



Assessment of the Five-Year Impact of the U.S.-Vietnam Bilateral Trade Agreement (BTA) on Vietnam's Trade, Foreign Investment, and Economic Structure

July 2007

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Purpose of the Report



- Report provides a milestone assessment of the impact of the BTA on Vietnam's trade, foreign investment and economic structure from 2002 to 2006
 - special focus on the bilateral economic relationship between Vietnam and the U.S.
 - special focus on the contribution of the BTA toward WTO accession
- Report produced by MPI's Central Institute for Economic Management (CIEM) and Foreign Investment Agency (FIA), and the USAID-funded STAR-Vietnam Project
- Report submitted to the Vietnamese Government Steering Committee for Technical Assistance on BTA Implementation and USAID



- **Part 1: The Context for BTA Implementation** – Fulfilling the promise of economic normalization between Vietnam and the U.S.
- **Part 2: Trade** – The BTA and Vietnam’s exports and imports, with a special focus on bilateral trade between Vietnam and the U.S.
- **Part 3: Economic Structure** – The BTA and Vietnam’s economic structure
- **Part 4: Foreign Investment** – The BTA and foreign investment into Vietnam, with a special focus on foreign investment from the U.S.
- **Part 5: Foreign Investor Perceptions** – Results of a survey on perspectives of foreign-invested enterprises on the importance of the BTA and priorities for further reforms



- **A Note on our Research Methodology**
 - Difficult to isolate a singular impact of the BTA on economic activity – Vietnam has made many reforms in the last five years
 - Attempt to make a direct connection between the BTA and trade and investment flows where possible
 - Otherwise, compare economic trends before and after the BTA, recognizing that the BTA has been part of a more systematic reform of Vietnam's development policies
 - Welcome additional research



Part 1

The Context for BTA Implementation



- **The Vietnamese and U.S. governments accomplished much of what they set out to do when negotiations on the BTA were initiated in 1995:**
 - The BTA came into effect on December 10, 2001, advancing economic normalization to a new stage
 - By all accounts, the BTA has been successfully implemented over the last five years
 - Full economic normalization completed in December 2006 with President Bush's authorization of Permanent Normal Trade Relations for Vietnam
 - Vietnam acceded to the WTO on January 11, 2007, and the U.S. eliminated the U.S.-Vietnam textile and apparel quota agreement
 - The U.S. and Vietnam signed a Trade and Investment Framework Agreement (TIFA) in June 2007



- The BTA was built upon a WTO framework and was positioned by both governments as a stepping stone for WTO accession
- BTA is a modern trade agreement, containing **comprehensive requirements** on:
 - trade in goods
 - commercial law and dispute settlement
 - intellectual property right protection
 - trade in services
 - investment (WTO Plus)
 - business facilitation
 - transparency and the right to appeal

Key BTA Actions



- **Opened the U.S. Market for Vietnamese Exports --** Immediately upon entry into effect of the BTA, the U.S. extended normal trade relations (most favored nation) status to Vietnam, reducing literally overnight tariffs on imports from Vietnam into the U.S. from an average of around 40% to around 4%.
- **Modernized Vietnam's Commercial and Legal Systems in Line with International Best Practice --** Vietnam committed to extensive reforms to bring its laws, regulations and administrative procedures in line with international practices, with some reforms due upon entry into force and a number of other reforms with deadlines phased in over 1 to 10 years.
- **Opened Vietnamese Sectors to Greater Foreign Competition --** The BTA required reductions in tariffs applied on a MFN basis for only 261 product tariff lines, but required major improvements in market access for U.S. firms in most major service sectors, phased in over time.



- **Almost 100 laws and regulations adjusted to comply with BTA commitments, some due upon entry into force and others phased in from one to ten years**
 - Accord national treatment and most favored nation treatment
 - Assure uniform, impartial and reasonable application of the law
 - Eliminate dual pricing
 - Customs reform
 - Reduce duties on 261 tariff lines and eliminate almost all import quotas
 - Reforms to technical barriers to trade (TBT) for industrial products and sanitary and phytosanitary (SPS) rules for agricultural and food products
 - Liberalize trading rights
 - Upgrade commercial dispute settlement processes and capacities
 - Substantially strengthen IPR enforcement
 - Liberalize market access to around 20 major service sectors and abide by WTO agreements and annexes on services -- financial, telecommunication, distribution, business services, construction and engineering, health and education, tourism
 - Liberalize access and procedures, and improve safeguards for investment; improve corporate governance
 - Enhance business facilitation
 - Improve transparency for legal normative documents, including public comments on draft laws and regulations
 - Improve system for appealing administrative actions



- **Bilateral trade between Vietnam and the U.S. has boomed over the last five years**
 - Labor-intensive Vietnamese exports to the U.S. have surged, increasing eight fold in just five years
 - U.S. exports to Vietnam have more than doubled over five years, led by sales of aircraft
- **American investment into Vietnam has grown strongly over the five years of BTA implementation**
 - U.S.-related FDI is one of the largest sources of FDI into Vietnam since 2003, although normal, reported FDI data significantly undercounts the role of U.S. FDI
 - Americans appear to be leading foreign indirect investors in Vietnam's stock market and private equity placements



1) Successful BTA implementation completed many of the legal, regulatory and administrative reforms required for WTO accession

- Vietnam re-wrote or established anew around 100 laws and regulations from 2002 through 2006 to implement the BTA/WTO
 - major new laws and implementing regulations helped Vietnam meet BTA and WTO requirements, bringing its legal system and judicial procedures much more closely in line with international best practice
 - many new laws required for the effective operation of a market economy were also promulgated – these were not directly required by the BTA or WTO, but were needed to make the BTA and WTO work effectively in practice (e.g. much improved contract law)



- 2) The gradual increase in BTA-related foreign competition, especially in services, eased the transition toward greater market opening in the WTO accession**

- 3) The post-BTA boom in Vietnamese exports to the U.S. bolstered Vietnamese confidence and solidified political will toward WTO accession**

- 4) The trade agreements were key elements of a systematic effort by Vietnam to develop a much more transparent, rule-based commercial system with improved economic governance and dispute settlement processes**



- **Most legal reforms required by the BTA and WTO are the same**
 - The BTA has stronger requirements on investment and corporate governance
 - The WTO has stronger requirements in several areas, including SPS, TBT and particularly subsidies
 - Otherwise, most of requirements for the BTA involved direct implementation of WTO Agreements and principles
 - Even though the BTA included only bilateral requirements, most of the legal changes made to implement the BTA were applied to all countries, not just the U.S.
- **The BTA immediately expanded market access for Vietnamese exporters by opening the U.S. market; the WTO does not require trading partners to increase market access**
 - Although, the U.S. did eliminate its quota on Vietnamese textiles and apparel with accession to the WTO, a major market opening
- **The WTO requires much greater opening of the Vietnamese market, with major tariff reductions and more comprehensive market access opening in service sectors**



- **Much has been accomplished since 2002 – Many Challenges Remain**
 - **Overcoming the Implementation Gap**
 - **Overcoming the Infrastructure Gap**
 - **Meeting the Challenge of International Integration**



■ Overcoming the Implementation Gap

- Although Vietnam has greatly improved its “letter of the law” as most commercial laws and judicial procedures have been rewritten, there are still many complaints about their application in practice
 - Poor implementation of existing laws by state officials -> *Administrative and salary reforms to change incentives for the public sector*
 - Incomplete legal reform - The need to complete effective and consistent implementing regulations for the new laws, and to refine and modernize continually over time the “rules of the game” for market activity in Vietnam -> *Further legal and regulatory reforms*
 - Insufficient understanding by the public and state officials at the national and local levels of the many new reforms -> *Training and e-government*



- **Overcoming the Implementation Gap (cont.)**
 - Full benefit of the BTA/WTO and other reforms will not be accomplished without major improvements in the implementation and enforcement of laws and regulations
 - Legislative agenda for the next five years will focus on modernizing and adjusting the organization, functional focus, administrative procedures, and incentives in Vietnam's State institutions – with the key goals of:
 - Improving the implementation and enforcement of more market-oriented laws and policies;
 - Reducing the burden on business of excessive and inefficient regulation;
 - Strengthening dispute settlement processes, the rule of law and the role of the judiciary;
 - Enhancing transparency throughout the system; and,
 - Reducing corruption throughout the system



■ Overcoming the Infrastructure Gap

- Huge increase in private and public investment needed
 - To maintain rapid and well-distributed growth, Vietnam needs to make huge public and private investments over the next decade, particularly in social infrastructure such as education, vocational training and health, and physical infrastructure such as roads, ports, energy and telecommunications, all with special regard for the poor and vulnerable groups in society
 - Private contribution to new investment facilitated by improvements in financial and capital markets
 - The state and donor contributions facilitated by improved government administration, by better budgetary and tax policies, and by more open and effective government procurement procedures
 - Liberalization of foreign participation in services under the WTO/BTA will help -> the WTO/BTA should be considered a floor, not a ceiling with regard to future reforms



■ Meeting the Challenge of International Integration

- 1) State policy and investment need to provide a strong foundation for “winners” from the BTA and WTO to take advantage of new opportunities, focusing on creating new jobs, broad-based increases in income, and long-term competitiveness in international markets
- 2) Some in Vietnam are likely to be “vulnerable” to greater international competition resulting from the trade agreements
 - the need for research and stakeholder cooperation to identify and assess negative impacts and to design effective adjustment policies
 - possible negative effects, however, can be handled much more effectively if Vietnam continues to grow rapidly



■ Meeting the Challenge of International Integration (con't)

3) Effective research and policy development is needed to maximize the benefits and minimize the losses of the trade agreements

4) Economic, financial, social and legal data/information must be improved and better disseminated to facilitate:

- (i) effective government policy making;
- (ii) stronger participation in making and monitoring policies by key stakeholders;
- (iii) more effective research and policy analysis; and
- (iv) fully informed private investment decisions and risk taking



Conclusion:

Successful BTA and WTO implementation has provided the foundation for foreign trade and investment to contribute strongly and positively to overcome these critical development gaps and to enhance the benefit of greater international integration for Vietnam

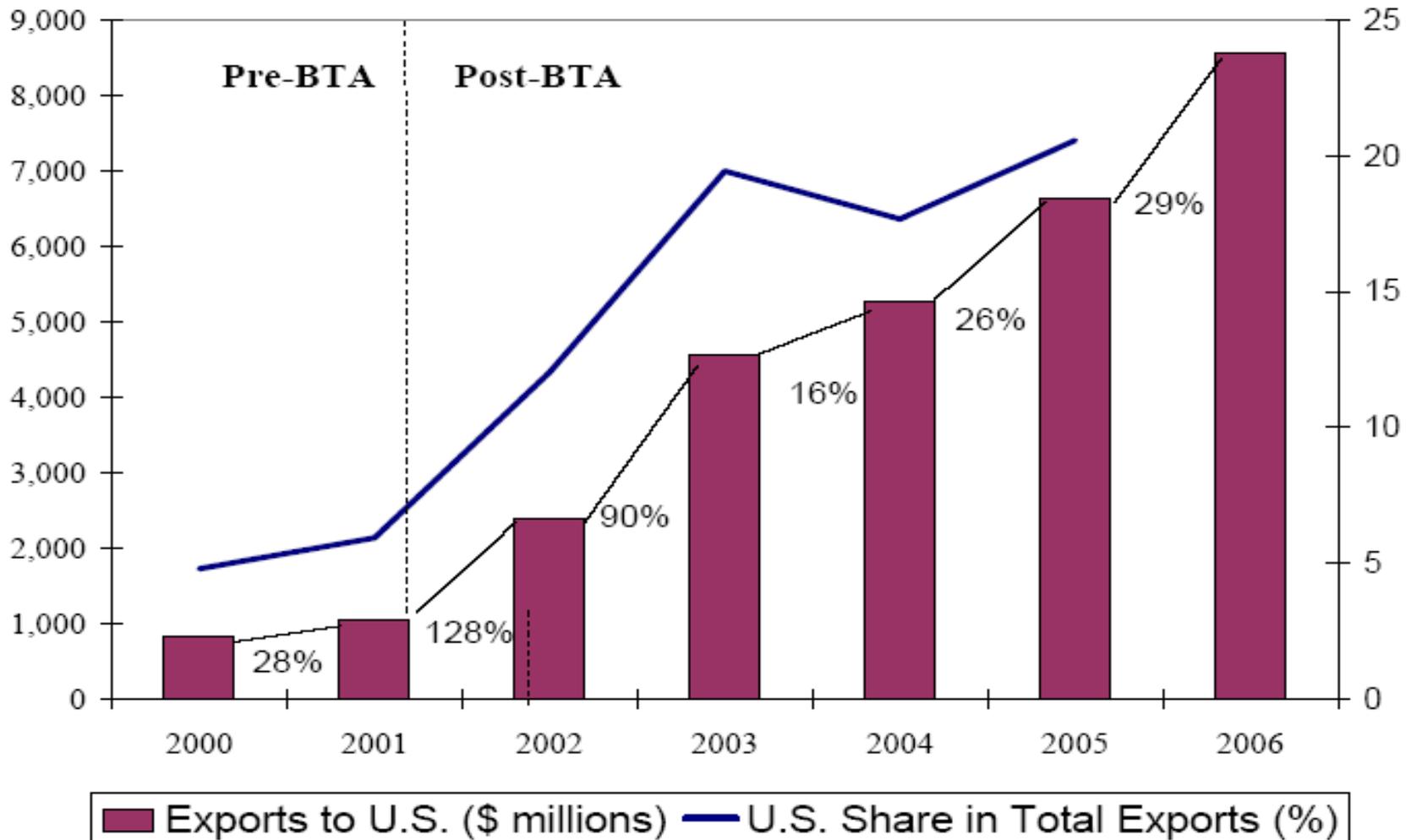


Part 2

The BTA and Vietnam's Exports and Imports

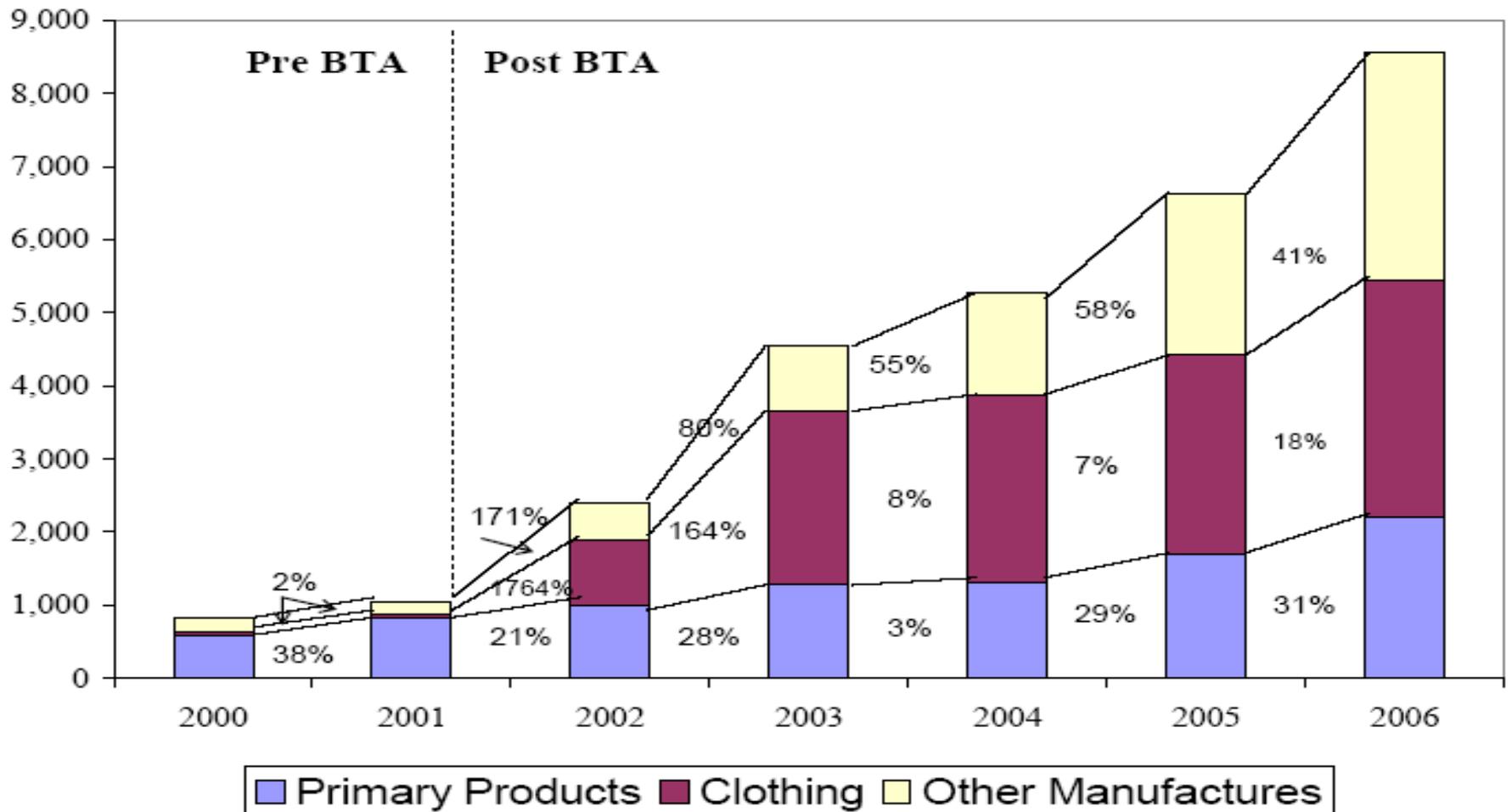


In the first two years under the BTA, exports to the U.S. soared, making the U.S. Vietnam's single largest export market. The U.S. share has not increased since 2003, but may rise significantly in 2007.





