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U.S. Senate Committee on Finance Hearing on S. 3495 - Normal Trade Relations for Vietnam
July 12, 2006

Mr. Chairman and Members of the Senate Finance Committee:

Thank you for the opportunity to testify at this important hearing. My name is Auggie Tantillo, and I am the Executive Director of the American Manufacturing Trade Action Coalition (AMTAC). AMTAC is a trade association founded by domestic manufacturers who are committed to manufacturing here in the United States. Our objective is to seek the establishment of trade policy and other measures designed to stabilize the U.S. industrial base and thus preserve and create American manufacturing jobs. AMTAC represents a wide range of industrial sectors including, tool and die, chemical, furniture, mold makers, metal products, packaging products, corrugated containers, lumber and luggage producers. Additionally, a significant component of AMTAC's membership consists of producers from the textile and apparel sectors.

Granting Vietnam PNTR Is a Continuation of Flawed U.S. Trade Policy

AMTAC strongly opposes granting Vietnam permanent normal trade relations (PNTR). Our opposition is based on the view that granting Vietnam PNTR replicates the flawed trade policy model of allowing China to join the WTO before that country made sufficient progress transitioning from a non-market, state-run economy to a non-subsidized, free-market economy. As applied to Vietnam, this model grants unlimited access to the U.S. market to producers in Vietnam who use massive subsidies, intellectual property theft, pennies-an-hour wages, low or nonexistent labor standards, and less than minimal environmental standards to undercut U.S. domestic manufacturers. In return, U.S. domestic manufacturers gain less than full access to a market that is only a fraction of the value of the U.S. market. Vietnam’s consumers, for example, represent less than 2 percent of the U.S. economy and have virtually no ability to purchase finished goods made in countries that pay reasonable wages and have strong environmental, labor, safety, and health standards.

The results of this failed model clearly are predictable. One need only study the impact of China to determine the outcome. From the time the United States normalized diplomatic relations with China in 1979 until China entered the WTO in late 2001, the U.S. trade deficit with China jumped from a negligible figure to $83 billion. Since China joined the WTO, however, the U.S. trade deficit with China has more than doubled, jumping from the aforementioned $83 billion to a staggering $202 billion in 2005. Meanwhile, China still doles out billions in subsidies and non-performing loans, manipulates its currency, fails to protect intellectual property rights, and has lax labor and environmental standards.

U.S. Trade Balance with China
numbers are in millions ($ USD)[1]

Products	2001	2005	Change	Percent Change
All Merchandise	-83,046	-201,626	-118,580	-143%
All Manufactured Goods	-83,275	-205,112	-121,837	-146%
Key Sectors				
Textiles & Apparel	-10,671	-25,680	-15,009	-141%
Footwear	-9,630	-12,533	-2,903	-30%
Furniture	-4,919	-12,512	-7,593	-154%
Motor Vehicle Parts	-722	-2,674	-1,952	-270%
Computers & Electronic Products	-19,049	-70,852	-51,803	-272%

By allowing China to join to the WTO, the United States lost its leverage to require that China fully address critical issues such as IPR violations and the need for a free-floating currency. The result has been an unmitigated disaster for U.S. manufacturers attempting to compete with the Chinese industrial juggernaut. We should take this painful lesson to heart and require that Vietnam become a much more transparent and market-driven economy before we grant it the full benefits and privileges of WTO membership. Failure to do this will pit U.S. workers and companies against imports from suppliers in Vietnam who will continue to enjoy enormous state-sponsored advantages.

Trade Deficit with Vietnam Explodes Since 2001

Since granting Vietnam normal trade relations status, the U.S. trade deficit with Vietnam has jumped from $592 million in 2001 to $5.4 billion in 2005, an increase of 819 percent. The trade deficit in manufactured goods has grown significantly too, with large deficits in textiles and apparel, footwear, and furniture driving the red ink.

