

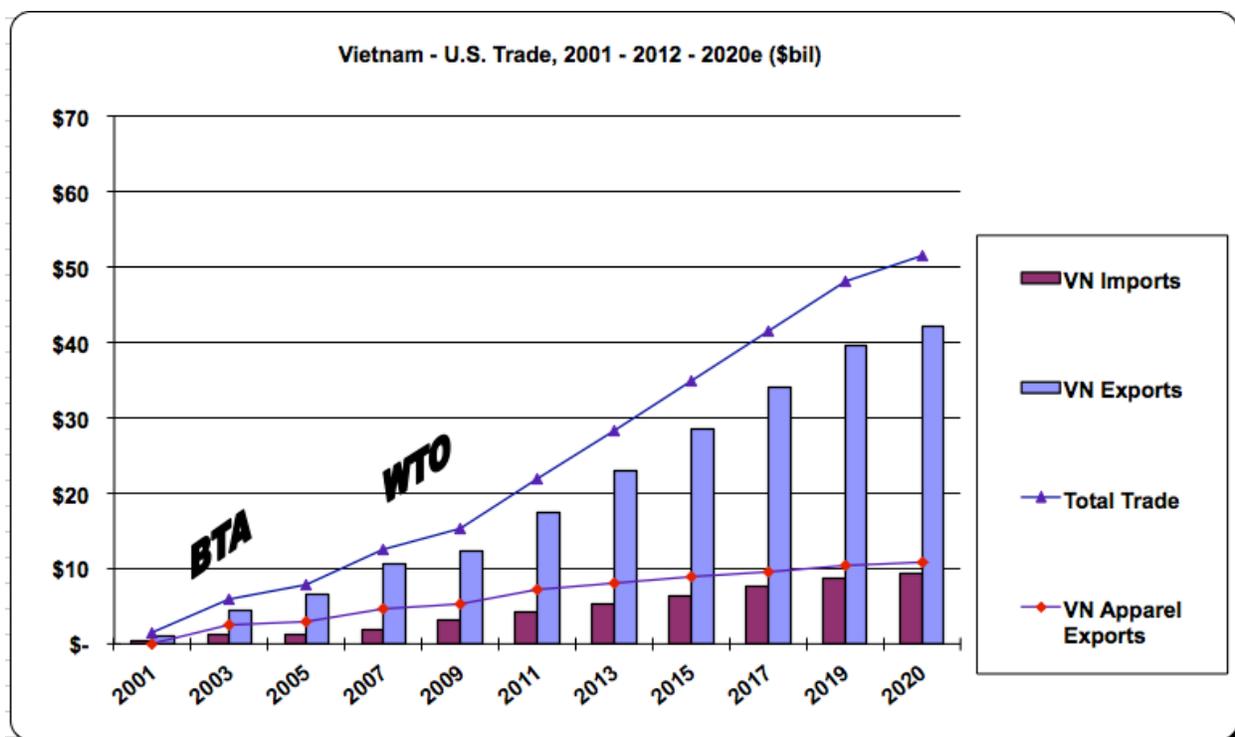
Background Paper for Interview with The World and Vietnam (MOFA), July 2013

Herb Cochran, Executive Director, AmCham Vietnam (HCM City)

1. Overview of the Vietnam – United States trade and investment cooperation relationship in general and in each field in particular (achievements, opportunities, challenges, prospect for future cooperation).

The Bilateral Trade Agreement (BTA), and Vietnam's accession to the World Trade Organization (WTO) created great opportunities for enterprises and workers of both countries.

There has been strong and steady expansion of trade between the two countries, and expansion of "US-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, the chart and table show the results of Vietnam's internationalization efforts through the BTA (Dec 2001) and the WTO accession (Jan 2007). Bilateral trade increased from \$1.5 billion in 2001 to \$24.9 billion in 2012. If present trends continue, bilateral trade will reach \$51.5 billion by 2020. Notably, Vietnam's exports of apparel to the US accounted for about 40 per cent of Vietnam's total exports to the US, and over 50% of Vietnam's total apparel exports to the world. So apparel has been, is, and will be a key sector, offering opportunities for export earnings, jobs for millions of workers, technology transfer, and a foundation for industrial, economic and social development.



