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## A TRADE PACT WITH VIETNAM: THE FIRST STEP IN BUILDING SUBSTANTIVE RELATIONS

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The United States and Vietnam recently signed their first trade agreement since normal diplomatic relations were restored in 1995. For Hanoi, the agreement is a welcome advance, in effect building on initial economic reforms it made in the mid-1980s. Increasing trade will help 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 of the trade agreement and the establishment of annual or permanent normal trade relations with the world's 12th largest country will offer American businesses greater access to 76 million consumers in Vietnam and help Vietnam dismantle its counterproductive wall of trade protectionism.

**Vietnam's Economic Vision.** Vietnam War veterans such as Senator John McCain (R-AZ) and U.S. Ambassador to Vietnam Douglas "Pete" Peterson led the efforts to reestablish normal relations between Washington and Hanoi. In a speech announcing the resumption of diplomatic relations in 1995, President Bill Clinton referred to the hoped-for benefit of the relationship as a "peaceful evolution." American businesses soon flooded into Vietnam, opening offices in optimistic anticipation that it would become the next "Asian tiger." Investors found a highly educated populace—with a 91.9 percent literacy rate—and a strong work ethic.

Unfortunately, economic progress did not materialize, and new licensed foreign investment in

Vietnam declined from a high of \$8 billion in 1996 to \$800 million in 1999. Vietnam's centrally planned economy was dominated by state-owned enterprises that received subsidized loans from government-owned banks. Hanoi's reluctant approach to opening the economy was symptomatic of the deep division on economic policy in the ruling communist party; while economic reformers sought more trade with the West, many hard-liners remained suspicious of the West's motives. Some leaders mired in antiquated communist ideals had even characterized the President's description of a "peaceful evolution" as an insidious American plot to "win the peace." This assertion demonstrates not only naivete about the world economy, but also an anti-American frame of mind.

In September 1996, representatives of the United States and Vietnam began a laborious three-year process of negotiations that culminated in a draft of a comprehensive bilateral trade agreement in July 1999. Yet when the time came to sign the agree-

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ment in September 1999 at a meeting of the Asia-Pacific Economic Cooperation forum in New Zealand, Hanoi balked. In the end, the manifest failure of Hanoi's economic policies, coupled with China's negotiations with the United States on accession to the World Trade Organization, may have triggered Hanoi's interest in avoiding economic collapse by trading with the West.

**The Benefits of Trade.** The comprehensive trade agreement with Vietnam contains a host of major concessions by Hanoi. It is a good first start, and the changes Hanoi has agreed to will result in lower tariffs on U.S. industrial, agricultural, and service industry products. The agreement will enable U.S. and Vietnamese firms to import and export more freely, and will provide greater access to Vietnam's large market. The World Bank has estimated that Vietnam could see exports grow by \$800 million a year after the passage of a trade agreement with the United States. It should also lead to an increase in transparency regarding Vietnam's laws and regulations, considerably improving the climate for foreign investment in the future. Workers in Vietnam already can be hired directly by U.S. firms, and in seven years, American investors can own 100 percent of a company.

Normalized trade relations with the United States 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 owe their livelihoods not to government patrimony, 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.

**Conclusion.** Though the news of the trade agreement will certainly be received well by economic reformers in Vietnam, progress toward an open economy and democratic norms is likely to be unnervingly slow. The reformers will still need to battle communists in Hanoi who are fighting a last-ditch ideological battle in the back rooms of government to retain control of Vietnam. But change must start somewhere.

Vietnam's commitments under the trade agreement will not come into force until the agreement has been approved by Congress and by Hanoi's national assembly. By engaging in normal trade relations with Vietnam, the United States and other countries will help the Vietnamese people to improve their economic and political future.

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