

Master of Arts in Commercial Diplomacy Project

**A STRATEGY FOR THE VIETNAM CIVIL AVIATION
ADMINISTRATION TO PROMOTE US-VIETNAM
BILTERAL CIVIL AVIATION AGREEMENT**



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SCENARIO

This project was completed to fulfill the requirements for the Master of Arts in Commercial Diplomacy at the Monterey Institute of International Studies (MIIS).

For the purpose of this Masters Project, I assume the role of an aviation specialist at the Department of Planning and Marketing of the Civil Aviation Administration of Vietnam (CAAV).

Vietnam is attempting to develop its civil aviation sector through modernization policies, particularly policies that foster better relations with the United States. I am tasked by the General Director of the CAAV to integrate Vietnam into the regional and global air transport system, and to develop an effective strategy for a US-Vietnam Bilateral Civil Aviation Agreement.

EXECUTIVE SUMMARY

Vietnam's civil aviation sector has made vast improvements over the past ten years. Nevertheless, the sector is still largely under-developed relative to other countries in Southeast Asia. The Vietnamese government recognizes the strategic importance of the civil aviation sector to its economy and has shown its support through generous subsidies and favorable treatment. Despite this support, benefits generated by the sector have proven insufficient. To advance Vietnam's civil aviation sector, it is critical that drastic modernization actions be taken and mechanisms introduced to increase competitiveness with civil aviation in other Southeast Asian countries and throughout the rest of the world.

The US-Vietnam Bilateral Civil Aviation Agreement is vital for Vietnam. The agreement should reflect recent regional and global network trends, which require modern equipment, information technology, and financial regulations. Bilateral aviation cooperation between the US and Vietnam will benefit both countries, especially if the US-Vietnam Bilateral Trade Agreement is reached.

The US-Vietnam Bilateral Trade Agreement will help ensure that Vietnam is competitive in the global market; it will also attract more foreign investment and contribute to the modernization of Vietnam's civil aviation sector. In addition, the agreement would lead to management improvements, enhance Vietnam's technical and commercial cooperation with foreign airlines, and generate benefits for aviation and other sectors of the economy. The agreement, however, would require adjusting current legal documents to make them compliant with international aviation regulations. Finally, the US-Vietnam Bilateral Civil Aviation Agreement would expedite Vietnam's accession to the WTO.

For the US, the agreement would help reinvigorate a stagnant air transportation market. Expanding its flight network with Vietnam will generate benefits for the aviation industry and recover economic damages caused by the September 11 attacks. Moreover, the agreement would further the US policy of "making more friends and enlarging international cooperation" to fight terrorism and ensure a peaceful life for the American people.

What would be the scope, content, and rate of progress of finalizing an US-Vietnam BCAA agreement? Would it take the form of a traditional bilateral agreement, or a modernized "Open Skies" agreement?

A traditional bilateral aviation agreement only embraces First, Second, Third, and Fourth Freedoms of the Air (see Background), which limit flight routes, designate airlines for each country, and determine load, frequency, fares and charges. Most of the time, traditional aviation bilateral agreements are based on reciprocity.

An "Open Skies" Agreement is an expansion of a traditional agreement. It is more "open" than a traditional one in terms of routes and designations, capacity and frequency, code-sharing, double-disapproval pricing, charter, cargo, doing-business, charges and fees, competition, and CRS. An "Open Skies" Agreement deepens the requirements for safety and security set forth in the traditional agreement.

Vietnam may favor a traditional agreement, since the "Open Skies" agreement would create economic, political, and social instabilities in Vietnam due to the immaturity of Vietnam's aviation industry. The US would prefer an "Open Skies" agreement, which would enable the US to quickly enter the promising US-Vietnam air traffic market and expand its route network with as few limits as possible.

Differences in each country's aviation development and contrasting points-of-view among stakeholders in the two countries would put the anticipated US-Vietnam BCAA in a difficult situation. In order to create an US-

Vietnam BCAA that would harmonize the interests of both parties, it is highly recommended that the CAAV create a strategy to:

- Introduce a time frame for the US-Vietnam BCAA, to be implemented first as a traditional bilateral agreement, then as an “Open Skies” agreement.
- Build consensus among leaders and staff of the CAAV, Vietnam Airlines Corporations, and other involved units on the time-frame, changes to the Civil Aviation Law, and other legal documents.
- Build consensus among key members in the Central Committee and the Political Bureau (PolitBuro), and gain support of the Secretary General of the Communist Party. Their support is crucial for reaching the US-Vietnam Bilateral Civil Aviation Agreement.
- Develop a legislative strategy to persuade the National Assembly to adapt the time frame of the US-Vietnam BCAA and incorporate the amendments, which are introduced in the Legal Analysis section, to the Civil Aviation Law of Vietnam. The key players are the members of the Law Commission and the Economic and Budget Commission. These two Commissions have decisive influence on amending the law, budgeting for the implementation of the US-Vietnam BCAA, and financing the aviation sector to buy aircraft and equipment.
- Build consensus among government officials of the State Office and of the President’s Office, namely the Prime Minister and the President, and other related ministries and departments, for a time-frame of the US-Vietnam BCAA.
- Build a coalition with the five US airlines planning to serve the US-Vietnam air services market (United Airlines, American Airlines, Northwest Airlines, Continental Airlines, and Delta Airlines). Gain support from the coalition on the time-frame of the US-Vietnam BCAA.
- Lobby the US Government, specifically the Legislative Branch, Executive Branch, Department of Transportation (DOT), and Federal Aviation Administration (FAA), through the aforementioned US airline coalition. Convince the government to pass the US-Vietnam Bilateral Civil Aviation Agreement under the traditional form, to build a foundation for the “Open Skies” Agreement later.
- Send talking points via the Ministry of Foreign Affairs of Vietnam to the US Congress, the Bush Administration, the State Department, the DOT, and the FAA to convince them of the benefits of the Agreement. Reiterate the main objectives: to help the US economy recover, strengthen national security, and develop a “healthy” US aviation sector after the September 11 attacks.
- Work closely with the government of Vietnam, the Ministry of Foreign Affairs, The Ministry of Trade, and the National Committee for International Economic Cooperation to conduct an international strategy. The strategy should bring to the WTO Working Group the knowledge that Vietnam has achieved significant steps towards accession to the WTO.
- Execute a domestic public relations strategy, making use of television, radio, and newspapers to build public support and generate knowledge on the necessity of the US-Vietnam Civil Aviation Agreement.

Introduce an international public relation strategy. This strategy should stress cooperation between the Ministry of Foreign Affairs, the Embassy and General Consulate of Vietnam in the US, the CAAV, and the coalition of five US airlines.

BACKGROUND

AN OVERVIEW OF THE CIVIL AVIATION SECTOR OF VIETNAM AND THE US

A. VIETNAM'S CIVIL AVIATION SECTOR:

I. HISTORICAL DEVELOPMENT (1956–2001)

The Civil Aviation Administration of Vietnam (CAAV) was founded 45 years ago by the Vietnamese Air Force (Ministry of Defense). It was handed over to the Ministry of Defense by the French, with only a few airports and cargo. The cargo airplanes were used strictly for military purposes. Over the years the civil aviation sector has steadily grown into one of the country's fastest growing economic sectors. From a modest fleet of only five small airplanes aided by Czech and Slovak, Vietnam Airlines has rapidly evolved into a major regional airline. In the early 1970s, the Vietnamese airlines served only three international routes. Currently, the Vietnamese airlines serve over 16 domestic locations and 24 major international cities, including Singapore, Manila, Kuala Lumpur, Hong Kong, Paris, Taipei, Kaohsiung, Seoul, Osaka, Sydney, Melbourne, Phnom Penh, and Reap.

1. From 1965 to 1975:

Founded in accordance with Decision No. 666/TTG of the Vietnamese government in January 1956, the Vietnam civil aviation sector expanded during the wars in Vietnam, primarily for military purposes. During this period, flight routes were operated in the North of Vietnam. The Civil Aviation Administration of Vietnam (CAAV) was established and the Ministry of Defense was tasked with three main functions: (1) state management; (2) national defense; and (3) commercialization of air transportation. During the 1970s, the infrastructure of the civil aviation sector strengthened, and the airports were equipped with flight management and operations.

2. From 1976 to 1989:

After April 1975, the same system of airports was expanded to the Southern airports. These airports were furnished with better materials and improved technical facilities. The total number of aircraft increased to over 50, which included aircraft from the former Soviet Union and the United States. The CAAV's primary responsibilities remained state management, national defense, and the commercialization of air transportation. The CAAV also executed Vietnam's business activities in a subsidized economy with a limited market. The average number of passengers in several domestic and international routes to China, Laos, Cambodia, and Thailand was about 250 thousand per year.

By the early 1980s, Vietnam fell into a deep economic crisis from a dramatic decrease in foreign aid. Because of the lack of foreign aid, the aircraft were not replaced. The demand for domestic and international air transportation routes increased, however, due to the Bilateral Civil Aviation Agreement signed between Vietnam and other countries. In an attempt to meet the demand the CAAV focused on restoring, repairing, and maintaining the aircraft, and securing the necessary equipment for economic and military purposes. To carry out the maintenance the CAAV set up bases in North and South Vietnam.

Numerous years of serving primarily military functions caused the the civil aviation sector to neglect its own economic efficiency. All the rights and responsibilities of the sector had been ensured through the subsidizing mechanism. Moreover, there were many inefficient personnel and unprofessionally trained employees.

By the late 1980s, the civil aviation sector had restructured its personnel system and methods of doing business. The two main tasks of the civil aviation sector were: (1) air transportation; and (2) air services. The

civil aviation sector incorporated socialism, and remained under a planned and centralized management system.

3. From 1990 to 2000:

The 1990s were the most important decade in the development of Vietnam's civil aviation sector. This period is also known as the "Renovation" path for Vietnam. Vietnam Airlines, the national carrier, was established in 1989, according to the Decision No.225/CT of the Chairman of the Council of Ministers. The Vietnam Airlines Corporations is a state-owned company, organized through regulations on enterprise under the direct supervision of the CAAV. This model clearly separated the functions of State management and air transport enterprises.

During the 1990s, the civil aviation sector underwent a number of changes in management. Vietnam Airlines and many other businesses were put under the authority of the CAAV. In May 1995, according to decision No. 328/TTG of the Prime Minister, Vietnam Airlines Corporations was established following the model of "General Companies 91".¹

During this period the civil aviation sector developed dramatically. The domestic and international air transportation market, measured by the number of passenger and cargo, expanded by 35%.² The infrastructure was upgraded, and staff numbers and quality improved. However, the Asian financial crisis, which began in 1997, has had an adverse effect on air transport activities. Though the years prior to the financial crisis showed a steady decrease in the civil aviation sector growth, from 31% in 1995 to 17% in 1996, the most dramatic downturn occurred in 1997, which brought only 3% growth.³

Vietnam's civil aviation sector remains underdeveloped relative to regional competitors Thailand and Singapore. This is primarily because the material and technological facilities remain inadequate and non-uniform, and capital is limited. Thus, the demand for air services cannot be met and Vietnam remains a weak competitor.

II. STRUCTURE OF VIETNAM'S CIVIL AVIATION:

1. STRUCTURE AND MANAGEMENT MECHANISM OF VIETNAM AIRLINES CORPORATIONS:

The Vietnam Airlines Corporations (hereafter Corporation) was established on May 27, 1995 according to the Decision No. 32/TTG of the Vietnamese Prime Minister. The Corporation consists of:

- Seven dependently financed units, including Vietnam Airlines (VNA) the core unit of the Corporation
- Eleven independently financed units
- Six joint-ventures
- One joint-stock company (Pacific Airlines)
- Two professional units

¹ The "General Companies 91" is the group of companies that were created following the Decision N.91/TTG of the Vietnamese Prime Minister enacted in March 07, 1994. Each company belonging to this category includes in itself at least seven enterprises, which has a cumulative legal capital superior to 1,000 billion of VND. The establishment of each "general company" has to be approved by the Prime Minister.

² Source: Vietnam Airlines

³ Ibid

2. METHOD OF OPERATIONS OF THE VIETNAM AIRLINES CORPORATIONS:

2.1. Air Transportation:

The Vietnam Airlines Corporations includes three air transport businesses: Vietnam Airlines (VNA) — the core unit, Vietnam Air Service Company (VASCO), and Pacific Airlines.

- **Vietnam Airlines (VNA):** VNA handles most of Vietnam’s air transportation, both for passenger and cargo services in domestic and international markets. VNA belongs to the dependently financed business of the Vietnam Airlines Corporations.
- **VASCO:** Established in 1988, VASCO is a dependently financed business of the Corporation. Its operations are mainly aviation photography and geographical exploration. VASCO provides services for electricity, forestry, ambulance, and charter flights.
- **Pacific Airlines:** Established in 1990 by the Decision 12/90-BGT/VT of the Ministry of Transportation, the joint-stock Pacific Airlines consists of seven state-owned shareholders. In 1994, the government assigned CAAV to manage and restructure Pacific Airlines. Even though Pacific Airlines operates in a narrow realm with three wet-leased⁴ aircraft, it seems to have the potential for growth. At the present time, Pacific Airlines has two domestic flights per day (Hanoi – Ho Chi Minh City), and nine international flights per week (Ho Chi Minh City – Kaohsiung, and Saigon – Taipei).

2.2. Related services in the air transportation assembly line:

The services included in the air transportation assembly line are ground (NIAGS, MIAGS, TIAGS), cargo (TCS), and air catering services (TACS). In addition, aircraft maintenance (A75, A76) and aviation computer sciences are available. Presently, NIAGS, MIAGS, and TIAGS are available for Vietnam Airlines, and are financed together with air transportation. Vietnamese Airlines also provide services for foreign airlines at international airports like Noi Bai, Tan Son Nhat, and Danang. Over the past few years, these services have proven to be quite efficient.

To date, aircraft maintenance centers (A75, A76) provide limited technical services for VNA. After being upgraded and improved, these centers will attempt to provide full services for VNA and sell services to international airlines.

3. STATUS OF THE VIETNAM AIRLINES CORPORATIONS’S PROPERTY AND RESOURCES

3.1. Flight Routes:

3.1.1. International flight routes:

Vietnam Airlines has direct flights from Hanoi and Ho Chi Minh City to 24 international locations. Six cities are located in the North-East Asia region (Kwangchow, Hong Kong, Taipei, Kaohsiung, Osaka, and Seoul), six in South-East Asia (Bangkok, Singapore, Kuala Lumpur, Manila, Vientiane, and Phnom Penh), two in Australia (Sidney and Melbourne), two in Europe (Paris and Moscow), and one in the Middle East (Dubai). Indirectly, Vietnam Airlines also invests under the form “block seat”⁵ to four other international locations (Berlin, Vienna, San Francisco, and Los Angeles).

⁴ “Wet-leased” requires the leasing of operating pilots together with leasing the aircraft

⁵ Block seats are seats exchanged between two airlines or sold to other airlines on a flight of one airline.

Currently, Vietnam Airlines is facing major competition from a number of international airlines. The Vietnamese airlines are often unable to compete in air-ticket prices and quality of services.

3.1.2. Domestic Flight Routes:

Vietnam Airlines flies to 15 domestic locations throughout Vietnam. Most of the domestic routes are not profitable, with the exception of the Hanoi–Ho Chi Minh City route. The Hanoi–Ho Chi Minh route benefits from a high percentage of foreign passengers (20%). Shorter routes are operated by smaller aircraft with high expenses, such as the ATR-72 and Fokker-70. These routes suffer from a lack of passengers, particularly those with island and mountainous destinations. Domestic entrepreneurs have been unable to find business opportunities in these places. Profits from international routes and services like ground service, construction, air catering, etc., are used to make up for these losses.

The airfare for domestic routes remains relatively high given the average income of the population. Many Vietnamese passengers are unable to afford domestic fare prices. GDP per capita in Vietnam is approximately USD\$370, while a typical round-trip fare for Hanoi–Ho Chi Minh City is USD\$150.⁶ Overall, Vietnamese domestic flights are affordable to a limited subset of travelers.

3.2. Air Craft:

The Vietnam Airlines Corporation lacks capital, especially the capital to develop a fleet. Its main assets are leased aircraft. The aircraft that VNA currently possess, including those Vietnam received from loans, accounts for only 30%. By comparison, other countries in the region own 70–80% of their aircraft.⁷

At the moment, the Corporation operates 24 aircraft, including six Boeing B767-300s, 10 Airbus A320s, two Fokker-70s, and six ATR-72s. Among these, 6 aircraft are owned assets (4ATR, 2 Fokker-70) and 18 are dry-leased.⁸ The total value of investment in aircraft is USD 800 million, which includes spare engines and accessories. Of the USD 800 million, the Corporation's property is USD 100 million, about 15%.⁹

Compared with other airlines in the region, the Corporation's aircraft fall far behind in quality, number of seats per kilometer, and flight distance. The average number of seats on each flight is 135, compared with an average of 232 in the Southeast region. The maximum flight distance for a Boeing B767 is 12 hours, and for a B747, 14 to 16 hours.

With such vast deficiencies in capital and assets, the Corporation does not offer strong competition to other airlines.

3.3. Maintenance:

The technical infrastructure of the Corporation consists of two Aircraft Maintenance Centers, A75 and A76. In 1998, the Corporation initiated more control over its operation by introducing the aircraft maintenance program, making it less dependent on foreign partners. This program keeps adequate documentation, changes aircraft parts (as prescribed by manufacturers), and stores tools and stocks of spare parts. A short-term priority of the Corporation is to establish a regional maintenance facility. The two centers are expanding

⁶ Source: Data Department of CAAV

⁷ Source: Vietnam Airlines

⁸ Source: Vietnam Airlines Cooperation

⁹ Ibid

manufactories, supplying more equipment to boost maintenance capability and complete the technological transfer.

3.4. Equipment:

The infrastructure for on-board meal supply has been invested and upgraded. The Corporation has 60% shared capital in a joint venture with Cathay Catering Company at Tan Son Nhat International Airport. The length of this joint venture is 20 years. Modern equipment licensed by the International Standard Organization ISO 9000 can supply 15,000 meals per day. The Noi Bai Catering Company can provide 2,700–3,000 meals per day. The Corporation plans to upgrade Noi Bai Catering Company to improve its production and quality of products. The catering company of MASCO at Da Nang International Airport operates on a narrow scale and only provides meals for Vietnam Airlines.

3.5. Airports:

At the moment, CAAV is managing and investing in 19 airports throughout Vietnam. Many of the airports used today were built during the wars in Vietnam, and therefore the facilities and equipment are ill proportioned and outdated. With a low budget, CAAV is attempting to focus on three international airports and a number of domestic airports.

a. *International Airports:* Presently, the civil aviation sector has four international airports: Tan Son Nhat, Noi Bai, Da Nang, and Dien Bien.

- **Tan Son Nhat Airport:** This is the most important airport in Ho Chi Minh City, the largest industrial center of the country. Tan Son Nhat was built before 1975. Due to insufficient funding it has not been upgraded, though projects for piecemeal enhancement have begun. The airport's equipment and infrastructure are out-of-date and very much behind current international standards. Vietnam Airlines has only recently begun to invest in tunnels that connect the waiting rooms with the main sections of the airport. The Tan Son Nhat Airport is the first airport in Vietnam to build these kinds of tunnels; the rest of the airports will likely construct similar tunnels in the near future. The rapid growth of Vietnam's population has made the experience at the airport extremely frustrating. A major construction project has recently been approved. In addition, a new international terminal with the capacity to hold over 10 million passengers per year is expected to be built. The new international terminal will be built in accordance with the standards of the International Air Transportation Association (IATA). The total floor areas of the new terminal will be about 100 square miles, and will cost approximately USD\$250 million.¹⁰
- **Noi Bai International Airport:** Situated in Hanoi,¹¹ Noi Bai International Airport has undergone a number of positive changes. Recently, the construction of a new waiting room was completed.
- **Da Nang International Airport:** Situated in the middle of the country, Da Nang International Airport is built upon the old United States air force base. Fewer passengers use this airport than the Tan Son Nhat and Noi Bai International airports. Most passengers using the Da Nang airport come from nearby Thailand, Laos, and Cambodia. Currently, there is no plan for improving the infrastructure or renovating the airport.

¹⁰ Source: the Vietnam Airlines Corporations

¹¹ Hanoi: the capital of the Vietnam

- Dien Bien International Airport: This is the smallest international airport in Vietnam. It only runs flights to and from Laos, Cambodia, and occasionally private flights to and from Paris. The infrastructure of this airport is extremely under-developed.

b. Domestic Airports: The infrastructure for domestic airports is deteriorating and in dire need of restructuring. Investment capital from the government is extremely low due to the tight fiscal budget. Only small airplanes like Floker-70 or ATR-72 are able to land in most domestic airports.¹²

3.6. Flight Management System:

- Air Traffic Control: Consists of two long-distance controlling centers in Hanoi and Ho Chi Minh City, and a close controlling unit in Da Nang. These centers are equipped with machines and facilities that meet the standards of the International Civil Aviation Organization (ICAO). However, the control towers operate with poor and deteriorating equipment.
- Technical supports for navigation:
 - Aviation Information: up-to-date equipment enables response to situations and emergencies when needed.
 - Air Navigation: improvement necessary to assure safety and coverage of all flight routes.
 - Air Supervision: non-uniformed employees operate using old methods, and should be updated to insure safety of the passengers.
- Aviation meteorology center: Most equipment is non-uniform and underdeveloped. Replacement is taking place.
- Search and Rescue Operation: A Committee of Search and Rescue has been established. Training for search and rescue activities is conducted annually. The CAAV works closely with neighboring countries on safety procedures and numerous co-operation activities.

3.7. Financing:

Financing is the most serious challenge for Vietnam's civil aviation sector. Since 1975, the sector has been subsidized 100% by the government. Its financial and accounting mechanisms have been centralized and are totally controlled by the government. In addition, since the establishment of the Vietnam Airlines Corporations, the government has had to cover its losses, even though it is a monopoly. The Vietnamese civil aviation sector has been unable to profit or experience financial growth.

From 1993–1997, the Vietnam civil aviation sector invested VND 947.6 billion, equivalent to 24.4% of the total state budget.¹³ Of the 947.6 billion, VND 585 billion is invested in the Flying Information Region (FIR) construction project and 596.6 billion in other aviation infrastructure projects.¹⁴

As part of a more comprehensive plan, Vietnam Airlines will receive financial support from the US Export and Import Bank (USEXIM), Overseas Private Investment Cooperation (OPIC), Airport Group International (US), the DAR group (UK), DIWIDAG (Thai-German), and Maeda (Japan). This support of USD\$3 billion will be used to upgrade the infrastructures of the existing airports and to build new airports over the next ten years.

¹² Domestic airports such as Phu Bai and Nha Trang

¹³ Data provided by Data Department of CAAV

¹⁴ Ibid

4. FOREIGN AIRLINES' PARTICIPATION IN THE INTERNATIONAL AIR TRANSPORTATION MARKET OF VIETNAM AIRLINES:

Participating frequently in the international air transportation market of Vietnam Airlines are 21 foreign airlines of 19 nations. These include 7 airlines of North-East Asia (primarily Cathay Pacific, Japan Airlines, and Thai Airways), 7 airlines of the South-East Asia (primarily Singapore Airlines and Malaysia Airlines), 5 airlines of Western Europe (primarily Air France, Lufthansa, Swiss Air), and one airline of Australia (Quantas).

In general, these airlines operate in Vietnam under the form of a traditional agreement. Up to now, Vietnam has signed 41 agreements with other countries for both indirect and direct flights. Most of these airlines are more competitive than Vietnam Airlines.

Five US airlines recently accessed the Vietnam market via code-sharing agreements, namely United Airlines, American Airlines, Delta Airlines, Northwest Airlines, and Continental Airlines. The civil aviation relationship between the US and Vietnam has thus begun. In July 2001, American Airlines signed an agreement with Vietnam Airlines to operate code-sharing flights,¹⁵ which will start in 2002. According to the decision of the Department of Transportation, Delta Airlines will code-share with Air France to supply services to Ho Chi Minh City and Hanoi. Northwest Airlines will code-share with Malaysia Airlines and KLM Royal Dutch Airlines (Holland) to Ho Chi Minh City and Hanoi, United Airlines code-shares with All Nippon Airlines (Japan) and Thai Airways International and Lufthansa Airlines (Germany) to Ho Chi Minh City. In the short term, these three airlines can operate 21 round-trip flights to Vietnam.

B. US CIVIL AVIATION SECTOR

The US has the most long-standing civil aviation sector in the world. Like such industrialized European countries as England, France, and Germany, the US civil aviation sector bore international characteristics from its early years, making it superior to travel by surface or sea.

In 1944, along with improvements to the science and technology of aviation, the demand for air transportation increased dramatically. Recognizing this trend, the US, a key nation in international civil aviation, led the world in establishing the International Civil Aviation Organization (ICAO), and after that the International Air Transport Association (IATA).

