

Hanoi Hits Snag In Textile Trade

BY TOM WRIGHT
AND MARK MAGNIER

HANOI—The U.S., aiming to bolster American exporters, is stipulating that countries joining its new Pacific trade zone cut back on imports from China—a proposal that is meeting resistance from businesses and officials who say it will disrupt global supply chains.

The Senate was expected to pass on Wednesday legislation to expand President Barack Obama's trade-negotiating powers after a bruising battle that has put pressure on proponents to show that the 12-nation Trans-Pacific Partnership will create jobs in the U.S.

To that end, American trade negotiators are demanding that Vietnam, a major garments exporter, reduce its reliance on textiles made in China, which isn't part of the trade pact, to get preferential market access to the U.S.

The goal is to create new markets in Vietnam for the U.S. textile industry, which employs a quarter of a million Americans and exported \$20 billion last year.

"The U.S. and Mexico are especially large textile pro-

ducers," said Eliza Levy, a spokeswoman for the National Council of Textile Organizations. "Vietnam would simply have to shift its sourcing of yarns and fabrics from China to the U.S. and Mexico."

U.S. fashion brands oppose this approach, which they say ignores the complexities of global supply chains. Vietnam is the second-largest exporter of apparel and footwear to the U.S., behind China, with \$13.1 billion in sales last year. But the country produces only enough fabric to meet a fifth of its needs and buys about \$4.7 billion worth from China, or about half of its total annual imports.

Clothing brands want duty-free entry to the U.S. for all goods made in the new free-trade zone, no matter where the fabric is produced. The trade negotiations could slash U.S. duties on many of Vietnam's exports of garments and shoes to zero from between 7% and 32%.

Julia Hughes, president of the U.S. Fashion Industry Association, a trade group representing American brands, said U.S. textile exporters won't be able to feed Vietnam's appetite in sufficient

Please turn to page 18

Hanoi Hits Snag In Textile Trade

Continued from first page
quantities, forcing garment producers there to continue to rely on Chinese fabrics. "Vietnam isn't going to get much duty-free access" to the U.S. under current rules, Ms. Hughes said.

The U.S. garment industry argues that free trade will help the sector, which employs three million people, including designers and retail workers. In Congress, though, the debate over whether free trade imperils manufacturing employment has made the Pacific trade pact a contentious issue.

U.S. negotiators defend their position. Trevor Kincaid, a deputy assistant U.S. trade representative, said the deal "will deliver new opportunities for American-based businesses, including opportunities related to textiles and apparel in Vietnam." The administration, he said, has "a single-minded focus on getting [the] best possible deal for American workers and exports."

Vietnam has its own ideas. The country is working quickly to develop a homegrown textile industry, which would help get around the restrictions. "Vietnam is seeking to reduce its reliance on imports from China for its garment industry to better benefit from TPP," said Phan Chi Dung, a senior official with Vietnam's Ministry of Industry and Trade. However, he sees little chance of U.S. producers filling the void.

Companies from Hong Kong, South Korea and Taiwan recently

have poured hundreds of millions of dollars into textile factories in Vietnam, hoping to later obtain tariff-free entry to the U.S. market.

TAL Apparel Ltd., a Hong Kong-based company that says it makes one in six dress shirts sold in the U.S., is building a \$240 million textile plant in Vietnam, which it hopes to complete by 2017, to feed its two garment factories there.

Roger Lee, chief executive of TAL Apparel, thinks it will take five years for Vietnam's textile industry to be self-sufficient. U.S. textile suppliers, he said, are too costly and far away from Asia to be competitive.

Chinese companies, too, are moving factories to Vietnam as wages rise at home and in anticipation of the Pacific trade zone.

Youngor Group, a Chinese apparel maker that runs a factory in Vietnam's northern Nam Dinh province, is looking to source more textiles from Vietnam, rather than from its own factories in China, with an eye on exporting duty-free to the U.S. "Our major competitor moved to Vietnam. Many companies are moving," said Yu Jian, deputy general manager of Youngor's Vietnam operations.

Ou Kui, manager of **Yanian Garment Co.**, a Chinese apparel company based in Hanoi, is looking at producing zippers, buttons and other accessories to help investors from China meet local-content requirements.

A recent congressional report noted that Vietnam's textile indus-



BLOOMBERG NEWS

Vietnam is a major apparel and footwear exporter to the U.S. Above, a garment factory in Thuan An.

try, if it expands rapidly enough, could even compete with U.S. textile exports to Mexico, which is also part of the Pacific trade discussions.

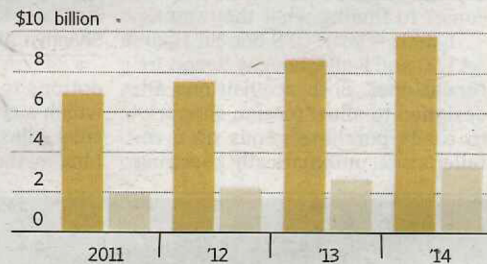
Under pressure from U.S. brands, the trade agreement would allow Vietnam to continue to source from any country textiles and yarns on a "short-supply list"—inputs that aren't produced in sufficient quantities inside the proposed trade zone.

Ms. Hughes, of the fashion industry association, said the list is too restrictive, and can't be changed in the future, which will hamper U.S. brands' operations.

—Vu Trong Khanh
contributed to this article.

Caught in the Middle

Vietnam's garment and footwear exports to the U.S. have boomed...



...but the country's reliance on Chinese raw materials could limit benefits under a new U.S.-backed trade pact.



Source: General Department of Vietnam Customs