Vietnam-the US relationship and effects on economic cooperation

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Abstracts
The paper explores the dynamic relationship between the United States and Vietnam since the establishment of bilateral relations in 1995 until its milestone in 2023: comprehensive strategic partnership. Grounded in mutual respect and cooperation, their partnership has flourished across economic, political, security, and social spheres. Economically, the two countries have become each other's top trading partners, with bilateral trade turnover reaching $124 billion USD in 2023, a significant increase from $450 million USD in 1995. The United States has emerged as Vietnam's second-largest trading partner, underscoring the depth of economic integration. Additionally, the United States ranks 11th in terms of foreign direct investment (FDI) in Vietnam (2022), reflecting growing economic ties. Beyond economics, cooperation extends to political and diplomatic relations, defense and security, science and technology, education and training, environment and health, and humanitarian assistance/disaster relief. Vietnam, as a developing country in the globalization process, seeks diversified and substantive relationships for efficient and harmonized development.

Keywords: Vietnam, the US, relationship, economic corporation

1. Introduction
The Vietnam-US relationship has undergone a complex and transformative journey, marked by historical, political, and diplomatic events. Originating from the colonial era when Vietnam was part of French Indochina, the nation later became a focal point during World War II and the subsequent First Indochina War. The Geneva Accords in 1954 temporarily divided Vietnam, paving the way for direct US involvement in the Vietnam War. The conflict, which lasted from 1955 to 1975, resulted in significant geopolitical shifts and widespread anti-war movements in the United States. The war concluded with the fall of Saigon in 1975, leading to the normalization of diplomatic relations between the US and Vietnam in 1995. Since then, the relationship has evolved into a comprehensive partnership, emphasizing economic cooperation, strategic collaboration, and regional engagement. The two nations have built a multifaceted relationship, transcending the challenges of the past to foster bilateral ties in trade, security, and cultural exchanges. The contemporary Vietnam-US relationship reflects a shared commitment to regional stability, economic prosperity, and mutual cooperation.

Economic cooperation between Vietnam and the United States has experienced significant growth and transformation over the years. Following the normalization of diplomatic relations in 1995, the two nations have actively engaged in fostering economic ties. One key driver of this cooperation has been bilateral trade, with both countries entering into trade agreements to facilitate commerce. Vietnam has emerged as a key trading partner for the US in the Asia-Pacific region, witnessing a substantial increase in exports and imports. Foreign direct investment (FDI) has played a crucial role, with American companies investing in various sectors of Vietnam's economy. Conversely, Vietnamese businesses have expanded their presence in the US market. The economic collaboration extends beyond trade and investment to encompass technology transfer, innovation, and joint research initiatives. Both countries have sought to address challenges and promote fair trade practices, contributing to the stability and sustainability of their economic partnership. Overall, the economic cooperation between Vietnam and the United States reflects a mutually beneficial relationship, fostering growth, job creation, and innovation for the prosperity of both nations. The research will focus on the relationship between Vietnam and the United States since the two countries
2. Main content: Economic Cooperation

2.1 Historical background

Before the normalization of relations in 1995, the two countries faced numerous challenges. The legacy of the Vietnam War and the US reluctance to engage in foreign military operations posted significant obstacles. Anti-war sentiment in the US painted Vietnam as a cautionary tale, leading to avoidance of engagement, while pro-war factions downplayed Vietnam's victory, fostering negative attitudes. The sensitivity to POW/MIA issues further complicated relations, with concerns hindering progress, despite Vietnam's efforts in locating fallen soldiers. The United States maintained a hostile policy towards Vietnam for several reasons, including historical military conflicts, geopolitical concerns, and perceived threats to regional security. The embargo imposed on Vietnam exacerbated the situation, hindering both countries' interests. Overcoming emotional scars from the war remained a challenge, but essential for mutual benefit and progress.

Looking forward, the US aimed to establish a new world order, adapting to political multipolarization. Vietnam's strategic position and economic potential made it an attractive investment destination, urging normalization of relations. Economic development and improved ties were seen as crucial for both countries' interests in the region.

Vietnam emerged from the war devastated and reliant on support, facing economic crises with the collapse of socialist regimes. Normalizing relations with the US became imperative to break economic and political isolation and foster development. Despite post-war challenges, Vietnam embarked on comprehensive reforms, aiming to narrow the development gap and improve international cooperation. Vietnam's foreign policy shifted towards friendship and cooperation with all nations, including the US, signaling a departure from past hostilities. Leveraging US expertise and capital, Vietnam sought economic growth and development. The country underwent reforms, expanding diplomatic ties and transitioning towards a market-oriented economy to bridge development disparities.

