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Vietnam WTO Accession
Issues in Brief: Textile Safeguards

Status of Vietnam WTO Negotiations

In the context of Vietnam's accession to the WTO, it has been suggested that the U.S. should consider whether to impose textile safeguards on Vietnamese textile imports post its accession to the WTO, and beyond the expiration of the Agreement on Textiles and Clothing (ATC) in 2005, which ended textile and apparel and quota regimes for all WTO members except, through its WTO accession, with China. If imposed, the U.S. and other WTO members could introduce safeguards (in the form of quotas) to curb textiles products originating from Vietnam even after it becomes a WTO member. Currently, under the auspices of the U.S.-Vietnam Bilateral Textile Agreement, Vietnamese textiles entering the U.S. are subject to quotas based on product category. A post WTO safeguard regime would be an unnecessary and very damaging outcome to an otherwise vastly improving trade and investment climate between the U.S. and Vietnam, and likely would be a deal-breaker.

Background

Since 1 January 1995, international textiles and clothing trade has gone through fundamental change as a result of the 10-year transitional program of the WTO's Agreement on Textiles and Clothing (ATC). Before the ATC took effect, a large portion of textiles and clothing exports from developing countries to the industrial countries was subject to quotas under a special regime outside normal GATT rules. Under the ATC, WTO Members committed themselves to remove the quotas by 1 January 2005. Since then, all WTO members (except for China) have been enjoying quota-free access for their textile products, including quota free access to the U.S. China's safeguard regime is set to expire at the end of 2008.

However, during China's accession negotiations with the U.S., because of China's size, the U.S. was insistent on including the special safeguard provision that had been included in the 1997 U.S.-China Bilateral Textile Agreement, providing the U.S. with an additional four years beyond the expiration of the ATC in 2005 to apply quotas on Chinese imports of textiles. By agreeing to this, China also allowed this provision to be applied by all WTO members.

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Implications for Vietnam's WTO Accession

1) **The distinction between Vietnamese and Chinese textile trade patterns with regard to the U.S.:**

When assessing apparel trade, Vietnam and China are in a different league. China is the largest exporter of apparel to the U.S., representing a share of 26% of total U.S. imports. Vietnam's share of apparel exports to the U.S. is 3.7% in terms of quantity, and 4.1% in terms of value. Vietnam is ranked 7th behind China, Mexico, Honduras, Bangladesh, Indonesia and El Salvador, . It should be noted that apart from China, none of the other countries are subject to quotas or face the threat of a safeguard regime. Other countries that joined the WTO after 1995, including Taiwan, which acceded immediately following China, as well as Oman and Cambodia, were not asked to accept a post-ATC textile safeguard.

In addition if need be, the U.S. maintains leverage to combat the threat of injurious unfair trade from Vietnam with the ability to assign antidumping margins to restrict unfair trade in the textile sector because under U.S. Trade Law, Vietnam has been categorized as a 'non-market economy.'[1]

It should also be noted that unlike China, the EU and Canada have dropped their quotas on Vietnam, imports to the EU and Canada have not seen a surge since the quotas were dropped and they have not called for a textile safeguard during Vietnam's accession.

Vietnam's primary textile exports to the U.S. in terms of percentage share are: man-made fiber coats (category 634, 635); cotton trousers and shorts (category 347, 348); women's knit blouses (category 339); and men's cotton woven shirts (category 340). (Most of these products are currently under quota for China.)

The Vietnam textile sector therefore poses little threat to the most sensitive U.S. domestically produced textile products. The lack of a post-accession safeguard provision in the current U.S.-Vietnam Bilateral Textile Agreement is evidence of this.[2] Unlike China, Vietnam is not a major producer or exporter of textile (non-apparel) products (yarn, fabric, fiber, carpet, sheets, towels, etc.) to the U.S. – or to other countries. In 2004, Vietnamese non-apparel products represented a mere 15% of total Vietnamese textile exports to the U.S.[3] This proportion was just 16% for the year ending in February 2006.[4]

In addition, unlike China, Vietnam is also not a major producer of cotton. In contrast, Vietnam's textile industry depends on imported cotton inputs from the U.S. In 2003, total U.S. cotton exports to Vietnam was 25,000 metric tons.[5] The U.S. Department of Commerce lists bulk cotton as one of the best prospects for

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[1]. During China's accession, it had to accept "non-market-economy" status for up to 15 years post accession.

[2] China's bilateral textile agreement with the U.S. signed in 1997 already had the safeguard provision that the U.S. pushed to modify during its accession.

[3] IDS Trade Monitoring Service, September 2005.

[4] Ibid

[5] U.S. Embassy, Hanoi. http://hanoi.usembassy.gov/ccg-ch5.html

U.S. exports to Vietnam. In Vietnam, cotton spinning is expanding, and there has been significant investment made to replace existing out-dated spindles and to add capacity, a development that improves prospects for U.S. cotton. Local cotton production, meets only about 12-15 percent of demand.

2) **The implications of a safeguard regime to foreign investment**
A safeguard regime would jeopardize foreign investment interest in the textile and apparel sector in Vietnam. While some Chinese textile and apparel manufacturers have been negatively affected by the safeguard measures, China's textile trade remains a force due to its sheer size.[6] Vietnam's textile and apparel industry is not comparable to that of China's and could not likely survive under a safeguard regime. Economies comparable to Vietnam in terms of textile and apparel trade are India, Bangladesh, and Pakistan, all of which have quota free access to the U.S. market. Even so, the total textile and apparel exports of each of these countries to the U.S. are larger than Vietnam's. In terms of volume, Pakistan exports 3.3 billion Square Meter Equivalents – or SMEs, India exports 2.4 billion SMEs, and Bangladesh exports 1.3 million SMEs. Vietnam's total textile and apparel exports to the U.S. stand at 0.9 SMEs. Additionally, India, Pakistan, and Bangladesh, have much larger populations, highly skilled and more experienced labor forces in the area of garment production, and huge vertically-integrated infrastructure in fiber, yarn, fabric compared to Vietnam. None of these economies are subject to quota or were asked to accept a WTO safeguard. Vietnam's competition for market share is with these second and third tier exporting countries, not China.

3) **No comparative international commitments**
Among the countries seeking accession to the WTO, the following conditions prevail vis a vis textile and apparel trade with the U.S.:

Russia: Russia is not yet a WTO member but its textile exports are already not restricted by quotas.
Ukraine: Ukraine is not yet a WTO member, but faces restraints only on a small number of wool clothing categories.
Belarus: Belarus is also not a WTO member, but faced restraints only on a small number of wool clothing and glass fiber fabric categories. Those restraints expired at the end of 2005.

We urge that the U.S. – Vietnam quota regime end with Vietnam's accession to the WTO.

[6] To stay competitive, many Chinese manufacturers are exploring relocation to other second-tier countries such as India, Bangladesh, and Pakistan for quota free access to the U.S. market.