U.S. Trade Balance with Vietnam
numbers are in millions ($ USD)[2]

Products	2001	2005	Change	Percent Change
All Merchandise	-592	-5,438	-4,846	-819%
All Manufactured Goods	142	-3,996	-4,138	-2,814%
Key Sectors				
Textiles & Apparel	-39	-2,780	-2,741	-7,028%
Footwear	-132	-721	-589	-446%
Furniture	-13	-683	-670	-5,154%
All Non-Manufactured Goods	-734	-1,442	-708	-96%
Fish & Other Marine Products	-462	-553	-91	-20%
Agricultural Products	-84	-238	-154	-183%

Furthermore, it is unreasonable to think that Vietnam will be satisfied to continue assembling mostly home textiles, apparel, footwear, and furniture. We expect Vietnam to begin diversifying its manufacturing assembly operations and attempting to become a larger producer of components, thus creating a more vertically integrated industrial sector. The more Vietnam boosts its manufacturing

[1] Data from U.S. Department of Commerce, International Trade Administration
[2] Data from U.S. Department of Commerce, International Trade Administration

capacity, the more it is able to export to the United States. Granting Vietnam PNTR will exacerbate the already astronomical $717 billion U.S. trade deficit.

If the U.S. trade deficit with Vietnam follows the same pattern as our deficit with China since it joined the WTO, the U.S. trade deficit with Vietnam could jump into the neighborhood of $15 billion annually by 2010, with most of the growth coming in manufactured goods.

U.S. Manufacturing Workers Bear Brunt of Flawed Trade Policy

U.S. manufacturing workers have borne the brunt of a flawed U.S. trade policy that favors unfairly subsidized imports, like those from China and Vietnam, over domestically produced goods. In recent years, the U.S. trade deficit has skyrocketed.

U.S. Trade Balance with the World
numbers are in millions ($ USD)[3]

Products	2001	2005	Change	Percent Change
All Goods and Services	-362,795	-716,729	-353,934	-98 %
All Services[4]	+64,393	+66,011	+1,618	+ 3 %
All Goods	-427,188	-782,740	-355,552	-83 %
All Manufactured Goods	-308,796	-505,998	-197,202	-64 %
All Non-Manufactured Goods	-118,392	-276,742	-158,350	-134 %

U.S. Trade Balance with the World in Key Sectors
numbers are in millions ($ USD)[5]

Product	2001	2005	Change	Percent Change
Footwear	-14,347	-17,088	-2,741	-19 %
Furniture	-12,687	-21,954	-9,267	-73 %
Motor Vehicles	-100,060	-101,422	-1,362	-1 %
Motor Vehicle Parts	-6,828	-27,580	-20,752	-304 %
Computer & Electronic Products	-40,151	-100,847	-60,696	-151 %
Oil & Gas	-93,385	-214,791	-121,406	-130 %

The soaring trade deficit in manufactured goods has contributed greatly to corresponding substantial job losses in the U.S. manufacturing sector. Moreover, the loss of nearly three million jobs in the U.S. manufacturing sector unquestionably has hampered overall employment growth in the private sector. Since January 2001, the U.S. economy has created an average of only 24,652 jobs per month, well below the 125,000 new jobs needed per month just to keep up with new entrants into the work force. Although unemployment rates have remained relatively low, this likely is due to discouraged job seekers dropping out of the workforce. Granting Vietnam PNTR will add more U.S. manufacturing workers to the list of the unemployed or of those who have been forced to exit the workforce.

[3] Data from U.S. Census Bureau and MBG Information Services
[4] In 1997, the U.S. trade surplus in services stood at $90.155 billion. The surplus fell on an annual basis from 1997 to 2003 and has grown slightly since. Nevertheless, the total U.S. surplus in services has fallen 27 percent since 1997.
[5] Data from U.S. Department of Commerce, International Trade Administration

U.S. Manufacturing Employment
numbers are in thousands [6]

Sectors	Jan. 2001	Jun. 2006	Change	Percent Change
All U.S. Private Sector Employment	111,636	113,263	1,627	1.5 %
All Manufacturing	17,105	14,251	-2,854	-16.7 %
Key Sectors				
Textiles & Apparel	1,047	616	-431	-41.2 %
Footwear[7]	28	17	-11	-39.3 %
Furniture	674	556	-118	-17.5 %
Motor Vehicles	276	253	-23	-8.3 %
Motor Vehicle Parts	802	660	-142	-17.7 %
Computer & Electronic Products	1,872	1,332	-540	-28.8 %

Textile and Apparel Overview

In the sensitive textile and apparel sector, U.S. imports of these products accounted for 53 percent of the $5.4 billion U.S. trade deficit with Vietnam in 2005. Textile and apparel quotas are currently in place with Vietnam on 36 categories, but will disappear once Vietnam joins the WTO. The U.S. textile industry asked the U.S. government to either extend those quotas or include a safeguard mechanism as part of Vietnam's WTO terms of accession. Although Vietnam, like China, is a non-market economy that heavily subsidizes its manufacturing base, the U.S. government rejected the proposal to extend quotas and failed to include an adequate safeguard in the accession agreement.