Since 1986, Vietnam-US relations have witnessed significant advancements towards dialogue and development. The Political Report of the Sixth National Party Congress of the Communist Party explicitly states, "Our government continues to engage in discussions with the United States to address humanitarian issues stemming from the war and is committed to enhancing Vietnam-US relations for the mutual benefit, peace, and stability of Southeast Asia." Normalization is grounded in principles of respecting independence, sovereignty, unity, and territorial integrity, abstaining from interference in internal affairs, promoting equality and mutual benefit, and resolving disputes and existing issues through peaceful negotiations. Vietnam has persistently advocated for the complete removal of the US embargo against Vietnam and has actively participated in negotiations to resolve bilateral issues. President Bill Clinton's announcement of the lifting of the Vietnam embargo on February 3, 1994, and the establishment of communication channels and exchanges between the two countries signify positive indicators for future economic relations. Over time, significant progress has been made in the economic aspect of the relationship between the two nations. This progress includes the conclusion of the Bilateral Trade Agreement in 2000, the adoption of Permanent Normal Trade Relations for Vietnam in 2006 by the United States, the signing of the Framework Agreement on Trade and Investment in 2007, and the establishment of the Vietnam-US Comprehensive Partnership in 2013. These milestones highlight the advancements achieved across various sectors within the bilateral relationship.

2.2. Trade Relations

Bilateral trade agreements

On July 13, 2000, former Minister of Trade Vu Khoan and US Trade Representative Barshefsky signed the Bilateral Trade Agreement (BTA) between Vietnam and the United States. Without achieving the BTA, Vietnam would have faced significant hurdles in its path towards joining the World Trade Organization (WTO), an institution predominantly shaped and guided by US policies and standards. At that juncture, the US presented a draft of the bilateral trade agreement, outlining the "rules of the game" clearly: The provisions would be negotiated based on the principles of the World Trade Organization (WTO). Therefore,
the successful negotiation of this agreement held paramount importance for Vietnam, akin to a trial run before entering the global arena of the WTO. Under the deal, the U.S. will extend temporary most-favored nation (MFN, also known as normal trade relations [NTR] status) status to Vietnam, a step that will significantly reduce U.S. tariffs on most imports from Vietnam.

"The BTA serves as a robust foundation empowering Vietnam with increased confidence in its international integration endeavors. Vietnam underwent extensive legal reforms, amending numerous laws and fortifying its legal framework substantially. Post-BTA, Vietnam boldly pursued deeper integration, aligning international commitments with domestic reforms, particularly in economic institutional restructuring," remarked Dr. Vo Tri Thanh, former Deputy Director of CIEM (Lan Huong, 2021).

The BTA catalyzed a systematic process for Vietnam to incrementally develop a transparent and non-discriminatory legal framework, vital for its integration into the global economy. Following arduous negotiations and subsequent signing, the approval process for the agreement ensued for over a year. The US House of Representatives ratified the agreement on September 6, 2001, followed by the US Senate on October 3, 2001. US President Bush then officially signed it into law on December 16, 2001. Concurrently, on November 28, 2001, the Vietnamese National Assembly passed a resolution to endorse the agreement. On December 10, 2001, trade ministers of both countries exchanged letters, formally confirming the approval of the agreement.

Comprising 72 articles across 7 chapters and 9 appendices elucidating commitments to facilitate trade in goods, services, investment, and intellectual property rights between citizens and legal entities of both nations, this agreement marks a significant stride in the normalization and comprehensive development of trade relations between Vietnam and the United States.

**Figure 1: Bilateral trade between Vietnam and USA: 1992 - 2023 (US million dollars)**

![Trade volume between Vietnam and the US: 1992 - 2023](Source: Bureau of the Census)

Following the establishment of economic ties between Vietnam and the United States, the United States lifted its "economic embargo" policy towards Vietnam. In the initial years of this trade relationship, significant strides were made. However, it wasn't until 2001, with the enactment of the Bilateral Trade Agreement (BTA) between Vietnam and the United States, that trade between the two countries began to "increase in quantity, diversity, and sophistication, encompassing high-tech products." This marked a pivotal
moment that propelled the development of the trade relationship, contributing to Vietnam's economic growth and notably enhancing Vietnam's international stature. Since then, the value of surplus in bilateral trade and investment has risen rapidly and consistently, yielding substantial outcomes. Consequently, negotiations for "Trade and Investment Agreements in Vietnam" have become more frequent. Since normalization, bilateral trade between Vietnam and the United States has experienced remarkable growth. Beginning at a modest $451 million in 1995 - the starting year of the normalization, it has surged exponentially, reaching an impressive $138 billion in 2022, according to data from the US Census Bureau. In 2023, trade volume remained robust at more than $121 billion. Notably, 2021 marked a significant milestone as Vietnam achieved a record high trade volume of over $100 billion for the first time. Moreover, the US continues to stand as one of Vietnam's leading trading partners, trailing behind China in recent years (Thai Binh, 2024).