Since then, US civil aviation has been the strongest aviation force in the world. The US has a decisive influence on international aviation organizations and on regional and bilateral aviation agreements.

The following milestones will provide more complete insight into the development of the US civil aviation sector:

¹⁵ Code sharing is the method of cooperation, in which one airline accepts the other's code on its certain flight as agreed and vice versa.

1. AFTER WORLD WAR II:

1.1. *Bilateral Aviation agreement with European Allies:*

During this period, the US signed bilateral aviation agreements with European Allies. These agreements strongly affected the political and economic life in European countries. The goods and financial aid from Northern America helped these countries recover after the war.

US aviation was strengthened by the development of aviation technologies in First, Second and Third generation planes,¹⁶ and by flight route networks all over the world. Flights covered North and South America, Europe, Asia, and Africa. The US market-share accounted for 80 percent of international aviation.

1.2. *Bilateral Aviation agreement with defeated countries:*

After World War II, bilateral civil aviation agreements were signed between the US and defeated countries Japan, Germany, and Italy. The Japanese believed their airlines were poorly situated in their agreement. The agreement served to link American routes to Asia, and the US had a definite advantage in exploring these routes. During this period bilateral aviation relationships were totally beneficial for the US.

2. FROM THE 1960s TO THE 1970s:

From the mid-1960s to the 1970s, European and especially Asian aviation developed aggressively. International air routes covered all of Europe. Remarkably, the Asian market-share in international aviation increased 25–30 percent, the European market share increased 10 percent, and the US market-share fell 55 to 60 percent.¹⁷

Despite the expansion of bilateral aviation relationships, countries were still limited to Fifth Freedom Rights. There was a new demand for control of the international air transport network. Recognizing this, the Carter Administration developed a new policy for international air transportation. This policy included aviation modernization and opening skies for free competition, leading to a new revolution in the structure of US aviation. While over 200 airlines suffered bankruptcy in the US due to this policy, many vigorous airline corporations were established with the strength to expand the world market. Among these airlines were American Airlines, United Airlines, Northwest Airlines, and Delta Airlines.

3. FROM THE 1970s TO THE PRESENT:

Global alliances have become a cooperate trend, a new requirement for airlines in the world. In response to the global demand for traveling, single airlines without a large network decided to join global alliances, and take advantage of opportunities for investment in more aviation markets. “Open Skies” has been the main US international air transport policy during this period.

¹⁶ First generation: propeller-drive engine plan and electronic controlling system

Second generation: jet-plane with low speed and semi-conducting system

Third generation: supersonic plane with intelligent chip

¹⁷ The “Tap Chi The Gioi” Magazine, January 2000

OVERVIEW OF THE US-VIETNAM AIR TRANSPORT MARKET

Despite the long suspension of diplomatic relations between the US and Vietnam due to the US trade embargo, the air transport market between the two countries has existed since the 1990s. Thanks to the “open-door” policy of Vietnam, which has stimulated investment, trade, social, and cultural exchange, the passenger market between the US and Vietnam has greatly expanded.

The air transport market between the US and Vietnam is large and has great potential. To date, although there has been no direct flight route between the two countries, the number of passengers is increasing. This can be seen via data from 1993 to 2000. Approximately 30,000 passengers traveled from the US to Vietnam in 1991. The volume multiplied by 5 times in 1997, accounting for 140,000 passengers from both the US and Vietnam.¹⁸ In 2000, the total number exceeded 175,000.¹⁹

Under the current market structure, more than 1 million Vietnamese are living in the US, accounting for 60% of the passenger volume between the two countries. These expatriates visit relatives in Vietnam and travel as investors and tourists. In addition, American tourists and US veterans account for 38% of the market share.²⁰ The remaining travelers are US investors, politicians, diplomats of both countries, and students on study tours.

Despite difficulties obtaining visas to the US, it is believed that the US is still the biggest passenger market to and from Vietnam. With a GDP of 31,000 US dollars, each year around 60 million Americans travel abroad, while approximately 46 million foreigners visit the US. Over 10 million people travel each year between the US and Asia. The number of passengers traveling between Vietnam and the US accounts for only 2% of the Asian total. The number of passengers from Vietnam to the US is only 6% of the number of passengers from the US to Vietnam.²¹

Taking into consideration the market structure and traffic growth since the 1995 normalization of relations between the US and Vietnam, the commercial and investment cooperation between two countries has not yet fully developed. This is partly because Vietnam has not yet been granted the Most-Favored-Nation status. It is believed that when the US-Vietnam Bilateral Trade Agreement comes into force and when the MFN status is granted to Vietnam, passenger traffic between the two countries will increase at a greater speed.

Because there is no government agreement on air services between the US and Vietnam, none of their airlines has carried out direct air services. Until there is an agreement, code sharing is the temporary method. At the moment, passengers traveling between the US and Vietnam are carried via intermediate points in Northeast Asia and Southeast Asia (Trans-Pacific service to the West Coast) or in Western Europe (Trans-Atlantic service to the East Coast). Passengers traveling between the US and Vietnam must use connection points, of which Taipei, Seoul, and Hong Kong account for 80%. Fifty percent of the US-Vietnam air passenger market is absorbed by China Airlines and Eva Airlines. Vietnam Airlines, thanks to the code-sharing contract with China Airlines, serves only 9% of the market.²² The remainder is divided equally among Korean Air, Cathay Pacific, Singapore Airlines, and Asian Airlines.

Not having direct flights has allowed airlines of the connecting countries to aggressively exploit the air services market between the US and Vietnam. This may cause disadvantages for direct services by airlines of the two countries in the near future. Moreover, present aircraft performance may hinder the non-stop options

¹⁸ Data from the Vietnam-US Bilateral Conference on civil aviation, Hanoi, March 28-10, 1998.

¹⁹ Ibid

²⁰ Ibid

²¹ Ibid

²² Ibid

for airlines of Vietnam and the US, but make no difference for options provided by airlines currently exploiting the Sixth Freedom Right.²³ This will pose a definite challenge to US and Vietnamese airlines when they commence direct service in the coming years.

The US-Vietnam Bilateral Conference on Civil Aviation was held in Hanoi from March 18–20, 1998. The conference aimed to foster cooperation between the two countries in the air transport sector. It also aimed to strengthen relations on investment, commerce, and tourism, in the process of normalizing US-Vietnam economic relations.

After the conference, both parties carried out consultations on the US-Vietnam Bilateral Agreement on Civil Aviation. The agreement is considered a basic foundation for opening a direct flight between the two countries. However, there have been a number of lingering issues. On the one hand, Vietnam wants a temporary agreement with a deadline of 3 to 5 years, after which a complete agreement could be approved. Prior to this consummation, Vietnam must solve a wide range of problems on air safety, air services, training, customs, and aircraft leasing and purchasing, to name a few. On the other hand, the US wants an “Open Skies” agreement immediately to establish the long-term aviation relations between the two countries.

In short, the air market between the US and Vietnam is very promising. The US has ignored this market for a long time, but “landing” the five biggest airlines will encourage rapid growth. It is expected that in 5 to 7 years, the market will catch up and displace the markets between Vietnam and Western Europe. Nevertheless, because the governments of the US and Vietnam have not reached a civil aviation agreement, and because airlines of the two countries have not aggressively developed strategies and mutual cooperation, third country competitors are the ones currently benefiting in the air services market.

²³ The right of an aircraft of a country to carry passenger, cargo, packages, and mail between two foreign countries via home country.

US AIRLINES PLANNING TO OPERATE IN THE US-VIETNAM MARKET

In 1991, while the US government was preparing to lift the embargo and normalize the relationship with Vietnam, Vietnam Airlines (VN) and a number of US airlines started showing interest in a direct flight route. Over the next three years preliminary preparations took place. During this period, Vietnam Airlines made contacts with United Airlines, Continental Airlines, Northwest Airlines, and Delta Airlines.

In February 1994, when the embargo was lifted, US airlines aggressively obtained the rights to fly to Vietnam. All four airlines mentioned above submitted applications to the US Department of Transportation and pursued talks with authorities in Vietnam. In early April 1994, American Airlines also submitted an application to fly to Vietnam. However, no improvement in the relationship between US and Vietnam Airlines was to take place until years later.

On March 03, 2000, the Federal Air Association of the US (FAA) and the Civil Aviation Administration of Vietnam (CAAV) signed a Memorandum of Discussion to respond to the increasing demand for air transport between the two countries. Under this Memorandum, US airlines could cooperate with airlines of Vietnam or of third countries to carry out code-sharing flights. However, a provision in the Memorandum provided that frequency of flights would be unlimited only if US airlines cooperated solely with Vietnam Airlines. In case these airlines wished to cooperate with other airlines, the number of flights would be limited to 21 per week.

The prospect of establishing an alliance between US and Vietnamese airlines has become more promising since the successful negotiations of the code-sharing contract. This is a transitional contract until the official bilateral air agreement between the US and Vietnam is reached. That US airlines have opened code-sharing flights to Vietnam is considered a new sign for the development of business between the two countries. To Vietnam Airlines, this is not only an opportunity, but also a challenge to expand to an attractive but competitive market.

1. AMERICAN AIRLINES (AA):

AA, cofounder of the global alliance One-World, is one of the largest airlines worldwide with over 100,000 staff, 720 aircraft of all kinds (mostly Boeing) and a broad network of routes to over 240 cities in 49 countries. Each day, AA has almost 2400 flights.²⁴ In 2000, AA carried 86.3 million passengers with revenue of around 2 billion US dollars.²⁵

Though AA is one of the world's largest airlines, its position in Asia is relatively minor. At the moment, AA has flights to only three points in Asia — Tokyo, Osaka, and Taipei. Thus, cooperation with Vietnam Airlines is part of AA's strategic plan to expand in the regional market.

Cooperation between Vietnam Airlines and AA will take two steps. First, both airlines will cooperate on Paris, Tokyo, Osaka, and Taipei. Second, the airlines will cooperate on domestic routes in both countries, gradually develop the market, and increase their competitive ability for direct flights between the two countries at an appropriate time.

The contract between AA and VN signed on July 18, 2001 in Dallas stated that until July 2002, AA and VN could invest their first code-sharing products. It could not come sooner for Vietnam, which can lease a

²⁴ Source of Pre September 11, Vietnam Airlines Cooperations

²⁵ Sources from Vietnam Airlines Cooperations

Boeing 777 that can operate a direct flight to Paris, rather than stopping over in Dubai. It is also a condition that VN adhere to the general standards required by AA.

Both airlines agree to apply code-sharing, the most advanced method of cooperation. This method links the computer reservation systems (CRS) of both sides, allowing each airline access to the other's CRS, increasing the capability for flight maximization. The code-sharing contract between AA and VN is planned to come to fruition in the middle of 2002 when both sides: (1) obtain the approval of their governments and aviation authorities; (2) meet the requirements on service quality, airlines, and airport security, especially in lieu of the September 11 attacks; (3) ensure the compatibility of each other's CRS (Computer Reservation System).

AA and VN will also cooperate in training, aircraft maintenance, security and safety. However, for the contract to activate, Vietnam Airlines must meet the requirements for the ICAO, FAA, and AA. This requires an enormous effort for VN, particularly for units responsible for operation and technical issues.

In the context that the US-Vietnam Trade Bilateral Agreement has been approved by the two countries and will come into effect in the coming months, the contract between AA and VN bears a meaningful sign, pushing forward the economic, political, and cultural relations between the US and Vietnam.

2. UNITED AIRLINES (UA):

United Airlines has 614 aircraft and is considered the largest airline in the world for passenger traffic. UA has a dense route network to Asia, appearing in most of the important gateways to the continent.

Inheriting freedom rights of the bankrupt PanAm to operate in Asia and the former Republic of Vietnam, UA holds an advantageous position relative to other US airlines. In late 1991, UA contacted Vietnam to prepare its operation there. UA has also appointed an unofficial representative office in Vietnam.

In 1992 and 1993, UA had a number of comprehensive plans to cooperate with Vietnam. However, no progress was made on most issues, except for the co-ordination of connecting flights to carry ODP via Hong Kong.

When President Clinton announced the lifting of the trade embargo on Vietnam, UA appealed to the US government to be a designated airline. Two weeks later, on February 17, 1994, the senior delegation of UA led by CEO S.M. Wolf met with government officers in Vietnam to investigate this new market.

Since then, besides Interlines contracts, signed to coordinate connecting flights via Hong Kong, cooperation has not progressed. Despite using connecting flights via Paris, Seoul, and Taipei, UA and Vietnam have not agreed on revenue division, a decisive issue for cooperation between the two airlines. The US insisted on dividing revenue using a formula for the distance of the route (the IATA formula applied for published fare). Vietnam offered a formula for the ratio of market price on each route. This formula is commonly used by Vietnam Airlines, China Airlines (Taiwan), and Asian Airlines (Korea).

In August 2001, UA was appointed by the US Department of Transportation (DOT) to operate in Vietnam via code-sharing methods with a third country. United plans to invest in 14 flights per week, which is half of the total flights planned by the five US airlines to serve the market. UA will cooperate with Thai Airways for routes to Ho Chi Minh City, Da Nang, and Hanoi.

3. CONTINENTAL AIRLINES (CO):

Since its first meeting with Vietnam in 1992, CO has held several consultations to spur investment and cooperation. However, the relationship has not made essential progress. Despite the Interlines contract and

revenue division on a few routes, coordination of a connecting flight via Manila has not been implemented. At issue here is not payment, but the unfeasibility of the flight schedule.

CO is preparing a representative office in Hanoi to launch its air services businesses and investment in Vietnam. Like UA, CO was appointed by the DOT.

4. NORTHWEST AIRLINES (NW):

NW is the world's fourth largest airline but has a route network to Asia Pacific larger than UA.

NW initiated contact with Vietnam in November 1991, but little progress was made until April 1994. Since mid-1993, NW has cooperated with Pacific Airlines in carrying ODP passengers via Seoul. After meeting with Vietnam on April 26, 1994, NW has made progress with Vietnam, signing the Interline contract (passenger and cargo) and temporarily agreeing on revenue division and the transit fee via Seoul and Paris.

Pending assignment by the DOT, NW will be able to cooperate with Malaysia Airlines to open the route to Hanoi and Ho Chi Minh City.

5. DELTA AIRLINES (DL):

DL ranks first in the US in flight frequency and passenger traffic and third in revenue.

In June 1992, DL and Vietnam Airlines (VN) began communicating. Their efforts at cooperation, however, were no better than efforts of UA, CO, and NW. The relationship goes no further than letters of Intent and Interlines contracts.

DL is the only airline that did not mention the Fifth Freedom. Nevertheless, to date, DL and VN have not reached any agreement for long-term cooperation.

DL was designated by the DTO to operate in the Vietnam market simultaneously with UA, CO, and NW. Like AA, DA plans to invest in connecting flights from the US, via Europe and Singapore, to Hanoi and Ho Chi Minh City.

OVERVIEW OF THE HISTORICAL DEVELOPMENT OF INTERNATIONAL AVIATION

In the 19th century, scientists in Europe invented the mechanism for balloon control. Engine planes were later developed in France, Italy, and elsewhere. From 1903, there appeared documents about aviation in Europe. Scientists soon devised solutions for air transportation beyond the territory of sovereignty.

In order to understand the international aviation relationships, it is necessary to review the development of international aviation since the World War II.

I. CHICAGO CONVENTION ON INTERNATIONAL CIVIL AVIATION AND THE INTERNATIONAL CIVIL AVIATION AGREEMENT:

In November 1944, as World War II entered its final stage, a new order for international aviation was called for. The International Civil Aviation Conference was held by the United States in Chicago. Fifty-four states attended this conference, aimed at creating a legal system for international civil aviation. The big countries had conflicting opinions, and the convention was unsuccessful in reaching its goal. With a powerful fleet of aircraft, the US wanted an open international aviation market. Countries that were weakened during the war, like England, favored protectionism. At the end of the conference, 32 states set up a permanent International Civil Aviation Organization (ICAO) as a means to secure international cooperation, the highest possible degree of uniformity in regulations and standards, and organization regarding civil aviation matters. The International Services Transit Agreement and the International Air Transport Agreement were signed. On April 4, 1947, the ICAO was officially launched. Today, the ICAO has 187 members. Vietnam gained its membership in 1978.

1. REGULATIONS OF THE ICAO:

Like any international organization, the ICAO has its own objectives and regulations. It aims to develop the principles and techniques of international air navigation so as to:

- ensure the safe and orderly growth of international civil aviation throughout the world
- encourage aircraft design and operation for peaceful purposes
- encourage the development of airways, airports, and air navigation facilities for international civil aviation
- meet the needs of world passengers for safe, regular, efficient and economical air transport
- prevent economic waste from unreasonable competition
- ensure that the rights of Contracting States are fully respected and that every Contracting State has a fair opportunity to operate international airlines
- avoid discrimination between Contracting States
- promote safety of flight in international air navigation
- promote the development of all aspects of international civil aeronautics

2. REGULATION OF AIR SERVICES:

Given significant differences in countries' individual and bilateral regulation of air transport, ICAO devised the following conclusions from a series of worldwide air transport conferences:

- resolve conflicts over the application of national competition laws to international air transport

- simplify rules on charter operations and regulatory control that may hinder the application of “fair and effective opportunity” for non-scheduled capacity
- determine appropriate measures for resolving impediments to over-flight by civil aviation aircraft to and from land-locked countries
- consider existing issues of definition regarding so called “Sixth Freedom” and “stopover” traffic
- develop regulations of international air transport
- seek possible application of a multilateral agreement on trade in services to international air transport
- develop a world-wide code of conduct and devise a possible multilateral agreement or model bilateral clause for the regulation of computer reservation systems
- computerize a data bank for public access on the main provisions of bilateral air transport agreements

3. TRAFFIC RIGHTS (FREEDOMS OF THE AIR):

The Conference on International Civil Aviation in 1944 recognized the desirability of a multilateral agreement on commercial air rights between states. Unfortunately, no satisfactory agreement could be found. Consequently, the exchange of commercial air rights is still determined by bilateral negotiations. The resulting bilateral agreements address basic issues of market access and the governmental regulation of airline capacity and tariffs. They also reflect agreed upon criteria for the designation and licensing of airlines, their ownership and control, customs and tax exemptions. Finally, the bilateral agreements address the processes necessary for agreement implementation, review, amendment and dispute resolution.

Though the convention could not pass a multilateral legal system regulating international civil aviation for the future, countries did agree on the following five basic freedoms or traffic rights:

3.1. First Freedom: The right of an aircraft of one country to fly over the territory of another country without landing.

3.2. Second Freedom: The right of an aircraft of one country to land in the territory of another country for such technical purposes (non-traffic) as refuel, maintenance, and change of crews.

3.3. Third Freedom: The right of an aircraft of one country to carry passengers, cargo, and mail from a point or points in its home country to a foreign country.

3.4. Fourth Freedom: The right of an aircraft of one country to carry passengers, cargo and mail from a foreign country back to its home country.

3.5. Fifth Freedom: The rights of an aircraft to carry passengers, cargo, and mail between a second country and a third country or countries requiring that the flight originates in the home country.

In reality, the countries have applied the convention’s terms flexibly and regulate a few more freedoms:

3.6. Sixth Freedom: The right of an aircraft of a country to carry passengers, cargo, and mail between two foreign countries via a home country.

3.7. Seventh Freedom: The right to carry passengers, cargo, and mail between two foreign countries without connection to the home country.

3.8. Eighth Freedom: The right to operate a flight that originates or terminates in the home country and flies to or from two points in a second country, with the right to carry a set of amount of traffic between the first point and the second point in the second country.

3.9. Ninth Freedom: The right to operate a flight that originates and terminates within the border of a foreign country.

The main content of the Chicago Convention is the sovereignty principle of territory and air space. If one airline wants to operate via the air space and territory of another country, it must be allowed to do so by the authorities of that country. The home country has the right to approve or disapprove on a case-by-case basis. In principle, however, all countries taking part in the Chicago Convention/ICAO must grant other countries First and Second Freedoms. Third, Fourth, and Fifth Freedoms must be agreed upon on the basis of reciprocal benefit.

4. BILATERAL AGREEMENTS:

Since the Chicago Convention, countries have signed a wide range of bilateral civil aviation agreements with one another. The first bilateral agreement after the Chicago Convention was the Bermuda Agreement between the US and the United Kingdom. Bermuda II was later signed with a number of adjustments. These agreements have been used as a model for many later civil aviation agreements.

Basic contents of a bilateral agreement include the following:

- Ensure that countries are granted First, Second, Third, and Fourth Freedoms on the basis of reciprocity. In addition, countries can agree to grant Fifth Freedoms for one another.
- Agree on flight routes.
- Agree on designated airlines of both countries.
- Agree on load and frequency.
- Agree on fares. There are three ways:
 - Double Approval: require the approval of the authorities of both countries.
 - Country of Origin: require only the approval of the authorities of the local country.
 - Double Disapproval: the fare offered by the airlines is ineffective only when there is a disapproval of the authorities of both countries.

In short, the Chicago Convention marked an obvious advance in international aviation relations. Restraints remain, however, in market investment, load, frequency, and fares. The US and European Alliance have operated an open skies policy, deregulating the civil aviation sector with a new motto, “cost does not determine fares, but fares determine costs”.

5. BILATERAL AGREEMENT BETWEEN THE US AND ASEAN COUNTRIES:

The bilateral aviation agreements between the US and the ASEAN countries cover the following main points:

- Grant of Rights (Freedoms): the First 4 Rights
- Designation and Authorization
- Revocation of Authorization
- Application of Laws
- Safety
- Aviation Security
- Commercial Opportunities
- Custom Duties and Taxes
- User Charges

- Fair Competition
- Pricing
- Consultation
- Settlement of Dispute
- Termination
- Multilateral Agreement
- Registration with ICAO

Countries in the ASEAN region have negotiated traditional bilateral aviation agreements with the US, and Singapore and Malaysia have upgraded their traditional agreements to “Open Skies” agreements. The “Open Skies” agreements allocate an open space for the Fifth Freedoms. In addition, the agreements permit unrestricted services operated by airlines of each side to, from, and beyond the other’s territory, without restrictions on where the carriers fly, the number of flights they operate, and the price they charge.

6. BILATERAL AGREEMENTS BETWEEN VIETNAM AND OTHER COUNTRIES:

Vietnam has signed bilateral civil aviation agreements with 40 countries, approximately 20 of which are carried out (including China, Hong Kong, Japan, Korea, Thailand, Singapore, Malaysia, Laos, France, Germany, Switzerland, and Australia). In general, the bilateral agreements cover traditional agreements applied by the ICAO, like definition, designation and authorization, revocation of authorization, safety, aviation security, commercial opportunities, custom duties and taxes, user charges, fair competition, pricing, termination, etc. Basically, Vietnam and its counterparts must grant the First and Second Freedoms to one another. However, agreements tightly regulate the “agreed flights,” “designated routes,” “points of destination,” and “the rights to take on board and bring passengers and cargo from/to points that are not designated in the agreement.” Third and Fourth Freedoms are conditional upon the agreement of both countries.

II. “OPEN SKIES” POLICY:

Part of the transition from regionalization to globalization in the world economy is adaptation of the “Open Skies” policy. Aviation accounts for \$1 trillion in global economic activity and creates 22 million jobs.²⁶ An efficient air transport system is vital for the expansion of trade and commerce, including electronic commerce.

1. US “OPEN SKIES” AGREEMENTS:

In the US, one night after “Open Skies” were set, nearly 200 airlines went bankrupt. Unable to compete, they were taken over by such large airlines as American Airlines, United Airlines, and Delta Airlines. The US believes that an open-skies aviation agreement must reflect the fundamental principle that the economic interests of both countries, including consumers, shippers, passengers and all other cargo services, are best served through minimal government interference. The US has signed bilateral Open Skies agreements with 50 countries.

The following are key elements of US Open Sky agreements:

1.1 Open Routes and Designations: An unlimited number of airlines share behind-homeland, homeland gateway, intermediate, and beyond points with full traffic rights.

1.2 Unrestricted Routing Flexibility: Routing to points in any order, omission of points, etc., subject only to a service nexus with homeland (unless there is an agreement on Seventh Freedom traffic rights). Also, allows “starburst” change of gauge.

1.3. Unrestricted Capacity and Frequency: Choice of equipment granted with any seating configuration.

1.4. Open Code-Sharing: Code-sharing between carriers of both sides, and between each carrier and third-country carriers.

1.5. Double-Disapproval Pricing: Prices are determined solely by carriers, except when both governments disapprove, and then only under limited and specified conditions.

1.6. Liberal Charter Regime: Passenger and all-cargo services have the right to operate flights from either side’s territory using the rules of either side (applicable consumer protection requirements still apply).

1.7. Liberal Cargo Regime: No restriction on passenger designations, routes, capacity or frequency.

1.8. Safety and Security: US model provisions apply, including the right to suspend services if the requirements are not met.