Recent Textile and Apparel Trade Statistics[8]

Vietnam possesses the proven capability to severely damage the U.S. textile industry if its subsidized exports are given unlimited access to the U.S. market. Vietnam was granted "normal trade relations" access to the U.S. textile and apparel market on December 10, 2001. Since 2001, its exports to the U.S. have increased by 6,181 percent and now total nearly $3.1 billion while U.S. textile and apparel exports to Vietnam grew by a paltry $3.6 million to $13.7 million. Meanwhile, China's textile, apparel, and staple fiber exports to Vietnam exploded from $109 million in 2001 to $864 million in 2005, an increase of 693 percent.[9] Clearly, China too has benefited from Vietnam's growth by supplying an increasing amount of component parts to Vietnam. Furthermore, Vietnam's growth would have been even higher had quotas not been negotiated and imposed on numerous categories in May 2003. See charts below for additional data on U.S. imports from Vietnam in key apparel categories (MMF = man-made fiber):

U.S. Textile and Apparel Imports from Vietnam

Category	2001	YE April 2006	+/- Change	% Change
0 – All Textiles and Apparel	$49,335,193	$3,098,950,369	$3,049,615,176	6,181 %
All Categories Under Quota for Vietnam	$39,442,577	$1,953,313,969	$1,913,871,392	4,852 %
All Unrestrained Categories for Vietnam	$9,892,616	$1,145,636,400	$1,135,743,784	11,481 %

[6] Data from U.S. Bureau of Labor Statistics
[7] One indicator of why U.S. manufacturing employment in footwear is so low is that import penetration in the U.S. market is 98.5 percent according to the American Apparel and Footwear Association report titled *Trends: An Annual Compilation of Statistical Information of the U.S. Apparel and Footwear Industries – Annual 2005 Edition* that was published in June 2006.
[8] Unless otherwise noted, all data in this section of testimony comes from the U.S. Office of Textiles and Apparel (OTEXA) in the U.S. Department of Commerce
[9] World Trade Atlas data sourced from Chinese Customs

U.S. Imports from Vietnam of Selected Categories Under Quota
(Quotas went into effect 5/03)

Category	2001	YE April 2006	+/- Change	% Change
334/335 – Cotton Coats	$170,076	$76,497,289	$76,327,213	44,878 %
338/339 – Cotton Knit Shirts & Blouses	$18,064,995	$672,074,415	$654,009,420	3,620 %
340/640 – Cotton & MMF Woven Shirts	$11,050,344	$142,298,219	$131,247,875	1,188 %
341/641 – Cotton & MMF Woven Blouses	$1,967,384	$54,273,967	$52,306,583	2,657 %
342/642 – Cotton & MMF Skirts	$290,125	$37,981,177	$37,691,052	12,991 %
347/348 – Cotton Trousers	$2,278,630	$542,990,181	$540,711,551	23,730 %
351/651 – Cotton & MMF Nightwear	$73,614	$25,859,089	$25,785,475	35,028 %
352/652 – Cotton & MMF Underwear	$137,965	$26,340,715	$26,202,750	18,992 %
638/639 – MMF Knit Shirts & Blouses	$572,566	$100,188,617	$99,616,051	17,398 %
647/648 – MMF Trousers	$4,661,873	$205,673,716	$201,011,843	4,312 %

U.S. Imports from Vietnam in Selected Unrestrained Categories

Category	2001	YE April 2006	+/- Change	% Change
349/649 – Cotton & MMF Brassieres	$1,424	$3,636,169	$3,634,745	255,249 %
350/650 – Cotton & MMF Robes	$13,079	$37,985,281	$37,972,202	290,330 %
433 – Wool Men’s & Boys’ Suit Coats	$1,115	$10,878,644	$10,877,529	975,563 %
443 – Wool Men’s & Boys’ Suits	$0	$32,303,600	$32,303,600	--
631 – MMF Gloves	$1,200	$10,969,107	$10,967,907	913,992 %
634/635 – MMF Coats	$793,457	$495,258,305	$494,464,848	62,318 %
644 – Women’s & Girls Suits	$65,420	$57,334,715	$57,269,295	87,541 %

