National Retail Federation
The Voice of Retail Worldwide

TRADE ISSUE BRIEF – VIETNAM WTO ACCESSION AND PNTR

BACKGROUND

On May 31, 2006, Vietnam and the United States signed a bilateral trade agreement, the last such agreement necessary to complete Vietnam's accession to the World Trade Organization. The WTO will finish and approve the terms of Vietnam's accession by this autumn.

The bilateral agreement represents a significant step forward in normalizing political and economic relations between the United States and Vietnam. It also achieves a number of important general policy goals – encouraging commerce between the United States and Vietnam to the benefit of U.S. services providers, manufacturers, farmers, and consumers; integrating Vietnam into the rules-based global trading system; and further encouraging Vietnam's development into a market economy. In order to realize the full benefit of this agreement once Vietnam has joined the WTO, the United States must provide Vietnam permanent normal trade relations (PNTR) status, which Congress could vote on as early as July.

MESSAGE POINTS

Vietnam is still a comparatively small but growing supplier to the U.S. market of such consumer goods as footwear, furniture, apparel, coffee, and seafood. Retailers strongly support the bilateral trade agreement and PNTR for Vietnam. The following are some of the key provisions in the agreement for the retail industry:

- By January 1, 2009, Vietnam will allow U.S. retailers to open and wholly own stores and other retail operations serving customers in Vietnam.

- The U.S. will continue to treat Vietnam as a non-market economy for purposes of antidumping cases for 12 years (*i.e.*, until December 31, 2018), or earlier if Vietnam has met the conditions for market economy status.

- The United States will eliminate all existing textile and apparel quotas on Vietnam upon its accession to the WTO, and will not employ any special textile safeguard mechanism, in recognition of the fact that there is otherwise no economic rationale for continuing to restrain textile and apparel imports from Vietnam:

    1. The U.S. is currently the <u>only</u> country that still imposes quotas on Vietnam;
    2. All major exporting countries, except China, are not subject to quota, and China will also be quota free by the end of 2008;

3. In the last U.S.-Vietnam textile agreement, the U.S. promised it would eliminate these quotas when Vietnam joined the WTO;
4. In 2005, Vietnam only ranked 8th by value (12th by volume) among textile and apparel exporters to the U.S. market, and accounted for only 3.2 percent of U.S. textile and apparel imports by value (1.9 percent by volume) – in contrast, China is the number one exporter by volume and value to the U.S. market, and accounts for 25 percent of all textile and apparel imports into the U.S. by value (33 percent by volume);
5. The China textile safeguard mechanism was extremely disruptive and costly for U.S. apparel retailers and manufacturers, while doing nothing to improve the competitiveness of U.S. textile producers or protect American textile jobs;
6. Restraining imports from Vietnam would have no impact on the overall level of imports into the United States, and will merely result in the shifting of trade to other Asian suppliers – therefore, claims that U.S. textile producers will be devastated by imports from Vietnam are simply not credible.

- In response to concerns raised by the U.S. textile industry, Vietnam agreed upon accession to eliminate immediately all WTO-prohibited subsidies (those based on export performance and local content requirements) to its textile and apparel industries, and to be subject to an enforcement mechanism to ensure it abides by this commitment:

  - If, within one year of accession, the U.S. believes Vietnamese textile and apparel producers are receiving WTO-prohibited subsidies, it may request consultations with Vietnam.
  - If no solution is reached after 60 days, the U.S. may request a WTO arbitrator to determine within 120 days if Vietnam is violating WTO subsidies rules.
  - Upon a finding of a violation, the U.S. may immediately reimpose quotas for a period of 12 months on those products under quota and at the quota levels existing in the last full year before Vietnam's accession. (If there is no decision by the arbitrator within 120 days, the U.S. may also reimpose quotas until a written decision is provided.)
  - Thereafter, the U.S. has the WTO dispute settlement system to ensure that Vietnam abides by its obligations under WTO rules.
  - This mechanism provides an appropriate and effective means to identify and eliminate WTO prohibited subsidies – its purpose is <u>not</u> to continue quotas on imports of clothing from Vietnam simply for the sake of restraining imports.

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