eligibility for the MCA.

Bird Flu. Since late December 2003, there have been over 90 confirmed human cases — including over 40 deaths — of avian influenza in Vietnam, though none have been reported since 2005. According to USAID, the H5N1 virus is

¹⁷ Foreign Operations programs are currently operating under the terms of a continuing appropriations resolution (H.R. 5631/P.L. 109-289, as amended) which provides funding at the FY2006 level or the House-passed FY2007 level, whichever is less. The continuing appropriations resolution expires on February 15, 2007.

¹⁸ Vietnam qualified for the designation in part because of its demonstrated commitment to fighting the epidemic on its own and because of the competency of its medical institutions. Vietnam is estimated to have about 100,000 people living with the HIV/AIDS virus, a number that is projected to grow significantly.

believed to be endemic in Vietnam's waterfowl population, which was estimated to be around 250 million birds, including 20 million to 60 million ducks and geese before the outbreak. In 2005, the Vietnamese government began intensifying its response to the disease, including expanded cooperation with international health agencies and foreign aid donors. Vietnam has begun a mass poultry vaccination program to try to halt the disease's spread. In FY2006, the United States provided \$5 million for avian influenza-related programs in Vietnam. No funds have been requested for FY2007. During an October 2005 visit to Vietnam, Health and Human Services Secretary Michael Leavitt and Vietnamese officials signed a bilateral health cooperation agreement, and Vietnam agreed with a number of U.N. agencies to conduct a joint prevention program.¹⁹

Human Rights and Religious Freedom

In recent years, tensions between the United States and Vietnam over human rights issues have increased. It is difficult to make country-wide generalizations about the state of human rights in Vietnam, a one-party, authoritarian state ruled by the Vietnamese Communist Party (VCP). For the past several years, the VCP appears to have followed a strategy of permitting most forms of personal and religious expression while selectively repressing individuals and organizations that it deems a threat to the party's monopoly on power. On the one hand, the gradual loosening of restrictions since Vietnam's *doi moi* ("renovation") economic reforms were launched in 1986 has opened the door for Vietnamese to engage in private enterprise, has permitted most Vietnamese to observe the religion of their choice, and has allowed a moderately vibrant press to sprout, so long as it keeps criticism of the government to "safe" issues like corruption, economic policy, nature conservation and environmental pollution.

On the other hand, the government in recent years reportedly has cracked down harshly on anti-government protests by various ethnic minority groups, most prominently the Montagnards in the country's Central Highlands, where clashes between protestors and government security forces have flared periodically since 2001. Furthermore, in its effort to control the Internet, the central government has stepped up repression of so-called "cyber dissidents" for alleged offenses such as criticizing the signing of land-border agreements with China and calling for greater political accountability and political competition. During his meeting with Prime Minister Khai in June 2005, President Bush reportedly raised human-rights concerns, particularly Hanoi's controls over religious groups and repression of ethnic groups in the Central Highlands.²⁰

After the United States and Vietnam reestablished relations in the mid-1990s, the Clinton and early Bush Administrations generally appeared to assign human rights, including religious freedom, a lower priority than improving economic ties and securing a full accounting for U.S. personnel listed as prisoners of war/missing

¹⁹ For more, see CRS Report RL33349, *International Efforts to Control the Spread of the Avian Influenza (H5N1) Virus*, coordinated by Emma Chanlett-Avery.

²⁰ Murray Hiebert, "Bush Backs Vietnam's WTO Bid," *The Asian Wall Street Journal*, June 22, 2005.

in action (POW/MIAs). In 2003, the Bush Administration began to take a more assertive position, after determining that the previous approach had “yet to translate the increased recognition of problems into tangible steps to improve the human rights situation.”²¹ The Administration chose not to hold a human rights dialogue with Vietnam in 2003 and 2004, and in 2004 designated Vietnam as a “country of particular concern” (CPC) in the State Department’s International Religious Freedom Report.

Since 2004, according to several reports, there are indications that human rights conditions have improved in Vietnam, particularly in the Central Highlands and Northwest Highlands regions. But given continued reports of repression and harassment, there is considerable disagreement about how significant and how pervasive the improvements are, not to mention how lasting they will be.

