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**U.S.-VIETNAM ECONOMIC AND TRADE RELATIONS:
OPPORTUNITIES AND CHALLENGES**

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Thank you very much. It is a pleasure to be here with you in Hanoi – because it is a beautiful city, because we have a lot to talk about, and because I am arriving from Harbin. By alphabetical order, Harbin is right behind Hanoi; but on the thermometer Harbin is a long way down. So it is a relief as well as a pleasure to be here.

APPROACHING THE US-VIETNAM RELATIONSHIP

Let me talk today about the U.S.-Vietnam relationship, and the challenges and opportunities facing Vietnam.

A first glance, the U.S.-Vietnam economic relationship, more than four years since signature of the Bilateral Trade Agreement, is quite positive. It shows rapid growth in trade and investment, along with some disputes and problem areas. It shows new logistical links, symbolized by the United Airways direct route to Vietnam from San Francisco and next year's Vietnam Airways link. And it shows people-to-people contact, with annual visits from Americans to Vietnam rising from 208,000 in 1999 to almost 300,000 this year. But with a broader view, we see our relationship is developing in a period of profound and unexpectedly rapid change in the Pacific and global economies, to which both countries must adapt.

We might start by looking at the development of the relationship generally. From the late 1980s to the ratification of the BTA in 2001, our two governments were working through a series of difficult and emotional issues. Trade normalization joined, among other issues, the MIA search and recovery program; the normalization of political and diplomatic relations; national reconciliation; and the Vietnamese American community's participation in business, humanitarian work and investment in Vietnam itself. Generally these were successful efforts, reflecting a set of perceptions shared by both governments and by the publics as well:

- Emotional perceptions: The postwar estrangement of US and Vietnam had gone on too long, and both countries needed reconciliation for emotional and historical reasons.

- Pragmatic considerations: Size, at 80 million people, and relative youth make Vietnam a country with considerable growth and export potential for the U.S. Likewise America's role as an export market, source of technology and outward investor meant the benefits of a normal economic relationship for Vietnam would be considerable.

- Strategic issues: From the U.S. perspective, as East Asia's fourth-largest country Vietnam had a natural and important role in regional security and economic development; and as part of an enlarged ASEAN would strengthen Southeast Asia generally in its dealings with the larger powers around the Pacific. Our impression was that Vietnamese officials saw similar benefits for stability and the regional balance of power.

THE BILATERAL TRADE AGREEMENT

The BTA was the principal economic step in bringing all this about. It was the twenty-first ‘Jackson-Vanik’ agreement the U.S had concluded, following those completed in the 1980s and 1990s with Romania, China, the former Soviet Union, Mongolia, and so on. It was also, by far, the most technically extensive of the series. Earlier agreements had been intended simply to put trade on a more normal basis. This one aimed higher, and toward longer-term objectives:

- *Reform*: to accelerate Vietnam’s existing economic reforms, through provisions on services industries, legal transparency, intellectual property and other topics;
- *Trade integration*: to set a foundation for WTO membership through a set of obligations covering many of the topics the WTO negotiations address, though in less detail; and

- *Regional integration:* to complement Vietnam's membership in ASEAN through reforms which, as elsewhere in Southeast Asia, would spark cross-border trade and investment and a more efficient division of labor.

The Vietnamese government, and private sector as well, deserve a great deal of credit for adopting this approach. It meant accepting a more challenging, but also more far rewarding, agreement than others had taken on. And so it represented a fundamentally new view of trade policy, and in combination with Vietnam's entry into regional economic institutions, a new role for Vietnam as a shaper of the Asia-Pacific economy and eventually of the global trading system.

For our side as well there were challenges – not of the political type, given the broad public and Congressional support for normalization, but on the economic side. The grant of NTR to Vietnam by the U.S. compressed all the tariff concessions made to the world at large, over the course of sixty years and nine GATT and WTO agreements, into a single step.

RESULTS OF BTA

What are the results? Most debate is on the disputes, misperceptions and frictions that can arise from rapid change, which are real and which I will come to in a minute. But they should not overshadow the more fundamental result, in a rapidly developing economic relationship that is fulfilling many of the hopes placed in the BTA five years ago.

1. Vietnamese Trade and Export Growth

First and most obviously, Vietnamese trade with the U.S. has grown rapidly.

