

ECONOMIC DIPLOMACY
CONCEPT AND PRACTICE IN VIET NAM – U.S. RELATIONS

Master of Arts Capstone Project

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INTRODUCTION

Conquering colonies to expand consumption market by European empires. The establishment of the Silk Road to link the trade and then political ties of China with India, the Persia, Europe and Africa since the Han Dynasty (206 BC – 220 AD). The American Open Door Policy to request equal treatment with European competitors in China. The Japanese participation into the World War II from the thirst of natural resource in the Pacific required for its survival. All of those examples demonstrate the widespread practice of Economic Diplomacy (ED) over the history and all over the world.

Despite its practical popularity, ED has just been recently studied in academic setting. An attempt to understand what is ED leads to two questions. First, what is meant by “economic” in ED? Is it about economic goals (such as enhancing economic prosperity), economic tools (using deprivation of access to products and funds as political leverage) or economic motives (promoting one’s own industry). Second, what is meant by “diplomacy”? Does it mean only negotiation or does it also include the implementation and evaluation process? Answers to these questions are found the literature in the fields of international relations (IR), economics, international political economics (IPE) and diplomatic studies¹. Nevertheless, these fields only answer some parts of the above two questions.

¹ *ED through IR lens* is primarily concerned with high politics and issues related to national security, where national interests are primarily defined in terms of (inter)national stability. When considered in the broader field of economic diplomacy, this strand of research is characterized by an interest in power elements rather than policy and process.

The economic approach to economic diplomacy is grounded in an understanding of national economic interests. It is concerned with all of the ways by which governments deliberately and directly intervene in the market, whether the trade, investment or financial fields. ED is hence considered as a tool to enhance economic prosperity. Most studies in this field employ the mixture of the terms economic diplomacy with commercial diplomacy, trade diplomacy and investment diplomacy while economic statecraft is hardly employed.

The work of IPE scholars on economic diplomacy involves a mix of foreign policy objectives and commercial tools, and commercial objectives and political tools in a certain environment where economic diplomacy is shaped or practiced. The literature in this field focuses on trade liberalization and domestic forces, and on state-firm diplomacy and firm-firm diplomacy and commercial diplomacy.

The paper discovers ED from a broader perspective to cover all aspects of the above two questions, according to which ED is considered as a tool to serve two functions: linking economics and politics in the relations between and among states and connecting domestic and foreign policies. This approach is grounded on the analysis of economics-politics relation in Marxism-Leninism's political economy and Putnam's two-level game. Despite its broad scope with this approach, the substance of ED is narrowed down in the relation with a particular partner. Illustrating this argument is the analysis of ED in the history of the U.S and Viet Nam relationship since 1945. This analysis is then served as the background for finding implications of how ED could contribute to solve the current issues in the two countries' relation from the perspective of Viet Nam.

The paper is structured into three chapters. Chapter I discusses the theoretical analysis of ED, exceptionally in bilateral context. Chapter II looks into how ED is practiced in American foreign history as a whole and in relation with Viet Nam in particular. Chapter III depicts the application of ED from Viet Nam's viewpoint and proposes some recommendations of how ED can contribute in solving the current bilateral concerns with the U.S.

CHAPTER I – UNDERSTANDING ECONOMIC DIPLOMACY

1. The globalized world – An Environment for Economic Diplomacy

The globalized world has evolved every aspect of public policies, including foreign policy and diplomacy. Conventional diplomacy, involving primarily maintaining state-to-state, is offered an opportunity to develop into modern diplomacy, dealing with new threats (cyber security, environment, global health risk) and breeding new trends, in which economic diplomacy is among the most prominent.

The end of Cold War has redefined the priorities of most nations, shifting from security concern to economic achievement. This shift requires every government to focus their resources on building up the nation's wealth, instead of equipping the country with all types of weapons. This shift also changes the balance in the foreign policy goals triangle (security – politics – economics) to lean towards economic objectives.

Moreover, the post-Cold War mentality also changes the definition of power where economic growth plays a much more decisive indicator. The emergence of BRICS countries (Brazil, Russia, India, China and South Africa), especially China, for instance, has transferred the balance of power from the North closer to the South. As a result, these countries require bigger role in the global political economy. Failing to request for more voting power in the World Bank, International Monetary Fund and Asian Development Bank, China has pushed through the establishment of their competitors, BRICS Bank and Asian Infrastructure Investment Bank. Consequently, new economic relating assignments are added to traditional diplomacy in planning, implementing and evaluating foreign policies.

Together with more emphasis in economic goals, the modern world is characterized by globalization, which has gradually erased national borders, increasing interdependence and

encouraging transnational business operations. The inter-reliance among nations implies that the health of one country's economy would affect the livelihood of others; and that a country couldn't develop without economic interaction with others. The borderless business operations put pressure on the governments to enhance international public goods, including international security, trust building and the creation of international rules to regulate cross-border business as well as to minimize transaction cost by avoiding double taxation or multiple quality checking.

Furthermore, with current trend of peace building and cooperation, the threat of military clash on the global scale, such as the previous two world wars and the Cold War, has been fortunately pushed into history. Substitutes of such global threat include the risk of oil shocks, financial crisis and economic downturn (Okano-Heijmans 2013). Such trend necessitates the buy-in of economic diplomacy to study global economic cycles, discuss on the signals and coordinate in handling the crisis.

Finally, at national level, all the above global changes have stimulate the increasing dynamism in public management, moving from horizontal to vertical dimension, where economic diplomacy is needed in the coordination. The clear-cut functions among different government agencies have been replaced by well-coordinated assignments involving different ministries. For example, trade policies are not solely under the Ministry of Trade anymore but are integrated in the missions of the Ministry of Foreign Affairs, Ministry of Agriculture and Ministry of Finance. Depending on the nature of the trade, different Ministry may be the key actors in different stages of policy making process. The foreign ministry may lead the negotiation with the World Trade Organization but the trade ministry would be agency to interpret and implement the commitments.

2. Hypothesis for economic diplomacy

In this paper, Economic Diplomacy is considered as a tool to bridge economics and politics in the context of international relations at state level and also as a link to (re)align and harmonize the domestic and foreign affairs. This approach is theoretically grounded on the Marxism-Leninism's hypothesis of economics and politics relationship and Putnam's analysis of the two-level game.

2.1. Marxism-Leninism's political economy on the relation between economics and politics

According to Marxism, the interconnectedness between economics and politics is reflected in two directions. First, economics decides politics. Second, politics has its independence and reversely challenges economics.

Regarding the influence of economics on politics, economics is the decisive factor for a political movement. Individuals' economic welfare motivates people to fight and stand against the government. The world history of socio-economic development shows that riots and revolutions are deeply rooted from the negative change in people's livelihood, moving the human being from the slavery to feudalism and then to capitalism and socialism. Moreover, thanks to its dynamism, economics is able to reflect changes more quickly and hence signals for innovation and adaptation from politics. Whichever government fails to recognize the signals or poorly responds to them would finally collapse. Finally, economic development is considered as a key indicator for governance performance management. Therefore, every government would need to make their best efforts to achieve growth and prosperity (Carl Marx n.d.).

In another dimension, politics is not totally decided by economics. Its independence is demonstrated through the three following dimensions. First, besides economics, politics is under

other factors' pressure. Though economics is the most influential, religion beliefs, culture and social norms also have strong impact on how governments, parties and interest groups behave. The economic implication of "abortion", for instance, is not welcomed in many cultures and religions. Therefore, no matter how much beneficial this could bring, barely any governments dare to challenge their existence by legalizing it.

Second, as the key policy makers, the government is able to develop economic rules and norms to serve interests of particular elite groups. The structure of income tax system is one example. Whether the tax is progressive or regressive demonstrates whether the tax system is designed for the poor or the rich incomers. The progressive tax structure imposes more tax on higher incomers and are usually considered as pro-poor while regressive tax has the opposite interpretation. Such tax design helps political parties target their voting group for the next election. The other popular example of manipulation of economic policy is granting favourable conditions for preferred groups through providing public goods (infrastructure investment or financial credit) in their business operation fields or locations.

Third, studying the business cycles, economic trends, etc., politicians and policy-makers could predict the possible movement of economic development and introduce necessary tools to avoid, delay the crisis or address its consequences.

Generally, conventional diplomacy is considered to have political nature as it involves working officially at state level. However, in the political economy context, it is important to leverage the interconnection between economics and politics for both political and economic purposes. Such linkage lays the theoretical background to identify and develop economic diplomacy.

2.2. Putnam's two-level game

The two-level game of Robert Putnam *et al.* analyzes the combined impact of domestic and international forces in international bargaining. According to Putnam, international negotiations are considered as a two-level game. At the national level, the government is under the pressure from domestic interest groups in adopting favorable policies while politicians seek coalition with those groups to stay in power. At the international level, national government makes effort to achieve national political, economic or security interests that may or may not go in line with their counterparts' objectives. Neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereignty (Putnam 1988).

Each national political leader appears at both game boards. Across the international table sit his foreign counterparts, and at his elbows sit diplomats and other international advisors. Around the domestic table behind him are party and parliamentary figures, spokespersons for domestic agencies, representative soft key interest groups, and the leader's own political advisors. The political complexities for the players in this two-level game are staggering. Any key player at the international table who is dissatisfied with the outcome may upset the game board, and conversely, any leader who fails to satisfy his fellow players at the domestic table risks being evicted from his seat.

