Testimony of NCTO President Cass Johnson

U.S.-China Economic and Security Review Commission Public Hearing
China and the WTO: Assessing and Enforcing Compliance

My name is Cass Johnson and I am the president of the National Council of Textile Organizations, which is the national trade association for the domestic textile industry.

Before I get to the topic of discussion, I would like to say how appreciative our industry is of the important work the Commission has been doing. From our perspective, there is probably no more important work being done in Washington today. This Commission, through its strong research and intensive public outreach, provides the only comprehensive vehicle for examining this country's complex relationship with China. You have shown a bright light on an area that has been neglected for far too long and you lay an essential foundation for real progress in meeting the many challenges that China poses.

Today, I would like to address specifically the threat from China and how the removal of quotas on imports from China is likely to impact the U.S. textile and apparel sector. My colleagues from AMTAC and UNITE will, in turn, examine the other questions the Commission has asked the panel to review.

Summary of Data

A summary of the available data, studies and importer insights on the impact of the quota phase-out is relatively simple – if governments do not act and act quickly, the U.S. textile and apparel sector – along with much of the world's textile and apparel production – is today on the cusp of a unprecedented disaster. For the last 15 years, the Chinese government has been aggressively implementing an ambitious plan to make their textile and apparel sector the dominant player in world trade. In pursuit of this goal, the Chinese government has poured tens of billions of dollars into its textile and apparel sector in the form of free capital, direct and indirect subsidies and a host of other "incentives" to create an environment where no one, including the lowest cost-producing countries in the world, can compete with them in world markets.

In this effort, China has largely succeeded. As United Nations trade figures clearly demonstrate, there is essentially no doubt that China is substantially underpricing its textile and apparel exports compared with every other producer in the world. The

United Nations COMTRADE database[1] shows that producers in China charge on average 58 percent less for apparel products than do producers in the rest of the world.

Past experience has shown us that in virtually every case where China has gone head to head with other producers, China has captured the market. Typically, China has ended up with a 75 percent share of the market with the next largest supplier getting five percent. The trade figures show that whenever China enters the picture, the free market fundamentals that should drive trade and competition get thrown out the window. Literally, no country is spared. It has not mattered whether you have the benefits of lower labor costs (Bangladesh, Indonesia), duty-free access to a particular market (the Caribbean Basin, Sub-Saharan Africa) or proximity to the U.S. market (U.S. producers, Mexico and the Caribbean). These factors simply do not make a difference when China is part of the equation.

We have seen the same thing happen in the U.S. market. When quotas were removed on a limited number of apparel categories in 2002, Chinese share of market went from 10 percent to 73 percent in less than three years. Chinese exports rose 1,100 percent. As the Commission's own research study has shown, U.S. textile and apparel companies that produced the yarns and fabrics for these products were put out of business as almost 50,000 U.S. textile and apparel workers lost their jobs to surging Chinese imports.[2]

The reason for this is the pervasive intervention of the Chinese government throughout its textile and apparel sector. Because the Chinese government essentially finances the sector – through currency manipulation, central bank loans, subsidies to state-owned enterprises, exports subsidies, tax incentives, reduced electrical costs (among many others) - Chinese exporters are free to drop prices to whatever levels are necessary to get the sale.

This means that as hard as U.S. textile mills or Bangladeshi knitters or Turkish yarn spinners or Mexican trouser makers or African shirt manufacturers improve their businesses, when put head to head with China, they will lose the sale. This fact has proven out time and again in world markets where quotas have not been in place. In Japan, for instance, China has taken 83 percent of the Japanese apparel market. The next largest supplier is Italy with 5 percent.

Producers around the world have tried to compete. U.S. textile mills have one of the highest capital reinvestment rates of any industrial sector. Since the quota phase-out was agreed to in 1994, U.S. government statistics show that U.S. textile mills have invested more than $34 billion in new plants and equipment. As a result, U.S. textile

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[1] The United Nations COMTRADE database collects export and import trade data from government around the world: http://unstats.un.org/unsd/comtrade.

[2] "US-China Trade, 1989-2003 – Impact on jobs and industries, nationally and state-by-state", Economic Policy Institute, January 2005, p. 29. Research commissioned by the U.S.-China Commission.

output per worker has increased by 37 percent over the last ten years, from $44.50 per worker hour to $63.54 per worker hour.

The industry has done what it was supposed to do in order to prepare for the quota phase-out. It has re-invested in its plants and equipment and become even more productive than ever before. In fact, productivity increases in the U.S. textile sector are among the highest of any industrial sectors over the last ten years.

But the textile industry, or any industry, cannot compete against entire governments. We cannot compete against a Chinese government that gives its exporters a 40 percent price advantage because of a rigged currency. We cannot compete against Chinese government banks that provide essentially free cash for plants and equipment. We cannot compete against state-owned textile mills that get billions of dollars in government hand-outs each year and never have to show a profit.

And, as mentioned earlier, we are not alone. All across the globe, textile and apparel sectors that provide millions of jobs, mostly in developing and least developed countries, are at risk. A clear recognition of this is that 28 countries stood up at the WTO's Council on Trade in Goods last October and demanded that the WTO take up the issue. Another is the creation of an international coalition of textile and apparel groups – the Global Alliance for Fair Trade in Textiles – which was formed just last March and now includes 96 textile and apparel trade groups from 54 countries representing $150 billion a year in textile and apparel trade. At GAFTT's most recent meeting last week in Washington, the group called for immediate use of the China textile safeguard in order to prevent a China takeover of world trade in these sectors. (See Attachment's 1 & 2.)

When the Chinese government breaks the rules, our government can and should act on behalf of U.S. industry and U.S. workers. The safeguard measures in the WTO were directed specifically towards China because negotiators realized that China in particular did not play by the rules and, as a result, it posed a real threat to textile and apparel sectors around the world.

Finally, before reviewing the data on the threat from China, I would like to suggest some courses of action by the U.S. government.

First, the safeguards petitions must move ahead quickly or the U.S. government must self-initiate safeguard actions on its own. Hundreds of thousands of US textile and apparel jobs and millions of workers around the globe cannot be put into jeopardy because a judge in New York has decided to hijack the legitimate relief that was promised to this industry.

Second, the U.S. government must push for a permanent safeguard mechanism in the Doha Round of trade talks. The most serious flaw in the existing safeguard is that it is currently scheduled to expire in 2008 regardless of whether China ends the unfair trade practices that make the safeguard necessary in the first place. A permanent safeguard must be part of the Doha Round of trade talks.

Third, the U.S. government must stop talking about taking on China's unfair trade practices – and actually do something to begin addressing this problem. It must impose punitive sanctions of Chinese imports if China does not move quickly to float its currency. It must initiate WTO subsidy cases against China's use of government banks to finance its export machine. It must crack down on continuing massive transshipment and illegal smuggling of Chinese textile and apparel products. It must reverse the Commerce Department position against allowing industry to attack China's subsidy schemes using countervailing duty laws.

Finally, I would like to quote from a perhaps unlikely source, Joe Dixon, the vice president of production for Brooks Brothers, the major clothing retailer. In a recent article by Apparel Magazine,[3] Mr Dixon acknowledges that Brooks Brothers sources from all over the world but "as a concerned citizen, [he] says he worries the U.S. manufacturing structure will be forced to dismantle and believes the United States and Europe "are being very foolish to walk away from our manufacturing base and give up:"

> We've lost sight of the fact if you outsource everything, you will find it difficult to keep people employed … service industries throughout history have been established to support the needs of those employed in manufacturing and other non-service industries.
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> Dixon points to statistics that show that two-thirds of the U.S. gross domestic product is driven by consumer spending, and questions: What are we going to do when they stop spending? Without jobs, without manufacturing, you've lost the thing that's feeding the engine. What worries me most is that when you put something like this in reverse, it goes into reverse awfully fast.
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> If the exportation of the textile and apparel industry is the start of a process that leads to the exportation of other U.S. industries, there 'could be a very quick domino effect with disastrous consequences.' If you let market forces dictate where you will source products, you will always find a good reason to import from the lowest cost provider, Dixon says. It will always be the most economically sound option, but in some ways this logic is desperately wrong, he notes, comparing the U.S. economy to a castle built of sand, or a wooden house with termites eating away the foundation. 'Everything looks OK, but its about to fall apart.'

The next sections of this testimony will present data evaluating the threat that China poses: 1) the size of China's textile and apparel sector; 2) the government support that China gives to this sector, and 3) China's ability to underprice and overwhelm its competitors, including the U.S. textile industry.

<u>China – Key Fact</u>

China produces more than 20 *billion* garments a year.

[3] Apparel Magazine, 2/1/05: "China Safeguard Issue Ignites Industry."

Size and capacity of China's textile and apparel sector:

It is no exaggeration to say that China's textile and apparel sector exists on a scale unimagined in other countries. This sector alone employs tens of millions of workers and supports, directly or indirectly, as many as ninety million workers[4]. Entire cities in China are dedicated to the production of specific types of textile or apparel products. And the textiles and apparel sector, targeted by the Chinese government as a "pillar of the economy", is China's largest earner of foreign exchange of any sector, garnering $65 billion in foreign exchange earnings in 2003.

Today, according to Chinese government reports, China produces more than 20 billion garments a year, enabling China "to offer four pieces of clothing to every person on earth.[5]" Its production base has increased by 50 percent in just the last four years. And the Chinese government reports investments of $21 billion in its textile and apparel sector in just the last three years.

The International Trade Commission reports that, in 2001, "China alone accounted for 29 percent (34.7 billion pounds) of the world's total textile fiber production." Keep in mind that China reports that its textile and apparel output has increased by between 40 and 50 percent since that time.[6]

Other Chinese government statistics show that last year there were 3,784 textile plants under construction in China, with $180 billion in outstanding planned investment and $78 billion poured into new production in 2003.[7]

In order to fill these plants with machinery, China has been on a buying spree during the past four years, in some cases consuming up to two-thirds of world production of textile machinery (i.e. broadwoven fabric looms).