1.9 Liberal Doing-Business Provision: Consists of the right to provide self-handling at airports in the other country, the convert and remit revenues, etc.

1.10. User Charge Provision: User fees must be fair, reasonable, and related to the cost of providing services.

1.11. Fair and Equal Opportunity to Compete: There must be a level playing field.

²⁶ Data from Fact sheet on Open Skies, State Department of the US

1.12. Computer Reservation System: Airlines are allowed to operate their CRS systems in the other side's territory in a fair manner.

2. OPEN SKIES IN ASIA PACIFIC

Because Asia Pacific is not entirely ready for Open Sky, their Open Sky agreements bear mostly symbolic meaning, though they do provide an important foundation for future aviation. The multilateral Open Sky agreement reached by five member countries (US, Brunei, Chile, New Zealand, and Singapore) in Asia Pacific Economic Cooperation (APEC) on November 2000 expressed the local governments' concerns.

Negotiators note that this Open Sky agreement is the first step in a long process. The multilateral agreement as it stands bears three significant advantages:

- It provides a Competition-Enhancing Model for Future Agreements: unrestricted international air service is allowed between the US and partners.
- It expands Carrier Access Equity Financing: the agreement liberalizes the traditional ownership rules, which required that substantial ownership of a designated carrier be vested in either the carrier's homeland government or its nations. Thus, foreign carriers have greater access to outside investment.
- It streamlined International Aviation Relations: the agreement provides a single, consolidated mechanism for further aviation opportunities, bypassing negotiation of numerous individual bilateral agreements.

The multilateral open sky agreement is not more advanced than the existing bilateral agreements. Signatories must have had a prior open sky agreement with the US. By changing bilateral agreements into multilateral open sky agreements with the same rules, the US advances its open sky policy. Nonetheless, the Multilateral Agreement between the five members of APEC represents a successful effort to promote safe, affordable, and efficient air transport services worldwide.

3. ASEAN WITH "OPEN SKIES" PROCESS

From February 13–15, 2001, civil aviation leaders of ten ASEAN countries held the Third Conference of a working group in Air Transportation in Brunei. Countries were urged to submit drafts for open-air commitments in such service sectors as aircraft maintenance services, sale and marketing of air products, and computer reservation systems (CRS). In addition, at the conference, country members were required to examine new sectors for the next round of negotiations on opening the service market, including:

1. Wet-lease
2. Dry-lease
3. Package delivery services
4. Air tourism services
5. Air craft maintenance
6. Cargo services
7. Stairway services
8. Baggage services
9. Passenger services

10. Radar air control
11. Air control at airports
12. VIP services for commercial purposes
13. Air catering services
14. Security services

Vietnam committed to open its market in aircraft repair and maintenance, sale and marketing products, CRS, and dry-lease. This commitment is based on the current status of Vietnam's civil aviation sector.

At the conference, Brunei submitted a draft about the ASEAN "cross border" aviation agreement, which is an Open Skies agreement. During the process of drafting the document, there appeared two primary opinions:

First, a few ASEAN members thought it was time to liberalize air transport services to stimulate economic development in the region and in each member country. Such an agreement could be considered initial progress in adopting the "Open Skies Policy" in ASEAN countries.

Second, most ASEAN members, especially Cambodia, Laos, Myanmar, and Vietnam (CLMV) affirmed that a cross-border agreement under the modernization model is currently unsuitable. There is a large gap in the air transport development between the countries. The four countries emphasized that agreements should be a step-by-step and continuous process, starting at the point of cooperation between countries in the ASEAN sub-region, then expanding to the entire ASEAN region. According to them, ASEAN aviation cross-border agreements can only be reached after agreements are established and operated effectively in sub-regions like the Indonesia, Malaysia, and Thailand growth triangle (IMT-GT) and the Brunei, Indonesia, Malaysia, Philippines-East Asia Growth Area (BIMP-EAGA).

A draft of Memorandum of Discussion on air cargo transport, considered a supplement to the current bilateral air agreements between ASEAN members, was signed. The memorandum is the first step towards an air transport policy of Open Skies in ASEAN countries. However, much editing, particularly regarding the CLMV provisions on loading, frequency, freedoms, and code-sharing authority, is needed to satisfy all countries.

4. OPEN SKIES IN THE SUB-REGION: CAMBODIA, LAOS, MYANMAR, AND VIETNAM.

Cambodia, Laos, Myanmar, and Vietnam have agreed to cooperate and initiate the next stage of development in the Open Skies policy in ASEAN countries. Cooperation between countries in the sub-region ensures that their airlines will fully and effectively engage in the international air transport market.

The "Agreement between General Director of Civil Aviation of Cambodia, Laos, Myanmar, and Vietnam on cooperation on air transportation in the sub-region" is comprised of the following contents:

- No limit on 3rd, 4th, and 5th freedoms, loading supply, frequency, designated airlines, destination, original, intermediate, and beyond points within the sub-region.
- The Computer Reservation System (CRS) of each country may be established in the territory of other countries in the sub-region.
- Application of double disapproval on fare for air transport within the sub-region.
- No limit on the non-scheduled activities, depending on approval requirements of each country.
- Code-sharing and other methods of cooperation between designated airlines of the sub-region is encouraged.

5. VIETNAM AND THE “OPEN SKIES” TREND:

In the global economy, air transport is a strategic economic sector for every country. Not only does it fuel the development of national economies, but it also fosters economic, political, and cultural cooperation between nations.

Vietnam considers international cooperation and liberalization indispensable for the development of its civil aviation sector and economy. Therefore, Vietnam is progressing from protectionism towards liberalization.

In light of the gap between developing and developed countries regarding air transport, Vietnam has progressed during the past few years. Due to restraints in its competitive ability, however, Vietnam must continue to expand its aviation network. Hence, Vietnam plans to liberalize in the sub-region scope (Cambodia, Laos, Myanmar, and Vietnam), then to ASEAN, APEC and the world.

To iron out relevant legal issues, Vietnam has adjusted numerous provisions in bilateral agreements:

- It has incorporated the code-share provision with airlines of third country parties into the traditional agreements. Designated airlines of each party are allowed to have a code-sharing contract with airlines of third country parties provided that the bilateral agreement between the two contracting parties is not affected.
- It has applied the new safety provision of ICAO. The authorities of the contracting party are eligible to inspect air safety (inspect aircraft at the airport and the air safety control system in the territory of the other party). Operation may be suspended if the other contracting party does not meet air safety conditions.
- An exchange of Fifth Freedoms is possible for competitive routes.

In short, Vietnam’s attitude towards the Open Skies policy is cautious, due to the relative weakness of the country’s civil aviation sector. As described above, Vietnam is not only concerned about Open Skies in ASEAN, but also about elements of the US Open Skies policy. It is believed that Vietnam needs more time to catch up with its competitors.

US-VIETNAM BILATERAL CIVIL AVIATION AGREEMENT IN THE CONTEXT OF VIETNAM'S INTEGRATION INTO INTERNATIONAL ORGANIZATIONS

1. VIETNAM AND THE WORLD TRADE ORGANIZATION (WTO)

1.1. Vietnam's accession to the WTO

Vietnam was recognized as an observer of the WTO in June 1994. On January 31, 1995, the Working Group on Vietnam's accession to the WTO was established, and on April 01, 1995, the WTO received Vietnam's application for membership. The Working Group conducted four meetings, and Vietnam fulfilled its obligations to move to the next step. During the second step of the WTO's accession procedure, Vietnam must report to the Working Group a memorandum on its trading and legal regime. The Working Group will inspect Vietnam's answers to all questions raised by other WTO members. Topics discussed within the Working Group are generally agriculture, customs, import licensing, national treatment, SPS and TBT, State trading, trading rights and TRIPS. Vietnam hopes for official membership to the WTO by 2005.

1.2. General Agreement on Trade in Service (GATS)

GATS is an annex to the agreement establishing the WTO. The GATS framework consists of fourteen obligations and disciplines aimed at promoting trade and investment. Though GATS has not yet incorporated any Article on Air Service in its main body, the CAAV should base its main principles on the following GATS principles:

- Most Favored Nation (MFN) Treatment (Article II): requires WTO members to grant other members treatment equal to that offered any other members.
- Transparency (Article III): requires that measures related to trade and investment in services be publicized.
- Domestic Regulation (Article VI): requires that measures affecting trade and investment in services be conducted in a rational, determined, and unbiased way.
- Monopolies and Exclusive service providers: requires members to ensure that monopolies and state companies not act against scheduled commitments.

1.2. GATS Annex on Air Transport Services

The Annex incorporates measures affecting trade in air transport services, aircraft repair and maintenance services, the selling and marketing of air transport services, and computer reservation system (CRS) services. It indicates that traffic rights, or services directly related to traffic rights, are exempt from the dispute settlement procedures. Dispute settlement procedures can only be requested by involved members. The Annex requires the Council for Trade in Services' periodical review on "developments in the air transport sector."

2. VIETNAM AND ASSOCIATION OF SOUTH-EAST ASIAN NATIONS (ASEAN):

On July 28th, 1995 Vietnam became a member of the ASEAN. At the Fifth ASEAN Summit in December 1995, in Bangkok, Thailand, member countries signed the ASEAN Framework Agreement Services (AFAS). AFAS' objective is commitment for investment liberalization, market access, national treatment, private sector involvement, and all service sectors and sub-sectors. Aiming at liberalizing trade in services, seven key sectors were chosen for negotiation: financial services, telecommunications, maritime services, air transportation services, tourism, commercial services, and construction services.

At the Sixth ASEAN Summit held in Hanoi on December 1998, Vietnam committed to liberalize air services and other service sectors not included in the first round of negotiations. The commitment in air services covers aircraft fixing and maintenance, booking, and air marketing.

At the 31st ASEAN Economic Ministerial Meeting (AEM) in 1999, ASEAN countries agreed to push forward negotiations aimed at liberalizing trade in services within ASEAN, and to finalize the “Framework Agreement on Negotiations in Services from 1999 to 2020.”

At the 32nd ASEAN, the draft “Framework guiding the ASEAN liberalization of trade in services” was approved. Ministers continued to work on long term liberalization goals, determining sectors, sub-sectors, and modes of supply to be liberalized.

At the moment, the Ministry of Planning and Investment of Vietnam is working with other related Ministries to develop a strategy for further negotiation of services with other ASEAN countries.

3. US-VEITNAM BILATERAL TRADE AGREEMENT

The US-Vietnam Bilateral Trade Agreement (BTA) was signed in Washington DC on July 13th, 2000. It will take approximately eighteen months to be ratified by the US Congress, President Bush, the National Assembly of Vietnam, and President Tran Duc Luong. The BTA addresses major trade issues between the two countries, including market access for US agricultural and industrial goods; increased intellectual property rights; market access in service sectors; protection of US investments; transparency of Vietnamese laws, rules, and regulations; and a right to appeal for US citizens. Once the BTA comes into force, tariffs will drop from 40 percent to 4 percent for Vietnamese exported goods.

Regarding services, the Agreement makes the following commitments:

- US firms may operate in Vietnam under the form of the Business Contract Cooperation (BCC), joint ventures, 100% foreign-owned enterprises, the Build-Operate-Transfer (BOT) and the Build-Transfer-Operate (BTO).
- US companies may establish representative offices in Vietnam without engaging in any profit-taking activities.
- Service providers with US direct-investment capital will be licensed in accordance with Chapter 3 of the Agreement.
- Branches of US firms are required to operate under current Vietnam laws and regulations.
- Enterprises with US investment capital may lease land within their period of operation with the approval of central or local authorities.
- Measures of entry and temporary stay are applied to managers, executives, specialists, and service salespersons.

RECOMMENDATIONS

From the Background section, Vietnam's civil aviation sector can be described as follows:

- (1) The point of departure remains far behind that of other countries in the region and in the world
- (2) The legal framework is incomplete and non-uniform
- (3) The competitiveness remains weak
- (4) The technology is backward
- (5) There is a lack of capital
- (6) Integration into "knowledge-based" economics is weak, and relies heavily on government subsidies
- (7) Its management mechanism is imperfect

To reach a US–Vietnam Bilateral Civil Aviation Agreement with a feasible content, Vietnam and the US must first find suitable steps for the BCAA and then move towards an Open Skies agreement.

I. TO VIETNAM:

Given the relative weakness of the aviation sector, the Vietnamese government will maintain monopoly control. It is preferable for Vietnam to carry out an Open Skies policy in the sub-region (Cambodia, Laos, Myanmar, and Vietnam) first, then Open Skies in ASEAN and APEC. Vietnam should sign a traditional bilateral civil aviation agreement. Based on a traditional agreement, Vietnam and the US can then work towards an Open Skies agreement.

I highly recommend constructing the US–Vietnam Bilateral Civil Aviation Agreement as follows (See Appendix 1 for Time-Frame):

1. FROM 2002 TO 2005: PREPARE THE TRADITIONAL US–VIETNAM CIVIL AVIATION AGREEMENT

During this period, Vietnam Airlines (the national carrier) and US airlines can operate their flights via code-sharing contracts. In addition, Vietnam should complete the "Open Skies" agreement within the sub-region CLMV and then move up to ASEAN.

More concretely, Vietnam will need to carry out the following:

- Prepare conditions for future investments such as improving airport infrastructure and strengthening the fleets with long-range aircraft like Boeing 767 and 777.
- Quickly build up a distribution network in the US.
- Sign interline contracts with US airlines.
- Reach a special prorated agreement (SPA) with US airlines which do not operate direct flights to Vietnam.
- Gain allowance to establish a passenger service agency (PSA) in the East Coast of the US.
- Establish representative offices in San Francisco, Los Angeles, and New York City.
- Prepare Code-share or Block Seats agreements with US airlines operating direct flights to Vietnam.
- Create favorable conditions for five US airlines to operate in Vietnam.
- Allow US airlines to open their representative offices in both Hanoi and Ho Chi Minh City.

2. FROM 2006 TO 2010: MOVE TOWARD AN “OPEN SKIES” AGREEMENT BETWEEN THE US AND VIETNAM

Vietnam civil aviation should develop with international standards, keeping pace with countries in the region, reducing the government subsidy, and expanding the free market economy.

Based upon gains from 2002 to 2005, the US and Vietnam should introduce amendments to the traditional US–Vietnam BCAA with the following new contents:

- Expand routes and freedoms, especially Fifth and Seventh Freedoms
- Improve fares and CRS
- Designate more airlines

In addition, in order to reach a feasible US–Vietnam Bilateral Civil Aviation Agreement, legislative and executive issues must be adjusted uniformly.

- Amend the Civil Aviation Law 1995 and current legal aviation documents, in order to:
 - Introduce privatization and foreign investment in air transportation
 - Separate state-owned businesses into independent businesses
 - Allow businesses to decide on prices, charges, and fees
 - Reduce the government protection; limit red tape in licensing
- Issue decrees, decisions, and documents uniformly and transparently regarding operations of Vietnam’s civil aviation sector and the airlines of counterparts.

II. To the US:

- Use influence to push for Vietnam’s accession to the WTO in the year 2005.
- Increase investments and loans to Vietnam to promote the construction of Vietnamese airports, particularly four international airports. Also promote flight safety and information technology for ground management for the Computer Reservation System (CRS).
- Grant loan to Vietnam to buy or lease high-load modern aircraft with long-range flying ability.
- Help Vietnam train staff with management, business, and technological skills.
- Give Vietnam’s aviation special priority to carry out the Open Skies Agreement.

The next section will justify these recommendations and will anticipate impacts of the US-Vietnam BCAA on Vietnam and the US.

ANALYSIS PAPER

I. POLICY ANALYSIS:

The Party and the government of Vietnam recognize the strategic importance of civil aviation on the industrialization and modernization of the country. The Bilateral Civil Aviation Agreement between the US and Vietnam will promote the development of Vietnam's civil aviation sector, helping it to reach the following goals:

- Reconcile Vietnam's civil aviation regulatory policies with regional (ASEAN, APEC) and international standards (WTO, ICAO, IATA) and advance Vietnam's integration into the world
- Promote foreign investments in civil aviation through joint ventures
- Create more capital to invest in aircraft, infrastructure, and equipment
- Create a fair environment for competition
- Improve the quality of air services

1. The attitude of the Vietnamese government toward international integration, liberalization, privatization, and joint-ventures

Realizing the decision of the General Assembly of the Vietnam Communist Party VIII to "*Enlarge diplomatic relations, actively take part in regional and international organizations, and fortifying and improving of Vietnam in international markets,*" Vietnam has recently pushed for integration into the international economy. Vietnam joined the free trade area of ASEAN (AFTA); participated in the Asia Europe Summit Meeting and the Asian Pacific Economic Forum (APEC); has negotiated for access to the World Trade Organization (WTO); and is pushing forward other bilateral and multilateral agreements. These efforts are reflected by the Decision 07-NQ/TW issued by the PolitBuro on November 27, 2001 on economic integration. The decision addressed the need to improve efficiency of production to ensure an effective integration process.

As mentioned in the background section, Vietnam became the seventh member of ASEAN in 1995 and an official observer of the WTO in 1994. Vietnam also ratified the US-Vietnam Trade Bilateral Agreement. The agreement marks a complete normalization of economic relations between the two countries and confirms the important advancement of Vietnam into the global economy. It favors the US government, firms, and businessmen to expand their commercial operations to Vietnam, a sensitive and diversified market in Southeast Asia. Moreover, goods exported to Vietnam may be re-imported to the US without high tariffs. Thus, US investors in Vietnam may advance their competitiveness in the US market.

The Vietnamese government has attached much importance to private and foreign capital having a positive effect on the national economy. The Vietnamese government promotes the private economy in various production and business sectors. A desirable business and legal environment helps stimulate a private capitalist economy through foreign investments, privatization, and joint-stock companies.

The state-operated economy may be diversified by joint-ventures, which combine the state with private interests to create benefits for investing parties. This type of economy will spur the development of economic infrastructure with modern technology and will create more jobs.

2. The attitude of the Vietnamese government toward the Vietnam civil aviation sector in general, and the US-Vietnam Bilateral Civil Aviation Agreement in particular

The Vietnamese government recognizes the strategic importance of civil aviation for commerce, services, technology, tourism, international relations, and for the overall development of the national economy. Vietnam has attempted to integrate its civil aviation to the region and the world with a gradual and prudent approach. To date, Vietnam has signed bilateral civil aviation agreements with 40 countries, of which about 20 have been put into operation.

In addition, a framework for aviation law has been built and amended. In 1982, Vietnam civil aviation law was formed. Amendments to the law were introduced in “The 1992 Amended Civil Aviation Law I” and “The 1995 Amended Civil Aviation Law II” and in other documents, written texts, circular letters, decrees, and government decisions. The current barrier impeding the process of the civil aviation sector is not the legal framework but rather the long-running government subsidy and monopoly of Vietnam airlines. Foreign investments and privatization have not been adequately encouraged.

That said, Vietnam aviation has expanded its flight route networks to most of the world, except for Africa and America. This is a crucial pre-requisite for Vietnam’s integration in the world economy. The following are three benefits of improved civil aviation:

- 1) Economic development has moved Vietnam towards an industrialized and modernized country. As living standards increase, the civil aviation market promises revenue and quality service.
- 2) Improved civil aviation can attract foreigners and tourists. Japanese and American tourists are attracted to the country’s favorable geographical position, history and culture.
- 3) Situated at the heart of Asia, with a high traffic density of international flights, Vietnam can be a large hub for passengers and cargo.

The US-Vietnam Bilateral Trade Agreement and the cooperation policy between the two countries would be perfectly complemented by a US-Vietnam Bilateral Civil Aviation Agreement.

In short, international integration, market economy, and free competition would all be advanced with the improvement of the civil aviation sector. The aviation sector must take advantage of the Vietnam-US Bilateral Trade Agreement, and access the WTO. Building aviation relationships will help Vietnamese airlines to compete with US airlines and airlines of other nations. Vietnam airlines can use information technologies to help modernize their operations for future Open Skies cooperation.

For the Vietnam/US aviation relationship to develop, the Vietnamese Government must continue to diversify the economy, moving the country towards a modern Open Skies strategy.

3. US policy toward the aviation sector and the US–Vietnam Bilateral Civil Aviation Agreement:

The US government has prioritized establishing strong aviation relations with a number of countries, particularly those countries that possess the potential for growth and expansion in the aviation sector. Asia, South America, and Europe hold the potential for aviation growth. In addition to promoting air transportation services, the US benefits from new markets. Listed below are primary US interests:

- Strengthening and building consumer confidence in the international air market
- Creating opportunities for US airlines to enter new markets, thus creating more business opportunities for US companies
- Expanding the Open Skies policy

US government policy towards the US aviation industry is supportive, particularly to those airlines hurt by the September 11 terrorism. Air safety, maintaining national security, and bringing peaceful life to the American people while strengthening the US economy are priorities. Expanding trade helps reverse downward trends

in the US economy. The conclusion of the US–Vietnam Bilateral Trade Agreement, with timely passage by both Houses and President Bush, reflects the positive attitude of the US government on the future of US/Vietnam trade relations. The US–Vietnam BCAA would likely gain the support of the US government, as it would facilitate further access to US goods and services in the Vietnamese market. The BCAA allows American airlines to approach the Vietnam air traffic market that they have long ignored.

Countries opposed to the Open Skies policy fear that liberalizing the air transportation market may violate their sovereignty. The US may attempt to prevent airlines of these countries from entering the US market. The US government may also try to limit the commercial relationship between the Open Skies opposition airlines and US airlines. However, the US should make an exception for Vietnam to compensate for the highly competitive environment the Open Skies agreement creates. Support for a traditional aviation agreement would depend on a suitable timetable for an ultimate Open Skies Agreement between the two countries.

US policy towards the aviation industry and towards the US–Vietnam Bilateral Trade Agreement indicated that the US-Vietnam BCAA would be reached in the near future.

II. POLITICAL ANALYSIS

Different points of view may arise on a strategy to promote the US-Vietnam Bilateral Civil Aviation Agreement. Vietnam’s aviation future faces two pressing questions:

(1) Will the US–Vietnam Bilateral Civil Aviation Agreement be reached? If the agreement fails to pass in timely fashion, Vietnam will lose opportunities to strengthen the relations with the US, to take advantage of the US-Vietnam Bilateral Trade Agreement, to catch up with airlines of countries in the region and the world, and most importantly, to participate in the multilateral world trade system (WTO), which would increase trade and foreign investments in Vietnam.

(2) How would the US–Vietnam Bilateral Civil Aviation Agreement proceed? How quickly and how comprehensive an agreement can be reached is unknown. Also uncertain is whether the agreement mirrors traditional bilateral agreements or Open Skies Agreements.

1. DOMESTIC STAKEHOLDERS (APPENDIX 2 FOR STAKEHOLDER ANALYSIS CHART):

- ***Vietnamese Leaders in the Communist Party and in the Government:***

The Central Committee of the Communist Party receives legal documents, proposals, and statements submitted to the Political Bureau by the Permanent Committee of the National Assembly for consulting before bringing them before the Plenum of the National Assembly to ratify. The US–Vietnam BCAA has divided the Central Committee, the PolitBuro, and National Assembly into two groups. The groups argue over the process, stages, and content of the agreement and how to promote the agreement without breaking the political mechanism.

The first group, which can be considered “conservative,” thinks the agreement is not currently suitable for Vietnam, a country with a low level of development. It supports stable development under the direction of socialism. For this group, the economy can develop slowly but stability must be maintained. The young airlines of Vietnam must be aided and the Vietnamese economy must be supported to respond to competition with giant US airlines.

The second group, which can be seen as “open-minded/ progressive,” believes that rapid growth can only be achieved by liberalizing the market. For them, hesitation will cause lost opportunities. A number of factors may change, but benefits are gained in return. The BCAA agreement would help the private sector grow faster and create more, higher quality jobs. Expansion of the private sector will require restriction of state-owned sectors, but in turn air services will be of higher quality and competitiveness. This progressive group thinks that both Vietnam and Vietnam airlines will benefit from modernization. The US–Vietnam BCAA will cause air services between the two countries to grow and catch up with opportunities created by the US–Vietnam Bilateral Trade Agreement and Vietnam’s accession to the WTO. It helps Vietnam airlines join the international air system. Vietnam’s civil aviation sector will benefit from advanced business management and modernizing information technology.

The Central Committee and the PolitBuro tend to operate based upon points of view of the Ministry of Defense and the Ministry of Police. Due to national security reasons, these ministries are unlikely to support the US-Vietnam Bilateral Civil Aviation Agreement. According to them, the Open Skies policy is risky and may lead to economic and political crisis.