For years, the State Department and the U.S. Agency for International Development (USAID) have discussed ways to take advantage of the Vietnamese government’s new approach toward ethnic minority areas by crafting a small-scale aid initiative in the Central Highlands.²² Both agencies are acting in response to the FY2006 Foreign Operations Appropriations Act (P.L. 109-102), in which Congress appropriated \$2 million for programs and activities in the region.

“Country of Particular Concern” Designation. In 2004, the State Department for the first time designated Vietnam as a “country of particular concern” (CPC), principally because of reports of worsening harassment of certain ethnic minority Protestants and Buddhists. When the Vietnamese responded by negotiating with the Bush Administration and adopting internal changes, the two sides reached an agreement on religious freedom, in which Hanoi agreed to take steps to improve conditions for people of faith, particularly in the Central Highlands. The May 2005 agreement enabled Vietnam to avoid punitive consequences, such as sanctions, associated with its CPC designation. The agreement was faulted by human rights groups on a number of grounds, including the charge that religious persecution continues in the Central Highlands. Vietnam was redesignated a CPC in the 2005 and 2006 Religious Freedom Reports. As mentioned earlier, in November 2006, the State Department removed Vietnam from its CPC list.

Vietnam’s recent willingness to negotiate human rights issues with the United States has surprised many observers, who suggest several possible motivations for the change in tone, including:

- an apparent belief by central government leaders that their previous heavy-handed approach toward ethnic minorities in the Central Highlands and Northwest Highlands had worsened the situation;
- pressure from the United States and other outside actors;
- a stated desire to upgrade diplomatic and security relations with the United States;

²¹ State Department, *Supporting Human Rights and Democracy 2003-04 Report*.

²² Fall 2005 and winter 2006 correspondence with State Department and USAID officials.

- their wish to pave the way for then-Prime Minister Khai's historic visit to the United States in June 2005, as well as President Bush's trip to Vietnam in November 2006;
- the wish to secure U.S. approval of Vietnam's accession to the World Trade Organization (WTO) and permanent normal trade relations (PNTR) with the United States;

The Vietnam Human Rights Act. In large measure due to Vietnam's crackdowns in the Central Highlands earlier in the decade, attempts were made in the 108th and 109th Congresses to link U.S. aid to the human rights situation in Vietnam. The most prominent example, the Vietnam Human Rights Act (H.R. 1587/S. 2784 in the 108th Congress, H.R. 3190 in the 109th Congress), proposed capping existing non-humanitarian U.S. assistance programs to the Vietnamese government at FY2005 levels (FY2004 for H.R. 1587) if the President does not certify that Vietnam is making "substantial progress" in human rights, including religious freedom. The bilateral IMET agreement is the only current aid program that would have been affected, because it is the only U.S. non-humanitarian assistance that is given directly to the government of Vietnam. The act also would have required the executive branch to produce annual reports on Vietnam's human rights situation and would have authorized funds to promote democracy in Vietnam and to overcome the jamming of Radio Free Asia. Critics argued that the bill could have chilled the recent warming of bilateral political and security ties. On July 19, 2004, by a vote of 323-45, the House passed H.R. 1587. In the Senate, it was not reported out of committee, and attempts to include an abbreviated version in an omnibus appropriation bill did not succeed. In the 109th Congress, another stripped-down version of the act was included in the House-passed version of the Foreign Relations Authorization Act of FY2006/FY2007 (H.R. 2601), which did not receive action in the Senate. Unlike previous versions of the Vietnam Human Rights Act, the language in H.R. 2601 did not contain provisions for a presidential waiver. The act also would authorize \$2 million to assist organizations that promote democracy and human rights in Vietnam.