Recent information on China's garment industry indicates that China has maintained its enormous pace of expansion through September 2004. Already the world's largest exporter of textiles and apparel, China is reporting a 27 percent increase in production thus far this year.[8]

China – Key Fact

3,784 textile plants are currently under construction in China.

China – Key Fact

China's garment production increased 27 percent in 2004.

[4] *China: Stick to WTO Rules, Commerce Minister Urges*, just-style.com, September 20, 2004.

[5] XINHUA news agency (April 14, 2003) "China's garment industry makes important strides"

[6] *Id. See*, ITC discussion of Yarn and Fabric production Capacity, pp. 1-19 - 1-22 of the ITC Report.

[7] *China Surge Big Topic at Cotton Meet*, Women's Wear Daily, March 3, 2004.

[8] Chinese Textile and Apparel - Updated Figures through Sept. 04

	Amount	Increase over YTD September 2003
Textile and Apparel production	1,081 billion Yuan	27%
Exports of textiles and apparel	$83.17 billion	20%
- Garments	$44.69 billion	19%
- Textiles	$26.01 billion	27%

Source: CNTC

A new survey of China's apparel manufacturers by Global Sources, a large broker for many of China's exports, found that 89 percent of them were planning to expand output after the global end of apparel quotas. Half of the 215 companies surveyed planned to increase production capacity by 20 to 50 percent, and several other companies indicated intentions to expand capacity by more than 50 percent.[9] The survey found manufacturers were either building new factories or moving to new factories and extending existing factory space or upgrading equipment. All of them said they would be hiring more staff.

An even more recent study of a garment supplier in China found that "over 91 percent of mainland China's garment suppliers are planning to increase their production capacity following the end of quotas next year, according to new research."[10] The 'China Supplier Survey: Summer Garments 2005 Buying Season' interviewed garment manufacturers in China and found that two-thirds expect their capacity to expand by over 20 percent when clothing and textile trade is liberalized at the start of 2005.

China – Key Fact

The textiles and apparel sector in China has been declared a "pillar industry of the nation" by the government.

According to reports, the survey indicated that 92 percent of suppliers in China expect higher sales for the summer 2005 season. Over half of the respondents plan to expand capacity by 20 to 50 percent by taking on more employees and developing their factories and/or buying extra machinery. The survey also found that one-third of the suppliers surveyed are planning to create, or are already building, new garment manufacturing plants.

The capability for further apparel production increases unnerves even some of China's own operators, such as Wang Hequing, owner of Ningbo Hongli, who jokes that China's ability is "scary". "We could make 100 million t-shirts for $1 each – half the U.S. population could have one of our t-shirts. And how many factories are there in China like us? Thousands!"[11]

China's government support of its textile and apparel industry

As the Commission has already noted, the Chinese government engages in a variety of unfair and anti-competitive trade practices that make it difficult, if not impossible, for either U.S. manufacturers or other manufacturers, to compete.

China – Key Fact

46 percent of China's textile industry is government owned – and 31 percent operates at a loss.

In textiles and apparel, government involvement is pervasive in China. China has declared textiles and apparel to be a "pillar industry of the nation" and China's textile and apparel output is actively managed through Five-Year Plans going back almost

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9 *U.S. Weighs Import Limits on China,* The New York Times, September 11, 2004.

10 "China: Suppliers to Expand Capacity Post-2005: Survey" Just-style.com, 11/29/04. Petitioners are attempting to secure a copy of this survey, but could not obtain the survey prior to the close of the comment period.

11 Asia Pulse, 5/1/2003

50 years, and the Tenth Five-Year Plan concludes in 2005.[12] In its most recent five-year plan, China establishes government objectives for virtually every segment of the industry.[13]

According to the most recent Textile Five-Year Plan, 46 percent of textile assets are state-owned, and 31 percent of all state-owned enterprises are operated at a loss.

For its part, the U.S. government has long acknowledged that China does not play fair in textiles and apparel. In a recent WTO submission, the U.S. government noted that China provides assistance to its textile sector in numerous ways, including "the manufacturing of raw materials, the financing of mill establishments and the purchase and selling of raw materials."[14]

China's other unfair trade practices affecting textiles and apparel include currency manipulation, forgiveness of loans from state-owned banks, favorable bank terms for "honourable enterprises" which target export industries, export-contingent tax incentives for foreign-invested enterprises (FIEs), income tax refunds for foreign investors in export-oriented businesses, income tax reductions equal to 50 percent for FIE's in export-oriented businesses, VAT refunds for imported capital equipment used for export-oriented businesses, grants by individual provinces for export-oriented industries and continued subsidies for state-owned enterprises which are running at a loss[15] and subsidies for coal and oil supplied to Special Industrial Sectors (such as textiles and apparel).

<u>China – Key Fact</u>

Chinese domination of world textile and apparel trade could cause up to 30 million jobs to be lost around the world

- Asian Business Week

<u>China – Key Fact</u>

The U.S. textile and apparel sector could lose over half a million jobs if China is not restrained

- NCTO

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[12] "Industry Overview: The Tenth Five-Year Plan of the Textile Industry and its Development", BizChina, 11/18/2004.

[13] The Tenth Five-Year Plan contains objectives for all aspects of the textile and apparel sector. These include:

1. Annual growth rate
2. Industrial value growth rate
3. Growth rate for foreign exchange to be earned
4. Proportionate growth for different textile and apparel sectors
5. Labor productivity growth
6. Energy consumption
7. Water consumption
8. Renovation and upgrade of the cotton spinning sector
9. Renovation and upgrade of the wool yarn and weaving sector
10. Renovation and upgrade of the silk and linen sector
11. Renovation and upgrade of the knitted textile sector
12. Renovation and upgrade of the chemical fibers sector
13. Renovation and upgrade of the industrial textile sector
14. Renovation and upgrade of the industrial textile machinery sector
15. Renovation and upgrade of the dyeing and finishing sector
16. Renovation and upgrade of the apparel sector, including the expansion of exports and development of branded and children's apparel.

[14] Ibid.

[15] China committed to end these subsidies as part of its accession agreement and reported that all had been terminated as of 2002. However, recent Chinese government reports indicate that these subsidies are still in place and that money-losing enterprises continue to be supported. This includes one report that up to 47 percent of state-owned enterprises in the textile sector are running at a loss.

China's ability to underprice and overwhelm its competitors, including the U.S. textile industry.

The threat that China poses to U.S. textile and apparel companies and their workers can be assessed in a number of ways. These include a review of: A) China's prior behavior in textile and apparel categories removed from quota control in 2002; B) China's penetration of textile markets outside of the United States; C) China's pricing on the worldwide market for textile and apparel products; D) analyses and studies by international groups on China's domination in a post-quota world; E) statements by importers and retailers about their sourcing intentions once quotas are removed.

It is significant that all of these perspectives come to the same conclusion – China will dominate trade in textiles and apparel in a quota-free world. Estimates for the size of that domination begin at around 50 percent and increase upwards to between 70 and 75 percent. Correspondingly, the impact on the U.S. textile and apparel sector from such a scenario is severe, with U.S. production plunging by two-thirds and job losses of 500,000 workers or more. The United States is not the only victim – job losses worldwide may be as large as 30 million with developing and least-developed countries bearing most of the cost.

China's prior behavior in textile and apparel categories removed from quota control in 2002

In 2002, as part of the phase-out of worldwide quotas, a relatively small number of textile and apparel categories were removed from quota control. The bulk of textile and apparel categories – 80 percent of trade – remained under quota restraint until January 1, 2005.

In particular, 25 apparel categories and 115 home furnishing and made-up[16] tariff lines saw quota protection removed. This early quota phase-out provides a preview of how the rest of the world – including U.S. textile and apparel manufacturers – might fare now that all quotas have been removed.

The result in 2002 was a quick and devastating flood of apparel imports from China in quota-free products. According to Department of Commerce figures, in less than three years, China's exports took a 73 percent share of the U.S. apparel market in the quota-free categories, with exports from China rising more than 1,100 percent (see Attachment 3).

China – Key Fact

China took 73 percent of the US market in those apparel categories where quotas were removed in 2003 and imports increased more than 1,100 percent.

On the home furnishing and made-up product lines, China took a 60 percent share of the U.S. market as exports from China increased more than 900 percent. China's share in these textile and apparel products is continuing to increase today.

In volume terms, the China's export increases were unprecedented, with China's total increases into the U.S. market in just three years totaling nearly 4 billion square meters.[17] In comparison, China's increase in this relatively small number of

[16] Includes curtains, napery, tenting, bags, sailcloth, cordage, ropes, twine and bags, among other items.

[17] China increased its exports of apparel products by 1.3 billion square meters and its exports of home furnishing products by 2.6 billion square meters.

categories was as large as the entire exports of the second largest supplier to the U.S. market, Mexico, which shipped 4.1 billion square meters in 2004. China's increase was larger than the total textile and apparel export from every other country in the world.

The flood of apparel exports from China was driven by a sudden, drastic decline in China's prices for these goods once quotas were removed. In apparel categories, China dropped prices by an average of 53 percent while for "made up" products, Chinese price declines averaged almost 60 percent.

As China's exports soared, every other major supplier saw its market share drop sharply, falling by half or two-thirds. Countries such as Mexico, Honduras and Lesotho with free trade area and tariff preference benefits saw their exports in these products fall as dramatically as non-preference countries. This clearly demonstrates that China will take markets regardless of whether countries are beneficiaries of duty-free access to the U.S. market.

<u>China's penetration of textile and apparel markets outside of the United States</u>

With quotas in place, China's penetration of the U.S. (and European) markets has remained relatively low. In U.S. textile and apparel categories which have had quotas in place, China's market share has generally been below ten percent.