Basically, Putnam's two-level game reveals that there are always differences and conflicts between international and domestic figures and objectives. Harmonization and realignment of such differences are the task of diplomacy. This task is even more challenging for economic diplomacy. Due to the technical elements in the topic, at national level, further coordination would be required between diplomats, economic experts and practitioners in related

government agencies. Negotiations at international level would be slower when the effective communication involves different level of verification: between the two signatories (usually diplomats) and between the signatory and officials in charge of other government agencies.

It's important to note that the two-level game appears in both consensual and majoritarian governments², though in different way. In *Public Management Reform: A Comparative Analysis*, by studying reforms of 12 European countries with different state structure (centralized or decentralized) and nature of executive government (consensual or majoritarian), Pollitt and Bouckaert recognize that reforms are slower in consensual than in majoritarian governments (C. Pollitt 2011). This is because in consensual structure, legislators seek approval to the bill **before** introducing it while in the later form, the negotiation focuses on the ratification process **after** the bill is presented. Therefore, obtaining consensus at national level is crucial for both governments.

3. The Concept of Economic Diplomacy

Despite wider consensus among scholars and practitioners on the importance and popularity of economic diplomacy, there is much disagreement on defining the concept of economic diplomacy. Different interpretations of economic diplomacy originate from the various perspectives that the author would like to focus. From the lens of diplomacy studies, Stephen Woolcock emphasizes the added value of economic diplomacy in decision-making and negotiation process and excludes activities that do not directly involve negotiation in decision-making, such as sanctions or commercial diplomacy. Maaïke Okano-Heijmans looks into the

² Consensual or majoritarian features imply the scope of the central government, which is identified by the following typology: Single party or minimal winning or bare majority is titled to the one where one party holds more than 50 percent of the seats in the legislature; Minimum winning coalition is to where two or more parties hold more than 50 percent of the seats; Minority cabinets to where the party or parties composing the executive hold less than 50 percent of the legislative seats; Oversized executives or grand coalition is to where additional parties are included in the executive beyond the number required for a minimal winning coalition.

deliveries of economic diplomacy to serve national interests (whether it has business end or power-play end). Other scholars clarify economic diplomacy by identifying its activities and introducing some relating and overlapping concepts, such as commercial diplomacy, financial diplomacy, investment diplomacy, or business diplomacy.

Stephen Woolcock regards economic diplomacy as a decision-making and negotiation process in international economic relations in core issues, such as trade, investment, finance and extended to the environment and development that have considerable economic implications for policies. Economic diplomacy applies both to the negotiation of the framework within which international economic relations exists, i.e. rules, regimes, and norms as reflected in binding or voluntary agreements, and to discrete negotiations that affect the creation and distribution of international economic activity (Woolcock 2013).

He, therefore, excluded activities that leverage economic relations to achieve the states' foreign policy objectives (economic sanctions) and efforts to assist corporations in selling their products in commercial diplomacy. His rationale is that those activities do not invoke negotiation in the decision making process, which I would argue, is not the case.

With economic sanctions, in Woolcock's explanation, the focus is very much on the use of economic relations as a means of pursuing foreign policy interest, so decision-making procedures tend to be centralized in foreign ministries, which, is not the case in economic diplomacy. On the contrary, in fact, other governmental, non-governmental agencies and business community also play the key role in the decision-making process that foreign ministries could not just ignore. Thanks to their expertise and interests in the fields, related stakeholders have a powerful voice in estimating the cost and benefit of imposing sanctions (i.e. how much is the opportunity cost in oil and gas supply stability in putting sanctions on Russia) and hence

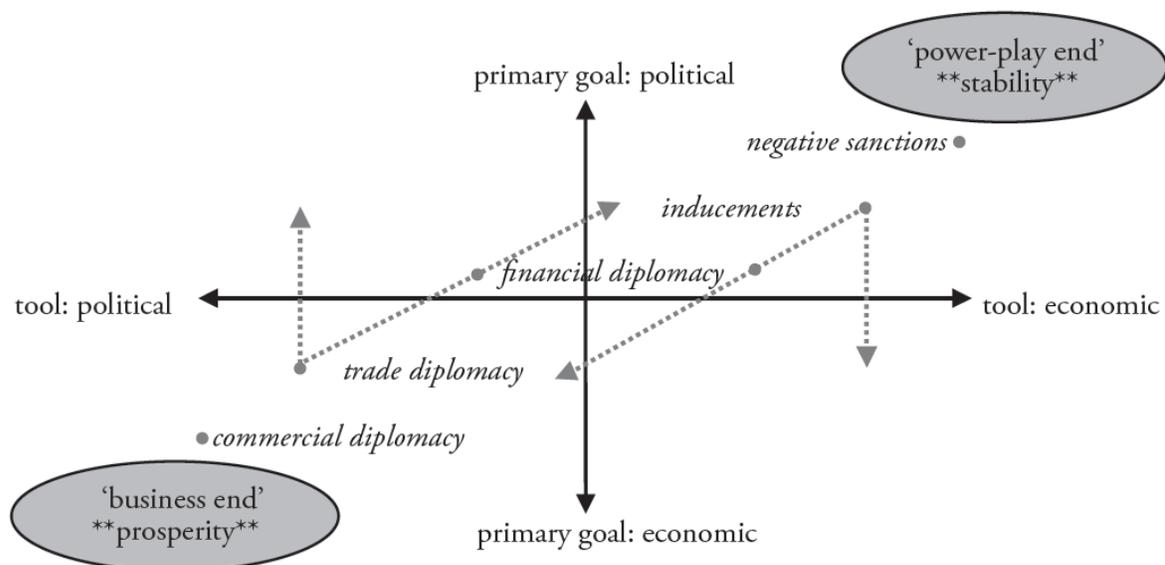
whether sanctions would be an effective and efficient alternative, deciding which types of sanctions should be introduced (partly on certain commodities, on financial assets or comprehensive sanction), how long should it be maintained and what are the signals to guarantee that the imposed country would comply to the requirements to lift sanctions.

Commercial diplomacy is excluded from economic diplomacy because for Woolcock, looking for business does not reflect the nature of economic diplomacy. Commercial diplomacy best describes the actions of the states or other non-state actors in promoting investment or seeking contracts or orders for companies based in the home state. Economic diplomacy facilitates trade and investment by negotiating market access, rules or agreed norms and standards, but does not extend to corporate contracts. In my personal view, in the globalized world, the global harsh competition requires the corporation's constant and active presence in every corner of the world. With limited resource, one single corporation could not afford the task while this is what diplomatic missions could perform well with less cost thanks to its presence, knowledge and connection with the political and business community in the host countries. Leaving this task behind would remove any possible opportunities for domestic companies in expanding their trading partnership and business expansion. Moreover, concrete contracts are the best illustration of the rationale for trade or investment agreements as well as the best evidence of economic diplomacy achievements. What's the use of negotiating trade agreements while there are few past or future business contracts? However, the role of economic diplomacy should be limited to notification and facilitation for contracts negotiations. Other details should be left to directly involved parties.

Maaïke Okano-Heijmans discovers economic diplomacy in a broader term, focusing on how ED could deliver national interests. For him, economic diplomacy is defined as “a foreign

policy practice and strategy that is based on the premise that economic interests and political interest reinforce one another and should thus be seen in tandem.” Economic diplomacy serves a diversity of broad national interests from political stability to economic development. By combining the goals and tools of economic diplomacy, the author pointed out whether certain economic diplomacy activities are leaned towards a business end and/or a power-play end (Okano-Heijmans 2013).

Figure 1. The Conceptual Framework: Strands of Economic Diplomacy



Source: (Okano-Heijmans 2013)

Heijmans expands the effect of Woolcock’s economic diplomacy to the implementation of policy-making process and include both political and economic tools in carrying out ED goals. Sanctions and commercial diplomacy, therefore, are counted as ED. Moreover, regarding the relation between economics and politics, if Woolcock’s ED limits the flow to only one direction: from politics to economics (using political interaction to negotiate economic policies), Heijmans see ED in a two-way direction: from politics to economics and vice versa. States could leverage its economic power to request a certain political compromise from other nations via sanctions.

Additionally, implementing commercial diplomacy, states may seek a particular contract of the host country for its domestic companies thanks to the trust and friendship with the local government.

The last group of conceptual study on economic diplomacy identifies ED by listing its activities. In “A Dictionary of Diplomacy”, Berridge and James defines ED as follows (G.R.Berridge 2001):

Economic diplomacy is concerned with economic policy issues, e.g. work of delegations at standard setting organizations such as WTO and BIS. Economic diplomats also monitor and report on economic policies in foreign countries and give the home government advice on how to best influence them. Economic Diplomacy employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective.

Other scholars reflect ED from relating concepts, such as commercial diplomacy, financial diplomacy, investment diplomacy and business diplomacy.

Commercial, financial and investment diplomacies share similar conceptual understanding. They only differ in the substances related. Among all, commercial diplomacy is the most popular in research and practice. According to Scholte, commercial diplomacy is identified as follows (Scholte 2000):

Commercial diplomacy describes the work of diplomacy missions in support of the home country’s business and finance sector in their pursuit of economic success and the country’s general objective of national development. It includes the promotion of inward and outward investment as well as trade. Important aspects of a commercial diplomats’ work is the

supplying of information about export and investment opportunities and organizing and helping to act as hosts to trade missions from home. In some cases, commercial diplomats could also promote economic ties through advising and support of both domestic and foreign companies for investment decisions.