- ***The Civil Aviation Administration of Vietnam (CAAV) and the Vietnam Airlines Corporations:***

Within the CAAV, Vietnam Airlines Corporations, and other functional units, two main trends are likely to arise. First, the board of leaders may want to pursue the traditional civil aviation agreements that Vietnam has signed with over 40 countries rather than an Open Skies Agreement with the US. They may wish to appease other government officials. Second, the functional units and staff may prefer the Open Skies agreement because they believe that the Vietnamese civil aviation sector can learn from US aviation, a strong power in the international air transport system. Moreover, with an Open Skies policy, civil aviation employees could benefit from a salary two times greater than that of other state employees. Hence, they may accept the US-Vietnam BCAA being signed under Open Skies form.

- ***The Ministry of Public Security and Ministry of National Defense:***

The two ministries are not likely to support an Open Skies agreement with the US. From their point of view, the agreement could endanger national security and social policy. With careless management, international reactionary forces and economic criminals could harm the process of building and protecting the country. The ministries would argue that the state must maintain control over important civil aviation operations, such as passenger transportation, synchronized services, and flight and airport management. They would prefer the government run civil aviation under monopoly policies or play a crucial role in domestic equity. Allowing foreign business to participate in this field is too risky. The Ministry of Public Security and the Ministry of National Defense may create a long debate around the content and scope the US-Vietnam BCAA.

Though the ministries recognize the necessity of a modernized civil aviation agreement, they remain staunchly political on strengthening interior defense and national security. These two ministries have a strong and compelling strength in the government due to the number of seats their delegates occupy in the National Assembly.

- ***Ministry of Foreign Affairs:***

The Ministry of Foreign Affairs has made much effort to establish a good relationship with the US, and thus will support the US-Vietnam Bilateral Civil Aviation. It has actively influenced the Vietnamese government to normalize relations with the US, and has pushed the US-Vietnam Bilateral Trade Agreement and the US–Vietnam civil aviation relationship.

- ***Ministry of Trade:***

The Ministry of Trade would definitely support the US-Vietnam BCAA and an “Open Skies” agreement. The ministry would like to promote commercial services between the US and Vietnam, and would like to promote Vietnam’s accession to the WTO. The US-Vietnam BCAA, according to the Ministry of Trade, would be an effective means to increase exports, imports, and services once the US-Vietnam Bilateral Trade Agreement is ratified.

- ***Ministry of Planning and Investment (MPI):***

The MPI recognizes the urgency of the US-Vietnam BCAA. The MPI wishes to complete the National Plan for Economic Growth, which would increase the 2000 GDP two-fold by 2010. In order to achieve that goal, it is necessary to solve two fundamental and related problems: capital investment and policy adjustment. Signing bilateral and multilateral aviation agreements with strong counterparts would help fulfill these requirements. With the US-Vietnam BCAA, especially under the form of an Open Skies agreement, capital inflows will increase as giant US air service companies enter the Vietnam aviation industry. The MPI is likely to support the US-Vietnam BCAA as a foundation for the Open Skies agreement.

- ***Ministry of Finance:***

The US-Vietnam BCAA would help increase foreign investment and private business. Thus, it would positively affect the budget and revenue issues that the Ministry of Finance faces. In addition, the agreement will give the Ministry experience in managing and directing finances in other strategic sectors of the economy, with effective results. Therefore, it is probable that the Ministry of Finance would support the US-Vietnam BCAA.

- ***Ministry of Transportation (MOT):***

The Ministry of Transportation would strongly support the ratification of the US-Vietnam BCAA. The main goal of the MOT is to develop multi-modal transportation. The US-Vietnam BCAA would help develop other modes of transportation such as surface and sea. Moreover, the BCAA would help Vietnam comply with targets of the ASEAN Framework Agreement Services (AFAS) to promote cooperation between ASEAN countries on transportation services.

- ***Ministry of Legal Affairs:***

The Ministry of Legal Affairs is in charge of examining legal aspects of aviation agreements. The Vietnam civil aviation law must be adjusted to comply with international modern rules to suit the US-Vietnam BCAA. A feasible modern aviation agreement would allow the Ministry of Legal Affairs to quickly examine and adjust the Vietnam civil aviation law. Then, laws such as Commercial Laws could be amended. The Ministry of Legal Affairs would likely support the introduction of a modern US-Vietnam BCAA under the Open Skies form, and it plays a very important role in the final decision on the US-Vietnam BCAA.

- ***The General Administration of Tourism (GAT):***

The US-Vietnam bilateral civil aviation agreement would be backed by the General Administration of Tourism because tourism and aviation are strongly tied to one another. The agreement will facilitate the transportation of American tourists to Vietnam, thus increasing revenues. The agreement would bring about greater infrastructure of international airports, modern aircraft, and high quality service, attracting 18 to 24

million people per year.²⁷ Vietnam could gradually become a significant center of tourism, commerce, and services in the region. The General Administration of Tourism would likely advocate the US-Vietnam BCAA for the sake of the tourist industry.

- ***The General Administration of Customs (GAC):***

The General Administration of Customs is an important coordinator at airports, as it deals with customs, tariff barriers, and import-export policies. Handling import tariffs at airports, a corrupt staff of customs officials has abused its power, causing a significant loss of hundreds of millions of US dollars to the country. In the past few years, the GAC has lost its position in the government and society. Once the US-Vietnam civil aviation has been signed, it is believed that the GAC will improve to conform to standards of transparency and red tape elimination held by the US and others. Therefore, it is likely that the GAC will support the US-Vietnam Civil Aviation Agreement and the Open Skies policy.

- ***The General Department of Post and Telecommunication (GDPT):***

Once the US-Vietnam Bilateral Civil Aviation Agreement is reached, the number of passengers to Vietnam will increase, resulting in more revenues for the GDPT. Once foreign investors enter the market, they will need to communicate to manage their businesses. Thus, post and telecommunication services domestically, regionally, and globally will also increase, and fuel the GDPT. Moreover, the agreement will help improve the quality of current postal services such as mailing, packaging, and express delivery to reach customers in a faster and more convenient way.

- ***Vietnamese consumers:***

Vietnamese consumers will support the US-Vietnam bilateral civil aviation sector because it would bring improved services and a more favorable price system. More importantly, the agreement would contribute to the economic development of Vietnam as a whole; thus, living standards would improve. The Vietnamese consumers would have more chances to travel and expand their worldview.

2. US STAKEHOLDERS:

2.1. US Congress:

The US Congress plays a crucial role in passing regulations on transportation and other strategic economic sectors. Agreements in transportation, including air agreements, could not be reached without consensus among committees in Congress. Aviation issues are primarily dealt with by the Committee on Commerce, Science, and Transportation of the US Senate, the House Committee on Transportation and Infrastructure (sub-committee on Aviation), and the House Committee on Ways and Means, (sub-committee on Trade). A number of US Senators, who served in the war in Vietnam, would potentially advocate the US-Vietnam BCAA. It is likely that the US Congress would support the US-Vietnam BCAA, since they would like to promote US aviation that could expand its route network to every region in the world. Helping the US economy to recover from the September 11 attacks is further motivation for supporting the US-Vietnam BCAA. Moreover, the US-Vietnam Bilateral Trade Agreement, which passed through Congress, shows that efforts are being made to strengthen relations with Vietnam.

²⁷ Source provided by the General Administration of Tourism, 2001.

2.2. Bush Administration and Department of State

The Bush Administration and the Department of State would likely advocate the US-Vietnam BCAA. The motto “expand the international aviation market” coincides with their objectives. The Administration and the Department of States are determined to build a strong aviation relationship with partners from such potential growth areas as Asia, South America, and Central Europe. They also would like to create an atmosphere of free trade within the aviation sector and services. Through free trade, US airlines can harvest large economic benefits. Moreover, because the US-Vietnam civil aviation relationship has stagnated due to ideological differences, the Administration and Department of State may wish to build stronger economic ties.

2.3. Department of Transportation (DOT) and Federal Aviation Administration (FAA)

The DOT and the FAA will most likely support the US-Vietnam BCAA. The DOT and FAA recognize that the current situation in Vietnam does not allow for the civil aviation sectors to fully embrace the Open Skies policy. By supporting the BCAA, however, the DOT and FAA could advance its own international policy. Therefore, the DOT and FAA would support a transitional agreement that would be a foundation for the negotiation of a more liberal aviation relationship between the US and Vietnam. After the US-Vietnamese bilateral agreement is concluded, the DOT and FAA would support an Open Skies agreement.

2.4. US Airlines:

Five US airlines, namely United Airlines, American Airlines, Northwest Airlines, Continental Airlines, and Delta Airlines, would be primary supporters of the US-Vietnam BCAA. With the recent slump in the airline industry resulting from September 11, gaining access to more markets and building strong alliances tops the priority list for US airlines. With an increasing population in Vietnam and many Vietnamese currently living in the United States, the US-Vietnam BCAA and an ensuing “Open Skies” agreement would be of great economic benefit. Many airlines hope for both the US-Vietnam BCAA agreement and a US-Vietnam Bilateral Trade Agreement.

III. COMMERCIAL ANALYSIS

The US-Vietnam Bilateral Civil Aviation Agreement (BCAA) would be the first bilateral agreement between Vietnam and the US for commercial and transportation services. The agreement would help Vietnam civil aviation grow and modernize. It would facilitate the transportation of passengers and cargo between the two countries and more importantly, contribute to the economic, cultural, and political relationship of the two nations. The US-Vietnam BCAA has the following commercial impacts:

1. IMPACT ON THE FINANCIAL RESOURCES OF VIETNAM’S CIVIL AVIATION SECTOR:

The aviation transport market between the US and Vietnam was formed in the 1980s, despite the prevailing diplomatic difficulties between the two countries. Thanks to the Open Door policy, the demand for tourism and investment greatly increased the passenger market in the 1990s.

Year	Route	Number of passengers
1991	From US to Vietnam	30,000
1997	From US to Vietnam and vice versa	140,000
2001	From US to Vietnam and vice versa	175,000

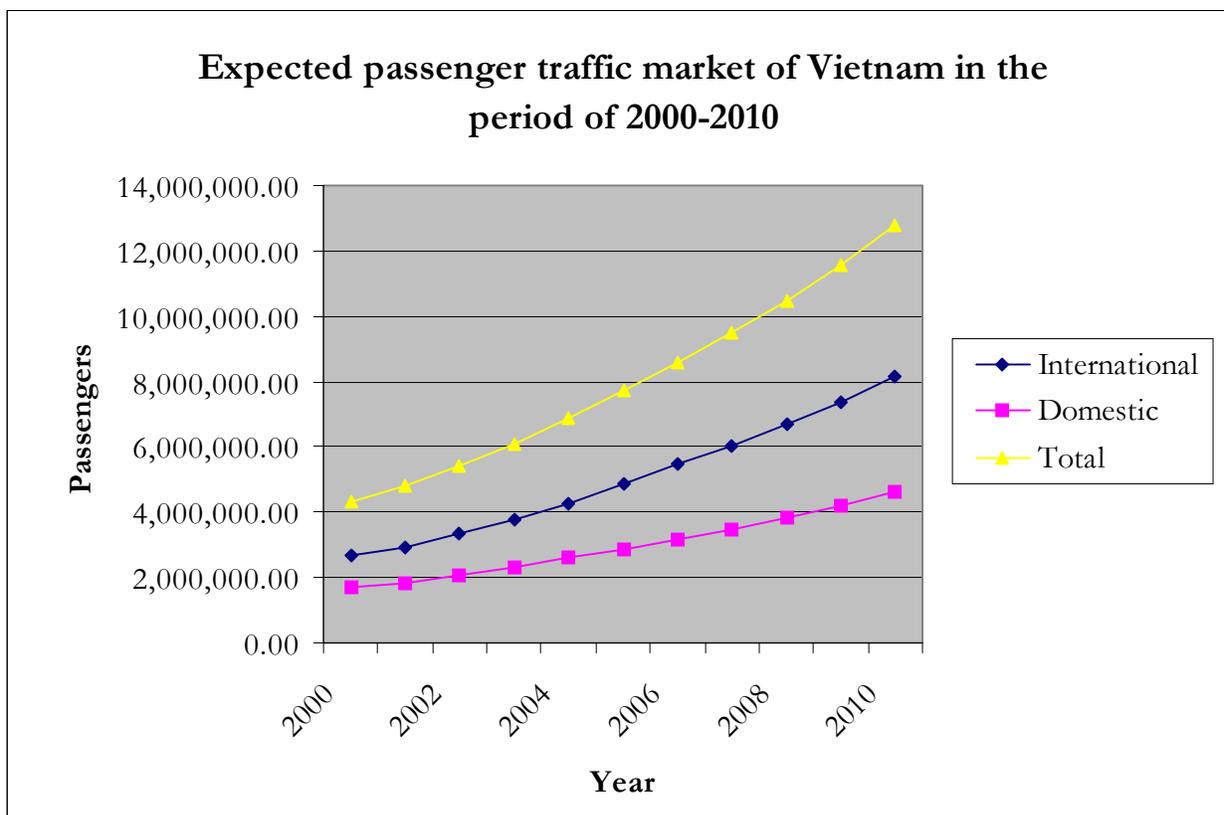
Data provided by Vietnam Airlines Corporations

The 175,000 passengers between Vietnam and the US is equivalent to 10 percent of the total number of domestic passengers in the graph below. The Vietnam Airlines Corporations believes that the US-Vietnam market will exceed the Vietnam-Western Europe market of 2005, which is expected to be 270,000.²⁸ Thus, by the following equation, the US-Vietnam passenger traffic is expected to rise by nearly 10 percent per year over the next 5 years:

$$175,000 \cdot (1+X)^5 = 270,000, \text{ so } X=9\%.$$

To assess the commercial impact of the US-Vietnam BCAA, let us observe a number of general strategic tables of the CAAV.

a. The expected passenger traffic market in the period of 2000-2010.



**Development Strategy of Vietnam Airlines Corporations 2000-2010²⁹*

At the moment, Vietnam Airlines is applying Special Prorated Agreements (SPA) with China Airlines, Cathay Pacific, Japan Airlines, and Korean Air to operate flights to the US. SPA allows Vietnam Airlines to carry passengers and cargo to an immediate point in Northern Asia, from which another airline will carry them to the US. Though this method does not create immediate benefits for Vietnam Airlines, it does lay a foundation for direct flights between the US and Vietnam. For example, a one-way ticket from Vietnam to

²⁸ Aviation Information, April 1998.

²⁹ Data provided by Data department of the CCAV

the US, operating via China Airlines, costs 650 US dollars (380 US dollars for the Hanoi/Ho Chi Minh City-Taipai and 270 US dollars for Taipai-San Francisco/Los Angeles). Once Vietnam and the US have direct flights the airfare is expected to be lower than 650USD due to the decrease in the fare between Vietnam and the immediate point. This will strengthen the competitiveness of Vietnam Airlines Corporations. According to a VAC estimate, one-way fare for the US-Vietnam route will cost around 500 US dollars.

The decrease in price will be: $USD650 - USD500 = USD 150$.

Therefore, percentage change in price will be: $150/650 = 0.23$ (23% decrease)

Based on Table 3–2, Estimated Price Elasticities of Demand, price elasticity of demand for airlines in the long run is 2.4.³⁰ Thus, the percentage change in quantity demanded for traveling between the US and Vietnam will be:

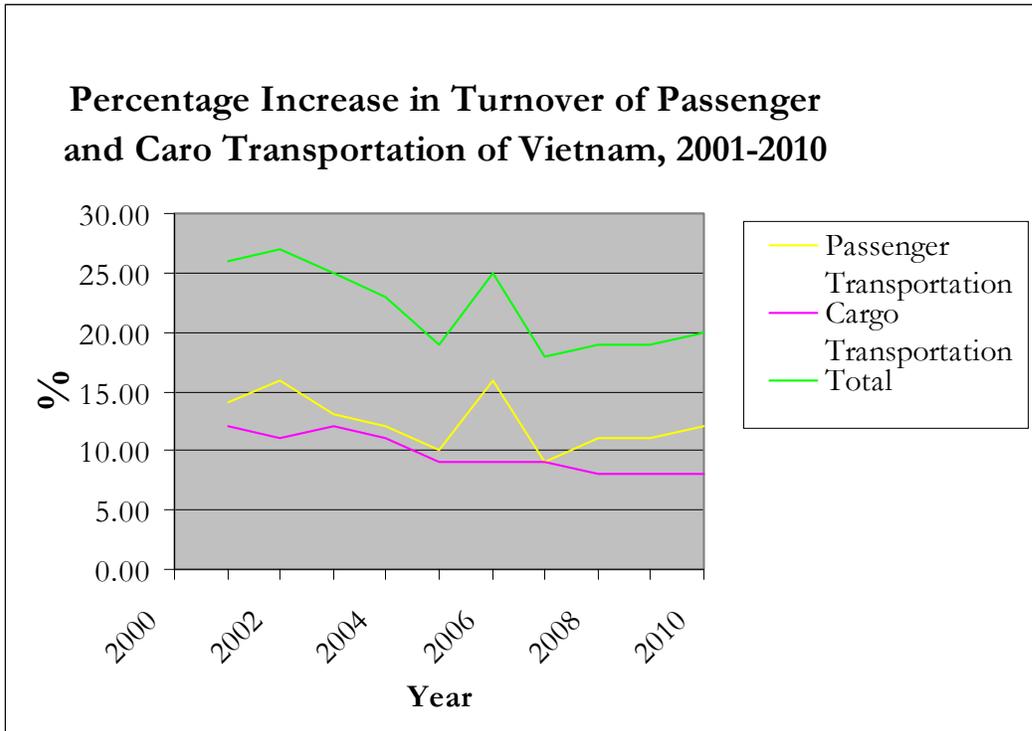
$0.23 * 2.4 = 0.55$ or 55% increase ($\% \Delta P * PED = \% \Delta Qd$). The increase of passengers is: $175 * 0.55 = 96$ ($Q_{increase} = Q_{old} * \% \Delta P$). Thus, using the Arc elasticity style, the new number of passengers is: $175 * (2 + .55) / (2 - .55) = 308,000$.

As noted in the background section, Vietnamese patriots account for 60% of the total market, US veterans and tourists 25%. The rest are US investors, politicians, and diplomats of the two countries, and Vietnamese students on study tour. However, we must subtract the number of Vietnamese politicians, diplomats, and students, which accounts for 2 percents of the market.³¹ Thus, we have the $60\% + 25\% + 13\% = 98\%$. The increase in the total passengers market is: $308,000 - 175,000 = 133,000$. Subtract 2%, and the new increase is around 130,000 passengers.

³⁰ Estimating the Impact of Trade Policy Changes on the Price of Imported Products and on Trade in such Products, Using Economic Data I Commercial Diplomacy.

³¹ Data provided by Ministry of Finance, 2001.

b. The expected turnover from 2000 to 2010



Development Strategy of Vietnam Airlines Corporations, 2001-2010³²

As stated above, airlines of third countries exploiting the aviation market between the US and Vietnam have benefited from the Sixth Freedom traffic right, which accounts for over 90% of the total turnover of the market.³³

In light of the code-sharing contract between American Airlines and Vietnam Airlines, and passage of the US-Vietnam Bilateral Trade Agreement by both governments, the US-Vietnam BCAA would have two important impacts:

- 1) Passenger demand would increase. This would include passengers traveling via routes of other airlines and passengers from Vietnam to the US as calculated in part (a). Note that the cargo demand has not been calculated. However, it is believed that once the US-Vietnam Bilateral Trade Agreement is ratified, cargo will also increase.
- 2) Ninety percent of the Vietnam-US market, which is currently served by third country airlines, will begin to use Vietnam and US airlines. From the new passengers calculated above, we can estimate total revenue for the US-Vietnam passenger market to be: $301,840 \times \text{USD}500 = \text{USD}150,920,000$. Supposed this number is divided equally among Vietnam Airlines, United Airlines, American Airlines, Northwest Airlines, Continental Airlines, and Delta Airlines. Each airline then benefits $\text{USD}150,920,000 / 6 \text{ airlines} = \text{USD}25,153,333$. Vietnam Airlines would carry far more than the current 9 percent of the US-Vietnam market. US airlines would not only generate a new source of revenue, but would also enter a promising market.

³² Data provided by Data department of the CCAV

³³ Data provided by Data department of the CCAV

Finally, other air services such as air safety control and ground services could be developed, bringing about considerable revenue.

c. The expected number of jobs generated by the US-Vietnam BCAA for the civil aviation sector:

To estimate the number of new jobs created from the US-Vietnam BCAA, we must first calculate the percentage change in revenue for Vietnam Airlines Corporations.

Vietnam Airlines serves only 9 percent of the 175,000 passengers in the US-Vietnam market. Nine percent of 175,000=15,750 passengers. Revenue from this number is $15,750 \times \text{USD}650 = \text{USD}10,237,500$. Thus, the percentage change in revenue of the US-Vietnam passenger market for Vietnam Airlines will be: $\text{USD}25,153,555 / 10,237,500 = 2.5$ (250%)

The number of jobs can be calculated from the percentage change in revenue multiplied by the current number of employees for the Vietnam Airlines Corporations, 10,386. This would represent a substantial increase in employment. Instead of projecting huge employment gains, let's consider how profitable VAC can become if it increases its revenues without adding corresponding labor costs.

Currently a state-owned company, Vietnam Airlines has more employees than can be justified by the amount of business it does. Competition from the US-Vietnam BCAA would force Vietnam Airlines to be more efficient. To cut costs, the VAC would have to lay-off workers. Moreover, as new technologies are transferred from US partners, the need for workers may further decline. The National Assembly planned to cut employment of all state-owned enterprises by 20% in the year 2002. Nevertheless, 20% does not make much difference in the aviation sector. To compete with US airlines, Vietnam Airlines should cut up to 40% of its workforce, that is $40\% \times 10,386 = 4,154$ employees. Thus the level of employment would be $10,386 - 4,154 = 6,232$ jobs without the BCAA.

The number of jobs generated from the change in revenue of the US-Vietnam BCAA is $2.5 \times 6,232 = 15,580$ jobs. However, two different cases must be considered:

Assume the US-Vietnam BCAA is signed. Technology transfer and competitive pressures make Vietnam Airlines Corporations more efficient, but business also increases. Five thousand, one hundred ninety-four (5,194) more workers are hired, for a total employment of 15,580 jobs ($15,580 - 10,386 = 5,194$).

On the other hand, if the US-Vietnam BCAA is not signed, what would happen? No technology transfer, competitive pressure, or new business from direct flights to the US would be added. As part of the government plan, 20% of the VA labor force would be laid-off. VA total employment would total 8,309 jobs ($10,386 \times 0.8 = 8,309$).

Thus the US-Vietnam BCAA would make a difference of 7,271 jobs ($15,580 - 8,309 = 7,271$) of which 5,194 are new workers (jobs created) and 2,077 (20% of the old level of employment, which is 10,386) are jobs saved.

2.2. Indirect benefits that the US-Vietnam BCAA will bring about:

2.2.1. Impact on Tourism:

In the 10 years since the Open Door policy was initiated, Vietnam grew from the least popular ASEAN tourist destination to a popular destination for the new millennium. An indispensable factor in Vietnamese tourism is the strong tie to the civil aviation sector. The civil aviation sector and the General Department of Tourism have successfully cooperated in the following ways:

- They coordinated governmental proposals on international passenger traffic to Vietnam.
- They've helped one another in marketing, advertising, and introducing images of Vietnam to the world tourism market.
- They've coordinated bringing Vietnamese people to foreign countries through holiday programs.

The US-Vietnam BCAA will directly impact Vietnam Tourism because these two sectors strongly connect to one another. An increasing number of tourists via direct routes from North America would benefit the BCAA.

According to the General Administration of Tourism, the cost of each tour (seven days) in Vietnam per person is USD1,200. Revenue from 98% of 175,000 passengers is $171,500 * USD1,200 = USD205,800,000$. The new revenue from 98% of 308,000 would be $301,840 * USD1200 = USD362,208,000$. The percentage change in revenue from the tourism is $(USD362,208,000 - USD205,800,000) / USD205,800,000 = 76\%$. Thus, the number of new jobs would be: 0.76 (percentage change in revenue) $* 15,600$ (old level of employment) $= 11,856$ jobs.

Other indirect benefits are revealed by sub-dividing the tourism. According to the General Administration of Tourism, 45 percent of the value of each tour (USD1,200), is spent on hotels, 45 percent on restaurants, shopping, and sightseeing, and 10 percent on surface transportation. We can calculate revenue for each sub-division.

For the hotel industry: $45\% * USD1,200 = USD540$ per tourist. The new total revenue will be: $301,840$ (98 percent of new total number of passengers) $* USD540 = USD162,993,600$. USD162,993,600 is also spent on restaurants, shopping, and sightseeing.

For transportation: $10\% * USD1,200 = USD120$. The new total revenue would be: $301,840$ (98 percent of new total number of passengers) $* USD120 = USD 54,331,200$.

2.2.2. Impact on the telecommunication sector:

The US-Vietnam Civil Aviation Agreement would boost the Vietnam telecommunications sector by standardizing telecommunication and computer technology in the civil aviation sector. The General Department of Post and Telecommunication and other related agencies would have to invest more in telecommunications and computer technology infrastructure to ensure flight control, finance and general management, and to connect Vietnam civil aviation with aviation counterparts in the sub-region, region, and the world.

