

Vietnamese Economic Reform:
How Important to US-Vietnam Trade Relations

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Vietnamese Economic Reform:
How important is it to US-Vietnam Trade Relations

Report Documentation Page			Form Approved OMB No. 0704-0188		
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 2001		2. REPORT TYPE		3. DATES COVERED 00-00-2001 to 00-00-2001	
4. TITLE AND SUBTITLE Vietnamese Economic Reform: How Important to US-Vietnam Trade Relations				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) National War College, 300 5th Avenue, Fort Lesley J. McNair, Washington, DC, 20319-6000				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES The original document contains color images.					
14. ABSTRACT see report					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES 19	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Introduction

The United States and Vietnam have moved closer economically since diplomatic relations were reestablished in 1994. That year, the US trade embargo was lifted as the Vietnamese government promised greater cooperation in resolving issues surrounding US personnel still listed as missing in action from the Vietnam War.

In the last seven years, normalization has brought many positive results. The US and Vietnamese governments have strengthened cooperation on the fullest possible accounting for MIAs; there has been a successful resettlement of tens of thousands of refugees through the Orderly Departure Program and related programs; enhanced cooperation in combating narcotics trafficking continues to show promise; promoting human rights and religious freedoms, always an important ingredient to any US economic initiative, is working; and, expanding economic linkages through economic reforms have become a central theme as Vietnam transitions from a total command economy to a state supervised market economy.[\[1\]](#)

Economic linkage, more specifically economic reform, is the focus of this paper. The following pages will briefly highlight US policy toward Vietnam, ongoing initiatives, the importance of those initiatives, how we have arrived at where we are today with our relationship and where we expect to go in to the future.

Current US Policy

An important part of this renewed relationship, other than MIAs, is a concerted effort on both parties to transition Vietnam into the global marketplace.

“The overall objective of the US-Vietnam policy has been to encourage the emergence of Vietnam as a stable, prosperous, and open participant in the region. This kind of Vietnam – fully engaged and integrated in the region – would become a more vigorous and influential partner, working with the US and with its neighbors to foster regional stability and manage regional problems. It would have a dynamic economy which could offer its citizens an improving standard of living, attract imports and investments, and export its own products competitively.”[\[2\]](#)

The US policy toward Vietnam involves: integrating Vietnam into US-Pacific trade as it contributes to American strategic goals in Asia; helping create substantial new trade opportunities for American business, farmers and working people in a region of 80 million people; and making a contribution to economic reform and the rule of law in commercial areas in

these counties.^[3]

Vietnam's willingness to implement economic reforms at the insistence of the US has been a big part of this successful relationship, albeit a slow and deliberate reform process. To this point, Hanoi has been very reluctant to open its economy to the world. Fear of domestic meddling is a major reason why. Vietnam, a country emerging from years of isolation, is not yet willing to totally accept methods that run counter to their own ideologies. Even the US-Vietnam Bilateral Trade Agreement (BTA), with all its positive aspects, was difficult to negotiate. As a matter of fact, the BTA met with strong resistance from within the party and there continues to be deep divisions on economic policy among the communist leadership.^[4] Economic reformers seek more trade with the West while at the same time many hard-liners remain suspicious of US motives. "Some in the country consider President Clinton's description of peaceful evolution as an insidious American plot to 'win the peace.'^[5] Even so, the US remains firm on insisting that continued progress be made in economic reform before the full benefits of this relationship can be realized.

Vietnam looks to the US to assist in building a strong economy out of one that at times suffered from stagnation at the hands of its communist

government. Current economic indicators show that this hard work is paying off. Most of the credit belongs to the Vietnamese, but more needs to be done. Vietnam realizes that their successful entrance in to the global market is directly tied to the US. Over the next several months, this economic partnership will most likely result in the ratification of the US-Vietnam BTA by the Vietnamese National Assembly and the US Congress, the US extending its hand of Normal Trade Relations (NTR), and the World Trade Organization granting Vietnam membership (WTO).

How did we arrive at where we are today?

