

# DEVELOPMENT OF VN-US ECONOMIC RELATIONS AFTER THREE YEARS OF THE EMBARGO LIFTING

In May, the two new Vietnamese and American ambassadors will come to Washington and Hà Nội to take up their posts, marking a new era of the two countries' relations. It's a long road to the achievement that each side tried to make their relations closer.

## LANDMARKS OF NORMALIZATION

Feb 3, 1994: President Bill Clinton announced the lifting of the trade embargo against Vietnam.

Jan 28, 1995: The two governments signed two agreements on the resolve of the diplomatic assets of VN in the U.S. and other assets of the U.S. in VN and the opening of liaison offices of VN and the U.S. in Washington and Hà Nội.

July 11, 1995: President Bill Clinton announced to establish the diplomatic relation with VN.

August 5, 1995: Minister of Foreign Affairs Nguyễn Mạnh Cẩm and Minister of Trade Lê Minh Triết led a Vietnamese delegation to participate in the Workshop "Economic Normalization - the Next Steps in US-VN Relations" held by the American-Vietnamese Trade Council and Asean Foundation in Washington.

April 2, 1996: The American Trade Office was opened in Hà Nội on the occasion of the US trade delegation's visit to Vietnam.

May 24, 1996: President Bill Clinton nominated Mr Douglas "Pete" Peterson, a Democratic congressman, as the first U.S. ambassador to VN since 1975.

June 30, 1996: President Bill Clinton announced to end viewing VN as an area of hostilities.

July 12, 1996: The US President National Security Advisor, Dr. Anthony Lake paid a visit to VN and affirmed the economic relations between the two countries is the most important issue.

Dec 12, 1996: In Hà Nội representatives of the Vietnamese Ministry of Trade and the U.S. Department of Trade completed the talk round on the move to the US-VN trade pact.

March 4, 1997: The U.S. Senate approved the appointment of Mr Douglas "Pete" Peterson as the first U.S. ambassador to VN.

April 6, 1997: U.S. Treasury Secretary Robert Rubin came to VN.

April 14, 1997: The interministerial economic mis-

sion, led by Mr Joseph Damond, Southeast Asia Director of the U.S. Trade Office arrived in VN.

April 16, 1997: The two countries signed a copyright agreement in Hà Nội.

May 1997: Mr Douglas "Pete" Peterson and Mr Lê Văn Bàng, the two first ambassadors to VN and the U.S., take up their offices in Hà Nội and Washington.

## SOME ACHIEVEMENTS

Since the U.S. lifted the trade embargo against VN and especially after VN-US normalization, the two countries' economic relations have seen some achievements, however the speed is still slow.

According to the Ministry of Trade's statistics, the bilateral trade value surpassed US\$ one billion in 1996, a four-fold increase after 3 years. The U.S. is enjoying the trade surplus (table 1). This shows VN will be one of the American major potential markets.

Table 1: VN-US BILATERAL TRADE (in US\$ million)

	1994	1995	1996
Exports to the U.S.	50.4	198.9	319.2
Imports from the U.S.	172.2	252.9	720.3
Total	222.6	451.8	1039.5

Vietnamese major exports to the U.S. include agro-products (coffee, rice...), crude oil and products from labor-intensive industries (shoes, textiles and garments). In 1995 alone, coffee accounted for 73% of the total value of exports to the U.S.

Since VN has not enjoyed the American MFN treatment yet, our commodities can hardly make a niche and win in competition in the U.S. market. Garments, for example, if not given MFN treatment, will be subject to a tenfold tariff, bamboo goods a sixfold tariff (table 2). The farm products take a better part of our commodities exported to the U.S. because the tax rate imposed on them is zero.

Table 2: Comparison of tax rates between MFN and non-MFN treatment.