Figure 2: Trade balance between the US and Vietnam over the years: 1992 - 2023

Examining the trade balance illustrated in the chart between Vietnam and the United States, a notable trend emerges. Prior to the milestone of normalized relations in 1995, Vietnam consistently maintained a trade surplus with the United States. However, post-1995, there was a noticeable shift as Vietnam transitioned into a net exporter to the US market. This shift can be attributed to various factors, including Vietnam's economic development, improved production capabilities, and access to the US market facilitated by trade agreements and policies. It became increasingly pronounced from 1997 onwards, with the trade gap between Vietnam's exports and imports from the US steadily widening. This trend continued into the 21st century, with Vietnam's exports to the US experiencing robust growth across various sectors such as textiles, electronics, and agriculture. Meanwhile, its imports from the US also increased but at a slower pace compared to exports, resulting in a widening trade surplus. Notably, in 2022, this disparity reached its peak, with Vietnam exporting goods valued at approximately $127.5 billion to the US, while its imports from the US amounted to a mere $11 million. As of 2023, Vietnam ranks 7th among top US trading partners by country, accounting for 3.5% of the goods imported in the US (Bureau Census).
2.3. Investment

Foreign direct investment (FDI)

Vietnam boasts several appealing factors for foreign investors, including efficient management structures, cultural familiarity for companies accustomed to conducting business in Asia, competitive labor costs, and favorable tax policies, alongside generous incentives and its strategic location within the Asian supply chain. These advantages, complemented by the nation's developmental policies, have bolstered Vietnam's competitiveness in attracting foreign direct investment (FDI). Since the enactment of the Law on Foreign Investment in Vietnam in 1987, the country has attracted nearly $438.7 billion in FDI, significantly contributing to Vietnam's socioeconomic development and enhancing its international stature and reputation. Despite a slight economic growth slowdown in 2023, with GDP reaching 5.05% compared to 8% in 2022 due to global economic challenges, Vietnam continues to be an alluring destination for FDI.

By December 20, 2023, Vietnam had attracted foreign direct investment (FDI) amounting to $36.61 billion, with disbursements reaching a record high of $23.18 billion during the period from 2018 to 2023. Observing the substantial increase in FDI inflows into Vietnam in 2023, Nguyen Van Toan, Vice Chairman of the Foreign Investment Enterprises Association (Vafie), attributed this trend to the upgrading of Vietnam-US diplomatic relations, which has had a ripple effect on FDI inflows from the US and Europe into Vietnam.

Following the lifting of trade embargoes with Vietnam, US investment in the country surged. As labor expenses escalated and the demand for diversification grew, numerous American enterprises progressively shifted their manufacturing operations to Southeast Asia, with Vietnam emerging as a prime destination. Notable corporations such as Apple, Intel, Qualcomm, Universal Alloy Corporation (UAC), Nike, and KeyTronicEMS have relocated their production lines to Vietnam to optimize costs. This relocation trend intensified during the US-China trade tensions under President Donald Trump, prompting a significant influx of American firms into Vietnam to circumvent US sanctions. By the end of 2022, US businesses had invested in 1,216 projects in Vietnam, with a total accumulated investment of $11.4 billion (MPI, 2022). This figure placed the US in the 11th position among countries and territories with the most investment in Vietnam, lagging behind South Korea ($80.9 billion), Singapore ($70.8 billion), and Japan ($68.8 billion). In March 2023, a delegation of more than 50 American corporations, including Abbott, AES, Boeing, Coca-Cola, Citibank, Meta, Netflix, and SpaceX with operations ranging from technology and semiconductors to finance, health, pharmaceuticals and energy visited Vietnam to explore fresh business opportunities in the 100 million strong consumer market.
Remission from USA to VN
The influx of remittances to Vietnam has been substantial, totaling over 190 billion USD from 1993 to 2022, a figure roughly commensurate with the amount of foreign direct investment (FDI) disbursed during the same period. In an interview with VnExpress, Mr. Dao Xuan Tuan, Head of the Foreign Exchange Management Department at the State Bank of Vietnam, estimated that the total remittance inflow to the country in 2023 would reach approximately 16 billion USD, marking a 32% increase compared to the previous year. Deputy Minister of Foreign Affairs Le Thi Thu Hang stated that out of the six million Vietnamese living abroad, approximately 10% possess higher education qualifications, with 80% residing in developed countries. This information was shared by Deputy Minister of Foreign Affairs Le Thi Thu Hang during a press conference on "Harnessing the Resources of the Overseas Vietnamese Community and Connecting with Localities and Enterprises," held in Hanoi on the afternoon of December 14, 2023.
In the total amount of remittances transferred to Vietnam every year, the US is the country with the largest number of Vietnamese immigrants and residents, followed by the UK, Australia, and Canada. As for labor export, remittances mainly come from main labor export markets such as Japan, Korea Republic, and Taiwan (China).

