



# THE U.S.- VIETNAM ECONOMIC RELATION CHANGES AND PROSPECTS

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Three months have passed but the U.S.- Vietnam Trade Agreement signed on July 13 in Washington is still a topical issue because it marked a new achievement gained by Vietnam in its effort to integrate into the world economy.

## I. ACHIEVEMENTS

Five years after the normalization of the US- Vietnam relations, the economic cooperation between two countries has made some progress which is not great enough but worth remarking.

Regarding the bilateral trade, the value of Vietnam's exports to the U.S. increased from US\$5,000 in 1990 to 250 million in 1995. According to the U.S. Department of Commerce, the value of American exports to Vietnam rose from US\$4 million in 1992 (the best part of it was humanitarian aid) to 200 million in 1995. The lifting of embargo in 1994 and normalization of relations in 1995 led to many chances to promote the bilateral trade. Increases in the bilateral trade aren't as high as expected but stable.

Table 1: The Vietnam's trade with the U.S. (US\$ mil.)

	1995	1996	1997	1998	1999	Jan. 2000
Export	252.9	720.3	464.0	453.6	504.1	48.3
Import	198.9	319.2	241.8	294.8	334.8	38.3
Total	451.8	1,039.5	705.8	748.4	838.9	86.6

Source: Ministry of Trade

Although the U.S. always suffers a trade gap, Vietnam controls only a 0.05% share in this market and ranks 76<sup>th</sup>

among trading partners of the U.S. while the U.S. is the seventh biggest partner to Vietnam.

The cause of this situation was the lack of a trade agreement between two partners that prevented Vietnam from enjoying the MFN treatment extended by the U.S., and as a result, exports from Vietnam to the U.S. had to pay heavier duties than its counterparts from countries that enjoy the MFN treatment.

Many Vietnamese companies, however, have tried to export some products on which the same duties are imposed regardless of its origin, such as coffee, frozen shrimp, tea, spices, some kinds of footwear, etc. At present, the U.S. has been the biggest buyer of Vietnam's coffee and been competing against the EU and Japan to import seafood (especially shrimp) from Vietnam. In the past nine months of 2000, Vietnam's export of seafood to the U.S. rose by 250% in comparison with the same period last year. Export of other staples is also on the increase.

Table 2: Export of some Vietnamese staples to the U.S. (US\$ mil.)

Item	1997	1998	1999	First 5 months of 2000
Seafood	42.5	81.6	125.6	76.9
Footwear	76.3	97.2	102.6	34.1
Crude oil	34.6	79.2	99.6	38.4
Coffee	90.0	125.1	59.2	22.5
Clothing	20.0	26.3	34.7	21.1
Vegetable	11.6	2.6	3.2	9.1
Rice	63.5	39.1	5.1	0

Source: Ministry of Trade

The U.S. exports a wide range of goods, both capital and consumer ones, to Vietnam, such as fertilizer, machinery, automobile, electronic equipment, cotton, paper, mobile phone, film, etc. Vietnam has really become a potential market for American industries.

As for the American investment, there were, up to March 31, 2000, 118 American licensed projects in Vietnam with a total registered capital of US\$1,479.9 million. Thus, the U.S. still ranks ninth among foreign investors in Vietnam. Most of American investment projects are in industrial and construction sector, some others in service and agriculture sectors.

Table 3: Distribution of American investment in Vietnam (%)

Sector	Project	Capital
Industry and construction	57.1	69.2
Service	28.2	18.1
Agriculture	14.7	12.7

Source: Ministry of Planning and Investment

Like investment from other countries, the American investment is concentrated in HCMC, Hà Nội, Bình Dương, Đồng Nai and Bà Rịa – Vũng Tàu. Of American-invested concerns, 56% of them are American-owned ones, 35% joint ventures and 9% business cooperation contracts.

After the Asian financial crisis, the American investment in Vietnam has decreased, 21 out of 118 American-invested projects with a total capital of US\$324.18 million have been dissolved. The amount of American-owned concerns increased quickly in the past two years. Generally, the American investment is helpful to the industrialization and modernization process in Vietnam but the average size of American-invested concerns is smaller than that of all foreign-invested projects (US\$13 million as compared with 16 million).