	2001	2003	2005	2007	2009	2011	2013	2015	2017	2019	2020
VN Imports	\$ 0.5	\$ 1.3	\$ 1.2	\$ 1.9	\$ 3.1	\$ 4.3	\$ 5.3	\$ 6.4	\$ 7.6	\$ 8.7	\$ 9.3
VN Exports	\$ 1.1	\$ 4.6	\$ 6.6	\$ 10.6	\$ 12.3	\$ 17.5	\$ 23.0	\$ 28.5	\$ 34.0	\$ 39.5	\$ 42.3
Total Trade	\$ 1.5	\$ 5.9	\$ 7.8	\$ 12.5	\$ 15.4	\$ 21.8	\$ 28.3	\$ 34.9	\$ 41.6	\$ 48.2	\$ 51.5
VN Apparel Exports	\$ 0.0	\$ 2.5	\$ 2.9	\$ 4.6	\$ 5.3	\$ 7.2	\$ 8.0	\$ 8.8	\$ 9.7	\$ 10.5	\$ 10.9
VN Apparel/Total (%)	5%	55%	43%	43%	43%	41%	35%	31%	28%	26%	26%

Source: U.S. Department of Commerce¹

¹ <http://www.census.gov/foreign-trade/balance/c5520.html>

The trade growth was based on “U.S.-related” 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,² from 2003 to 2006, FDI into Vietnam increased sharply, with registered FDI surging by almost 375%. FDI grew strongly in sectors where Vietnamese exports to the US grew the fastest after the BTA. The most direct economic impact of the BTA was the US extension of “Normal Trade Relations” (MFN) status for Vietnamese goods. The newly opened US 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. This FDI can be attributed directly to the BTA. Most of this FDI originated from neighboring Asian economies, with almost none originating from the US, which has few firms specializing in production of these types of labor-intensive goods. US firms were directly involved with buying and distributing many of these products, however. Standing out in the surge as Vietnam approached WTO accession, was Intel’s 2006 announcement that it would invest around \$1 billion in an assembly and test facility in Ho Chi Minh City. Investor confidence rose for a number of reasons, including the implementation of the BTA, Vietnam’s WTO accession in January 2007, an improved local business environment, and good prospects for continued strong economic growth.

Following the Intel “first move” in 2006, a key development has been the growth of US FDI in “modern manufacturing” for export to global markets and investment in “engineering centers,”³ (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).

Several US-based MNCs, with FMCG (fast-moving consumer goods) companies are also in the lead, having invested from \$200 to \$500 million each in Vietnam, which is often their fastest growing market globally. In addition, U.S. franchises, such as KFC, Subway, Coffee Bean and Tea Leaf, Pizza Hut, and recently Starbucks and McDonald’s, have come and are coming to Vietnam. Why? Because of Vietnam’s demographics, with a young population, rising incomes, and a bright future. In addition, U.S. investment firms have made major indirect investments, for example, KKR has invested \$359 million in Masan,⁴ while Texas Pacific Group will invest \$50 million in Masan Agriculture.⁵

One development that is not so positive is in the energy sector: ConocoPhillips sale of its assets in 2012 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.

Textiles and apparel is a key industry sector for an industrializing country like Vietnam, offering substantial manufacturing technology transfer, as well as employment to millions of low-skilled workers. In recent months, companies from S Korea, China, Hong Kong, Japan, and Australia have announced more than \$1 billion of FDI for yarn-spinning, fabric-weaving, etc. to support the apparel industry in Vietnam in preparation for joining the Trans-Pacific Partnership (TPP).⁶

A continuing trend is that apparel accounts for about 40% of Vietnam’s total exports to the US, and about 50% of Vietnam’s apparel exports to the world. With the elimination of US 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.

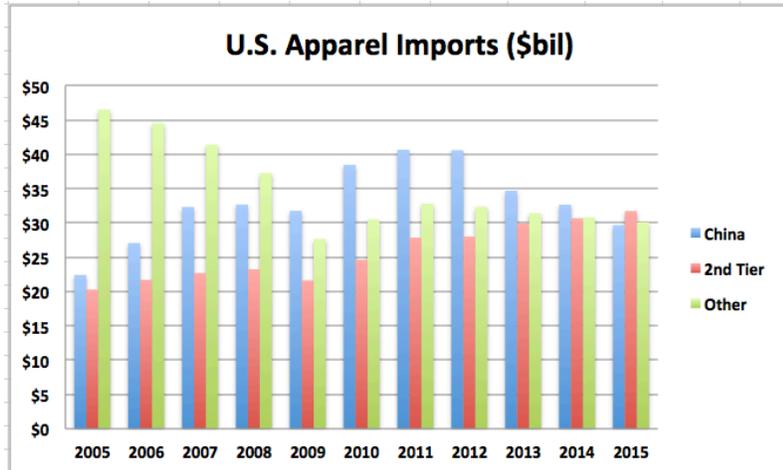
² <http://www.amchamvietnam.com/1722> pages 8-10 and [Assessment of the 5-Year Impact of the BTA on Vietnam’s Trade, Investment, and Economic Structure](#) (146 pp, pdf) [Powerpoint Presentation with Highlights of the Report](#) (ppt file) [Executive Summary](#) (17 pp, pdf)