Another boost to the telecommunications sector would be the new foreign passengers to Vietnam and their expected 3 to 4 million USD. These passengers would use many telecommunication services. In addition, US Airlines, booking offices, representative offices, and air service companies licensed to open business in Vietnam would use telecommunication services for their operations. The US-Vietnam Civil Aviation Agreement would thus indirectly benefit the telecommunication sector.

IV. ECONOMIC ANALYSIS

This section will show the necessity of the US-Vietnam bilateral civil aviation agreement (BCAA). The US-Vietnam BCAA is a meant to strengthen the commercial and services relationships between the two countries, creating favorable conditions for Vietnam civil aviation sector to compete with other aviation sectors in the region and the world. The agreement would positively impact the economy of Vietnam as a whole, including non-aviation sectors.

The questions posed by macro economic management would be:

1. WHY IS THE US-VIETNAM BCAA CRUCIAL TO THE ECONOMY OF VIETNAM?

The US-Vietnam BCAA would stimulate the development of the economy of Vietnam, and would catalyze commerce, services, and investment between the two countries. Likewise, given that the US-Vietnam Trade Bilateral Agreement has received approval from the highest authorities of both countries, and that Vietnam is going to be a WTO member, there is both momentum and motivation for building the US-Vietnam BCAA.

Experience shows that aviation relations coincide with trade agreements. When Canada and Mexico signed a free trade agreement with the US (NAFTA), commerce and investment between the two countries increased considerably. A demand for air transportation creates favorable conditions for air services. An increasing amount of commerce and investment helped these governments recognize the value of the aviation relationship, and the need to remove aviation limitations.

The US-Vietnam Bilateral Trade Agreement will create more incentives for the aviation sectors. The following data support this proposition:

Year	1998	1999	1999/1998	2000	2000/1999
Export	519.5	601.9	+15.8%	827.4	+37.63%
Import	269.5	277.3	+2.9%	330.5	+19.18%
Total	789	879.2	+11.4%	1,157.9	+31.8%

* "Two-way" commerce Vietnam-US (Billion USD)³⁴

The US-Vietnam BCAA will have immediate impacts on the Vietnamese economy. The economy will receive a boost through increasing tourism. Once United Airlines breaks into the Vietnamese market and conducts flights to Hanoi and Ho Chi Minh City, 21 million passengers will likely choose United to take advantage of the frequent flyer program. Many travelers may choose Vietnam for holiday, business, or marketing ventures. Moreover, Vietnam tourist companies will take advantage of promotions by United. Vietnam could become a destination for package tourism through United and other US airlines. Tourism will benefit the Vietnamese economy; creating more jobs, increasing wages, and helping to cover the costs for ground services in Vietnamese airports.

The development of the civil aviation sector would generate resources for telecommunications, information technology, road and sea transportation, and other sectors. In short, the benefits obtained from the US-Vietnam BCAA will be not only benefit the civil aviation sector, but will also provide income for professional employees in Vietnam.

The agreement will lead to an information technology upgrade in Vietnam. In order to service air travelers in the future, Vietnam will have to employ high-skilled laborers in information technology. These employees should receive training abroad for the new demand.

The civil aviation sector is clearly important for the Vietnamese economy. According to the General Data Administration, the contribution of the aviation sector was 8,641 Vietnam Dong out of a total GDP of 444,139 billion Vietnam Dong in the year 2000.³⁵ The following table shows the importance of the civil aviation sector in the Vietnamese economy:

³⁴ Source: US Customs

³⁵ Sources: the General Data Department, 2000

Year	92	93	94	95	96	97	98	99
GDP (%)	8.6	8.1	8.8	9.5	9.3	8.2	5.8	4.8
Growth of the aviation sector	74.6	33.7	51.6	33.1	11.1	0.8	-2.9	5.4

* Sources from General Data Department 1999

2. HOW DOES THE US-VIETNAM BCAA BRING ABOUT INVESTMENT IN SECTORS ACROSS THE ECONOMY?

In order to pass the US-Vietnam BCAA and effectively compete with US airlines, Vietnam's aviation sector needs an overall expansion and modernization. The US-Vietnam Bilateral Civil Aviation Agreement will influence and create investments in two directions:

2.1 Investments in the civil aviation sector:

2.1.1 International Airports:

Investments will turn international airports into profit-making centers and destinations for passengers and cargo. Such international airports as Noi Bai in Hanoi, Tan Son Nhat in Ho Chi Minh City, and Da Nang in Da Nang need to be upgraded to comply with international standards. Investments will enable these airports to welcome 20 million passengers per year; 7 million for Noi Bai, 9 Million Tan Son Nhat, and 4 million for Da Nang, and attract modern aircraft with 24-hour a day operation.³⁶ Profits from cargo and other ground services will be used to upgrade domestic airports to international airports in three regions of the country: Cat Bi (North), Chu Lai (Middle) and Long Thanh (South).

2.1.2. Domestic and local airports:

Current domestic airports like Gia Lam, Dien Bien, Dong Tac, Vung Tau, Cao Bang, Lao Cai, Quan Long and 16 local service airports will be improved to ensure coordination with central airports for short-distance flights, regular and irregular air taxi.

The following table shows investments in airports in 1998 and expected investments during 2001–2010 (\$= USD).

Airports	1998		2001 – 2010	
	Number of airports	Investment (million \$)	Number of airports	Investment (million \$)
International	3	450	4	1,500
Domestic	18	100	24	400
Local service	12	-	16	200
Total	33	550	44	2,100

Note that figures for the period of 2001–2010 do not account for figures generated from the US-Vietnam BCAA. The expected figures with the contribution of the BCAA would be higher.

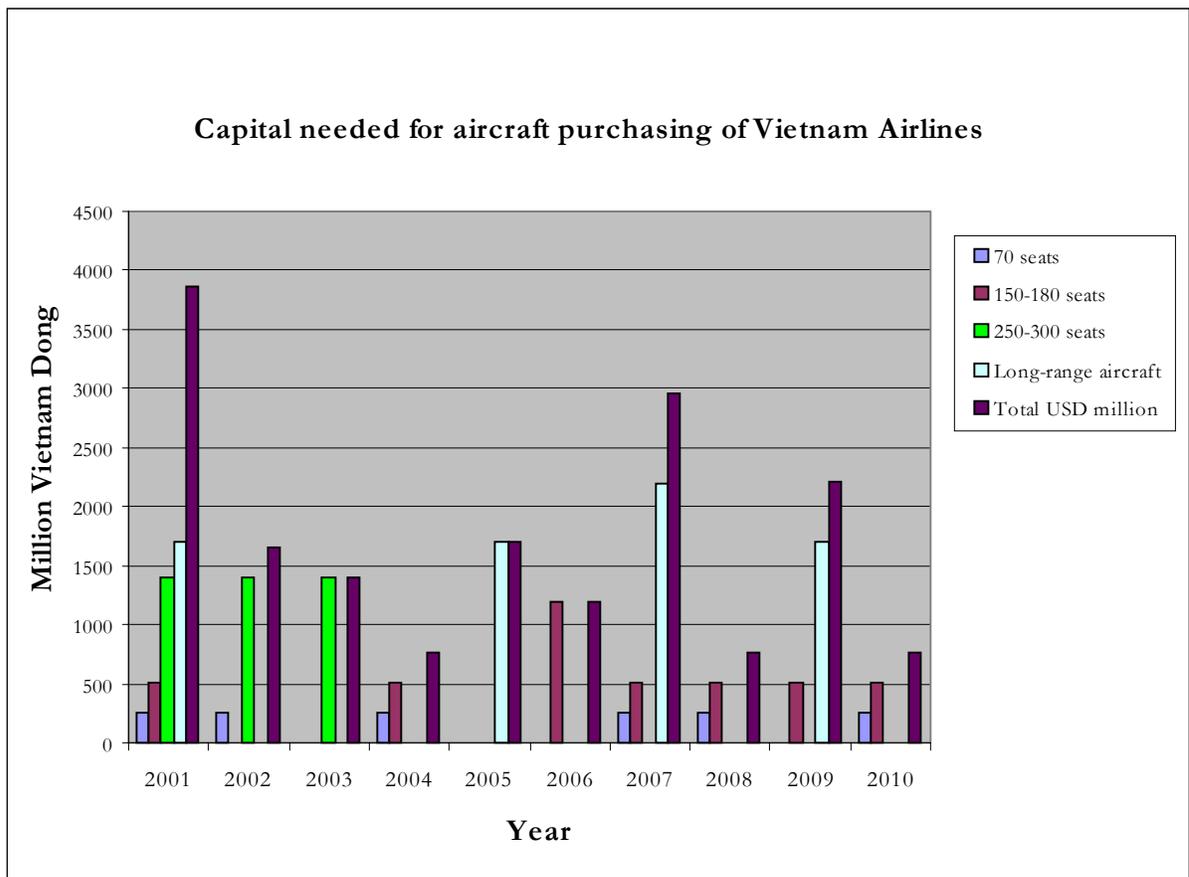
³⁶ Sources: the Data Department of CAAV, 2001

2.1.3 Investments in flight control system:

The US-Vietnam BCAA will necessitate improvement in flight control and search and rescue. Vietnam controls flight operations in the Flight Information Region (FIR). The navigation system, control over FIR Hanoi and Ho Chi Minh City, and navigation towers need to be upgraded. A VHF data transferring system via satellite must be established. It is expected that 240 million USD will be used for investments for this system.³⁷

2.1.4 Investments in Aircraft

Vietnam will need to expand fleets in quantity and variety to ensure the competitive ability of Vietnam airlines. Once the US-Vietnam BCAA is reached, the number of aircraft is expected to increase from 19 to 40, including 4 types of aircraft with loading and flight distance capacity suitable for the operation of Vietnam Airlines to the US, or at least to intermediate points. In order to expand to 40 aircraft, Vietnam Airlines will need an investment of 1 billion USD over ten years.³⁸



Demand for investment in aircraft of Vietnam Airlines³⁹

³⁷ Source: Vietnam Airlines, 2001.

³⁸ Ibid

³⁹ Data provided by Vietnam Airlines, 2001

In short, Vietnam Airlines will need to obtain an investment of 4 billion USD, not mentioning investments in other aviation services like ground services, warehouse, air catering, and sales and marketing systems. Capital contributions from the Vietnam Airlines Corporations, the government, private sectors, and foreign investments are necessary.

2.2. Increase investments in other economic sectors:

2.2.1. Investments in tourism:

As mentioned in the commercial analysis section, the US-Vietnam BCAA will benefit Vietnam tourism. In this section, we analyze how the agreement increases investments in the tourist sector.

Once the agreement is reached, more tourists, and thus, passengers, will visit Vietnam. Investments will increase to improve and maintain historical, cultural, and commercial centers. By the year 2010, the number of investments in Vietnam's tourist sector is expected to be 3 billion USD. The total revenue from tourism, equivalent to an import, will be 6 billion USD.

Since aviation and tourism are tightly linked, investments in aviation from the US-Vietnam BCAA will assist the tourist industry. Lower fares and a convenient means of transportation will attract more tourists.

2.2.2. Information Technology:

The US-Vietnam BCAA requires investment in a standardized information system for aviation management and operations. A Computer Reservation System must be set up, and major aviation networks connected. Additional investment is needed for a database for businesses and government agencies. These specific investments may spur additional investment in information technology in general.

3. THE US-VIETNAM BILATERAL CIVIL AVIATION AGREEMENT ATTRACTS MORE FOREIGN INVESTMENTS

3.1. Foreign investments:

The US-Vietnam Bilateral Trade Agreement and the US-Vietnam BCAA encourage foreign investment with favorable conditions for firms and businesses, particularly American ones, to enter the Vietnamese market. Reasonable prices and convenient service will encourage businesses to invest in the civil aviation sector and other economic sectors mentioned above.

Additionally, along with the US-Vietnam Bilateral Trade Agreement, the US-Vietnam Bilateral Civil Aviation Agreement would bring about commercial and transportation conditions for firms and businessmen to invest in the Vietnamese market and export their products back to the US.

The following table represents the capital of foreign direct investments in Vietnam from 1988 to 2000.

Years	Projects	Expected Capital (Billion USD)	Implemented Capital (Billion USD)
1988-1990	219	1.6	0.2
1992-1995	1,398	16.24	6.15
1996-2000	1,641	20.8	13.0
Total	3,265	38.6	20

* Source: the National Data Department, 2000.

The US-Vietnam Bilateral Civil Aviation Agreement would increase foreign investments due to the demand for modernization.

3.2. Overseas Vietnamese investments:

Over 2 million Vietnamese currently live overseas, primarily in North America, Europe, and Asia. These Vietnamese contribute a large portion of Vietnam's foreign investments. They are successful in science, technology and business. They are frequent visitors of Vietnam—their homeland—and they wish to help their families and relatives. They witness changes in Vietnam, like the open door economic policy and more favorable investment policy. Vietnamese overseas can buy real estate and invest in roads, highway construction, petroleum, hotels, restaurants, tourism, mechanism, chemicals, textiles, and the seafood processing industry. By improving transportation, the US-Vietnam BCAA would help them to invest.

V. LEGAL ANALYSIS

The Bilateral Civil Aviation Agreement (BCAA) between the US and Vietnam would have the following legal impacts on Vietnam:

1. VIETNAM WOULD ABIDE BY INTERNATIONAL NORMS

The US-Vietnam BCAA would re-confirm Vietnam's obligations to the International Civil Aviation Organization (ICAO) and the General Agreement on Trade in Services (GATS). Strengthening these commitments would likely accelerate Vietnam's accession into the World Trade Organization (WTO). The US-Vietnam BCAA would also reinforce Vietnam's commitments to ASEAN on gradual liberalization of the aviation sector and to the terms of the US-Vietnam Bilateral Trade Agreement. To ensure that the US-Vietnam BCAA adheres to the principles of international law, the agreement should meet the following criteria:

- It should create market access for foreign trading firms to invest in Vietnam. This investment must adhere to the principles of existing organizations and treaties, including GATS/WTO, ICAO, ASEAN, and the newly formed US-Vietnam Bilateral Trade Agreement.
- The US-Vietnam BCAA should promote the development of new airways, modern airports and air navigation facilities.
- The agreement should create greater transparency and promote a healthy competitive environment for foreign airlines and firms. The agreement should reiterate standards of the ICAO, ASEAN, and sub-region CLMV agreements.

The terms of the GATS/WTO, ICAO, ASEAN, and the US-Vietnam Bilateral Trade Agreement provide the necessary foundation for the US-Vietnam Bilateral Civil Aviation Agreement. Current regulations require all member states of the WTO, ICAO, and ASEAN to abide by previously established laws. Ultimately, the agreed framework of the BCAA could accelerate Vietnam's accession into the WTO. The BCAA agreement, combined with accession to the WTO by Vietnam, could strengthen Vietnam's position in other regional and international organizations.

Membership to international organizations would allow Vietnam to work cohesively with other member states on a number of important issues. The trust within these organizations would allow Vietnam to gain greater access to airlines and air services. The US-Vietnam BCAA could also provide a strong legal foundation for foreign investment from other airlines and air services. Ultimately, Vietnam's civil aviation sector would become technologically up-to-date with its competitors.

By promoting competition and the privatization of the civil aviation sector, the BCAA exemplifies how to meet compliance regulations established by the WTO.

2. ENSURING THAT THE CONCLUSION OF A US-VIETNAM BILATERAL CIVIL AVIATION AGREEMENT IS CONSISTENT WITH OBLIGATIONS OF INTERNATIONAL ORGANIZATIONS

A committee should be formed to monitor the implementation of the US-Vietnam BCAA. The CVAA needs to co-operate with other governmental ministries, agencies, and offices such as the Government's Office, the Ministry of Legal Affairs, the Ministry of Foreign Affairs, the Ministry of Commerce, and the Ministry of Planning and Investment. These ministries should process Vietnam's accession to the WTO and other international organizations. They should consult the CAAV on rules regarding air services of the WTO, ICAO, ASEAN, and sub regional CLMV, and eventual BCAA. The ministries should also introduce competition and privatization in the civil aviation sector. It is critical that the CAAV work closely with the State Committee for Guiding Privatization Process to ensure that privatization in the civil aviation sector adheres to laws of Vietnam.

3. ADJUSTMENTS TO DOMESTIC LEGAL DOCUMENTS

The US-Vietnam BCAA would promote competition, foreign investment, and privatization within the Civil Aviation Law. It would also help the CAAV compete efficiently and forward the market economy. Nevertheless, the competition, foreign investment, and privatization process must meet current state management functions and ethical ways of doing business in Vietnam.

Vietnam has issued a large number of laws, decrees, and decisions regulating the civil aviation sector, and has amended the Civil Aviation Law in 1995. Once the US-Vietnam BCAA document is adopted, the following legal documents will need further amending:

3.1 The 1995 amended Civil Aviation Law:

Though the 1995 Civil Aviation Law has already been amended it is necessary to add language on the promotion of competition and privatization. The additions will specify methods for doing business and how to transfer the right of independent decisions on prices, charges and fees to private businesses. The language could be as follows:

“Gradually promote competition and privatization in the aviation sector, giving private businesses more opportunities to decide on prices, charges, and fees of their air services and goods”

The US-Vietnam BCAA would help determine the functions and responsibilities of each privatized member in the Vietnam aviation sector. The result would be a stable legal environment that encourages domestic and foreign companies to invest with high quality technology.

3.2 Decree No. 68 of the Vietnamese government (October 25, 1995) on the functions, tasks, powers, and organizational structure of the Civil Aviation Association of Vietnam (CAAV).

Article 1 of this Decree states the following condition:

“The Civil Aviation Association of Vietnam is an agency under the authority of the Government, which performs the functions of State management over the civil aviation throughout the country.”

Article 1 explains how the Vietnamese Government would maintain its monopoly policy in the aviation sector. These restrictions could complicate decision-making procedures and may not coincide with the principles of GATS/WTO, ICAO, and ASEAN. The principles of these organizations require a pro-competitive, non-discriminatory environment. Thus, maintaining this Article may block Vietnam's accession to the WTO.

In order for the US-Vietnam BCAA to be accepted, a proposed amendment to the language of this Decree should be introduced. The amendment should consider which government regulations can be handed over to businesses. This amendment should facilitate the operation of businesses and make more pro-active their decision making process. A proposed amendment could be as follows:

“The CAAV, an agency under the authority of the Government, oversees the aviation sector while ensuring that private businesses are equipped with a certain decision making powers that facilitate and encourage their business operations.”

3.3 Decree No. 04/CP of the Vietnamese government (January 27, 1996) approving “regulations on the organization and operation of Vietnamese Airlines Corporations.”

Chapter I, Article 1 of this Decision states:

“Vietnam Airlines Corporations (hereafter Corporations) established by the Government’s decision is a large-scale States Corporation, with Vietnam Airlines as the core and consisting of member units, which are independently and dependently financed businesses, and professional units. These units are interactively linked to each other for economic, financial, technological, information, training, research, and marketing benefits. Their aim is to promote stimulation, spread professionalism, and cooperate in production to fulfill the tasks assigned by the Government: that is, improving the business ability and efficiency of the member units and the Corporation as a whole, by responding to the demands of the economy.”

The US-Vietnam BCAA could contradict article 1 of the Decree. According to the World Bank, in order to encourage competition, airports can be sold separately.⁴⁰ Competition should be fostered between airports, and even within an airport regarding such services as handling, catering, restaurants, and duty free shops. In short, while carrying out airport privatization, the monopoly should be broken up to separate elements. It is necessary to examine each element to determine whether or not a monopoly actually exists. A decision should be determined regarding the effects privatization will have on the civil aviation sector.

In order to conclude a BCAA, additional language must be added. The addition should be:

“Vietnam Airlines Corporations is a large-scale States Corporation, with Vietnam Airlines at the core. However, businesses should be allowed to operate independently, increasing competitiveness among unit members, and contributing to the development of the entire sector.”

3.4 Decision No. 818/TTG of the Prime Minister of Vietnam (December 13, 1995) on the prices, charges, and fees of aviation

Article 1 of the Decision stipulates:

“The Government shall uniformly manage civil aviation prices, charges, and fees, including the transportation of passengers, cargo, postal matter, and parcel post on international and domestic routes, and the rent of charter flights.”

⁴⁰ “The Privatization Challenge: A Strategic, Legal, and Institutional Analysis of International Experience,” World Bank, 1997.

This article should be revised. The US-Vietnam BCAA suggests businesses may fix prices and fees of the services they provide. This would lead to competition because price adjustments are necessary for absorbing changes in the market. Producers and consumers would mutually benefit from adjustments in prices. The government's revenue would also increase from the increased demand resulting from price flexibility. Additionally, revision of this article would solicit for Vietnam foreign investment in the civil aviation sector.

An adjustment should be made for this Article:

“Business are eligible to fix and adjust their own prices and fees, including the transportation of passengers, cargo, postal matter, and parcel post on international and domestic routes, and the rent of charter flights with consultation with the Government.”

3.5 Decision No. 202/CT of the Prime Minister (June 1992) on names of state-owned enterprises (SOEs) that can be privatized

The US-Vietnam BCAA would support privatization in civil aviation. However, under Decision No. 202, the government maintains monopoly power in such strategic sectors as electricity, water distribution, and aviation. Decision No. 292 strengthens the government's functions regarding investments in capital intensive sectors like transport infrastructure, ports, and airports.

The Decision stipulates:

“The Government shall fully manage all strategic sectors such as electricity, water distribution, and aviation.”

To promote the US-Vietnam BCAA, aviation should be lifted from the list and be identified as a sector that could be partly privatized.

NEGOTIATION STRATEGY PAPER

The US-Vietnam Bilateral Civil Aviation Agreement (hereafter the US-Vietnam BCAA) will play a significant role in the “Renovation” process of Vietnam. It will:

- Make Vietnam a more industrialized and modernized country.
- Expand diplomatic relations and involve Vietnam in the regional and international economy.
- Accelerate Vietnam’s accession to the World Trade Organization (WTO) and other regional economic and trade organizations.
- Reconcile Vietnam Civil aviation regulatory policies with regional (ASEAN, APEC) and international standards (WTO, the World Bank, ICAO).
- Create a fair environment for competition in air services.
- Promote foreign investments in civil aviation.
- Improve the quality of air services.
- Generate more capital to invest in aircraft, infrastructure, and equipment.
- Reduce airfares for Vietnamese and foreign travelers.

To reach the US-Vietnam BCAA and achieve the above goals, the Civil Aviation Administration of Vietnam (CAAV) will need to carry out the following steps:

- Introduce a time frame for the US-Vietnam BCAA, which would first be implemented under the form of a traditional bilateral agreement, then would be upgraded to the level of an “Open Skies” agreement.
- Build consensus among the CAAV, Vietnam Airlines Corporations, and other involved units regarding changes made to the Civil Aviation Law.
- Build consensus among members of the Central Committee and the Political Bureau (Politburo), and gain the support of the Secretary General of the Communist Party. Their support plays crucial role for the US-Vietnam Bilateral Civil Aviation Agreement.
- Develop a legislative strategy to persuade the National Assembly to support the time frame of the US-Vietnam BCAA, and to adopt the amendments, which are introduced in the Legal Analysis section, to the current Civil Aviation Law of Vietnam. The key players are the members of the Law Commission and the Economic and Budget Commission because these two Commissions have decisive influence on amending the law, budgeting for the implementation of the US-Vietnam BCAA, and financing the aviation sector for aircraft and equipment.
- Build consensus among government officials of the State Office and the Presidents Office, namely the Prime Minister and the President, and other related ministries and departments to obtain a time frame for the US-Vietnam BCAA.
- Build a coalition with the five US airlines that are planning to serve the US-Vietnam air services market (United Airlines, American Airlines, Northwest Airlines, Continental Airlines, and Delta Airlines) to gain support for the time frame of the US-Vietnam BCAA.

- Lobby the US government, specifically the Legislative Branch, Executive Branch, Department of Transportation (DOT) and Federal Aviation Administration (FAA). Use the coalition with the five US airlines to convince the US government to pass the US-Vietnam Bilateral Civil Aviation Agreement under the traditional form, and an Open Skies Agreement later.
- Send talking points via the Ministry of Foreign Affairs of Vietnam to the US Congress, the Bush Administration, the State Department, the DOT, and the FAA. Solicit their support by convincing them of benefits from the agreement. Main points include the recovery the US economy, strengthening of national security, and development of a “healthy” US aviation sector after the September 11 attacks.
- Work closely with the government of Vietnam, the Ministry of Foreign Affairs, The Ministry of Trade, and the National Committee for International Economic Cooperation to conduct an international strategy. The strategy should bring the WTO Working Group to the knowledge that Vietnam has achieved significant steps in its process of accession to the WTO.
- Carry out a domestic public relations strategy, making use of mass media like television, radio, and newspaper to build public support and to generate knowledge on the necessity of the US-Vietnam Civil Aviation Agreement.
- Introduce an international public relations strategy. This strategy should be conducted with cooperation of the Ministry of Foreign Affairs, the Embassy and General Consulate of Vietnam in the US, the CAAV, and the coalition of five US airlines.
- Establish a budget for the US-Vietnam BCAA media campaign.

