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What have been the most notable results that the US – Vietnam Bilateral Trade Agreement (BTA) has achieved since December 2001? Has the US- Vietnam BTA led to higher FDI into Vietnam? Why?

The most notable results that the Bilateral Trade Agreement between Vietnam and the U.S. has achieved. Is the strong and steady expansion of bilateral trade between the two countries, and the expansion of “U.S.-related” foreign direct investment (FDI) into Vietnam. The below chart and table shows trade between Vietnam from 2001 to 2012 (actual) and estimated to 2020. The BTA entered into effect in December 2001, so, in effect, the chart and table show the results of the BTA. Bilateral trade increased from \$1.5 billion in 2001 to \$24.9 billion in 2012. If these trends continue, bilateral trade could reach \$51.6 billion by 2020. Notably, Vietnam’s exports of apparel to the U.S. accounted for about 40% of Vietnam’s total exports to the U.S.



	2001	2008	2009	2010	2011	2012	2013	2016	2020
VN Imports fr USA	\$ 0.5	\$ 2.8	\$ 3.1	\$ 3.7	\$ 4.3	\$ 4.6	\$ 5.3	\$ 7.0	\$ 9.4
VN Exports to USA	\$ 1.1	\$ 12.9	\$ 12.3	\$ 14.9	\$ 17.5	\$ 20.3	\$ 23.0	\$ 31.3	\$ 42.3
Total Trade	\$ 1.5	\$ 15.7	\$ 15.4	\$ 18.6	\$ 21.8	\$ 24.9	\$ 28.3	\$ 38.3	\$ 51.6
VN Apparel Exports	\$ 0.0	\$ 5.4	\$ 5.3	\$ 6.3	\$ 7.2	\$ 7.7	\$ 8.0	\$ 9.2	\$ 10.8
VN Trade Surplus	\$ (0.6)	\$ 10.1	\$ (9.2)	\$ 11.2	\$ 13.1	\$ 15.6	\$ 17.6	\$ 24.2	\$ 32.9
VN Apparel/Total (%)	5%	42%	43%	42%	41%	38%	35%	29%	26%
Change in total trade %	27%	25%	-2%	21%	17%	14%	14%	9%	7%
Change in VN Imports %		47%	11%	19%	17%	7%	16%	8%	7%
Change in VN Exports %		21%	-5%	21%	18%	16%	13%	10%	7%

Source: U.S. Department of Commerce <http://www.census.gov/foreign-trade/balance/c5520.html>

In response to the question, “has the BTA led to higher FDI into Vietnam? And why?” The answer is Yes, the BTA has definitely led to higher FDI into Vietnam, according to a study by MPI’s Central

Institute for Economic Management (CIEM), Foreign Investment Agency (FIA), and USAID “Support for Trade Acceleration” (STAR) Project.¹

“From 2003 to 2006, moreover, FDI into Vietnam boomed, with registered FDI surging by almost 375 percent. Standing out in the surge, for example, was Intel’s 2006 announcement that it would invest around US\$1 billion in a chip factory in Ho Chi Minh City. Investor confidence has risen for a number of reasons, including the effective implementation of the BTA, Vietnam’s accession to the WTO, an improved local business environment, and good prospects for continued strong economic growth.

“FDI grew strongly in sectors where Vietnamese exports to the United States grew the fastest after the BTA. The most direct economic impact of the BTA was the U.S. extension of Normal Trade Relations (MFN) status for Vietnamese goods. The newly opened U.S. market served as an outlet for repressed comparative advantage by Vietnamese firms, especially in labor-intensive sectors such as apparel, footwear, and wood processing and furniture products. Data show that FDI poured into these three sectors from 2000 to 2005, expanding by more than sevenfold over this period (see Figure 14). This FDI can be attributed directly to the BTA. As would be expected, most of this FDI originated from neighboring Asian economies, with almost none originating from the United States, which has few firms specializing in production of these types of labor-intensive goods. U.S. firms were directly involved with buying and distributing many of these products, however.”