Before the BTA, Vietnam mainly exported primary products to the US. Since the BTA, manufactures have accounted for about 75% of total exports, with clothing the dominant export. The slowdown in export growth after 2003 can be attributed to the U.S. quota on clothing, which capped VN export growth at about 8 % per year





Growth of Vietnamese exports to the U.S. may increase in 2007 and beyond because clothing export quotas were lifted in January 2007 when Vietnam acceded to the WTO. Other major clothing exporters to the U.S. had export quotas lifted in January 2005, after which clothing exports to the U.S. grew substantially. One might reasonably expect a similar response from Vietnam. Indeed, it appears to have begun in late 2006.

TABLE 2: GROWTH RATES OF CLOTHING EXPORTS TO THE U.S. FOR SELECTED COUNTRIES (SITC 84; PERCENTAGES)

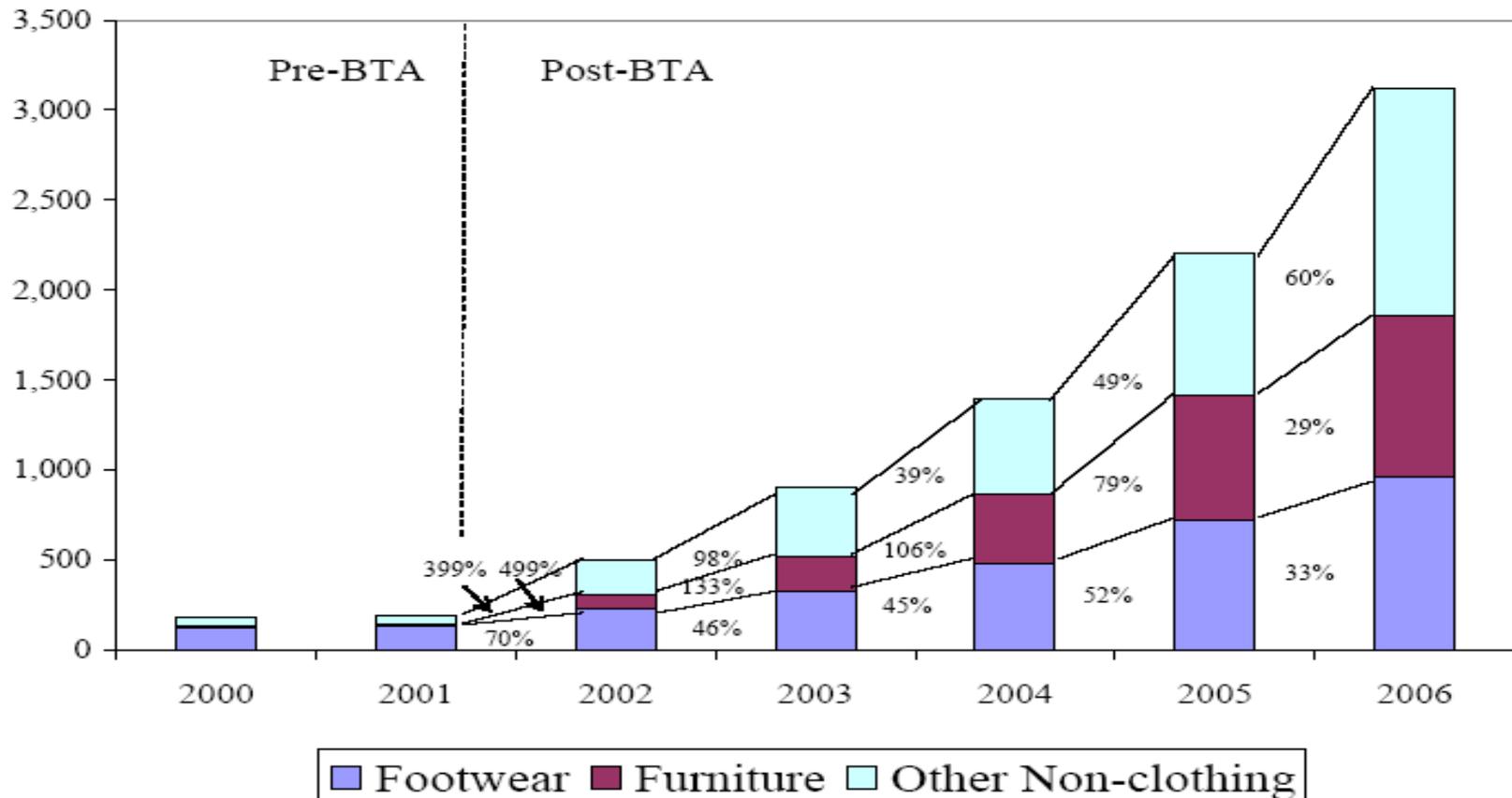
	2001	2002	2003	2004	2005	2006
<i>Vietnam</i>	2	1769	164	8	7	18
China	5	8	19	20	47	16
India	-3	7	5	10	32	6
Bangladesh	-1	-10	-2	7	20	23
Indonesia	8	-9	4	11	20	27

Source: U.S. International Trade Commission, Trade Database (online: www.usitc.gov)



Another reason one might expect strong export growth to the U.S. is Vietnam's success in diversifying manufactured exports out of clothing and into an increasingly broad range of light manufactured products in which Vietnam's market share is small and the potential for growth is high.

FIGURE 3: VALUES (US\$ MILLIONS) AND RATES OF GROWTH (PERCENTAGES) OF LEADING NON-CLOTHING MANUFACTURED EXPORTS TO THE U.S.: 2000-2006





Two of Vietnam's principal primary product exports, frozen fish filets and frozen shrimp, have been subject to anti-dumping duties in the US. The anti-dumping duties had a negative impact on exports to the U.S., but according to government studies the industry was able to avoid major losses by diversifying exports to other markets.

Figure 4: Monthly Exports of Frozen Fish Fillets to the U.S. January 2002–December 2006 (US\$ thousands)

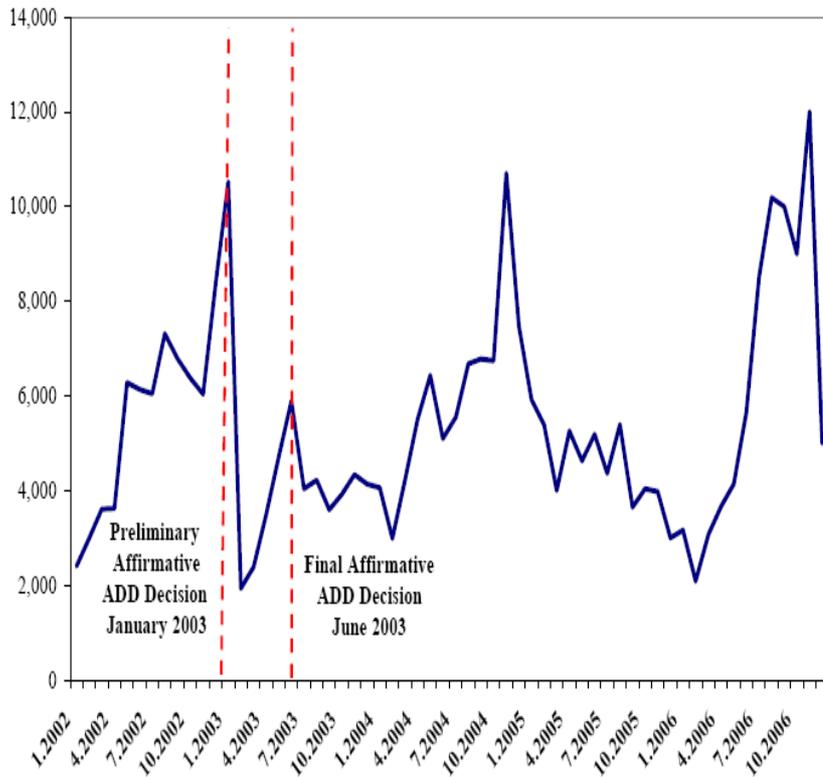
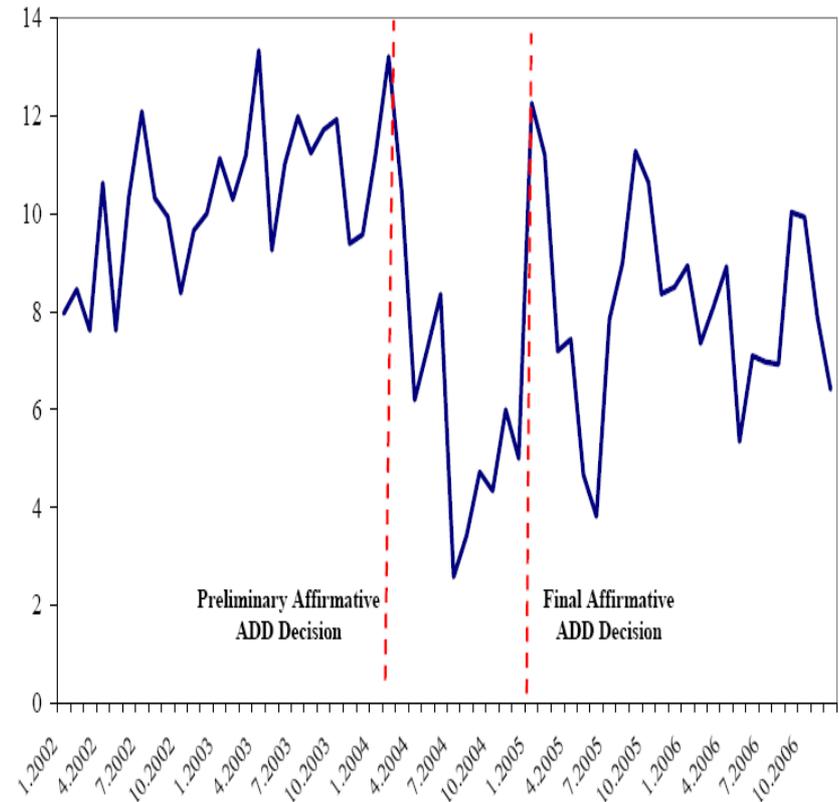


FIGURE 5: VIETNAM'S SHARE IN MONTHLY U.S. FROZEN SHRIMP IMPORTS JANUARY 2002–

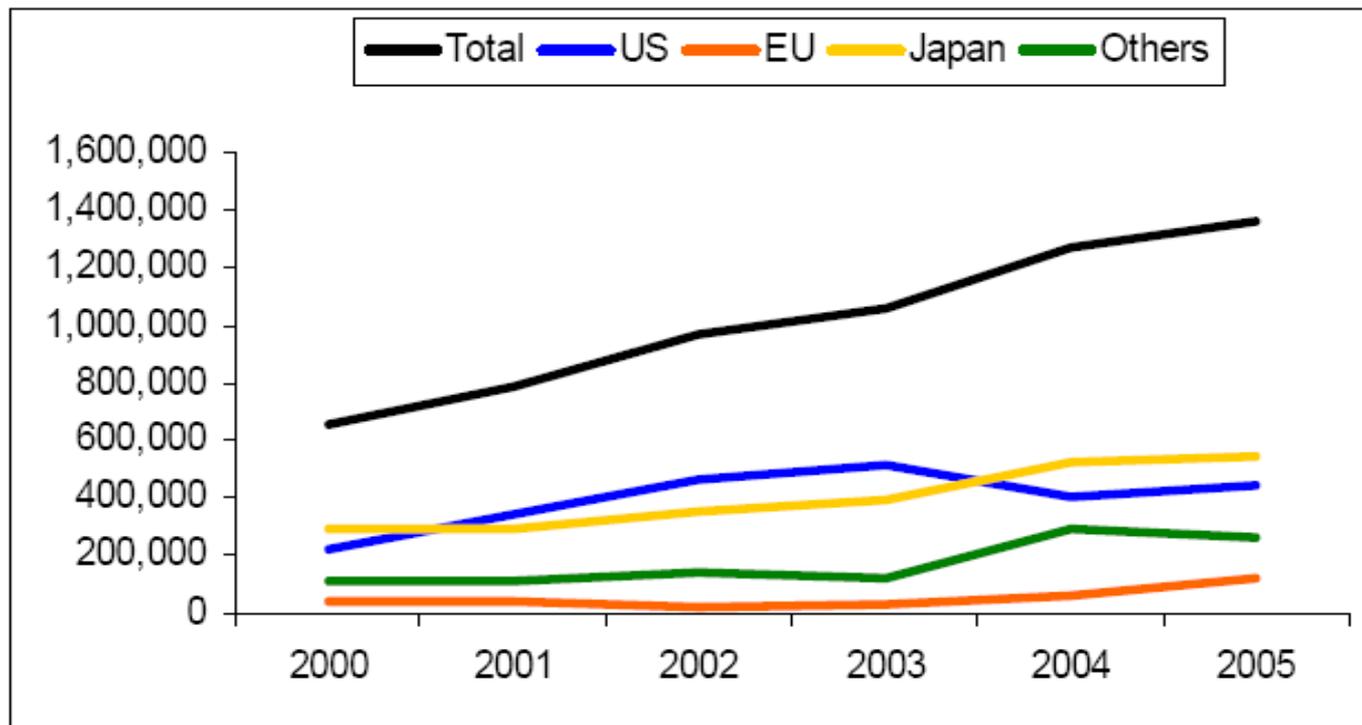


Vietnamese firms diversified their exports of tra and basa fish and shrimp to other countries.