1. DOMESTIC POLITICAL STRATEGY (SEE APPENDIX 3):

An effective Domestic Political Strategy is key to the success of the US-Vietnam BCAA. It is critical that the CAAV harmonize and promote the interests of all domestic stakeholders, while convincing them that the US-Vietnam BCAA will create benefits for the Vietnam aviation sector, the national economy, and national security.

1.1 Building consensus among the CAAV, Vietnam Airlines Corporations, and other functional units:

As mentioned in the Political Analysis, there are different opinions on the US-Vietnam BCAA among the CAAV (the state management unit), and the Vietnam Airlines Corporations (the aviation-operating unit). The question is whether the CAAV should pursue a traditional bilateral civil aviation agreement with the US or immediately sign the Open Skies agreement. CAAV must create harmony among different parties and leading individuals of these entities. In order to do so, the CAAV should propose a timetable for the Agreement that includes a transitional period from the traditional agreement to the Open Skies agreement. (See Appendix 1, Time-Frame).

The first step towards reaching consensus among the CAAV, the Vietnam Airlines Corporations, and other functional units is to lobby key individuals of these entities: The Director General of the CAAV and the Director General of Vietnam Airlines Corporations. The Agreement will not be achieved without the support of either of these individuals. Fortunately, they have the same “progressive” standpoint on the Aviation Development Strategy (1999) and the Strategy to develop Vietnam Airlines Cooperation (2000). In addition, it is critical to gain the support from the Director of Air Transport and Navigation Department of the CAAV,

and Vice Director General of the CAAV, in charge of international affairs. These two individuals will be chief Vietnamese negotiators for the Agreement.

Next, the Department of International Relations and the Department of Planning and Investment of the Vietnam Airlines should coordinate to send a White Paper to the Director General of CAAV and the Director of Vietnam Airlines Corporations. The draft should highlight both short run and long run goals of the agreement and the benefits that the agreement will bring the aviation sector and other commercial sectors closely related to the US-Vietnam Bilateral Trade Agreement. (See Appendix 4)

The Department of Legal Affairs of the CAAV should draft proposed language for the amendments of following legal documents, explaining the importance of the amendments to the agreement (See Legal Analysis). This proposal should be approved by the internal Civil Aviation, and sent to the Ministry of Legal Affairs. The CAAV should take advantage of the support of those who advocated for the following documents:

- The amended Civil Aviation Law 1995 ratified by the National Assembly of the Socialist Republic of Vietnam on April 20, 1995.
- Decree No. 68/CP of the Vietnamese government (October 25, 1995) on the function, tasks, powers, and organizational structure of the Civil Aviation Association of Vietnam (CAAV).
- Decree No. 04/CP of the Vietnamese government (January 27, 1996) approving “regulations on the organization and operation of Vietnam Airlines Corporations.”
- Decision No. 818/TTG of the Prime Minister of Vietnam (December 13, 1995) on the prices, charges, and fees of the civil aviation.
- Decision No. 202/CT of the Prime Minister (June 1992) on the names of state-owned enterprises (SOEs) that can be privatized.

The Air Transport and Navigation Department of the CAAV, which is primarily responsible for drafting the US-Vietnam BCAA, must solicit cooperation. It must join forces with the Department of Legal Affairs and the Department of Commerce and Investment of the CAAV. Together, they can draft the content of the agreement to submit to the Director General of the CAAV and the Director General of Vietnam Airlines Corporations. They should base the content of the agreement on goals set forth in the Aviation Development Strategy (1999) and the Strategy to develop Vietnam Airlines Cooperation (2000).

If the BCAA is approved by the Director General of the CAAV and the Director General of Vietnam Airlines Corporations, an educational campaign should ensue to all aviation business units on the importance of the US-Vietnam BCAA for Vietnamese aviation. Through this campaign, staff will support the leaders of Vietnam aviation and will learn to respond to new professional demands. The aviation leaders should attempt to harmonize. Then the leaders of CAAV and Vietnam Airlines Corporations should convince the related state management ministries, the Prime Minister, the Deputy Prime Ministers in charge of Economic Issues and International Affairs, and leaders in the Politburo to favor decisively the US-Vietnam Bilateral Civil Aviation Agreement.

1.2. Build consensus among members of the Central Committee of the Party and the PolitBuro:

Since aviation is one of the strategic economic sectors, the US-Vietnam BCAA must be supported by the Central Committee of the Party and the Political Bureau. The members of the Political Bureau, the Secretariat Committee, the consulting agency for the Central Committee, and the Central Economic Committee will play

significant roles in approving the agreement. Reaching consensus among leaders of the Party will be a decisive step. Finally, the concluding meeting between the Central Committee and the Secretary General of the Vietnamese Party will decide the content and process of the Agreement.

To obtain support from the above personalities, the CAAV should send them a memorandum that includes the following points (See Appendix 5 Memorandum):

- The vital role of the US-Vietnam Bilateral Civil Aviation Agreement in helping the aviation sector to operate more efficiently, advancing the objectives set forth in the “Strategy to Promote Vietnam social and economic development for the period of 2001-2010”
- The economic, commercial, and social benefits that will result from the US-Vietnam BCAA.
- Data and statistics to support these arguments.
- Efficient solutions for concerns raised by the Political Bureau.
- Synchronized information about the successful and unsuccessful case of aviation agreements between different countries in ASEAN, APEC, and the EU (under the traditional type or under “Open Skies”) to prove that the content and process of the US-Vietnam BCAA is suitable.

Identify and “lobby” key members in the Central Committee and the PolitBuro who already support the passage of the US-Vietnam Bilateral Trade Agreement and are likely to support the US-Vietnam BCAA:

- Deputy Prime Minister, in charge of Economic Issues
- Deputy Prime Minister, in charge of Foreign Affairs and International Economic Cooperations (Chairman of the National Committee for International Economic Cooperations)
- Head of the Central Committee’s Economic Commission
- Minister of Trade (Vice-Chairman of the National Committee for International Economic Cooperation)
- Minister of Interior Affairs
- Minister of National Defense
- Minister of Finance
- Minister of Planning and Investment

To obtain the support of these individuals, the General Director of the CAAV should utilize his staffs with strong knowledge of commercial laws and modern aviation agreements. They should work as contractors between the CAAV and the key officials of the Central Committee, the Politburo, and the other executives mentioned above. These contractors will be responsible for: (1) providing summaries of daily and monthly aviation activities and summaries of the issues involving the US-Vietnam BCAA for the members of the Politburo; and (2) reporting concerns raised by the members of the Politburo to the leaders of the CAAV in a timely manner.

When leaders of the Party have been harmonized, the CAAV should request the Secretary General of the Vietnamese Party to summon a meeting in the Central Committee. Once consensus is reached on the agreement, a White Paper with the content and related assessments made by the members of the Central Committee and the PolitBuro will be sent to the Prime Minister for approval.

1.3. Legislative Strategy

Achieving the support of the Legislative Body is a must for passage of the US-Vietnam BCAA (the Agreement). Under the 1992 Vietnamese Constitution, the National Assembly of Vietnam has the highest authority in the legislative body of the country. Therefore, the National Assembly will play a crucial role in

deciding the amendments proposed in the Legal Analysis to the current Civil Aviation Law of Vietnam, and in making the US-Vietnam Bilateral Agreement an official law.

The CAAV should be ready to face constraints from the following:

- The members of the National Assembly who did not favor the passage of the US-Vietnam Bilateral Trade Agreement and are likely to oppose the US-Vietnam BCAA.
- Domestic who are already worried about national security and the September 11 attacks.

In order to overcome these obstacles, the CAAV should take the following steps:

- Build consensus among delegates of the National Assembly on the Agreement and the amendments to the Civil Aviation Laws in order to have them introduced as an official issue in the annual program of activities of the National Assembly in next May or June.
- Equip the legislators with knowledge about economic, political, and social benefits that the US-Vietnam BCAA will bring about.
- Point out that the Agreement would accelerate Vietnam's accession to the World Trade Organization (WTO) and other regional economic and trade organizations.
- Stress that the Agreement will help reconcile Vietnam Civil aviation regulatory policies with regional (ASEAN, APEC) and international standards (WTO, the World Bank, ICAO).
- Point out that the consequences of the September 11 attacks will be overcome by the time the US-Vietnam Civil Aviation Agreement comes into effect. The whole process towards the US-Vietnam BCAA would take 2 to 3 years. In addition, signing the BCAA would help show the willingness of the Vietnamese government to cooperate with the US in promoting more "healthy" global aviation.

To obtain consensus in the National Assembly, the CAAV should, together with the Vietnam Airlines Corporations, take the following actions:

- Persuade the delegates of the National Assembly of the necessity in promoting the US-Vietnam BCAA. The CAAV and Vietnam Airlines Corporations should provide the delegates with a White Paper on benefits the US-Vietnam BCAA would create for the Vietnam aviation sector and the whole economy. It is critical that the CAAV include in the White Paper persuasive arguments stating that the September 11 attacks will not effect the agreement, the immature Vietnamese aviation sector, and the national security of Vietnam. Instead, it opens more opportunities for Vietnam to invest in the US-Vietnam air market because the US economy is trying to recover. The CAAV should emphasize that having the US-Vietnam BCAA in place serves trade purposes of the US-Vietnam Bilateral Trade Agreement (BTA). The Agreement will help facilitate the BTA's proper implementation.
- Lobby key personalities of the Law Commission (Director and Vice Director) and members of the Economic and Budget Commission (Director and two Vice Directors). These key members of the two Commissions should fully understand the importance of the Agreement to the economy, to Vietnamese aviation, and to society. Moreover, they should understand its contribution to Vietnam's integration into the regional and the world economy. The Agreement assists the Communist Party's strategy of transforming the Vietnamese economy into a knowledge-based economy.

- The CAAV and Vietnam Airlines Corporations should schedule to meet with the key delegates of the National Assembly. Before meetings, it is crucial that the CAAV and Vietnam Airlines Corporations develop a strategy that incorporates all legislators' interests, concerns, and constituencies.

1.4. Building consensus in the Executive Branch

Support of the Executive Branch is needed to pass the US-Vietnam Bilateral Civil Aviation Agreement and to adopt the necessary amendments to the Civil Aviation Law 1995. The CAAV and Vietnam Airlines Corporations should aim to: (1) gain the advocacy of the President, the Prime Minister and other important members of the Office of the Government to have the US-Vietnam Bilateral Civil Aviation Agreement introduced in the annual programs of activity of the Government; and (2) establish harmony within the ministries and other governmental agencies.

1.4.1 Building consensus among members of the Office of the Government

To gain support from the Prime Minister and key members of the Office of the Government, the CAAV should lobby the following: (1) Two Deputy Prime Ministers: one in charge of Economic Issues, and the other in charge of Foreign Affairs and Economic Integration; and (2) The Government's External Economic Research (GEER).

- Two Deputy Prime Ministers: The Ministers should be convinced that the US-Vietnam BCAA will benefit the Vietnamese economy by: (1) raising the demand for air travel, promoting foreign investments in civil aviation, helping export and import activities be cheaper, faster, and more convenient, and moving Vietnam towards a more industrialized and modernized country; (2) improving the quality of air services and generating more capital to invest in aircraft, infrastructure, and equipment; (3) enlarging diplomatic relations in the regional and international economy; (4) helping accelerate Vietnam's accession to the World Trade Organization (WTO) and other regional economic and trade organizations; (5) reconciling Vietnam Civil aviation regulatory policies with regional (ASEAN, APEC) and international standards (WTO, the World Bank, ICAO).
- The Government's External Economic Research (GEER): This branch consists of former Ministers and Vice Ministers of the Ministry of Planning and Investment, the Ministry of Trade, the Ministry of Finance, and a number of ministries related to economic issues. To gain the advocacy of key members of this branch, the CAAV must stress the strategic role of aviation in the economy, its promising benefits for the civil aviation sector, and its contribution to the Vietnam's accession to the WTO. The CAAV also needs to provide this group with successful examples of countries that have already signed aviation agreements with the US like Singapore, Thailand, and Malaysia. Main lobbying tasks will be: (1) sending memorandum to key members of the group, (2) arranging private meetings with the group, and (3) giving follow-up phone calls.

According to the operating regulations of the Vietnamese Government, all projects and plans should be passed through the Office of Government, the agency in charge of: (1) reconciling contrasting opinions of related ministries; (2) proposing the resulting points of view to the Deputy Prime Ministers, and (3) submitting them to the Prime Minister to ratify. Note that the second mission of the Office of Government is very important. If the member of the Office of Government accepts the content of the Agreement, he will review and analyze the "cons" while emphasizing the "pros". This will bring the support of the Deputy Prime Ministers, facilitating the approval of the Prime Minister on the US-Vietnam BCAA. Pursuant to the executive stipulations of the Party, the Prime Minister will propose his opinion and attached documents to the Central Committee of the Party for approval.

Once the National Assembly and the Government reach consensus on adopting the US-Vietnam Bilateral Civil Aviation Agreement in its annual program of activities, the Prime Minister of Vietnam will announce the Agreement politically and officially to the legislative and executive body.

1.4.2. Building consensus among Ministries and government agencies:

The CAAV should carry out bilateral meetings with related executive ministries and agencies to persuade them of the benefits of the US-Vietnam BCAA.

Presumed advocates of the Agreement are the Ministry of Foreign Affairs, the Ministry of Trade (MOT), the National Committee for International Economic Cooperation (NCIEC), the Ministry of Planning and Investment (MPI), the Ministry of Legal Affairs, the Ministry of Finance, the Ministry of Transportation, the General Administration of Tourism, and the General Administration of Customs (GAC). The CAAV should take advantage of the strong support of the Ministry of Foreign Affairs, Ministry of Trade, and the General Administration of Customs. Simultaneously, the CAAV should develop a Memorandum with the same content as the one sent to the Politburo, stating all short and long run benefits that the US-Vietnam BCAA might bring to the economy, politics, and society. In addition, the memo should stress that if the US-Vietnam Bilateral Trade Agreement is ratified, the Aviation Agreement will facilitate commercial activities and accelerate Vietnam's accession to the WTO. While carrying out bilateral meetings with these ministries, the CAAV should make sure that they are informed of the following "talking points":

Ministry of Foreign Affairs:

- How the US-Vietnam Civil Aviation Agreement would strengthen the relationship between the two countries.
- How the US-Vietnam Civil Aviation Agreement would help Vietnam's integration to the regional and the world economy.

Ministry of Trade:

- How commercial activities between the two countries would benefit from the US-Vietnam BCAA.
- How the Agreement would facilitate Vietnam's accession to the WTO.

National Committee for International Economic Cooperation (NCIEC)

- How the US-Vietnam Civil Aviation Agreement would help Vietnam integrate into regional and multilateral economic organizations like ASEAN, APEC, and WTO.

Ministry of Planning and Investment (MPI)

- How the US-Vietnam Civil Aviation Agreement would generate domestic and foreign investments.
- How the Agreement would help achieve economic development goals like GDP growth and international economic cooperation.

Ministry of Legal Affairs

- How the US-Vietnam BCAA would require amendments to the Civil Aviation Law 1995 to correspond to regional and international regulations.

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- How the Agreement would help amend Commercial Laws and laws of service sectors like telecommunications.
- How the Agreement would support WTO accession of Vietnam.

Ministry of Finance

- How the US-Vietnam BCAA would generate revenue, contributing to the National Budget.

Ministry of Transportation

- How the US-Vietnam BCAA would benefit other modes of transportation, like surface and sea transportation.
- How the Agreement would contribute to the goal of the ASEAN Framework Agreement Services (AFAS), which highlighted cooperation between ASEAN countries on transportation services.

General Administration of Tourism

- How the US-Vietnam Civil Aviation Agreement would create indirect benefits for tourism sectors (increasing revenue and creating more jobs).

General Administration of Customs (GAC)

- The US-Vietnam Civil Aviation Agreement would help eliminate red tape, corruption, and promote transparency in the GAC.

Likely opponents of the Agreement are the Ministry of Defense and the Ministry of Public Security. Because the main concern of these two ministries is national security, they may not favor the idea of doing business with the US after the September 11 attacks. Arguments for their fears are already mentioned in the Political Analysis section. To limit opposition from these two ministries, the CAAV should provide them the following talking points:

- The US-Vietnam BCAA would require the cooperation in the security system between the Ministry of Public Security of Vietnam and the Ministry of Police of the US, as well as among security systems in the international community.
- The US-Vietnam BCAA would cause collaboration between Vietnam and the US Ministry of Defense to manage the air space, the air force, and the civil aircraft that fly between the two countries.
- The Agreement will create economic, commercial, and social benefits to the country that will strengthen social security.
- Economic growth will enhance the military's power. A healthy and wealthy economy will help ensure national sovereignty and national security.
- The Agreement will promote Vietnam's integration into the regional and global trading system.
- The national security system will not be violated by the Agreement. The Agreement will create more opportunities for Vietnam to attract domestic and foreign investments in aviation, generating capital for the Ministry of Defense and the Ministry of Public Security to improve their security network.
- September 11 will not affect the national security of Vietnam if the two countries sign an aviation agreement. The US has strengthened its security and safety network and has been fighting against terrorism since then. Once the Agreement comes into effect, the US will provide Vietnam with technical assistance, which will help reinforce Vietnam's national security.

- The temporary difficulties that the September 11 attacks left behind will soon be overcome. Fighting against terrorism while enhancing economic growth is the best way to move toward a profitable and productive life.

2. INTERNATIONAL NEGOTIATION STRATEGY (SEE APPENDIX 7)

2.1. Negotiation Strategy to deal with the US

Because the CAAV is a governmental agency, it cannot directly implement the US lobbying process under the regulations of Vietnam. The CAAV should build a coalition with US airlines planning to serve the US-Vietnam market, namely United Airlines, American Airlines, Northwest Airlines, Continental Airlines, and Delta Airlines, to gain the support from these airlines in conducting the US negotiation strategy.

- Once the Coalition is formed, the five US airlines will lobby US interests to pass the US-Vietnam Bilateral Civil Aviation Agreement under the traditional form as a foundation for the Open Skies Agreement later. (See Appendix 1 for TimeFrame)

2.1.1. Building Coalition with US airlines:

To gain support among the US Congress, the Bush Administration, the State Department, the DOT, and the FAA, the CAAV should establish the Coalition for the US-Vietnam Bilateral Civil Aviation Agreement. The Coalition will consist of the CAAV, Vietnam Airlines Corporations, United Airlines, American Airlines, Northwest Airlines, Continental Airlines, and Delta Airlines.

The CAAV should convince the five US airlines that the US-Vietnam Bilateral Civil Aviation Agreement should be implemented step by step. The first phase for the US-Vietnam BCAA will be a traditional agreement. US airlines should consider opening direct flights as the main goal. This will enlarge their route network and will help Vietnam Airlines implement its first route to North America. The CAAV should stress that the technical assistance provided by these airlines will help Vietnam prepare for the ultimate phrase of the Agreement, a modern “Open Skies” Agreement. The CAAV should provide the airlines, particularly United and American Airlines, evidence that the US-Vietnam BCAA would create economic benefits to offset what they lost from September 11:

- The new total revenue generated from the Agreement would be divided equally for the five US airlines and Vietnam Airlines.
- The US-Vietnam Bilateral Trade Agreement would increase the demand for air traffic between the two countries.
- US airlines will be able to access one of the strategic air traffic hubs in Southeast Asia.

The purpose of this Coalition is to get the FAA, United Airlines, American Airlines, Northwest Airlines, Continental Airlines, and Delta Airlines to lobby the US Legislative and Executive Branches, the DOT, and the FAA to support the passage of the US-Vietnam BCAA. The Agreement would be the traditional type, and would lay the foundation for an Open Skies Agreement. The five US airlines could use their influence with members of the US Congress and the Bush Administration, the DOT, and the FAA to push for the approval of the US-Vietnam BCAA.

2.1.2. Strategy to gain support from US Government and Agencies:

The purpose of this strategy section is to build consensus among the US Congress, US Administration, the State Department, and aviation agencies such as the Department of Transportation, and Federal Aviation Administration on the US-Vietnam BCAA. The Coalition should bear in mind that the interests of these

groups is the recovery of the US economy, the strengthening of national security, and the development of a “healthy” US aviation sector after the September 11 attacks. The task of the Coalition is to ensure that the US government and business would fully realize the importance of this agreement. Lobbying efforts should be focused on three groups:

- **US Legislative Branch:**

Targets in the Legislative Branch are US Senators. The key advocates for the US-Vietnam BCAA are likely those who strongly support the normalization of US-Vietnam relations and the US-Vietnam Bilateral Trade Agreement. These senators also served in the Vietnam War: Senator John Kerry (D-Massachusetts), Senator Chuck Hagel (R-Nebraska), and Senator John McCain (R-Arizona). Moreover, key representatives of the Committee on Commerce, Science, and Transportation, the House Committee on Transportation and Infrastructure (sub-committee on Aviation), and House Committee on Ways and Means, (sub-committee on Trade) should also be targeted because they are in charge of solving international commerce and transportation issues.

- **The Executive Branch:**

Targets in the Executive Branch are the Bush Administration and the State Department. The Transport Division of the State Department will be responsible for reading the proposed draft of the Agreement, evaluating its impacts on the US aviation sector and the economy. In addition, President Bush’s support for the US-Vietnam Bilateral Trade Agreement bodes favorably for the US-Vietnam BCAA. Moreover, his determination in bringing back the “wealthy” US economy and a “healthy” aviation industry post September 11 would likely result in support for the US-Vietnam BCAA. Lobbying efforts to the Executive Branch consist of sending letters and memorandums, arranging private meetings, and making follow-up phone calls.

- **Department of Transportation and Federal Aviation Administration**

Key personalities in the Department of Transportation (DOT) and the Federal Aviation Administration (FAA) will be targeted. The first object of lobbying efforts will be the Secretary of Department of Transportation, Norman Y. Mineta. He is the leader of the department and is the primary consultant for the US President in all matters relating to federal transportation programs. The second target is the Deputy Secretary Michael P. Jackson. Gaining support from these personalities is crucial for the success of the US-Vietnam BCAA. The tasks of the Office of the Secretary are: (1) to look after the formulation of national transportation policy and promote intermodal transportation; (2) to be responsible for negotiations and implementation of international transportation agreements, and (3) to assure the fitness of US airlines, enforce airline consumer protection regulations, issue of regulations to prevent illegal misuse in transportation systems, and prepare transportation legislation.

The FAA is an agency under the auspices of the DOT with worldwide impact and presence in promoting aviation safety and security. The FAA regulates aviation safety and security, conducts cutting edge research and development, and operates the world’s largest air traffic control system. The key officials of this agency are the Administrator, Jane F. Garvey, Acting Deputy Administrator, Monte R. Belger, Assistant Administrator for System Safety Christopher A. Hart, and Chief Counsel David G. Leitch.

The Airlines Coalition should also establish strong connections with other US government agencies whose functions are to promote US business and trade interests. These include the Departments of Commerce and Office of the United States Trade Representative, Export-Import Bank, and even the Department of Defense.

Talking points used to convince the US Congress and other vital US contacts are:

- The US-Vietnam Bilateral Civil Aviation Agreement would help the five US Airlines increase revenue and recover economic losses, contributing to the whole economy.
- The CAAV would assist the US in preventing terrorism, hijacking, or any kind of emergency so that the US airlines could ensure healthy operation.
- Increasing trade activities from the US-Vietnam BCAA would create more opportunities for air traffic.
- The US-Vietnam air traffic market has been unused by US airlines for a long time, and would be filled by other foreign airlines if the US-Vietnam BCAA were not implemented.
- The US-Vietnam BCAA, a framework for the future Open Skies Agreement between the two countries, would help the US expand its Open Skies strategy, which has already been implemented with a number of countries in ASEAN and APEC.
- The US-Vietnam Bilateral Civil Aviation Agreement would bring about related service contracts.
- The timetable for the final Open Skies Agreement would be eight years, which is suitable for Vietnam aviation to develop and cope with the competitiveness of US Airlines.
- If the US asks Vietnam to sign the Open Skies Agreement immediately, Vietnam could not deal with the requirements due to the imperfection of its aviation structure.
- The US-Vietnam Civil Aviation Agreement would strengthen the relationship between the two countries.

The CAAV should, via the Ministry of Foreign Affairs or other authorities, send talking points with the above content to US Congress, the Bush Administration, the State Department, and the DOT. The Ministry of Foreign Affairs of Vietnam should also include a proposal for applying the transitional type to the US-Vietnam BCAA as a foundation for the Open Skies Agreement in the future. Note that the main objectives are to help the US economy recover, strengthen national security, and develop a healthy US aviation sector after the attacks of September 11. The CAAV and the Ministry of Foreign Affairs should provide the US with convincing economic projections on the agreement.