“A long-standing anomaly is the fact that U.S.-sourced FDI in Vietnam has normally been reported as relatively low: for example, the United States ranked 11th among all countries with FDI in Vietnam in 2004, considered on a cumulative basis since 1988. This clashes sharply with the “walking the street” perception, where one sees many advertisements and signs for seemingly U.S. firms. This report updates a new metric, “U.S.-related FDI,” which adds FDI from overseas U.S. subsidiaries located in third countries to the normal “bilateral” investment flows sourced directly from the United States. For example, the major Intel investment is reported as FDI from Hong Kong, since the investment was made by an Intel subsidiary operating in Hong Kong. In our metric, it would also be listed as a U.S.-related FDI, since it was made by a U.S.-based firm. Overseas U.S. subsidiaries investing into Vietnam are concentrated in Singapore, Hong Kong, the Netherlands, and various island tax heavens (see Table 13). Reasons why U.S. firms invest into Vietnam through overseas subsidiaries include incentives in the U.S. tax law and advantages in overseeing management of their investments from regional headquarters.”

“U.S. – related FDI into Vietnam ranked among the highest of FDI from all countries from 2003 to mid – 2006. Data released in our earlier report showed that U.S. – related FDI was the largest source of FDI into Vietnam for 2003 and 2004.

“U.S. – related FDI is concentrated in capital/skill-intensive sectors, in few provinces, and in 100-percent-foreign-owned enterprises. U.S. – related implemented FDI is spread among a number of largely capital/skill-intensive sectors. Roughly half is in the petroleum sector, around one -third in manufactured sectors, and the rest in services, property development, and agriculture. Note that FDI in services are relatively smaller in terms of monetary flows than in terms Excluding oil and gas investment, more than 80 percent of U.S.-related implemented FDI is located in three provinces/cities in the south around Ho Chi Minh City (Ho Chi Minh City, Binh Duong and Dong Nai) and two provinces/cities around Hanoi in the north (Hai Duong and Hanoi). Even before the big Intel investment, Ho Chi Minh City accounted for around 40 percent of all non -oil U.S.-related FDI into Vietnam. Almost 60 percent of all non-oil U.S.-related implemented FDI is done through 100 percent-foreign-owned enterprises, with most of the rest through joint ventures.”

How do you view bilateral trade and investment relations between Vietnam and US over the past five years?

Over the past five years, 2008 – 2012, trade and investment relations between Vietnam and the U.S. have steadily improved, but have not reached their full potential for a number of reasons. Total

¹ <http://www.amchamvietnam.com/1722> pages 8-10 and

[Assessment of the 5-Year Impact of the BTA on Vietnam’s Trade, Investment, and Economic Structure](#) (146 pages, pdf file)

[Powerpoint Presentation with Highlights of the Report](#) (ppt file)

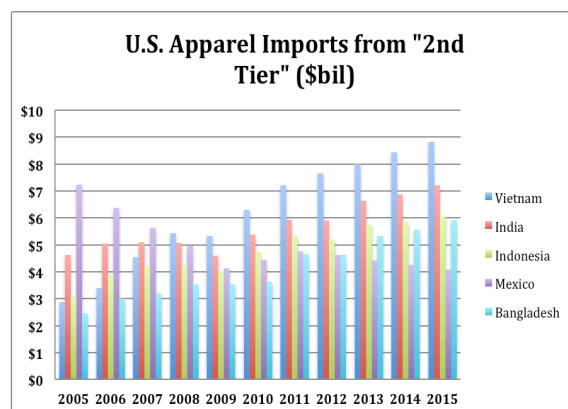
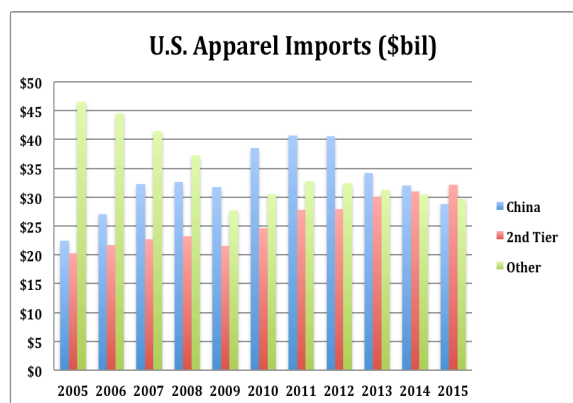
[Executive Summary](#) (17 pages, pdf file)

bilateral trade between the U.S. and Vietnam increased from \$15.7 billion in 2008 to \$24.9 billion in 2012, an increase of 60%.