However, United Nations trade figures show that in countries where China has not been restrained, China has achieved a virtual monopoly of textile and apparel trade. Of particular interest to U.S. textile and apparel manufacturers is Japan and Australia. These are highly developed countries with strong consumer markets similar to those in the United States. The U.N. database shows China's share of these markets at 83 percent with China's textile and apparel exports totaling $16.5 billion in 2003 (See Attachment 4). The next largest supplier is Italy with a five percent market share and $1 billion in exports. Following Italy is Korea with a 1.5 percent market share.

U.N. figures show that China has repeated this domination around the world. China's market share outside the United States and the European Union averages 63 percent with China's exports totaling $37 billion and the 100 plus countries making up the rest of the world exporting only $23 billion. The next largest competitor to China in this quota-free environment is Italy with a 6 percent share. The United States ranks third with a 3 percent market share (See Attachment 5).

<u>China – Key Fact</u>

In 2002, China dropped prices an average of 53 percent in order to gain U.S. market share

<u>China – Key Fact</u>

China has 63 percent of the worldwide apparel market in countries that have not used quotas or other safeguards.

<u>China's pricing in the worldwide market for textile and apparel products</u>

The following excerpts from a December 2003 study by the Jassin-O'Rourke Group[18] details how China is able to sell goods at prices often below the cost of the production:

[18] "Merits of A Free Trade Area Of The Americas", December 2003. The Jassin-O'Rourke Group has been providing consulting advice in textile and apparel sourcing to leading retailers, manufacturers and sources for more than twenty years

> To date, major countries such as China . . . generally take[s] little or no profit on exported products, in order to generate hard currency and maintain capacity utilization levels; actual import statistics (average price per garment) for core products, compared to typical garment cost analysis, provide further validation of this, and in fact, suggest that some product is sold well below possible cost.
>
> Additionally, a vast majority of China's apparel manufacturers are financed by government banks, and fail to repay loans; it is a widespread and typical practice to "forgive" outstanding debts of apparel firms. <u>Such practice contributes to China's apparel export pricing strategies that effectively encourage sale of products at whatever value is necessary to capture and/or maintain business; in our experience, such pricing is clearly below possible manufacturing costs for given garments</u>. These hidden subsidies can have a significant impact on the profitability or competing opportunities of the exporting companies.

Exporters in China appear to agree that they lack a reputation for fair pricing. The China Textile News Company warns that "malicious price competition" in order to earn foreign currency could invite retaliation by trading partners.

> "Major textile companies and organizations said a mechanism to control export prices should be set up to prevent malicious prices competition after quotas are removed in 2005. … Export prices of clothing have dropped by about 30 percent since five years ago. Price of shuttle-woven garment fell by 27 percent and those of knitwear by 33 percent, according to Xu Xiaochuan from the Sichuan Xinlixin Textile Company.
>
> A senior official from the China Chamber of Commerce of Import and Export for Textiles echoed Xu, saying malicious price competition should be stopped because it merely invited international criticism and trade protectionism that would target the whole industry. . . . **To push exports up and pull in more foreign currency, many domestic companies run down their export business with fierce price cutting as they get more freedom with the gradual lifting of quotas.** [19]

United Nations database tends to verify the Jassin-O'Rourke conclusions and China's own acknowledgement of their pricing strategies. COMTRADE shows that China charged, on average, 58 percent less for exports of trousers, shirts and underwear than did all other suppliers (See attachment 8). These trouser, shirt and underwear product groupings represent the bulk of apparel production worldwide.

According to the U.N. data, China's prices averaged $1.84 per garment compared to an average "rest of world" price of $4.42 per garment. China's disparity with U.S. producer prices was even greater, with China's prices averaging 76 percent lower than U.S. producer prices ($1.84 per garment vs. $7.63 per garment) (See Attachment 6).

<u>China – Key Fact</u>

Chinese prices are 58 percent below prices charged by other countries for trousers, shirts and underwear.

The U.N. data also showed that China's market share for these product categories in non-quota countries averaged 58 percent, with China's share in Japan and Australia averaging 88 percent. China's worldwide market share has been increasing rapidly over the past five years as China has ramped up production and increased exports by 76 percent.

[19] *Textiles Warn of Price War Damage,* China Textile Network Company, 8/23/04

The actual size of China's worldwide exports of these products is simply astounding. According to the U.N., China exported 2.9 billion shirts, 2.5 billion trousers and 3.6 billion pieces of underwear in 2003, the latest year that information is available.

Economic analyses and studies by institutional groups on China's domination in a post-quota world

Virtually every study produced by private consulting groups, governments and international agencies has concluded that once quotas are removed, China will rapidly increase its share of world trade in apparel, and the U.S. market will be the largest recipient of these exports. These studies include:

Goldman Sachs: "China's Textile/Apparel Manufacturing: The big bang in 2005," June 2004.

Goldman Sachs concludes that "without quotas, China's exports are set to expand immediately" and that "China has the ability to grow its textile and apparel exports rapidly once trade barriers are removed."

The Sachs study cites China's domination of similar sectors "such as footwear or toys or sporting goods – equally labor-intensive and low-value added" with China's market shares of 66 and 67 percent as an example of the kind of market control China can assert. The study also cites the development of a "complete food chain in textile and apparel manufacturing" in China and the likelihood that "once quotas are removed, wholesalers and retailers are likely to immediately consolidate their orders."

The study concludes that "we expect a rapid increase in textile and apparel manufacturing" from China and warns that "China is likely to have rapid market dominance in certain products, and exert tremendous price pressure and destructive power on other exporters as well as domestic manufacturers in the importing countries once quotas are removed."

The study also concludes that safeguard measures *based on market disruption* are not likely to be successful because of China's ability to rapidly capture market share. Sachs says that such safeguards may be approved but because "there is likely a lead time for China's exports to prove to be market disruptive, and by which time, China's exports in these product may already be very substantial."

World Trade Organization, Hilegunn Nordds: "The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing," 2004

Nordds concludes "the predicted changes (from quota elimination) are a substantial increase in market shares for China and India, while previously unrestricted (no quota or non-binding quotas) countries will lose market share as well as *local producers in North America* and the European Union." [emphasis supplied]

Using a GTAP general equilibrium model, Nordds predicts that China (including Hong Kong) "triples its share" and takes a 56 percent share of the U.S. import market for apparel while Mexico and the rest of Latin American loses 70 percent, with the Mexican share falling to 3 percent (from 10 percent) and the South and Central American share falling to 5 percent (from 16 percent).

<u>China – Key Fact</u>

China (will) exert tremendous price pressure and destructive power on other exporters as well as domestic manufacturers.

- Goldman Sachs

<u>China – Key Fact</u>

China will take a 56 percent share of the US import market for apparel.

WTO Study

<u>China – Key Fact</u>

China is expected to become the supplier of choice most importers.

- International Trade Commission

Nordds also notes the consensus view among researchers: "Most analyses of the phasing out of impact of the ATC conclude that China and India will come to dominate world trade in textiles and clothing, with post-ATC share of China alone estimated at more than 50 percent or more. This study replicates those predictions."

United States International Trade Commission, publication 3671: "Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market"

The United States International Trade Commission study of the impact of the quota phase-out concluded that "China is expected to become the 'supplier of choice' for most importers because of its large ability to make almost any type of textile and apparel product at any quality at a competitive price." The Commission cited importers who said "there is no garment that they would not make in China."

The Commission also concluded a primary reason that importers were unlikely to concentrate sourcing entirely in China was "because of uncertainty over the use by the United States of the textile-specific safeguard provision."

The Commission reviewed a number of recent studies concerning the quota phase-out, all of which predicted a large increase in Asian market share (China share was not generally extrapolated). One study by Avisse and Fouquin (2001) extrapolates China's apparel exports, predicting that it would jump 87 percent once quotas are removed.

The Commission noted many reasons for China's predicted dominant position, including that "China is the world's largest producer and exporter of textiles and apparel and it has invested more in spinning and weaving equipment than any other country during the last five years. Moreover, China's huge supply of inexpensive labor and skilled sewers, coupled with access to indigenous raw materials, has enabled China's textile and apparel industries to remain highly price competitive and attract foreign direct investment in facilities and technologies."

The World Bank, Elena Ianchovichina and Will Martin: "Trade Liberalization in China's Accession to the World Trade Organization," 2001.

The World Bank study concludes that China will gain a 47 percent share of the world's export market in apparel once quotas are removed. While the study does not break out the U.S. import market, most studies and commentators agree that the U.S. import market is more susceptible to import penetration by China than others because of its "big box" retail concentration, intense price competition and long standing ties that U.S. importers and retailers have already developed with China.

The World Bank concludes that "the most important impact of [WTO accession] is on China's output of apparel" and predicts that production of apparel in China, which is already by far the largest producer in the world, will increase by 57 percent once quotas are removed.

McKinsey & Company – DHL: "DHL-McKinsey Apparel and Textile Trade Report," March 2004.

The McKinsey study concluded that China will account for 50 percent of world apparel exports once quotas are removed, noting that "many commentators have expressed concern that China will wipe out less competitive exporting countries."

China – Key Fact

China's apparel exports will grow from $72 billion to $126 billion by 2008.

- McKinsey & Co.

McKinsey concludes that China's apparel export market share will grow from 12 percent to 50 percent in four years time, with actual value of apparel exports from China increasing by $72 billion dollars to $126 billion by 2008.

<u>Statements by importers and retailers about their sourcing intentions once quotas are removed</u>

Executives that make the sourcing decisions regarding textile and apparel products have been virtually unanimous that imports from China into the U.S. market will dramatically increase once quotas are removed.

Of these statements perhaps most significant was a confidential survey earlier this year of top U.S. executives for major importing and retailing firms who predicted that China would dominate trade in apparel once quotas are removed. The poll, which was conducted in January at the Cotton Sourcing Summit in Miami, asked what percentage of the U.S. apparel market China would take once quotas were removed. 87 percent of the respondents said China's share would exceed 50 percent, and half of those predicted that China would gain between 75 and 90 percent.

