Opening a market, building a response

Vietnam's US trade agreement, 2000-17

Country decision case | Trade and productive investment | 8 October 2026

The hook

On 10 December 2001, Vietnam gained normal tariff treatment in the US market. Orders could move quickly. Firms, factories and workers would adjust over years. The decision was whether to exchange domestic commitments for access, and how to turn that access into lasting productive capacity. [S1-S2]

Abstract

Vietnam's bilateral trade agreement with the United States took effect in December 2001, sharply reducing tariffs on Vietnamese goods while committing Vietnam to changes in commercial rules. This case asks how market access became productive capacity rather than a diplomatic announcement. Official trade data show rapid growth in American goods imports from Vietnam after implementation. Original research traces employment responses across industries and provinces, identifying foreign firm entry, expansion after entry, and shifts from agriculture toward manufacturing and services. These findings are separated from descriptive national totals and remain conditional on empirical assumptions. Vietnam's experience does not establish that every agreement increases employment, that foreign investment automatically develops domestic suppliers, or that later export growth came from one treaty. For Sri Lanka, the conditional lesson is to pair verified access with dependable execution, worker support and measures of domestic value, rather than judge success by signatures or announced investment alone.

The decision question

If access improves today, which domestic changes should be ready first, which can follow, and what would count as success beyond gross exports?

Independent teaching case. Not an HBS publication. Policy recommendations are labelled judgment; research estimates are attributed. Historical evaluation, not a statement of the tariffs exporters face in 2026.

1. The bargain at the decision point

The agreement was signed on 13 July 2000 and became effective on 10 December 2001. The formal US notice distinguishes signing, legislative approval and effective implementation. Congress approved it on 3 October 2001; the US president signed the approving legislation on 16 October. Vietnam's National Assembly approved ratification on 28 November, followed by presidential signature on 4 December. A signature was not yet tariff access. [S2]

The US granted normal trade relations, historically also called most-favored-nation treatment. This meant moving away from a high tariff schedule, not abolishing all tariffs and not conferring an exclusive preference unavailable to other normal-trade partners. USTR's contemporary announcement explicitly noted an annual Jackson-Vanik waiver condition. The opening therefore should not be narrated as unconditional permanent free trade from its first day. [S1-S2]

Vietnam offered commitments reaching beyond border duties. The treaty contains chapters on goods, intellectual property, services, investment, business facilitation, transparency and general provisions. Its schedules qualify the commitments. An account that reduces the agreement to a single tariff percentage misses both the domestic implementation work and the exceptions. [S3]

Exhibit 1. Two ways of measuring the tariff opening

Traded-industry measure. Hoang and Nguyen's 2018 original research reports the simple mean of US tariffs falling from 28.9% to 3.7%, citing the underlying tariff construction. [S5]

Manufacturing-industry measure. McCaig, Pavcnik and Wong's October 2023 working-paper revision reports a fall from 31.9% to 2.9% across 119 four-digit traded manufacturing industries, with tariff-line conversion and industry matching described. [S6]

Desk calculations. These are reductions of 25.2 and 29.0 percentage points respectively. They are not contradictory national estimates to average together: industry coverage and construction differ. Nor does either imply every product faced a 29-point cut. [S5-S6]

The constraint

Judgment: gaining an order is easier than becoming a repeat supplier. The policy problem was to make a changed border price usable by businesses that still had to finance production, obtain inputs, organize workers and deliver reliably.

2. The choices and implementation work

The following choices are analytical alternatives, not reconstructed minutes of a cabinet meeting.

Wait for broad domestic readiness. Repair infrastructure and institutions first, then accept demanding external commitments. Possible benefit: less implementation strain. Risk: postponing access also postpones orders and the investment that demand might attract.

Take access and treat the signature as success. Benefit: an immediate visible milestone. Risk: compliance, service reliability and domestic capabilities lag behind the announcement. Export demand can then favor only a narrow set of firms and locations.

Take access with staged execution. Treat the external bargain and domestic delivery as linked work. Benefit: firms can respond while reforms proceed. Risk: a timetable on paper does not establish enforcement or fair adjustment. This is the path to evaluate, rather than assume was executed perfectly.

What the agreement actually required

The goods chapter contains trading-rights schedules and transitional arrangements. Vietnam's commitments were not all immediate or identical across businesses. Hoang and Nguyen describe many commitments as phased over three to four years, with some extending up to ten years, and much of the work as legal and regulatory rather than an immediate tariff shock symmetric to the US change. [S3, S5]

Chapter VI provides an unusually concrete execution test. Rules of general application should be published promptly with effective dates, affected products or services, relevant authorities and a contact point. It also provides for uniform, impartial and reasonable administration, and review procedures. These are commitments in the legal text, not evidence that every official followed them. [S3]

Judgment: predictability lowers the risk of accepting an order. A factory cannot reliably quote a customer when an unpublished rule or inconsistent approval changes its cost or delivery date. That mechanism is plausible; the case does not separately estimate the contribution of transparency provisions to export growth.