Exports of Tra & Basa Fish (tons)

	2000	2001	2002	2003	2004	2005
Total	1,129	1,737	27,987	32,876	83,844	141,011
U.S.	610	1,280	17,251	8,803	14,438	14,798
Other	519	457	10,736	24,073	69,406	126,213

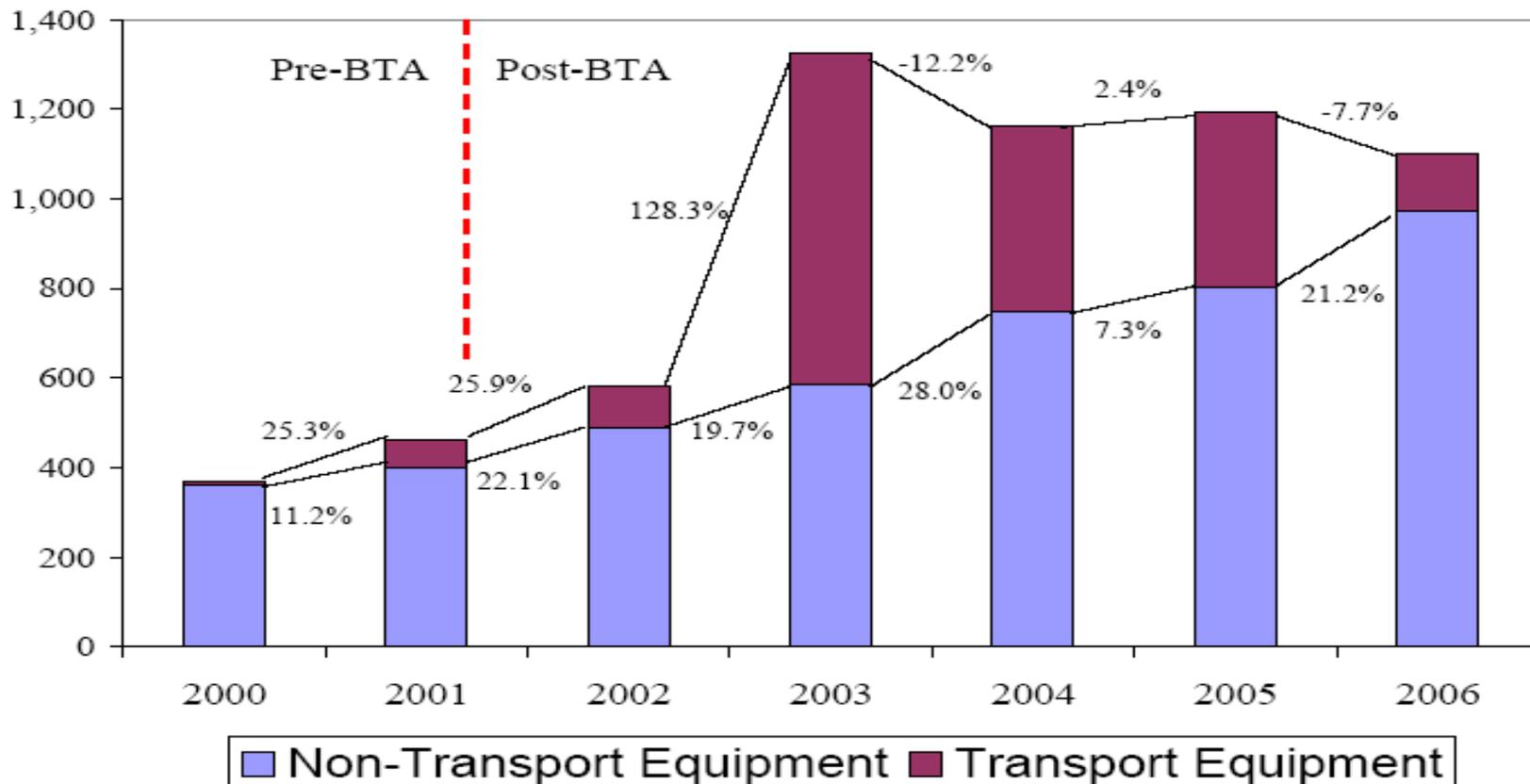
Exports of Shrimp (\$ thousands)





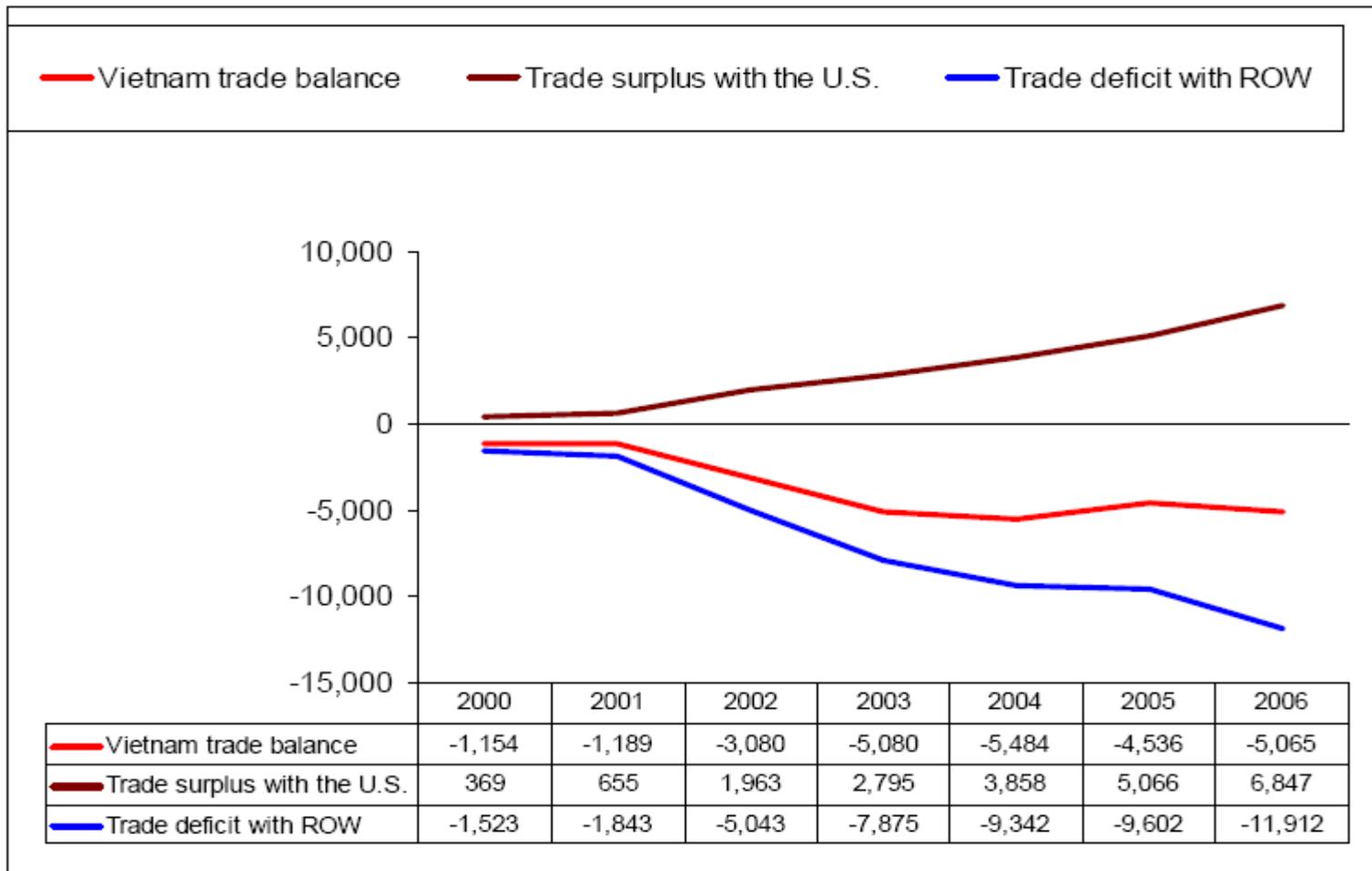
U.S. exports to Vietnam have more than doubled over the last five years, but did not accelerate nearly as dramatically as Vietnam's exports to the US. The surge in U.S. exports in 2003 is attributable to exports of aircraft to Vietnam. Imports from the U.S. of goods other than transport equipment have kept pace with overall import growth.

FIGURE 7: VALUES (US\$ MILLIONS) AND RATES OF GROWTH (PERCENTAGES) OF U.S. EXPORTS TO





One consequence of the disproportionate growth of Vietnam's exports to the U.S. is the emergence of a significant bilateral trade surplus. There is nothing exceptional about this situation, which is common among LDC exporters of labor-intensive manufactures. Vietnam runs a large overall trade deficit.





Bilateral trade “imbalances” do, nonetheless, give rise to political pressure for measures to “remedy” the situation. As the data below indicate, Vietnam’s economy is tiny relative to the U.S. market, and imports from Vietnam into the U.S. are likely to have minimal impacts on the U.S. economy well into the future.

TABLE 8: INDICATORS OF THE RELATIVE SIZE OF THE U.S AND VIETNAMESE ECONOMIES (PERCENTAGES)

	2002	2003	2004	2005
Vietnam's GDP/U.S. GDP	0.33	0.36	0.39	0.42
Imports from Vietnam/total U.S. imports	0.21	0.36	0.36	0.40
Clothing imports from VN/total U.S. clothing imports	1.41	3.49	3.56	3.58
Footwear imports from VN/total U.S. footwear imports	1.46	2.10	2.88	4.02
Clothing & footwear imports from VN/U.S. consumption	0.37	0.87	0.93	1.00
U.S. trade deficit with VN/U.S. total trade deficit	0.39	0.60	0.63	0.71

Source: U.S. International Trade Commission electronic database and the Economic Report of the President of the United States, 2006.



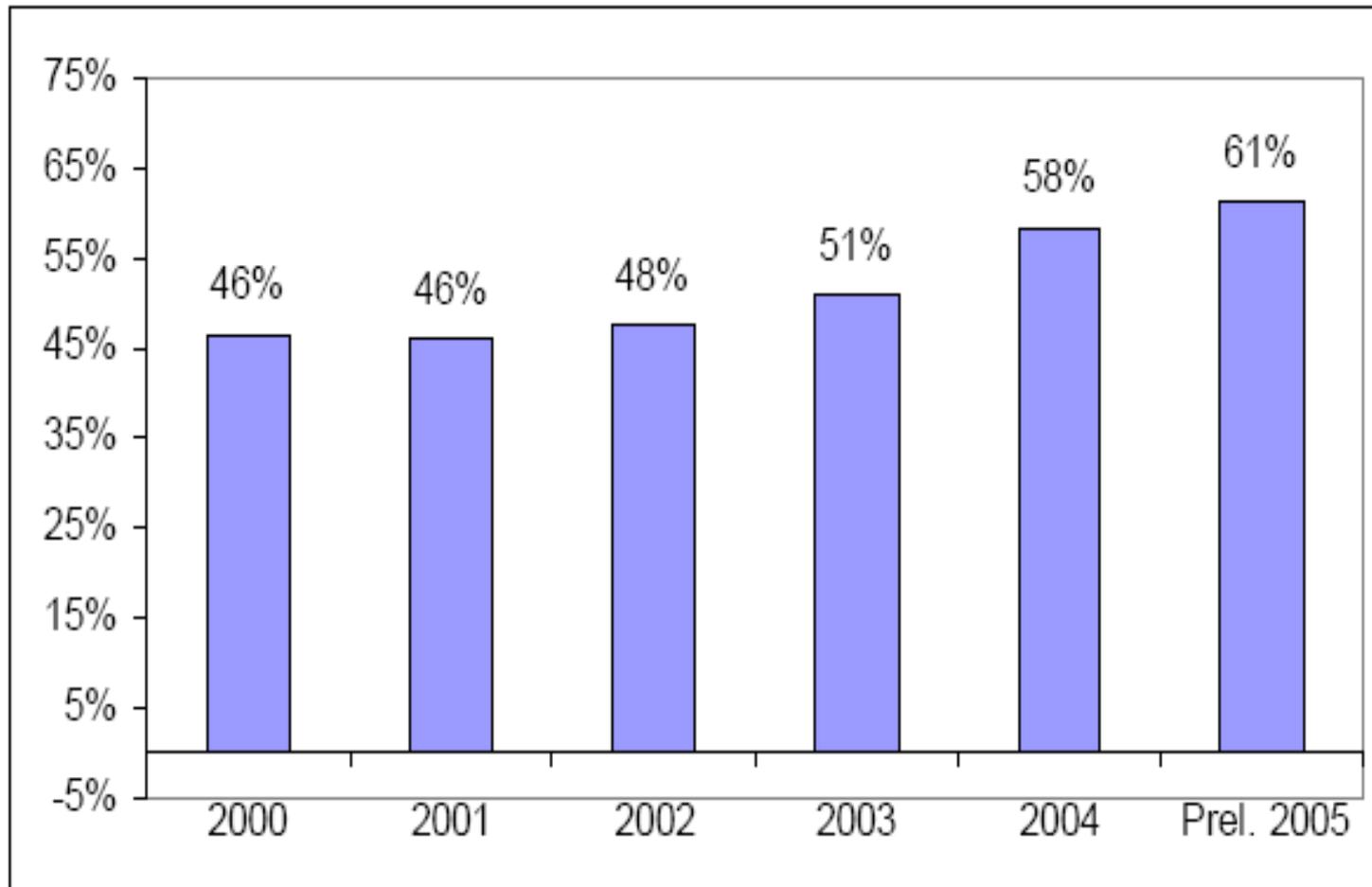
Part 3

The BTA and Vietnam's Economic Structure



Increasing Export Orientation

FIGURE 29: EXPORTS AS A PERCENTAGE OF GDP

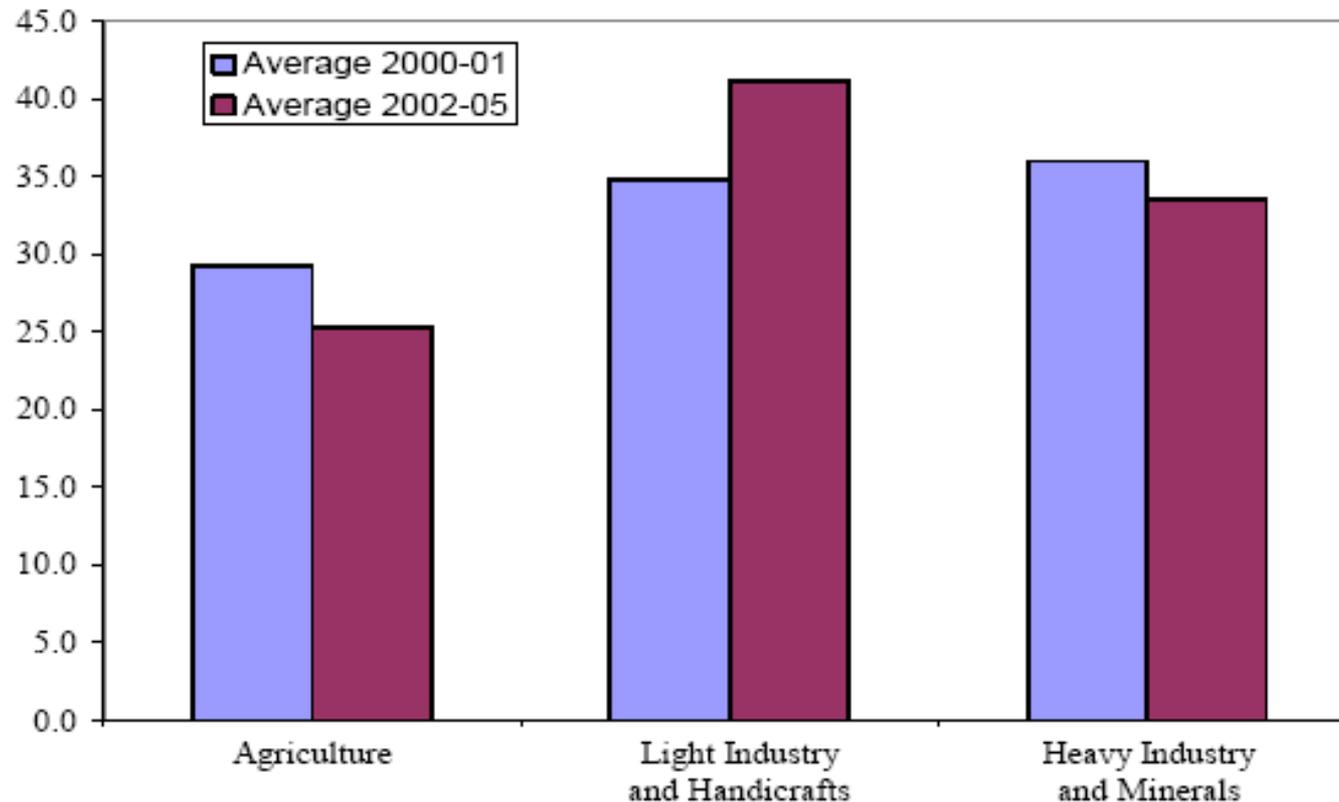


Source: Data on exports and GDP are from GSO and exchange rates from the IMF and State Bank.