³ <http://talkvietnam.com/2012/11/ge-builds-engineering-centre-for-oil-and-gas-in-southern-hub/>

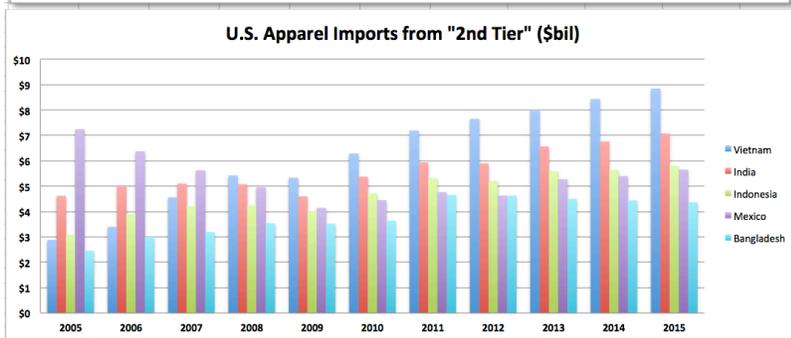
⁴ <http://www.amchamvietnam.com/8977/kkr-more-then-doubles-stake-in-masan-to-359-million/>

⁵ <http://www.amchamvietnam.com/30441246/texas-pacific-group-tpg-to-invest-50-million-in-masan-agriculture/>

⁶ <http://www.amchamvietnam.com/30441086/tpg-hong-kong-s-korean-firms-plan-major-textiles-fdi/>



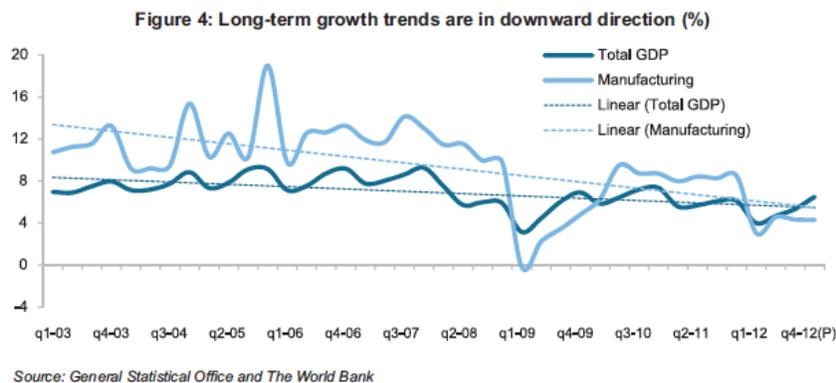
Firstly, US apparel import patterns have shifted from 2005 where “other” supplier countries with quotas at \$45 billion, and China and “2nd Tier” suppliers about \$20 billion each, to a point in 2011-12 where China accounted for about \$40 billion, to a prospect by 2015 where China, “2nd Tier” suppliers, and “other” account for about \$30 billion each. See chart to the left.



Secondly, during this period, Vietnam has steadily increased its exports to where it is the leader of the “2nd Tier” suppliers to the U.S. apparel market, while Mexico, in particular, has declined. See chart to the left.

So, going forward, Vietnam should continue to promote FDI in the sector, build up its own indigenous textile supporting industry, and 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.

While trade and investment relations between Vietnam and the US have continued to expand and improve over the last five years, they have not reached their full potential for a number of reasons. Results could have been even more positive, and many now understand that, after Vietnam’s WTO accession in 2007, too much attention and financial resources were devoted to real estate, rather than to manufacturing, agriculture, and services, and to State Owned Enterprises, rather than to private sector SMEs. As a result, Vietnam is now in a “structural growth slowdown,”⁷ and long-term growth trends are in a downward direction (see chart below), while other economies in ASEAN are growing more strongly.



⁷ http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/12/13/000333037_20121213003404/Rendered/PDF/NonAsciiFileName0.pdf “Taking Stock: An Update on Vietnam’s Recent Economic Developments,” Dec 10, 2012, pages 13-14.