Political and Security Ties

Vietnam and the United States gradually have been expanding their political and security ties, though these have lagged far behind the economic aspect of the relationship. In the past four years, however, Vietnam's leadership appears to have decided to expand their country's ties to the United States. Most dramatically, in 2005 the two countries signed an IMET agreement, which reportedly had been blocked for years by the Vietnamese military. In June 2006, then-Secretary of Defense Donald Rumsfeld visited Vietnam and agreed with his Vietnamese counterpart to increase military-to-military cooperation and exchanges. According to Rumsfeld, the two sides discussed additional medical exchanges, an expansion of U.S. demining programs, and additional English language training for troops taking part in international peacekeeping missions.²³ According to one report, the Vietnamese inquired about acquiring certain U.S. military equipment and spare

²³ Office of the Assistant Secretary of Defense (Public Affairs), "Press Availability with Secretary Rumsfeld in Vietnam," June 5, 2006.

parts.²⁴ U.S. naval vessels have made a number of calls on Vietnamese ports, and Vietnamese military officers increasingly participate in U.S.-led conferences and academic programs. Joint counter-narcotics training programs also have been established.

Agent Orange. Vietnamese leaders have pressed the United States for compensation for Agent Orange victims and for assistance locating the remains of Vietnam's soldiers who are still missing from fighting with the United States. During President Bill Clinton's five-day trip to Vietnam in 2000, the United States took some small steps toward meeting these demands, including agreeing to set up a joint research study on the effects of dioxin/Agent Orange and the provision of materials to help locate the estimated 300,000 Vietnamese troops missing from the Vietnam War. Over three million Vietnamese suffering from the alleged effects of Agent Orange were part of a class action suit filed in U.S. Federal District Court in Brooklyn against the chemical companies that manufactured the defoliant. The case was dismissed in March 2005, in a ruling that was widely publicized in Vietnam. In April 2005, the Bush Administration discontinued funding of a grant to conduct research in Vietnam on the possible relationship between Agent Orange and birth defects. The justification for the decision was that the Vietnamese Ministry of Health had not given its approval for the study.²⁵

Human Trafficking. On June 5, 2006, the State Department issued its sixth annual report on human trafficking, *Trafficking in Persons Report*. Vietnam was listed as a "Tier 2" country that "does not fully comply with the minimum standards for the elimination of trafficking." As recently as 2004, it was included on the "Tier 2 Watch-list," but was upgraded to "Tier 2" in the 2005 report, which judged the government to be making "significant efforts" to combat trafficking. According to the 2006 report, the Vietnamese government's anti-trafficking efforts have been particularly lacking in the areas of protecting Vietnamese women who are lured to other countries by fraudulent offers of marriage, and of monitoring and prosecuting instances of abuse of and trafficking in Vietnamese workers who are recruited to work overseas by labor export companies, including those that are state-owned.

Vietnam War Resettlement Programs. In November 2005, the United States and Vietnam announced the reopening of certain categories of the Orderly Departure Program (ODP), under which over 550,000 Vietnamese were resettled in the United States between 1979 and 1999. During this time, another 300,000 Vietnamese came to the United States through other programs. The reopening is limited to those who were unable to apply or who were unable to complete the application process before the ODP closed in 1994.

²⁴ Michael R. Gordon, "Rumsfeld, Visiting Vietnam, Seals Accord To Deepen Military Cooperation," *New York Times*, June 6, 2006.

²⁵ Conversations in 2005 with State Department and U.S. Health and Human Services Department officials.

POW/MIA Issues

In the mid-1990s, the United States and Vietnam devoted increased resources to POW/MIA research and analysis. By 1998 a substantial permanent staff in Vietnam was deeply involved in frequent searches of aircraft crash sites and discussions with local Vietnamese witnesses throughout the country. The Vietnamese authorities also have allowed U.S. analysts access to numerous POW/MIA-related archives and records. The U.S. Defense Department has reciprocated by allowing Vietnamese officials access to U.S. records and maps to assist their search for Vietnamese MIAs. The increased efforts have led to substantial understanding about the fate of several hundred of the over 2,000 Americans still unaccounted for in Indochina. On September 21, 1998, U.S. Ambassador to Vietnam Peterson told the media that “it is very, very, very unlikely that you would expect to see any live Americans discovered in Vietnam, Cambodia, or Laos.” Official U.S. policy, however, does not remove a name from the rolls of those unaccounted for unless remains are identified. During Secretary of Defense Rumsfeld’s June 2006 trip to Vietnam, the two countries discussed expanding their cooperation on recovering remains, including the possibility of using more advanced technology to locate, recover, and identify remains located under water.²⁶