Estimates from the U.S. Census Bureau American Community Survey (ACS) indicate that there are over 1.3 million Vietnamese immigrants currently residing in the United States. However, unofficial sources suggest that this figure may exceed 2 million, including those born in the U.S. With such a significant proportion of Vietnamese nationals living abroad, according to VnExpress (2022) estimates, 50% of remittances to Vietnam originate from the United States, with 53% flowing into Ho Chi Minh City.

Reflecting on history, prior to 1975, the Vietnamese presence in the United States was minimal, with only a few thousand to 30 thousand individuals between 1950 and 1974, comprising mainly students, intellectuals, and officials from the former Saigon government and their families. Following Vietnam's liberation and reunification in 1975, three waves of Vietnamese immigration to the United States occurred: 1975 - the end of Vietnam war; the late 1970s; and throughout 1980s and 1990s. In the 1980s, however, remittances were prohibited by the United States, although parcels containing items like medicine were permitted to aid immigrant families. Many Vietnamese immigrants resorted to sending goods to their families, which were then sold to generate income, serving as the foundation for numerous small businesses. As Vietnam underwent economic development and embraced private enterprise through the enactment of the Enterprise Law, families capitalized on the opportunity to start and expand businesses with the "seed capital" provided by their overseas relatives. Despite facing embargoes, remittances sent through various channels were crucial during this period. The initial capital derived from the sale of goods sent by overseas relatives played a pivotal role, laying the groundwork for the establishment of many of Vietnam's prominent private enterprises. This underscores the significance of remittances, not only in terms of monetary value but also as a source of support during challenging periods in the nation's history.

2.4. Impacts, Opportunities, and Challenges

Impacts
The collaborative endeavors in the economic ties between Vietnam and the US, starting from the 1995 normalization declaration and further enhanced by the upgrade to the highest level of comprehensive strategic partnership in 2023, have had far-reaching effects, not limited to the economic domain but also extending to reshape Vietnam's political and social fabric.

Politically, the strides made in economic ties between the two nations have laid the groundwork for bolstering political bonds, aiming towards a future marked by peace, integration, and global engagement. Economic collaboration has surged across all fronts, fostering comprehensive development in both Vietnam and the US. Vietnam has leveraged this partnership to advance in education, healthcare, science, technology, and more, laying a sturdy groundwork for national progress. Government-level exchanges have surged, nurturing a closer and more mutually beneficial relationship.

Economically, the US has emerged as Vietnam's paramount foreign business ally, tapping into and amplifying Vietnam's economic potential. It stands as Vietnam's principal export market, with burgeoning foreign investments propelling it to the forefront of Vietnam's investor roster. Bilateral economic exchanges facilitate Vietnam's access to modern machinery and equipment, optimizing its existing resources for heightened efficiency and productivity, thereby positioning Vietnamese goods closer to global markets, notably discerning consumers in destinations like the US.

Socially, economic collaborations with the US have led to improvements in the lives of working people, augmenting income streams across sectors such as aquaculture, agriculture, and mining, thus mitigating unemployment concerns in Vietnam. Meanwhile, infrastructural enhancements are underway, attracting investments and enhancing Vietnam's visual appeal.

Opportunities
The trajectory of Vietnam-US trade relations is expected to persist into the future, particularly following President Joe Biden's visit to Vietnam in 2023, which elevated bilateral ties to the highest level of comprehensive strategic partnership. This new context presents both opportunities and challenges for Vietnam in cultivating trade relations with the United States.
An essential aspect to highlight in the bilateral economic and trade relations between Vietnam and the United States is the complementary nature of their economies. The United States has a significant demand for importing distinctive agricultural products or goods in which Vietnam holds competitive advantages due to favorable natural economic conditions, as well as labor advantages across various sectors like textiles, footwear, and electronic machinery. Conversely, the United States is regarded as one of the crucial import markets for raw materials that serve Vietnam's production needs. It provides source products such as cotton, animal feed, corn, soybeans, chemicals, machinery, and technology, facilitating Vietnam's ability to meet its high export growth rates and rapidly expand its economy.

