Testimony of
Ambassador Karan K. Bhatia
Deputy United States Trade Representative
On S. 3495

Before the Committee on Finance
United States Senate
July 12, 2006
Washington, D.C.

As Prepared For Delivery

Chairman Grassley, Senator Baucus, Members of the Committee, it is a privilege to be here today to testify on behalf of the Bush Administration in strong support of S. 3495, which, if enacted, will authorize the President to grant Vietnam permanent normal trade relations, or PNTR, with the United States, and will help clear the way for Vietnam to join the World Trade Organization. This legislation represents another milestone in a process that began over 15 years ago, when the United States restored diplomatic relations with Vietnam.

We believe that WTO accession for Vietnam will benefit the United States economically, will promote reform in Vietnam, and will support broader American interests in Vietnam and in Southeast Asia as a whole. Accordingly, the Administration asks for the Committee's support as we take another step forward in this important bilateral relationship.

I would like to note the importance of the economic dimension of that relationship and describe some of the benefits that the bilateral market access agreement related to Vietnam's WTO Accession, which we signed in May in Ho Chi Minh City, will offer American exporters and investors.

Let me begin by briefly describing the current U.S.-Vietnam trade relationship. In 2000, bilateral trade was less than $1 billion. Since 2001, when our Bilateral Trade Agreement (BTA) with Vietnam went into effect, two-way trade has grown to $7.8 billion, an increase of more than 400 percent. Over that same period, U.S. exports to Vietnam increased 150 percent – to $1.2 billion – making Vietnam among the fastest growing Asian markets for U.S. goods. The United States is now Vietnam's sixth-largest supplier of goods – and the only Western nation in a group that includes the other ASEAN nations, China, Taiwan, Korea, and Japan.

The growth in trade reflects the rapid growth of the Vietnamese economy. Over the past five years, Vietnam's GDP has increased by two-thirds – from $31 billion to $52 billion. This year, Vietnam's GDP is forecast to achieve about eight percent growth, and there is no sign of it slowing down.

The United States – and its industrious companies, workers, farmers, and ranchers – have sought to support and participate in Vietnam's rapid economic acceleration. Whether it is farmers across the Midwest exporting pork and soybeans, or ranchers in the Mountain West raising cattle, or fruit and vegetable growers in the Pacific West; manufacturers of industrial products ranging from aircraft, to construction equipment, hi-tech products, wine and spirits, and even Harley-Davidson motorcycles; or producers of financial, express delivery, and other services, Americans have embraced the economic potential of this country of 82 million people. U.S. companies have also increasingly seen Vietnam as a platform for regional production – and, in that regard, as an attractive alternative to China.

With these trends in mind, let me turn to the bilateral agreement that the Administration has negotiated. I know that our negotiators have consulted on numerous occasions with this Committee on various aspects of the Vietnam bilateral agreement before, during and after the negotiations, and I want to say that we very much appreciate all of the input and feedback received from you and your staff. We remain open to further discussions with you should you have questions on the agreement, the PNTR process or the next steps involved in Vietnam's WTO accession process.

Vietnam's bilateral market access agreement with the United States builds on the progress we have achieved over the past five years and promises even greater access to one of Southeast Asia's most dynamic economies.

On industrial goods, tariffs on more than 90 percent of U.S. exports of manufactured goods will fall to 15 percent or less. On many key U.S. exports, such as computers, telecommunications equipment, and on civil aircraft, engines, and parts, tariffs will be eliminated. Vietnam's tariffs on auto and motorcycle tariffs will fall by 50 percent or more for SUVs, minivans, large motorcycles and other automotive products. Duties will be eliminated on 91 percent of Vietnam's imports of medical equipment and on 96 percent of scientific equipment. Vietnam will bind tariffs on virtually all of its agricultural and construction equipment imports at 5 percent or less. In additional, tariffs on chemicals, cosmetics, and pharmaceuticals will be cut significantly. This means real benefits for U.S. exporters.

Tariffs on agricultural products of key interest to U.S. farmers also will be substantially reduced in Vietnam as a result of our bilateral deal. Duties on almost 80 percent of our farm exports will fall to 15 percent or less, including on cotton, beef and pork offals, boneless beef, whey, grapes, apples, pears, almonds, raisins, cherries, frozen fries, and certain categories of chocolate. Vietnam also will lock in low tariffs on other key U.S. farm exports, such as poultry. Moreover, Vietnam has made a number of important commitments regarding implementation of its agricultural policy, including its pledges to apply science-based sanitary and phytosanitary standards to all agricultural goods; to recognize the U.S. food safety inspection systems for beef, pork, and poultry as equivalent to its own inspection systems; and to implement regulations for biotech and shelf-life in a non trade-disruptive manner.

In the services area, Vietnam has agreed to provide substantial market access across 114 services sectors. Among these are areas in which U.S. firms are globally competitive, such as telecommunications, energy services, express delivery services, engineering services, construction services, wholesale, retail, and franchise services and professional services.

Vietnam also made commitments that will create real opportunities for U.S. financial services companies. As of April 1, 2007, U.S. and other foreign banks will be able to establish

100 percent foreign-invested subsidiaries. As Vietnamese legal entities, these subsidiaries will receive non-discriminatory treatment upon accession. A U.S. bank subsidiary will be able to take unlimited local currency deposits and issue credit cards. Vietnam already provides for bank branching. Upon accession, U.S. and foreign securities firms will be able to open joint ventures with up to 49 percent foreign ownership, with 100 percent ownership allowed after five years. U.S. insurance firms will be able to operate through 100 percent foreign-owned subsidiaries and Vietnam will allow direct branches of foreign firms to offer non-life insurance five years after accession.

