



# PRESIDENT OBAMA'S VISIT TO VIETNAM

MAY 19, 2016

## SUMMARY

- On May 23-25, U.S. President Barack Obama will make his first visit to Vietnam. He will travel to Hanoi and Ho Chi Minh City and will meet with Vietnam's new leadership, members of civil society and the business community, as well as Vietnamese members of the Young Southeast Asian Leadership Initiative (YSEALI), a program launched by the president in 2013 to develop regional youth leaders and strengthen ties through cultural exchanges. U.S. Secretary of State John Kerry, a decorated Vietnam War veteran, will accompany him.
- Obama's visit comes during a challenging time for Vietnam's new leadership. The government is dealing with a major coastal pollution crisis, severe drought in the Mekong Delta, and the National Assembly general elections on May 22.
- Hanoi will focus on security and commercial concerns during the visit, particularly the possible removal of the U.S. ban on lethal weapons exports to Vietnam, maritime security in the South China Sea (East Sea in Vietnam), and the outlook for U.S. ratification of the Trans-Pacific Partnership (TPP).
- The Obama administration views the improvement in relations with Vietnam as a concrete example of its strategy to "rebalance" foreign policy towards the Asia-Pacific. The White House will seek to highlight Vietnam as an important partner for maintaining peace and stability in the region, as well as one of the most promising markets for U.S. companies. Obama will leverage the visit to reiterate the strategic and commercial importance of ratifying the TPP.
- For U.S. companies, the visit is a critical opportunity to engage with both governments on remaining barriers to greater bilateral trade and investment. Vietnam's inclusion in the TPP, low cost of labor, and strategic location make the country an attractive trade and investment destination.
- The U.S. and Vietnamese governments are working to expand cooperation under the 2013 U.S.-Vietnam Comprehensive Partnership. Education, people-to-people ties, human rights, and climate change will be a focal point in addition to traditional security and economic considerations.

## ABOUT ASG

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## CONTEXT FOR THE VISIT

During his upcoming visit to Vietnam, President Obama is expected to focus on the future direction of the bilateral relationship rather than outstanding issues from the Vietnam War, in contrast to previous visits from sitting U.S. presidents. The U.S.-Vietnam relationship has progressed significantly in the past five years, underpinned by growing mutual security and economic interests. Hanoi views U.S. support for the freedom of navigation and the peaceful resolution of territorial disputes in the South China Sea and the deepening of bilateral economic ties as critical to balance China's increasing strategic and economic weight. Similarly, Washington perceives enhanced cooperation with Vietnam as vital to its efforts to promote regional stability and to deepen regional economic integration in the Asia-Pacific through the TPP.

Washington's willingness to strengthen bilateral ties despite differences with Hanoi over political ideology and human rights highlights the importance of these strategic and economic interests, and this visit reflects the culmination of a concerted effort by the administration to improve collaboration in these two areas. The Obama administration views the improvement in relations with Vietnam as a concrete example of its strategy to "rebalance" its foreign policy towards the Asia-Pacific. Differences over political ideology and human rights have remained a thorn in the bilateral relationship, however, and Obama undoubtedly sees this trip as his last and best opportunity to push for real progress on these issues.

Underscoring the importance of the bilateral relationship to Vietnam, the leaders of the Communist Party of Vietnam (CPV) accelerated the timeline of the planned government transition so that the country's new leadership would be in place for the visit. The confirmation of the new leadership team was originally scheduled for early July, when the new National Assembly will hold its first session following the May 22 general elections, but was moved up to early April.

The new government is currently dealing with its first major crisis. Since early April, an estimated 100 tons of fish have washed up across the central coast of Vietnam, devastating provinces that depend on fishing and tourism for a living. Many in the public have accused a Taiwanese-owned steel mill of polluting the waters, but the government has appeared reluctant to tie the firm to the incident. Over 100,000 Vietnamese have signed an online petition for Obama to raise the coastal pollution crisis when he visits, and thousands have peacefully demonstrated in several cities across the country every Sunday this month, demanding the closure of the Taiwanese factory and swift government action.

The incident has fanned the flames of deep anti-Chinese sentiment among the Vietnamese public and the government has become increasingly concerned with managing the situation. Historically, anti-Chinese sentiment has at times exploded into violence, straining already tense relations with China and projecting a negative image of Vietnam's investment climate. Reports of the improper use of force by police against demonstrators and media censorship have risen in recent days, shining a spotlight on human rights violations just as Hanoi is trying to convince Washington to remove its ban on lethal weapons exports.

The crisis has fueled domestic debate over foreign investors' labor and environmental practices and the adequacy of government oversight. Vietnam's new leadership will want to reassure the public that environmental protection and public safety is a core concern, without deterring investment. Vietnam is heavily dependent on foreign direct investment (FDI) for sustaining its high levels of economic growth and has consistently worked to improve its standing as a trade and investment destination.



## TENTATIVE TIMELINE

No formal agenda has been announced, but ASG understands that the following events form a tentative timeline:

- **May 23.** President Obama and Secretary Kerry arrive in Hanoi to meet with senior government officials, including Prime Minister Nguyễn Xuân Phúc. President Obama will deliver remarks on U.S.-Vietnam relations.
- **May 24.** President Obama travels to Ho Chi Minh City, the commercial hub of the country, to deliver remarks on the strategic and commercial importance of the TPP.
- **May 25.** President Obama departs for the Group of Seven (G7) Summit in Japan. Prime Minister Phúc departs shortly after to attend the extended sessions of the G7.

