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WORLD NEWS

Vietnam's Trade-War Wounds

China Isn't the Only Target Of Europe's Effort to Curb Imports

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GHENT, Belgium -- At the joma sportbicycle shop in this medieval town where a third of the population cycles to work, store owner Jos Matthys has found himself in the middle of a smoldering trade war.

In July, the European Commission, the executive arm of the European Union, responded to the complaints of the European Bicycle Manufacturers Association by raising tariffs on Chinese bicycles to 48.5% from 30.6% and slapping a 34.5% tariff on Vietnamese bicycles. Most of Joma's bicycles, including its popular Bulls brand racing bikes, come from Vietnam.

Mr. Matthys issued a long whistle when told about the new tariff. "Wow," he said finally. "I'll have to raise my prices."




Above, Belgian store owner Jos Matthys says newly imposed tariffs will force him to raise prices on Vietnamese bikes like the Bulls racing model, which he currently sells for about \$2,200.

Vietnam is becoming a casualty in the European battle to curb imports of low-cost Chinese products. European manufacturers, which have charged China with illegally selling goods abroad below production costs, accuse Vietnamese bicycle and footwear firms of the same offense -- and soon could take issue with Vietnamese textiles.

This week, EU experts met to consider whether to ease quotas imposed this summer on Chinese textiles. EU Trade Commissioner Peter Mandelson, conceding there was a "serious glitch" in the quotas, sent officials to Beijing to negotiate an agreement to deal with as much as

€800 million (\$981 million) of Chinese textiles that have piled up in European ports since the limits were imposed. European manufacturers want to keep the quotas; retailers claim

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they will deeply hurt their businesses. The Beijing talks began yesterday and participants agreed to meet again this morning, an EU spokesman there said.

Both China and Vietnam are vulnerable because the EU considers them "nonmarket economies." When Europe investigates so-called dumping offenses, it must prove the industry in question is selling goods more cheaply abroad than at home. That is easy in nonmarket countries, where prices are considered artificial by definition. Investigators look at how much a product sells for in a market economy, and under international trade law, duties can be imposed on the difference between this "real" price and the nonmarket economy's export price.

The European market is crucial to Vietnam. When its communist government launched an economic overhaul in 1989, an American trade embargo meant Europe was the only Western market available. Vietnamese exports to the EU have risen 28% a year for the past decade, reaching \$6.1 billion in 2004, according to the International Monetary Fund. (Washington lifted its embargo in 1994 and signed a trade agreement with Vietnam in 1994; the value of exports to the U.S. from Vietnam came to \$4.9 billion in 2004.)



The European Bicycle Manufacturers Association last year leveled dumping charges against both China and Vietnam, claiming they were selling goods below cost. European Commission officials agreed and imposed tariffs on July 12.

Vietnam's supporters say Europe is unfairly linking China and Vietnam. While most Chinese bicycles are sold in supermarkets and large department stores, most Vietnamese bikes are sold in small shops. Under trade law, products that don't compete with each other in export markets aren't supposed to be examined in the same antidumping suits. But in its July findings, the commission ruled that the two countries produce the same types of bicycles and use similar distribution channels.

Last year, China exported 2.4 million bicycles to Europe at an average price of €36, while Vietnam exported 1.84 million bicycles at an average price of €74. Overall, Vietnam's bicycle exports in 2004 brought in \$260 million, roughly 1% of the total value of the country's exports.

This year, though, exports of Vietnamese bikes to Europe fell to \$10 million in July from \$18 million in June, following the implementation of the tariff. And waning bicycle sales are just the start of Vietnam's trade troubles. Its footwear, another top export, has been hit hard since the World Trade Organization lifted quotas on Chinese footwear at the beginning of the year. Vietnamese footwear exports were down 8% in the first half of 2005; by contrast, six categories of Chinese shoe exports to Europe were up 433% by

value in the first four months of the year, according to the commission.

"The competition is tough. A lot of orders are going to China," said Nguyen Thi Thuy Tien, manager of Central Park Shoe, in Vietnam's Ho Chi Minh City. Yet, even as Vietnam's market share and export earnings plummet, the European Confederation of the Footwear Industry complained to the commission in June that both China and Vietnam were dumping shoes in Europe. The commission launched an investigation on July 15 that could last as long as 15 months, but it has the option to impose tariffs as soon as Sept. 15.

"The Vietnamese are really worried about the suit because of the recent ruling on bicycles," said Federico Namino, Vietnam representative for Sadesa, a company that supplies leather for the main footwear brands. Still, Mr. Namino believes the major footwear brands that use Vietnamese production have "enough lobbying power" in Europe to prevent tariffs. Vietnam's footwear industry has faced antidumping investigations twice before: by Europe in 1998 and by Canada in 2002. Neither investigation resulted in tariffs.

"Vietnam has popped up on the protectionists' radar screen," said Laurent Ruessmann, a trade lawyer at Sidley Austin Brown & Wood in Brussels. Mr. Ruessmann predicts Vietnam's textiles soon will be investigated for dumping.

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