U.S. imports of textiles and apparel from all sources have increased by $19 billion since 2001, growing from $70 billion to $89 billion for the year-ending April 2006.[10] With imports from China up by $16 billion and Vietnam by $3 billion over the same period, these two non-market economy countries accounted for 99.8 percent of the increase in imports. Meanwhile, U.S. textile and apparel exports to the world decreased from $16.8 billion in 2001 to $16.6 billion in 2005.[11] Since June 2001, U.S. textile output has fallen nearly 14 percent while apparel output has plunged almost 37 percent.[12]

The growth of imports from Vietnam and China has come at the expense of numerous other producers including those in the United States as well as our free trade partners. For example, textile and apparel imports from Mexico and the CAFTA countries fell more than $2.3 billion dollars, or 13 percent, between 2001 and the 12 months ending April 2006. The chart below illustrates the decline in U.S. apparel imports from CAFTA and Mexico in many of the same categories where Vietnam enjoyed such fantastic growth. Furthermore, these losses in turn injure U.S. textile producers who supply fabric to apparel manufacturers in Mexico and Central America.

Combined U.S. Textile and Apparel Imports from Mexico & the DR-CAFTA Countries

Category	2001	YE Apr. 2006	+/- Change	% Change
All Textile and Apparel Categories	$17,954,255,825	$15,617,456,005	-$2,336,799,820	- 13 %
All Categories Where Vietnam Under Quota	$14,487,540,337	$13,001,056,918	-$1,486,483,419	-10 %
All Categories Where Vietnam Unrestrained	$3,466,715,488	$2,616,399,087	-$850,316,401	-25 %

[10] U.S. Office of Textiles and Apparel (OTEXA)
[11] U.S. Office of Textiles and Apparel (OTEXA)
[12] U.S. Federal Reserve and MBG Information Services

Selected Categories Where Vietnam Is Under Quota for Combined U.S. Apparel Imports from Mexico & the DR-CAFTA Countries

Category	2001	YE Apr. 2006	+/- Change	% Change
334/335 – Cotton Coats	$87,700,030	$140,642,469	+ $52,942,439	+ 60 %
338/339 – Cotton Knit Shirts & Blouses	$3,634,992,718	$3,831,448,611	+ $196,455,893	+ 5 %
340/640 – Cotton & MMF Woven Shirts	$486,911,406	$386,973,885	-$99,937,521	-21 %
341/641 – Cotton & MMF Woven Blouses	$235,138,330	$129,935,430	-$105,202,900	-45 %
342/642 – Cotton & MMF Skirts	$179,980,566	$117,765,639	-$62,214,927	-35 %
347/348 – Cotton Trousers	$4,653,012,431	$3,741,418,241	-$911,594,190	-20 %
351/651 – Cotton & MMF Nightwear	$290,085,959	$100,014,989	-$190,709,970	-66 %
352/652 – Cotton & MMF Underwear	$1,502,329,244	$1,453,535,620	-$48,793,624	-3 %
638/639 – MMF Knit Shirts & Blouses	$1,076,946,191	$1,054,721,179	-$22,225,012	-2 %
647/648 – MMF Trousers	$1,267,951,158	$987,759,254	-$280,191,904	-22 %

Selected Categories Where Vietnam Is Unrestrained for Combined U.S. Apparel Imports from Mexico & the DR-CAFTA Countries

Category	2001	YE April 2006	+/- Change	% Change
349/649 – Cotton & MMF Brassieres	$666,277,391	$553,560,856	-$112,716,535	-17 %
350/650 – Cotton & MMF Robes	$73,384,868	$24,296,783	-$49,088,085	-67 %
433 – Wool Men's & Boys' Suit Coats	$106,034,939	$80,332,819	-$25,702,120	-24 %
443 – Wool Men's & Boys' Suits	$91,606,191	$94,231,266	+ $2,625,075	+ 3 %
631 – MMF Gloves	$14,909,786	$31,240,811	+ $16,331,025	+ 110 %
634/635 – MMF Coats	$287,699,749	$185,338,708	-$102,361,041	-36 %
644 – Women's & Girls Suits	$8,718,815	$388,678	-$8,330,137	-96 %

Undervalued Currency

In many cases, Vietnam's prices are as much as 40 percent below the prices for U.S., CAFTA and NAFTA apparel made from U.S. yarns and fabrics. For example, in Category 443, men's and boys' wool suits, the average price of U.S. imports CBI/Mexico is $64.85/suit while the price from Vietnam is $38.19/suit, 41 percent less.[13] The chart below compares Vietnam's prices to prices for imports from the rest of the world in Vietnam's largest apparel categories not currently under quota.[14]

