Gains from Vietnam-US Bilateral Trade Agreement

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In July 2000, Vietnam - US Bilateral Trade Agreement was officially signed and has come into effect for almost five years up until now. Although the signing of a trade agreement between the two nations in the context of globalization and trade liberation currently has been common, this Vietnam- US bilateral trade agreement has been marking an important turning- point in the two nations' relationship after the war ended over the quarter of a century ago. The agreement not only has an impact on the two nations' economic activities, more than that, it is also "one more reminder that former adversaries can come together to find common ground in a way that benefits all their people, to let go of the past and embrace the future, to forgive and to reconcile"[(1)].

To have agreement inked in 2000, the process of normalization between Vietnam and the US had been planned since 1980s. However, President Bill Clinton began to carry out the policy of normalization in 1993 by allowing international financial sources flow into Vietnam and certain American companies to join development projects here. Afterwards, the US government decided to lift the economic embargo against Vietnam in 1994. One year later, the US normalized its diplomatic relationship with Vietnam by sending its Ambassador to Hà Nội in 1995. Up to 1999, the two countries had found out key and principal provisions of the trade agreement and finally, the US and Vietnam had signed the final bilateral trade agreement in 2000.

According to the trade pact, Vietnam agrees to grant its Most Favored Nation (MFN) and National Treatment to the US firms and citizens in all matters related to tariffs, method of payments in export and import, law, regulations, tax, etc. It implies that Vietnam has to lower tariff sharply on full range of the US industrial and agricultural products within three years, to remove continuously non- tariff barriers in three to seven years as well as to implement transparency regime and to adhere the World Trade Organization (WTO) standards including the issue of intellectual property rights protection. The US in turn agrees to grant Normal Trade Relations to Vietnam, which means that the US will reduce the import tariffs on Vietnamese products to lowest level as much as granted to other countries all over the world.

By signing this agreement, Vietnam has been facing with new challenges and difficulties in general and Vietnamese companies surely cannot compete with the US ones in particular as the economy opens its door wider. However, Vietnam can have gains from trade by exporting its products to the US; and especially, since the agreement signed in 2000, it was said by some analysts that Vietnam will benefits more than the US from this bilateral trade agreement.

As in international trade theory, when two nations trade to each other, they finally have gains from this trade by exploiting their comparative advantages of having lower internal opportunity costs. By assuming other things equal, if these two nations have relatively similar size and tastes or references, their gains from trade may be the same. However, in the case of Vietnam and the US, the later is much larger than the former, then the larger (US) will gain less than the smaller (Vietnam). It is explained that the *international terms of trade* using in international market tends to be closer to the *internal terms of trade* [(2)] of the US but much higher than that of Vietnam. As a result, Vietnam will gain more than the US.

Vietnam has comparative advantages on products such as textile and garment, footwear, etc thanks to its labor redundancy and low labor costs. By contrast, the US has comparative advantages on products such as machinery, pharmaceuticals, financial services, etc. By assuming that the opportunity cost of producing each unit of footwear in Vietnam is 0.5 that of machine while the US cost is 1.0, or two times higher than Vietnam, Vietnam has comparative advantages in producing footwear and the US has comparative advantages in producing machines.

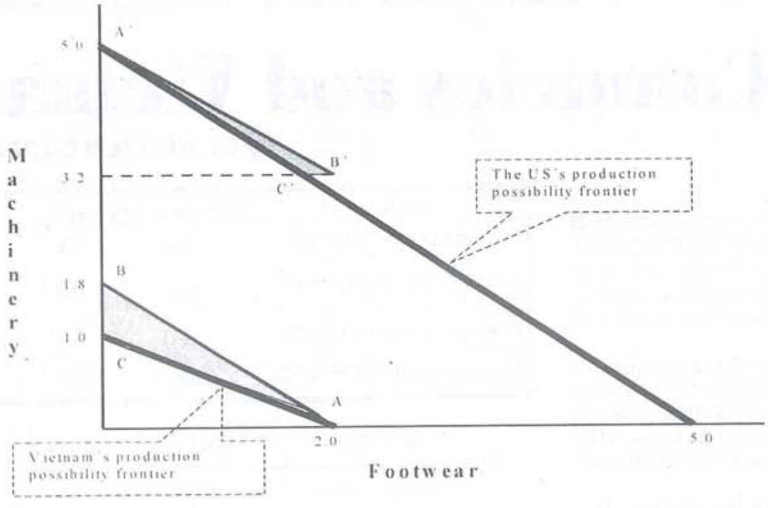
For simplicity, the opportunity costs of producing footwear and machines of the two nations are assumed to be constant; hence the two nations' production possibility frontiers (PPF) are straight lines. With these comparative advantages, the patterns of trade of the two nations are that Vietnam will specialize in and export footwear to and import machines from the US while the US will specialize in and export machines to and import footwear from Vietnam.