Increasing Importance of Labor-Intensive Light Industry and Handicrafts

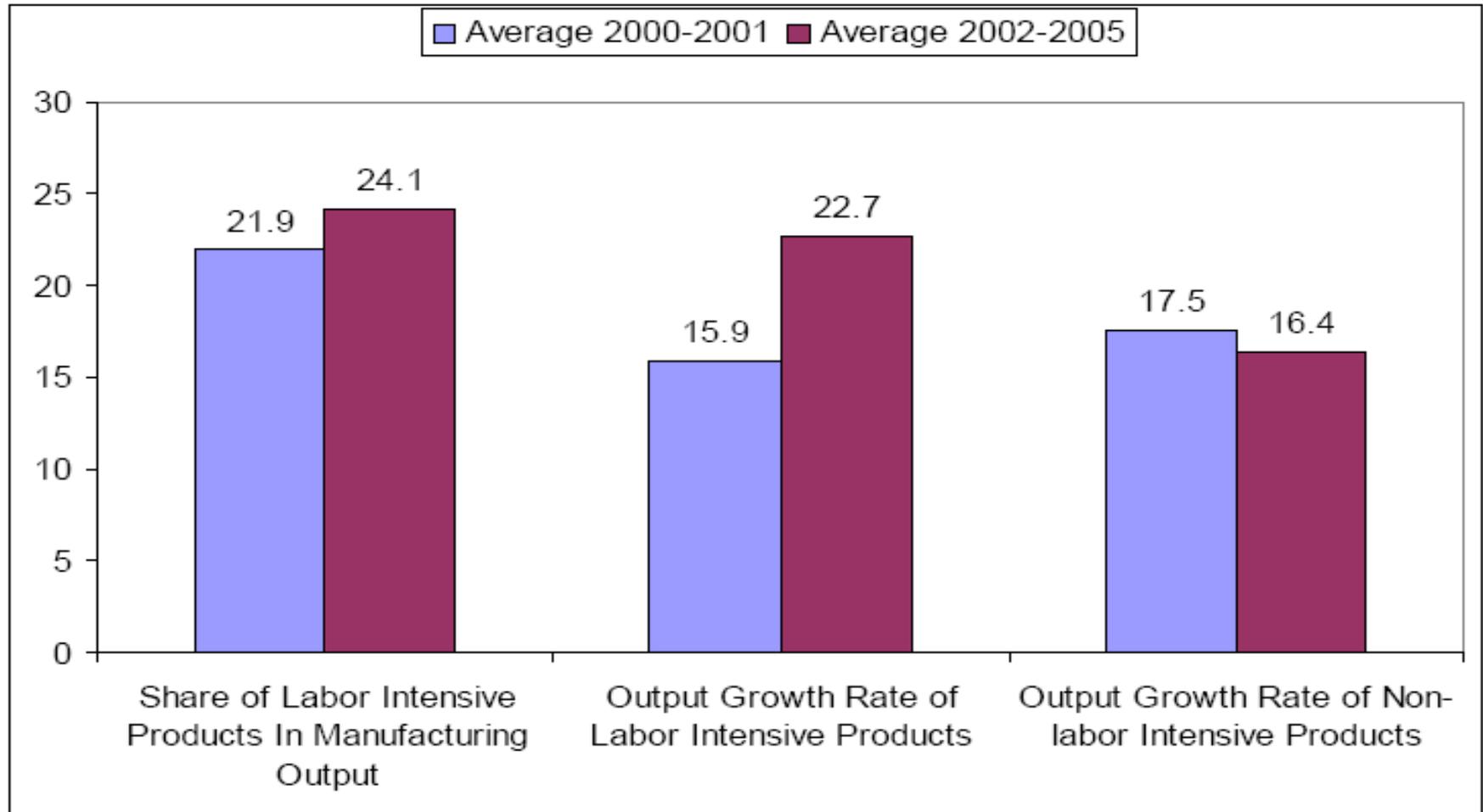
FIGURE 30: AVERAGE EXPORT SHARES OF AGRICULTURAL PRODUCTS, LIGHT INDUSTRIAL AND HANDICRAFT PRODUCTS, AND HEAVY INDUSTRY AND MINERAL PRODUCTS: 2000-01 AND 2002-05





Increasing Importance of Labor-Intensive Light Industry and Handicrafts

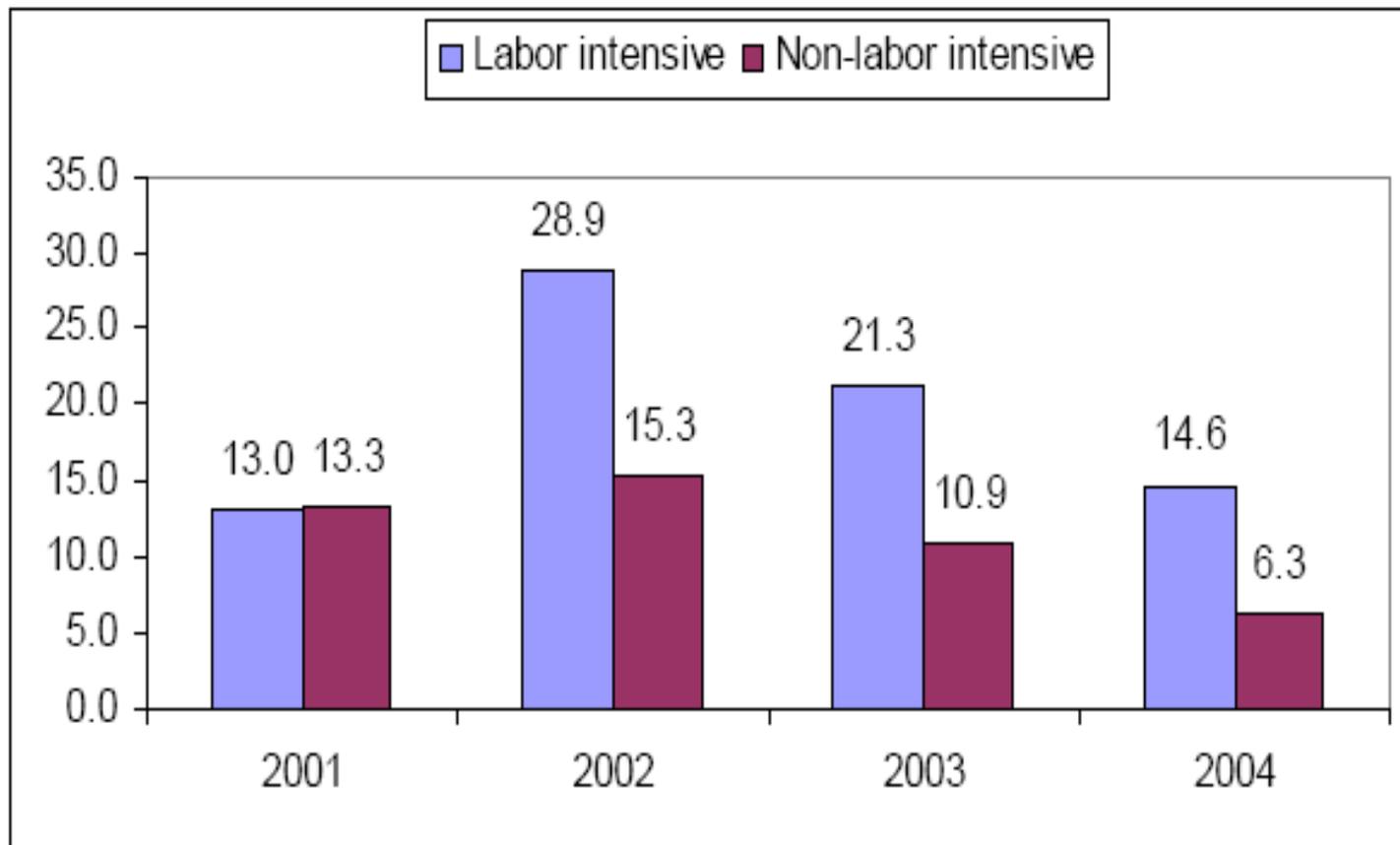
FIGURE 31: THE SHARE AND RATE OF GROWTH OF LABOR-INTENSIVE AND NON-LABOR-INTENSIVE MANUFACTURING OUTPUT (PERCENTAGES)





Rapid Growth of Employment in Labor-Intensive Manufacturing

FIGURE 32: GROWTH RATES OF MANUFACTURING EMPLOYMENT IN LABOR-INTENSIVE AND NON-LABOR-INTENSIVE SECTORS: 2001-05 (PERCENTAGES)

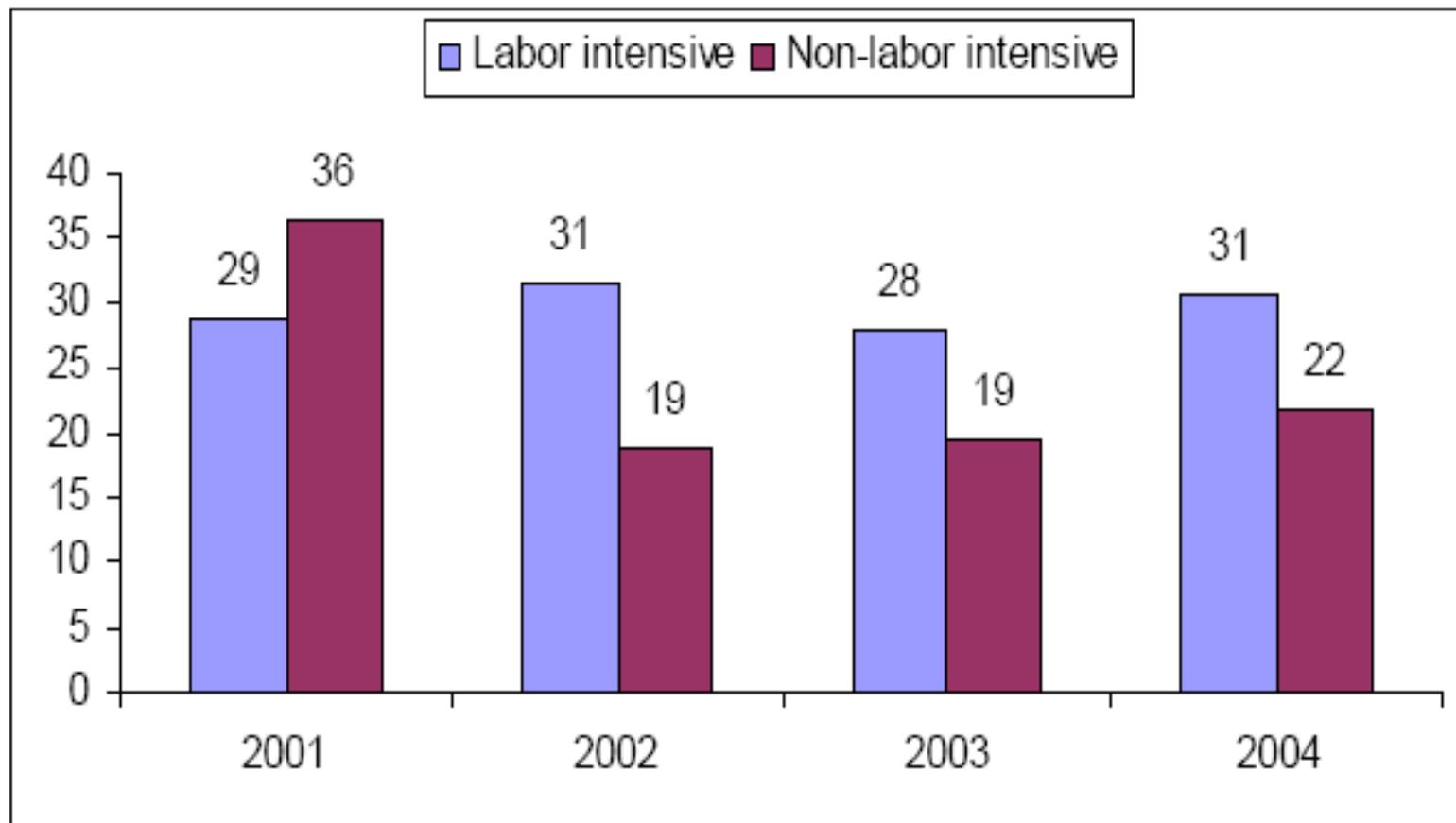


Source: GSO



Reorientation of Investment from More Capital-Intensive to More Labor-Intensive Sectors

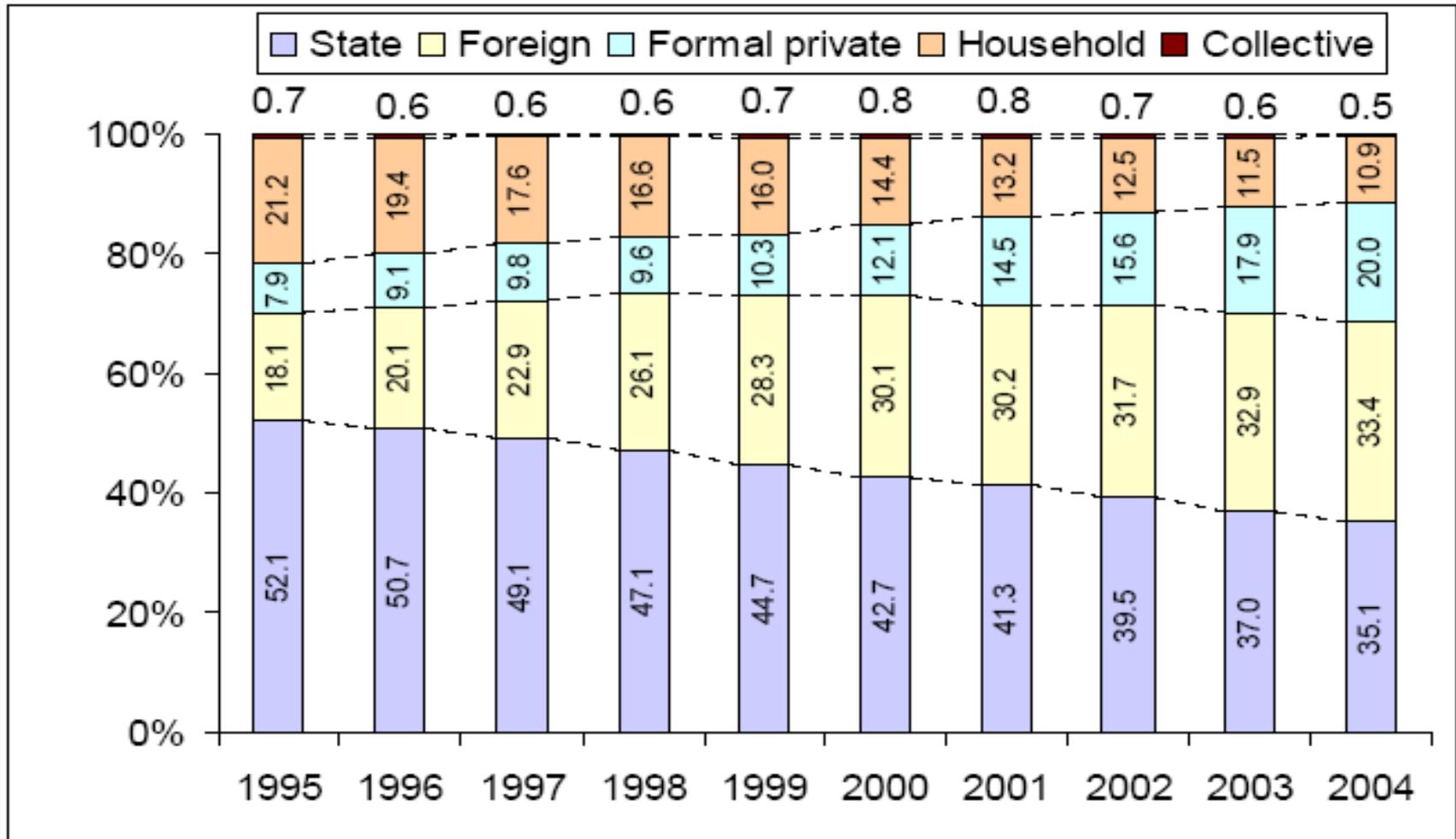
FIGURE 33: THE GROWTH OF INVESTMENT IN LABOR-INTENSIVE AND NON-LABOR-INTENSIVE SECTORS OF MANUFACTURING: 2001-2004 (PERCENTAGES)





Foreign and Formal Private Firms Expand Their Share of Manufacturing Output

FIGURE 34: THE OWNERSHIP STRUCTURE OF MANUFACTURING OUTPUT (PERCENTAGES)





Part 4

The BTA and Foreign Investment



- **MPI's Foreign Investment Agency collected new FDI data to reflect how MNC's invest in Vietnam:**
 - Developed new data on **U.S.-Related FDI**: i.e., FDI sourced directly from the U.S. plus investment made by U.S. overseas subsidiaries, based on reports by all provinces
 - Example: The US\$1 billion Intel FDI was sourced from the Intel subsidiary in Hong Kong. It would be counted as regularly reported FDI from Hong Kong, but as U.S.-related FDI because Intel is a U.S. company
 - Research evaluates both registered and implemented FDI:
 - **Registered FDI** represents foreign investment applications that have been approved and registered with government agencies
 - **Implemented (realized) FDI** represents funds that have actually flowed into Vietnam to implement foreign investment projects on the ground
- **Preliminary assessment of indirect foreign investment based mainly on interviews with fund managers**