Vietnam’s Situation

Ever since communist North Vietnamese forces defeated U.S.-backed South Vietnam in 1975, reunified Vietnam has been struggling with how to maintain a balance between two often contradictory goals — maintaining ideological purity and promoting economic development. For the first decade after reunification, the emphasis was on the former. By the mid-1980s, disastrous economic conditions and diplomatic isolation led the country to adopt a more pragmatic line, enshrined in the *doi moi* (renovation) economic reforms of 1986. Under *doi moi*, the government gave farmers greater control over what they produce, abandoned central state planning, cut subsidies to state enterprises, reformed the price system, and opened the country to foreign direct investment (FDI).

Economic Developments

For most of the past twenty years since the *doi moi* reforms were launched, Vietnam has been one of the world’s fastest-growing countries, generally averaging around 7%-8% annual gross domestic product (GDP) growth. According to one source, Vietnam’s real GDP growth in 2005 was an estimated 8.4%.²⁷ Agricultural production has soared, transforming Vietnam from a net food importer into the world’s second-largest exporter of rice and the second-largest producer of coffee. The move away from a command economy also helped reduce poverty levels from

²⁶ Office of the Assistant Secretary of Defense (Public Affairs), “Press Availability with Secretary Rumsfeld in Vietnam,” June 5, 2006. For more on the POW/MIA issue, see CRS Report RL33452, *POWs and MIAs: Status and Accounting Issues*, by Charles A. Henning.

²⁷ Economist Intelligence Unit, *Vietnam Country Report*, April 2006.

58% of the population in 1992 to less than 30% in 2002, and the government has set a goal of becoming a middle-income country by 2020. A substantial portion of the country's growth was driven by foreign investment, much of which the government channeled into the country's state-owned sector.

Economic growth and the reform movement, however, have not always advanced smoothly. In the mid-1990s, the momentum behind continued economic reforms stalled, as disagreement between reformers and conservatives paralyzed economic decision-making. The economy staggered after the 1997 Asian financial crisis, as real GDP growth fell to less than 5% in 1999. The decision in 2000 to sign the BTA, appears to have broken the policymaking logjam by fashioning a new consensus in favor of a new reformist push that was effectively endorsed by the leadership changes in 2001. In short order after signing the BTA, the government enacted a series of measures, including passing a new Enterprise Law, passing a constitutional amendment giving legal status to the private sector, reducing red tape, and creating unprecedented transparency rules requiring the publication of many types of new rules and regulations before they are implemented. Adhering to the BTA's implementation deadlines and achieving the government's goal of joining the WTO have helped galvanize the Vietnamese bureaucracy toward implementing many of these steps. Vietnam's economy appears to have responded to these moves. GDP growth has rebounded to the 7% level for the past several years, and FDI inflows have increased. Demographic pressure is a major impetus for the renewed emphasis on economic reforms; with more than half of the population under the age of 25, Vietnamese leaders must find a way to provide jobs for an estimated 1 million new entrants to the workforce annually.

Rapid growth has transformed Vietnam's economy, which has come to be loosely divided into three sectors: the state-owned, the foreign-invested, and the privately owned, which make up roughly 50%, 30%, and 20% of industrial output, respectively. For much of the 1990s, Vietnam's foreign-invested enterprises (FIEs) were among the country's most dynamic. Since the 1997 Asian financial crisis, the private sector has also made impressive gains, to the point where domestically owned private firms employ around a quarter of the workforce.