President Clinton, on signing the BTA, suggested that Vietnam could earn an extra \$1.5 billion per year from the agreement. In reality, however, Vietnam's exports to US have risen by \$4.2 billion, from \$800 million to \$5 billion in four years. The United States is now Vietnam's biggest export market, passing Japan in 2002 and level with the EU's 25 countries combined. Over these four years, Vietnamese exporters have surpassed the farmers and factories of such long-time

American trade partners as Turkey, South Africa, Poland and Argentina; and are now approaching those of major developed countries like Australia and Spain.

Looking at the trends in some more detail, we find strong trade growth in both light manufacturing and agriculture. To look at some anecdotal cases:

- Americans now buy 50 million pairs of Vietnamese-made shoes a year. Vietnam is now our fourth-largest supplier of shoes, trailing only China, Italy and Brazil.

- Vietnamese furniture companies sold us 20,000 chairs in 2000, when the non-NTR tariff was 60%; and 2.6 million chairs in 2004 with the zero NTR tariff. This is easily the fastest growth in the world, and places Vietnam in a position to rival Thailand and Indonesia as furniture suppliers within the next year or two.

- And shoppers in the U.S. can now find an array of Vietnamese farm produce in our stores: 150,000 tons of Vietnamese coffee are supplying grocery stores and coffee-shops; 16,000 tons of chili peppers place Vietnam third

behind only Mexico and India; Vietnamese fruit now far outsells Chinese fruit and is approaching Brazil; 33 million kilos of Vietnamese-grown cashew nuts account for a third of American sales.

2. Vietnamese Total Exports and FDI

Second, this bilateral trade growth does seem to be helping Vietnam meet its more basic aspirations for growth, and closer integration with the world economy.

Vietnam's general export growth has been rapid, rising from \$11 billion in 1999 to \$20 billion in 2003. In percentage terms, this makes Vietnam one of the world's most rapidly growing exporters. Foreign investment is also up, from a stock of \$13 billion then to nearly \$20 billion, reflecting annual flows that, at \$1.5 billion a year or so, compare reasonably well to those of other large ASEAN members like Thailand and the Philippines. And this greater degree of integration, combined with domestic policies and the reforms inherent in the BTA, have helped Vietnam's economy grow by about 7% or more annually; in other words, by nearly 50% in five years, from \$129 billion in 1998 to \$185 billion in 2003.

And Vietnam's relationships elsewhere have been developing as well. In economics, reform and liberalization, together with ASEAN membership, have helped bring substantial amounts of investment and imports of technology from other ASEAN members; and Japan remains a strong market for Vietnamese goods even as trade with the U.S. has grown. Vietnam has an important voice in regional initiatives from APEC and the ASEAN Regional Forum to the Asia-Europe and ASEAN+3 meetings; and is playing its part in other issues, most recently through contributions to tsunami relief.

But there are also some cautionary points to note. The export growth, though fast, is from a low base, and the totals are still well below those of Vietnam's peers. Thai exports are \$80 billion a year, and Filipino levels are \$40 billion. The figures for overall GDP are similar, with fast growth but a relatively small economy: the \$185 billion figure is encouraging, but still less than half the size of the \$400 billion Thai economy. Exports remain concentrated in light manufacturing and agriculture, rather than spreading quickly into high-tech fields; and FDI from services industries and intellectual property-intensive manufacturers may be less strong. So evidently there is more to achieve.

3. U.S. View of Trade and Investment

American export growth to Vietnam has also been healthy - though a bit less dramatic – rising from \$330 million in 2000 to \$1.2 billion or so for last year. Vietnam has become an important market for American civil aircraft, and Vietnam also bought 200 American-made heavy trucks last year. Vietnam’s garment factories bought \$60 million in American cotton; Vietnamese research labs, universities and health clinics purchased \$30 million in scientific and medical equipment; we can also see an improving technological infrastructure in the purchase of 125,000 Global Positioning Service meters.

American investment in Vietnam has also grown rapidly, with the Chamber of Commerce membership now at 278, and spread among manufacturing, natural resources, services and other industries.

Less tangibly, but also important, the American public remains positive about the development of the relationship. A recent poll conducted by a well-known polling firm, Zogby International, finds two-thirds of American to be pleased by the growth in US-Vietnam trade since conclusion of the BTA. A

similar proportion support Vietnam's membership in the World Trade Organization. This is probably an unusually high level of support for trade these days.

