

## U.S.-Vietnam Bilateral Trade Agreement Takes Effect, Heralding Lower Duties for Imports from Vietnam

Walker Pollard<sup>1</sup>  
wpollard@usitc.gov  
202-205-3228

*The U.S.-Vietnam Bilateral Trade Agreement (BTA) took effect on December 10, 2001, following an exchange of letters implementing the agreement by U.S. Trade Representative Robert B. Zoellick and Vietnamese Minister of Trade Vu Khoan. U.S. imports from Vietnam will now be subject to significantly lower duties under normal trade relations (NTR) status. U.S. imports from Vietnam are likely to increase substantially as NTR rates come into effect.*

The U.S.-Vietnam Bilateral Trade Agreement (BTA) took effect on December 10, 2001, following an exchange of letters implementing the agreement by U.S. Trade Representative Robert B. Zoellick and Vietnamese Minister of Trade Vu Khoan.<sup>2</sup> U.S. imports from Vietnam will now be subject to significantly lower duties under normal trade relations (NTR)<sup>3</sup> status. The BTA was signed by the United States and Vietnam on July 13, 2000 after nearly 5 years of negotiations. President Bush transmitted the agreement to Congress for approval on July 8, 2001. In that year, the House approved the agreement on September 6, the Senate approved it on October 3, and President Bush signed the legislation on October 8. The National Assembly of Vietnam approved the resolution ratifying the agreement on November 28, and the President of Vietnam signed the legislation on December 4, 2001. U.S. imports from Vietnam are likely to increase substantially as NTR rates come into effect. Imports from Vietnam have been limited by the generally much higher column 2 duties that apply to nonmarket economies that have not met certain criteria set out in U.S. statutes. Since the United States resumed trading with Vietnam in 1994, imports from Vietnam have consisted mostly of items having free or very low column 2 duties and a few footwear and apparel items.

### Background<sup>4</sup>

Following the end of the Vietnam war in 1975, Vietnam was subject to a trade embargo by the United

States until President Clinton ended the embargo in February 1994. Since then, Vietnam has been denied NTR status as a nonmarket economy (NME) and has therefore been subject to column 2 duties under the *Harmonized Tariff Schedule of the United States (HTS)*. Column 2 duty rates are, in general, the full rates that were established by the Tariff Act of 1930 (popularly known as the Hawley-Smoot Act) and in most cases are much higher than the column 1 (NTR) rates.<sup>5</sup>

President Clinton granted Vietnam a waiver in March 1998 under the Jackson-Vanik amendment of the Trade Act of 1974, a waiver that has been extended annually since then by Presidents Clinton and Bush. The immediate effect of the waiver was that U.S. businesses trading with or operating in Vietnam could take advantage of programs of the U.S. Overseas Private Investment Corporation (OPIC) and the Export-Import Bank (Ex-Im Bank). For a designated NME to obtain NTR status, it must pass muster under the Jackson-Vanik amendment. The President must either determine that the country is not in violation of the emigration

#### <sup>4</sup>—Continued

Trade Agreement,” *CRS Report for Congress*, updated Oct. 4, 2001; Mark E. Manyin, “The Vietnam-U.S. Normalization Process,” *CRS Issue Brief*, updated Oct. 4, 2001; and Vladimir N. Pregelj, *Vietnam Trade Agreement: Approval and Implementing Procedure*, Congressional Research Service, order code RS20717, updated Sept. 7, 2001.

<sup>5</sup> Column 2 duty rates applied in the recent past to Communist countries and are now applied only to Afghanistan, Cuba, Laos, North Korea, and Yugoslavia (Serbia and Montenegro), in addition to Vietnam. Lower column 1 duty rates apply to countries with NTR status, that is, all countries other than those mentioned above, with the exception of free-trade agreement partners (Canada, Mexico, Israel, and Jordan) and certain developing countries that are granted trade preferences unilaterally by the United States (i.e., countries covered by the Generalized System of Preferences, the Caribbean Basin Economic Recovery Act, the Andean Trade Preference Act, and the Africa Growth and Opportunity Act).

<sup>1</sup> The views expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission (USITC) as a whole or of any individual Commissioner.

<sup>2</sup> USTR, “United States and Vietnam Trade Agreement Takes Effect Today,” USTR press release 01-110, Dec. 10, 2001.