Despite the impressive macroeconomic advances, Vietnam remains a poor country; about one-third of Vietnamese children under five years of age suffer from malnutrition.²⁸ Per capita GDP in 2004 was less than \$600, equivalent to \$2,700 when measured on a purchasing power parity basis. Economists point to Vietnam's failure to tackle its remaining structural economic problems — including unprofitable state-owned enterprises (SOEs), a weak banking sector, massive red tape, and bureaucratic corruption — as major impediments to continued growth. Some economists have criticized the government's latest five year development plan, issued in 2005, that focuses on the development of heavy industries such as electricity, energy, steel, and mining. The previous plan emphasized lighter industries such as foodstuffs, textiles, and electronics. Most of Vietnam's SOEs are functionally bankrupt, and require significant government subsidies and assistance to continue operating. Although around 2,500 SOEs officially have been partially privatized

²⁸ World Bank, "Vietnam at a Glance," September 12, 2005.

since 1990 under the government's "equitization" program, most of these are small and medium-sized firms, and the government still owns substantial stakes in them. In a sign that reforms are cutting deeper into the state-owned sector, the government has announced that in 2006 it will begin the gradual equitization of Vietcombank, one of the four state-owned banks that dominate domestic banking activity, providing an estimated 70% of all loans.

Political Trends

Vietnam's experiments with political reform have lagged behind its economic changes. A new constitution promulgated in 1992, for instance, reaffirmed the central role of the Vietnamese Communist Party (VCP) in politics and society, and Vietnam remains a one-party state. In practice, the VCP sets the general direction for policy while the details of implementation generally are left to the four lesser pillars of the Vietnamese polity: the state bureaucracy, the legislature (the National Assembly), the Vietnamese People's Army (VPA), and the officially sanctioned associations and organizations that exist under the Vietnamese Fatherland Front umbrella. The Party's major decision-making bodies are the Central Committee, which has 150 members, and the Politburo, which in recent years has had 15 members. Membership on the Politburo generally is decided based upon maintaining a rough geographic (north, south, and central) and factional (conservatives and reformers) balance. The three top leadership posts are, in order of influence, the VCP General Secretary, followed by the Prime Minister, and the President. Since the death in 1986 of Vietnam's last "strong man," Le Duan, decision-making on major policy issues typically has been arrived at through consensus within the Politburo, a practice that often leads to protracted delays on contentious issues.

The National Assembly. Over the past 15 years, Vietnam's legislative organ, the National Assembly, has slowly and subtly increased its influence to the point where it is no longer a rubber stamp. Although more than 90% of parliamentarians are VCP members and the VCP carefully screens all candidates before elections are held, in recent years the Assembly has vetoed Cabinet appointments, forced the government to revise major commercial legislation, and successfully demanded an increase in its powers. These include the right to review each line of the government's budget, the right to hold no-confidence votes against the government, and the right to dismiss the president and prime minister (though not the VCP general secretary).

The Tenth Party Congress. In the spring of 2006, Vietnam's ruling Communist Party held its 10th Party Congress. These events, held every five years, are often occasions for major leadership realignments and set the direction for Vietnam's economic, diplomatic, and social policies. At the 9th Party Congress in 2001, for instance, the VCP endorsed the acceleration of economic reforms that apparently had been stalled by policymaking paralysis. The former VCP general secretary, an ideological conservative, was ousted in favor of the current secretary, **Nong Duc Manh**, who generally is considered a more pragmatic figure. Significantly, Manh's selection reportedly was made possible when the Party's Central Committee rejected — an unprecedented move — the Politburo's decision to endorse Manh's predecessor.

The 10th Party Congress reportedly resulted in few if any major changes to current policy direction of the country — an indication that the economic reformers remain in the ascendency — with the ultimate goal remaining creating a “socialist-oriented market economy.” During his opening address, Manh outlined the party’s five-year development strategy, including accelerating the doi moi reforms, further integrating Vietnam into the world economy, and laying the foundations for becoming an industrialized country by 2020. The Congress also outlined specific targets, such as maintaining average annual GDP growth of 7.5-8%, creating 8 million jobs, and reducing urban unemployment to below 5%.²⁹

There were some major personnel changes. As expected, the sitting Prime Minister (Phan Van Khai) and President (Tran Duc Luong) resigned their Politburo positions, effectively ending their official political careers. Both had served two terms. Changes in their government posts will be confirmed by the National Assembly, either in its ninth session in May or its tenth session later this year. In May 2006, Khai endorsed Vietnam’s deputy premier, **Nguyen Tan Dung** (56) as his successor. Dung is a southerner and widely considered to be an economic reformer. During the 10th Party Congress, he was elevated to the third-highest post in the Politburo. Luong’s successor as President is another southerner, **Nguyen Minh Triet** (64), formerly the party secretary in Ho Chi Minh City. Triet also is widely considered an economic reformer and is known for fighting corruption and criminal gangs in Ho Chi Minh City.