Access was not immunity

The goods chapter also contains market-disruption consultation and remedy provisions. Legal market access could coexist with safeguards and disputes. Later research controls for textile and clothing quotas and Vietnam's WTO-related tariff changes. The lesson is to inspect product-level terms and subsequent changes, not assume one treaty removes all commercial risk. [S3, S6]

3. What the trade totals show

Exhibit 2. US goods imports from Vietnam

US Census Bureau, calendar years, nominal US$ millions, not seasonally adjusted. These are US-reported imports, not Vietnamese value added, household income or services exports. [S4]

2000: 821.3
2001: 1,053.2
2002: 2,394.8
2003: 4,554.8
2004: 5,275.3

Desk calculations. Imports increased 127.4% from 2001 to 2002 and 90.2% from 2002 to 2003. The 2004 total was 5.01 times the 2001 total. Calculations use the displayed rounded annual totals; revisions and rounding may affect the last decimal. [S4]

The timing is consistent with a strong response to access. It is not a causal estimate of the agreement's entire effect. Annual dollar totals combine quantities, prices and composition; investment, other reforms and external demand can change alongside policy. The agreement became effective near the end of 2001, so that year's total is overwhelmingly a pre-implementation baseline, not a full treatment year. [S2, S4]

A source difference worth keeping

Hoang and Nguyen report UN Comtrade-based growth of 130% in 2002 and 61% in 2003. This case uses Census totals for its own descriptive exhibit and does not mix those growth rates into the Census series. Reporting direction, coverage or vintages can differ; the discrepancy has not been reconciled here. Both accounts support rapid growth, but not the same second-year percentage. [S4-S5]

Why exports are insufficient

Gross trade can rise when producers import substantial intermediate inputs. A rising export number alone cannot tell how much income is retained locally or whether domestic suppliers learn to meet new standards. Nor is a bilateral surplus a welfare measure. These are accounting and evaluation limits, not reasons to dismiss the growth in shipments.

Discussion. Would you prioritize rapid gross export growth, formal jobs, domestic value added or supplier development? Which measures can be observed promptly, and which need longer follow-up?

4. The response inside Vietnam

Hoang and Nguyen use the 2002 and 2004 Vietnam Household Living Standards Surveys, including a panel of households and provincial exposure measures based on pre-agreement industrial employment. Provinces exposed to larger US tariff cuts experienced stronger shifts toward manufacturing and services and away from agriculture. The researchers find local service effects consistent especially with demand from new non-farm income. [S5]

An important qualification: their main results do not show aggregate household employment growing with exposure, although total working-hour shares rise. The finding is reallocation and reduced underemployment, not simply more people obtaining jobs everywhere. This distinguishes a local structural change from an unqualified national employment claim. [S5]

Exhibit 3. The longer horizon

McCaig, Pavcnik and Wong use Vietnam's General Statistics Office enterprise survey to examine formal manufacturing through 2017. Their descriptive series expands from about 1.4 million workers in 1999 to 6.9 million in 2017. This covers registered enterprises, not all Vietnamese employment, and the whole increase is not attributed to the treaty. [S6]

Their industry comparisons estimate that an industry exposed to the average US tariff reduction doubled employment relative to one without a reduction over the long horizon. The year-six estimate accounts for 61% of the estimated cumulative response at sixteen years. These are model-based comparative effects, not observed doubling in every factory. [S6]

The response was driven mainly by new foreign affiliates, many from East Asia, entering to export and then expanding. The authors estimate roughly half of cumulative tariff-induced employment growth came from gradual post-entry growth in foreign entrants. Access negotiated with one country could attract productive firms from third countries. It did not mean American firms alone supplied the investment. [S6]

The domestic-firm warning

In this study, domestic private entrants respond in number but do not contribute comparably to overall estimated employment growth. That is not evidence that all local firms lost or that supplier learning never occurred. It does show why foreign firm entry and domestic business development should be tracked separately rather than declared the same achievement. [S6]

5. What is established, and what transfers

The tariff change offers useful research variation because US schedules were not negotiated industry by industry around Vietnamese growth prospects. The long-run study compares more- and less-exposed industries, checks pre-existing patterns and controls for other trade-policy changes. Identification still requires tariff reductions not to be correlated with unobserved industry-specific changes affecting the outcomes. A research design improves on a before-and-after story; it does not eliminate every uncertainty. [S6]

The household study works at a different level and horizon. Its exposure measure is weighted by provincial employment; its household outcomes cannot be read as firm-level results. The enterprise study excludes informal household businesses. Neither paper alone proves the treaty caused Vietnam's entire development path, specifies an optimal political system, or supplies a net welfare balance for every worker and region. [S5-S6]

Conditional lessons for Sri Lanka

Verify the usable opening. Judgment: before seeking a new agreement, inspect actual tariff lines, origin rules, transition periods and non-tariff requirements. Vietnam's move from unusually high US tariffs created a large opening. A country already enjoying different access cannot assume the same treatment gain.