Unit Price Comparison: Vietnam's Top Non-Quota Apparel Export Categories			
Category	U.S. Imports from Vietnam	U.S. Imports from Rest of World (exc. Vietnam/China)	Price Difference: Vietnam Vs. ROW
336 – Cotton dresses	$42.32	$65.46	-35%
350 – Cotton dressing gowns, robes, etc.	$48.03	$55.08	-13%
443 – Wool men's and boys' suits	$38.19	$94.42	-60%
634 – Other men's and boys' mmf coats	$123.24	$104.15	+18%
635 – Women's and girls' mmf coats	$106.13	$110.47	-4%
636 – MMF dresses	$67.54	$96.24	-30%
644 – Women's and girls' mmf suits	$13.04	$15.76	-17%
Source: Dept of Commerce; for YE April 2006; price per doz or per unit.			

The price advantage is facilitated largely through government subsides, but also because Vietnam, like China, artificially depresses its currency and ties it to the U.S. dollar. China's intransigence on floating their currency has prompted other countries in Asia, including Vietnam, to emulate China and reap the benefits as well.

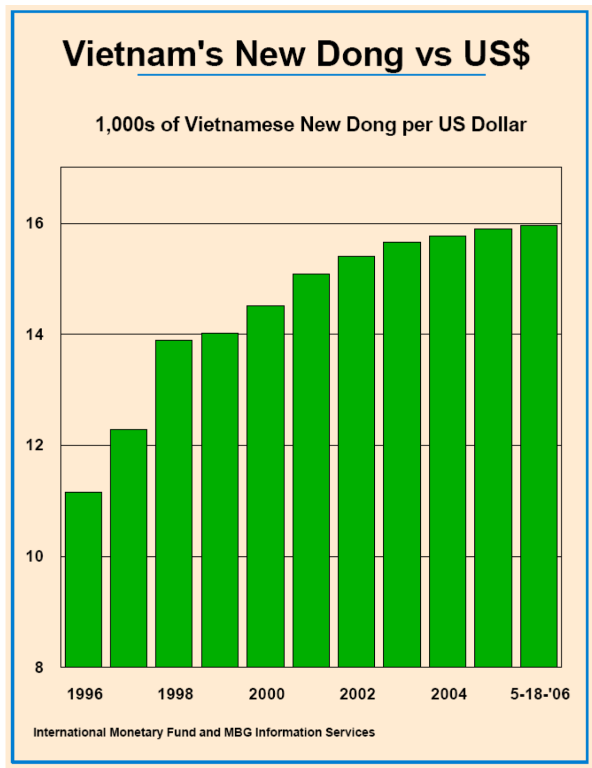
[13] U.S. Office of Textiles and Apparel (OTEXA) in the U.S. Department of Commerce

[14] Non-quota categories are used because categories under quota include quota costs, throwing off the comparison of actual prices. For example, China's export costs for trousers under quota are at or above many other countries; yet, when the quota went off in 2005, they were significantly lower).

According to USTR's 2006 National Trade Estimate Report on Foreign Trade Barriers,

> *Vietnam has adopted a crawling peg with the U.S. dollar for its exchange rate. The State Bank of Vietnam (SBV) sets the official exchange rate daily, and commercial banks set their dealing rate within a trading band of plus or minus 0.25 percent.* ***The SBV tends to keep the Dong depreciated against the U.S. dollar by keeping the exchange rate on an upward trend.*** *[emphasis added]*

As shown in the chart below, Vietnam has been depreciating its currency over the last several years compared to the dollar, making Vietnam's exports to the U.S. lower priced. Their pegging of the dong to the U.S. dollar helped Vietnam to build a surplus of $5.4 billion in goods and $3.9 in manufacturing products with the United States in 2005.[15] It is unlikely that this trend will change, especially as long as China is allowed to maintain its undervalued currency and high level of government subsidization to the detriment of U.S. manufacturers.