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I believe it is important to understand exactly how far Vietnam has come since the country officially reunified in 1976. Hopefully this will lead to a better appreciation for the effort this country has expended to reach its current level of prosperity.

A little more than 25 years have passed since tanks rolled down the streets of Ho Chi Minh City (Saigon) ending the war between the US and Vietnam. This makes Vietnam a relatively new country with new country problems. Even so, economic reforms implemented by the communist government have generally been successful.

After the official reunification in 1976, the government of the new Socialist Republic of Vietnam quickly imposed on the south the Soviet style, central

planning that had been the model in the north since 1954. It didn't work! The failure forced Vietnam's leaders to abandon that strategy and move towards a policy of renovation (doi moi), which was formally adopted in 1986.[\[6\]](#)

Vietnam's official, current economy is market-based with socialist orientation under state management. This allows for market mechanisms to exist, but with a leading role for the state and maintenance of one-party rule. The Party and government actively support the state sector's leading role in the economy.[\[7\]](#)

At first economic reform was slow. Elements of the old system, such as the setting of physical targets, monetary and fiscal policy, and the two-price system, remained in place. However, the more relaxed atmosphere and the removal of internal trade barriers allowed the informal sector to blossom. For two years everything was on track. Vietnam's gains were reversed in 1988 as a result of bad weather and poor management that led to famine, and a wide trade deficit and hyperinflation of over 300%.[\[8\]](#)

This setback strengthened the resolve to reform, and a series of dramatic changes were introduced in March 1989. No longer were communes the basic economic unit in agriculture; the household was given primacy.

Most state enterprises were abolished. The banking system was reformed and the State Bank of Vietnam was established as a central bank to bring the budget deficit under control. Restraints on internal and international trade were lifted and the dong (Vietnam's currency) was devalued sharply.^[9]

During the reform process, Vietnam's older leadership was being replaced by a younger generation of men pledged to continue the reform process and not to roll back any of the earlier reform policies. Even so, they continue to be entrenched in the old way of doing business. They failed to attack the inefficiencies of a State-run system, preferring instead to sustain a lower level of growth while maintaining basic social stability and control by the Communist party. Vietnam, like China, has opted for Perestroika without Glasnost.^[10] It often appears that Vietnam's leadership is more than willing to take a large step back in order to take a small step forward.

Where are we going?

Even though the new leaders have their faults, they are the same individuals that have brokered the BTA with the US. The BTA is good for both countries with positive residual affects on the entire world market. The BTA should significantly improve the Vietnamese economy and will

surely secure normal trade relations status for Vietnam. It will provide Vietnamese exporters access to the US market by lowering tariffs on its US exports from as much as 40% to less than 3%. Some analyst predict that this agreement could double exports to the US that were \$600 million last year.[\[11\]](#) Ironically, even without the agreement, the US is currently Vietnam's ninth-largest trading partner.[\[12\]](#)

Increasing trade with the US should liberalize Vietnam's state-controlled economy and even act as a catalyst for considerable change in the country's social and political institutions. Congressional approval this summer will offer American business greater access to nearly 80 million consumers in Vietnam and help that country dismantle its counterproductive wall of trade protectionism.[\[13\]](#)

The BTA has given both sides hope that reforms will continue.

Negotiation of a bilateral trade agreement has been a priority for the US and Vietnam since the opening of respective embassies in August 1995.

The agreement contains a host of concessions by Hanoi including these five major sections:

Vietnam agrees to allow all Vietnamese firms, and over time US persons and firms, the right to import and export freely from within its borders for the first time; it agrees to adopt the WTO standards for intelligence property protection within 18 months

and make further measures in several other areas such as protection of satellite signals; it allows US persons and firms to enter its services market in the full range of services areas, including financial (insurance and banking), telecommunications, distribution, audio visual, legal, etc; it agrees to protect US investments from expropriation, eliminate local content and export performance requirements and phase out its investment-licensing regime for many sectors; and it agrees to adopt fully transparent regime with respect to each of the four substantive areas above, by issuing draft laws, regulations and other rules for comment, ensuring that advance public notice is given for all such laws and regulations.[\[14\]](#)

This agreement will speed Vietnam's entrance in to the world economy. It will subject important decisions to the rule of law and the international trading system. Additionally the flow of information should increase to its people; by inviting competition in, to accelerate the rise of a free market economy and the private sector within Vietnam, itself.[\[15\]](#) The positives resulting from the BTA should not be underestimated. Many of the reform measures mentioned in the agreement are there to ensure that Vietnam moves down the road to economic reform in a way that is most likely more acceptable to the US government than to the Vietnamese.

