

HEARING ON CHINA'S IMPACT ON THE U.S. MANUFACTURING BASE

HEARING BEFORE THE U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION ONE HUNDRED EIGHTH CONGRESS SECOND SESSION

—————
JANUARY 30, 2004
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The Commission's full charter is available via the World Wide Web: <http://www.uscc.gov>.

The Commission's Statutory Mandate begins on page 151.

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

MARCH 4, 2004

The Honorable TED STEVENS,
President Pro Tempore of the U.S. Senate, Washington, D.C. 20510
The Honorable J. DENNIS HASTERT,
Speaker of the House of Representatives, Washington, D.C. 20515

DEAR SENATOR STEVENS AND SPEAKER HASTERT:

On behalf of the U.S.-China Economic and Security Review Commission, we are pleased to transmit the record of our field investigation in Columbia, South Carolina on January 30, 2004. This field investigation titled, "*China's Impact on the U.S. Manufacturing Base*," gave the Commission the opportunity to examine the real, on-the-ground impacts of fast increasing Chinese imports and off-shore transfers by U.S. firms on the U.S. manufacturing base.

This investigation revealed the extent of the difficulties faced by America's manufacturers, workers and communities in the face of manufacturing competition from China and the urgent need for action to deal with them. The location was vital to the message. According to U.S. Department of Labor statistics, between November 2002 and November 2003, Columbia, South Carolina lost 12,000 jobs, which represents a 4 percent decrease, the largest percentage of jobs lost that year for any metropolitan area in the United States. The State of South Carolina lost 2.6 percent of its jobs over that same time period, the largest percent decrease of any State. In the manufacturing sector, South Carolina has lost 63,000 jobs, a nearly 20 percent decline over the past three years.

Representing bipartisan Congressional concerns about this matter, Senators Ernest F. Hollings (D-SC) and Lindsey O. Graham (R-SC) took part in the proceedings and expressed to the Commission their views regarding what they believed to be China's unfair trade policies, particularly its artificially undervalued currency, as well as export subsidies, dumping, and other WTO-inconsistent practices. Panelists representing South Carolina's manufacturing industries—including textile, apparel, steel and plastics—gave vivid descriptions of the bottom line challenges they face from such Chinese competition.

Unfair Chinese Trade Policies

China's continued rapid growth in manufacturing, U.S. companies' willingness to move production abroad in order to cut costs, often referred to as offshore outsourcing, and China's policies aimed at encouraging growth and investment in its manufacturing base were discussed in depth at this investigation. In assessing causes of the worsening U.S. trade deficit and loss of U.S. manufacturing jobs, participants pointed to China's lack of labor and environmental standards, rampant infringement of intellectual property rights, state subsidization of its state-owned industries through preferential tax treatment, access to capital, and other benefits, and its record of lagging compliance with many important commitments under its WTO accession agreement. These factors have undermined the competitiveness of U.S. manufacturing firms in South Carolina and elsewhere in our country.

Overall, many of the hearing participants were exceedingly critical of the U.S.' trade strategy and policies. Many claimed that policies aimed at promoting free trade were in fact encouraging the transfer of manufacturing and research and development to China to the detriment of the U.S. economy.

Industry Specific Considerations

Steel: Over the last three years South Carolina's steel and metals industry has experienced a dramatic decline. Between November 2000 and November 2003, South Carolina's primary metals and fabricated metals industries lost a combined 7,300 jobs, representing contractions of 20 percent and 18.6 percent, respectively. According to the U.S. Department of Commerce, between 2000 and 2002, South Carolina's exports of primary metal manufactures fell from just over \$126 million to approximately \$76 million.

Panelists representing U.S. steel firms described the effect of competition from China on their industry. They noted that China's steel industry—which benefits from extensive capital subsidies from China's state-owned banks—has grown 10 percent in the last 12 months resulting in soaring demand for scrap steel and other inputs. One particularly ominous concern expressed by hearing panelists is that a slow down in the Chinese economy could reduce its domestic demand for steel and

lead to dumping of subsidized Chinese steel in U.S. markets, resulting in further price pressures on U.S. steel producers.