Nº	Commodities	MFN	non-MFN
1	Coffee, tea, spice, fish and other aqua-products	0	0
2	Shoes	20	≤35
3	Sportswear	8.5	90
4	Cotton shirts	20.7	45
5	Backpack	17	65
6	Bamboo goods	0	60
7	Ceramics	2.6	20

Although facing with many difficulties since Viet-



nameese entrepreneurs have not been given business incentives, in addition, the U.S. market though has big purchasing power, but also intricacy, they still make efforts to find a market share in the U.S. The Hóc Môn Rubber Enterprise, exported only 227,000 products, worth US\$800,000 to the U.S. in 1993. This figure soared to 1.67 million products and US\$5.4 million respectively in 1996. This year, the enterprise has won orders to sell 3 million products valued at US\$7 million to the U.S.

In the period 1993-1994, for the first time, through non-commercial channel, HCMC-based Biti's sold some hundreds pairs of shoes in the U.S. market, earning only US\$1,000. But in 1996, Biti's products exported to this market reached 46,200 pairs and turnover US\$103,000. Knowing it's hard to compete with American giants whose products are high-quality shoes, Biti's turns out mainly shoes for indoor use and sea bathing. This year, the enterprise plans to export 200,000 pairs to this market and earn about US\$700,000.

At the year beginning, Vifon, an instant noodle company, also exports ten millions of units to the U.S., especially instant *phở*, the first of its kind in the U.S. market, suitable for the taste of many Asia-origin American including overseas Vietnamese.

Notably, the Hiệp Hưng Shoe Company signed a contract with Reebok - a U.S. famous footwear maker - on exporting 1.8 million pairs of sport shoes, grossing US\$20 million. Whereas its export turnover from this market reached only US\$6 million and US\$15 million in 1995 and 1996 respectively.

According to the Global Trade Information's figures, Vietnamese goods previously exported to the U.S. mainly comprised agro- and aqua-products (amounting to 92% and 90% in 1994 and 1995 respectively). In 1996 the percentage tended to go down (only 50%) while the volume of textiles and garments, shoes, crude oil increased. Besides difficulties, we have also advantages. That is garments from Hong Kong, Taiwan, and South Korea are inspected strictly since the host country must be sure their origin is not China. Cheap labor price in VN will lure producers to transfer their investments into VN.

American goods exported to VN are diversified, including industrial and household machines, fertilizers, chemicals, home appliances such as refrigerators, electric cookers, films, computers, beepers, mobile phones... The U.S. items are more and more abundant, their export values are increasing. This proves the potentialities of this 80 million-people market.

According to a source from the Ministry of Planning and Investment, the U.S. became one of topten investors in VN with 63 projects capitalized at US\$1.3 billion.

By the number of projects, the American investment focussed on food processing, producing building materials, electronic appliances, autos, oil and gas, chemicals and medicines...

By the value of projects, the U.S. large investment projects got involved in the manufacture of autos, plastics, chemicals, exploiting and processing oil and gas, beverage...(table 3)

Table 3 American 10 largest projects in VN

No	Licence date	Name of projects	Capital (US\$mil.)	Location
1	9.1995	Chrysler Vietnam	191.5	Đồng Nai
2	7.1995	Oxy-Vina plastics and chemicals	109.4	Bà Rịa-Vũng Tàu
3	9.1995	Ford Vietnam	102.7	Hải Hưng
4	4.1995	Oil exploration contract of lot 05-1B	55.0	Hải Hưng
5	6.1994	Package Crown Vinalimex	48.8	Hà Tây
6	9.1995	Coca-cola Chương Dương	48.7	HCMC
7	7.1996	Olympic	35.8	HCMC
8	4.1994	Coca-cola Ngọc Hồi	35.4	Hà Tây
9	7.1994	Mỹ An enamel tiles	34.4	Bình Dương
10	4.1996	Mỹ Đức enamel tiles	30.0	Bà Rịa-Vũng Tàu

With its investment capital of US\$191.5 million, Chrysler VN is now the largest project in VN (also ranking first in auto makers in VN). Its designed capacity is 17,000 autos per annum, including 18,000 trucks, 3,400 jeeps and 2,800 cars.

