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## US–Vietnam: New Strategic Partners Begin Tough Trade Talks

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Vietnamese and Americans joined together in Hanoi last December for a happy celebration, commemorating the tenth anniversary of the entrance into force of the US-Vietnam Bilateral Trade Agreement signed in December, 2001. The gathering of current and former trade negotiators, diplomats, and business leaders exchanged witty anecdotes about who had been the toughest negotiator. However, the main focus for both American and Vietnamese participants was on the positive prospects for future US-Vietnam relations across the spectrum of trade and strategic common interests.

For those of us who served in Vietnam during the war years, this celebration was the latest reminder of the remarkable transformation of a relationship from one of bitter foes to strategic partners. Ties between the United States and Vietnam have steadily improved since they were formally normalized in 1995, but the pace has accelerated during the past three years, motivated in part by shared concern over China's aggressive maritime claims in the South China Sea.

Washington views Vietnam as a rapidly developing mid-sized country of some 90 million people, and Hanoi has been increasing its leadership role in Southeast Asia, a region that has America's renewed attention. In turn, the Vietnamese leadership seeks regional stability, global integration, new foreign investment, and markets for its export industries, goals that require good relations with the United States.

**America's Asia-Pacific "Pivot"** The Hanoi commemoration of the Bilateral Trade Agreement came soon after President Barack Obama's mid-November hosting of the Asia-Pacific Economic Cooperation (APEC) summit in Honolulu, followed a few days later by his attendance at the East Asia Summit in Bali. President Obama and Secretary of State Hillary Clinton used these summit meetings to announce America's "pivot" back to Asia as the United States withdraws from its two long wars in Iraq and Afghanistan. The administration has made clear that while the US overall defense budget is reduced, it will not affect the US forward deployment throughout the Asia-Pacific region.

An important component of the Obama administration's Asia "pivot" policy has been its championing of the Trans-Pacific Partnership (TPP) free trade agreement, which was a major topic of interest at the APEC Summit. Nine Asia-Pacific countries, including the United States and Vietnam, are now engaged in negotiating this agreement. A major objective for the United States has been to counter the trend of recent years in which China has signed trade agreements with its Asian neighbors that have excluded the United States.

**Vietnam Joins Trans-Pacific Partnership Talks** In November 2010, the United States and other negotiating parties welcomed Hanoi's decision to join the TPP negotiations, though both Vietnam's interest and the welcome extended by other countries were

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somewhat surprising. Vietnam is the least developed economy among the prospective TPP members, and also by far the most “mixed” economy—market and non-market—among the nine. State-owned enterprises (SOE), are subsidized by generous loans from state-owned banks, and are an important feature of Vietnam’s economic system, which closely resembles China’s “state capitalism” model. One of Washington’s major goals for the TPP is a trade agreement in which private and state-owned companies compete on a level playing field. This goal reflects the serious American frustration with what it sees as unfair advantages that Chinese SOEs have in world trade.

This state enterprise issue will complicate Vietnam’s ability to negotiate successfully the country’s entrance into the TPP. Because of frustration with Chinese SOEs—and not just on the part of the United States—there will be less tolerance than there might have been five years ago for Vietnam retaining the advantages it gives to its state companies.

**Our Strategic Partnership** The administration’s “pivot” or “rebalancing” policy is fundamentally about giving the world’s most economically dynamic region the attention it deserves. But US refocus on the Asia-Pacific region includes cooperation with China’s nervous neighbors in hedging against how Beijing might use its increased power and influence. With a long history of troubled relations with its huge neighbor, Vietnam is a logical partner. Many activities in the last three years, particularly naval, have signaled US-Vietnamese strategic convergence.

This convergence between the United States and Vietnam, including welcoming Hanoi into the TPP negotiating group, is a significant piece of the “pivot” policy. During the 10th Anniversary Commemoration last December, both American and Vietnamese officials commented that Vietnam’s entrance into the TPP negotiations was a “strategic decision” by both Hanoi and Washington. While these are trade talks, they are made possible by joint strategic alignment and mutual trust.

A common interest in regional peace and security could help to smooth the way toward agreement, but tough negotiations lie ahead. Vietnam’s negotiating partners will insist on a high-quality trade and investment agreement that will require transparency, protection of intellectual property rights, labor rights, and environmental protection as well as restraints on advantages given to SOEs. For Vietnam, requirements to liberalize and modernize its economy come at a time of serious economic problems and heated internal political debate regarding the country’s direction. Inflation in Vietnam has repeatedly surged into double digits in the past few years, twice spiking well above 20 percent. Vietnam’s stock markets in 2011 were the worst performing in Asia, pledges of foreign direct investment declined, and all three major ratings agencies downgraded the country’s sovereign credit rating.

Vietnam’s top leaders recognize that these are serious problems, but have sharp disagreements about how to deal with them. A major issue of debate is how much to reform the system of SOEs. State banks are burdened by bad loans to these enterprises and many are performing poorly. The multi-billion dollar default of Vietnam’s shipbuilding industry group—Vinashin—in 2010 intensified the SOE debate.

Some are asking if Vietnam’s internal debates, along with US concerns about Vietnamese SOEs, will prevent both countries from reaching agreement in the TPP talks. Vietnam’s successful conclusion of the TPP negotiations will require concessions by Hanoi as well as its negotiating partners, including the United States. Success will require that both give priority to the strategic partnership that has been forged in recent years. The United States has identified Vietnam as one of its important new strategic partners in Asia. Vietnam sees America as the key to maintaining strategic balance in Southeast Asia. Many of us who have witnessed the bilateral relationship go from war to partnership within 35 years hope that that this strategic shared vision will give trade negotiators the incentive needed to find common ground.