<u>Vietnam's State-Owned and Subsidized Textile and Apparel Sector</u>

The major reason Vietnam can generate this type of impact is because they heavily subsidize their industry. Aside from China, Vietnam is the only other country with a large non-market, state-owned textile and apparel sector. Vinatex, fully owned by the Vietnamese government, is the self-proclaimed **10th largest textile and garment company in the world**.[16] The textile and apparel sector is Vietnam's largest foreign exchange earner and employs over 1.1 million people.[17]

According to information revealed during its WTO negotiations, Vietnam is currently subsidizing its textile and apparel sector through preferential interest rates, wage controls, rent holidays, export

[15] U.S. Census Bureau
[16] http://www.vinatex.com/newsdetail.asp?id=948
[17] http://siteresources.worldbank.org/INTRANETTRADE/Resources/WBI-Training/viet-tariffreduc_thinh.pdf

subsidies, preferential tax rates and direct investment from the Vietnamese government. Investment in Vinatex alone totaled more than $891 million[18] in the last five years with another $1 billion in subsidies planned for 2006-2010.[19]

Inadequate Safeguard Mechanism

Although Vietnam has promised to end "prohibited"[20] subsidies in its textile and apparel industry upon joining the WTO per the bilateral agreement with the United States, there is little that the U.S. textile industry can do if these promises are not kept. In essence, Vietnam has pledged to eliminate only certain export subsidies and suspend an investment program that is in the 6th year of a 10-year plan. Under this program, the Vietnamese government has already invested hundreds of million of dollars into its state-owned textile and apparel sector. Furthermore, government subsidies that are not tied to export performance or the use of domestic over imported goods are completely WTO-legal and thus beyond reach. Vinatex, as a state-run company, will still be able to operate at a financial loss – a luxury not afforded U.S. competitors who must face the full brunt of market forces. In addition, de-facto subsidies such as an undervalued currency, VAT export rebates, and minimal labor and environmental laws also go unchecked. In fact, WTO rules are so loose that members have frequently been able to repackage prohibited investment schemes in such a manner that makes them immune from WTO remedies. Overall, it is simply inconceivable that Vietnam will transition from the current highly subsidized environment to a hands-off approach in less than one year.

Noting the above, the one-year safeguard included in the bilateral to "enforce" these commitments is woefully inadequate. To trigger the safeguard, the United States government must ask a WTO arbitrator (approved by both parties) to decide whether or not the United States may reinstate quotas. Even if the arbitrator agrees, the United States must remove the quotas after 12 months, and quotas cannot be reinstated regardless of whether or not Vietnam stops illegally subsidizing its industry.

This faux Vietnam safeguard differs greatly from the China safeguard-type mechanism requested by the industry. While the textile-specific safeguard negotiated as part of China's accession to the WTO cannot be used on an annual basis in perpetuity, the U.S. textile industry and the U.S. government could use it on an annual basis from the point China joined the WTO in late 2001 to the end of 2008. The Vietnam mechanism, on the other hand, is just a one-use-only option for a maximum of 12 months.

Moreover, either the U.S. textile industry or the U.S. government could initiate safeguard cases against China. Under Vietnam's accession, only the U.S. government can initiate cases, depriving the U.S. textile industry of significant leverage.

Also, the decision to implement safeguards on textile and apparel imports from China is one made by the U.S. government after a four-month decision making process. In contrast, the decision to implement safeguards on Vietnam is a six-month process decided by a WTO arbiter in Switzerland unaccountable to either the U.S. government or Congress.

The Vietnam textile safeguard is a "safeguard" in name only, offering U.S. producers no practical recourse against the unfair trade practices they will almost certainly encounter. A meaningful safeguard

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[18] http://www.vfabric.com/textile/vinatexp.pdf

[19] http://www.fibre2fashion.com/news/textile-news/newsdetails.aspx?News_id=16700

[20] WTO definition of prohibited subsidies:

> (a) subsidies contingent, in law or in fact, whether solely or as one of several other conditions, upon export performance, including those illustrated in Annex I;
>
> (b) subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods

would extend as long as Vietnam illegally subsidizes its industry and would be achievable through unilateral action on the part of the U.S. government in a timely fashion.

U.S. Industry Left Powerless

Finally, without an effective safeguard, there are, in practice, no other trade remedies available to the U.S. textile industry should subsidized imports from Vietnam continue to unfairly displace U.S. production. Presently, the U.S. government refuses to apply countervailing duty law to non-market economies, and the U.S. textile industry lacks the "standing" necessary to file anti-dumping cases against apparel imports because of the indirect nature of the damage suffered. Vietnam's accession to the WTO without adequate safeguards leaves the U.S. industry in an extremely vulnerable position and will certainly result in further U.S. job losses and factory closings.

Conclusion

In conclusion, granting Vietnam PNTR without first ensuring that the country has implemented reforms is a surefire recipe for spiraling trade deficits and the loss of tens of thousands of U.S. manufacturing jobs. As such, AMTAC urges this committee and the full Senate to reject PNTR for Vietnam.