Examples of commercial diplomacy include the use of diplomatic services to assist national firms in a target market through the provision of information and representation, or trade missions accompanying visits by head of state or government to trading partners.

Business diplomacy is understood as “the management of interfaces between the global company and its multiple non-business counterparts (such as NGOs, governments, political parties, media and other representatives of civil societies) and external constituencies” to create and seize business opportunities (R. Saner 2005). How multinational companies, such as Apple, Google, P&G, GE interact with the host governments (e.g. China, Viet Nam) to look for business opportunities or such preferential treatments as land lease, tax system illustrates the engagement of business diplomacy.

All the above definitions of economic diplomacy share some similarities and differences in the key actors, clients, direction of influence, goals, substance and the stages in policy making process to be affected. The comparison of the abovementioned understandings of ED is illustrated in the below table.

Figure 2. Different Definitions of Economic Diplomacy

	Key actors	Key clients	Direction of influence	Goals	Substance	Policy stages
Woolcock	Governments, business, NGO and International	Governments and International Organizations	Politics → Economics	Economic prosperity	Policy negotiation	Policy formation

	Organizations	(policy formation)				
Maaïke Okano-Heijmans	Governments	Governments, International Organizations and Business	Economics → Politics; Politics → Economics	National interests (business or power play ends)	Political and economic tools	Formation and implementation
Commercial diplomacy	States (esp. diplomatic missions)	Business	Politics → Economics	Economic prosperity	Economic tools	Implementation
Business Diplomacy	Business	Host governments	Politics → Economics	Profit	Economic tools	Implementation
Economic Diplomacy	States (esp. foreign ministry)	Governments, International Organizations and Business	Economics → Politics; Politics → Economics	Foreign policy goals	Economic and political tools	Formation, Implementation and Monitoring

Source: Self-developed by the author, based on the literature of ED.

Based on the above hypothesis regarding the interconnection between politics and economics as well as the two-level game, the author suggests a broader approach in understanding economic diplomacy. From this perspective, economic diplomacy can be defined as the foreign policy that leverage the relationship between economics and politics in international political economy to achieve foreign policy goals. Economic diplomacy covers the two-way direction of influence: mobilizing economic tools and advantages to achieve political goals or optimizing the political status to reach economic prosperity. Economic diplomacy involves different stakeholders in all stages of policy-making process (formation, implementation and monitoring) at both international and national levels.

Despite its expansive scope, the how much ED substance should be practiced depends on the available resource of the country, priorities and the comparative power with the counterpart. For example, sanctions are not the suitable and preferable option for every partner and not all the nations have sufficient resource to impose sanctions successfully on others. Moreover,

multilateral relations, ED is involved heavily in the negotiation process to lay out rules and norms while bilateral ED covers widely also on all stages of policy making process. Therefore, the substance of ED differs from states to states, from partners to partners and from time to time.

4. Economic diplomacy in bilateral relations

Economic diplomacy can be applied in both multilateral and bilateral contexts. Multilateral ED is characterized by pushing national interests through multilateral economic regimes, such as the World Trade Organization, the World Bank or International Monetary Fund. Although multilateral ED is widely recognized as one form of ED, it is not the only sphere of operation for ED. ED is also practiced in bilateral relations by various activities that fall into four following categories:

- (i) Promoting diplomatic ties for economic objectives;
- (ii) Using economic pressure to reach political goals;
- (iii) Getting bilateral support for an economic regulation system that would give home companies more advantages; and
- (iv) Adjusting domestic policy to match with bilaterally committed regulations.

The first two ED activities are popular in almost every countries but how much the third and the forth activities are implemented depends on how influential an individual nation is. The more powerful a country is, the more capable it is to internationalize its self-developed regulation. The following chapters would demonstrate how ED has been practiced in the bilateral relations between Vietnam and the U.S. and how power asymmetry and domestic balance of interests influence on the choice of ED activities.

CHAPTER II – PRACTICE OF ECONOMIC DIPLOMACY IN THE U.S. RELATIONS WITH VIETNAM

1. Vietnam in the U.S. foreign policy

Factors generating U.S. interest in the relationship with Hanoi include the geopolitical role of Vietnam in containing China, providing resources for U.S. allies in the past and contributing to regional stability and supporting American interest in Southeast Asia at present; the economic role of growing trade and investment flows; the role of the Vietnamese community in the States; difference in human rights matter and the POW/MIA issue³.

1.1. Geopolitical sections

Geopolitical position is the most dominant factor in positioning Vietnam in Washington foreign policy. Vietnam's geographic location holds an important role in supplying development inputs to the U.S. allies in the region, particularly resource-needy Japan and in containing China. In his article, Ambassador Henry Lodge described the geopolitical importance of South Vietnam in Asia as below (Lodge 1965).

“Geographically, Vietnam stands at the hub of a vast area of the world – Southeast Asia...

The Mekong River, one of the ten largest rivers in the world, reaches the sea in South Vietnam. He who holds or has influence in Vietnam can affect the future of the Philippines and Taiwan to the east, Thailand and Burma with their huge rice surplus to the west, and Malaysia and Indonesia with their rubber, oil and tin to the South. Japan, Australia and New Zealand would in turn be deeply concerned by the Communization of South Vietnam.”

³ The analysis framework is adopted from the class session on April 8, 2015 (Reagan's Restoration, “Winning” the Cold War) of H201 – American Foreign Relations since 1917 by Prof. Alan Henrikson. The framework describes the five “Sources of American foreign policy”, including economic interests, social classes, geographical sections, ethnic groups and political generations. Applying the framework into the relation with Vietnam, the paper picks up the key sources: geographical sections, economic interests, ethnic groups and adds some other concerns from American perspective.

So at the center of Southeast Asia, Vietnam provided access not only to her own resources but also open a door to tap into the region's fertile land, which are essential for Washington's allies, namely Japan, Australia and New Zealand. Although such role gradually decreased in the globalized monopsony market⁴, the connectivity with other nations combined with the perception that Vietnam is emerging as the "middle power" in the region (Manyin, U.S.-Vietnam relations in 2011: Current issues and implications for U.S. 2012) offers Hanoi another role in maintaining if not promoting the U.S. strategic interests in the region, especially after Washington rebalances her priorities toward Asia-Pacific, known as "Asia Pivot" policy (Manyin, Pivot to the Pacific? The Obama Administration's "Rebalancing" Toward Asia 2012). U.S. strategic interests in the region include the maintenance of regional peace, freedom of operation and navigation including for U.S. surveillance vessels, the protection of substantial trading interests, and the promotion of economic development including offshore energy development and sustainable management of fishery stocks and other resources (Manyin, U.S.-Vietnam relations in 2011: Current issues and implications for U.S. 2012).

Ambassador Lodge, however, did not mention Vietnam as the bordering country with China, a strategic position in containing Beijing. Nevertheless, he did imply that geopolitical purpose from historical observation that "The Vietnamese did not enjoy this experience [of being under the occupation or influence of the Chinese and used by the Chinese as a means of enforcing their hegemony over the whole Southeast Asia] and have traditionally done what they could to throw of Chinese overlordship". Apparently the strong will and the long history against the Chinese make Vietnam a suitable candidate in the containment policy. The China factor in

⁴ Monopsony market is the market in which there are more suppliers and less consumers. In this market, consumers have a better position in deciding the price and quantity of the product.

U.S. – Vietnamese relations has become increasingly significant with Beijing's growing economic and political power as well as hegemonic assertion, especially in the South China Sea.

1.2. Economic interests

Despite the importance of geopolitical factor, it is impossible for the U.S. to state the intention of using Vietnam against China. The publicly stated interest of Washington in Vietnam has been for economic reason. To the Americans, economic interest in Vietnam does not focus a lot on trade, but on investment, big projects and education.

Vietnam is not an attractive market for American products, at least until now. For the average low-income population with around 1,500 USD per month, American goods may be a bit expensive. Moreover, with China, the world's manufacturer, right on the North, the dominance of Made-in-China commodities makes it more difficult for U.S. penetration into Vietnam.

However, despite facing certain competitions with the Australians and Japanese, U.S. beef and cars are finding their place in the Vietnamese consumers' preference. Moreover, mega trading contracts (such as air crafts), government purchases (such as nuclear plants, energy technology or military weapons) and healthcare products are what American companies would find profitable with Vietnam. For example, Vietnam is planning to develop 10 nuclear power stations, at a cost of approximately \$50 billion to \$70 billion, to meet the soaring power demand from her expanding manufacturing sector and growing population. Both Russia and Japan are actively working to deploy their nuclear technology in the country, in which Ninh Thuan I Nuclear Power Plant has been put under the Russians. Another example is in arms sale, which brought \$98.5 million and \$3.7 million contracts of defense weapons and services from 2007-2010 for American companies (Thayer 2014).

A newly emerged market which closed its door to the world till the Doi Moi Reform (1986) and fully participated in the global trade and investment competition only after the U.S. sanction (1995) and WTO membership (2007) reserves a huge attractive room for American companies as business opportunities haven't reached their peak. Timing in investment is important as early birds catch the worm. Once the market has reached its saturation point, any further investment would produce less and less profit.