One trend is that apparel continued to account for about 40% of Vietnam's total exports to the U.S. With the elimination of U.S. import quotas on apparel for WTO members in 2005 and Vietnam becoming a WTO member in January 2007, there have been two key strategic developments:

- (1) U.S. apparel import patterns have shifted from "Other" supplier countries at \$45 billion in 2005, with China and "2nd Tier" suppliers about \$20 billion each, to a point where China accounted for about \$40 billion in 2011 and 2012, to a point where China, "2nd Tier" suppliers, and "Other" account for about \$30 billion each; and
- (2) During this period, Vietnam has steadily increased its exports to where it is the leader of the "2nd Tier" suppliers group, while Mexico, in particular, has declined.

Going forward, Vietnam will need to build up its textile supporting industry to continue this strong growth, and to keep an eye on competition from the other four countries in the "2nd Tier" suppliers, including India, Indonesia, Mexico, and Bangladesh, not to mention Cambodia and Myanmar.



Source: U.S. Department of Commerce, <http://otexa.ita.doc.gov/msr/catV0.htm>

Another key development in the past five years is the growth of U.S. FDI in "modern manufacturing" for export to global markets (for example, Intel, GE, Honeywell, Jabil, Sandhill Scientific, Datalogic, Spitfire Controls, Spartronics from the U.S., as well as Samsung, Foxconn, Nidec, Canon from Korea, Taiwan, and Japan).

Finally, one development that is not so positive is in the energy sector with two major U.S. energy firms, ConocoPhillips sale of its assets in 2012² and Chevron's continuing inability to reach agreement with PetroVietnam, after years of negotiations, on a project that would cost more than \$4.3 billion—to develop gas fields offshore southern Vietnam to produce much-needed electricity.³

Bilateral trade between Vietnam and the US has increased year on year. If the present trends continue, how will total bilateral trade be in 2020? What should Vietnam do to make the bilateral trade between the two countries stronger?

If present trends continue, bilateral trade between Vietnam and the U.S. will reach \$51.6 billion in 2020. See the chart and table above.

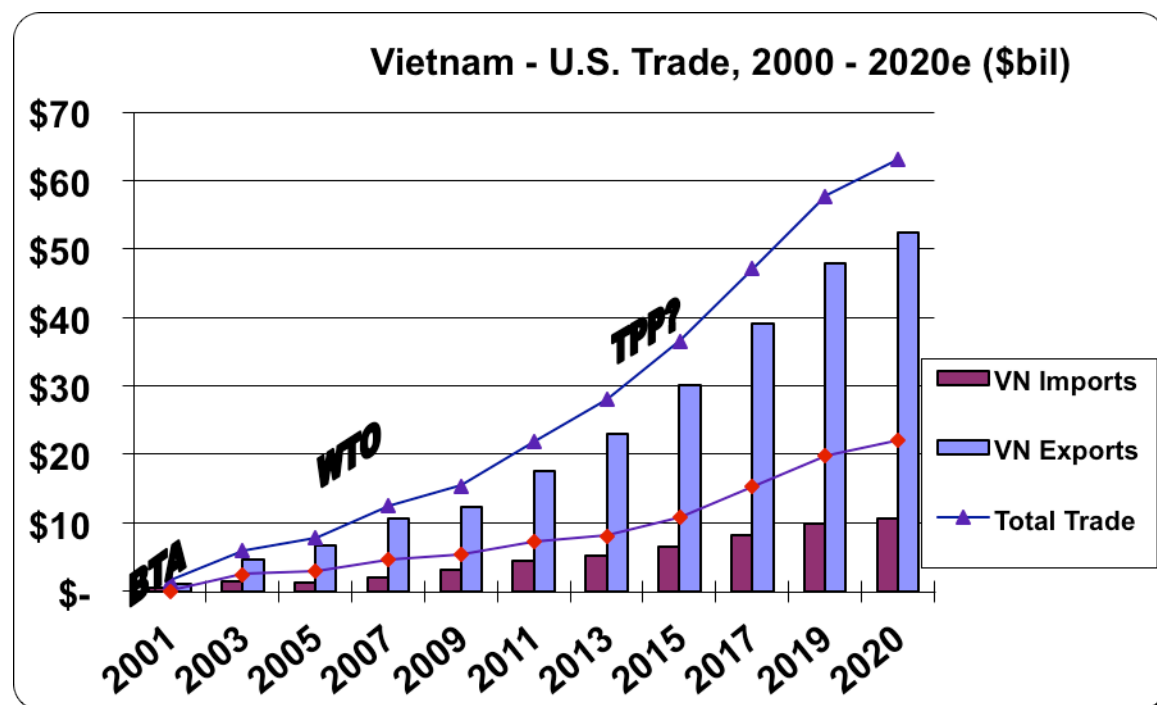
And in order to make the bilateral trade between our two countries stronger, Vietnam should positively negotiate to conclude and ratify the Trans-Pacific Partnership as soon as possible. And robustly implement not only the TPP commitments, but also the BTA and WTO commitments, which Vietnam has already agreed to.

