



EMERGENCY COMMITTEE FOR AMERICAN TRADE

COMMENTS OF THE

EMERGENCY COMMITTEE FOR AMERICAN TRADE

BEFORE

COMMITTEE ON FINANCE

OF THE

U.S. SENATE

ON

**S. 3495—A BILL TO AUTHORIZE THE EXTENSION OF
NONDISCRIMINATORY TREATMENT (NORMAL TRADE RELATIONS
TREATMENT) TO THE PRODUCTS OF VIETNAM**

July 12, 2006

**COMMENTS OF THE
EMERGENCY COMMITTEE FOR AMERICAN TRADE
ON S. 3495—A BILL TO AUTHORIZE THE EXTENSION OF
NONDISCRIMINATORY TREATMENT (NORMAL TRADE RELATIONS
TREATMENT) TO THE PRODUCTS OF VIETNAM**

July 12, 2006

These comments are submitted on behalf of the Emergency Committee for American Trade – ECAT – an association of the chief executives of leading U.S. business enterprises with global operations. ECAT was founded more than three decades ago to promote economic growth through expansionary trade and investment policies. Today, ECAT’s members represent all the principal sectors of the U.S. economy – agriculture, financial, high technology, manufacturing, merchandising, processing, publishing and services. The combined exports of ECAT companies run into the tens of billions of dollars. The jobs they provide for American men and women – including the jobs accounted for by suppliers, dealers, and subcontractors – are located in every state and cover skills of all levels. Their collective annual worldwide sales total nearly \$2.4 trillion, and they employ more than five and one-half million persons. ECAT companies are strong supporters of negotiations to eliminate tariffs, remove non-tariff barriers and promote trade liberalization and investment worldwide.

ECAT is submitting these comments to express its strong support for S. 3495 (and its House companion bill, H.R. 5602) which authorizes the President to extend permanent normal trade relations (PNTR) with Vietnam by graduating Vietnam from the Jackson-Vanik provisions of the Trade Act of 1974.

U.S.-Vietnam Trade and Investment

U.S. trade and investment with Vietnam have grown substantially since the resumption of economic relations between the two countries. U.S.-Vietnamese goods trade has increased from \$223.3 million in 1994 to \$7.8 billion in 2005. Major U.S. exports to Vietnam include industrial machinery, plastics, fertilizers, and semiconductors. Major U.S. imports include apparel and footwear, crude oil, shrimp, and coffee.

U.S. trade relations with Vietnam are still governed by the Jackson-Vanik provisions. Vietnam currently receives normal trade relations (NTR) treatment on an annual basis from the United States, pursuant to the Jackson-Vanik provisions of Title IV of the Trade Act of 1974, which governs the extension of NTR treatment to non-market economy countries. The Jackson-Vanik provisions condition the extension of NTR treatment to compliance with freedom of emigration criteria and require that NTR be renewed annually. The President has extended normal trading status to Vietnam since 2001, following Congressional approval of the U.S.-Vietnam Bilateral Commercial Agreement. (This action removed Vietnam from the column 2 schedule – enacted as part of the Smoot-Hawley Tariff Act of 1930 – with tariffs averaging 40 percent, more than 10 times

the applied tariffs for countries with an NTR relationship to the United States). Vietnam has also been eligible, since the first Jackson-Vanik waiver in 1998, for Overseas Private Investment Corporation (OPIC) and Export-Import Bank programs. Approval of the Bilateral Commercial Agreement and the extension of normal trade relations represented a major step in the normalization of U.S. trade relations with Vietnam, building on prior decisions to open some travel to Vietnam in 1991 and 1992, resume international lending and U.S. involvement in development projects in 1993, lift the economic embargo in 1994, and open normal diplomatic relations in 1995.

Vietnam's Accession to the World Trade Organization

Vietnam first began the process to join the World Trade Organization (WTO) on January 31, 1995, when the Working Group on Vietnam's accession was established.

Vietnam is now nearing closure on its negotiations to join the WTO and become a fully integrated member of the world trading community. As explained below, the bilateral accession package that the United States concluded with Vietnam in May 2006 ensures that Vietnam will enter the WTO on strong, commercially viable terms that will eliminate key barriers and open markets for U.S. farmers, manufacturers and service providers.