Vietnam's living standard is rising together with upgraded infrastructure. This explains VN will be one of significant consumer market of cars by the turn of the century. Knowing this, as well as Chrysler, the American Ford also enters VN with a plant turning out 16,990 autos per annum including 2,280 cars, 3,940 minibuses and 9,490 trucks.

The U.S. well-known corporations and multinationalals such as Ford, Coca-cola, Chrysler, IBM, Mobil increasingly make their appearance in VN. This is a change in the U.S. investment in VN.

In addition to above large projects, American investors have eyed foodstuff production with small projects such as:

- A 35-year JV between Vinamilk and Ashta Dairy Group to produce and process milk with a total capital of US\$24.4 million (high-quality cows, named Holstein, will be imported from the U.S.).

- On Dec 10, 1996, a Knorr's US\$ 5.1-million plant started construction in the Biên Hòa 2 IP on an area of 1.5 hectares. The plant is expected to come into operation in May 1997 with a capacity of 5,000 tonnes/year.

- Mac-Donald, a famous fastfood company, is mapping out a JV project with Vissan to breed cows for the JV food processing in 1998.

The American forms of investment are also appropriate to the current investment environment in VN. Most of projects are of JVs (75%), 100% foreign-invested enterprises (20%), business cooperation contracts (5%).

To promote investment and trade, many corporations have set up their rep offices in VN. This number amounts to 160, ranking fourth under Japan, Singapore, and Hong Kong. At the same time, the U.S. also opened its trade office in Hà Nội and in the near future, HCMC with a view to providing information and services concerning investment and trade between the two countries.

#### REMAINING ISSUES

VN-US economic relations though attained some achievements but the pace is still slow and their scale is small as compared with each side's potentialities. Many analysts see the pace of economic relations is slower than that of diplomatic ones.

The U.S. Government lifted the trade embargo three years ago and announced the normalization of VN-US



relations two years ago, but there are still not advantages for Vietnamese goods to enter the U.S. market. American goods flood the Vietnamese market without discrimination. Whereas Vietnamese products in the U.S. market cannot obtain competitiveness against those of regional countries such as China, Thailand, Indonesia, Philippines... That does not include complicated procedures, strict inspection, causing not few obstacles to VN exporters. If unable to enter the U.S. market, obviously VN will suffer losses. But the U.S. itself also cannot benefit from this potential partner. Regarding textiles, for instance, in 1995 VN exported to EU a volume worth US\$291 million, to Japan US\$335 million. Whereas to America, this value reached only US\$15.1 million in 1995 and US\$20 million in 1996. The earnings from crude oil exported to the U.S. totalled only US\$80.6 million in 1996 (although increasing by 70 times over 1994 and 80 times over 1995).

Another barrier which American business people in VN made numerous complaints about is the U.S. Government has not yet offered their entrepreneurs in VN insurances and guarantees from the Overseas Private Investment Corporation (OPIC) and financial supports from the Ex-Im Bank. This causes worries to American investors and also is one of reasons for the slow pace of American investment in 1996 (equalling 15% as compared with 1995). Moreover, the licence of the project on building Non Nước beach resort, a JV involving American BBI and the Quảng Nam - Đà Nẵng Tourist Company and the largest project in the tourism sector as well, with a total investment capital of US\$243.4 has been revoked, since BBI did not undertake its commitments to the construction plan.

In brief, the U.S. has put obstacles on the way of their investors in VN, causing slowdown to American investments in VN and untapping its potentialities. Besides since VN has not enjoyed MFN status, American investors cannot export their made-in-VN goods back to their homeland once they are subject to high tax rates.