In a recent Vietnam Economic Times article,⁸ one AmCham Governor identified four factors that have constrained Vietnam's economic growth as well as bilateral trade and FDI. Addressing these issues would strengthen US-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 adequate infrastructure in terms of power and transport that discouraged FDI; (3) a lack of government – business coordination in terms of making structural reforms for both State-owned enterprises (SOEs) and appropriate support for small and medium enterprises (SMEs) to increase competitiveness and adapt to the WTO environment; and (4) a lack of skilled labor, making it hard to move up the value chain even as labor costs have continued to rise.

2. What is your opinion about the Vietnamese enterprises in relationship trade and investment between Vietnam and the United States partners? In the next time, what plans does AmCham to promotes trade and investment between Vietnam and the United States, with a focus on developing networking, information-sharing, and advocacy activities to improve the business environment?

In the next time, AmCham plans to focus on the last two of the four missing elements: (3) support for SMEs to increase competitiveness and adapt to the WTO/TPP environment and (4) education and training, especially of world-class engineers and manufacturing technicians. We will also encourage and support Vietnam's robust participation in the Trans-Pacific Partnership

Many AmCham and other FDI companies find it difficult to identify qualified Vietnamese companies to become suppliers. Recognizing this, AmCham and AmCham companies are cooperating with local governments and Vietnamese business and industry associations to help them understand the many requirements to qualify as a supplier to U.S. companies. Such requirements include: having a D-U-N-S® number, electronic data interchange (EDI) capability for B2B e-commerce, factory audits to confirm compliance with product quality and safety requirements, labour, environmental, sustainability, and other social and customer requirements, product liability insurance, etc. Recently, we have worked with the Leading Business Club (LBC)⁹ and the HCMC Union of Business Associations,¹⁰ to provide this information to their member companies, and we are planning additional workshops not only in Ho Chi Minh City, but also in Binh Duong, Dong Nai, Can Tho, Da Nang, and Ha Noi.

According to the MPI, FDI enterprises account for a steadily increasing share of Vietnam's exports, about two-thirds.¹¹ And in Vietnam's important textile and apparel sector, Made-in-Vietnam content only accounts for about 25%, while imported components account for about 75%, of the value of Vietnam's apparel exports.¹² This is despite the Ministry of Industry and Trade's strategic plan to have local content of 50% by 2010, 60% by 2015, and 70% by 2020.¹³ This demonstrates clearly that Vietnam firms are not

⁸ "Lessons to learn," Fred Burke, Vietnam Economic Times, June 2013, pp 14-15.

⁹ <http://www.amchamvietnam.com/events/tpp-how-can-vietnam-companies-become-suppliers-to-u-s-buyers/> and <http://www.amchamvietnam.com/wp-content/uploads/2013/07/Trans-Pacific-Partnership-How-to-become-a-supplier-to-U.S.-buyers-by-Herb-Cochran-AmCham-Vietnam-EN.pdf>

¹⁰ <http://www.amchamvietnam.com/events/tpp-workshop-impact-for-vietnam-hcmc-union-of-business-associations-amcham/> and http://www.amchamvietnam.com/wp-content/uploads/2013/07/Trans-Pacific-Partnership-Herb-Cochran_VN.pdf

¹¹ <http://www.thanhniennews.com/index/pages/20130515-foreign-companies-drive-vietnam-export-thru-slow-time.aspx> "The export revenues of foreign firms increased 31.1 percent in 2012 and continued to grow 21.1 percent in the first quarter this year over the same period last year, accounting for 64.2 percent of the country's total exports."

¹² http://www.itmf.org/wb/media/hanoi/afterhanoi/Le_Tien_Truong.pdf "Investment in Vietnam's Textile & Garment Industry," Mr. Le Tien Truong, slides 10, 11, 12

¹³ MoIT approves "Cloth Investment and Production Programme"

<http://www.amchamvietnam.com/2623/textile-sector-stitched-big-targets-together-moit-long-term-development-plan/>

"We will attach great importance to the sector's production of cloth, other related materials and accessories," The industry's localisation ratio now [in 2008] stood at 35 per cent and would be raised to 50 per cent by 2010, 60 per cent by 2015 and 70 per cent by 2020. [Note: *instead of increasing, it dropped from 35% in 2008 to 25% in 2012*].

"MoIT approved the Cloth Investment and Production Programme for exports to 2015. Accordingly, Vietnam would produce one million square metres of cloth by 2010 and 1.5 million square metres by 2015.

actively participating in U.S. and global supply chains. We in AmCham plan to promote trade and investment between Vietnam and the U.S. by networking and information-sharing with Vietnam companies and associations to help them understand and meet the requirements to qualify as suppliers to U.S. companies.