Key Provisions in U.S.-Vietnam Bilateral Accession Package

- Market Access for Consumer and Industrial Goods. Vietnam has agreed to substantially reduce tariffs on consumer and industrial goods, such that the majority of U.S. goods exports will face tariffs of 15 percent or less upon full implementation of Vietnam's commitments. Key areas of interest for the United States include Vietnam's commitment to:
 - Join the Information Technology Agreement immediately upon accession, eliminating tariffs on most information technology goods.
 - Reduce tariffs on 80 percent of chemical products covered by the Chemical Harmonization Agreement, covering most U.S. chemicals exported to Vietnam.
 - Eliminate tariffs on civil aircraft upon accession and reduce tariffs on aircraft parts to less than 9 percent after full implementation.
 - Reduce by 50 percent tariffs on key U.S. exports of motor vehicles, including SUVs, and reduce by 19 percent tariffs on auto parts.
 - Bind tariffs at 5 or less percent for agricultural and construction equipment.
 - Reduce and bind tariffs on the vast majority of medical and scientific equipment to less than one percent within three years of accession.
 - Eliminate upon accession export subsidies in the textile and apparel sector.
 - Address key non-tariff barriers, including barriers to automobiles, products with encryption technology, and state-owned enterprises.
- Market Access for Agricultural Products. Vietnam has agreed to substantial tariff reductions on a number of agricultural products and to address other key issues. Key areas of interest for the United States include Vietnam's commitment to:
 - Cut to 15 percent its bound tariffs on more than three-quarters of U.S. agricultural exports, including cotton, beef and pork offals, boneless beef, whey, almonds, grapes, pears, raisins, cherries, and frozen fries. This represents a substantial cut from the current average applied-tariff rate of 27 percent.

- Implement the WTO Agreement on Sanitary and Phytosanitary Measures upon accession, guaranteeing the use of scientific-based standards.
 - Recognize U.S. food safety systems for beef, pork and poultry as equivalent to Vietnam's system.
 - Implement shelf-life regulations in a non-trade disruptive manner and consult with the United States on those regulations.
 - Agree to resume trade in bone-in beef and beef offal.
- Market Access for Services. Vietnam made substantial commitments to open up its services market in key areas. Areas of importance for the United States include Vietnam's commitment to:
- Allow U.S. and other foreign banks to establish 100-percent foreign-invested subsidiaries as of April 1, 2007. These banks will be able to take unlimited foreign currency deposits from legal entities and issue credit cards.
 - Allow U.S. and other foreign securities firms to create joint ventures with 49-percent equity as of accession. After five years, U.S. and foreign securities firms will have the ability to have 100-percent equity ownership and branch for some activities, including asset management, advisory, settlement and clearing services.
 - Provide national treatment in all other financial services sub-sectors for U.S. and other foreign-owned firms.
 - Allow U.S. and other foreign insurance firms to operate through 100-percent-owned foreign subsidiaries and reduce restrictions on the operations of foreign firms.
 - Allow U.S. and other foreign insurance firms to branch for non-life insurance five years after accession.
 - Allow U.S. and other foreign majority-owned participation in four key telecommunications areas: basic telecommunications offered on a non-facilities basis, private data networks, satellite services and submarine cable services.
 - Adopt the pro-competitive telecommunications reference paper, which requires establishment of an independent regulator and other pro-competitive actions.
 - Open its energy sector on a phased basis and allow U.S. companies to compete for exploration, development, management consulting, technical testing and other key energy services.
 - Allow U.S. and foreign energy companies to operate in 50-percent joint ventures for three-to-five years and thereafter as 100-percent-foreign-owned entities.
 - Liberalize wholesale, retail and franchise sectors. Foreign entities will be allowed to distribute imported and domestic goods. U.S. and other foreign service providers will be allowed to establish joint ventures with Vietnamese entities and, in 2009, operate as 100-percent-foreign-owned entities.
 - Liberalize other key service sectors, including express delivery, professional and business services, transportation and environmental services.

Other Key Benefits of WTO Membership.

In acceding to the WTO, Vietnam will also have to agree to rigorous rules protecting intellectual property, eliminate prohibited subsidies, adhere to disciplines on state-owned enterprises, and be subject to binding dispute settlement.

Vietnam's accession will also have broader benefits in promoting continued economic reform and the rule of law in Vietnam. In turn, these reforms and the economic opportunities created by WTO accession will help promote much-needed economic development and the reduction of poverty. While Vietnam's economic growth rates have been promising, poverty remains widespread and per capita GDP remains quite low, at approximately \$540. Vietnam's full integration into the world economy is critical to promote needed economic growth that will help reduce poverty throughout the country.

PNTR Will Ensure the United States Reaps the Benefits of Vietnam's WTO Accession

Vietnam is expected to join the WTO as early as the fall of 2006. Upon entry, Vietnam will implement its commitments as detailed above. Given that Article I of the GATT/WTO agreement requires that each WTO member accord each other member normal trade relations status, the United States should provide PNTR with Vietnam, as it does to all WTO member countries, by the time of Vietnam's accession. This is particularly important to ensure that the United States will be able to enjoy the benefits of Vietnam's market-opening commitments.

Failure to approve S. 3495, on the other hand, would represent a great disadvantage to the United States and U.S. companies. If PNTR is not extended with Vietnam, the United States would not have any WTO rights with respect to Vietnam and U.S. goods, services and farm products would not enjoy the benefits of the market access that U.S. negotiators significantly made possible.

S. 3495 will provide the President the authority to graduate Vietnam from the Jackson-Vanik provisions of the Trade Act of 1974 and, therefore, should be approved expeditiously.

ECAT Position: *ECAT strongly supports the expeditious approval of S. 3495, authorizing the President to extend permanent normal trade relations with Vietnam.*