TRADE FRICTIONS AND DISPUTES

As in many trade relationships, though, we also see some questions and disagreements.

1. American Concerns

From the US perspective, the BTA's opening of markets to manufactured goods seems to have gone reasonably well, with some possible exceptions in 'trading rights' for companies invested here. Another strong point seems to be the Justice Ministry's effort to improve the transparency of legal and regulatory policy, including through more frequent and timely publication of regulations and acceptance of comments.

On the other hand, enforcement of regulations is as important as legal changes themselves, and intellectual property rights enforcement appears to be an

especially serious problem. A 99% rate of piracy for music, film and computer software is unusually high even for Southeast Asia. It is likely a deterrent to high-quality investment by information technology businesses and other high-tech firms; if it persists, as has been the case with China, it will likely be a continuous source of friction.

This New Year's also brought a series of commitments on services liberalization into force, which are more complex and at least as important as goods liberalization. Here there seem to be some significant complaints from both the American government and businesses, for example on issuance of licenses for insurance companies, questions about the independence of the telecommunications regulatory agency, and the early phases of value-added telecommunications liberalization.

2. Vietnamese Concerns

Vietnamese businesses also, of course, have well-publicized frustration with U.S. trade policies, though from a distance these appear to be more related to the typical workings of American trade law as regards countries outside the WTO than to implementation of BTA commitments.

The imposition of a textile quota in 2003 is one example. This was standard policy at the time, and will probably remain standard policy until WTO accession is complete.

The anti-dumping penalties on shrimp and especially catfish have some similar features. The anti-dumping law is a fixture of American trade policy and especially problematic for countries outside the WTO. It also seems especially prominent in Asian trade relationships. Of the 351 anti-dumping orders in force, 174, or just about half, apply to Asian trade partners. Eight are on goods from Thailand, seven on products from Indonesia, eighteen on Taiwan, 29 on Korea, 33 on Japan and 57 on China. In the Chinese case these range from axes and pencils to mushrooms, crayfish tails, purified magnesium, aspirin, honey and steel bars.

So the application of these laws to Vietnamese products is not unusual, though the catfish case was controversial in the US as well as here. The law may be especially problematic for Vietnam, however, since Vietnamese exports are highly concentrated: large amounts of export revenue come from a fairly small range of products. In trade with the United States, Vietnam's top 25 exports

account for two-thirds of Vietnam's export revenue; for Thailand the figure is 40% and for China just 22%. Thus these countries' overall fortunes in trade are less captive to the fortunes of any particular product, and Vietnam's export interests may suffer more than those of neighboring countries from anti-dumping cases.

WTO ACCESSION

All of this speaks, in purely economic terms, to the importance of attracting wider ranges of investment, diversifying exports, and speeding reform.

The BTA has already given Vietnam's government and business community a considerable implementation and adjustment challenge. But they accepted this challenge four years ago because of the rewards. Access to the American consumer market was only one of these rewards; the others ranged from the long-term benefits of economic reform and the rule of law; to the need to compete with western, southern and northern neighbors who are by no means standing still.

That is why, as you recall, we made the BTA more than a normalization agreement. Rather it was both a trade normalization agreement and a step toward

membership in the WTO, which makes larger demands but offers comparably larger rewards, among which at least three deserve special notice:

- *Dispute settlement rights:* The bilateral disputes of the past two years would be subject to arbitration at the WTO. WTO members have filed 321 separate cases so far, in many cases dealing with precisely the problems US-Vietnam trade has encountered. The catfish case is a good example. The WTO could well have ruled against the labeling requirement imposed by Congress in 2002, and perhaps also the dumping penalties of 2003. And of course Vietnam would gain similar rights vis-à-vis the EU, China, Japan and other ASEAN members.

In this area, Vietnam may stand to gain more from WTO membership than the other big countries still outside the system. Iran and Saudi Arabia for the moment export mainly energy products, where there are few trade barriers. Russia exports these together with metals, seafood and aerospace goods, which have some more controls but still relatively few. Vietnam, as an exporter of light manufacturing and agricultural products, encounters far heavier regulation and more frequent tariffs, quotas, anti-dumping rules, sanitary and phytosanitary

requirements. In such circumstances the ability to hold one's trade partners to defined rules is especially great.