In addition, many AmCham and other FDI companies also find it difficult to recruit the skilled workers they need to support their FDI in Vietnam. For example, it is hard to find engineers and manufacturing technicians in the “modern manufacturing for export to global markets sector,” where we are seeing increasing U.S. and other FDI. To meet this challenge, the “Higher Engineering Education Alliance Program” was launched a few years ago by Intel, USAID, Arizona State University, and academic partners in Vietnam.

The next phase of the project, called HEEAP 2.0, will be carried out from 2013 to 2017 by industry and academic partners in cooperation with the Ministry of Education and Training and the Ministry of Labour, Invalids, and Social Affairs. The program will train hundreds of additional Vietnamese faculty members each year at Arizona State University in the U.S., and in Vietnam; establish a Distance Learning Network that will enable students across Vietnam to take courses online simultaneously; improve instruction in English for Vietnamese engineering students; promote the involvement of more women in engineering and technical fields; and bring Vietnamese engineering programs into compliance with requirements set by leading higher education accrediting organizations, specifically [ABET \(the Accreditation Board for Engineering Technology\)](#)¹⁴ and the [CDIO™ INITIATIVE \(Conceive, Design Implement, Operate\)](#).¹⁵ By 2017, Vietnam will be well on the way to producing engineers and manufacturing technicians that can compete with any in ASEAN and any in the world.¹⁶

3. Your comments about the Trans-Pacific Partnership Agreement (TPP), including relationships trade and investment between Vietnam and the United States?

If present trends continue, bilateral trade between Vietnam and the US will reach \$51.6 billion in 2020.

However, in order to promote additional bilateral trade and investment between our two countries to higher levels, we encourage Vietnam to conclude and ratify the Trans-Pacific Partnership (TPP) 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 US to about \$61.3 billion by 2020. And Vietnam’s apparel exports to the US could increase to \$22 billion by 2020.¹⁷ Already, South Korean, Chinese, Hong Kong, Japanese and other companies have announced over \$1 billion FDI in Vietnam to provide the supporting textiles industries, yarn-spinning and fabric-weaving, so that Vietnam’s apparel exports to the U.S. will be able to benefit from zero import duties in the TPP yarn-forward rule of origin environment.

According to estimates by Professor Peter Petri,¹⁸ the TPP (TPP-12, including Japan) would increase

“The country would establish 10 weaving and dyeing industrial complexes throughout the country. The country would also complete five key weaving and dyeing projects from 2007-2012 including the Teachang-Vina dyeing plant, a joint venture between Vinatex, Thien Nam Company and South Korea’s Teachang with annual dyeing capacity of 63 million square metres of cloth, ***a joint venture between Vinatex and the United States’ ITG with an annual dyeing capacity of 76 million square metres by 2010 [see above article link about failure of this project]***, and Binh An dyeing plant between Viet Thang dyeing plant and the Netherlands’ Tencate with annual capacity of 45 million square metres by 2010.

¹⁴ <http://www.abet.org>

¹⁵ <http://www.cdio.org>

¹⁶ <http://www.amchamvietnam.com/wp-content/uploads/2013/07/130319-20-Intel-Vietnam-Higher-Education-Mar-18-Rev1-version-for-posting.pdf>

¹⁷ <http://www.amchamvietnam.com/30439682/tpp-can-double-vietnamese-garment-exports-to-us-vitas/>

¹⁸ slide 17 of Petri’s presentation with VCCI WTO Center on Mar 28, 2013 at <http://www.amchamvietnam.com/wp->

Vietnam's exports from the expected "baseline" in 2025 without TPP of \$239.0 billion by \$67.9 billion to \$307 billion, of which apparel and footwear exports would increase from the "baseline" in 2025 without TPP of \$113 billion by \$52 billion to \$165 billion. In percentage terms, Vietnam's total exports would increase by 28.4% over the baseline, and apparel and footwear exports would increase by 45.9% over the baseline.