- **The BTA required substantial changes in investment policy and procedures**
 - Broader concept of investment to cover all types of investment;
 - 100-percent foreign ownership allowed in all unrestricted sectors;
 - Foreigners to set up joint-stock companies and issue securities;
 - Ability to use international arbitration or foreign courts, and foreign laws can be used if VN law does not cover the issues in dispute;
 - Registration of foreign direct investment under VND 300 billion (US\$18.75 million) in unrestricted sectors;
 - Elimination of export performance and trade-related investment measures (TRIMs);
 - Elimination of dual pricing and other discriminatory practices;
 - Improved corporate governance regulations; and,
 - Stronger protection for repatriation of earnings and against expropriation and nationalization.
- **The BTA required liberalization of market access for U.S. FDI into Vietnam, especially for 20 major services sectors**
- **Other reforms encouraging FDI also completed (e.g. contract law)**

Key Findings on the BTA and Overall Foreign Investment into Vietnam



- **Overall FDI into Vietnam grew modestly during the initial years of BTA implementation, but has boomed in 2005 and 2006**
 - From 2000 to 2003, overall registered FDI grew by 24 percent and implemented FDI by 13 percent
 - But, worldwide FDI actually declined substantially over this period, making Vietnam's "modest" growth look all the more impressive
 - From 2003 to 2006, overall registered FDI surged by almost 375 percent to US\$12 billion, while overall implemented FDI increased by 55 percent of the period
 - Growth in implemented FDI over the next several years is expected to "catch up" to registered FDI as newly registered FDI projects come on line

Key Findings on the BTA and Overall Foreign Investment into Vietnam



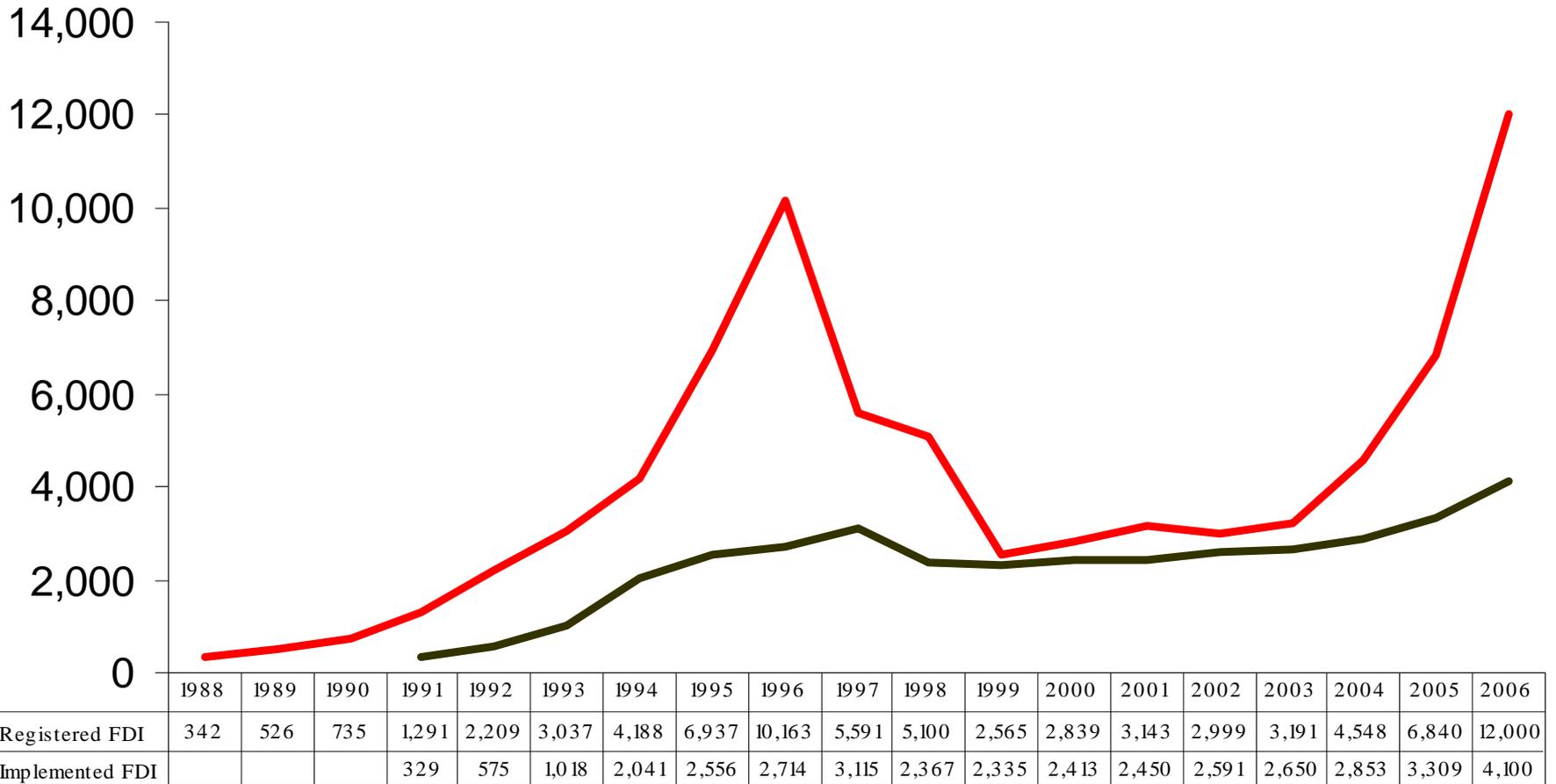
- **FDI grew strongly in sectors where Vietnamese exports grew fastest following the BTA**
 - From 2000 to 2005, FDI in apparel, footwear and wood processing and furniture sectors grew seven fold. These were the sectors where exports grew most rapidly following the BTA
 - Almost all FDI in these sectors were from Asian countries, not from the U.S.
 - Growth of FDI in these sectors were especially important in 2000 to 2003, as Vietnam was emerging from the Asian financial crisis, contributing to much of the increase in overall FDI over this period
- **The flow of foreign indirect investment has grown substantially over the last two years**
- **Conclusion:** Over the first five years of BTA implementation, FDI inflows into Vietnam have surged. There appears to have been a direct impact of the BTA on FDI into sectors exporting to the U.S., and likely indirect impacts by the BTA as a result of improvements in the business environment, acceleration of the WTO accession process, and contributions to expectations for strong, sustained economic growth

Key Findings on the BTA and Foreign Investment from the U.S. to Vietnam



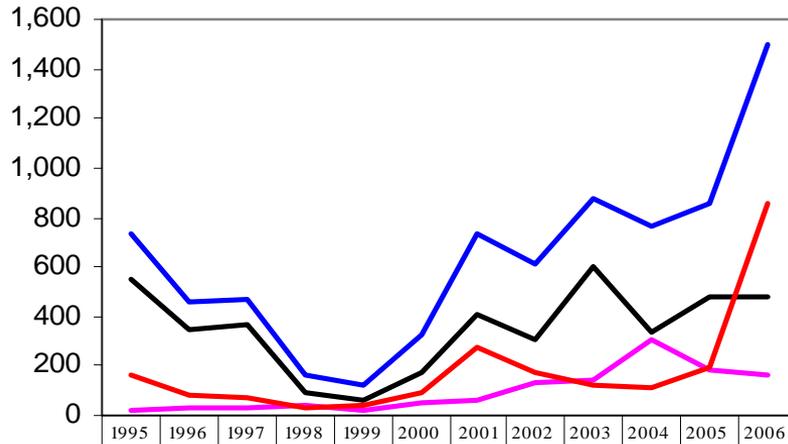
- **U.S.-related FDI from 1988 to 2006 is much higher than normally reported**
 - U.S.-related FDI is US\$4 billion registered and US\$3.3 billion implemented from 1998 to 2006
 - U.S.-related FDI is more than twice the level of normally reported registered FDI sourced from the U.S., and about four times more for implemented FDI over this period
- **U.S.-related FDI and FDI in sectors exporting to the U.S. have responded strongly to the BTA**
 - U.S.-related registered FDI was US\$1.05 billion in just the first six months of 2006, compared to US\$216 million in 2001
 - U.S.-related implemented FDI was US\$1 billion over the 18 months from 2005 through June 2006, compared to US\$258 million in 2001
 - U.S.-related FDI was one of the largest sources of FDI into Vietnam since BTA implementation
- **Conclusion:** U.S. firms are a major source of FDI to Vietnam, and successful BTA implementation has clearly attracted FDI by U.S. firms

OVERALL FDI TO VIETNAM from 1988 to 2006 (US\$ millions)



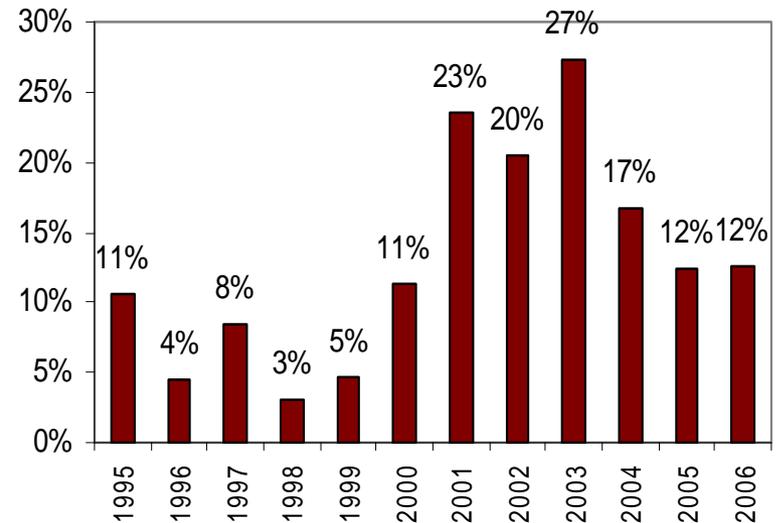
— Registered FDI — Implemented FDI

OVERALL REGISTERED FDI IN SECTORS WITH RAPID EXPORTS TO THE U.S. FOLLOWING THE BTA (US\$ MILLIONS)



— Clothing & Textile	551	348	362	93	57	178	407	302	603	341	476	480
— Wood Processing and Furniture	20	30	34	38	20	56	60	136	144	309	183	165
— Footwear	168	77	73	27	44	89	270	173	125	111	192	855
— Total	739	455	469	158	120	322	738	612	872	760	851	1,500

Share in Total Registered FDI (%)

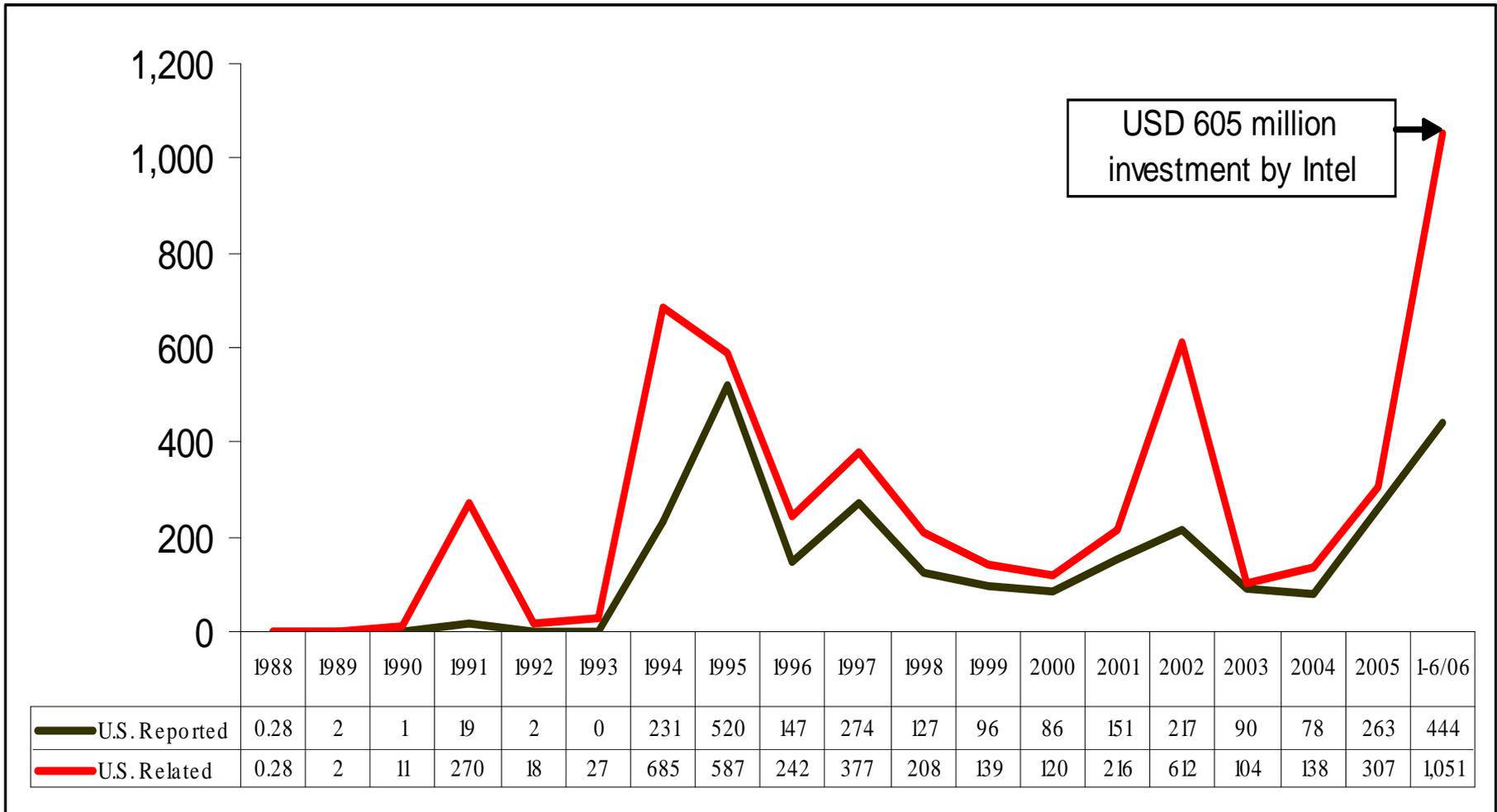


Source: MPI.