Vietnam’s leadership is trying to confront the problem of how to reverse the Communist Party’s declining legitimacy. Attracting new recruits into the Party has become increasingly difficult, particularly among young Vietnamese, though there are some signs this may be changing. A key issue for the VCP leadership is combating official corruption, which was a major topic during the Party Congress. Vietnam regularly is ranked near the bottom of surveys of foreign executives on corruption in various countries. Under Manh’s leadership, the government appears to have attacked corruption in a much more systemic fashion than in the past, including passage in November 2005 of a new anti-corruption law that aims at increasing government transparency. However, pervasive and high-level corruption is widely considered to be endemic, as revealed by the breaking of a major scandal in the winter and spring of 2006, in which top officials in the Transportation Ministry apparently embezzled more than \$7 million in foreign assistance funds. The deputy minister was arrested for his suspected involvement in the case, and the transport minister resigned to take responsibility for the scandal.

Foreign Policy

Prior to the 10th Party Congress, there was some speculation that China’s economic and diplomatic resurgence in Southeast Asia was driving some soul-searching in Hanoi on foreign policy issues. Some in Hanoi are wondering how much additional utility Vietnam would gain from continuing its “omnidirectional foreign policy,” which has successfully restored cordial relations with the rest of the world but has left Vietnam without truly warm relations with any one country or

²⁹ “Party Faces the Future,” *Economist Intelligence Unit - Business Asia*, May 1, 2006.

grouping of countries. It is unclear whether these debates over foreign policy took place during the congress.

Sino-Vietnam Relations. Since the late 1990s, when China began espousing its “new security concept” of cooperation with its neighbors, improvements in Sino-Vietnamese relations have accelerated, most notably with the signings of a land border treaty in 1999 and a sea border treaty for the Gulf of Tonkin in 2000. For Vietnamese leaders, this process has been fraught with ambivalence. On the one hand, maintaining stable, friendly relations with its northern neighbor is critical for Vietnam’s economic development, and Hanoi does not undertake large-scale diplomatic moves without first calculating Beijing’s likely reaction. China’s ruling communist party is an ideological bedfellow, as well as a role model for a country that seeks to marketize its economy without threatening the communist party’s dominance. China also is Vietnam’s largest trading partner. During Chinese President Hu Jintao’s October 2005 visit to Vietnam, the two countries agreed to demarcate their sensitive land and maritime borders and to deepen their economic integration, particularly the development of a Vietnam-China economic corridor stretching from Kunming (China) to Hai Phong (Vietnam). China also agreed to increase its foreign aid to Vietnam, and a Chinese electric company has agreed to provide power to Vietnam.³⁰

On the other hand, many Vietnamese are believed to be wary of China’s increased influence in Southeast Asia. Beijing’s outreach to Cambodia and Laos in recent years has rekindled internal battles between pro-Hanoi and pro-Beijing camps in both countries, and has spurred counter-moves by Hanoi. Vietnam and China still have overlapping claims to the Spratly Island chain in the South China Sea, differences that led to military clashes in the late 1980s. In 2002, ASEAN and China signed a Declaration on the Conduct of Parties in the South China Sea, a non-binding agreement to resolve disputes diplomatically, exercise restraint, and respect the freedom of navigation and overflight. Significantly, Vietnam did not succeed in its efforts to have the agreement specifically include the Paracel Islands, claimed by both Vietnam and China. Instead, the declaration is vague on its geographic scope. Like other countries in the dispute, Vietnam has continued to expand its presence in the island chain. China also represents an economic rival, as both compete for foreign direct investment and for markets in many of the same low-cost manufacturing products. During Chinese President Hu Jintao’s October 2005 visit to Hanoi, Vietnamese leaders reportedly expressed their concern about Vietnam’s rising trade deficit with China.

