NATIONAL COUNCIL of TEXTILE ORGANIZATIONS

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Vietnam WTO Agreement is Victory for Vietnam at the Expense of U.S. Textile Workers

Industry's CAFTA Benefits Imperiled by Free Reign Given to Vietnam's State-Owned and Subsidized Textile Sector

NCTO to Work with Congress in Addressing Concerns

Washington, DC) Regarding the announcement by USTR that the government has concluded its bilateral WTO Accession Negotiations with Vietnam, NCTO Chairman Jim Chesnutt said:

"The agreement with Vietnam reached this weekend is a victory for Vietnam, a victory for unbalanced and job-destroying trade policy and a severe blow to U.S. textile manufacturers and their workers. As a result of this agreement, U.S. textile manufacturers will face a flood of heavily subsidized imports from Vietnam within as little as next nine months while imperiling billions of dollars in current textile exports to CAFTA countries. This industry did not fight so hard last year to provide the critical votes for the CAFTA, <u>the President's number one trade initiative</u>, only to see those precious benefits given away to Vietnam, a non-market economy with a state-owned and subsidized textile sector. We will quickly meet with our congressional supporters to review what options may be available to us to ensure that tens of thousands of US textile jobs are not lost."

"Like China, Vietnam is a non-market economy with virtually no transparency in its governing process. And while I understand that USTR worked at the end of the day to secure <u>some</u> commitments from Vietnam to eliminate <u>some</u> of its subsidies, the ability to enforce even these <u>limited</u> commitments is <u>weak and lacks teeth</u>. U.S. textile manufacturers have seen time and again how such commitments are often not worth the paper they are written on. And the lack of effective enforcement provisions means they will either likely not be carried out or merely evaded. Even worse, <u>many subsidies</u> are allowed to remain in place <u>in perpetuity</u>. This is doubly irresponsible because, as the government knows, <u>this industry cannot use other trade remedies</u> such as dumping or countervailing duty cases that available to other sectors (see Note 5) to defend ourselves. We are uniquely vulnerable and the government has just <u>traded away our major line of defense</u>."

"We had asked the government to make sure that Vietnam would be play fairly in textiles and price their goods according to free market principles before the U.S. government removed quotas. This seemed only fair given the government fully acknowledged that Vietnam has a state run and subsidized textile sector. <u>But the U.S. government refused</u>. Instead what we have is the kind of one-way trade agreement that has given trade policy such a bad name in this country. This agreement will allow imports from Vietnam to explode, while our exports decrease and more American jobs are lost. That's what most people would call a <u>LOSE-LOSE deal</u>. And that does not count the hundreds of thousands of apparel jobs in Central America that are now put at risk in a region where economic, security and illegal immigration issues are of increasing concern and leftist political agendas are on the rise."

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Chesnutt continued, "When the U.S. signs an agreement that virtually guarantees that tens of thousands of good paying jobs U.S. will be lost to a non-market economy that does not play by the rules, **the American worker has a right to ask whose interests are being looked out for**?" And our industry must ask why should it fight for upcoming trade agreements when the government hands those benefits away to Vietnam?"

"Like China, Vietnam is a country with a large state-owned and subsidized textile sector. *Vinatex*, the apparel manufacturer owned and operated by the Vietnamese government, is the 10th largest garment producer in the world. The textile and apparel sector is Vietnam's largest foreign exchange earner and its largest industrial sector, employing more than 1.1 million people. To believe that Vietnam is going to give all of this up and suddenly start pricing products according to free market rules, is simply foolhardy. We are not fooled."

"In fact, according to information discovered only during the final weeks of negotiations, Vietnam is currently subsidizing its textile and apparel sector through preferential interest rates, wage controls, rent holidays, export subsidies, preferential tax rates and direct investment from the Vietnamese government totaling billions of dollars. To expect the U.S. textile sector to compete against these types of subsidy schemes without adequate recourse is simply unfair and a slap in the face to the nearly one million workers the overall sector employs."

Chesnutt went on to note "since Vietnam was first given access to the U.S. textile market in 2002, its exports have increased by **5,737 percent and now total $2.9 billion**. Until Vietnam was put under quota control in 2003, many of the largest U.S. textile mills had gone bankrupt and tens of thousands of U.S. jobs were lost as Vietnam cut sharply into CAFTA/NAFTA trade[1]. In many cases, Vietnam's prices are as much as 40 percent below the prices for U.S., CAFTA and NAFTA goods made from U.S. yarns and fabrics."

Notes:

1. The U.S. government agrees to remove all quotas upon Vietnam's entry into the WTO while Vietnam agrees to eliminate certain export subsidies and the Vietnamese government agrees to suspend an investment program that is in the 6th year of its 10th cycle. Under this program, the Vietnamese government has already invested billions of dollars into Vietnam's state-owned textile and apparel sector. These "in the ground" investments will be allowed to remain. No other subsidies will be removed.

2. If Vietnam does not remove the agreed list of export subsidies, then the United States has the right to ask an arbitrator to decide whether or not the United States may reinstate quotas for one year. The arbitrator must be agreed to by Vietnam. Even if the arbitrator agrees, then the United States must remove the quotas after 12 months even if Vietnam does not remove the subsidies in question. The quotas cannot ever be reinstated again but Vietnam can continue to subsidize its industry indefinitely.

3. If Vietnam does not keep its promise on export subsidies, the only recourse the industry would have is to seek a lengthy and uncertain WTO dispute process. Even then, Vietnam subsidizes its industry in many other ways and, under this agreement, none of these subsidies must be removed. In addition, WTO rules are so loose that members have frequently been able to repackage such prohibited investment schemes in such a manner that makes them immune from further WTO attack.

4. Vietnam projects that once it is free from quota restraints, it will double its apparel exports to the U.S. market, making Vietnam the second largest supplier of apparel (after China) and overtaking Mexico, currently the 2nd largest suppliers. Mexico is the U.S. industry's largest export market for U.S. yarns and fabrics. In a sign of how heavily subsidized Vietnam's textile sector is, Vietnam is the only country in the world to have actually GAINED market share against China since apparel quotas were removed in 2002.

    a. The current $5 billion trade deficit with Vietnam is likely to escalate sharply because of this agreement. Vietnamese exports to the U.S. currently total $6.6 billion, the greatest portion of which are textiles and apparel, and will increase to $10 billion once quotas are removed. In contrast, U.S. exports are only $1.2 billion and consist mainly of aircraft, logs, cotton and small amounts of other agricultural and other products. In addition, billions of dollars of US textile exports to CAFTA and NAFTA countries may also be lost.

5. Because of U.S. law, the textile industry cannot use anti-dumping or countervailing duty trade remedies available to other sectors to defend against subsidies and other unfair trade practices. This is because of "standing issues" under U.S. law regarding exports of apparel products from Vietnam that prohibit makers of component parts (eg, textile companies) from filing cases, despite the fact that they are damaged by such imports. With no other recourse available under US trade law, this industry is uniquely vulnerable to Vietnam's state owned and subsidized textile sector.

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[1] Trade from CAFTA countries was governed under the CBTPA trade preference agreement on textiles at the time.