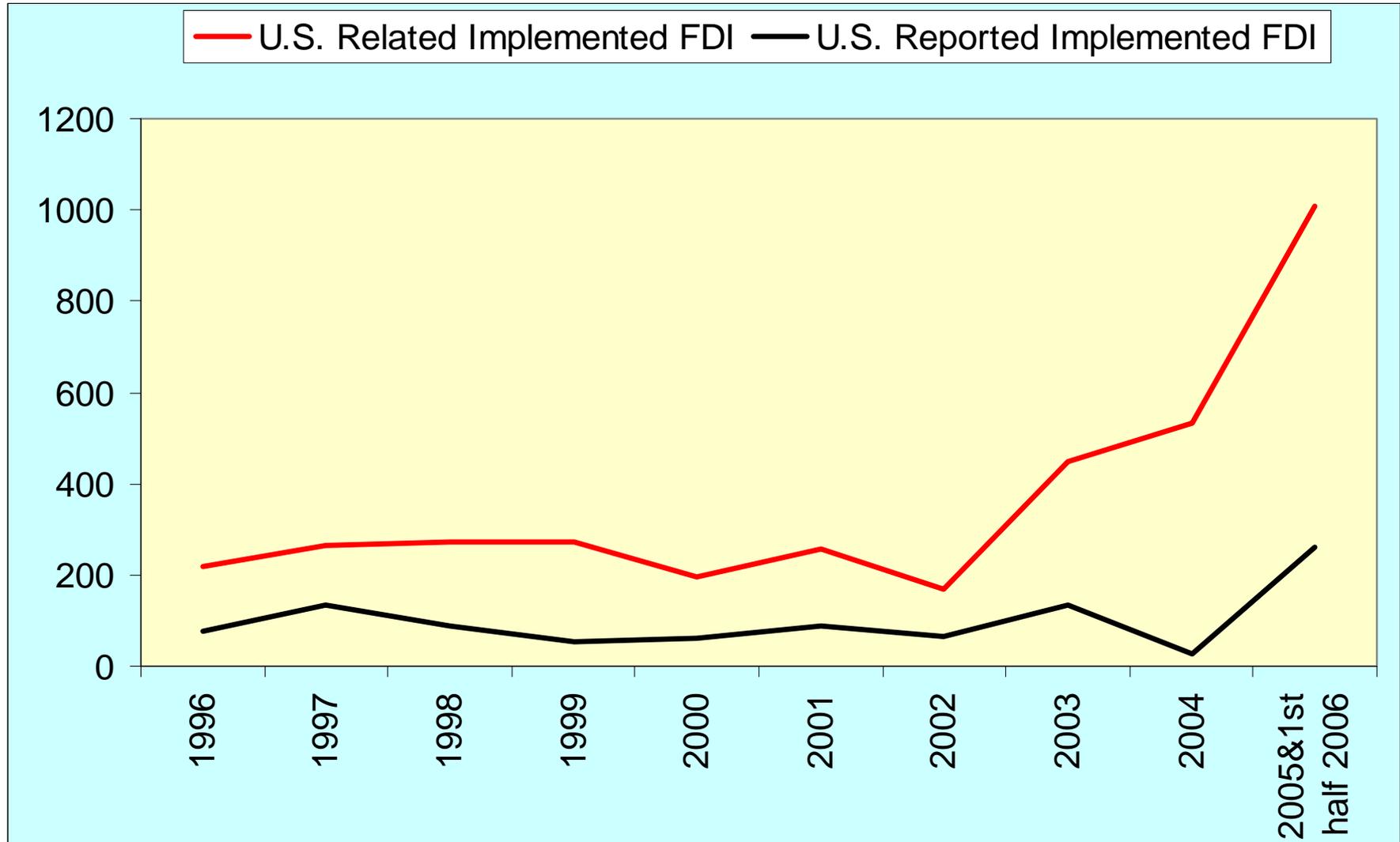
TWO DIFFERENT STORIES



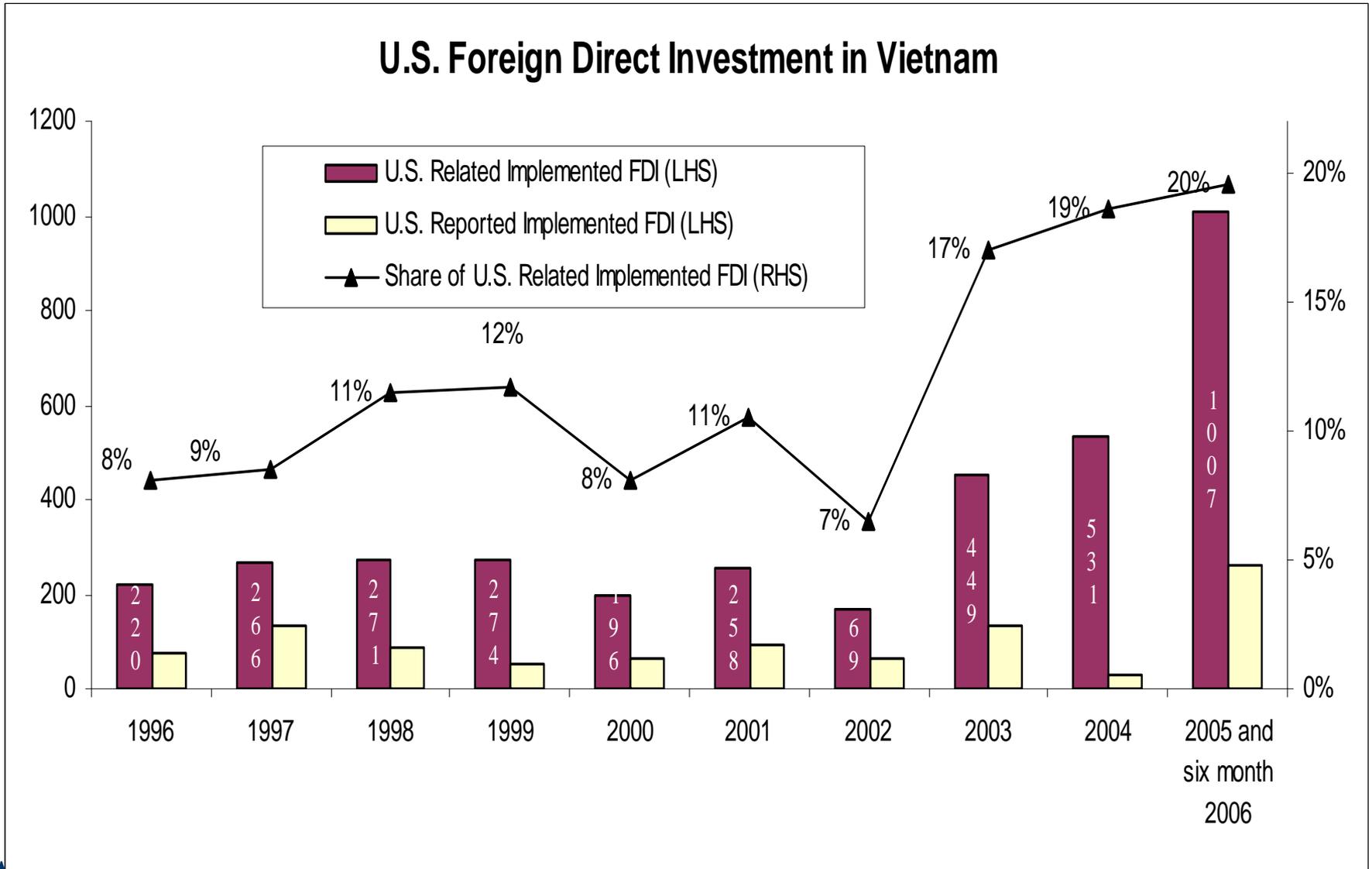
U.S. Current Registered FDI (US\$ millions)



TWO DIFFERENT STORIES



TWO DIFFERENT STORIES



PRE AND POST-BTA PERFORMANCE



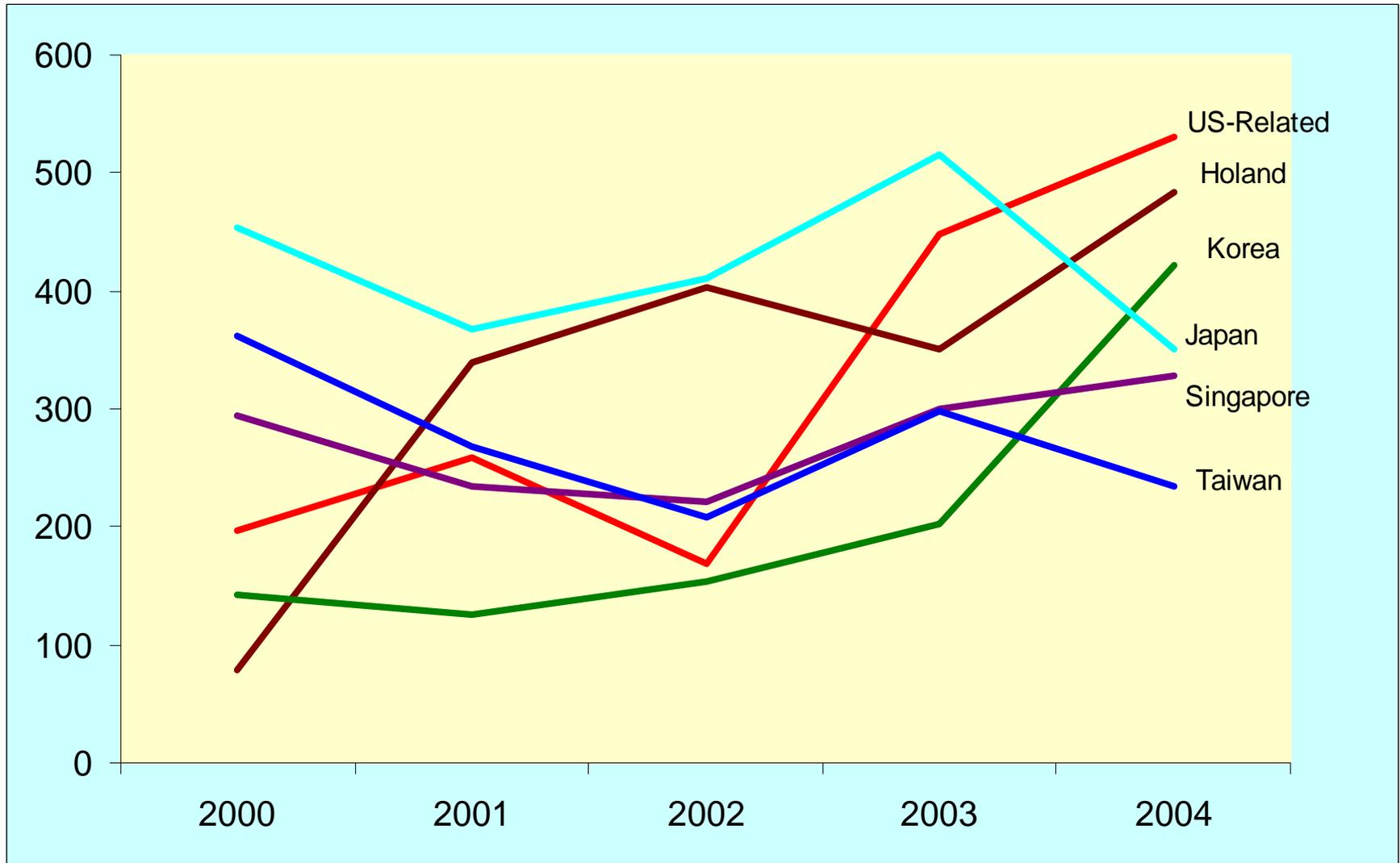
Year	U.S. Related, Implemented FDI	U.S. Reported Implemented FDI	Share of U.S. Related, Implemented FDI
1996	220	75	8%
1997	266	133	9%
1998	271	89	11%
1999	274	53	12%
2000	196	62	8%
2001	258	90	11%
Average (1996-2001)	248	84	10%
2002	169	65	7%
2003	449	136	17%
2004	531	27	19%
2005 and six month 2006	1,007	261	20%
Average (2002 - 6-2006)	479	109	16%
Total (US\$ millions)	3,641	991	

US-RELATED FDI BY SECTOR



	US-Related Implemented	Total Overall Implemented	US Share
Mining and petroleum	1,636	6,949	24%
Manufacturing	1,182	15,040	8%
Food and beverages	494	2,243	22%
Chemical and chemical products	175	1,071	16%
Transportation equipment	111	1,424	8%
Non-metallic mineral products	173	2,257	8%
Fabricated metal products	140	572	24%
Other manufacturing sectors	89	7,473	1%
Agriculture and fisheries	56	2,053	3%
Property development	138	2,387	6%
Hotels and tourism	71	2,363	3%
Finance	87	715	12%
Other sectors	111	4,076	3%
TOTAL (U.S. millions)	3,281	48,623	7%

U.S.-RELATED FDI WAS THE LARGEST SOURCE OF FDI IN 2003 AND 2004



KEY INVESTORS IN VIETNAM (US\$ millions)



No.	Countries	2000	2001	2002	2003	2004
1	U.S.-Related	196	258	169	449	531
2	Holland	79	339	403	350	483
3	Korea	142	125	154	203	421
4	Japan	454	367	411	515	350
5	Singapore	294	235	221	300	328
6	Taiwan	361	269	208	298	235
7	France	76	137	109	169	152
8	Hong Kong	195	87	118	76	145
9	Thailand	35	54	77	67	76
10	Mauritius	45	85	39	94	62
11	China	26	27	49	31	51
12	Russia	216	169	175	74	46
13	Cayman Islands	18	30	40	39	46
14	BVI	123	108	113	46	45
15	Australia	24	14	24	30	41

Source: MPI



U.S.-RELATED FDI SOURCED FROM OVERSEAS SUBSIDIARIES, 1988 to June 2006



Resident country for U.S. overseas subsidiaries with FDI to Vietnam	No. of projects	Registered FDI	Implemented FDI
Mauritius	1	65	801
Singapore	19	788	739
the Netherlands	6	229	686
Bermuda	4	107	140
Hong Kong	11	750	126
Cayman Islands	2	58	46
Korea	1	22	32
British Virgin Islands	12	123	25
England	2	31	20
Ukraine	1	16	12
Saint Kitts & Nevis	1	40	12
Taiwan	5	13	8
Thailand	1	0	1
Switzerland	2	60	1
Bahamas	1	8	1
Canada	1	0	0
Cook Islands	2	55	0
Australia	1	1	0
Japan	1	0	0
Total (US\$ millions)	74	2,365	2,649



TOP PROVINCES FOR U.S. RELATED FDI (US\$ millions)



Provinces	U.S.-Related FDI			U.S. Reported FDI		
	Projects	Registered	Implemented	Projects	Registered	Implemented
Oil and gas*	11	285	1,636	8	161	247
Ho Chi Minh City	131	1,626	670	113	454	78
Binh Duong	45	338	228	40	173	68
Dong Nai	31	380	198	26	265	110
Hai Duong	2	103	148	2	103	148
Hanoi	35	237	123	28	135	55
Ha Tay	5	75	73	4	26	22
Vung Tau	10	415	73	7	333	16
Lam Dong	3	44	53	2	4	1
Hai Phong	9	40	28	5	10	2
Binh Thuan	5	94	15	2	18	0
Bac Lieu	1	10	11	1	10	11
Total of all	347	4,042	3,281	289	1,994	777



USAID U.S. FDI by Form of Investment (*US\$ millions*)

FROM THE AMERICAN PEOPLE

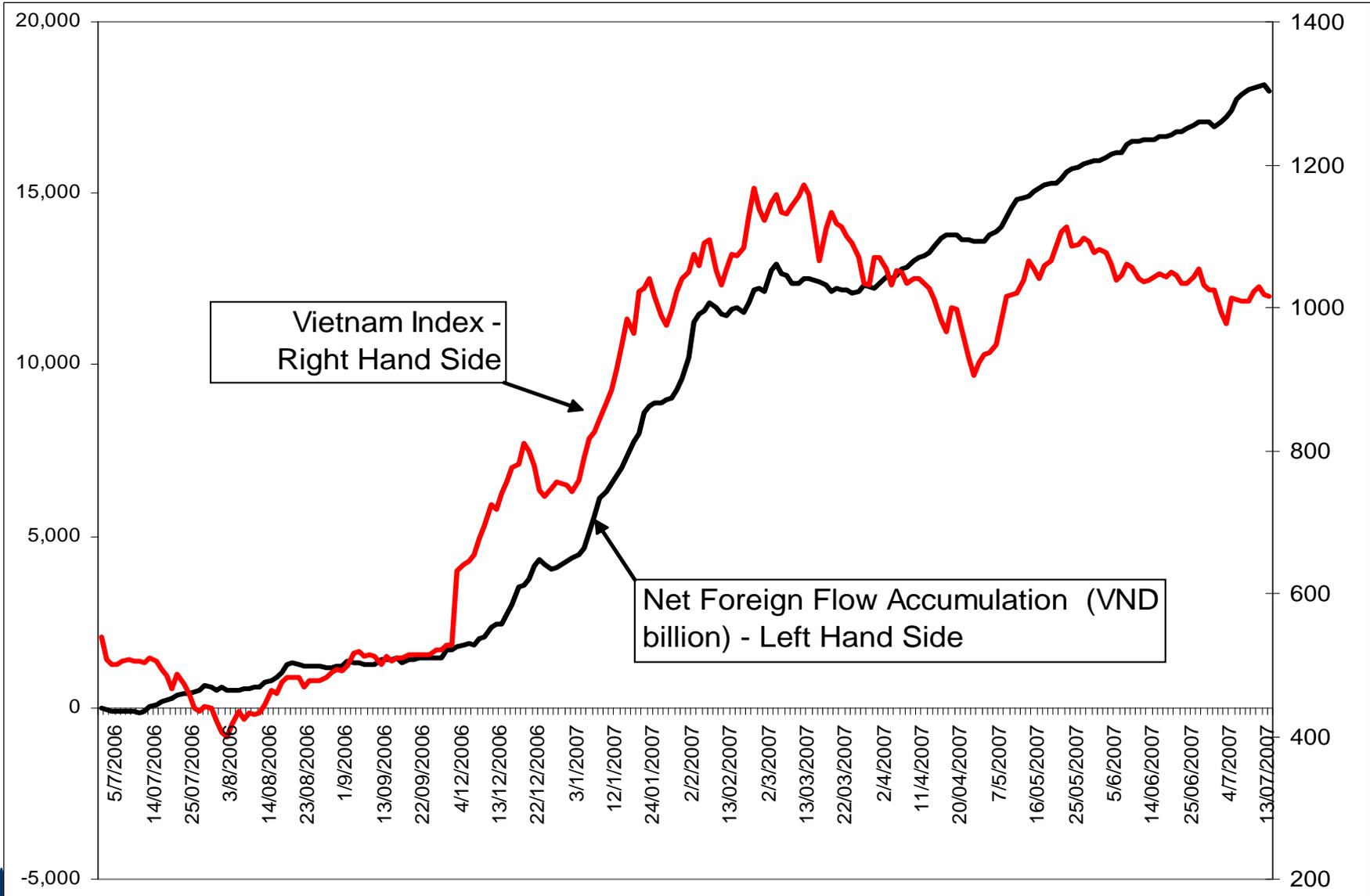


Form of FDI	U.S.-Related FDI			U.S. Reported FDI		
	Projects	Registered	Implemented	Projects	Registered	Implemented
100%-Foreign-Owned Enterprises	262	2,863	957	224	1,369	257
Joint Ventures	64	844	644	47	414	229
Business Cooperation Contracts	20	300	1,639	17	176	250
Joint-Stock Companies	1	35	41	1	35	41
Total	347	4,042	3,281	289	1,994	777