Additionally, Vietnamese enterprises stand poised to diversify their supply chains, enhance product quality, and improve access to the US market. Against the backdrop of strained trade relations between the United States and China, US businesses are increasingly turning to Vietnam as an alternative supply source to compensate for shortfalls in the Chinese market. This presents growth opportunities for Vietnam.

**Challenges**

While the current bilateral relations between Vietnam and the United States are at an all-time high, Vietnam encounters several challenges in its economic development. Firstly, the heightened enforcement of trade defense measures by the United States, coupled with elevated standards for environmental sustainability, labor practices, and product quality, poses significant hurdles for Vietnamese businesses seeking to enter this market. With 53 trade remedy cases against Vietnamese goods (MIT, 2023), the United States ranks among the strictest countries in this regard. Many Vietnamese exports to the United States, notably seafood, textiles, footwear, furniture, and steel, face a substantial risk of being subjected to anti-dumping duties.

Secondly, despite the United States being a massive import market with a scale of $3.277 trillion USD (as of 2022), it is also fiercely competitive. This demands continuous efforts from businesses in research, market development, investment in enhancing production capacity, and improving product quality to meet increasingly stringent technical standards and sustainability requirements. The presence of leading global manufacturers and suppliers in the US market necessitates Vietnamese enterprises to consistently compete on quality, pricing, and service. To remain competitive, Vietnamese businesses must not only elevate product quality and reduce production costs but also ensure efficient customer management and service.

Lastly, Vietnamese exports to markets beyond the United States face even stiffer competition, particularly from Southeast Asian and Asian countries. This is exacerbated by Chinese goods redirected to neighboring Asian markets due to their inability to penetrate the US market. Additionally, Vietnamese products, which already contend with goods from Thailand and China, face intensified competition.

3. **Conclusion**

In conclusion, the Vietnam-US relationship has evolved significantly from its tumultuous historical origins to a comprehensive partnership focused on economic cooperation, strategic collaboration, and regional engagement. Over the past few decades, both nations have worked diligently to deepen their ties, with a particular emphasis on economic cooperation, strategic collaboration, and regional engagement. Bilateral trade has been a key driver of this partnership, experiencing exponential growth since the normalization of diplomatic relations in 1995. From humble beginnings in the mid-1990s, bilateral trade has surged to over $100 billion in 2021, reflecting the increasing interdependence and economic integration between Vietnam and the United States. Vietnam has emerged as a pivotal trading partner for the United States, with its exports encompassing a wide range of goods, including clothing, footwear, furniture, and electrical machinery.

Despite the significant strides made in economic cooperation, both nations face a myriad of challenges and opportunities in further enhancing their partnership. Challenges such as trade disputes, regulatory barriers, and geopolitical tensions must be addressed through dialogue and cooperation to ensure the continued growth and stability of bilateral trade relations. At the same time, opportunities abound for both countries to deepen their economic engagement, particularly in emerging sectors such as technology, renewable energy, and infrastructure development.

Looking ahead, the future of the Vietnam-US economic relationship will not only shape the bilateral ties between the two nations but also have broader implications for regional economic dynamics in the Asia-Pacific region. By seizing opportunities for collaboration and addressing challenges through constructive
dialogue, Vietnam and the United States can further strengthen their economic partnership and contribute to peace, stability, and prosperity in the region

4. Methodology
- Literature Review: A thorough review of existing literature forms the foundation of this study. Academic articles, books, government reports, and other relevant sources were extensively reviewed to gain insights into the historical background and key issues shaping the Vietnam-US relationship.
- Data Analysis: Statistical data on bilateral trade, foreign direct investment (FDI), remittances, and other economic indicators were collected from reputable government agencies, international organizations, and research institutions. These data were analyzed to identify trends and patterns in the economic cooperation between Vietnam and the United States.
- Policy Analysis: The effectiveness of government policies, trade agreements, and diplomatic initiatives in shaping economic cooperation between Vietnam and the United States was assessed through policy analysis.
- Qualitative Research: Qualitative research methods, such as content analysis of documents, speeches, and media coverage, were used to identify key themes, narratives, and perspectives related to the Vietnam-US economic relationship.
- Comparative Analysis: Comparative analysis was conducted to compare the Vietnam-US economic relationship with other bilateral or regional partnerships. This helped contextualize the findings and identify unique characteristics or challenges.

5. References