The number of economic reforms is too extensive to list in this paper. Needless to say there have been initiatives to reform banking, emigration, trade, transparency, intellectual property rights, monetary exchange,

privatization of state owned enterprises, credit, public works projects, education, credit, insurance, and the opening of Vietnam's stock market in Hanoi. Vietnam has made a comprehensive set of commitments on: tariffs and non-tariff barriers for industrial and agricultural goods, the full range of services, investment and other issues. New government bidding regulations are bringing structure and more transparency to the bidding process for infrastructure projects: consultant selection; equipment supply and construction; and partner selection in investment projects.[\[16\]](#)

Many of the reforms that the US is interested in are included in the agreement. The World Bank predicts that Vietnam could realize a \$800 million a year growth in its economy because of the agreement. Vietnam has already agreed to abolish dual pricing, allowing US investors into more sectors, and getting rid of most investment licensing. The BTA should lead to an increase in transparency regarding Vietnam's laws and regulations, which in turn will improve the climate for foreign investment in the future. Workers in Vietnam already can be hired directly by US firms, and in seven years, American investors can own 100% of certain companies.

Normalized trade relations with the US will help encourage the private sector to expand, increasing the number of jobs that are free from

government control and the number of citizens who will no longer owe their livelihoods to the government, but to a free market and an expanding economy. More of the Vietnamese people will be able to choose where to live, what to eat, and how their children should be educated. Thus, from a diplomatic perspective, expanding trade with Vietnam will encourage freedom in a country that is still nominally communist and overtly authoritarian.

The BTA will ultimately lead to Vietnam being accorded NTR by the US. That will most likely mean a significantly lower cost and, hence, greater competitiveness of Vietnamese products in US markets.[\[17\]](#) Today, despite not currently having NTR status, Vietnam maintains a roughly two-for-one trade surplus with the US.[\[18\]](#)

The relationship Vietnam has developed with the US will also lead to Vietnam's entry into the WTO. Why is WTO membership important to Vietnam? The WTO is the only global organization dealing with the rules of trade between nations. The benefits of WTO trading include: 1) promoting peace; 2) disputes are handled constructively; 3) rules make life easier for all; 4) freer trade cuts the cost of living; 5) it provides more choice of products and qualities; 6) trade raises incomes; 7) trade stimulates economic growth; 8) the basic principles make life more

efficient; 9) governments are shielded from lobbying; and 10) the system encourages good government.^[19] Vietnam recently submitted an application for membership, but its admittance most likely will hinge on the ratification of the BTA with the US.

As mentioned previously, the US has been a willing partner in Vietnamese economic recovery. At the same time, the US has demanded that Vietnam change the way its economy operates and pushed hard for economic reform. One such measure, tied to the BTA, NTR, and WTO is Vietnam's emigration policy.

The Jackson-Vanik Amendment (JVA) is a key element in the normalization of US commercial relations with communist countries. The amendment establishes the requirements for a country to meet, first to access US Government financial facilities and subsequently to receive NTR. The requirements are based upon a country's emigration policies and prohibit the US from establishing relations with a country that does not allow their citizens to freely emigrate. Compliance with the JVA requirement must either exist, or if not, under specific conditions the President may waive the requirement.^[20] As Vietnam negotiated the BTA, President Clinton waived the JVA from 1998-2000 as Vietnam took steps to adhere to the requirements set in the JVA. This waiver allowed

the US Export-Import Bank, the Overseas Private Investment Corporation, the Trade Development Agency, and the US Department of Agriculture credit programs to operate in Vietnam in the meantime.[\[21\]](#)