Make delivery a joint project. Judgment: assign named responsibility for customs consistency, input access, standards, electricity and time-sensitive approvals. Publish service measures and complaints outcomes. Treaty language on transparency offers a checklist, not a substitute for functioning administration.

Separate entry from capability. Judgment: track foreign entrants that actually operate, repeat orders, training and domestic supplier contracts. Avoid equating approved investment with production or exports with locally retained value. Support viable suppliers without promising automatic spillovers from foreign factories.

Support movement, not forced displacement. Judgment: measure wages, hours, commuting and living costs, access to training, and effects on workers who cannot move. Vietnam's evidence concerns shifts between activities; it does not justify leaving people behind in the name of national exports.

Use a long horizon with early tests. Judgment: choose a few verifiable service and firm-response measures first. Continue tracking expansion after entry. Do not promise Vietnam's estimated employment response in Sri Lanka: starting access, scale, sector mix and investment conditions differ.

Decision. Prefer access plus accountable execution, conditional on verified commercial terms and capacity to support adjustment. The evidence favors testing a chain from access to firms to workers, not celebrating the signature alone.

Sources and method

All records inspected 8 October 2026. Primary legal and official statistical sources anchor the chronology and trade exhibit. Original empirical working papers provide attributed findings, not official institutional verdicts. No current tariff rate or full-year 2026 outcome is asserted. Teaching alternatives and Sri Lankan lessons are judgment, not archival claims.

S1. USTR, 10 December 2001. Contemporary implementation announcement, normal trade relations and annual waiver qualification. Its forecasts are not treated as measured results.
https://ustr.gov/archive/Document_Library/Press_Releases/2001/December/United_States_Vietnam_Trade_Agreement_Takes_Effect_Today.html

S2. Federal Register, 17 December 2001. Determination of effective date of the US-Vietnam agreement. Signing, approval and entry into force chronology.
https://www.federalregister.gov/documents/2001/12/17/01-30961/determination-of-effective-date-of-us-vietnam-bilateral-trade-agreement

S3. Agreement on Trade Relations, signed 13 July 2000. Original treaty hosted by USTR; Chapters I-VII and annexes. Trading rights, investment, services, intellectual property, market disruption and Chapter VI transparency provisions. Legal commitments do not establish implementation outcomes.
https://ustr.gov/sites/default/files/US-VietNam-BilateralTradeAgreement.pdf

S4. US Census Bureau, Trade in Goods with Vietnam. Live historical annual table, inspected 8 October 2026. US imports in nominal US$ millions, not seasonally adjusted. Only the 2000-04 historical window is used; no later trade-policy attribution.
https://www.census.gov/foreign-trade/balance/c5520.html

S5. Trung X. Hoang and Ha Nguyen, March 2018. Impact of US Market Access on Local Labor Markets in Vietnam, World Bank Policy Research Working Paper 8366. Original household/provincial research; author findings, not a World Bank policy position. Surveys 2002/2004; tariff construction and local spillovers. Descriptive Comtrade growth differs from the Census exhibit and is retained as a caveat.
https://documents1.worldbank.org/curated/en/374231520955330537/pdf/WPS8366.pdf

S6. Brian McCaig, Nina Pavcnik and Woan Foong Wong, December 2022, revised October 2023. FDI Inflows and Domestic Firms: Adjustments to New Export Opportunities, NBER Working Paper 30729. Original GSO firm data and industry-exposure research, 1999-2017. Estimates require identifying assumptions. This revision is a working paper, not peer reviewed by NBER; later revisions are not substituted silently.
https://www.nber.org/system/files/working_papers/w30729/revisions/w30729.rev1.pdf

Calculations. Census: (2,394.8/1,053.2 - 1) x 100 = 127.4%; (4,554.8/2,394.8 - 1) x 100 = 90.2%; 5,275.3/1,053.2 = 5.01. Tariff percentage-point reductions are subtraction, not proportional reductions.

Limits. No independent net-welfare model, causal decomposition of all national growth, current product-level legal advice or new Sri Lankan empirical estimate. The case distinguishes observed totals, attributed estimates and policy judgment.