2.2. International Negotiation Strategy

The International Negotiation Strategy will aim to:

- Gain the recognition of the WTO Working group and WTO members on Vietnam's efforts for accession. Adjust domestic regulations to adhere to the international obligations.
- Obtain support of foreign governments and regional and international organizations for the US-Vietnam BCAA.

Targets of the International Negotiation Strategy are:

- The WTO Working Group on Vietnam's accession to the WTO and WTO members.
- Foreign airlines operating direct flights to Vietnam and those planning to invest in the market.

2.2.1. Strategy to deal with the WTO working group on Vietnam's accession to the WTO

This strategy aims to: (1) gain the recognition of the WTO working group on Vietnam's efforts for accession to the WTO by loosening one of its most strategic markets, and adjusting domestic regulations to adhere to ICAO and WTO/GATS obligations; and (2) expedite Vietnam's accession to the WTO.

To succeed with this strategy, the CAAV should consult with the Politburo, the National Assembly, the Government, the Ministry of Foreign Affairs, the Ministry of Trade, the Ministry of Planning and Investment, and the National Committee for International Economic Cooperation to prepare for negotiations with the WTO Working group and members.

During these negotiations, the Vietnamese negotiators should stick to the following talking points:

- Pushing for Vietnam's accession to the WTO by showing how restrictions have loosened on such strategic sectors as telecommunications and aviation.
- Providing information on adjustments to the Civil Aviation Laws to show how Vietnam is trying to comply with international aviation organizations.
- Show plans to make other service sectors of Vietnam abide by the WTO/GATS Agreement.

2.2.2. Strategy to gain support from foreign airlines that are operating direct flights to Vietnam and those who are planning to invest in the market.

The CAAV should not leave aside foreign stakeholders and those planning to serve the Vietnamese air traffic market. It is highly recommended that the CAAV arrange meetings with these airlines. The CAAV should focus on the following points with them:

- Emphasize that their support will help conclude the US-Vietnam BCAA in a timely manner, and that the BCAA will help Vietnam's aviation sector become a more compatible counterpart.
- Highlight benefits the US-Vietnam BCAA will bring indirectly, such as investment via the code-sharing methods.
- State that the US-Vietnam BCAA will make it easier for foreign airlines to enter the market.
- Point out that the Agreement will help facilitate the establishment of airline alliances between the US, Vietnam, and foreign airlines.

3. PUBLIC RELATIONS STRATEGY:

This strategy will be divided into two categories: domestic public relations strategy and international public relations strategy:

3.1. Domestic public relations strategy

The US-Vietnam Bilateral Civil Aviation Agreement should be announced publicly via mass media. Flyers should be distributed in booking offices and agencies so that the Vietnamese public can fully understand the benefits of the US-Vietnam BCAA. The following are the main economic benefits that the Agreement will bring about:

- Options for traveling between the US and Vietnam increase. Vietnam Airlines and US Airlines offer more choices, faster travel, and a suitable schedule.
- Passengers can take advantage of discount programs in ticket and luggage fares and air cargo.

- The Internet offers convenient booking options.
- Cooperation between the US aviation and Vietnam aviation leads to better aviation information technology.

The CAAV should convince the following individuals to take part in this strategy:

- Deputy Prime Minister of Vietnam, in charge of Economic Issues.
- Deputy Prime Minister of Vietnam, in charge of Foreign Affairs and International Cooperation.
- Minister of Trade.
- Director General of the CAAV.
- Director General of Vietnam Airlines Corporations.

Domestic public relations strategy will be conducted by using:

3.1.1. Mass Media:

- Television: Vietnam Television (VTV1, 2, 3, 4), Hanoi Television, Ho Chi Min City Television (HTV7, HTV9) and other local channels will be used to broadcast information about the US-Vietnam Bilateral Agreement. Speeches will be given by the above individuals on the economic benefits to such other countries as China, Thailand, and Singapore from aviation agreements with the US. Also, documentaries should show the development of the Vietnam aviation sector over the past ten years, and the economic benefits of an agreement with the US. Commercials, cultural and tourism contests could also introduce the US-Vietnam BCAA. A period of 3 to 6 months should be provided for this strategy.
- Radio: Radio is one of the most efficient means to promote the Agreement, because it targets 80 percent of the Vietnamese population. The radio channel that will be used to broadcast the Agreement is the Voice of Vietnam. Speeches delivered by the individuals mentioned above about the process of the Agreement and short stories about the case of other countries should be broadcast on the Voice of Vietnam, at least once a week.
- Newspapers and magazines: Major newspapers in Vietnam like the Nhan Dan Journals, Vietnam News, Vietnam Investment Review, Lao Dong Journals, Sai Gon Times, and Vietnam Economics will be chosen to release news about the US-Vietnam BCAA. At least one article about the Agreement will be published in two of these newspapers. This strategy will last for at least one year. In addition, in weekly and monthly aviation magazines, more detailed information should be released to remind the staff of the internal aviation sector about the process of the US-Vietnam BCAA.

3.1.2. Conferences and Seminars:

Conferences and Seminars on aviation organized by the CAAV and the Vietnam Airlines Corporations should include a section on the US-Vietnam BCAA. Information about aviation technologies and equipment introduced by the agreement should be covered. Both US and Vietnamese field experts should be invited to lecture.

The Agreement could also be introduced in seminars on humanitarian aid for flooded areas. Sponsors could include Vietnam Airlines, US Airlines, or Vietnam-US code-share airlines.

3.2. International Public Relations Strategy:

To succeed with an international public relations strategy, the CAAV and Vietnam Airlines Corporations should cooperate with the Ministry of Foreign Affairs of Vietnam and the Coalition of five US airlines to achieve the following goals:

- Create a budget for international publishing, including articles in US newspapers that attract a large Vietnamese readership (such as the San Jose Viet Mercury News, or the Los Angeles Times) and in other North American countries such as Canada.
- Call for financial assistance for the international media strategy from the US government, and from the five US airlines planning to serve the US-Vietnam air transport market.
- Reach out to US Congress constituent groups such as: (1) US consumers, (2) corporations with international perspectives, including aircraft manufacturers, telecommunications, travel and tourism industries; (3) airlines, (4) airports, and (5) travel agents. Fully understand their anticipated wishes over the US-Vietnam Agreement and gain their support for the US-Vietnam BCAA.
- Show WTO members that the US-Vietnam BCAA is part of Vietnam's efforts to comply with WTO requirements.

The target audience of this international public relations strategy will be:

- American people and Vietnamese living in the US:
 - Show them how the US-Vietnam BCAA will benefit the US economy as US airlines expand their market.
 - Businessmen will have better opportunities to invest in Vietnam. Transportation costs will decrease. Goods produced in Vietnam that are brought back to the US will enjoy more favorable conditions for competing in the US market.
 - Travel between the two countries will be more comfortable and convenient.
- WTO member countries, especially those who are interested in investing in Vietnam. The US-Vietnam BCAA is a good model for later aviation agreements with Vietnam.
- Regional and International Organizations.
- Representatives of foreign media and new agencies in Vietnam.

The CAAV and the Vietnam Airlines Corporations, together with the Ministry of Foreign Affairs and the Coalition of five US airlines, should take the following steps to promote the international public relations strategy:

- Organize press conferences to (1) inform the international public about the decision of the Vietnam government to sign the US-Vietnam BCAA; (2) bring the agreement to the attention of international media news agencies to generate free coverage; (3) attract more countries to sign aviation agreements with Vietnam; (4) Q&A section.
- Publish articles and "op-ed" pieces (See Appendix 8) in the International Aviation Magazine, Air Business Magazine, Financial Times, and the International Herald Tribune to inform the world that Vietnam is moving its economy forward, even its aviation sector. The cost for media will be funded by the Government of Vietnam and the Coalition of five US airlines that plan to serve the market.

In addition, the Airline Coalition should ask key US government officials such as the Secretary of Department of Transportation, Norman Y. Mineta, and the Administrator of the Federal Aviation Administration, Jane F. Garvey, to mention the US-Vietnam BCAA on US television channels while giving speeches or interviews about US aviation policies. Speeches by these people can raise the attention of US citizens.

4. BEST ALTERNATIVE TO NEGOTIATION AGREEMENT (BATNA):

If the negotiation strategy for the US-Vietnam Bilateral Civil Aviation Agreement carried out by the CAAV and the Coalition formed by United Airlines, American Airlines, Northwest Airlines, Delta Airlines, and Continental Airlines cannot achieve the preferred outcome as provided in the proposed timetable, the CAAV and the Coalition should consider the followings alternatives:

For the CAAV:

- Maintain Status quo.
- Expand the reform of state-owned aviation enterprise.
- Strengthen the competitiveness of Vietnam Airlines.
- Continue negotiation and lobbying efforts domestically and internationally.

For the Coalition:

- Maintain Status quo.
- Wait until the aviation sector of Vietnam can adopt the “Open Skies” agreement.
- Continue lobbying efforts in US government and agencies.

5. BUDGETING:

The CAAV should request the Coalition for the US-Vietnam BCAA to fund lobbying efforts of the US Government. Under the budget regulations of Vietnam, each governmental plan or project is funded with 100 million Vietnam Dong,⁴¹ equivalent to 7,000 US Dollars. The Government of Vietnam must be respectful of restrictions on foreign lobbying and campaign contributions in the US.

Moreover, in the Vietnamese political system, the lobbying process does not exist as it does in the US. Therefore, for the purpose of this Master Project, the Budgeting Section will only cope with the costs for implementation of the international public relations strategy, which is mainly for the costs of publishing articles in the Financial Times, the International Aviation Magazine, and Airlines Business Magazine. Most newspapers and magazines published domestically are free.

Assume that the CAAV will publish three articles, approximately 300 words each, in the Financial Times, International Aviation Magazine, and Airlines Business Magazine for the period of 6 months. Nine articles will cost the CAAV around 300 USD each. The total budget for the international public relations will be around 2700 USD.

The remainder of the funds should be used to pay for the costs of publishing half page articles in the San Jose Viet Mercury News or the Los Angeles Times that serve the huge Vietnamese community in the US. The

⁴¹ Data provided by the Ministry of Finance, 2001

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estimate for an open rate article in the San Jose Mercury News is around 700 USD.⁴² The rest of the budget can be spent for six articles, three for each newspaper.

The CAAV should ask the US Airline Coalition for \$50,000 to \$300,000 of support for the ads to the whole negotiation process.⁴³ This number can be estimated more accurately once the Coalition is formed.

⁴² “Open rate” means short-term publishing, without contract.

⁴³ This is not an exact number, an assumption made for budgeting section

Appendix 1: TIME-FRAME

TIME-FRAME FOR THE US-VIETNAM BILATERAL CIVIL AVIATION AGREEMENT

2002	2003	2004	2005	2006
<ul style="list-style-type: none"> -Start Domestic Political Strategy -Build Coalition with five US airlines -Start US strategy -Launch “Open Skies” in CLMV -US-Vietnam BTA -Implement “code-sharing” contract between US and Vietnam airlines 	<ul style="list-style-type: none"> -Obtain approval of the Central Committee and the PolitBuro -Lobby National Assembly and the Government, ministries, agencies. -Start Media Campaign domestically and internationally -“Open Skies” in CLMV in process -Renewing US-VN BTA by the US Congress 	<ul style="list-style-type: none"> -Continuing lobbying activities -Ending Media Strategy -Reaching consensus among Central Committee, PolitBuro, National Assembly, and Government -Complete “Open Skies” in CLMV. 	<ul style="list-style-type: none"> -Start US-VN BCAA. -Start “Open Skies” in ASEAN -Vietnam become a member of the WTO -Introduce privatization in aviation sector 	<ul style="list-style-type: none"> -US-VN BCAA in process. -“Open Skies” in ASEAN in process

2007	2008	2009	2010
<ul style="list-style-type: none"> -Complete “Open Skies” in ASEAN in -US-VN BCAA in process. -Start “Open Skies in APEC 	<ul style="list-style-type: none"> -US-VN BCAA in process. -“Open Skies” in APEC in process. 	<ul style="list-style-type: none"> -US-VN BCAA in process -“Open Skies” in APEC end. 	<p>*Reach US-Vietnam “Open Skies” Agreement</p>

Appendix 2: STAKEHOLDERS ANALYSIS CHART

1. Domestic stakeholders:

Parties	Interests
<p><u>The Communist Party and the Government</u></p> <ul style="list-style-type: none"> • “Conservative” group • “Progressive” group 	<p>⇒ (1) support stable development, maintain stability; (2) be cautious in both content and progress of the BCAA; (3) maintain national security</p> <p>⇒ (1) support fast liberalization and modernization; (2) expand private, shrink state-owned sectors; (4) develop the aviation sector (3) advocate the BCAA as the proposed timetable.</p>
<p><u>CAAV and Vietnam Airlines Corporations</u></p> <ul style="list-style-type: none"> • The board of leaders • Functional Units, staff and employees 	<p>⇒ prefer the BCAA as a traditional agreement</p> <p>⇒ prefer “Open Skies” agreement</p>
<p><u>Ministry of Public Security and Ministry of Defense</u></p>	<p>⇒ oppose the BCAA, especially under the form of an “Open Skies” Agreement.</p> <p>⇒ maintain national security and social stability</p> <p>⇒ prefer Government control, monopoly over aviation sector</p>
<p><u>Ministry of Foreign Affairs</u></p>	<p>⇒ promote US-Vietnam relations</p> <p>⇒ promote US-Vietnam aviation activities</p> <p>⇒ support the scope and process of the BCAA</p> <p>⇒ accelerate Vietnam’s accession to the WTO</p>
<p><u>Ministry of Trade</u></p>	<p>⇒ expand US-Vietnam trade and services</p> <p>⇒ support BCAA, “Open Skies”</p> <p>⇒ expedite Vietnam’s accession to the WTO</p>
<p><u>Ministry of Planning and Investment (MPI)</u></p>	<p>⇒ complete National Plan for Economic Growth, increase GDP</p> <p>⇒ increase capital inflow</p> <p>⇒ support the BCAA, “Open Skies”</p>

<p><u>Ministry of Finance</u></p>	<p>⇒ maintain the balance of spending and revenue ⇒ increase budget ⇒ effectively direct finances in strategic sectors ⇒ support BCAA, “Open Skies”</p>
<p><u>Ministry of Transportation</u></p>	<p>⇒ promote multi-modal transportation ⇒ develop other modes of transportation such as surface and sea ⇒ comply with targets of the ASEAN Framework Agreement Services (AFAS) ⇒ support BCAA, “Open Skies”</p>
<p><u>Ministry of Legal Affairs</u></p>	<p>⇒ comply with international rules ⇒ promote modern aviation regulations in Vietnam’s aviation sector ⇒ support BCAA, “Open Skies”</p>
<p><u>The General Administration of Tourism (GAT)</u></p>	<p>⇒ support BCAA, “Open Skies” ⇒ increase the number of tourists ⇒ increase revenue ⇒ turn Vietnam into a center of tourism</p>
<p><u>The General Administration of Customs (GAC)</u></p>	<p>⇒ support BCAA, “Open Skies” ⇒ improve the GAC to conform with US and international standards ⇒ eliminate corruption and red-tape</p>
<p><u>The General Department of Post and Telecommunication (DGPT)</u></p>	<p>⇒ expand post and telecommunication services ⇒ increase revenue from serving tourist, businesses ⇒ improve the quality of services</p>
<p><u>Vietnamese consumers</u></p>	<p>⇒ enjoy better quality services, lower prices ⇒ increase living standards ⇒ open opportunities for traveling ⇒ support the BCAA, “Open Skies” agreement</p>

2. US stake holders:

Parties	Interests
<u>US Congress</u>	<ul style="list-style-type: none"> ⇒ promote US aviation sector ⇒ expand flight network ⇒ recover US economy post September 11 ⇒ strengthen relations with Vietnam ⇒ support US-Vietnam BCAA, “Open Skies” agreement
<u>Bush Administration and State Department</u>	<ul style="list-style-type: none"> ⇒ expand international aviation market ⇒ build strong aviation relationship ⇒ create free trade within the aviation sector ⇒ support US-Vietnam BCAA, “Open Skies”
<u>DOT and FAA</u>	<ul style="list-style-type: none"> ⇒ promote “Open Skies” policy ⇒ promote safe, affordable, and convenient air services ⇒ gain accession to new potential markets ⇒ support US-Vietnam BCAA
<u>US airlines</u>	<ul style="list-style-type: none"> ⇒ gain access to more markets ⇒ build strong alliances ⇒ generate benefits from serving US-Vietnam air traffic market ⇒ support US-Vietnam BCAA, “Open Skies” agreement

Appendix 3: DOMESTIC POLITICAL STRATEGY

The Communist Party of Vietnam plays the leading role in the whole process of Domestic Strategy

**CPV's
Central Committee
and Political Bureau**
The General Secretary

Commissions
Econ &
Budget
Legal Affairs

National Assembly
Standing Committee

Government
Prime Minister

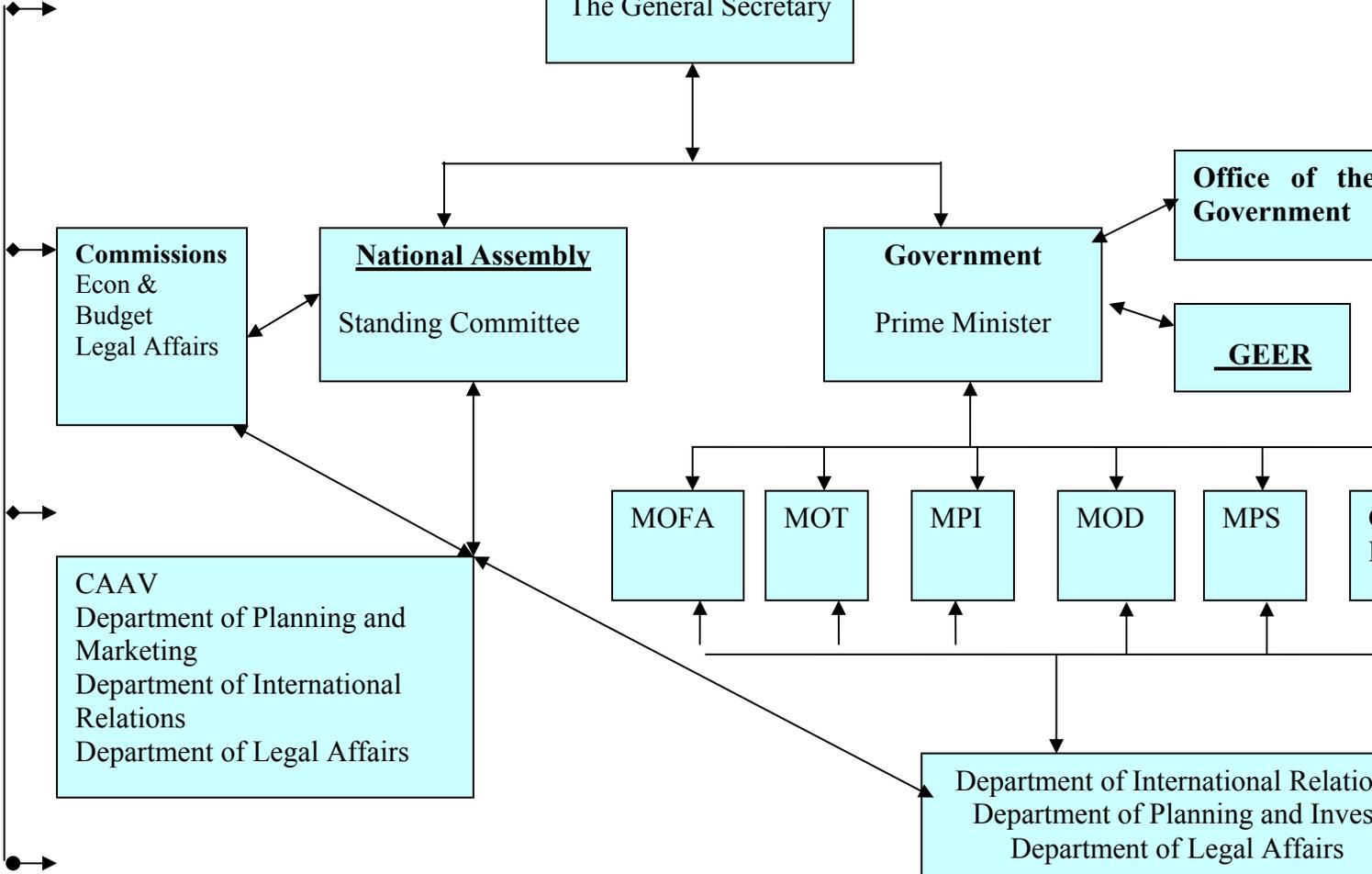
**Office of the
Government**

GEER

CAAV
Department of Planning and
Marketing
Department of International
Relations
Department of Legal Affairs

MOFA MOT MPI MOD MPS

Department of International Relation
Department of Planning and Invest
Department of Legal Affairs



Appendix 4: WHITE PAPER

THE CIVIL AVIATION ADMINISTRATION OF VIETNAM (CAAV)

CHANGING THE CIVIL AVIATION TO BE MORE MODERNIZED AND INDUSTRIALIZED

A White Paper on the US-Vietnam Bilateral Civil Aviation Agreement

Vietnam's civil aviation sector has made vast improvements over the past ten years. Nevertheless, this sector is still largely under-developed relative to other countries in Southeast Asia. The Vietnamese government recognizes the strategic importance of this sector to its economy and has shown the willingness to assist the civil aviation sector, through generous subsidies and favorable treatment. Despite the eagerness of the Vietnamese government to support aviation, benefits generated by the sector have proven insufficient. In order to advance Vietnam's Civil Aviation, it is critical that drastic modernizing actions be taken and mechanisms introduced. Then, Vietnam will be able to compete with the strong civil aviation of other countries in Southeast Asia and throughout the rest of the world.

Vietnam needs the US-Vietnam Bilateral Civil Aviation Agreement (BCAA) to improve its civil aviation sector. The purpose of this White Paper is to point out the necessity and benefits of the implementation of the US-Vietnam BCAA, address main problems of the US-Vietnam BCAA, and outline a strategy to overcome the obstacles.

The necessity and benefits of the US-Vietnam BCAA:

- Coincide with the recent regional and global network trends.
- Require a number of adjustments to current legal documents related to aviation, making them compliant with international regulations
- Require the focus to be put on modern equipment, information technology, and financial regulations.
- Ensure that Vietnam becomes competitive in the global market
- Attract more foreign investments; contribute to the modernization of the Vietnam civil aviation sector.
- Lead to management improvements, enhance Vietnam's technical and commercial cooperation with foreign airlines, increase effectiveness, and generate benefits for the aviation and other sectors in the economy.
- Expedite Vietnam's accession to the WTO.

Problems concerning the US-Vietnam BCAA:

- Under what form the US-Vietnam BCAA should be implemented, a traditional agreement or an Open Skies agreement.
- Whether adjustments to the Civil Aviation Law and other legal documents help implement the US-Vietnam BCAA promptly.

Strategy to overcome the obstacles to the US-Vietnam BCAA:

In order to overcome the obstacle above and to reach the goals of the US-Vietnam BCAA, the CAAV should consider taking the following actions:

- Introduce a time-frame for the US-Vietnam BCAA, which would first be implemented as a traditional bilateral agreement, then upgraded to the level of an Open Skies agreement.
- Build consensus among leaders and staff of the CAAV, Vietnam Airlines Corporations, and other involved units regarding the time-frame, changes made to the Civil Aviation Law, and other legal documents.
- Build consensus among key members the Central Committee and the Political Bureau (PolitBuro), and gain the support of the Secretary General of the Communist Party. Their support plays a crucial role in reaching the US-Vietnam Bilateral Civil Aviation Agreement.
- Develop a legislative strategy to persuade the National Assembly to advocate the time-frame of US-Vietnam BCAA and adopt the amendments, introduced in the Legal Analysis section, to the Civil Aviation Law of Vietnam. The strategy will focus on the Law Commission and the Economic and Budget Commission because these two Commissions have decisive influence on amending the law, on budgeting for the implementation of the US-Vietnam BCAA, and financing the aviation sector to buy aircraft and equipment.
- Build consensus among government officials of the State Office and of the President Office, namely the Prime Minister and the President, and other related ministries and departments to obtain the time-frame of the US-Vietnam BCAA.
- Build a coalition with the five US airlines that are planning to serve the US-Vietnam air services market (United Airlines, American Airlines, Northwest Airlines, Continental Airlines, and Delta Airlines) to gain their support on the time-frame of the US-Vietnam BCAA.
- Lobby the Legislative Branch, Executive Branch, and the Department of Transportation (DOT) and Federal Aviation Administration (FAA) of the US Government to pass the US-Vietnam Bilateral Civil Aviation Agreement under the traditional form to form a foundation for the Open Skies Agreement.
- Send talking points via the Ministry of Foreign Affairs of Vietnam to the US Congress, the George W. Bush Administration, State Department, the DOT, and the FAA to convince them how they can benefit from the Agreement. Emphasize the development of the US economy, strengthening of national security and a healthy US aviation sector after the September 11 event.
- Conduct an international strategy with the Government of Vietnam, the Ministry of Foreign Affairs, The Ministry of Trade, and the National Committee for International Economic Cooperation. The strategy should inform the WTO Working Group that Vietnam has taken significant steps in its accession process to the WTO.
- Carry out a domestic public relations strategy, making use of mass media like television, radio, and newspaper to build public support and to generate knowledge about the necessity of the US-Vietnam Civil Aviation Agreement.