Vietnam										
	Baseline	ΔExports USD2007bill.			% Baseline			Exports USD2007bill.		
Exports 2025	2025	TPP-11	TPP-12	TPP-13	TPP-11	TPP-12	TPP-13	TPP-11	TPP-12	TPP-13
Textiles	26.0	9	13	19	33.7	49.7	72.4	35	39	45
Apparel, footwear	113.0	35	52	70	31.0	45.9	62.2	148	165	183
Total	239.0	47	68	89	19.8	28.4	37.3	286	307	328

This is just an estimate, but gives an indication of potential export growth benefits. According to Professor Petri, traditional economic models often underestimate the trade gains of free trade agreements.¹⁹ For example the World Bank estimated that after the Vietnam-U.S. Bilateral Trade agreement became effective, Vietnam's exports to the U.S. would rise to \$1.3 billion – more than double 1999 levels – in the first year of MFN status, as U.S. tariff rates on Vietnamese exports would fall from their non-MFN average of 40% to less than 3%. In particular, Vietnamese garment exports were expected to record a ten-fold increase in the first year after receiving MFN treatment. In fact, Vietnam's exports to the U.S. in 2002, the first year of the BTA, were \$2.4 billion, about four times 1999 levels, and garment exports were \$952 million, a nearly twenty-fold increase over the 2001 level of \$49 million.²⁰

Largest income gains in TPP

	GDP 2025	Income gains (\$bill)		% of baseline	
		TPP11	TPP11 + Japan	TPP11	TPP11 + Japan
United States	20,273	23.9	76.6	0.1	0.4
Japan	5,338	-1.2	104.6	0.0	2.0
Vietnam	340	26.2	35.7	7.7	10.5
WORLD	103,223	74.5	223.4	0.1	0.2

In addition to the potential export growth benefits, the potential GDP growth benefits are also substantial.

According to Professor Petri's estimates,²¹ Vietnam's GDP in 2025 with TPP-12, including Japan, would be \$35.7 billion (10.5%) higher than the baseline estimate. This is particularly important now that Vietnam is in a "structural growth slowdown" period, according to the World Bank.

As Vietnam approaches TPP, we suggest that business and government draw lessons from the WTO experience, and

- (1) identify and focus development efforts on manufacturing and service sectors with global comparative advantage, which could be textiles and apparel, consumer electronics (in FDI factories), agricultural products, processed foods, services, with potential to create export earnings and jobs;
- (2) focus especially on SMEs operating in these sectors, and provide support and development programs for them in accordance with the WTO and TPP rules to help them export direct to the U.S., and to global markets through U.S. buyers' supply chains in Vietnam;
- (4) build a fair, level playing field for all — for the private sector and the state sector (SOEs), for local Vietnamese firms and FDI firms;

content/uploads/2013/05/130328-2.2.e.-Petri-TPP-Vietnam-24mar13-v2-web.pdf,

http://asiapacifictrade.org/?page_id=106 and <http://www.asiapacifictrade.org/wp-content/uploads/2013/04/sectoral-TPP11-16-RCEP-FTAAP-12-Apr-13.xlsx>, array MF1-MU2

¹⁹ <http://www.amchamvietnam.com/30439805/the-big-benefits-of-japans-joining-the-tpp-negotiations/>

²⁰ Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Countries, U.S. International Trade Commission, pg G-4, http://books.google.com.vn/books?id=3cr3qhV-QYQC&pg=SL7-PA4&pg=SL7-PA4&dq=%22u.s.+apparel+imports,+vietnam,+2001%22&source=bl&ots=jOBveUEjVu&sig=2tIQ_2TgOw5DA7BwrT_Y-8uBVes&hl=en&sa=X&ei=3piEUdO5KZC6iAeQhICACQ&redir_esc=y#v=onepage&q=%22u.s.%20apparel%20imports%2C%20vietnam%2C%202001%22&f=false

²¹ <http://www.amchamvietnam.com/wp-content/uploads/2013/05/130328-2.2.e.-Petri-TPP-Vietnam-24mar13-v2-web.pdf>, pg 13

(5) learn from the WTO experience, where the Government's protectionist measures and sometimes delayed and meager implementation of commitments only turned out to be short-term and ineffective protection in the end, and only made Vietnam's economy less efficient and less competitive;

(6) harmonize the domestic rules of the game with international rules [WTO, TPP, etc.] and have transparency, openness, robust enforcement of the rules [e.g. labor, environment], and accountability of government officials and business executives;

(7) recognize that enterprises, especially SMEs, and entrepreneurs and workers, not the Government, will be leaders of Vietnam's industrialization, modernization, and internationalization in the 21st century. The Government should create a business environment that is enabling and supporting for them, rather than restricting and commanding.

The TPP will bring opportunities, but there will be challenges. To benefit from the opportunities, we need to overcome the challenges, and overcoming the challenges will bring even greater opportunities. If Vietnam does not join TPP proactively, it is likely to have many challenges and few opportunities.