Another sign that Hanoi is seeking regional counterweights to China is that Vietnam, along with Indonesia and Singapore, supported efforts to include Australia and New Zealand in the East Asia Summit that was held in Kuala Lumpur, Malaysia, in December 2005. China and some Southeast Asian countries favored excluding countries outside of North and Southeast Asia.

³⁰ “Vietnam, China Sign Various Economic Cooperation Agreements in Hu Jintao’s Trip,” *Hanoi VNA*, Oct 31, 2005, posted on the Open Source Center, SEP20051101023006.

Refugees in Cambodia. Since 2001, hundreds of Montagnards have crossed into Cambodia, to escape continuing unrest in the Central Highlands region. In 2002, Cambodia accepted an offer from the United States to resettle the more than 900 Montagnards who remained following the 2001 protests and crackdown. More than 700 Montagnards have fled to Cambodia since then, particularly after a wave of unrest in April 2004. The United Nations High Commissioner for Refugees (UNHCR) has found the majority of the border-crossers to be refugees and therefore entitled to asylum. While most of these are being resettled in the United States, Canada, or Finland, over 30 have returned to Vietnam following a January 2005 agreement between UNHCR, Cambodia, and Vietnam in which Hanoi agreed that those returning to Vietnam would not be punished, discriminated against, or prosecuted for fleeing to Cambodia. Vietnam also agreed to drop its refusal to allow UNHCR to monitor the returnees' well-being, though some human rights groups have criticized UNHCR's monitoring visits, as well as its process for screening border crossers in Cambodia. More than 200 individuals, including many who have been recognized as refugees by UNHCR, refused offers to be resettled in third countries outside Southeast Asia. In the past, Cambodia has been accused of abiding by Vietnamese requests to close its borders and repatriate individuals forcibly.

Legislation in the 109th Congress

P.L. 109-102 (H.R. 3057). FY2006 Foreign Operations Act. The conference committee report directs \$2 million for programs and activities in the Central Highlands; requires the State Department to report within 90 days on the situation of Montagnard refugees who have fled to Cambodia. Introduced June 24, 2005; signed into law November 14, 2005.

H.Con.Res. 320 (Chris Smith). Calls on the Vietnamese government to release Dr. Pham Hong Son and other political prisoners. Introduced December 16, 2005; passed the House April 6, 2006 (roll no. 96, 425-1); referred to the Senate Committee on Foreign Relations.

H.Con.Res. 444 (Simmons) Thanks Vietnam for continued assistance and cooperation in the humane recovery, identification, and repatriation of the remains of American personnel remaining unaccounted for from the Vietnam era. Introduced June 29, 2006; passed the House by voice vote September 13, 2006; referred to Senate Committee on Armed Services.

H.R. 967 (Saxton). Prohibits normal trade relations (NTR) treatment from being extended to the products of any country the government of which engages in certain violations of human rights. Introduced February 17, 2005; referred to House committee. Referred to the House Committee on Ways and Means Subcommittee on Trade.

H.R. 1130 (Waters). The Jubilee Act of 2005. Provides for the cancellation of debts owed to international financial institutions by poor countries, including Vietnam. Introduced March 3, 2005; referred to the House Committee on Financial Services.

H.R. 1450 (Tancredo). Requires additional tariffs be imposed on products of any nonmarket economy country, including Vietnam, until the President certifies to the Congress that the country is a market economy country. Introduced March 17, 2005; referred to the House Committee on Ways and Means.

H.R. 2601 (C. Smith). The Foreign Relations Authorization Act of FY2006-07. Section 946 links increases in non-humanitarian aid to the Vietnamese government above the FY2005 level to Vietnam's human rights situation. The language does not provide for a Presidential waiver. Authorizes \$2 million for organizations that promote democracy and human rights in Vietnam. Authorizes \$9.1 million to overcome Vietnam's jamming of Radio Free Asia. Introduced May 24, 2005; passed by the House July 20, 2005 (351-78).