<u>China – Key Fact</u>

87 percent of US importers and retailers predict that China's share will exceed 50 percent of the US market.

Cotton Sourcing Summit

Regarding major suppliers, 96 textile and apparel trade associations from 54 countries around the world have joined together in the Global Alliance for Fair Trade in Textiles (GAFTT) to raise concerns about China's ability to disrupt markets around the world once quotas are lifted. Citing member concerns, GAFTT recently stated: "Since China joined the WTO at the end of 2001, it has engaged in a premeditated and systematic effort to monopolize world trade in textiles and clothing by undercutting fair market prices through a complex scheme of industrial subsidization and currency manipulation" and that "China has used and continues to use the following unfair trade practices to artificially undercut the prices of every other country in the world."

Regarding sourcing agents, one leading sourcing executive recently sketched his scenario for the end of quotas and China's likely response. In a Women's Wear Daily article, Robert Zane, of Liz Claiborne, described why China would move to quickly flood the U.S. market. Zane, who is senior vice president of sourcing, distribution and logistics at New York-based Liz Claiborne Inc., said the likelihood of safeguards will probably prompt a flood of Chinese goods into the U.S. market starting in January.

<u>China – Key Fact</u>

96 trade groups from 54 countries representing $150 billion in exports of textile and apparel have banded together to fight China's unfair trade practices.

> "We should not underestimate what many Chinese factories will do at the end of this year to prepare to ship early next year," he told the group of mill, importer and apparel manufacturer executives. "They will be looking for incentives to offer their buyers."
>
> In a later interview, Zane said price cuts of as much as 20 percent might be reasonably expected in the opening months of the year. <u>He added that for a brief period companies might resort to selling goods at or below cost to drive volume.</u>
>
> Chinese exporters will be looking to quickly fill their order books for a simple tactical reason, Zane said. The U.S. is allowed to impose one-year safeguard quotas that would limit Chinese exports in any given category to no more than 7.5 percent higher than the volume of goods imported over the past year. <u>Even a few months of sharply higher imports could lead to significantly higher safeguard quotas</u>.

In a complaint filed in the U.S. Court of International Trade on December 1, 2004,[20] the United States Association of Importers of Textiles and Apparel[21] (the "USA-ITA") stated to the Court that even allowing CITA to accept this petition for investigation harmed and aggrieved its members[22] because of the lead time necessary to enter into contracts to purchase textiles and apparel from China, which it indicated could be anywhere from 120 to 160 days.[23]

The USA-ITA indicated that its members had entered into contractual relationships concerning the subject products and "are now forced to modify their current sourcing plans -- *i.e.* move such orders outside China ...."[24]

The USA-ITA also stated to the Court that its "members purchase and import into the United States textile and apparel products, and have entered into or intend to enter into contractual relationships for the purchase and import of such products. These products include goods that are the subjects of domestic petitions -- filed October 13, 2004...."[25] The original safeguard request concerning the subject products was filed October 13, 2004.

The USA-ITA goes further and indicates that its members have already placed orders for January delivery from China as it indicates that apparel ordered now would be for delivery in the third quarter of 2005. USA-ITA also clearly indicated its belief that imports from China of the subject products would grow dramatically as it argued to the Court that "quotas covering such products may be filled and closed by the third quarter of 2005."[26] USA-ITA believes that any safeguard limits imposed on the subject products would be filled by the third quarter of 2005, *even though those limits would necessarily be 7.5 percent greater than imports in 2004.* USA-ITA, therefore, essentially admitted to the Court of International Trade that it is convinced imports of the subject products will increase significantly once quotas are removed.

Other leading retail, importing and sourcing executives have regularly expressed their own expectations regarding how China will quickly move to dominate the U.S. market:

China – Key Fact

"A lot of importers are placing huge orders . . . in anticipation of the lifting of quotas. These importers want to grab market share. These are not normal purchases but speculative. In the end they may depress prices and prompt dumping."

– Hong Kong Textile Council Vice-Chairman Lin Sun-mo

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[20] *U.S. Association of Importers of Textiles and Apparel v. United States*, et al., Complaint filed in the U.S. Court of International Trade, Court No. 04-00598, dated December 1, 2004.

[21] "USA-ITA is a person who has been "adversely affected or aggrieved by agency action within the meaning of section 702 of title 5." 28 U.S.C. § 2631(i). USA-ITA members purchase and import into the United States textile and apparel products, and have entered or intend to enter into contractual relationships for the purchase and import of such products," supra note 21 at paragraph 6.

[22] "USA-ITA is a non-profit industry association representing the interests of the textile and apparel importers before Congress, the Executive Branch, the judiciary, the business community, and the public." U.*S. Association of Importers of Textiles and Apparel v. United States*, *supra* note 21, paragraph 5.

[23] "The nature of the business is such that importers typically need lead times of 120 to 160 days to place and receive orders," *supra* note 21, paragraph 41.

[24] *U.S. Association of Importers of Textiles and Apparel v. United States*, *supra*, note 21, paragraph 42.

[25] *U.S. Association of Importers of Textiles and Apparel v. United States*, *supra* note 21, paragraph 6.

[26] *U.S. Association of Importers of Textiles and Apparel v. United States*, *supra* note 21, paragraph 41.

South China Morning Post 6/11/04 – "A lot of importers in the U.S. and Europe are placing huge orders for basic items like jeans and polo shirts, in anticipation of the lifting of quotas. These importers want to grab market share. These are not normal purchases but speculative. In the end they may depress prices and prompt dumping." – Hong Kong Textile Council vice-chairman Willy Lin Sun-mo

Bloomberg News 8/4/04 – Bruce Rockowitz, an executive director at Hong Kong-based Li & Fung, which sources clothing worldwide for retailers including American Eagle Outfitters and Abercrombie and Fitch, estimates that 70 to 80 percent of all clothing production will move to China after January 1. Mr Rockowitz said that the Li & Fung has seen a sharp rise in U.S. orders for Chinese clothing. "The surge probably reflects fears that the U.S. will impose anti-surge quotas on Chinese clothing," stated Rockowitz.

Financial Times 7/20/04 – Bob Zane, head of global sourcing and manufacturing for Liz Claiborne, told the Financial Times that he expects Liz Claiborne to halve the number of countries from which it sources clothes in the next three to four years. In the process, China's share of company direct overseas sourcing will go from about 15 percent to about half, a ratio that Zane expects other big U.S. purchasers will match. He sees China becoming "the factory of the world."

Textile Asia, June 2004 - Alex To Man-yau, head of Chinese operations for Hong Kong trade facilitator, Trade Easy, said: "We are seeing a lot of inquiries and orders for Chinese garments from the U.S., Europe and Canada." Mr. To said that the average value of orders placed through his firm for Chinese garments by U.S., Canadian and European buyers has increased fivefold this year over last year."

Textile Asia, June 2004 - Mr. Neeraj Sawhney, a director for the Hong Kong textile trade, Topnet International, said: "There are many more queries for orders and shipments of Chinese garments from the U.S. for 2005 and beyond."

Textile Asia, July 2004 - Steven Feninger, Chief Executive of Linmark Group, a trading firm, said: "Garment orders are rushing to the Mainland from Southeast Asia and Central America in anticipation of the lifting of global textile quotas next January. The scale of the move to China is going to affect national economies." Linmark notes that "once textile quotas are eliminated under World Trade Organization rules, buyers are expected to shift en masse to cheaper Chinese goods." Linmark estimated "that the proportion of its sourcing from Mainland, Hong Kong and Taiwan will rise to 70 percent in two years."

Attachments

GLOBAL ALLIANCE for FAIR TEXTILE TRADE (GAFTT)
96 Trade Groups from 54 Countries Supporting Fair Trade for a Safer World

GAFTT Urges United States to Approve Textile and Clothing Safeguard Petitions Filed by U.S. Industry

October 12, 2004

The Global Alliance for Fair Textile Trade (GAFTT), a coalition of 96 textile and clothing manufacturing trade associations from 54 countries, urged the U.S. government to approve the threat-based textile China safeguard petition filings announced by the U.S. textile and clothing industry on October 12, 2004.GAFTT, a coalition that counts amongst its members textile and apparel producers from some of the poorest developing countries in the world, stated:

The U.S. government must approve the petitions if millions of textile and clothing manufacturing workers from around the globe are not to see their jobs destroyed and moved to China. If approved, these safeguard petitions will prevent China from taking more than $37 billion in textile and apparel exports in these items which are currently being supplied by dozens of other countries. If the U.S. does not act, China will use currency manipulation and other unfair trade practices to quickly dominate these markets. China already has taken more than 70 percent of the U.S. clothing and textile home furnishings import market in the categories that were removed from quota control just two and a half years ago. China accomplished this by dropping its prices by an average of 53 percent, far below the cost of other suppliers.

The prospect of catastrophic job losses in exporting countries around the world represents a crisis of global proportion. Many of the countries at risk of losing textile and clothing exports have no other viable economic sectors into which they can transition ten of thousands – in some cases, hundreds of thousands - of unemployed manufacturing workers. That is why nearly 30 countries stood up at the WTO Council on Trade in Goods meeting on October 1 and expressed support for governments to take special
measures to prevent job losses, particularly those in least developed countries, caused by the near-certainty of China flooding world markets after quotas expire on January 1st, 2005.

The United States represents by far the largest market for imported textile and apparel products, and, as a consequence, the U.S. government bears a special responsibility to prevent China from hurting the export sectors from dozens of countries from around the world. Textile and clothing manufacturing industries in truly developing countries will be severely damaged or destroyed unless the U.S. government acts to approve these safeguard measures.

Moreover, China is also expected to surge into the European Union, Canadian and other developed and developing world markets, causing additional substantial job losses worldwide. GAFTT also calls on these countries to use their special textile China safeguards too.