No.	Fund	Size (US\$ millions)	Year of Establishment	Current Status
1	Mekong Enterprise Fund	19	2002	Active
2	Vietnam Opportunity Fund	171	2003	Active
3	IDG Ventures Vietnam	100	2004	Active
4	PXP Vietnam Fund	24	2005	Active
5	Vietnam Growth Fund	100	2004	Active
6	Indochina Land Holding	100	2005	Active
7	Prudential Fund	318	2005	Active
8	Vietnam Equity Fund	18	2005	Active
9	Vietnam Emerging Equity Fund	14	2005	Active
10	Vietnam Dragon Fund	35	2005	Active
11	VinaLand Fund	50	2005	Active
12	BVIM (Vietnam Partners)	100	2006	Active
13	VPF1	13	2006	Active

Data obtained from interviews with investment funds; as of June 2006





Part 5

Perceptions on the BTA by Foreign Investors

Survey of Foreign-Invested Enterprises



- **Characteristics of the Survey**
 - **Conducted in early 2006**
 - **4,000 surveys mailed to foreign investors active in Vietnam (out of a total of 6,390 FIEs), with 385 viable responses**
 - **Survey roughly representative of all FIEs operating in Vietnam**
 - **94 percent of responding FIEs are non-U.S.**
 - **6 percent are U.S.-related firms**
 - **Survey roughly representative of sectoral composition of all FIEs operating in Vietnam**
 - **68 percent of responding FIEs are from the manufacturing sector**
 - **32 percent are from services**

Perceptions on the Importance of the BTA on Investment Decisions



- **Foreign investors note the importance of BTA commitments**
 - Almost half of all respondents noted that the BTA had an important impact on their investment decisions, most of which were non-U.S. firms not formally covered by the BTA
 - FIEs who noted most strongly that the BTA was important include:
 - **U.S.-related firms** versus non-U.S. firms
 - **Firms exporting to the U.S.** versus those exporting to other countries only or not exporting as all
 - **Firms operating in service sectors** versus those in the manufacturing sector
- **Strongest overall reasons why the BTA was important:**
 - The BTA was a stepping stone to the BTA
 - It created more business opportunities
 - It signified Vietnam commitment to international rules
 - It opened the U.S. market for Vietnamese exports
- **Relative U.S. FIE interests** – Regarding BTA commitments, U.S. firms placed greatest relative emphasis compared to non-U.S. firms on: (i) BTA as a stepping stone to the WTO; (ii) Vietnam’s commitment to international rules; and (iii) setting treaty-bound, concrete schedules for administrative reforms and market liberalization

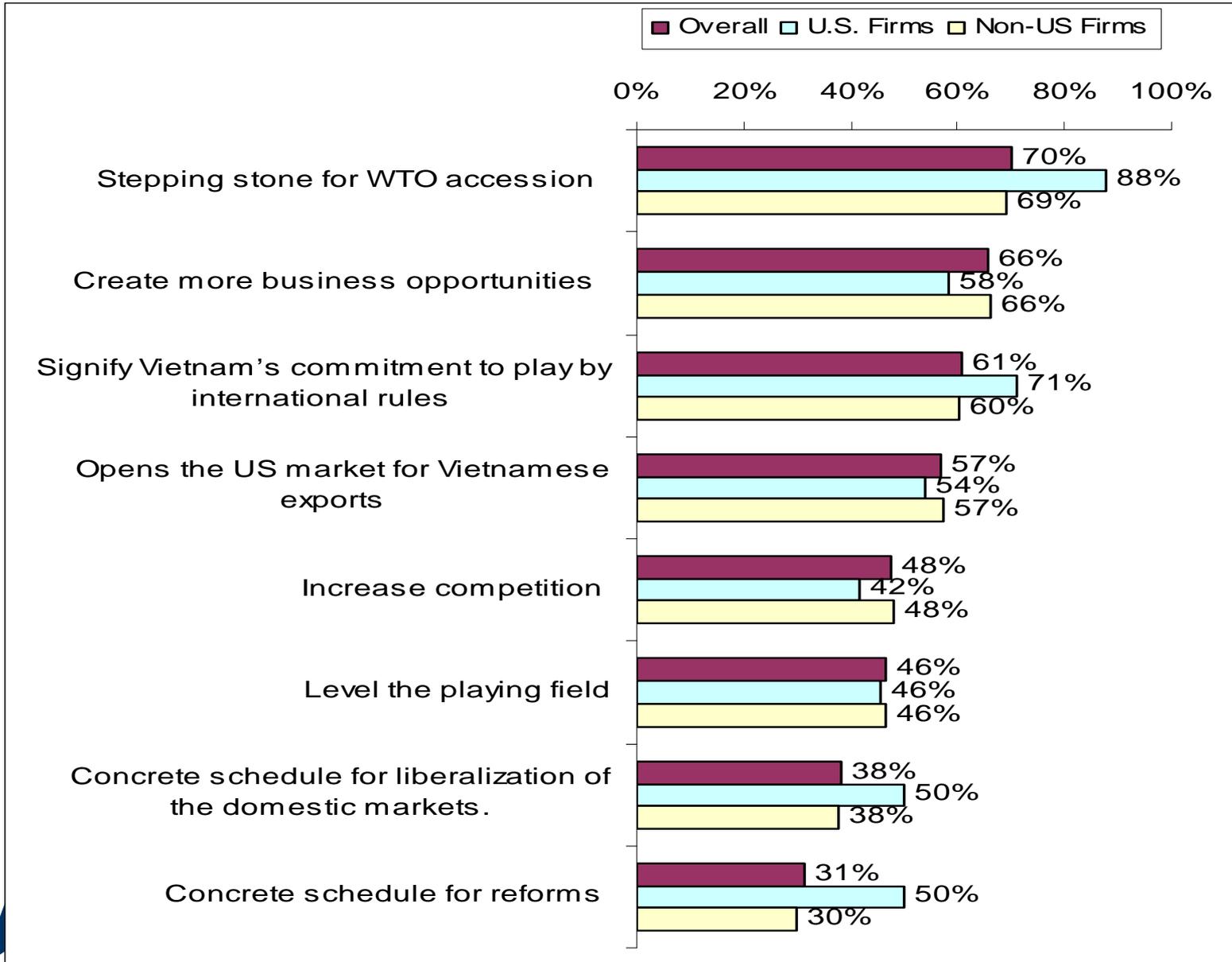
Perceptions Regarding BTA Commitments on Attracting FDI



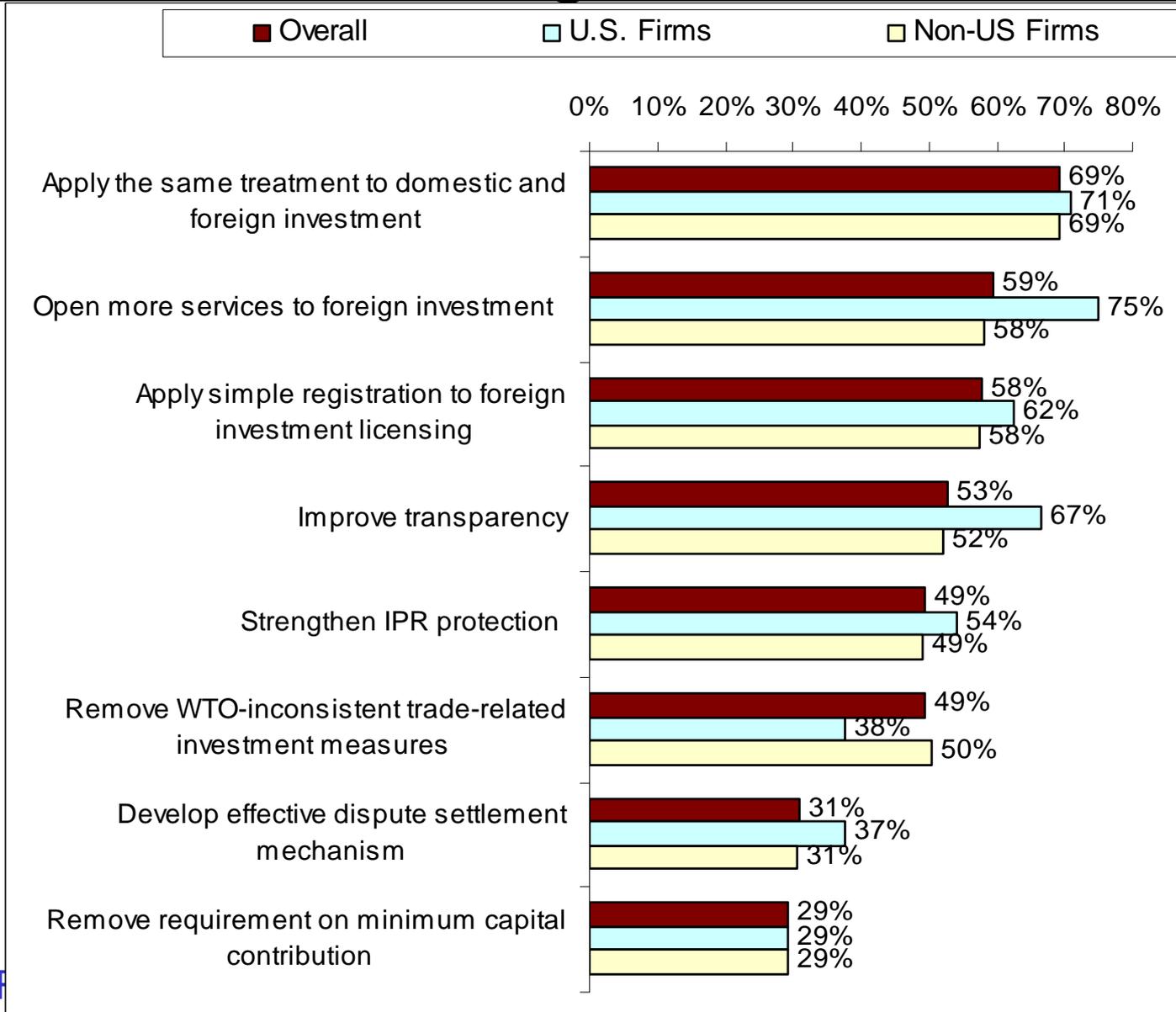
- **Most important BTA commitments for attracting FDI include:**
 - Treated foreign and domestic firms equally (national treatment)
 - Opened services to FDI
 - Simplified investment registration
 - Improved transparency
 - Strengthened IPR protection
 - Removed FDI performance requirements (such as domestic content and export levels)

- **Relative U.S. FIE interests** – Regarding BTA commitments to attract FDI, U.S. firms placed greatest relative emphasis compared to non-U.S. firms on: (i) opening market access for services; (ii) improving transparency; (iii) somewhat less strongly for improving dispute settlement procedures and strengthening IPR enforcement; compared to non-U.S. firms; U.S. firms placed relatively less importance on removing WTO-inconsistent investment restrictions

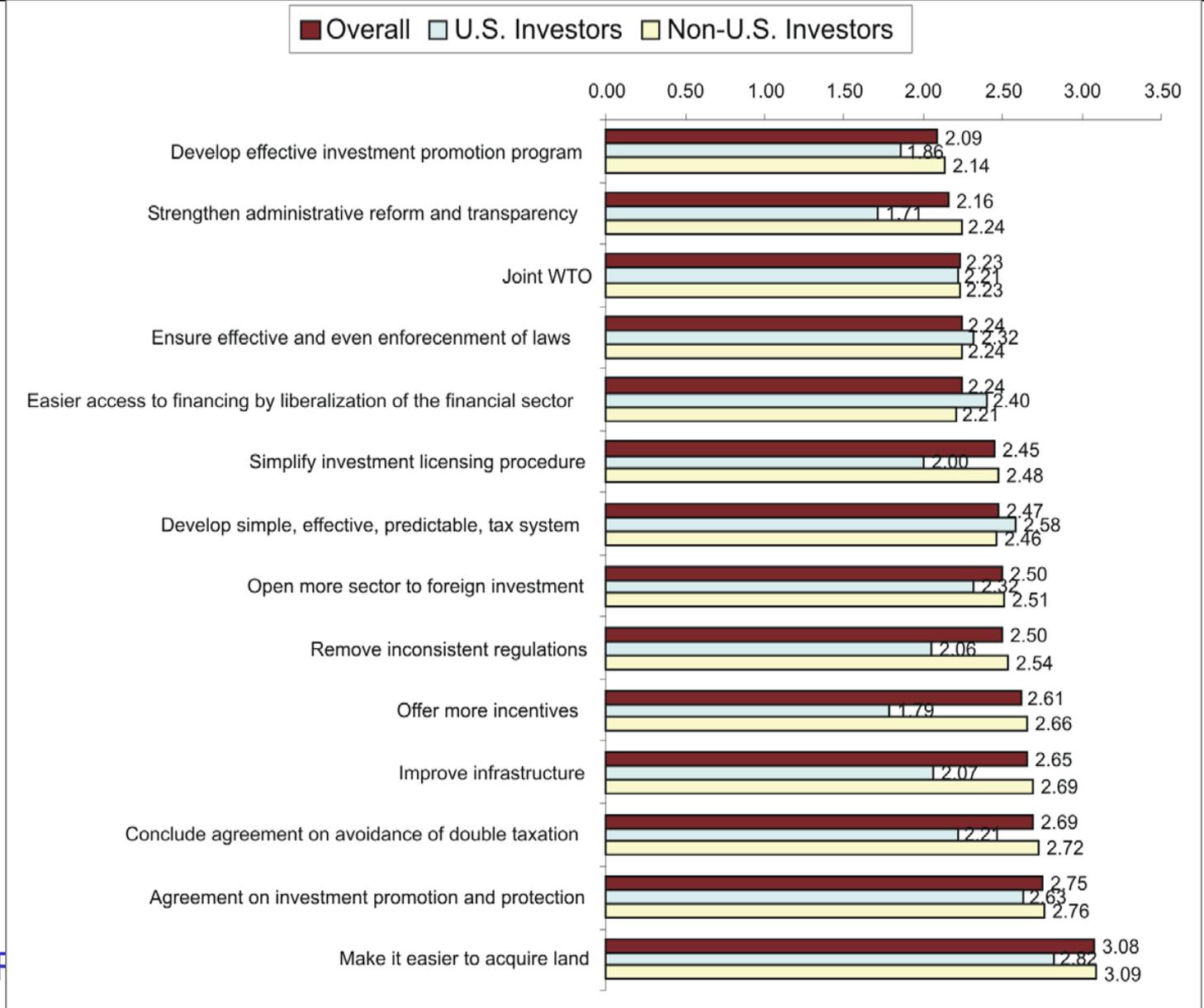
The Significance of the BTA to U.S. and Non-U.S. Foreign Investors