<sup>3</sup> Nondiscriminatory tariff treatment is historically known as “most-favored-nation” (MFN) status and is called “normal trade relations” (NTR) status in the United States.

<sup>4</sup> For further detail, see extensive background material available in Mark E. Manyin, “The Vietnam-U.S. Bilateral

criteria of the amendment or waive the requirement of full compliance with the criteria.<sup>6</sup> If the President finds compliance or grants a waiver, the country can conclude a BTA with United States, which is a requirement for an NME to obtain NTR status; and the country can obtain access to U.S. government financial facilities such as OPIC and the Ex-Im Bank to support U.S. business activity in the country.

The agreement provides for mutual extension of nondiscriminatory tariff treatment (that is, NTR, also called MFN, status).<sup>7</sup> The agreement also facilitates and expands the rights that U.S. business will have in conducting commercial transactions both within Vietnam and with Vietnamese nationals and business entities, and includes provisions dealing with settlement of commercial disputes, investment, financial transactions, and the establishment of government commercial offices. Vietnam also agreed to adopt standards for intellectual property protection that match the standards set forth in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.<sup>8</sup>

## Prospects for Increased U.S. Imports from Vietnam

Imports from Vietnam make up a very small portion of total U.S. imports. In 2000, the United States imported \$827.4 million dollars worth of goods from Vietnam, less than one-tenth of one percent (0.07 percent) of total U.S. imports. The small size of the Vietnamese economy relative to the U.S. economy and the

lack of long-term commercial relations between the countries partially account for this small portion, but lack of NTR status has certainly impeded expansion of these imports.

Since the end of the U.S. embargo on trade with Vietnam, U.S. imports from Vietnam have consisted mostly of items having free or very low column 2 duties and a few footwear and apparel items as shown in table 1. The top four items—two shrimp items, coffee, and cashew nuts—accounted for 48.3 percent of the total value of U.S. imports from Vietnam in 2000. The shrimp items and coffee enter free of duty under column 2, and the column 2 (specific) duty on cashew nuts amounted to 0.9 percent ad valorem equivalent in 2000.

The product areas having the biggest potential for increased Vietnamese exports to the United States are apparel and footwear. The potential for increases in apparel exports is especially large, with estimates by World Bank economists of over 1500 percent (\$384 million).<sup>9</sup> Vietnamese exports of apparel and footwear to Europe and Japan, where Vietnam enjoys MFN status, are quite extensive.<sup>10</sup> A look at the differences between U.S. column 1 and column 2 duty rates on major U.S. apparel import items illustrates the large duty savings from having NTR status.

Table 2 shows imports of the leading U.S. apparel items in 2000, along with their respective column 1 and column 2 duty rates. The difference between the column 1 and column 2 duty rates ranges from about 25 percentage points to over 80 percentage points. Interestingly the 2 items in table 2 with the lowest difference in duty rates—men's or boys' cotton shirts—are 2 of the top 3 apparel items imported from Vietnam (the third is cotton sweaters).

<sup>6</sup> Presidential waivers and determinations of compliance are subject to veto by majority votes in both houses of Congress. For a full discussion of the Jackson-Vanik amendment, see Vladimir N. Pregelj, *The Jackson-Vanik Amendment: a Survey*, Congressional Research Service, order code 98-545 E, updated Oct. 17, 2001.

<sup>7</sup> The United States has been subject to higher than MFN rates on exports to Vietnam. See Michael Barry and Souphala Chomsisengphet, "Vietnam: Its Changing Trade and Investment Regime," *International Economic Review*, USITC Publication 3298, April/May 2000, p. 11.

<sup>8</sup> George W. Bush, "Message to the Congress on Trade with Vietnam," *Weekly Compilation of Presidential Documents*, June 8, 2001, p. 869.

<sup>9</sup> Emiko Fukase and Will Martin, "The Effects of the United States Granting MFN Status to Vietnam," n.d., p. 14, available at Internet site <http://www.worldbank.org.vn/rep19/mfn.pdf>. The next largest export changes in dollar terms that Fukase and Martin found were for the light manufacturing sector, and the chemical, rubber, and plastics sector, both of which contain significant footwear components—footwear with leather parts in the former, and non-leather footwear in the latter. The sportswear firm, Nike, produces athletic footwear in Vietnam.

<sup>10</sup> *Ibid.*, p. 8.