Statements by GAFTT members from Turkey, Mexico, Bangladesh, Peru and Swaziland follow:

"The need for a comprehensive and immediate WTO solution to the international crisis in textile and clothing trade is well understood by much of the world. The quota system has worked precisely as intended, encouraging the development of private-sector textile and clothing manufacturing industries in all corners of the globe. Now much of that development stands at the brink of destruction unless the U.S. government uses its safeguards in a timely and effective manner. The relief provided by the safeguards will help give the WTO the time necessary to address the negative impact of the worldwide expiration of quotas on textile and clothing products" said Ziya Sukun, Executive Director of ITKIB Association of New York, a trade association representing Turkish textile and clothing manufacturing interests.

"The Mexican textile industry supports the imposition of safeguards on imports from China in the product categories identified by the U.S. industry on October 12. These products represent more than 80 percent of Mexican exports of apparel to the United States. If these safeguards are not approved, the market disruptions associated with a surge in imports from China will clearly have a serious impact on the textile and apparel industry in Mexico. At the same time, however, we also can anticipate significant adverse impacts on the production of fiber, yarn, and fabrics in the United Sates as well, because the Mexican textile industry is one of the principal export destinations for these U.S. products," stated Nora Ambriz Garcia, Director General of the Camera Nacional de la Industria Textil (CANAINTEX).Continued Ambriz, "The Governments of the United States and Mexico have recently renewed their mutual commitment to the NAFTA integration process, with specific reference to the textile industry in the hemisphere. CANAINTEX joins with our colleagues in the U.S. textile industry in asserting that the vigorous use of safeguard actions to combat unfair Chinese competition is essential to preserving a competitive textile and apparel industry in the U.S. and in Mexico."

"These safeguard actions are the only effective way to stop China from flooding markets around the world. In Peru, Chinese imports threatened the economic survival of our industry and we were forced to take similar measures. We strongly support the U.S. industry in its effort to obtain safeguards and also urge other countries around the world to apply them as well," said Jorge Mufarech Babin, Presidente of the Comite Textil de la Sociedad Nacional de Industries del Peru.

"BKMEA strongly supports the use of safeguards by the U.S. government. They are critical to preventing massive job losses in the Bangladesh apparel sector once quotas are removed. Unless the U.S. industry’s petitions are granted, much of our workforce could lose their jobs as orders are shifted quickly to China. These safeguards will stop such a disaster from happening and we urge the US government to approve them," stressed Fazlul Hoque, Chairman of Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA).

"Swaziland's clothing industry is almost entirely dependent on apparel exports to the United States. If these safeguards are not used, the damage will be extreme and thousands will lose their jobs. Swaziland's clothing industry was established only four years ago with the introduction of the African Growth and Opportunity Act (AGOA), a free-trade agreement between the United States and developing countries in Sub-Saharan Africa. We are a fledgling industry employing close to 30,000 workers, most of whom are young females that had no previous work experience or job opportunities before the clothing industry came along. We have been able to compete and grow with AGOA, but stand no competitive chance against a Chinese government so willing to subsidize industry so massively. We ask that the US government save AGOA and our jobs by approving the U.S. industry's safeguard requests," pleaded Robert Maxwell of the Swaziland Textile Exporters Association (STEA).

"Just this past month three factories in Swaziland have closed due to lack of orders and all but four out of 25 factories have given their employees reduced hours or have shut down production for short periods of time during the past eight weeks. The second largest factory in the country, a facility that employs over 2,000 workers under a single roof, recently informed me that this week they will close for two weeks minimum, as they have no work. The clothing manufacturing industry in Swaziland is on a knife's edge," continued Maxwell.

# # #

Textile and Clothing Trade Associations Endorsing the Istanbul Declaration as of September 1, 2004.

Argentina – Federacion Argentina de Industrias Textiles (FADIT-FITA)
Austria – Association of the Austrian Clothing Industry
Austria – Fachverband der Textilindustrie Osterreichs (Die Textilindustrie)
Austria – Eurocoton
Austria – Vereinigung Textilindustrie
Austria – Joint Committee of the Textile Finishing Industry in the E.U. (CRIET)
Bangladesh – Bangladesh Textile Mills Association (BTMA)
Bangladesh – Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA)
Bangladesh – The Federation of Bangladesh Chambers of Commerce and Industry

Bangladesh – Bangladesh Terry Towel & Linen Manufacturers and Exporters Assoc.
Belgium – Federation Belge de L'Industrie Textile (FEBELTEX)
Belgium – Eurocoton
Belgium – Joint Committee of the Textile Finishing Industry in the E.U. (CRIET)
Belgium – International Association of Users of Artificial and Synthetic Filament Yarns and of Natural Silk (AIUFFAS)
Bolivia – Asociacion Nacional de Textileros de Bolivia
Bolivia – Federacion Textil Andina
Botswana – Botswana Export Development and Investment Authority (BEDIA)

Bulgaria – Association of Apparel and Textile Exporters in Bulgaria
Bulgaria – Bulgarian Association of Textile and Clothing
Bulgaria – Bulgarian Industrial Chamber
Bulgaria – Bulgarian Chamber of Commerce and Industry
Chile – Instituto Textil de Chile – Asociacion Gremial
Colombia – Asociacion Colombiana de Productores Textiles (ASCOLTEX)
Colombia – Federacion Textil Andina
Costa Rica – Costa Rica Textile Chamber
Costa Rica – Textile Quota Council
Czech Republic – Association of Textile-Clothing-Leather Industries
Dominican Republic – Dominican Free Zones Association (ADZONA)
Denmark – Joint Committee of the Textile Finishing Industry in the E.U. (CRIET)
Ecuador – Asociacion Textil del Ecuador (AITE)
Ecuador – Federacion Textil Andina
El Salavador – Union de Industrias Textiles
France – Eurocoton
France – Federation Francaise des Industries Lainiere et Cotonniere (FFILC)
France – Union Francaise des Industries de l'Habillement (UFIH)
France – Union des Industries Textiles (UIT)
France – Joint Committee of the Textile Finishing Industry in the E.U. (CRIET)
France – International Association of Users of Artificial and Synthetic Filament Yarns and of Natural Silk (AIUFFAS)
Germany – Eurocoton
Germany – Industrievereinigung Garne – Gewebe Technische Textilen
Germany – Joint Committee of the Textile Finishing Industry in the E.U. (CRIET)
Ghana – Gold Coast of Ghana
Greece – Association des Industries Cotonnieres de Grece
Greece – Hellenic Fashion Industry Association
Greece – Eurocoton
Greece – Panhellenic Union of Cotton Ginners and Exporters
Indonesia – Himpunan Pengusaha Kecil & Koperasi - Tekstil and Produk Tekstil (HPKK-TPT)
Indonesia – Asosiasi Industri Rakyat (AIR)
Indonesia – API DKI JAYA – Indonesian Textile Association of Greater Jakarta
Israel – The Manufactures' Association of Israel, Fashion & Textile Industries Assoc.
Italy – Associazione Italiana Industrie della Filliera Tessile Abbigliamento (AIIFTA)
Italy – Associazione Tessile Italiana (ATI)
Italy – Eurocoton
Italy – Joint Committee of the Textile Finishing Industry in the E.U. (CRIET)
Italy – International Association of Users of Artificial and Synthetic Filament Yarns and of Natural Silk (AIUFFAS)
Ivory Coast – Agency for the Promotion of Exports (APEX-CI)
Jordan – Jordan Garments, Accessories & Textile Exporters Association (JGATE)
Kenya – Kenya Apparel Manufacturers Exporters Association
Kenya – Kenya Association of Manufacturers – Textile Sector (KAM)
Latvia – Association of Textile and Clothing Industry
Lesotho – Lesotho Textile Exporters Association

Lithuania – Lithuanian Apparel and Textile Industry Association
Madagascar – Madagascar Export Promotion Association (GEFP)
Mauritius – Mauritius Export Processing Zone Association (MEPZA)
Mauritius – Mauritius-US Business Association (MUSBA)
Mexico – Camera Nacional de la Industria Textil (CANAINTEX)
Mexico – Cámara Nacional de la Industria del Vestido (CNIV)
Mexico – Cámara Mexicana de la Industria Textil Central
Mexico – Cámara Textil de Occidente
Namibia – Namibian Investment Authority

Nepal – Garment Association of Nepal (GAN)
Netherlands – Joint Committee of the Textile Finishing Industry in the E.U. (CRIET)
Norway – Joint Committee of the Textile Finishing Industry in the E.U. (CRIET)
Paraguay – Cámara Textil Paraguaya
Peru – Comité de Confecciones de la Sociedad Nacional de Industrias del Perú
Peru – Comite Textil de la Sociedad Nacional de Industries del Peru
Peru – Federacion Textil Andina
Philippines – Confederation of Garments Exporters of the Philippines
Poland – The Gdynia Cotton Association
Poland – Polish Textile and Clothing Chamber
Poland – Polish Chamber of Textile Industry
Poland – Union of Employers of Textile Industry
Portugal – Federation of Portuguese Textile and Clothing Industry (FITVEP)
Portugal – Textile and Apparel Association of Portugal (ATP)
Senegal – Agency for the Promotion of Investments and Exports (APIX)
Slovenia – Chamber of Commerce and Industry of Slovenia, Textiles, Clothing and Leather Processing Association
South Africa – Clothing Trade Council of South Africa (CloTrade)
South Africa – Export Council for the Clothing Industry in South Africa
South Africa – South African Textile Industry Export Council (SATIEC)
South Africa – Textile Federation of South Africa (TEXFED)
Spain – Agrupacion Espanola de Desmotadores de Algodon (AEDA)
Spain – Asociacion Industrial de Proceso Algodonero (AITPA)
Spain – Consejo Intertextil Espanol
Spain – Eurocoton
Spain – International Association of Users of Artificial and Synthetic Filament Yarns and of Natural Silk (AIUFFAS)
Sri Lanka – Joint Apparel Association Forum
Sri Lanka – National Apparel Exporters Association
Swaziland – Swaziland Investment Promotion Authority (SIPA)
Swaziland – Swaziland Textile Exporters Association (STEA)
Switzerland – Eurocoton
Switzerland – Swiss Spinning Committee
Switzerland – Joint Committee of the Textile Finishing Industry in the E.U. (CRIET)
Switzerland – International Association of Users of Artificial and Synthetic Filament Yarns and of Natural Silk (AIUFFAS)
Tanzania – Tanzania Investment Center (TIC)
Tunisia – Federation Nationale de Textile (FENATEX)
Turkey – Turkish Textile and Raw Materials Exporters Association (ITKIB Textiles)
Turkey – Turkish Ready Wear and Garments Exporters Association (ITKIB Apparel)
Turkey – Turkish Clothing Manufacturers Association (TGSD)
Turkey – Turkish Textile Employers Association (TUTSIS)
Turkey – Eurocoton
Turkey – Joint Committee of the Textile Finishing Industry in the E.U. (CRIET)
Turkey – International Association of Users of Artificial and Synthetic Filament Yarns and of Natural Silk (AIUFFAS)
United Kingdom – Joint Comte. of the Textile Finishing Industry in the E.U. (CRIET)
United Kingdom – International Association of Users of Artificial and Synthetic Filament
www.fairtextiletrade.org 6
Yarns and of Natural Silk (AIUFFAS)
United States – American Manufacturing Trade Action Coalition (AMTAC)
United States – American Yarn Spinners Association (AYSA)
United States – National Cotton Council (NCC)
United States – National Council of Textile Organizations (NCTO)
United States – National Textile Association (NTA)
Uruguay – Asociacion de Industrias Textiles del Uruguay