In addition, lack of information and mutual understanding are also one of difficulties both Vietnamese and American entrepreneurs are encountering. The opening of embassies, consulates general and trade offices in the two countries will help overcome that obstacle.

#### COOPERATIVE PROSPECTS

Both of the two sides have firm foundations to strengthen their bilateral economic cooperation.

Vietnamese abundant labor source with cheap price, 80 million- people market, untapped natural resources will allure American partners. Moreover, VN has an important position in Southeastern Asia, and plays a key role in the implementation of security in this region. After 10 years of carrying out *đổi mới* policy, Vietnamese economy has reaped many successes: increasing growth rate, low inflation rate, improved living standard. The Party and Government are implementing the line of flexible external relations, open policy and want to make friends with every country.

The U.S. is a great country with strong economic potentialities and big purchasing power of over 250 million people. It is an attractive market to many entrepreneurs in the world.

Besides, due to remnants of the historic background, the U.S. today understands VN better than other countries in the North America as well as French and Western European. Is it an active consequence left after the war?

As a result, to some extent, the U.S. has more advantages in the expansion of economic relations with

VN than other countries. Regrettably, that process is still too slow. It is expected that when Mr Peterson was appointed the first ambassador to VN, the last knot will be untied, creating many advantages to both sides.

To open a new page in the two countries' economic relations is the steps prepared for the birth of VN-US trade pact. After four times of talking about this issue, so far the two sides have come to a draft.

The VN-US trade pact will be a legal foundation for the two countries' economic relations, including MFN status, insurances and guarantees in investment and trade from OPIC and Ex-Im Bank for American investors in VN, securing intellectual property (on April 16, the two sides signed a copyright agreement. This is a great effort to pave the way for the trade pact). As a matter of fact, the pact can be considered a package agreement affecting the entire business activities, investment and services between the two countries. On the pact meaning to VN, in her speech before Vietnamese-American business circle, Ms Nancy Linn Patton - the U.S. Asia-Pacific Assistant Secretary of Trade stressed: "the bilateral trade agreement will pave the way for VN to obtain MFN status and penetrate into the U.S. market valued at US\$7,000 billion, the largest market open to the world with tariff rate of only 4%".

Consequently, the VN-US trade pact is really an important instrument, making ground for the boosting of economic relations between the two countries. There is not yet exact answer to when it is officially signed. The U.S. seems to put forward too high requirements, inappropriate to Vietnamese level and economic conditions. The Vietnamese Government showed its goodwill in settling the previous MIA issue. This can be seen easily as Dr. Anthony Lake - Security Advisor of the White House - in July 1996 on full consideration of POW/MIA said this effort was of humanity and the most important issue to many families across the U.S. Or recently, VN agreed to assume the payment for a US\$145 million debt owed by the former Saigon regime before 1975. The U.S. Treasury Secretary Robert Rubin accepted that this was a message showing VN took its financial responsibilities seriously. Obviously, our Government has made efforts to settle remaining issues in its authority. All the rest depends upon the U.S.

However, according to many economic analysts, after Mr Douglas Pete Peterson takes up his post, the move to the official trade pact will be faster, possibly in July, since July is the second anniversary of US-VN normalization, of VN participation in ASEAN as well and the US National Day is also in this month.

It is expected that after the two countries' embassies, consulates general, trade offices are set up, the bilateral economic relations will be boosted. These establishments will bridge the gap left by the past, creating conditions for American entrepreneurs to better understand Vietnamese partner and vice versa. That is one of important targets of current embassies: attaching diplomatic activities with economic and commercial ones. Just because of this, Mr Lê Văn Bàng, the first Vietnamese ambassador to the U.S. said in an interview: "The multi-billion dollar turnover from goods exported to the U.S. will make me pleasant".

The VN-US economic relations have turned into a new era. We hope in this era, the process of trade, investment and other economic relations will be bustling. It's high time Vietnamese business people should urgently study the American legal system, managerial style, and trade principles to success in the U.S. market.