- Introduce an international public relation strategy. This strategy should be conducted through the cooperation with the Ministry of Foreign Affairs, the Embassy and General Consulate of Vietnam in the US, the CAAV, and the Coalition of five US airlines.

Conclusion:

In short, the US-Vietnam BCAA would improve Vietnam's aviation sector. It would increase competitiveness and effectiveness, improve the quality of services and management, and create affordable charges, prices, and fees. More importantly, the US-Vietnam BCAA would form the foundation for an Open Skies Agreement between the two countries in the near future.

Appendix 5: MEMORANDUM

Memorandum

From: Director General of the Civil Aviation Administration of Vietnam

To: The Central Committee of the Communist Party of Vietnam
The Political Bureau

Subj: Promoting the US-Vietnam Bilateral Civil Aviation Agreement

Date: December 21, 2001.

Vietnam's civil aviation sector has vastly improved over the past ten years. Nevertheless, it is still underdeveloped relative to other countries in Southeast Asia. The Vietnamese government recognizes the strategic importance of this sector and has assisted it through generous subsidies and favorable treatment. Despite this support, the benefits generated have proven insufficient. In order to advance Vietnam's Civil Aviation sector, it is critical that drastic modernization actions be taken. Mechanisms must be introduced to enhance Vietnam's competitive ability with other countries in Southeast Asia and throughout the rest of the world.

The relationship between the US and Vietnam will evolve once the authorities of the two countries ratify the US-Vietnam Bilateral Trade Agreement (BTA). The CAAV would like to propose the US-Vietnam Bilateral Civil Aviation Agreement (BCAA). The BCAA is vital not only to facilitate the implementation of the BTA but also to improve civil aviation, generating benefits for the sector and the economy as a whole. Moreover, the US-Vietnam BCAA would strengthen Vietnam's efforts for accession to the World Trade Agreement (WTO).

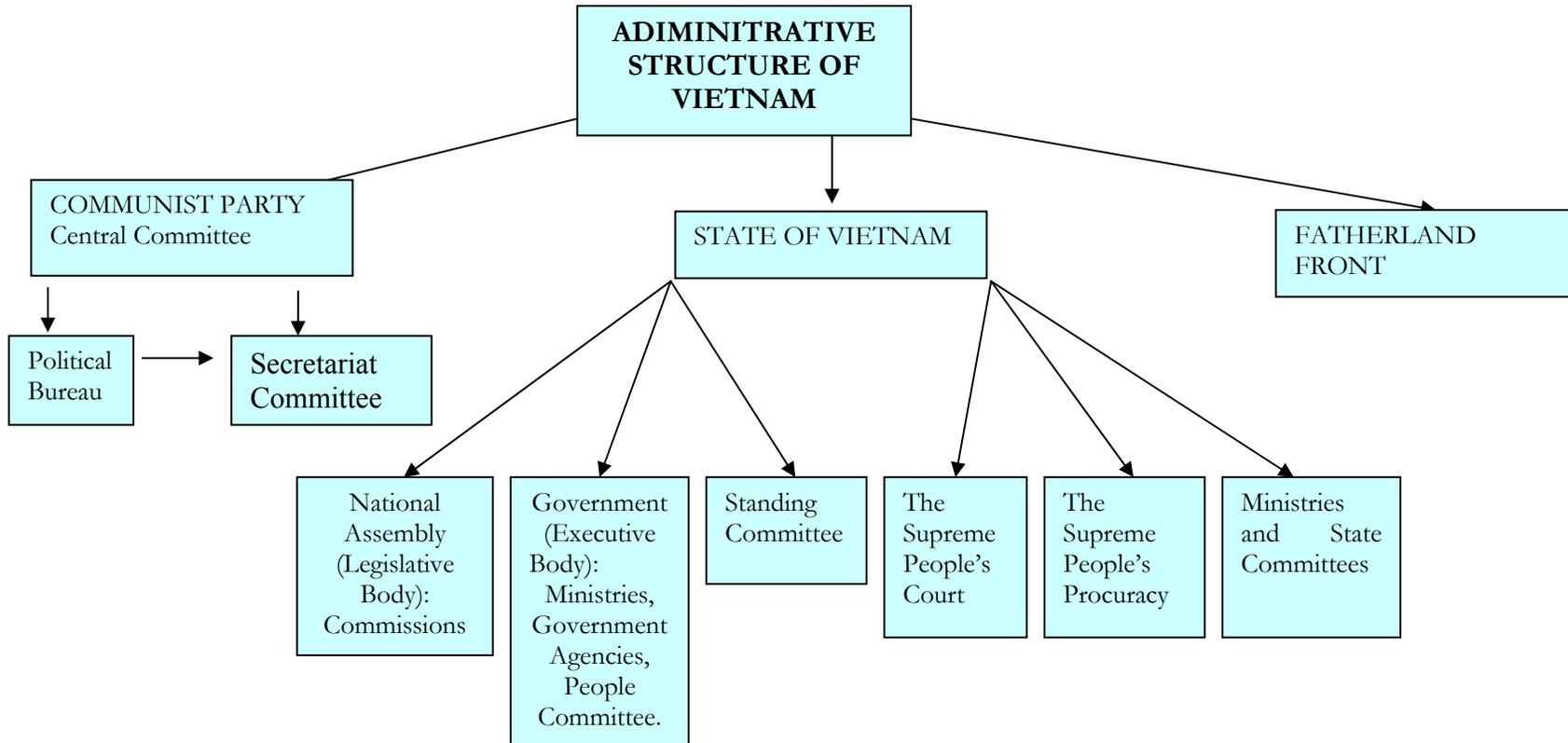
The US-Vietnam BCAA will bring about the following benefits to Vietnam:

- 1) The BCAA would make the aviation sector more competitive. It would advance the objectives set forth in the "Strategy to Promote Vietnam social and economic development for the period of 2001-2010" issued by the Communist Party of Vietnam and ratified by the Vietnamese Government in October 2000. According to this strategy, aviation, as one of the key sectors, would stimulate economic development and move into a "knowledge-based economy".
- 2) The BCAA would create economic, commercial, and social benefits for the Vietnamese people. Economically, it would contribute to the country's GDP. Commercially, it would increase demand for domestic and international air travel by decreasing airfare. It would also generate revenue for aviation and create more jobs. Vietnam's aviation revenue would increase 250% with the implementation of the BCAA. Moreover, the BCAA would generate profits for tourism, telecommunications, and transportation. Socially, it would bring about opportunities for the Vietnamese people to expand their knowledge of the world, and enhance their understanding of Americans.
- 3) Adjustments to the Civil Aviation Law and other legal documents related to the sector would help reconcile Vietnam's regulatory policies with (ASEAN, APEC) and international standards (WTO, the World Bank, ICAO).

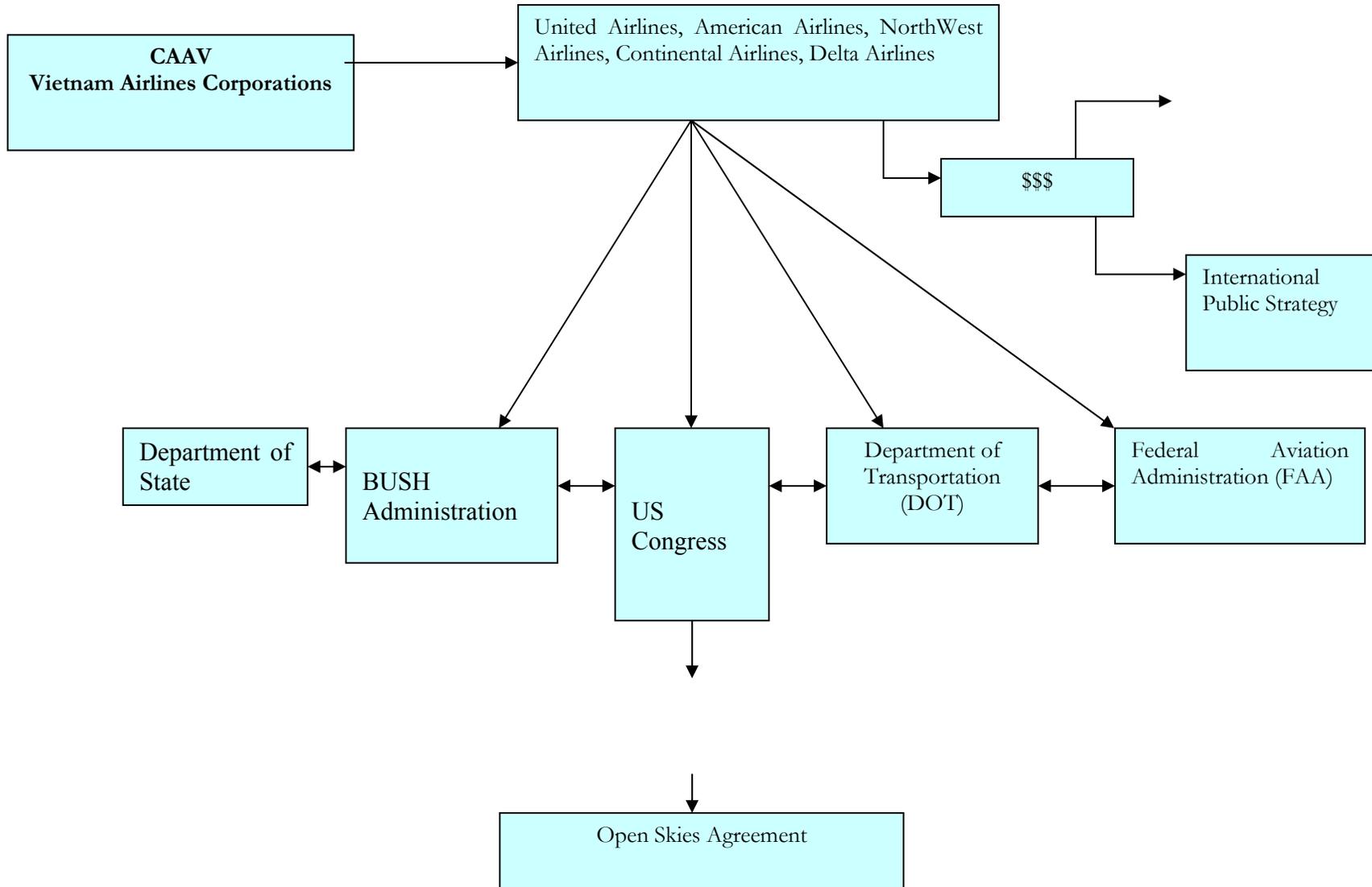
- 4) Regarding concerns of September 11, it is critical that we consider long-term benefits the BCAA would provide. By the time the BCAA is ratified, negative consequences of September 11 would be overcome. Signing the BCAA would help show the willingness of Vietnamese government to cooperate with US in promoting more healthy aviation.
- 5) An Open Skies policy has been adopted all over the world. This trend is undeniable. Successful cases of adopting the Open Skies agreement are seen in ASEAN, APEC, and EU. With Vietnam's current level of development, however, it is critical that Vietnam and the US adopt a transitional agreement suitable both in content and process.

Lastly, taking into consideration that Vietnam is not a WTO member, signing the US-Vietnam BCAA would help prove to the WTO working group on Vietnam's accession that Vietnam has taken significant steps in one of its key service sectors.

Appendix 6:



Appendix 7: STRATEGY TO DEAL WITH THE US



Appendix 8: OP-ED FOR INTERNATIONAL AVIATION MAGAZINE, AIR BUSINESS MAGAZINE, FINANCIAL TIMES, AND INTERNATIONAL HERALD TRIBUNE

AN AIR AGREEMENT NEEDS TO BE REACHED BETWEEN THE US AND VIETNAM

The relationship between the US and Vietnam will evolve once the authorities of the two countries ratify the US-Vietnam Bilateral Trade Agreement (BTA). The next critical step is an air agreement between the two countries.

The US-Vietnam Bilateral Civil Aviation Agreement (BCAA) would bring the following benefits to Vietnam:

- 1) The BCAA would make the aviation sector more competitive. It would advance the objectives set forth in the “Strategy to Promote Vietnam social and economic development for the period of 2001-2010” issued by the Communist Party of Vietnam and ratified by the Vietnamese Government in October 2000. According to this strategy, aviation, as one of the key sectors, would stimulate economic development and the move to a knowledge-based economy.
- 2) The BCAA would create economic, commercial, and social benefits for the Vietnamese people. Economically, it would contribute to the country’s GDP. Commercially, it would increase the demand for domestic and international air travel by decreasing airfare. It would also generate revenue for aviation and create more jobs. Revenue of Vietnam’s aviation would increase 250% with the implementation of the BCAA. Moreover, the BCAA would generate profits for tourism, telecommunications, and transportation. Socially, it would bring about opportunities for the Vietnamese people to expand their knowledge of the world, and enhance their understanding of Americans.
- 3) Adjustments to the Civil Aviation Law and other legal documents related to the sector would help reconcile Vietnam’s regulatory policies with (ASEAN, APEC) and international standards (WTO, the World Bank, ICAO).
- 4) An Open Skies policy has been largely adopted all over the world. This trend is undeniable. Successful cases of adopting the Open Skies agreement are seen in ASEAN, APEC, and EU. However, with Vietnam’s current level of development, it is critical that Vietnam and the US adopt a transitional agreement suitable both in content and process.
- 5) Finally, taking into consideration that Vietnam is not a WTO member, signing the US-Vietnam BCAA would help prove to the WTO working group on Vietnam’s accession that Vietnam has taken significant steps in one of its key service sectors.

For the US, benefits from the US-Vietnam Bilateral Civil Aviation Agreement would be as follows:

- It would increase US airlines’ revenues and recover economic losses from September 11.
- The CAAV would cooperate with the US in preventing terrorism, hijacking, or any kind of emergency to ensure US airlines a healthy operation.
- Increasing trade would increase air traffic.
- The US-Vietnam air traffic market would be absorbed by foreign airlines if the US-Vietnam BCAA were not implemented.

Promoting US-Vietnam Bilateral Civil Aviation Agreement
Chi Nguyen, MACD 2001

- The US-Vietnam BCAA, a framework for the future Open Skies Agreement between the two countries, would help the US to expand its Open Skies strategy, already implemented with a number of countries in ASEAN and APEC.
- The US-Vietnam Bilateral Civil Aviation Agreement would initiate service contracts where the US has a competitive advantage.
- The US-Vietnam Civil Aviation Agreement would strengthen the relationship between the two countries.

Appendix 9: Q&A SECTION

1. Questions of national security:

There is reasonable concern at Vietnam's Ministry of Defense and Ministry of Public Security that the agreement may affect national security and social policy, particularly after the September 11 attacks. International reactionary forces and economic criminals may take advantage of the US-Vietnam BCAA to harm Vietnam. However, Vietnamese leaders should recognize the following:

- The US-Vietnam BCAA requires cooperation between the Ministry of Public Security of Vietnam, the Ministry of Police of the US, and the international community to ensure national and social security.
- Vietnam and the US Ministry of Defense would collaborate to manage the air space, the air force, and the civil aircraft that fly between Vietnam and the US.
- The Agreement will create economic, commercial, and social benefits for the country and strengthen social security.
- Economic growth will enhance the military's power. Economic well being will help ensure national sovereignty and national security.
- The Agreement will promote Vietnam's integration to the regional and global trading system.
- The national security system will not be violated by the Agreement. The Agreement will create more opportunities for Vietnam to attract domestic and foreign investments in the aviation sector, thus generating more capital for the Ministry of Defense and the Ministry of Public Security to improve their security network.
- September 11 will not affect the national security of Vietnam if the two countries sign an aviation agreement. The US has strengthened its security and safety network. Once the Agreement comes into effect, the US will provide Vietnam with technical assistance, which will help reinforce Vietnam's national security.
- The temporary difficulties from September 11 will soon be overcome. Fighting terrorism while enhancing economic growth is the best way to move forward.

2. Questions to Vietnamese leaders concerning benefits generated from the US-Vietnam Bilateral Civil Aviation (BCAA):

Vietnamese leaders are paying much attention to the benefits generated from the US-Vietnam BCAA. Their aim is to realize a "Strategy to promote Vietnam social and economic development for the 2001-2002 period" and advance the "Renovation" of Vietnam. Therefore, they should fully understand that the US-Vietnam BCAA would:

- Contribute to the industrialization and modernization of Vietnam.
- Expand diplomatic relations and involve Vietnam in the regional and international economy.
- Help accelerate Vietnam's accession to the World Trade Organization (WTO) and other regional economic and trade organizations.
- Reconcile Vietnam Civil aviation regulatory policies with regional (ASEAN, APEC) and international standards (WTO, the World Bank, ICAO).
- Create a fair environment for competition in air services.
- Promote foreign investments in civil aviation.
- Improve the quality of air services.
- Generate more capital for aircraft, infrastructure, and equipment.
- Reduce airfares for Vietnamese and foreign travelers.

3. Questions concerning job losses

At the moment, as a state-owned company, Vietnam Airlines has more workers than can be justified by the amount of its business. Once the US-Vietnam BCAA comes into effect, competition would force Vietnam Airlines to be more efficient. Vietnam Airlines Corporations would have to cut costs and lay-off workers. Moreover, as new technology is transferred from the US partners, the need for workers may further decline. As planned by the National Assembly, employment of all state-owned enterprises will be cut 20% in the year 2002. Nevertheless, 20% does not make a lot differences in aviation sector. To be more efficient to compete with US airlines, Vietnam Airlines should cut up to 40% of its employment, that is $40\% * 10,386 = 4,154$. Thus the level of employment would be $10,386 - 4,154 = 6,232$ jobs without the BCAA.

To calculate the jobs generated from the change in revenue of the US-Vietnam BCAA, we calculate: $2.5 * 6,232 = 15,580$ jobs. However, two different cases must be considered.

If the US-Vietnam BCAA is signed, technology transfer and competitive pressures make Vietnam Airlines Corporations more efficient, but business also increases. Five thousand, one hundred ninety-four more workers are hired, for a total employment of 15,580 ($15,580 - 10,386 = 5,194$ jobs).

On the other hand, if the US-Vietnam BCAA is not signed, what will happen? There will be no technology transfer, no competitive pressure, and no new business from direct flights to the US. As part of the government plan, 20% of the VA labor force would be laid-off. VA total employment would be $10,386 * 0.8 = 8,309$ jobs.

Thus the different in employment due to the US-Vietnam BCAA is $15,580 - 8,309 = 7,271$, of which 5,194 are new workers (jobs created) and 2,077 (20 % of the old level of employment, which is 10,386) are jobs saved.

4. Questions concerning indirect benefits of the US-Vietnam BCAA:

The US-Vietnam BCAA will have a direct impact on Vietnam. Tourism would benefit from the BCAA due to the increasing number of North American tourists taking advantage of new routes between the US and Vietnam.

According to the General Administration of Tourism, the amount of each tour (seven days) in Vietnam per person is USD1,200. The old revenue from 98% of 175,000 passengers is $171,500 * USD1,200 = USD205,800,000$. The new revenue from 98% of 308,000 will be $301,840 * USD1200 = USD362,208,000$. The percentage change in revenue from tourism is $USD(362,208,000 - USD205,800,000) / USD205,800,000 = 76\%$. Thus, the number of new jobs will be: 0.76 (percentage change in revenue) $* 15,600$ (old level of employment) $= 11,856$ jobs.

Indirect benefits from the increase in tourism can be broken down further. According to the General Administration of Tourism, 45 percent of the value of each tour (USD1,200), is spent on hotels, 45 percent on restaurants, shopping, and sightseeing, and 10 percent on surface transportation. Therefore we have the new revenue for each sub-division. For the hotel industry: $45\% * USD1,200 = USD540$. The new total revenue will be: $301,840$ (98 percent of new total number of passenger) $* USD540 = USD162,993,600$. The same number can be calculated for restaurant, shopping, and sightseeing. For transportation: $10\% * USD1,200 = USD120$. The new total revenue would be: $301,840$ (98 percent of new total number of passengers) $* USD120 = USD 54,331,200$.

Appendix 10: PRESS RELEASE

**THE CIVIL AVIATION ADMINISTRATION OF VIETNAM AND
VIETNAM AIRLINES CORPORATIONS**

For Immediate Release

Contact:

Chi Nguyen
(84) 8 - 466322

June 31, 2002

**THE US-VIETNAM BILATERAL CIVIL AVIATION AGREEMENT GAINS THE SUPPORT OF
VIETNAM LEADERS**

HANOI, Monday June 31, 2002: Today, the US-Vietnam Bilateral Civil Aviation Agreement (BCAA) has gained unanimity among leaders of Vietnam, members of the Political Bureau of the Communist Party of Vietnam and members of the Vietnamese Government.

The US-Vietnam BCAA will:

- Further the industrialization and modernization of Vietnam.
- Expand diplomatic relations and integrate Vietnam into the regional and international economy.
- Accelerate Vietnam's accession to the World Trade Organization (WTO) and other regional economic and trade organizations.
- Reconcile Vietnam Civil Aviation regulatory policies with regional (ASEAN, APEC) and international standards (WTO, the World Bank, ICAO).
- Create a fair environment for competition in air services.
- Promote foreign investment in civil aviation.
- Improve the quality of air services.
- Generate more capital for aircraft, infrastructure, and equipment.
- Reduce airfares for Vietnamese and foreign travelers.

The US-Vietnam BCAA will come into force on December 17, 2002 and is planned to be upgraded to an Open Skies Agreement in eight years. The BCAA is among significant efforts made by the Vietnamese government to advance to a "knowledge-based" economy. It will help achieve goals set forth in the "Strategy to promote Vietnam social and economic development for the 2001-2010 period" and realize the Decision 07-NQ/TW issued by the Political Bureau on November 27, 2001 on "International Economic Integration."

With the conclusion of the US-BCAA, five US airlines, namely United Airlines, American Airlines, Northwest Airlines, Continental Airlines, and Delta Airlines, will join Vietnam Airlines, the national carrier, in serving this potential air traffic market.

Competition and privatization in the aviation sector is introduced in Civil Aviation Law and several legal documents. These documents include Decree No. 68/CP of the Vietnamese government (October 25, 1995)

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on the function, tasks, powers, and organizational structure of the Civil Aviation Association of Vietnam (CAAV); Decree No. 04/CP of the Vietnamese government (January 27, 1996) approving “regulations on the organization and operation of Vietnam Airlines Corporations”; Decision No. 818/TTG of the Prime Minister of Vietnam (December 13, 1995) on the prices, charges, and fees of civil aviation; and Decision No. 202/CT of the Prime Minister (June 1992) on the names of state-owned enterprises (SOEs) that can be privatized.

The US-Vietnam BCAA is launched by the Civil Aviation Administration of Vietnam (CAAV). It has gained support from different Ministries and government agencies such as the Ministry of Foreign Affairs, the Ministry of Trade, the Ministry of Planning and Investment, the Ministry of Transportation, and the General Administration of Tourism.

GLOSSARY

Blocked seats/blocked space/allotment – the number of seats exchanged between two airlines or sold to other airlines on a flight of one airline.

Code-sharing – a method of cooperation in which one airline accepts the other's code as agreed on a certain flight and vice versa.

Domestic – a route that begins and ends within the territory of one country.

Dry-leased – a method that does not require the leasing of an operating pilot together with leasing the aircraft.

First generation plane – propeller-drive engine planes with electronic controlling systems.

Flight Designator – consists of airline's designator and flight number.

Freedoms of the air/traffic rights – the right of one airline to operate outside its territory. In international air traffic, there are nine freedoms.

International – a route operated by the home country's carrier that either begins or ends or both in a territory of another country.

Intermediate point – a third country between the home country and the other country.

Open rate – short-term publishing, without signing a contract.

Operating Party/Carrier – the airline that directly operates the flight.

Participating Party/Carrier, Non-operating party – the airline that does not directly operate the flight.

Second generation plane – jet-plane with low speed and semi-conducting system.

Special Prorate Agreement (SPA) – an agreement that embraces Block seats/Blocked space/allotment.

Third generation plane – supersonic plane with intelligent chip.

Wet-leased – a method requiring the leasing of operating pilots together with leasing the aircraft.

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