

Wall Street Journal
May 17, 2006

Next Stop, WTO

It's been more than 25 years since the Vietnam War ended, but you'd hardly know it from Vietnamese-U.S. trade relations. America was the last country to commit to a bilateral trade deal with Vietnam -- a key impediment to the Communist country's bid to join the World Trade Organization. Until this week, that is. With apologies to Bob Dylan, come senators, congressmen, please heed the call: Seal this deal.

On Sunday U.S. Trade Representative Rob Portman announced an agreement "in principle" on "bilateral market access." Though details are still thin, the accord could pave the way for Vietnam's WTO accession, which would commit the U.S. to dropping its quotas on Vietnamese textile imports. Hanoi, on its part, agreed to reduce a range of trade barriers on goods and services. Vietnam has also committed to open up lucrative sectors to foreign investment, such as telecom, energy and financial services.

The timing is apt. The deal could be signed early next month, when U.S. trade officials head to Hanoi for Asia Pacific Economic Cooperation (APEC) meetings; President Bush will go in November for the APEC summit. An accord would signal a major step in normalization between two former adversaries.

This is also another example of the public sector catching up with the private sector. Sure, estimated foreign direct investment to Vietnam in 2005 totaled a measly \$3.3 billion. That's still a 15.3% rise from 2004. And buzz is building; even Bill Gates made a trip to Hanoi earlier this month.

Hanoi's Party elite understand that the country needs to join the international trading community. Low-cost competition from Asian neighbors, particularly China and India, is fierce. Corruption, thanks to the one-party state, is rife. Even so, Hanoi's slowly-slowly market liberalization is starting to bear fruit. As the nearby chart shows, GDP growth has been on a steady, upward track. Last year, it registered 8.5%, according to the International Monetary Fund.

Even so, Washington sure hammered out a hard deal. Hanoi agreed to give up export subsidies upon entry to the WTO, and even agreed to an enforcement mechanism saying that if Vietnam did not comply with its commitments within the first 12 months of accession, the U.S. could reimpose textile quotas. "The reality is that we held out for a very good deal," Karan Bhatia, a key U.S. negotiator in the talks, explained to us on the phone. That didn't stop the rambunctious U.S. textile lobby, the National Council of Textile Organizations, from slamming the agreement as a "victory for Vietnam at the expense of U.S. textile workers."

It may seem strange that Vietnam would agree to such tough terms. But as Virginia Foote, president of the U.S.-Vietnam Trade Council explains, Vietnam's textile industry would rather have no subsidies and no quotas than the current arrangement. Under the quota regime, most of Vietnam's apparel exports have to be accompanied by quota certificates and visas issued by the Vietnamese government, a process that is often subject to additional payments and opportunities for graft. Eliminating quotas does away, once and for all, with a huge nuisance.

Joining the WTO would be a big boon for the Vietnamese economy. By implementing international standards for trade and investment, and allowing better market access for foreign goods and services, Vietnam would develop a more transparent and predictable business environment and attract more foreign direct investment. The times, they really are a-changin'. ■