## TOP ISSUES & POTENTIAL OUTCOMES

The most pressing issues of mutual interest are preserving stability in the South China Sea and the timeline for ratification of TPP in the United States. The two sides are also expected to announce expanded cooperation in the core areas of the 2013 United States-Vietnam Comprehensive Partnership, which include maritime capacity building, economic engagement, climate change and environmental issues, education cooperation, and human rights. The Obama administration may announce plans to turn the State Department-funded Fulbright Economics Teaching Program in Ho Chi Minh City into an American-style university, and the two sides will announce the signing of new commercial deals. The Obama administration could also announce an expansion of the United States Agency for International Development (USAID)'s Forests and Deltas Program in light of the ongoing severe drought in the Mekong River Delta, and Hanoi and Washington may expand cooperation on humanitarian assistance and issues related to the aftermath of the Vietnam War, including dioxin contamination and unexploded ordnances.

### *Deepening U.S.-Vietnam Security Ties*

China's increasingly assertive actions in the South China Sea have accelerated maritime and defense cooperation between the United States and Vietnam. In 2011, the two sides signed a Memorandum of Understanding on Advancing Bilateral Defense Cooperation and in October 2014, citing modest improvements in human rights in Vietnam, the United States partially lifted the ban on U.S. lethal weapons exports, permitting the export of weapons related to maritime security on a case-by-case basis. In June 2015, the two countries signed a Joint Vision Statement on Defense Relations that envisages greater defense trade and the co-production of military equipment, and the Obama administration announced that it will provide \$18 million for the Vietnamese Coast Guard to purchase American Metal Shark patrol vessels. Vietnam is expected to receive just over US\$2 million for maritime capacity building in 2016 under the Southeast Asia Maritime Security Initiative (MSI), but could receive more funding in the future.

Vietnam has urged the Obama administration to fully lift the 30-year-old ban on lethal weapons exports, citing its importance for defense cooperation and maritime security, as well as for deepening mutual trust and fully normalizing relations. Against the backdrop of increased tensions with China, Vietnam has exponentially increased its total arms imports to become the world's eighth largest importer of weapons, and is eager to upgrade its defense systems, the bulk of which currently comes from Russia. In practice, Hanoi will likely be cautious in purchasing U.S. defense systems and technology, given concerns over Beijing's and



Moscow's possible responses, but is hoping that the United States will allow for greater technology transfer between the countries.

Obama may announce his support for the full removal of the lethal weapons ban, provided that Vietnam makes progress on human rights. In advance of the president's visit, top administration officials, including Deputy Secretary of State Antony Blinken, U.S. Assistant Secretary of State for East Asian and Pacific Affairs Daniel Russel, and Assistant Secretary of State for Democracy, Human Rights, and Labor Tom Malinowski, have called on Vietnam's leadership to release political prisoners. Washington has expressed particular concerns over the arrest of human rights lawyer Nguyen Van Dai in December 2015 and the sentencing of blogger Nguyen Huu Vinh for "abusing rights to freedom and democracy to infringe upon the interests of the state" in March 2016. Some observers in Hanoi noted that the latter two diplomats seemed pleased with the outcome of their recent meetings, potentially indicating that Hanoi will release some political prisoners before or during Obama's visit.

### *Growing Bilateral Trade and Investment*

The TPP is a central pillar of Vietnam's efforts to diversify trade and investment flows away from China and enjoys strong support from the government and the public. Vietnam's leadership perceives economic interdependence with China as unavoidable, given the outsized role of China in regional supply chains, but views it as a strategic vulnerability since Beijing has used economic pressure to punish countries for political decisions that run counter to China's interests. Moreover, Vietnam's rapidly rising trade deficit with China, which reached \$32.3 billion in 2015, up 12.5 percent from the previous year, has been the subject of government and public concern. There is also widespread dissatisfaction among the Vietnamese people about Chinese investment, particularly in infrastructure projects, which has triggered criticism of Chinese labor and environmental practices.

The World Bank and the International Monetary Fund (IMF) expect Vietnam's economy to grow at over six percent in 2016, while implementation of the TPP is projected to spur an additional ten percent increase in GDP by 2030. The agreement may have already sparked more FDI inflows, particularly in labor-intensive manufacturing. In the first four months of this year, Vietnam witnessed a 12 percent increase in FDI disbursements year-on-year. Obama and Vietnam's leadership will undoubtedly discuss the prospects for TPP ratification in the United States, as well as the timeline for the United States to grant Vietnam market economy status. Both China and Vietnam have asked the U.S. government to grant them market economy status since joining the World Trade Organization (WTO) in 2001 and 2007, respectively, but both requests are unlikely to be granted in the near to medium term due to domestic political sensitivity in the United States.

Vietnam's inclusion in the TPP, low cost of labor, and strategic location between China and India make the country a highly attractive trade and investment destination for U.S. companies, particularly for labor-intensive manufacturing and services such as education. The overall operating environment for U.S. companies in Vietnam has improved markedly, though a wide range of barriers to further trade and investment remain, including evolving laws and policies, an underdeveloped court system, and high levels of red tape and corruption.

The Obama administration views the TPP as an important vehicle for improving human rights in Vietnam, particularly labor rights. The U.S.-Vietnam "labor consistency plan" included in the TPP requires Vietnam to legalize independent unions, enhance protections against employment discrimination, and increase penalties for forced labor before the country can benefit from U.S. market access commitments.