Not only is the US pushing for economic reforms, but so is the World Bank. The World Bank is actively engaged in facilitating economic reforms with Vietnam. The Vietnamese government has agreed to work on structural reform to stimulate growth and to ensure the quality and sustainability of their development efforts.[\[22\]](#) Support has been pledged to Vietnam in the following areas: consolidating macroeconomic stability and improving competitiveness, strengthening the financial sector, implementing state enterprise reform, promoting rural reform, investing in people and promoting social equity, improving public administration, transparency, and participation, raising productivity through infrastructure.[\[23\]](#)

Problems remain

Even with all the positive measures that have been implemented, Vietnam remains a difficult investment environment. As the government engages in opening up its economy, foreign investors must cope with a wide range of problems and costs. These include a poorly developed infrastructure,

under-developed and cumbersome legal and financial systems, an unwieldy bureaucracy, non-transparent regulations, high start-up costs, arcane land acquisition and transfer regulations and procedures, and shortage of trained personnel. Despite many recent liberal reforms, Vietnam's regulations continue to place significant restrictions on the importing and distribution activities of foreign countries. To a large extent, these activities are reserved for Vietnamese entities. Foreign investment in trading and distribution is restricted, and overseas manufacturers are not permitted to establish their own distribution or retailing operations in the form of branches inside Vietnam.[\[24\]](#)

Conclusion

Vietnam's success at becoming a real player in the global market depends greatly on its ability to implement reforms either insisted upon by the US or agreed to with international organizations. Failure to implement these reforms will most likely result in a souring of US-Vietnamese trade relations. Vietnam must be willing to pursue a transition to an outward-oriented, market based economic system. "One of the greatest challenges for Vietnam is to make its economic system more competitive by cutting red tape, streamlining regulations, and generally making the entire economic system more efficient and transparent, as well as less

corrupt.”[\[25\]](#) Those in a position within the Vietnamese government must ensure that the National Assembly sign the BTA with the US post haste. Any long deliberation on the part of the Vietnamese government will only prolong their wait for NTR, acceptance in to the WTO, and more prosperous economy.

Regional Security Studies Annex (Questions)

1. Political

- a. What was the most positive aspect of President Clinton's visit last fall?
- b. What were you looking for from this visit that did not materialize?
- c. Is there any pressure from the Vietnamese people to modify your current form of government (i.e., move toward democracy)?
- d. Are there efforts to remove the CPV from the Vietnamese people's daily lives? If so, how is that happening? If not, why not?
- e. Cooperation resolving the US MIA issue has been very good. Do you think that the US should do more in assisting your government with land mine location, removal, and destruction?
- f. What impact has disease had on your country? What is your biggest health care issue?
- g. Your government projected that it would have universal education by the end of 2000. Do you meet that goal?
- h. Do you allow Vietnamese students to study abroad? What restrictions are associated with that opportunity?
- i. Is there a problem with corruption in the country?

2. Military

- a. What do you regard as your biggest military threat?
- b. How are the discipline, morale, unity, and nationalism in the military?

- c . Is military service mandatory?
- d . How do you professionally train your military leaders? Is there an exchange of officer educational opportunities with other countries?
- e . What is the military's involvement in controlling the drug trade in Asia?
- f . Can you describe the function of your Security Forces?
- g . Do you ever see the Vietnamese military becoming involved in peacekeeping operations outside of Southeast Asia?
- h . How much in the military involved in day to day politics? Is this good or is this bad?

3. Economic

- a . Is there any reason, from the Vietnamese government's position, that will delay the ratification of the Bilateral Trade Agreement this year?
- b . How effective have been the use of auctions to privatize your industries?
- c . What internal controls has your government put in place to prevent a repeat of the 1997 economic crisis in your country?
- d . How does your government control unemployment?
- e . What measures are being taken to open up communications in the

country (i.e., the Internet)?

f. Where do you see Vietnam's place in today's market place?

g. Where do you see your country going economically?

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[24] [FY 2001 Country Commercial Guide: Vietnam](#), p.59.

[25] [FY 2001 Country Commercial Guide: Vietnam](#), p.60.