

**Statement of Jeffrey R. Shafer
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Before the Committee on Finance
United States Senate**

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Mr. Chairman, Members of the Committee on Finance, my name is Jeffrey Shafer, and I am Vice Chairman, Global Banking at Citigroup. I have previously appeared before this distinguished Committee in my current capacity and when I served as Assistant Secretary, then Under Secretary, of the Treasury for International Affairs.

The issue before the Committee today, whether to grant Vietnam Permanent Normal Trade Relations and thus pave the way for its accession to the WTO, is of immense personal as well as professional interest to me. I served with the US Army First Infantry Division in Vietnam and have returned in recent years to advise government officials and offer Citigroup's support of their efforts to develop a market economy, to fully engage in the global economy and thereby to offer a better future to their people. The transition from conflict to cooperation between the United States and Vietnam is one of the great achievements by any two countries in my lifetime.

Many in this room and across America have supported the arduous process of reconciliation between our two proud peoples, and normalization of relations between our two great nations. This mutual understanding has served both our interests, and today the United States enjoys strong and mutually beneficial ties with one of Asia's fastest growing economies. Vietnam's GDP has increased nearly 50 percent since 2001. The country is a growing market for US exports, which have increased over 150 percent since 2001. During the past year alone, we saw an increase of 24 percent to \$1.2 billion.

As you know, President Bush will visit Vietnam in November to attend the annual APEC Leaders meeting. This is an unprecedented opportunity to highlight the progress being made in Vietnam, and Vietnam's emergence as a responsible partner with which we can engage on a complex international economic, diplomatic, and security agenda.

Building on successful implementation of the 2001 Bilateral Trade Agreement with Vietnam, we now turn our attention to the important goal of Vietnam's accession to the World Trade Organization (WTO).

We congratulate US and Vietnamese negotiators for achieving a comprehensive WTO accession agreement that will provide broad market access across a range of US goods and services. Citigroup's principal objective in supporting these negotiations has been to achieve commercially significant liberalization for trade in financial and payment services. We believe that the agreement is a good one in this respect, that it will be an

important step in securing broader US national interests and that it will contribute to economic modernization and growth in emerging markets such as Vietnam.

Support for Reform and Reformers

Vietnam is home to eighty-five million people, more than half of whom are under the age of twenty-five. The country faces a host of human and infrastructure development challenges. Vietnam merits our attention, as well as our strong support, for the reform process underway there. WTO accession for Vietnam will reinforce this reform process by requiring enhanced transparency in the formulation of regulations, notification, and providing for public comment. Accession has required Vietnam to enact more than 80 laws covering all aspects of trade. These will reduce administrative discretion and will provide for a predictable commercial and investment environment. Finally, accession will provide a framework for enforcement and accountability through WTO Dispute Settlement, Trade Policy Review and other enforcement mechanisms.

Vietnam offers tremendous potential as a market for US products and services. Its integration into the rules-based global trading system will accelerate the positive economic activity in Vietnam, and contribute to an open, market-oriented economy with significant benefits for the people of Vietnam, as well as for US companies, workers, and consumers.

Significant New Commitments Financial Services

The financial and capital markets in Vietnam are seriously underdeveloped and inefficient. Although the markets are improving, they cannot yet provide the financial products and services needed to sustain economic growth to the next level – indeed they are a drag on economic and social development. Poor performance and past failures caused the public to lose confidence in the financial sector in general, and commercial banks in particular. Liberalization through WTO accession and PNTR will promote development of the financial sector in several ways. I want to give a broad picture of what is being offered, going beyond the activities of direct interest to Citigroup.

Vietnam currently limits foreign banks to a minority shareholder position of 49 percent, but allows branches. Vietnam also currently allows foreign securities firms to operate representative offices.

- As of April 2007, however, US and other foreign firms will be able to establish 100 percent foreign-invested subsidiaries. These legal entities will receive national treatment upon accession. US banks will be in a position to take unlimited local currency deposits from legal entities, and to issue credit cards.
- Upon accession, foreign securities firms will be able to open joint ventures with up to 40 percent foreign ownership. After five years, foreigners will be able to own 100 percent of securities firms and will be able to branch into Vietnam for

some securities activities (asset management, advisory, and settlement and clearing services).

