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Vietnam to open its market to foreign banks under trade deal with the US

By Edward Alden in Washington and Amy Kazmin in Bangkok

All foreign banks will for the first time be allowed to open 100 per cent owned subsidiaries and branches in Vietnam under an agreement reached at the weekend between US and Vietnamese negotiators.

The last bilateral accord Vietnam needed to sign before joining the World Trade Organisation will limit individual foreign banks to holding a 30 per cent stake in any Vietnamese-controlled bank, up from the current 10 per cent. It also provides for a significant opening up of Vietnam's insurance and securities markets, and smaller concessions in telecommunications. The agreement marks a victory for Vietnam's communist rulers, who see WTO membership as essential for meeting their target of 8 per cent annual growth for the next five years. Economists see WTO membership as a major boon for the Vietnamese economy - which grew 8.4 per cent last year - and as helping to attract greater investment by export-oriented manufacturers.

In exchange the deal offers a boost to Vietnam's fast-growing garment industry, because the US has agreed to lift all quotas on imports, becoming the last country in the world to do so.

Karan Bhatia, the deputy US trade representative who led the US talks, told the Financial Times the agreement would deepen US economic ties with south-east Asia and help to promote both political and economic reform in Vietnam.

The negotiations with the US, which fell just short of success twice last year, were the last significant hurdle to Vietnam's WTO membership, though the US Congress still needs to bless the pact.

The agreement is likely to win strong support from US banks, insurance and securities firms whose demands for market access had faced significant opposition from Vietnam's heavily state-controlled services sector. Foreign manufacturers and farmers will also benefit from reduced tariffs in Vietnam.

Foreign companies will be able to engage immediately in the wholesale and retail sectors throughout Vietnam, a gain for big US retailers such as Wal-Mart. But US textile and clothing companies promised a fight in Washington, complaining that the deal would open the US market to a flood of subsidised imports from Vietnam.

Demands from US industry that Washington be allowed to reimpose quotas on a significant percentage of clothing imports were resisted by Hanoi. Instead the deal calls only for Vietnam to end all subsidies to its garment industry immediately, with a one-year provision for emergency curbs if subsidies are not halted.

Like China, however, Vietnam will remain a "non-market economy" until 2018, which makes it easier for US companies to bring anti-dumping cases that allow for higher tariffs on imports. Vietnam currently faces such penalties on its exports of shoes, bicycles, prawns and catfish.

Anticipation of Vietnam's accession to the WTO has helped boost investors' appetites for the country's massive $750m maiden sovereign bond issued last October, and has also helped lure foreign investors, including companies such as Intel, which plans to build a chip plant in Ho Chi Minh City. ■