Prompting for normalization with Vietnam, Assistant Secretary Richard Solomon explained "The American business community doesn't want to be left behind in an increasingly competitive situation where [...] the French, the Australians, the British, the Dutch, and many other Asian countries – Korea, Japan – are very active in developing new markets" (Solomon 1990). Recognizing the potential in Vietnam, companies like IBM, General Electric, Philip Morris and more than two dozen others had offices on the day Clinton removed the embargo on Vietnam. Only ten hours after the announcement, American Express reached an agreement with Vietcombank to facilitate acceptance of the Card throughout the country. It took a little longer for the local Pepsico representative to install a giant inflated Pepsi can at Tan Son Nhat Airport and Coke to transport its bottling equipment from Singapore to Ho Chi Minh City (Horner 1994).

Another good timing has come to expand profitable business in Vietnam when the country is going through the process of restructuring state owned enterprises (SOEs). The restructuring effort includes the initial public offerings for the country's 532 SOEs (Trung 2015) with well-established nation-wide consumers' network. Once again, this opportunity also attracts American global rivals and if the U.S. businessmen arrive late, the share would fall into their competitors. In 2015, Vietnam Airlines plans sell 20% of the shares to no more than three foreign strategic partners. Although the potential partners haven't been announced, the British

Tony Blair Associates Office in Hanoi (established since 2012) expressed great interest during Tony Blair's private meeting with Transportation Minister Dinh La Thang (Dat Viet 2015). The move, combined with warmer relation with London would give British bidders certain advantages over the U.S' companies.

1.3. Vietnamese Community in the U.S and the Human Rights issue

U.S. policy toward Vietnam is also influenced by the exodus of 1.4 million Vietnamese (Sidel 2007), densely populated in California, Seattle, Virginia and Texas. Their biggest concern is trying to "fight an unfinished war" (A. Lam, *Our Vietnamese Hearts: The Diaspora 38 Years Later* 2013), defined as the fight against human rights, democracy, and freedom in Vietnam.

Most of them were officials and troops of the South Vietnam who came to the U.S after the Vietnam War, mostly during the 1980s-1990s period. In September 1987, Hanoi released more than six thousand military and political prisoners, many of them senior officials in the former government of South Vietnam. Under the Orderly Departure Program in 1990, Vietnam agreed to assist the United Nations in helping refugees utilize official channels rather than leaky boats to immigrate to America. Another agreement, signed in 1990, enabled former South Vietnamese officials and army officers to immigrate to America (Encyclopedia of the New American Nation n.d.). Running away from the country with humiliation as losers in the war, leaving behind their fame, property and family, risking their life on a small boat packed with people on the most dangerous "cruise" across the Pacific to an unexpected future, they possess a deep hatred towards the current Government. The rage unites the community in different anti-(Vietnamese)government organizations, including America-based and worldwide-operated Viet Tan Party with the mission to challenge the one-party system of Hanoi. Such concerns are what

representatives of California, Seattle, Virginia and Texas have to take into account in order to win their political support.

The interests of the Vietnamese community align well with Washington priority in promoting American values around the world, especially in communist countries like Vietnam. The U.S.' concerns on the human rights in Vietnam cover on a wide range of subcategories, that Hanoi approaches with different interpretation and considers as domestic affairs. These subcategories involve freedom of the press, policies to ethnic groups, labors' right on strikes, etc. However, despite being the most contentious issue standing in the middle of the bilateral ties, human rights situation does not seem to be considered as an impediment to short-term cooperation on various issues, but rather as a ceiling on what might be accomplished between the two countries, particularly over the long term.

1.4. The Vietnam War "Legacy" – POW/MIA

From the U.S. perspective, the interest after the Vietnam War is the return of and information about U.S. Prisoners of War/Missing in Action (POW/MIAs). From 1975 through the late 1990s, obtaining a full accounting of the U.S. POW/MIA cases was one of the dominant issues in bilateral relations. The increased efforts have led to account for nearly 700 missing U.S. service personnel. During Secretary of Defense Rumsfeld's June 2006 trip to Vietnam, the two countries discussed expanding their cooperation on recovering remains, including the possibility of using more advanced technology to locate, recover, and identify remains located under water (Manyin, U.S.-Vietnam relations in 2011: Current issues and implications for U.S. 2012).

Generally, there are various interests that may move the relationship with Vietnam in the totally adversary directions. In the United States, voices favoring improved relations have included those reflecting economic and geopolitical interests as well as humanitarian objective in

POW/MIA issue. Others argue that improvements in bilateral relations should be contingent upon Vietnam's human rights record.

2. Economic diplomacy in relations with Vietnam

The power asymmetry between Washington and Hanoi gives the U.S. more control in reaching the above interests in the relations with Vietnam. Unlike many other ties, the U.S – Vietnam relations were complicated by the blend of economic, political and humanitarian objectives. There always exist either economic elements in political decisions or political feature in economic agreements. Economic diplomacy, therefore, has been fully exploited in the bilateral context.

The practice of ED in the relations with Vietnam could be divided into two major periods. The first period counted from 1954 to 1994, during which Washington utilized economic tools (sanctions on the North and assistance to the South) to weaken Hanoi and assist the South to take over Communism regime and then to pressure Vietnam to withdraw from Cambodia. The second period started from the normalization milestone in 1994 till present. This era is characterized by the closer move towards Vietnam thanks to the overlapping economic and geopolitical interests. In this period, any agreements between the two nations do not only have economic or political natures but mostly appear as a comprehensive package, particularly the U.S.-led Trans-Pacific Partnership negotiation, which covers many topics of mutual interest.

2.1. From 1955 to 1995: Economic tools for political objectives

Fighting against communism to promote American values from the Philippine model⁵ and pressing Vietnam to withdraw troops out of Cambodia are the two political motives that directed the use of sanctions against Hanoi and assistance towards South Vietnam (during the Vietnam War) during 1955-1994 period.

2.1.1. Sanctions against Hanoi:

The U.S started putting sanctions on Vietnam since 1954 primarily in order to weaken the Communist government first economically and financially and then politically to set up an American-backed regime. The sanction under the Eisenhower administration, shortly after the Geneva Convention temporarily divided Vietnam into two, suspended all exports for North Vietnam. President Lyndon Johnson extended those sanctions to a prohibition of all commercial and financial transactions when the war escalated in 1964. Despite the peace agreement in 1973 with a provision for renegotiating economic ties, the sanctions were extended to all of Vietnam. President Jimmy Carter moved toward easing those restrictions, but he was thwarted by congressional opposition and by Vietnam's occupation of Cambodia. Consequently, sanctions remained in place until February 1994, when Bill Clinton ended the nineteen-year trade embargo (Encyclopedia of the New American Nation n.d.).

The U.S sanctions on Vietnam did not only prevent Hanoi from seeking resources from the U.S but also from other U.S allies and other international organizations. Under the sanctions, Washington further marginalized Vietnam by halting credits and loans from monetary institutions such as the World Bank, the International Monetary Fund, and the Asian

⁵ Although Vietnam seemed to be left alone by Russia and China in the fight against the U.S. in the Vietnam War, the existence of Hanoi was considered as a blow against Washington's efforts to establish a Communism-free government model in Asia, such as in Manila and then in South Vietnam.

Development Bank. Seeking acceptance in the international arena, Vietnam attempted several times to join the United Nations, only to be halted by American vetoes until 1977.

2.1.2. Financial aid to South Vietnam:

The French withdrawal despite Washington's \$3 billion support, led to direct U.S involvement, including continued aid and the formation of a South Vietnam government. With the massive amounts of American military, political, and economic aid, the Government of the Republic of Vietnam (South Vietnam) was born in 1955. In the entire war, Saigon regime received totally around \$25 billion aid (Rexy 2014) with around 90 percent was for the tremendous military and police outlays. Between 1955-1962, for instance, U.S. aid amounted to \$1,440,400,000, in which nearly 90 percent was for non-economic purposes and \$192,800,000 for development projects. The amount of U.S. aid, falling under the latter category, was broken down into around 50,830,000 for construction and transportation projects, \$11,020,000 for education, \$38,850,000 for the development of agriculture and natural resources, and \$4,720,000 for mining and manufacturing industries (Nagata 1962). In the challenge of continuous trade deficit of around \$100 million during Diem regime, American aid played an important role in keeping the South economically sound and militarily strong to stand against the North.

2.2. From 1994 till now: Economic and geopolitical interests drive the political tie, which is still haunted by HR and political differences

Since the sanctions removal in 1994, U.S. – Vietnam relations become increasingly warmer thanks to the win-win economic linkage and the shared interest in ensuring freedom of navigation and air space over the South China Sea while Beijing doesn't stop "flexing its muscle" against less powerful nations.

2.2.1. *The urge of doing business with Vietnam* pressured the U.S government to ended economic sanctions on Vietnam in 1994, normalized relations in 1995, signed bilateral trade agreement in 2001, concluded a trade and investment framework agreement (TIFA) in 2007. The two countries have also signed textile, air transport, and maritime agreements. Washington and Hanoi are part of the Trans-Pacific Partnership (TPP) negotiations, with the goal of concluding a high-standard regional free trade agreement. In July 2013, Presidents Obama and Sang launched the U.S.-Vietnam Comprehensive Partnership, an overarching framework for advancing the bilateral relationship in areas of maritime capacity building, economic engagement, climate change and environment issues, education cooperation and promoting respect for HR. Since then, the United States and Vietnam have also intensified bilateral dialogues and increased high-level visits (including visits to Vietnam by Treasury Secretary Lew, U.S. Trade Representative Froman, United States Pacific Command Commander Locklear, and Coast Guard Commandant Papp) to enhance bilateral cooperation on key regional and global matters.