Venezuela – Asociacion Textil Venezolana (ATV)
Venezuela – Federacion Textil Andina
Zambia – Export Board of Zambia
Zambia – Textile Producers Association of Zambia

www.fairtextiletrade.org

Attachment 2

GLOBAL ALLIANCE for FAIR TEXTILE TRADE (GAFTT)

96 Trade Groups from 54 Countries Supporting Fair Trade for a Safer World

Global Alliance Presses Governments and WTO to Halt Chinese Monopolization of Global Trade in Textiles and Clothing

3rd International Summit - Washington DC - January 26, 2005

WASHINGTON, D.C. – Representatives from the Global Alliance for Fair Trade in Textiles (GAFTT) and government officials from 25 countries met on Wednesday, January 26 in Washington, D.C. to discuss a coordinated international response to the crisis associated with the worldwide expiration of quotas on textiles and clothing. Private briefings for U.S. government officials and the U.S. Congress are planned for later on Wednesday and on Thursday morning.

GAFTT represents 96 trade groups from 54 countries that exported over $170 billion in textile and apparel products in 2003. It issued the following communiqué from the 3rd International Textile Summit:

By allowing worldwide quotas on textiles and clothing to expire without adequate measures in place to prevent the rapid monopolization of the market by a small number of countries through the use of unfair trade practices, the World Trade Organization (WTO) has allowed global trade in textiles and clothing to become severely disrupted. Absent immediate and responsible action by individual governments, up to 30 million jobs around the world will be lost to China and the continued development of a fair and beneficial trading system for this vital sector will be strangled.

Because of the extraordinary threat that world trade in textiles and apparel faces today, the Global Alliance for Fair Trade in Textiles (GAFTT) calls for the following actions:

(1) Governments, especially those of the United States, European Union and Canada, should immediately and effectively implement the WTO special China textile safeguards to prevent China from monopolizing worldwide textile and apparel trade;

(2) The WTO must undertake an urgent review of the impact of the quota phase-out and of how market distorting trade practices threaten to monopolize trade in this vital sector in the hands of one or two countries;

(3) The WTO must develop new permanent instruments[27] as part of the Doha Round to prevent the textile and clothing sector from being monopolized in the future;

(4) As a part of the development of new permanent WTO instruments to prevent a small number of countries from monopolizing global trade in textiles and clothing, GAFTT urges other governments to support WTO paper 496 submitted by several developing countries that calls for the WTO to actively monitor and address the economic impact of the quota phaseout and to support WTO paper 497 submitted by the Republic of Turkey that calls for a permanent, global safeguard mechanism. GAFTT believes it is critical that the WTO Council on Trade in Goods CTG give fair and extensive consideration to these papers during Formal Meetings in 2005.

(5) Governments whose textile and clothing industrial sectors export to the United States, European Union, Canada and other countries must let those countries know

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[27] The China textile safeguard mechanism expires at the end of 2008.

that they support immediate and effective use of the China textile safeguard. This means that safeguards should be invoked on threat of market disruption rather than waiting for actual market disruption to occur;

(6) Governments must move aggressively at the WTO and within their own trade regimes to attack unfair trade practices employed by countries that seek to dominate world trade in textiles and apparel. These practices, which are illegal under the WTO, include currency manipulation, industrial subsidization of state-owned companies, the extension of "free" capital by central banks and illegal export tax rebates; and,

(7) GAFTT recognizes the importance of an active policy of access to markets, especially on the part of countries that are the major beneficiaries of the quota phaseout, such as India, by achieving acceptable levels tariffs together with the elimination of non-tariff barriers.

(8) GAFTT also notes that Vietnam has applied to become a WTO member and that as a non-market economy, it has been able and willing to mirror many of unfair practices used by China to monopolize key sectors of the global textile and clothing market. Consequently, GAFTT calls for the WTO to include safeguards or other specific provisions that would prevent Vietnam from using unfair trade practices to monopolize segments of global trade in textiles and clothing, such as the $82 billion U.S. import market, as a part of any accession agreement allowing Vietnam to become a member of the WTO.

GAFTT announced that its efforts over the next twelve months would be focused on ensuring that safeguard actions are implemented in key markets and that unfair monopolistic trade practices are attacked. GAFTT will also focus on persuading the WTO to introduce new permanent safeguards for textile and apparel products into the current round of worldwide trade talks.

GAFTT Review of the Textile and Apparel Trading System

The now expired worldwide quota system for textiles and clothing was arguably one of the most successful economic aid packages for developing countries in history. The system allowed virtually every developing country access to key global markets by preventing any single country from monopolizing the market. In 2003, 41 countries exported more than $1 billion USD in textile and clothing products annually, creating desperately needed jobs and generating invaluable foreign earnings for some of the poorest countries on earth.

However, since China joined the WTO at the end of 2001, it has engaged in a highly damaging and systematic effort to monopolize world trade in textiles and clothing by undercutting free market prices through a complex scheme of industrial subsidization and currency manipulation.

In the clothing categories removed from quota in 2002, China dropped its prices by an average of 53 percent in a successful effort to dominate world trade in the U.S. market in these product areas. Not a single competitor was able to match China's artificially low prices. By November 2004, the next largest supplier of these products to the U.S. market was Thailand, with 3 percent[28]. Also, GAFTT

[28] U.S. Department of Commerce statistics, analyzed by NCTO.

notes that China's average export prices for trousers, underwear, and woven and knit shirts are 58 percent below the average prices charged by other countries[29].

Moreover, China already controls a combined 40 percent share of world exports for cotton and man-made fiber trousers, men's woven shirts, cotton and man-made fiber knit shirts, and underwear. When one excludes U.S. and E.U. exports in these categories, China's world export market share rises to an astounding 57 percent![30] Finally, in these same categories, China already controls an 88 percent market share of the lucrative Japanese and Australian markets.[31]

China has used and continues to use the following unfair trade practices to artificially undercut the prices every other country in the world:

- Currency manipulation (40 percent advantage)
- Export subsidies (rebate of export taxes: 13 percent)
- Free capital (US government reports that up to 50 percent of government loans to Chinese business are never repaid).
- Direct state subsidies to textile industry (50 percent is still owned by the Chinese government
- Plus many others……include tax holidays, land giveaways, power and freight subsidization

These unfair trade practices undeniably have severely disrupted world trade in textile and clothing. In the critical $82 billion U.S. import market, China's market share in the clothing and home textile products categories removed from quota in 2002 surged from less than 10 percent in 2001 to more than 73 percent as of November 2004. Every player in the world trading community lost market share to China, even countries with geographic proximity and preferential trade agreements.

China saw substantial growth in its market share in Europe as well, capturing anywhere from 30 to more than 50 percent market share in several key categories.

Every significant study on world textile and clothing trade predicts China to capture similar market share in the categories to be released from quota in 2005. The World Bank predicts that China will capture half the world's apparel trade once quotas are removed. A recent WTO study has predicted China and India will take a 71 percent share of the global market[32]. A study by McKinsey and Company also predicted that China's share that would rise to 50 percent for both textiles and apparel[33]. The United States International Trade Commission predicted that absent safeguard actions, "China would become the supplier of choice.[34]"

Perhaps most significantly, top executives for major importing and retailing firms – the firms that make the sourcing decisions – predicted that earlier this year that China would dominate trade in

[29] According to the UN Comtrade database, the average Chinese export price for trousers, shirts and underwear was $1.82 per item compared to an average export price charged by other suppliers of $4.42 per unit. For more information, go to www.ncto.org, 12/15/04 press release.

[30] Source: NCTO press release, "NCTO Analysis Shows Chinese Apparel Prices 76% Below U.S. Prices and 58% Below Rest of World's Prices," December 15, 2004, available at www.ncto.org.

[31] Id.

[32] " The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing", Discussion Paper #5, WTO, 2004

[33] "Trade Liberalization in China's Accession to the World Trade Organization", Elena Ianchovichina and Will Martin World Bank, June 2001, p. 21. McKinsey study: *AFX News Limited*, 3/28/04.

[34] "Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market", Pub. 3671, U.S. International Trade Commission, Jan. 2004

apparel once quotas are removed. In a confidential poll, 87 percent said China's share would exceed 50 percent and half of those predicted that China would gain between 75 and 90 percent[35].