H.R. 3190 (C. Smith). The Vietnam Human Rights Act of 2005. Bans increases (over FY2005 levels) in non-humanitarian aid to the Vietnamese government if the President does not certify that Vietnam is making "substantial progress" in human rights. Allows the President to waive the cap on aid increases. Authorizes funds to promote democracy in Vietnam and to overcome the jamming of Radio Free Asia. Introduced June 30, 2005; referred to House International Relations Committee.

H.R. 3283(English)/S. 1421 (Collins). Amends Tariff Act of 1930 to make countervailing duties applicable to actions by nonmarket economies. H.R. 3283 introduced July 14, 2005; passed by the House July 27, 2005 (255 - 168); referred to Senate Finance Committee. S. 1421 introduced July 19, 2005; referred to Senate Finance Committee.

H.R. 4780 (Christopher Smith). The Global Online Freedom Act of 2006 would amend the Foreign Assistance Act of 1961 to require assessments of the freedom of electronic information in each foreign country. Also would establish in the Department of State an Office of Global Internet Freedom, directs the President to designate Internet-restricting countries, and authorizes the establishment of export controls against Internet-restricting foreign countries. Lists Vietnam as one of several countries that restrict and monitor online information and access. Introduced February 16, 2006; by voice vote, referred to House Committee on Energy and Commerce by Subcommittee on Commerce, Trade and Consumer Protection, June 22, 2006.

H.R. 5602 (Ramstad). Authorizes extension of permanent normal trade relations to the products of Vietnam. Introduced June 13, 2006; referred to House Committee on Ways and Means; November 13, 2006 failed to pass on motion to suspend (2/3 required; 228-161; Roll No. 519).

H.R. 5672 (Wolf). Departments of Commerce and Justice, Science, and Related Agencies Appropriations Act, 2007. House report "strongly supports" increased Radio Free Asia broadcasts into Vietnam. Section 406 of House version prohibits the use of funds to expand the U.S. diplomatic presence in Vietnam unless the President certifies that several conditions have been met regarding Vietnam's cooperation with the United States on POW/MIA issues. Introduced May 22, 2006;

passed by House June 29, 2006 (393-23, roll call no. 349); reported by Senate Committee on Appropriations July 13, 2006.

H.R. 6111 (Tauscher). Grants Vietnam permanent normal trade relations (PNTR) status as part of a more comprehensive trade bill (H.R. 6406), which the House passed (212-184; Roll No. 539) on December 8, 2006. Pursuant to H.Res. 1100, the bill was then coupled with H.R. 6111, a tax-extension bill, and sent to the Senate. The Senate passed the combined bills on December 9 (79-9; Record Vote Number: 279). On December 20, President Bush signed the measure into law (P.L. 109-432).

H.R.6386 (Fortenberry). Establishes the Congressional-Executive Commission on the Socialist Republic of Vietnam. Introduced December 6, 2006; referred to House Committee on International Relations and Rules Committee.

H.Res. 415 (Sanchez). Expresses the sense of the House that Hanoi needs to do more to resolve claims of property reportedly confiscated under the period of communist rule. Introduced July 28, 2005; passed by the House September 19, 2006.

H.Res. 807 (Davis). Endorses reforms for freedom and democracy in Vietnam and urges the U.S. government to utilize such reforms in an effort to peacefully bring democracy and human rights to Vietnam. Introduced May 9, 2006; referred to House International Relations Committee.

S. 599 (Kerry)/H.R. 2816 (Neal). Eliminates tariffs on certain types of tuna imported from ASEAN member countries (except Burma). S. 599 introduced March 10, 2005; referred to Senate Committee on Finance. H.R. 2816 introduced June 8, 2005; referred to House Ways and Means Committee.

Figure 1. Map of Vietnam



Source: Map Resources. Adapted by CRS. (K.Yancey 2/24/06)