- Cross-border market access commitments will be comparable, or superior, to those of OECD countries.

Foreign insurance firms currently are permitted to operate in Vietnam through joint ventures with a Vietnamese partner and are subject to a number of limitations on their scope of business. Upon accession, Vietnam will permit foreign insurance companies to operate:

- Through 100 percent foreign owned subsidiaries. Vietnam will also allow insurance companies to open direct branches offering non-life insurance after five years from the date of accession;
- With minimal limitations on their scope of business, and Vietnam will provide foreign insurance forms full national treatment; and
- Vietnam will implement its commitment for branching in the non-life insurance sector in a manner consistent with internationally recognized industry standards.

Citigroup in Vietnam

Citigroup has been well placed to observe the developing business and policy climate in Vietnam, which have laid the basis for WTO membership. Citigroup's largest subsidiary, Citibank, has been operating in Vietnam since 1993, when President George H.W. Bush eased trade restrictions and allowed US companies to establish representative offices. Shortly after President Clinton lifted the trade embargo, Citibank applied for a branch license in Hanoi and opened for business in January 1995.

Since that time, and despite having operated in a restrictive environment, we have been able to establish substantial market share in targeted areas. These include multinational subsidiaries, financial institutions, and selected public enterprises. Citigroup has also established a leadership position in global transaction services and treasury product offerings. We are also recognized as a leader in reforming market practices to help meet international standards. Citigroup has also worked closely with US multinationals operating in Vietnam to provide them a competitive advantage in their fields of business through provision of infrastructure for efficient financial, liquidity, and risk management services.

The size and growth potential of Vietnam will make it an attractive market for debt and equity securities, asset management, securities brokerage and trading, insurance and consumer banking. All of these sectors exist today but are still in the start-up mode, and none are yet significant in size. WTO accession will increase access to foreign financial institutions and will level the playing field, which will certainly help Citigroup to achieve its business objectives.

In less than thirteen years, Citibank has become the largest foreign bank in the country, and-- we believe -- the fifth largest bank in Vietnam. We have also played a leading role in the American business community and have fully encouraged normalized relations between our two countries. We have invested heavily in the important process of building relationships with key Vietnamese government officials, entrepreneurs and members of civil society. Citigroup has helped provide critical technical assistance to Vietnam at an important stage of the country's transition to a market economy. We believe that we have been a model corporate citizen, and support a host of philanthropic and public service activities in Vietnam.

We are hopeful that Congress will approve PNTR for Vietnam at the earliest possible opportunity, to ensure that Americans can benefit from the range of Vietnamese commitments made in the WTO accession negotiations. Despite many fits and starts, we have made significant progress in our bilateral relationship during the past decade. And we have done so with the bipartisan support of the United States Congress. The Vietnamese have worked diligently to address the many concerns that have been raised over the years, and we must do everything possible now to encourage the efforts of Vietnamese reformers who are advocating for more openness, more engagement with the international community, and more liberalization in economic affairs.

By reducing barriers to trade, ensuring the protection of legal rights, WTO accession and PNTR for Vietnam will be by far the most important event that has taken place since the resumption of bilateral relations. It will provide US companies with the certainty and protections they need to invest for the long-term in Vietnam. This will greatly benefit US companies doing business in Vietnam, but it is much more important than this.

Mr. Chairman and Members of the Committee, the decision that Congress makes on this issue will have significant and lasting impact on our bilateral ties with Vietnam. Failure to maintain the forward momentum in this relationship would undermine US interests in a large, strategically located emerging market. The granting of PNTR represents an opportunity to complete the final chapter of our re-engagement with Vietnam and the Vietnamese people and ensure that cooperation continues to be the basis of our relationship. It is a forward-looking initiative. On behalf of Citigroup, and as one ex-soldier, I urge you to move forward on approval of PNTR for Vietnam in as expeditious a manner as possible this summer. Thank you.