The closer bilateral tie has brought about concrete benefit for American companies. In trade, since entry into force of the U.S.-Vietnam diplomatic relations, bilateral trade have grown dramatically from \$451 million in 1995 to nearly \$35 billion in 2014, making Vietnam the 29th largest trade partner of the U.S. Every year, 1,800 containers loaded with U.S.-grown apples, pears, oranges, grapes, cherries and other produce travel to Vietnam. Together with pork, beef, soy, poultry and dairy products, these American exports are helping to stock the shelves of supermarkets in Vietnam (Cuong 2014). Besides agricultural products, million worth import contracts started pouring into Vietnam. Following the comprehensive partnership, General Electric won the contract to provide \$94 million in additional wind turbines to Cong Ly Company for their signature wind farm project in Bac Lieu province. In October 2013, GE

Aviation signed a deal to provide \$1.7 billion in engines and servicing for Vietnam Airlines' Boeing 787 aircraft. These commercial deals build on a strong bilateral trade relationship that has increased over 50-fold in the past 20 years, reaching \$25 billion in 2012 (U.S. Department of State 2013).

In addition to trade, U.S. investment into Vietnam also soared to \$11.5 billion with 729 projects till February 2015 (T. Linh 2015), which helped U.S. business to reach out to more consumers.

Education service is another benefit from a close relationship with Vietnam extended directly to American institutions and indirectly to other businesses through student spending. In academic year 2012/2013, Vietnamese students ranked 8th among international students in the U.S. with more than 16,000 students, a 3.4% increase compared to the previous year (Marshak 2014).

Together with the opportunity cost for losing multi-million defense market to other competitors, the concern on China's provocative actions on the South China Sea urged Washington to release some restrictions on arms sale against Hanoi, which has been tied with HR conditions.

The United States first imposed an arms embargo on North Vietnam in response to the Gulf of Tonkin incidents in August 1964 by invoking the Trading with the Enemy Act. Moreover, in 1984 the United States included Vietnam on the International Traffic in Arms Regulations (ITAR) list of countries that were denied licenses to acquire defense articles and defense services. In April 2007, the Department of State amended ITAR to permit "on a case-by-case basis licenses, other approvals, exports or imports of non-lethal defense articles and defense services destined for or originating in Vietnam (Thayer 2014)."

In October 2014, the U.S. announced to partially lift its decades-old embargo "in order to allow the transfer of defense equipment, including lethal defense equipment, for maritime security purposes only" (Panda 2014). As stated by Foreign Minister Pham Binh Minh, "If we do not buy weapons from the United States, we still buy [weapons] from other countries", this move would open a great market for U.S. companies, which has been dominated and actively promoted by the Russians, Indians and Japanese. During a visit to Hanoi in September 2014, Indian President Pranab Mukherjee signed a memorandum of understanding that included the extension of a \$100 million credit line to facilitate Vietnamese defense procurement. More notably, Vietnam sourced six improved Kilo-class submarines from Russia to add to her fleet of Soviet-era naval hardware and planned to purchase the jointly developed Russo-Indian BrahMos supersonic cruise missile. Additionally, Japan indicated its eagerness to expand defense cooperation with Vietnam, which may lead to Vietnam sourcing Japanese defense equipment. Although the embargo did not completely end, this has opened a bright future for military coordination and U.S. arms export to Vietnam, with first and foremost the \$36 million Lockheed P-3 Orion surveillance aircraft (Panda 2014).

2.2.2. However, human rights and political differences have been still the biggest thorns in the U.S.-Vietnam "comprehensive partnership", preventing Vietnam from competing equally in the U.S. market. The ED tools to be used are non-market economy status (NME), exclusion from normal trade relations (NTR) and generalized system of preferences (GSP).

Non-market economy (NME) is the first ED card to be used against Vietnam. Despite being recognized as a market economy by a number of trading partners, including ASEAN, Australia, India, Japan and New Zealand, Vietnam still remains as a NME by the U.S. The designation of Vietnam as a NME technically excludes Vietnam from the fair trade with

Washington by applying unfavorable NME methodology for calculating antidumping and countervailing duty cases. This unavoidable concession results in a continuing risk of anti-dumping and, recently, countervailing duty, actions against Vietnamese exports. The methodology has typically resulted in exaggerated dumping margins, as in Frozen Fillet Fish where the margins were in excess of 44% (U.S. Department of Commerce 2003) and in shrimp of 6% range (U.S. Department of Commerce 2004).

Normal Trade Relation (NTR) is another ED tool to discriminate against Hanoi in trading with Washington. Before the Permanent Normal Trade Relations (PNTR) status for Vietnam was approved by Congress in 2006, Hanoi had to seek every year with improvement on HR issues. In fact the approval of PNTR for Vietnam was almost procedural. As a member of the WTO, the United States is generally obligated to provide reciprocal, unconditioned most-favored-nation (MFN) treatment to all other WTO members (or PNTR) or must invoke the non-application provision of Article XIII of the WTO Agreement at the risk of reciprocal treatment (Daniella Markheim 2006).

GSP is another ED related issue in Vietnam – U.S. relations. Under the provisions of the Trade Act of 1974, being a “Communist” country, Vietnam is ineligible for the GSP program unless Hanoi meets certain additional conditions. Those conditions are: Vietnam has normal trade relation status with the United States; is WTO and IMF member; and is “not dominated or controlled by international communism”. Vietnam meets the first two criteria but the third requirement is her choice of political system. Although the Trade Act was inked during the Cold War, just right after Vietnam War when the interpretation of “communism” was different, it was still used as a barrier for Vietnam to be equally treated in the U.S market. The GSP system lists eligible developing countries for duty-free treatment of its products and is approved on an annual

basis. Every year, Vietnam struggles to get American President's waiver to be enlisted. In the 113th Congress, H.R. 1682 titled Fostering Rights through Economic Engagement in Vietnam Act or FREE Vietnam Act was introduced to remove Vietnam out of GSP system unless the President certifies to Congress that Vietnam has met certain human rights conditions⁶ (U.S. Congress 2013).

2.2.3. Promoting U.S.-led trade regulations through TPP:

The Trans-Pacific Partnership (TPP) is an effort lead by the U.S. to set up global trade regulation in the 21st century towards an international marketplace based on the values of openness and transparency. Moving beyond tariff reduction in other free trade agreements, TPP covers a wide range of so-called "next-generation" trade issues such as agriculture, services, intellectual property, and "behind-the-border" issues of domestic liberalization. Since traditional tariffs are already low, TPP pushes forward reforms to liberalize protected sectors, streamline customs and regulations, strengthen intellectual property protections, promote competitive and transparent business laws, and enforce labor and environmental standards. The stated goal is to create a fully integrated economic area and establish consistent rules for the unprecedented growth of global investment.

Vietnam is also a member of TPP negotiation. The participation of Vietnam complicates TPP process but creates a short cut for Washington to move Vietnam towards American governance standards. Including in TPP are high standard requirements Vietnam have to implement. Those include reforms in areas, which have long been polarized topics in bilateral negotiations, such as workers' right, intellectual property protection and state owned enterprises.

⁶ Such conditions are (i) is not on the special watch list of countries not in compliance with minimum standards for the elimination of human trafficking; (ii) does not engage in pervasive violations of internationally-recognized human rights, including freedom of speech and freedom of religion; and (iii) otherwise meets the requirements of the Act.

2.2.4. High-level visits to push political and economic agenda:

In the middle of the last decade, both countries began increasing the number, frequency, and breadth of high-level bilateral visits (See Appendix 1. Chronology of U.S.-Vietnam Relations). Since the Bush administration, Washington seems to use these top-level meetings to encourage economic and political reforms inside Vietnam, as well as to signal the two countries' budding partnership on strategic issues.

During the Obama Administration, the intensity and frequency of high-level bilateral meetings have expanded. In July 2013, Vietnamese President Truong Tan Sang paid his first trip to the United States. At the meeting with President Obama, the two presidents announced a bilateral "comprehensive partnership" that is to provide an "overarching framework" for moving the relationship to a "new phase." Among other items, the partnership is to include an increase in high-level exchanges, the conclusion of a TPP agreement along with maritime disputes in the South China Sea, Vietnam's HR situation, people-to-people ties, and war legacy issues⁷. The two sides also agreed to create new mechanisms for cooperation across nine sectors, including political and diplomatic relations; trade and economic ties; science and technology; education and training; environment and health; war legacy issues; defense and security; protection and promotion of human rights; and culture, sports, and tourism.

In general, economic diplomacy has been actively carried out to pursue American foreign relations' objectives in the relations with Vietnam. Conflicting interests, primarily between geopolitical and economic interests against human rights and ideological concern, drive the relationship into two opposite directions. Before 1995 when political and ideological

⁷ The White House, "Remarks by President Obama and President Truong Tan Sang of Vietnam after Bilateral Meeting," July 25, 2013.