**Table 1**  
**Leading U.S. imports from Vietnam, column 1 and column 2 duty rates, 2000**

HTS number	Description	Customs value	Col. 1 duty rate	Col. 2 duty rate
		<i>1,000 dollars</i>		<i>Percent</i>
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine, frozen .....	181,665	0	0
0901.11.00	Coffee, not roasted, not decaffeinated .....	110,828	0	0
1605.20.10	Shrimps and prawns, prepared or preserved, not containing fish meat, nesi .....	53,884	0	0
0801.32.00	Cashew nuts, fresh or dried, shelled .....	50,306	0	*0.9
6402.99.90	Footwear w/outer soles & uppers of rubber or plastics, nesi, n/cov. ankle, nesi, valued over \$12/pair .....	34,743	20.0	35.0
6404.11.90	Sports & athletic footwear w/outer soles of rubber/plastics & uppers of textile, valued o/\$12/pair .....	31,378	20.0	35.0
0304.20.60	Frozen fillets of fresh-water fish, flat fish, etc., nesi .....	30,152	0	*1.6
6403.99.60	Footwear w/outer soles of rubber/plastics/comp. leather & uppers of leather, n/cov. ankle, n/welt, for men, youths and boys, nesi .....	28,826	8.5	20.0
6403.99.90	Footwear w/outer soles of rubber/plastics/comp. leather & uppers of leather, n/cov. ankle, for women/child./infants, val. over \$2.50/pair .....	22,213	10.0	20.0
2713.11.00	Coke, petroleum, not calcined .....	20,114	0	0
2710.00.05	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing under 25 degrees A.P.I. ....	19,125	*0.2	*0.7
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more .....	17,479	*0.3	*0.6
0904.11.00	Pepper of the genus Piper, neither crushed nor ground .....	17,328	0	0
2710.00.10	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing 25 degrees A.P.I. or more .....	13,916	*0.4	*0.7
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton, nesi .....	13,187	20.1	45.0
9706.00.00	Antiques of an age exceeding one hundred years .....	12,198	0	0
2711.29.00	Petroleum gases and other gaseous hydrocarbons, except natural gas .....	9,342	0	0
0302.32.00	Yellowfin tunas, fresh or chilled, excluding fillets, other meat portions, livers and roes ....	8,954	0	0
2711.12.00	Propane, liquefied .....	8,441	0	0
9403.60.80	Furniture (o/than seats & o/than of 9402) of wooden (o/than bentwood) nesi .....	6,385	0	40.0
	Subtotal .....	690,465		
	Total .....	821,619		

\* Ad valorem equivalent of specific duty.

Source: Compiled from official statistics of the U.S. Department of Commerce.

**Table 2**  
**Leading U.S. imports of apparel items, column 1 and column 2 duty rates, 2000**

HTS number	Description	Customs value	Col. 1	Col. 2
		<i>1,000 dollars</i>	duty rate	duty rate
			<i>Percent</i>	
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi .....	5,384,261	17.8	50.0
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc .....	4,806,133	16.9	90.0
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi .....	4,352,444	16.9	90.0
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesi .....	3,068,413	32.7	90.0
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton .....	2,988,600	17.8	90.0
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton, nesi .....	2,412,837	20.1	45.0
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton .....	1,521,518	20.1	45.0
6206.30.30	Women's or girls' blouses and shirts, not knitted or crocheted, of cotton, nesi .....	1,193,502	15.7	90.0
6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70% by wt of silk or silk waste, whether or not knitted or crocheted .....	1,091,823	17.2	75.0
6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15% wt down etc, cont under 36% wt wool, n/water resist, not k/c .....	982,369	28.4	90.0
6111.20.60	Babies' garments and clothing accessories, knitted or crocheted, of cotton, nesi .....	869,466	8.2	90.0
6204.63.35	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of synthetic fibers, nesi .....	851,040	29.1	90.0
6201.93.30	Men's or boys' anoraks, windbreakers and similar articles, not knitted or crocheted, of manmade fibers, nesi, water resistant .....	819,910	7.2	65.0
6206.40.30	Women's or girls' blouses and shirts, not knitted or crocheted, of manmade fibers, nesi .....	773,729	27.4	90.0
6110.10.20	Sweaters, pullovers, waistcoats (vests) and similar articles, knitted or crocheted, of wool or fine animal hair (excl. wholly of cashmere) .....	740,909	16.3	54.5

Source: Compiled from official statistics of the U.S. Department of Commerce.