Joining the TPP, and positive, robust implementation of the commitments could increase bilateral trade between Vietnam and the U.S. to about \$ 61.3 billion by 2020. And Vietnam's apparel exports to

² <http://www.icis.com/Articles/2012/02/17/9533094/perenco+to+buy+conocophillips+vietnam+business+unit+for.html>

³ <http://online.wsj.com/article/SB10001424127887323646604578402153203245638.html>

the U.S. could increase to \$22 billion by 2020, according to former VITAS Chairman Le Quoc An.⁴ Already, Korean⁵ and Chinese⁶ companies have announced new FDI in Vietnam to provide the supporting textiles industries for the apparel exports in the TPP environment.



Source: Source: U.S. Department of Commerce <http://www.census.gov/foreign-trade/balance/c5520.html>, and 2015-2020 outlook based on an estimate by former VITAS Chairman Le Quoc An of Vietnam apparel exports of \$22 billion to US in 2020 with the Trans-Pacific Partnership

In a recent VET article, AmCham Governor Fred Burke identified four missing elements that constrain Vietnam's economic growth as well as bilateral trade and investment. Addressing these issues would strengthen U.S.-Vietnam trade and investment: (1) a lack of robust implementation of the WTO commitments in the areas of investment and services, which made it difficult to benefit from some of the efficiencies that could have been created in key sectors; (2) a lack of government – business coordination in terms of making structural reforms for both State-Owned Enterprises and Small and Medium Enterprises to increase competitiveness and adapt to the WTO environment; (3) a lack of adequate infrastructure in terms of power and transport that discouraged Foreign Direct Investment ("FDI"). And (4) a lack of skilled labor, making it hard to move up the value chain even as labor costs have continued to rise.

Several US-based MNCs, with FMCG companies are in the FDI lead in Vietnam. Do you think that Vietnam's investment outlook for US companies is promising? Why?

Several U.S. based MNCs, with FMCG (fast-moving consumer goods) companies are in the lead, having invested from \$200 to \$500 million each in Vietnam, which is often their fastest growing

⁴ <http://www.amchamvietnam.com/6085/vietnam-s-apparel-producers-gear-up-to-prepare-for-tpp/> and <http://www.amchamvietnam.com/30439682/tpp-can-double-vietnamese-garment-exports-to-us-vitas/>

⁵ Kyungbang invests \$40 million in spinning factory <http://www.amchamvietnam.com/30440592/kyungbang-inaugurates-new-yarn-facility-in-binh-duong-preparing-for-tpp/>

⁶ <http://www.scmp.com/business/companies/article/1246819/trade-deal-hopes-put-vietnam-radar> Last year Texhong said it would invest US\$300 million to build a new yarn factory in Vietnam's northern province of Quang Ninh. Mainland fabric weaver Pacific Textiles, which is due to open a US\$180 million joint-venture facility in Vietnam with Hong Kong garment maker Crystal group this year, will invest up to an additional 300 million yuan to boost its own production capacity by some 70,000 spindles.

market globally. This is in the public record and reported regularly in the newspapers.⁷ Why? This is based on Vietnam's demographics, with a young population, rising incomes, and a bright future.