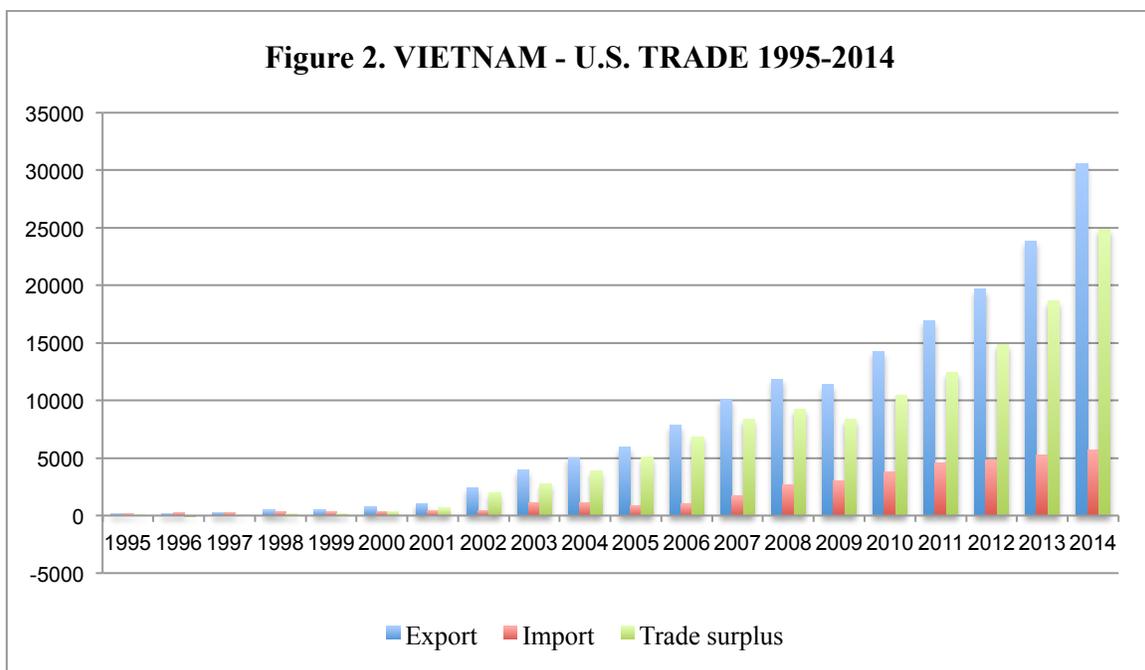
differences are focused, sanctions and discrimination were dominated. Since normalization, overlapping economic and geopolitical interests bring the two countries closer. However, the variation in HR issues and political values still set the limitation upon maximizing bilateral win-win economic cooperation, which the following recommendations for Vietnam in Chapter III would hope to unleash.

CHAPTER III – ECONOMIC DIPLOMACY IN SOLVING THE CURRENT BILATERAL ISSUES IN VIETNAM-U.S. RELATIONS

1. The United States in Vietnam’s foreign policy

1.1. The United States – A significant economic partner

For Vietnam, economic interest is the main driver for the Vietnamese relation with the United States. The economic interest is primarily recorded in trade value. Within 15 years after signing the BTA, Vietnam’s export into US market increases dramatically by more than 36 times from \$800 million to \$30.6 billion. Vietnam surpasses Thailand, Malaysia and Indonesia to become the number one exporter of ASEAN into this attractive market (T. Lam 2015). The U.S. is the biggest trading partner that Vietnam enjoy trade surplus with. In 2014, Vietnam exports \$30.6 billion and imports \$5.7 billion, reaching the record high trade surplus of \$24.9 billion. The major export products include textile (accounting for 32% of the total export value), footwear (10.8%), wood products (7.2%) and seafood (5.6%) (Tuyen 2015).



Source: General Statistics Office of Vietnam

However, what is observed as benefit is just a tip of the iceberg when the added value retained for Vietnam is low and the challenge for potential exports are high. In the value chain of textile and garments industry, including design, raw material, yarns, fabrics, garments and retail, 70% of Vietnamese companies only take the garments portion, which generates the least profit of around 5-10% of the total value chain. More than 70% fabrics are imported from China, Korea and Taiwan, being processed in Vietnam and then exported to foreign markets, in which the U.S. accounts for around 50% of the total textile and garment export (Thao 2014). In seafood trading, Vietnamese shrimp and catfish face continuous cases of anti-dumping and technical barriers. Because Vietnam is a non-market economy, the International Trade Administration used cost estimates from Bangladesh to determine “fair market value” for shrimp and India as the surrogate nation for polyethylene retail carrier bags. Due to the higher production cost in Bangladesh and India, Vietnamese shrimps, bags and other products suffer from additional tariffs, taking away their price competitiveness in the U.S. market.

1.2. A strategic geopolitical partner

A less visible but equally important interest for Vietnam in the relations with the U.S. is from the geopolitical dimension. Balancing the relations with the U.S. and China helps Vietnam gain more or lose less in the bargain with the increasingly powerful neighbor in the North, especially in conflicting issues like the East Sea, as named by the Vietnamese for the South China Sea. Moreover, closer cooperation with the U.S. provides Vietnam a better chance to strengthen coordination with international organizations, such as the UN, IMF or WB as well as with other developed U.S. allies.

1.3. The Vietnam War “Legacy” – Orange Agent

One major legacy of the Vietnam War that remains unresolved is the damage that Agent Orange, and its accompanying dioxin, has done to the people and the environment of Vietnam. During 1961-1971, the U.S. military sprayed approximately 11-12 million gallons of Agent Orange over nearly 10% of South Vietnam, leaving between 2.1 million and 4.8 million Vietnamese directly exposed to the deadly chemical, which still have effect on the second and third generation. The victims of Agent Orange and their family count on the Vietnamese government to work with Washington in calling accountability from chemical companies, including Dow, Monsanto, Hercules, Diamond Shamrock, to Vietnamese people, just as what has been settled with American veterans⁸.

Generally, like the U.S., Vietnam also pursues different interests in the bilateralism, including economic, political and humanitarian goals. Therefore, economic diplomacy also plays a significant role in connecting these interests together to give a less powerful party as Vietnam a better leverage in the relationship with Washington.

2. Economic diplomacy to solve current issues

2.1. Supporting U.S-regulated TPP or LMI

Multilateral cooperation is where Washington and Hanoi share more similarities than in bilateral negotiation thanks to its economic and geopolitical emphasis. In all multilateral frameworks that both are members, TPP and Lower Mekong Initiative (LMI) are the most feasible as both receive strong support from the U.S. and they both involve a limited number of members with 12 countries in TPP and 7 in LMI.

⁸ In 1985, the US Veterans' Agent Orange won the lawsuit against Dow, Monsanto, Hercules, Diamond Shamrock and the other chemical companies, including the subsidiaries of the main companies, that produced the defoliants used in Vietnam from 1961-71 with the settlement of \$180 million (Agent Orange Record n.d.).

Trans-Pacific Partnership is the framework that addresses many concerns of mutual interests of the two countries. For Vietnam, access to the U.S. market is one of the most important potential benefits of the TPP, particularly for Vietnam's leading exports, such as clothing, footwear, agricultural and aquacultural products. For the U.S., TPP also involves negotiation beyond traditional trade issues of tariff and non-tariff barriers. Such matters as workers' right, government purchase, intellectual property rights or prohibition on discrimination against state-owned enterprises are almost new to the traditional trade negotiation delegation and are all what concerns Washington in the bilateral negotiation with Hanoi. Therefore, TPP is an ideal framework for both to solve bilateral issues.

However, for Vietnam, TPP is a high-standard free trade area that a developing economy like Vietnam has to struggle with necessary economic and regulatory reforms to fulfill its obligations. In textile export, for instance, the "yawn forward" rule of origin would require the TPP nation to use a TPP member-produced yarn in textiles in order to receive duty-free access. This mean Vietnam has to shifted 70% of its material from China to a TPP member in order to get 0%, instead of 17.5% tariff on average (Hung Cuong 2015). In fact, re-sourcing material is much more challenging than it sounds. Beside the additional cost when Chinese fabrics is around 25-35% less expensive than Japanese product (Khanh 2013), there is a huge sunk cost in market research and network establishment that would take away their competitiveness in the market.

In another example, under TPP, Vietnam has to open up her pharmacy market as well as increase the pharmacy standard to the level of developed countries. This may lead to the rejection or delay in introducing qualified and affordable medicine for serious diseases, such as cancer, for low-incomers in Vietnam (Khanh 2013). Therefore, in TPP negotiation, it is

important for Vietnam to request a slower time frame and a step-by-step approach for Vietnam to get ready before all those obligations take effect.

The Lower Mekong Initiative (LMI) is another potential multilateral platform that Vietnamese economic diplomacy may take advantage to achieve her economic interest in exchange for American's geopolitical position in the region. LMI is the U.S.-created framework to enhance cooperation with Lower Mekong countries (Cambodia, Laos, Thailand and Vietnam)⁹ in the areas of environment, health, education, and infrastructure development. For the U.S., LMI serves as a counter regime against China-and-Japan-led Greater Mekong Sub-region (GMS) or ASEAN-China FTA in order strengthen Washington comparative position against China in the region. For Vietnam, LMI opens a door to non-humanitarian assistance from Washington, which has long been blocked by the Congress' rejection due to human rights reason.

2.2. Mobilizing American business community, Vietnamese Americans and developing public diplomacy to gain Congress' support

Considering the weight of the U.S. Congress especially to trade policy, it is essential to gain the Congress support through the link of the business community, the Vietnamese Americans and through public diplomacy. The U.S. retailers, consumers, investors and bidders for mega contracts are the direct beneficiaries of improved bilateral economic ties. Consumers and retailers would have more available and competitive options for their outfits, footwear or seafood. Investors would enjoy more favorable incentives and improved conditions for their transfer of capital, products and labors between the two countries. They all could help increase the weight to support Vietnam.