BTA Commitments that Help Attract Foreign Investment



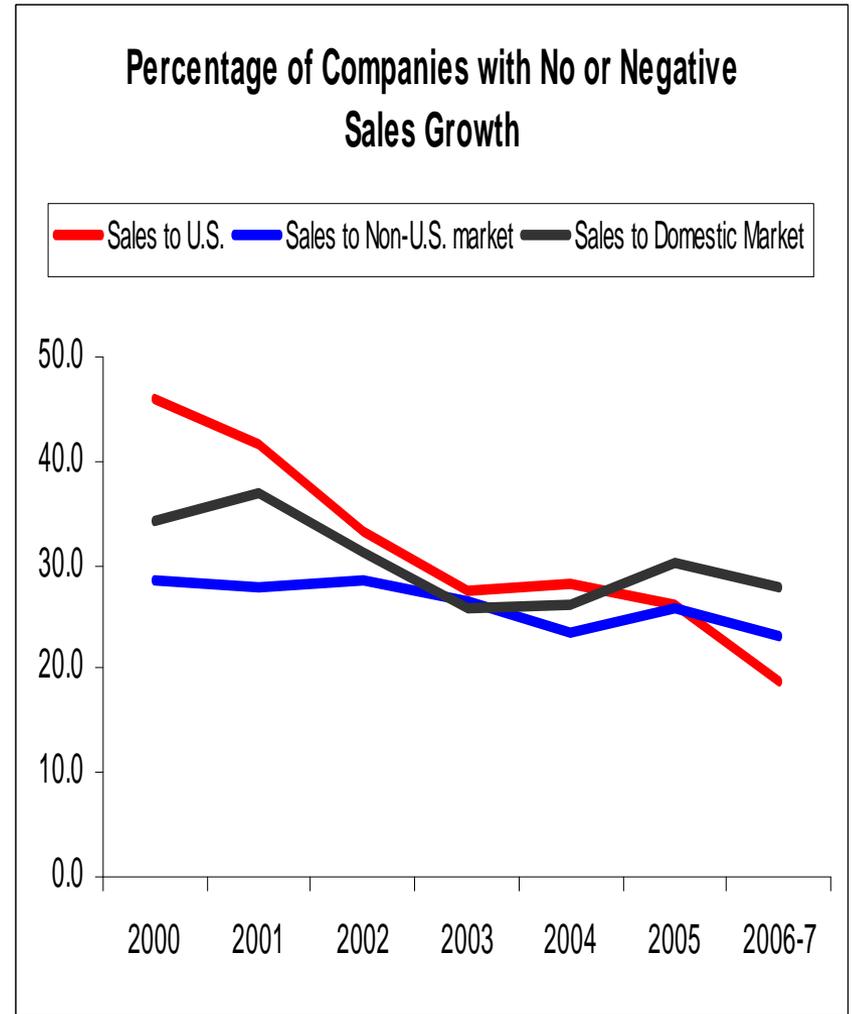
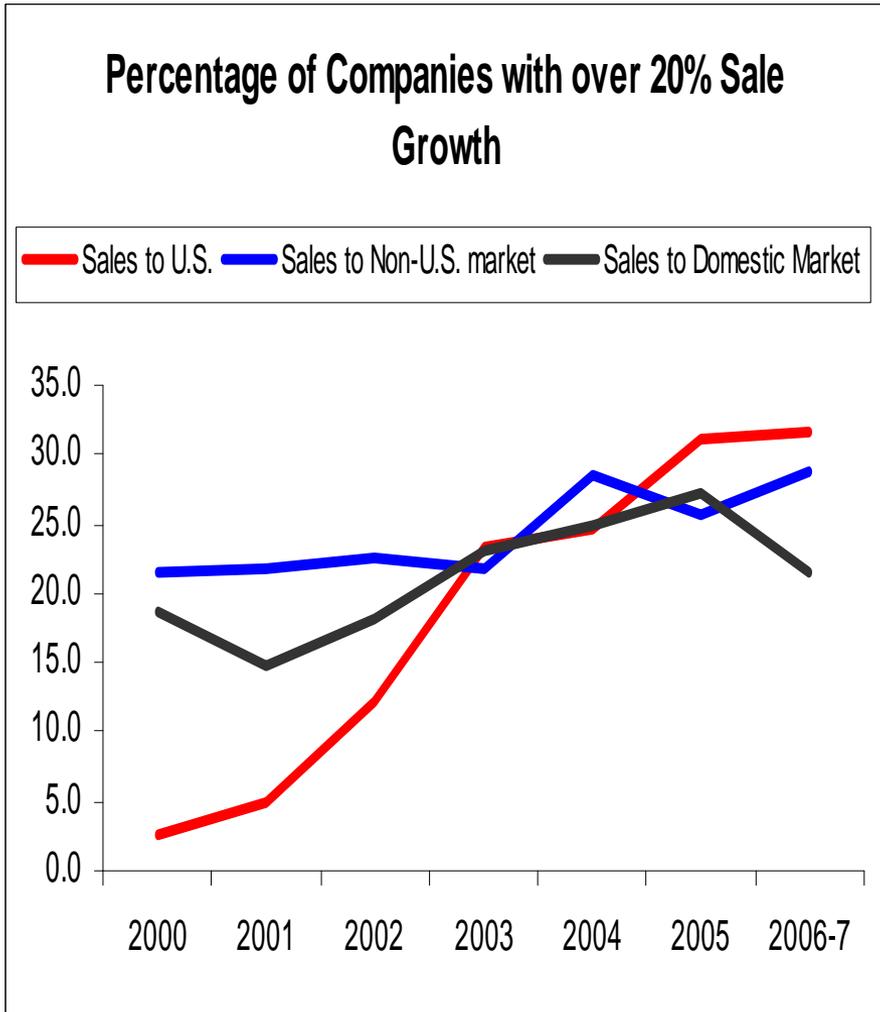
Overall Measures to Attract More Foreign Investment to Vietnam





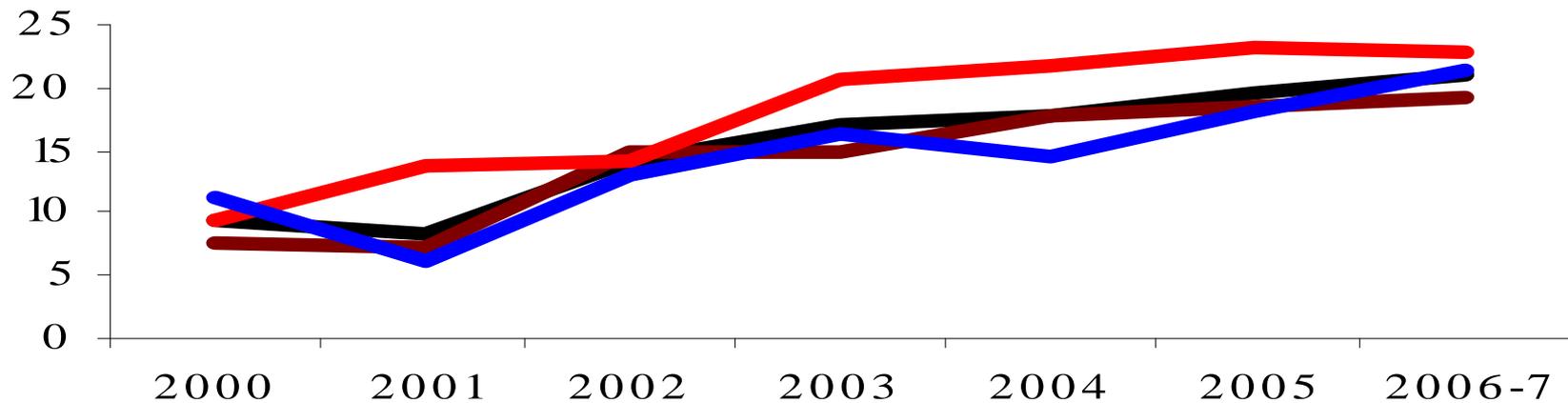
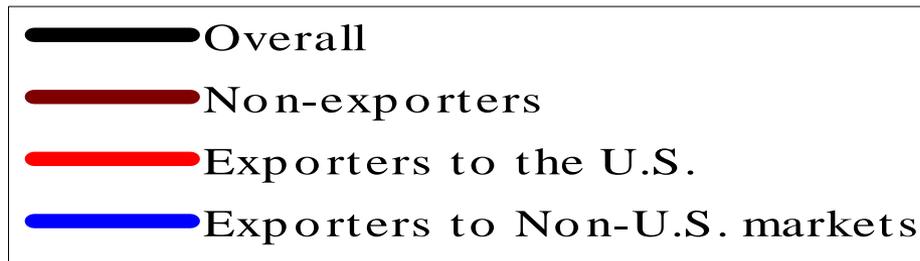
- **Most FIEs have performed strongly over the first five year of BTA implementation:**
 - Strong increases in exports
 - Strong increases in sales to the domestic market
 - Strong increases in investment
 - Strong increases in employment
- **FIEs who exported performed more strongly than those who did not export**
 - Exporters tended to produce more labor-intensive products, implying that exports were following Vietnam's comparative advantage and were generating large number of jobs
- **FIES who exported to the U.S. performed more strongly than did those FIEs who exported to other countries or who did not export at all**
- **The one anomaly – exporters to the U.S. had lower profit margins, likely reflecting the highly competitive nature of the U.S. market**

Sales Growth



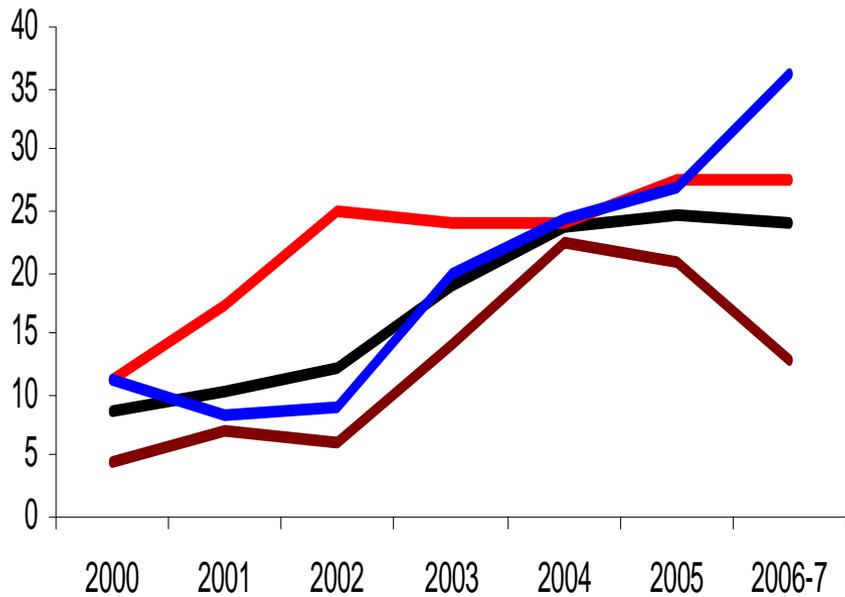
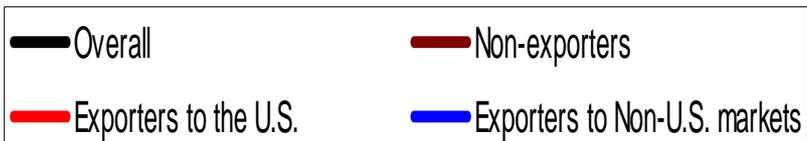


Percentage of Firms with over 20% Investment Growth

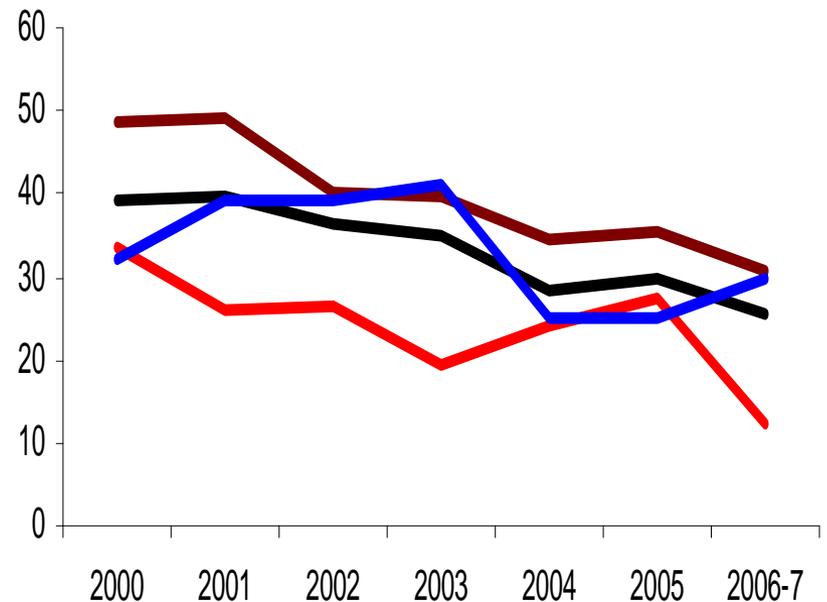




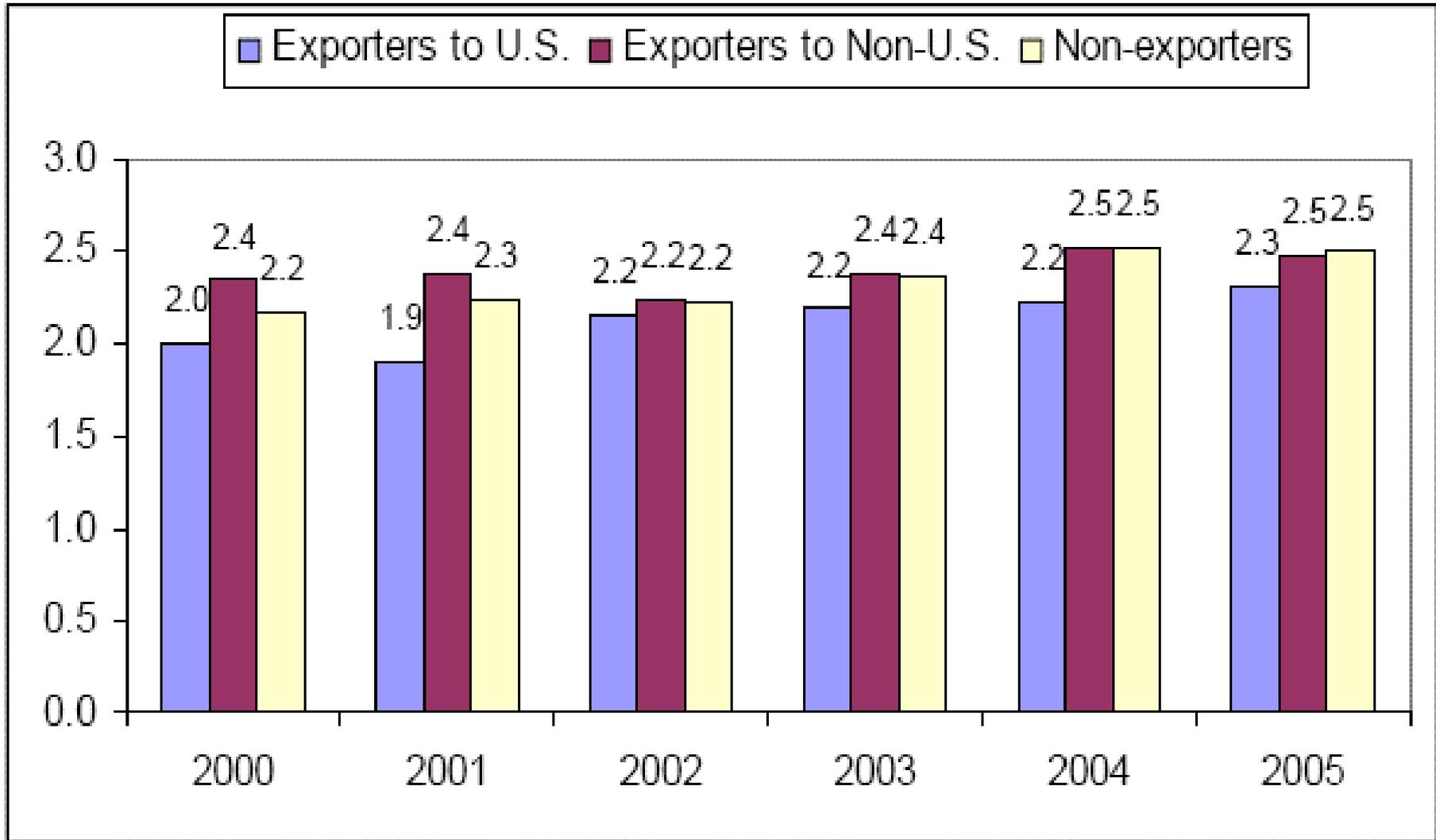
Firms with over 20% Labor Growth



Firms with No or Negative Labor Growth



Business Performance (1: bad to 4: excellent)



CONCLUSIONS



- **The BTA has been successfully implemented, and it paved the way for WTO accession**
- **The promise of the BTA has been translated into economic reality**
 - Bilateral trade has boomed
 - U.S. (direct and indirect) foreign investment has increased strongly to Vietnam
 - Vietnam's economic structure has become more export oriented and more effective at generating new jobs
- **Vietnam has used the trade agreements to move toward a systematic reform of its legal and judicial systems**
 - developing a more rules-based legal environment with improved economic governance
- **Much has been accomplished, much more remains to be done**
 - key challenge is to strengthen the organization, incentives and procedures of state institutions, and to build the human resources, needed to more effectively implement and enforce the new laws and regulations
- **This Report is just a first step in evaluating the accomplishments of the past, and assessing the challenges of the future** – much further research is needed