Vietnam specializes in production of footwear at A and the US specializes in production of machines at A'. The international terms of trade in international market is assumed to be 0.9, which means that one unit of footwear now costs 0.9 machine, being almost equal to the US's internal costs of producing footwear. Now Vietnam will take all 2 units of footwear produced to exchange and obtain 1.8 machines from the US (point B), Vietnam's gains from trade is the area of ABC; meanwhile, the US receives 2 units of footwear from Vietnam and remains 3.2 machines (point B'), its gains from trade is the area of A'B'C'. Moreover, the area of ABC is larger than that of A'B'C' on diagram; or in other words, Vietnam gains more than the US.

Above is a theoretical analysis, but how about the real situation? Is it true that Vietnam gains more than the US in practice? In spite of statistics up to 2003 after five years of the trade agreement being implemented, these numbers may help to verify to some extent the initial evaluations.

It can be said that the two- way trade between Vietnam and the US has been officially carried out since the US lifted the economic embargo in 1994. Right after that time, trade balance between the two nations from 1995 to 2003 has been increasing sharply. The trade balance in 2003 reached US$ 2,794.3 million, increasing

Comparative advantages and trade between Vietnam and the US



Source: World Economics News

Table 1: Trade balance between Vietnam and the US: 1995/2000-2003 Unit: US$ million

	1995	2000	2001	2002	2003
1. Export value to the US	**169.7**	**732.8**	**1,065.3**	**2,452.8**	**3,938.5**
% of Vietnam's total export value	3.1	5.1	7.1	14.7	19.5
2. Import from the US	**130.4**	**363.4**	**410.8**	**458.3**	**1,144.2**
% of Vietnam's total import value	1.6	2.3	2.5	2.3	4.5
3. Trade balance (1-2)	**39.3**	**369.4**	**654.5**	**1,994.5**	**2,794.3**

Source: GSO (2003)

Table 2: Growth rate of trade balance between Vietnam and the US: 1995/2000-2003 Unit: %

	1995-2000	2000-2003	1995-2003
1. Export to the US	331.8	437.5	2,220.9
2. Import from the US	178.7	214.9	777.5
3. Trade balance (1-2)	839.9	656.4	7,010.2

Source: GSO (2003)

7,010.2% compared to that of 1995 and 656.4% from the 2000's figure.

After the trade agreement signed, the growth rates of export and import values of the two nations have soared much faster than before. In terms of export values from Vietnam to the US, its growth rate of in the period of 2000-2003 is 437.5% while that of the period of 1995-2000 was 331.8%, posting an increase of 105.7 percentage points. In terms of the export values from the US to Vietnam, the growth rate of period of 2000-2003 is 214.9%, increasing 36.2 percentage points compared to the period of 1995-2000.

It is recorded that the export value from Vietnam to the US has been much higher and increased faster than that of export values from the US to Vietnam. In 2003 Vietnam's export value was recorded to achieve US$ 3,938.5 million, increasing 2,220.9% compared to 1995 and 437.5% compared to 2000. Meanwhile, the US's export value to Vietnam in 2003 was 29% of Vietnam's export value to the US, being US$ 1,144.2 million, increasing 777.5% compared to 1995 and 214.9% compared to 2000.

As a result, Vietnam has obtained an export surplus of US$ 2,794.3 million in 2003, up 656.4% compared to 2000, being an export country to the US. Meanwhile, because of its much lower export value to Vietnam, the US has become an import country from Vietnam.

Thanks to the bilateral trade agreement's signing in 2000, the proportion of export value to the US has been improved significantly in Vietnam's total export value. In 2000, the export value to the US was 5.1% of the country's total export; this number has rocketed to almost 20% in 2003. Therefore, it can be said that the impact of the trade agreement on Vietnamese economy has not been slightly. However, more importantly, the Vietnam- US bilateral trade agreement is also considered as another indication to show that Vietnam has opened more and more its door to integrate into the world economy.

In fact, this paper is an analysis in short term with three- year data only. Three years indeed are not enough for both Vietnam and the US to implement fully the agreement. Therefore it is too soon and hasty to conclude that one country has gains from trade more than the other. However, there is one thing that can be sure of, at least in theory, that no one will get loss when implementing trade liberation and integrating into the world economy. ■

NOTES:

(1) The former US President Bill Clinton's words.

(2) Terms of trade refer to the ratio of a country's export price and import price.

References:

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