⁹ Myanmar joined the LMI since 2012.

Compared to the business community, it is more challenging to embrace the Vietnamese Americans due to their long-standing residual war-related psychological effects and political resentments. However, with the Resolution 36¹⁰ to strengthen national unity with Vietnamese Diasporas (Viet Kieu), more and more Vietnamese Americans disproportionately dropped their past resentments and returned to Vietnam, many only to visit relatives, but others increasingly to work, invest and retire. The record of five years ago showed a return of 500,000 Viet Kieu annually (A. Lam, 35 Years After War's End, Vietnamese Diaspora Finds Its Way Home 2010), which should be in a much higher number recently thanks to dramatically increasing economic transactions between the two countries. Business opportunity in the emerging economy of Vietnam has also invited great attention from Viet Kieu. Till 2013, figures of Viet Kieu investment have registered 3,600 projects with total capital of \$8.6 billion, mostly from such countries as America, Canada, Australia and Russia (Hien 2014). The return of Former South Vietnam Premier Nguyen Cao Ky after 30 years, his desired burial in Vietnam and the investment of his daughter in Da Nang signaled the profitable return for Vietnamese Americans, as he told his family “You should come back to Vietnam. That’s where the future is, because Vietnam is a growing country” (Peel 2015).

However, the economic target of the national unity policy only aims at their remittance, investment and human capital, which may not reach the whole Vietnamese community while their ability to influence on policy making process of the host country through their powerful vote has been neglected. With the second generation who are interested in business more than political and ideological resentments, it is a good time to start connecting more with the wider base of American Viet Kieu. Embracing both their physical and emotional return to Vietnam not

¹⁰ Implementing Resolution 36, Vietnamese government has introduced visa exemption and dual citizenship; remove restrictions on property ownership (which still have effect on foreigners); tax exemption on pre-owned imported cars; etc.

only by facilitating their travel or their remittance but also by proactively building trust, engaging them in nation's branding activities by the diplomatic missions and assisting them in improving their business both in Vietnam and the U.S. (through the available resource and network with the local communities and government).

Furthermore, public diplomacy is a necessary policy to show the public how a closer relationship would finally generate the free trade that offers the U.S. consumers more affordable options and finally improve their well being. The current public diplomacy mostly includes Embassy-organized events and in-person interaction, which are useful in associating with those who are supportive of Vietnam. These activities may not effective in connecting with those who may potentially vote in favor of Vietnam if they had more information, not to mention those who are against any improvement in diplomatic ties with Hanoi. Therefore, the Government, particularly through the diplomatic missions in San Francisco, Washington D.C., New York and Houston, may consider implementing more public-wide activities, such as addressing to students, exchanging ideas with scholars and academia, publishing regular articles or opinions on popular newspapers, such as the New York Times, the Washington Post or the Los Angeles Times, etc.

2.3. Solving the East Sea dispute with China

The relationship with Beijing should never be considered as a trade-off of the linkage with Washington but would rather be regarded as a supplement component for Vietnam-American tie. From that approach, it is vital to solve the East Sea (as known as the South China Sea) dispute, the continuous source of tension between the two neighboring countries as well as the significant impediment against trust-building and mutually profitable economic cooperation between the two neighbors. In the East Sea conflict, in the balance of interests, both Vietnam

and China are centering heavily on zero-sum security and sovereignty dimensions, but at the expense of win-win economic development. Therefore it's important to recalibrate the balance of interests towards economic cooperation to avoid significant cost to the increasingly fragile economy of Vietnam.

In the case of escalation, *the first to suffer* are our fishermen when the number of fishing boats being bumped and damaged has been increasing, from 17 cases in 2013 to 40 cases in 2014 with the estimated loss of around 6 billion VND (or around 300,000 USD) (N. P. Linh 2014). *The second key economic loss* can be seen in tourism, where the negative travel advisory from Beijing had an immediate impact on 25% of the 25% of international tourists (Nguyen Duc Thanh 2014). *Additional damage* is also recorded in investment and trade. In investment, a ban on partnership with Vietnam affects 15 of 20 energy projects, 3 aluminum, bauxite and coal projects, 24 cement projects and 4 highway projects, whose Engineering, Procurement, and Construction contractors are Chinese state-owned-enterprises (SOEs). In trade, the heavy dependence on materials for exports with 39% input for textile and garment, 32% for footwear production, 26% for chemical industry and 45% for machinery makes the Vietnamese key sectors more fragile in the bilateral hostile situation (Nguyen Duc Thanh 2014). *Finally*, in addition to the visible cost of military build-up in the Sea, this approach includes the opportunity cost of oil and gas exploration with Exxon Mobil, Chevron, ConocoPhillips, BP and Harvest Natural Resources Inc. which had to cancel their operation under Chinese pressure (Brian Spegele 2014).

Upholding economic-centric approach, Vietnam may consider cooperating with China in carrying out joint exploration in the East Sea or pursuing a combination of diplomatic, legal, economic, and security initiatives that can secure its interests as a claimant while carefully

avoiding disrupting its vital bilateral relationship with China, just as the “hedging strategy” of Malaysia.

2.4. Carrying out economic reforms to stay attractive to American companies

A strong economy which may offer more to the bilateral counterpart is important to strengthen the Vietnamese position in bargaining her interests with not only the U.S. but also with any other country. Economic reforms to escape from the labor-intensive industries, to increase the added value of Vietnam in the global value chain and to escape from the middle-income trap are what Vietnam should uphold with concrete actions. The push from international pressure, especially from TPP, has elevated the need for the restructuring of state-owned enterprises towards efficiency, reinforcing the knowledge economy and improving labor productivity.

Overall, implementing the missions of economic diplomacy, the paper suggests using economic interest to improve relations (maintaining a strong economic growth to stay attractive in American enterprises’ eyes), optimizing political support for economic development (promoting the U.S.-led international economic regimes of TPP and LMI to gain economically potential partnership) as well as influencing the Congress from inside (the U.S. voters through the business community, Vietnamese Americans and the public as a whole) and outside (through the triangular diplomacy with China) in the two-level game. The most challenging pitfall of the recommendations involves the lack of human and financial capacity that can carry all of the work in a timely manner. This constraint, however, can be addressed by strategizing priorities, fixing the incentives structure to get the best people for the key assignments as well as getting assistance from the international community.

CONCLUSION

Overall, addressing the questions in the Introduction, the paper analyzes economic diplomacy in the interpretation that “economic” is not only the objective of diplomacy but also a tool to an end to serve diplomatic missions and “diplomacy” involves all process of policy making, including negotiation, implementation and evaluation.

Putting ED into practice in the bilateral context initiates those activities to improve political ties to achieve economic development goal; to mobilize economic cooperation to pressure a change in political policy or to seek bilateral support in a favorable multilateral economic setting. Which particular activities or tools to be used as well as how much effort to invest in such activities depend significantly on the balance of power between the two countries and the domestic balance of interests in the affiliation with that particular country.

In U.S. – Vietnam relations, the power asymmetry gives Washington the driving seat. The domestic politics in Washington has a strong influence on whether ED is used as a stick or carrot. Before 1995, sticks are mostly mobilized with comprehensive sanction and relationship halt, following the Vietnam War. Since 1995, the dominant economic motives set the tone for a new era of diplomatic thaw although differences in HR issues and political regime are still in the way, constraining win-win economic cooperation to reach its full advantage.

In order to achieve her interests while responding to the foreign policies by the U.S., Vietnam may take into consideration the key ED strategies, including supporting the U.S. effort in multilateral economic regimes of TPP and LMI; improving her stance by gaining Congress support through U.S. voters and strengthening the linkage with China and more importantly developing its economic attractiveness to American companies through concrete reforms.

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APPENDIX I. CHRONOLOGY OF U.S.-VIETNAM RELATIONS

1945

September 2: Establishment of the Democratic Republic of Vietnam, which is not recognized by the United States.

1945-1954: The United States financially supported the French in re-colonizing Vietnam.

1954

May 7: French is defeated in Dien Bien Phu battlefield.

1954-1964: The U.S. provides financial aid and military advisors to support the Republic of Vietnam (South Vietnam) against the Democratic Republic of Vietnam (North Vietnam).

1964

August 2: The Gulf of Tonkin incident, setting the legitimacy for direct involvement of American troops in Vietnam

1965-1975: The Vietnam/American War.

1975

April 30: South Vietnam is defeated. America withdrew all troops out of Vietnam. A U.S. trade embargo, already in effect against North Vietnam since 1964, is extended to the whole of Vietnam.

1987

August 1-3: Special Envoy of President Reagan, General John Vessey visits Vietnam for the first time to discuss humanitarian issues.

1988

September 29-31: Second visit of General John Vessey to Vietnam for humanitarian issues.

1990

September 29: Foreign Minister Nguyen Co Thach meets State Secretary James Baker in New York.

1991

November 11: the US Government officially allows American tourists, veterans, journalists, businessmen to visit Vietnam.

1992

December 14: President George Bush allows US companies to open representative offices in Vietnam and sign contracts once the US trade embargo is lifted.

1993

April 25: The first US company, Vatico (consultancy), opens office in Vietnam.