Significantly, Vietnam has committed to the elimination or phase out of *all* WTO-prohibited industrial subsidies and agricultural export subsidies. Indeed, as a result of our agreement, Vietnam already repealed its major subsidy program for its textile and garment producers, and upon accession will cease all prohibited subsidies – an issue that our textile manufacturers identified as a major goal in these negotiations. Vietnam also will eliminate import bans on most products and make the remaining import licensing procedures WTO-consistent. It further will implement laws to fully comply with WTO intellectual property rules, know as TRIPS, including providing data protection. We are working closely with the Vietnamese Government to ensure that the law and implementing regulations meet its obligations. This is a win for U.S. companies doing business in Vietnam.

In addition, the Administration achieved two other significant outcomes in our WTO bilateral agreement to protect American companies from unfair competition by Vietnam's remaining state-owned and state-controlled enterprises. First, Vietnam has confirmed that its state-owned and state-controlled enterprises will make purchases and sales in international trade based on commercial considerations. Secondly, Vietnam – which the Department of Commerce has determined to be a non-market economy – agreed that the United States can continue to use special calculation methodologies in antidumping cases until the Department determines that Vietnam has become a market economy or the year 2018, whichever comes first.

Vietnam has worked hard to prepare for WTO membership. In the last few years, Vietnam has enacted over 80 new laws and regulations to bring its trade regime into consistency with international norms. Many of these changes were made to implement Vietnam's commitments in our 2001 bilateral trade agreement, including implementation of important transparency obligations. Moreover, Vietnam has adopted an important notice and comment process to engage stakeholders in the development of its regulations and legislation. This is an important signal. Vietnam's legislators have incorporated much of the public input they received into these new laws. In some cases, Vietnam's National Assembly has completely overhauled draft laws submitted by the government in ways to make them consistent with international norms and/or WTO rules. These are momentous changes for a country with no previous record for transparency in its legislative and regulatory processes and will reduce arbitrary administrative action, and support reform, openness, and good governance in Vietnam.

Still, we are seeking to further strengthen and consolidate Vietnam's commitments on WTO rules and obligations in the multilateral negotiations for Vietnam's WTO accession, which will continue next week in Geneva. Among the important areas where we are still negotiating is intellectual property rights. Vietnam is in the process of finalizing its laws to bring its policies and practices into full WTO TRIPS compliance, including on data protection, copyrights, and enforcement. The United States is working closely with the Vietnamese Government as it drafts these laws and implementing regulations.

More broadly, accession will support our broader linkages with the commercially and strategically critical ASEAN region, whose 570 million people purchased $50 billion worth of U.S. goods last year. Granting PNTR to Vietnam will send a clear signal of our commitment to Asia and the nations of Southeast Asia, and will complement other U.S. trade priorities in Asia, such as the free trade agreements that we are negotiating with Korea, Malaysia, and Thailand, and the numerous other trade and investment dialogues that we are pursuing across the region.

Of course, we cannot realize any of these benefits without the PNTR legislation before the Congress, which will allow the United States to establish WTO relations with Vietnam at the time of its accession. Because WTO rules require that Members grant each other the equivalent of permanent normal trade relations, PNTR legislation must be enacted if we are to obtain the benefits of the bilateral agreement we have negotiated as part of Vietnam's accession or have the right to enforce WTO rules and disciplines with respect to Vietnam.

Before I close, let me touch upon the human rights and religious freedom issues that have, rightly, been a significant focus for the Administration and for many in Congress. My State Department colleague, Deputy Assistant Secretary Eric John, will address these issues in greater detail, but I want to emphasize several things.

As Americans, we cherish freedom of conscience and what the President has called "the matchless value" of every human being, and we take seriously the notion that our trade relations with any nation might be tarnished by disregard for the liberties of that nation's people.

We believe that this bilateral agreement – though it is principally commercial in nature – will help to encourage advances in Vietnam's human rights record. Clearly, the prospect of WTO accession and Vietnam's implementation of its BTA commitments have created momentum for improvement in these areas. In the new bilateral agreement, we have won a commitment to allow imported motion pictures and broadcast films and have achieved significant tariff reductions on them, and we have secured the right for U.S. firms to establish production facilities and movie theaters in Vietnam. For published materials, including religious materials, Vietnam has committed to make purchases and sales on commercial terms and has pledged not to interfere in commercial decisions made by the private sector. In addition, the many changes in Vietnam's trade and commerce laws and regulations that I described a moment ago will enhance the rule of law and promote transparency, thereby buttressing broader principles of openness, due process and rule of law.

These changes alone will not cure the problems associated with human rights and religious liberty in Vietnam. But they will allow new ideas and information to flow into Vietnam that will encourage further freedom and openness. These changes will also allow us to deliver a stronger message in non-economic areas of the relationship where we have concerns, thus encouraging further improvements in human rights and religious freedom.

The Administration strongly urges the Senate to move quickly to a vote on Permanent Normal Trade Relations with Vietnam. A PNTR vote this summer will not only allow us to lock in the valuable market access commitments Vietnam has made – to the benefit of American and other foreign exporters – but also increase our leverage in the ongoing multilateral talks, where we still have important issues at stake. We believe that the advantages of the bilateral market access agreement are clear, and we urge your favorable consideration of this legislation, so that American exporters can capitalize on the opportunities emerging in Vietnam, so that we can help to bring an important trading partner into the rules-based international trading system, and so that we can complete the process of normalization of U.S.-Vietnam relations that has been pursued by U.S. administrations on a bipartisan basis for the past twenty years.

Thank you for this opportunity to testify. I look forward to your questions.