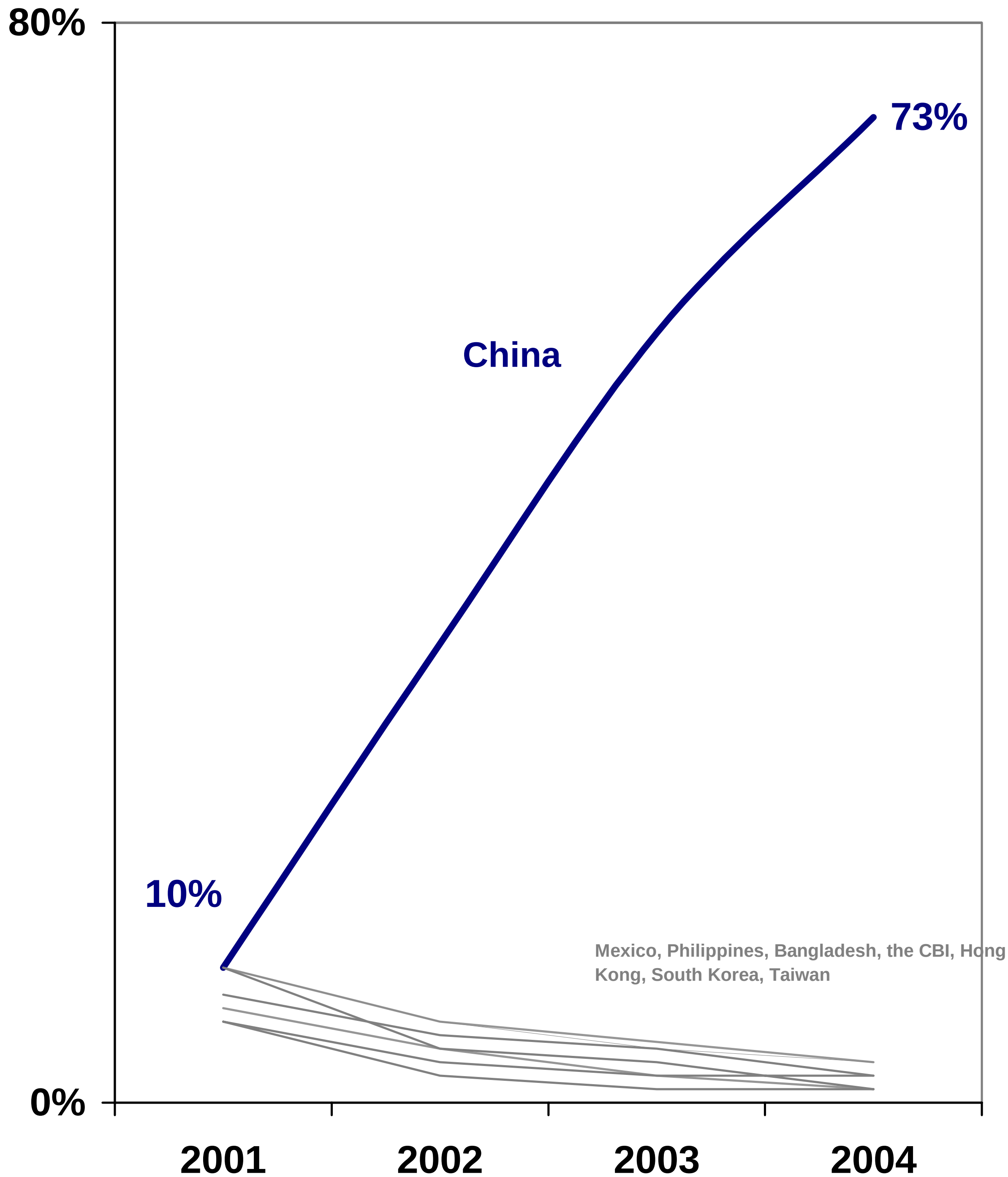
China's strategy for world domination has been evidenced by the fact that China has dominated world sales of textile and apparel machinery for the past four years, in some cases consuming up to two-thirds of world production of textile machinery (weaving looms). Chinese government statistics reveal that China has invested $21.2 billion over the past three years in order to dramatically increase its textile and apparel production capacity.

The crisis in textile and clothing trade is a global problem requiring a global solution. That is why GAFTT is calling for timely and effective action by all countries, but especially by European Union, United States and Canada, and the WTO to prevent further disruption of trade.

www.fairtextiletrade.org

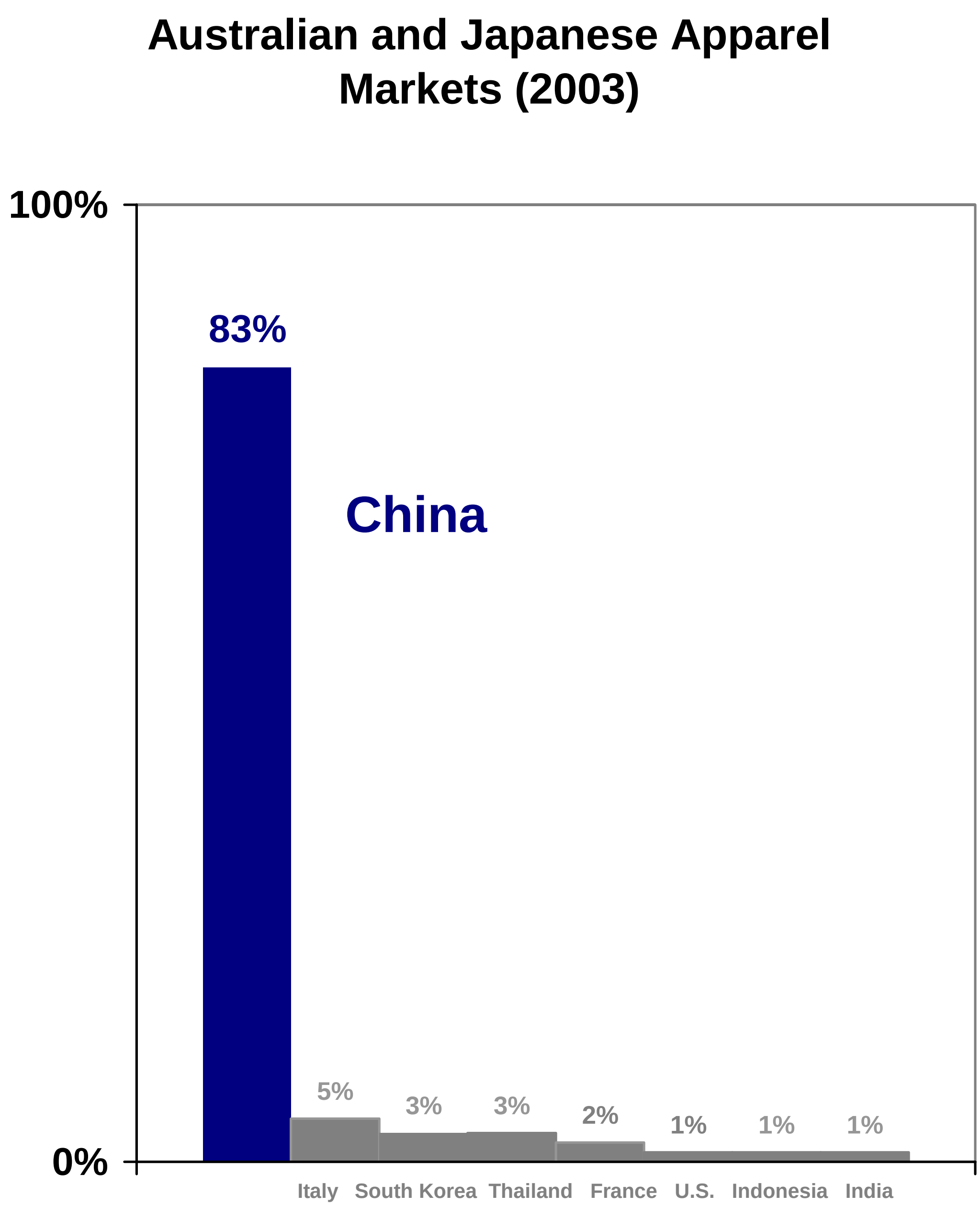
[35] "Cotton Sourcing Summit, Miami, Florida: WWD, 3/3/04

Apparel Products Removed from Quota in 2002 (top 8 suppliers)



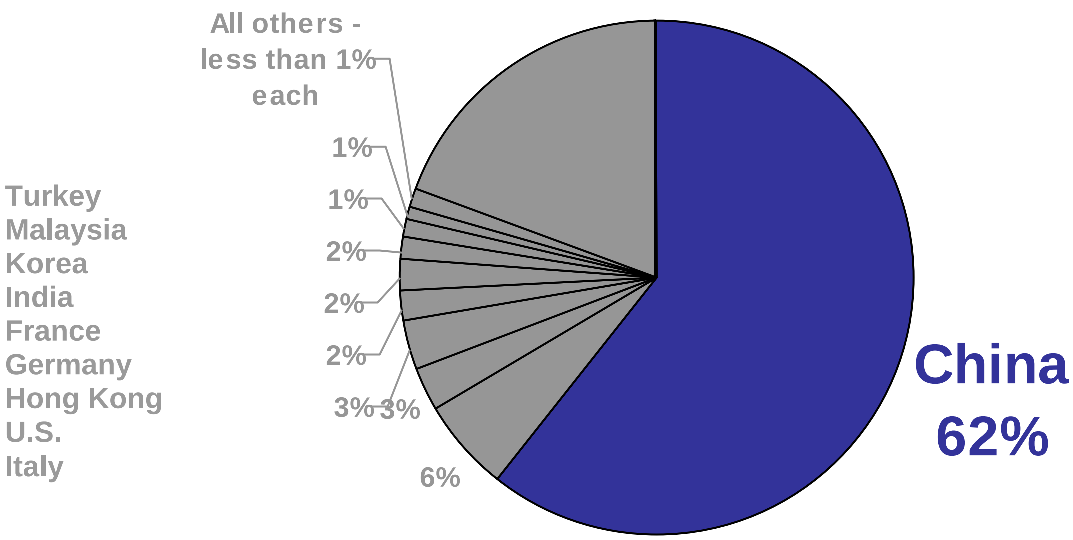
Source: United Nations COMTRADE database, by value, 2003.