July 2: President Clinton authorizes the International Monetary Fund to refinance Vietnam's foreign debt (140 million dollars), clearing the way for Vietnam to receive international financial aid.

September 14: President Clinton allows US firms to take part in development projects financed by international institutions in Vietnam.

1994

February 3: Clinton announces the lifting of the trade embargo against Vietnam, a week after being approved by the Senate.

1995

January 28: The two countries announce the opening of liaison offices.

July 11: President Clinton and Prime Minister Vo Van Kiet announce the establishment of diplomatic relations between the US and Vietnam.

August 5: Secretary of State Warren Christopher inaugurates the US embassy in Hanoi as he pays the first official visit by a US Secretary of State to Vietnam.

1997

May 1997: the two countries exchange Ambassadors: Mr. Le Van Bang becomes Vietnamese Ambassador to the US; Mr. Douglas Peterson as US ambassador to Vietnam.

June 26-27: US Secretary of State Madeleine Albright visits Vietnam.

1998

March 11: President Clinton announces a waiver that excludes Vietnam from the Jackson-Vanick amendment for the first time.

October 1: Deputy Prime Minister, Foreign Minister Nguyen Manh Cam visits the US, the first official visit to the US.

1999

January 1999: Vietnam unilaterally grants Most Favored Status to American companies working in Vietnam although the two countries don't have bilateral trade agreement yet.

2000

March 13: US Defense Secretary William Cohen pays an official visit to Vietnam.

July 13: The two sides sign a landmark trade agreement a quarter of a century after the end of the Vietnam War.

September 21-24: Foreign Minister Nguyen Dy Nien pays an official visit to Washington.

November 16-19: US President Clinton pays an official visit to Vietnam.

2001

January 9: Vietnam and the U.S signed MOU for technical cooperation in Meteorology and Hydrology.

July 24-27: U.S State Secretary Powell attends ASEAN meetings in Hanoi.

June 1: President Bush decides to waiver Jackson-Vanik amendment to Vietnam.

December 10: Bilateral Trade Agreement enters effect after exchange of ratification letters by Vietnam's Trade Minister Vu Khoan and U.S Trade Representative Zoelick at Blair House.

October 8: U.S Senate approved the Bilateral Trade Agreement between the U.S and Vietnam.

December 10-12: Permanent Deputy Prime Minister Nguyen Tan Dung pays an official visit to the U.S. DPM has meetings with National Security Adviser Dr. Rice, Acting State Secretary Armitage; Trade Secretary Evans; Senators John Kerry; John McCain; Congressman Philip Crane.

2002

June 12-22: Deputy Prime Minister Nguyen Manh Cam pays a visit to the U.S to promote trade and economic relations.

July 23: U.S House of representatives support the President's decision to extend waiver from Jackson-Vanik provisions for Vietnam for another year by a vote 338-91.

2003

November 9-12: Defense Minister Pham Van Tra visits the US for the first time to discuss cooperation and exchanges views on issues of mutual concern.

2004

September 15: Vietnam is designated a Country of Particular Concern (CPC) by the U.S. Department of State under the Religious Freedom Act. However, the Department does not indicate whether it will apply sanctions under the legislation.

April 25-28: Vice Chairman of Vietnam National Assembly Nguyen Phuc Thanh visits the United States.

December 9: United Airlines launches the first direct service between US and VN.

2005

March 10: A class action suit entered into the U.S. District Court by the Vietnamese Association for Victims of Agent Orange against 30 American chemical companies that manufactured Agent Orange during the war is dismissed on all counts.

May 5: In Hanoi, U.S. Deputy Secretary of State Robert Zoellick announces the conclusion of an agreement between Vietnam and the United States on religious freedom. On the same day, the State Department announces it will not impose sanctions on Vietnam under the Religious Freedom Act.

May 10: Vietnam is identified as a target country in the Global Internet Freedom Act, H.R. 2116, introduced into the House of Representatives. The bill does not stipulate sanctions but proposes to establish an Office of Internet Freedom within the International Broadcasting Bureau to monitor Internet access in specific countries.

June 3: The U.S. State Department releases the 2005 Trafficking in Persons Report. Vietnam is moved from the Tier 2 Watch List to Tier 2, signifying improvement.

June 19 - 25: The first Vietnamese Prime Minister to visit the United States in over 30 years, Phan Van Khai arrives in Seattle to meet with Microsoft Chairman Bill Gates. Microsoft promises to assist Vietnam's technological development and to train 50,000 Vietnamese teachers. President Bush and Prime Minister Khai meet at the White House and sign accords on adoption, religious freedom and agricultural cooperation. Prime Minister Khai also meets with Defense Secretary Donald Rumsfeld and Commerce Secretary Carlos Gutierrez. At the Defense Department, Rumsfeld and Khai announce that Vietnam will participate in the International Military Education and Training Program for the first time.

June 20 (During the visit of Prime Minister Phan Van Khai): The Subcommittee on Africa, Global Human Rights and International Operations of the U.S. House of Representatives International Relations Committee conducts hearings on human rights in Vietnam. The Vietnam Human Rights Act, HR 3190, is introduced into the House of Representatives. The draft legislation resembles earlier versions of the Act submitted in 2001 and 2004, both of which passed in the House but were not approved in the Senate.

August 18: The Vietnamese Ministry of Foreign Affairs releases a White Paper on Human Rights.

September 13: Members of the Vietnam Veterans of America's Veterans Initiative Task Force meet with the Veterans Association of Vietnam in Hanoi to relay information related to Vietnamese soldiers missing in action in the war. Working together since 1993, the Task Force and the Veterans Association have accounted for over 9000 missing Vietnamese soldiers.

2006

April 21: Visit to Vietnam by U.S. House of Representative Speaker Dennis Hastert.

May 31: Signing of bilateral agreement on Vietnam's accession to the World Trade Organization.

November 17 - 20: First visit to Vietnam by U.S. President George W. Bush. The President attends the Asia Pacific Economic Cooperation (APEC) Summit in Hanoi and visit Ho Chi Minh City.

December 8: Approval by U.S. House of Representative of the Bill to extend the Permanent Normal Trade Relations (PNTR) status to Vietnam. Dec 9 2006, the Bill was passed in the US Senate.

2007

March 9 - 16: Visit to the US by Deputy PM and FM Pham Gia Khiem.

June 18 - 23: Historic Visit by President of Vietnam Nguyen Minh Triet to the US.

2008

June 23 -26: Visit to the US by Vietnamese Prime Minister Nguyen Tan Dung.

2009

April 12-21: Visit to US by Public Security Minister Le Hong Anh.

December 10-15: Visit to US by Defense Minister Phung Quang Thanh.

October 1-2: Visit to the US by Deputy PM and FM Pham Gia Khiem.

2010

April 22: Prime Minister Nguyen Tan Dung attended Nuclear Security Summit in U.S.

July 22-23: Visit to Vietnam by Secretary of State Hillary Clinton.

October 11-12: Visit to Vietnam by Defense Secretary Robert Gates.

October 29-30: Visit to Vietnam by Secretary of State Hillary Clinton.

2011

May 23: Vietnamese Trade Minister Vu Huy Hoang attended the meeting of the Vietnam-US Trade and Investment Framework Agreement (TIFA) Council in Washington with an agreement on access to each other's market for several mutually-supplementary agricultural products.

October 3-6: Visit to US by Vice Chairman of National Assembly Huynh Ngoc Son.

2012

February 7-11: Visit to US by Deputy Prime Minister Vu Van Ninh.

March 12-14: Visit to US by Vice Chairman of Vietnamese National Assembly Uong Chu Luu.

June 3-4: Visit to Vietnam by US Secretary of Defence Leon Panetta.

June 24-26: Visit to US by Vice Chairwoman of Vietnamese National Assembly Nguyen Thi Kim Ngan.

July 10-11: Official visit of US Secretary of State Hillary Clinton.

2013

July 23-26: Official visit of President Truong Tan Sang. Conclusion of U.S-Vietnam Comprehensive Partnership.

August 23-34: Official visit of Deputy Prime Minister Nguyen Xuan Phuc

September 27: Vietnamese Prime Minister attends UN Assembly meeting in New York.

November 14: Visit of U.S. Secretary of Finance Jack Lew

December 3: Visit of U.S. Trade Representative Michael B. Froman

December 17: Official visit of Secretary of State John Kerry

2014

March 6: Visit to Vietnam of Undersecretary of State Wendy Sherman.

April 16-21: Visit to Vietnam of bicameral, bipartisan congressional delegation headed by U.S. Senator Patrick Leahy.

June 3: US Secretary of Commerce Penny Pritzker visits Vietnam.

July 24: US adopts U.S. – Vietnam Nuclear Cooperation Agreement.

August 5-11: US Congress Delegation headed by Nancy Pelosi attends Inter-Parliamentary Union meeting in Hanoi.

October 1-2: Official visit to the U.S. by Foreign Minister Pham Binh Minh.

October 3: US partly removes sanction on legal weapons trading against Vietnam.

2015

March 25: Vietnamese Defense Minister Tran Dai Quang pays an official visit to the U.S.

April 11-18: National Assembly Vice-Chair Nguyen Thi Kim Ngan visits Harvard University for the Vietnam Leadership Executive Program.

Source: Self-generated with the information from the U.S. Embassy in Hanoi and the Ministry of Foreign Affairs of Vietnam.