- *Export opportunities:* Remaining quota policies for textiles are an obvious example. A longer-term problem may arise from the fact that Vietnam is not able to contribute, except in the most indirect and partial sense through ASEAN, to the conclusion of the Doha Round. This Round covers the market access policies of all of Vietnam's main trade partners, from the U.S. to the European Union, Japan, Thailand, Malaysia, Singapore, Indonesia and China; and of Vietnam's major potential markets, notably India. With the Round unlikely to conclude until 2006, Vietnam has some opportunity to shape the policies of these countries to its advantage. If membership is delayed well beyond 2005, the opportunity will vanish for the foreseeable future.

- *Domestic reform and diversification:* Probably most important, the WTO negotiations are among Vietnam's most promising options for developing the internal markets, regulatory systems and legal regimes that can support not only growth and investment in light manufacturing, but in electronics, software, telecom and financial services, and other capital- and technology-intensive industries.

Completing them is likely to help Vietnam to develop an economy as competitive as possible with other major ASEAN states, and with newly developing Chinese provinces, in attracting high-quality investment and developing a more diversified and less vulnerable export portfolio.

PACIFIC ECONOMY

All this becomes especially clear, and the broader security and regional issues come back into focus, when we think about the pace of change going on around Vietnam.

In completing the BTA, both sides hoped that a stronger Vietnamese economy, in absolute terms and relative to other countries in Asia, would have ancillary benefits. It would give Vietnam a major role in the Pacific economy and the global trading system. It would give ASEAN a greater collective weight in regional economic and political affairs. And in both senses this would contribute to political stability and peace in East Asia.

We were right to have this hope; but the passage of time has shown that both countries probably underestimated the speed at which the larger Pacific economy would evolve. Consider a few anecdotal points, drawn from American and Japanese statistical reporting, press, and Asia's current negotiating agenda:

- In 2002, China passed Japan as an exporter of goods to the U.S., with \$125 billion in Chinese imports next to \$121 billion from Japan. This was the first year China had topped Japan since 1949, the year of the Chinese revolution. Since then the trend has accelerated, with that \$4 billion gap growing to a likely \$65 billion in 2004.
- In 2005, meanwhile, Japan may export more to China than to the U.S., if one counts Hong Kong as part of China, as diplomats and law do but statisticians often don't. If we exclude the World War II years as anomalies, this has not happened since 1873 – meaning that the last time Japanese businesses relied more heavily on China than the U.S., warriors wearing kimono and carrying swords were walking Tokyo streets; a Spanish governor ran the Philippines; and emperors sat in palaces at Beijing and Hue.

- China itself is emerging not only as an export power but as an outward investor and a policy-setter. The recent purchase of IBM's PC unit by a Chinese computer firm is one example; others come from energy investments in South America and Africa, and the bid for Russia's Yukos firm. On the policy side, the China-ASEAN trade talks are the most visible and probably most ambitious aspect of a new Chinese trade activism, but far from the only one.

What explains this? Chinese reform, embodied in both domestic policy changes and WTO accession, has brought a flood of investment from Japan, Korea, Taiwan, Hong Kong, Singapore. At \$40 billion a year, this is putting up something like 20,000 manufacturing facilities annually, merging the technological and financial strengths of Japan and the smaller 'tigers' with the low costs and sophisticated infrastructure of the mainland.

Thus Vietnam's own emergence as an exporter and investment site is overshadowed by much larger changes affecting all of the Pacific. Neither is the United States free to be complacent; for the first time since the colonial era, we find ourselves not participating in a major Pacific trade negotiation.

CONCLUSION

So, by virtue of China's rapid reform and growth the competition has become stronger than it was a few years ago. As competition grows stronger, the demands for reform to keep the pace also become stronger – not only in economic and trade policy, but in education, labor market, infrastructure, environmental, and quality of life policies. And this suggests the importance of a range of issues.

For the U.S., it may be a bolder approach to Asian trade negotiations in the new Presidential term, perhaps some thought about our domestic competitiveness as well.

For Vietnam, full and consistent implementation of BTA commitments; a continued push for early membership in the World Trade Organization; and other steps that help Vietnam remain competitive as an exporter and a destination for high-quality manufacturing and services investment.

For both, simply the recognition that the world does not stand still; that as it becomes more rewarding, it can also become a little more demanding.

Let me leave it there, and I welcome your questions.