Secondly, the Agreement also deals with the liberalization of trade in services (banking, insurance, telecommunications, tourism, consultancy, etc.). This means that service companies from one country are allowed to establish branches or go into joint ventures with partners in the other. When the Agreement comes into effect, Vietnamese companies and individuals will benefit from better services offered by American firms while the service industry, and its authorities as well, should make great efforts to enhance its competitiveness and work out a clear track for deregulating this sector. It's worth noting that the service sector plays an increasingly important role in all economies while this sector in Vietnam is badly developed. The authorities should be aware of this problem, and make necessary preparations for the liberalization and better developments of this sector.

The Agreement also affects the investment climate in



## II. RECENT DEVELOPMENTS

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

With seven chapters and 72 articles, the U.S.- Vietnam Trade Agreement covers all trading matters: trade in commodities and services, investment and intellectual property. In its first part, the Agreement affirms the principle of equality, mutual beneficial relationship and respect of sovereignty between two countries according to WTO rules and codes. This is the result of four years of negotiations, reflecting efforts made by both sides to end a period during which relations between two countries made no progress. The Agreement is the last act to complete the process of normalizing the relations between two sides.

This Agreement provides Vietnam with many opportunities. First of all, Vietnam's exports to the U.S. will increase when Vietnam enjoys the MFN (or NTR) treatment, namely, cuts in duties on imports from Vietnam (from 40% on average to some 3%). This means that Vietnam's goods will be more competitive in the American market, especially goods from labor-intensive industries (clothing, footwear, processed food, farm and aquatic products, electronic components, handicrafts and wooden furniture). According to a rough estimate, there will be sudden increases in Vietnam's export to the American market when the Agreement comes into effect and the U.S. becomes the target market to many Vietnamese companies.

Vietnam. It can serve as a measure to restore investors' confidence in Vietnam. We must recognize that falls in foreign investment in recent years originated from internal causes, instead of blaming the Asian financial crisis for it. In such a bad situation, the Agreement could be seen as a promise of a healthier, more favorable and lawful environment for both foreign and local investors.

The Agreement also creates more favorable conditions for Vietnam to get admission to the WTO. Although Vietnam has entered trade agreements with some 60 countries and exchanged the MFN treatment with some 70 countries and territories, it's the first time Vietnam enters a trade agreement that is based on WTO rules and principles. If Vietnam can carry out commitments under the U.S. – Vietnam Trade Agreement, it will have ability to meet requirements posed by the WTO. In addition, to be admitted to the WTO, the applicant country should negotiate with some powers, including the U.S., to get their support. With the Agreement, Vietnam could be supported by the U.S. when getting admission to the WTO.

### 2. More official visits and relations

After the Agreement was signed, the economic and diplomatic relations between two contracting countries were improved remarkably. Official visits increase. The first one was paid by Robert Mallett, Deputy Secretary of Commerce, on Aug. 23 and 24, 2000 as a commerce official of the highest rank that Vietnam has ever received.

He expressed satisfaction at the progress of the trade relation between two countries, answered some questions about the U.S.- Vietnam Trade Agreement and made preparations for bringing the Agreement into effect.

His visit was followed by one paid by Nguyễn Đặng Niên, Vietnamese Minister of Foreign Affairs, to the U.S. from Sep. 21 to 24, 2000. He had many meetings with the U.S. government representatives, Congresspersons and business circle. He believed that these meetings would help further cooperation relations between the two countries.

And in October 2000, the delegation of Overseas Private Investment Corporation (OPIC) led by Ms. Mildred O. Callear, its Vice-Chairperson, spent five days in Vietnam to survey matters relating to labor, the environment and supply of credit to potential projects by the OPIC in Vietnam. It's reported that the OPIC is interested in some 30 projects in Vietnam capitalized at some US\$3 billion if approved.

Many American organizations and companies have started to carry out programs to market their products, especially capital goods, in Vietnam. They are also ready to supply necessary information to Vietnamese companies that want to export goods to the U.S.