Attachment 4



Source: United Nations COMTRADE database, by value, 2003.

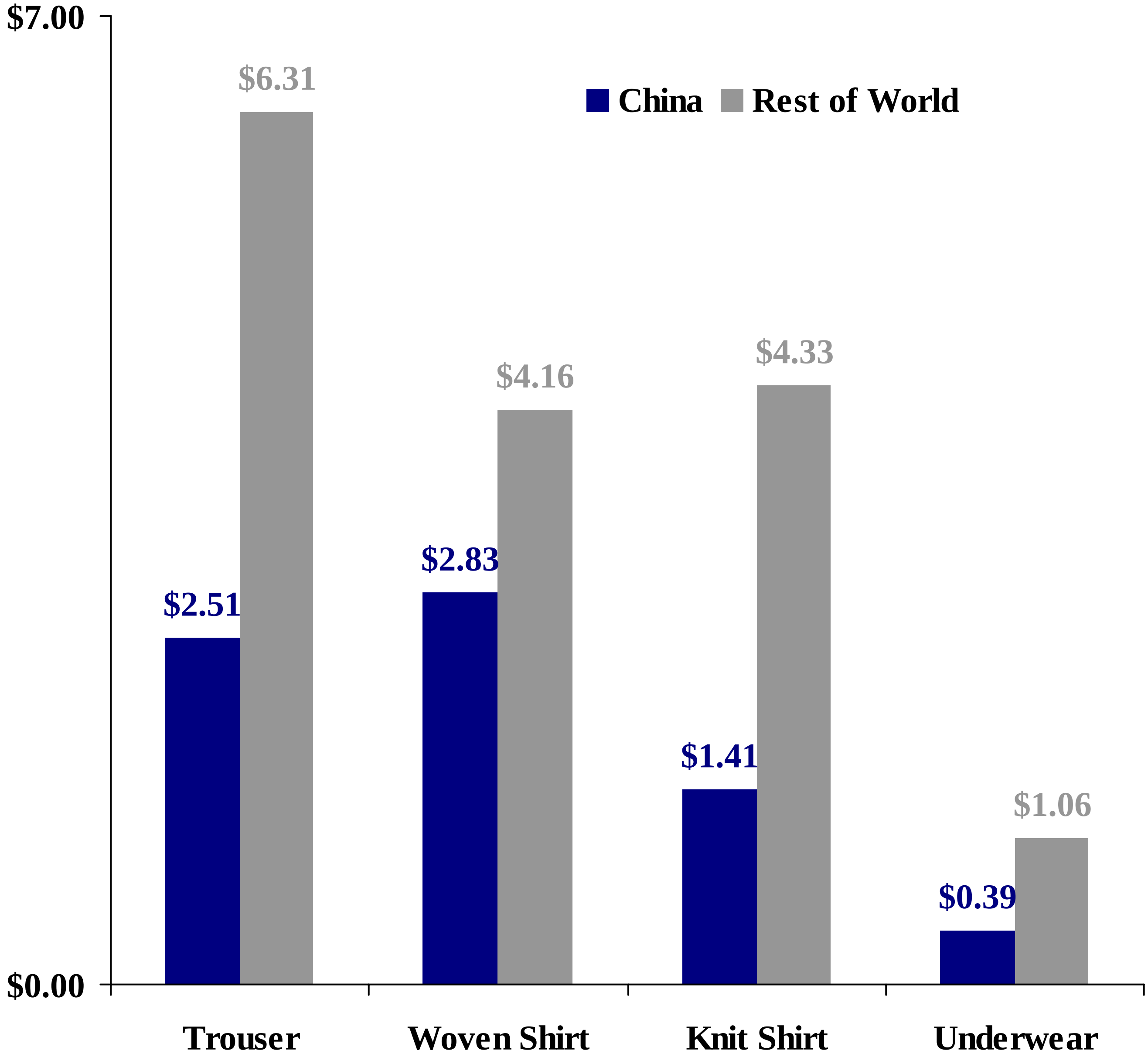
Share of Worldwide Apparel Trade Outside the U.S. / E.U. (in Non-Quota Countries)



Source: United Nations COMTRADE database, by value, 2003.

Attachment 6

China Prices Average 58% Lower than "Rest of World" for Major Apparel Products



Source: United Nations COMTRADE database, 2003.

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NCTO Analysis Shows Chinese Apparel Prices 76% Below U.S. Prices and 58% Below Rest of World's Prices

Chinese Predatory Pricing Demonstrates Need for Safeguards to Combat Chinese Currency Manipulation, Subsidies, Unfair Trade Practices

(Washington, DC) -- The National Council of Textile Organizations (NCTO) today released statistics showing that China is exporting trousers, shirts and underwear and other apparel at 76 percent below U.S. producer prices and 58 percent below the prices of other exporting countries for the same garments.

"This data clearly demonstrates the enormously unfair trade advantages the Chinese government is employing on behalf of its textile and apparel industry, and validates our concern that China will flood the U.S. in 2005 if textile safeguards are not imposed by our government," said Cass Johnson, President of NCTO. Johnson noted that, "In twenty-nine apparel categories that were removed from quota in 2002, Chinese prices plunged by 53 percent, helping Chinese exports to the U.S. of these products to grow by more than 1,000 percent. As a result, China's share of the U.S. in this categories grew from roughly 10 percent to 72 percent – and this was in just 30 months."

These unfair advantages which the Chinese government employs include a 40 percent price advantage because of Chinese currency manipulation, billions of dollars in direct subsidization of its textile industry and government banks that are giving away money to Chinese manufacturers.

Chinese Predatory Pricing		
	Average price for garments*	Percent difference with China
China's Worldwide Export Price	$1.84	
Rest of World's Export Price	$4.42	58%

U.S. Producer Price	$7.63	76%
Average of export prices for trousers, underwear, woven shirts and knit shirts. Export data is for 2003. See attachment for more details.		

According to Johnson, "China engages in the worst kind of predatory pricing. When our companies are competing against the Chinese government itself, then something is very wrong and we need the U.S. government to respond on our behalf." NCTO and other U.S. textile and apparel groups have filed for safeguards to be applied against a variety of textile and apparel exports from China in an effort to limit their growth next year to 7.5 percent. Final decisions by the U.S. government on these petitions are expected in early February.

The NCTO analysis also showed that, where quotas do not exist, China already dominates world trade in these products. Specifically, it shows that China has captured an average 55 percent share of world trade in these products outside of trade with the United States and the EU, which have kept Chinese exports somewhat restrained by quotas.***** Of particular note are figures regarding Japan and Australia, two developed country markets with similar consumer buying patterns as the United States but which have never employed quotas. In these two countries, Chinese import market share now averages 88%.

Johnson added, "China's predatory pricing figures show why 96 trade associations from 54 countries around the world have joined together to demand that governments act to prevent a brutal takeover of world trade by China once quotas are removed. When manufacturers in no other country in the world can even come close to competing against China, then it is time for governments to stand up and take China on."

The analysis used trade data from the United Nations COMTRADE database and Global Trade Atlas as well as U.S. producer price information. The international data is supplied by 88 exporting countries, including China. The data was included in the U.S. textile industry comments filed by NCTO and its coalition allies in support of its safeguard petitions on the cotton and man-made fiber trousers, cotton and man-made fiber men's woven shirts, cotton and man-made fiber underwear, and cotton and man-made fiber knit shirts.

(Note: The database export data does not include duties, shipping and insurance. These costs would raise Chinese export prices by approximately 20%, to $2.04/garment, and "rest of world" prices to $5.30/garment. With these costs included, Chinese prices are 73% below U.S. producer prices and 62% above "rest of world" prices.)

***For further information on the worldwide coalition to prevent a Chinese takeover of textile and apparel trade, go to www.fairtextiletrade.org.**

Comparison of Chinese Apparel Export Prices with "Rest of World" Prices and U.S. Producer Prices										
Safeguard Petitions	Chinese exports to world	Chinese average export price	U.S. producer price	Chinese price advantage over U.S. producers	Average "rest of world*" price	Chinese price advantage over "rest of world*"	Chinese share of world exports	Chinese share of world exports, not including U.S. and EU	Chinese share of Japan and Australia markets	Increase in Chinese exports in last five years (1998-2003)
Cotton Trousers (347/8)	1.5 billion trousers	$2.87	$12.79	78%	$7.73	63%	39%	56%	91%	83%
MMF Trousers (647/8)	1.0 billion trousers	$2.16	$11.39	81%	$4.90	56%	44%	64%	86%	102%
Men's Woven Shirts (340/640)	536 million shirts	$2.83	$12.05	77%	$4.16	32%	56%	61%	83%	30%
Cotton Knit Shirts (338/9)	1.7 billion shirts	$1.29	$4.55	72%	$4.29	70%	29%	56%	88%	90%
MMF Knit Shirts (638/9)	626 million shirts	$1.50	$4.09	66%	$4.37	66%	24%	45%	86%	68%
Underwear (352/652)	3.6 billion pieces of underwear	$.39	$.91	57%	$1.06	63%	46%	64%	93%	80%
Total		**$1.84**	**$7.63**	**76%**	**$4.42**	**58%**	**40%**	**55%**	**88%**	**76%**

Sources: United Nations COMTRADE database (2003), Global Trade Atlas (2003), U.S. producers (2004)
NOTE: Export data does not include duties, shipping and insurance. These costs would raise Chinese export prices by approximately 20%, to $2.04/garment, and "rest of world" prices to $5.30/garment. With these costs included, Chinese prices are 73% below U.S. producer prices and 62% below "rest of world" prices.
*Rest of world = "exporting countries" minus China.