Which sectors will be potential for Vietnamese exporters to the US market? And which sectors will lure interests from US investors into Vietnam in the next coming years?

In addition to the FMCG MNCs, U.S. FDI in higher value-added modern manufacturing is also increasing, led by the Intel investment of \$1 billion in an assembly and test facility in Saigon Hi-Tech Park,⁸ and scores of other smaller investments. Rick Howarth, former General Manager of Intel Products Vietnam (2007-2012) recently said, "We've not encountered anything we didn't expect. For example, we expected that we'd need to work with the local government and education institutions to ensure that Vietnam has the right pipeline of industry-aligned talent. Intel has actively led and invested in higher engineering education alliance program with the original funders from USAID and Intel. The government's efforts on things like customs clearance, and improvement of infrastructure have also been appreciated."⁹ AmCham now has a "Manufacturing Committee" with about 20 companies involved in "Modern Manufacturing." These companies are successful, and more are coming: One company that came 5 years ago now employs almost 1,000 people, exports about \$50 million/year, and is looking for new land to expand because it expects to triple its business in the next three to five years. AmCham member company Jabil recently had a groundbreaking ceremony to build a \$70 million factory in SHTP, after five years of successful operation in a rented facility.¹⁰

How do you think about the impact of the US' anti-dumping measures against Vietnam's goods export to the US? What are your advices to Vietnam's exporters to avoid anti-dumping lawsuits in the US market?

This is a very complex, highly technical area. A number of U.S. legal services firms, together with Vietnam-based legal services firms are working with Vietnamese companies to help inform them about how to avoid anti-dumping and countervailing duty lawsuits in the U.S. market.

Your further ideas on this topic

There are many, many complicated and technical aspects of exporting to the U.S. that Vietnamese firms will need to learn, and we are working with partners in Vietnam to help raise awareness about these requirements. For example, some basic requirements are that Vietnamese firms planning to sell to U.S. firms need (1) to have a D-U-N-S® number to identify themselves and provide creditworthiness information; (2) product liability insurance, as well as marine cargo insurance, etc.; (3) e-commerce capability; (4) laboratory testing and certification for product quality, safety, labour and environmental compliance, etc.; (5) strong, EDI-based logistics infrastructure; etc. As mentioned,

⁷ "Coca-Cola invests another \$200 million" <http://www.amchamvietnam.com/?id=3143>

"PepsiCo to invest \$250 million; opens 6th plant in Vietnam" <http://www.amchamvietnam.com/3938>

"Crown expands beverage can production in Vietnam" by 1.5 billion cans/yr to reach 4.7 billion cans/year <http://www.amchamvietnam.com/?id=4312>

"Cargill to double production from 750,000 tons in 2012 to 1.5 million tons by 2015" <http://en.baomoi.com/Info/Cargill-Vietnam-still-leading-the-way/5/245545.epi>

"P&G commits to second factory," investment to reach nearly \$200 million

<http://www.amchamvietnam.com/?id=4162>

"Honeywell appoints Vietnam president"

<http://www.amchamvietnam.com/?id=4637> and <http://honeywell.com/sites/cn/News/Documents/Honeywell%20Vietnam%20Overview%20-%2020110627.pdf>

⁸ <http://www.youtube.com/watch?v=nNVT0qMZE48&feature=related>

⁹ "U.S. investors still charmed by Vietnam," VIR, Sep 17-23, 2012, pg 9 <http://www.vir.com.vn/news/investlink/us-investors-still-charmed-by-vietnam.html>

¹⁰ <http://daidung.com.vn/en/projects/chi-tiet/75/jabil-vietnam.html> and <http://trungdung.vn/jabil-vietnam-factory/>

we in AmCham are cooperating with Vietnamese business associations and governments to help Vietnamese companies understand and meet these requirements.