The U.S. market also became a subject of study in universities: HCMC University of Education is offering a basic course on American history, culture, geography, customs and political system in cooperation with the Fulbright Program in Vietnam; the American Consulate in HCMC has cooperated with Văn Hiến University to hold a workshop to help some 350 businesspersons get online information about American trade, economy and education.

### III. PROS AND CONS ON BOTH SIDES

To realize factors affecting the bilateral trading relations and work out the strategy to further new developments, it's necessary to examine pros and cons each side will meet in the future.

Vietnam, with its large population and rich natural resources, is attractive in the eyes of foreign investors. After 10 years of the economic reform, the local economy started to develop well. Appropriate policies on foreign affairs were adopted to integrate Vietnam into the world market. Vietnam joined the ASEAN in 1995, the AFTA in 1996 and the APEC in 1998. It is now negotiating for its WTO membership. These are efforts by Vietnam to develop its international cooperation and they have helped Vietnam gain high growth rates in recent years.

In spite of its low level of development, Vietnam has tried its best to integrate into the regional market and its position in Southeast Asia and the Asia-Pacific has been recognized. Its efforts to hold successfully the 6<sup>th</sup> ASEAN Summit, carry out duty reduction as required by the AFTA and play its role as the ASEAN presidency and the coordinator of the U.S. -ASEAN relation has improved a lot its image in the regional and international communities.

In the trading relation with the U.S., although Vietnam gains only a small market share in the American market, it has many chances to increase its exports to this market, especially farm products and goods from labor-intensive industries. At present, Vietnam needs American capital goods and investment in the service sector.

Besides these favorable conditions, Vietnam is facing many difficulties in developing its international cooperation:

- Its growth rate showed signs of decline in the past two years after the Asian financial crisis (in the first nine months of 2000, the growth rate was some 6% but this rate wasn't stable).

- The flow of foreign investment also slowed down. It fell from some US\$2 billion a year in the past to some hundred millions of dollars this year.

- Labor productivity and business performance haven't been improved for years, especially in the public sector that controls most national resources. The banking system reveals a lot of shortcomings. This is the main cause of poor competitiveness of Vietnamese products.

- The legal infrastructure is not uniform. Many problems (red tape, corruption, etc) seems unsolvable although the Government is trying to carry out an administrative reform.

- Destruction of forests and other environmental problems leading to natural disasters have produced bad effects on the economic development.

As the strongest economic power, the U.S. has a GDP of some US\$9,200 billion in 1999, equaling 20% of the world GDP. In recent years, the American economy has enjoyed stable growth rates while Japanese and the EU ones slowed down. The U.S. market has great spending power. In 1999, the U.S. imports were worth US\$1,227 billion, its trade gap was US\$267 billion.

For many years, China and South American countries have been main suppliers of farm and labor-intensive products. When American industries have targeted at hi-tech products and high-quality services, import of above-mentioned products is encouraged.

However, to enter the U.S. market is no easy task. The first and foremost difficulty is the law system, at both federal and state level. This complicated and strict system deals with all trading aspects. It requires a lot of studies from exporters before they could find a foothold in this market.

### IV. PROSPECTS

In the near future, Vietnam can export goods in larger quantities to the U.S. and receive more investment from American companies, especially in infrastructure building and service industry which are strong points of American companies. The problem is what efforts both two sides have to make to bring the Agreement into effect soon and carry it out successfully.

Vietnam has to accelerate necessary reforms, especially programs that have been started: equitization of state-run companies, administrative reform, structure adjustments, introduction of new technologies and better treatment to the private sector.

The Agreement is only a necessary condition, not a sufficient one, for Vietnam's goods to enter the U.S. market. Both the Government and companies should try their best to enhance the competitiveness. This is the most important task in the future.

To enter the U.S. market, Vietnamese managers should carry out minute researches on American laws, tax system, distribution network, customers' tastes and the like. The Government can open Chambers of Commerce in big cities in the U.S. to provide local companies with chances to get access to the American market.

In short, the U.S.- Vietnam Trade Agreement, and the upcoming visit of President Clinton to Vietnam, will bring the American- Vietnamese economic relation to a new stage of development. Trading and investment activities between the two countries will be much livelier, but everything seems to depend on efforts from the Vietnamese side.■