Textiles and Apparel: The U.S. textile and apparel industries have suffered dramatically since China entered the WTO in 2001. Over 50 American textile plants closed in 2003, resulting in the loss of 49,000 jobs. One out of every four U.S. textile jobs that existed in January 2001 no longer exists. South Carolina's textile industry has suffered significant losses. In 2003, 4,000 textile workers in South Carolina lost their jobs. This was second only to North Carolina—whose textile industry lost 13,600 jobs.

Textile manufacturers and union representatives expressed deep-seated concern that the expiration of the Multifiber Arrangement on January 1, 2005 would allow China to capture a vast percentage of the U.S. market and decimate the remaining U.S. textile industry, which still employs 630,000 people. Participants also alerted the Commission that new trade agreements, such as the Central American Free Trade Agreement (CAFTA), provide an opportunity for the transshipment of Chinese textiles through third country ports, which would undermine the China specific textile safeguards imposed by the U.S. against a range of Chinese goods in December.

To guard against surges of Chinese textile imports from subsidized state-owned factories, the U.S. negotiated a special textile safeguard as part of China's WTO accession agreement that allows the U.S. and other WTO members to impose restrictions on Chinese textile imports when they pose "a significant cause of material injury, or threat of material injury to the domestic industry." Although China entered the WTO in January 2002, the U.S. Government did not publish procedures to implement this safeguard until May 2003, and first used this provision in November 2003 when the Bush Administration announced the imposition of textile safeguards on select categories of knit fabric, dressing gowns, robes and bras imported from China. These year-long restraints became official on December 23, 2003. The Commission believes the U.S. Government has not been aggressive enough in using this textile safeguard.

Based on the record of this hearing and the Commission's other work on these issues to date, we present the following preliminary recommendations to the Congress for consideration. The Commission will continue to develop these recommendations and provide additional guidance in our annual Report to the Congress.

Preliminary Recommendations:

- The United States Trade Representative and the Department of Commerce should immediately undertake a comprehensive investigation of China's system of government subsidies for manufacturing, including tax incentives, preferential access to credit and capital from state-owned financial institutions, subsidized utilities, and investment conditions requiring technology transfers. USTR and Commerce should provide the results of this investigation in a report that lays out specific steps the U.S. Government can take to address these practices through U.S. trade laws, WTO rights and by utilizing special safeguards China agreed to as part of its WTO accession commitments.
- The U.S. tax code should be restructured to eliminate incentives for U.S. businesses, particularly manufacturing, but also services and high technology companies, to shift production, services, research and technology abroad. Tax incentives which reward relocation abroad should be removed from the tax code as soon as possible.
- USTR should press for provisions during the Doha Round that allow for increased penalties on firms that have been found in violation of anti-dumping laws on multiple occasions.
- The Administration should undertake a comprehensive review and reformation of the government's trade enforcement infrastructure in light of the limited efforts that have been directed at enforcing our trade laws. Such review should include consideration of a proposal by Senator Hollings (D-SC) at our hearing to establish an Assistant Attorney General for International Trade Enforcement in the Department of Justice to enhance our capacity to enforce our trade laws. Moreover, the U.S. Government needs to place a renewed emphasis on enforcement of international labor standards and appropriate environmental standards.
- If we experience new surges of imports that threaten the U.S. steel industry, the United States should claim a national security exemption under Article XXI of the WTO for the steel industry because of its importance to our military manufacturing sector and our national security.
- The United States should work with other interested WTO members to convene an emergency session of the WTO governing body to extend the Multifiber Arrangement at least through 2008 to provide additional time for impacted industries.

- The U.S. Government should more fully and effectively make use of the Section 421 China-specific safeguard and the China textile safeguard available to WTO members. These were important provisions negotiated into China's WTO accession agreement and intended to provide relief for domestic industries hit with surges of imports from China.
- The leadership and appropriate Committees of Congress should convene a summit of leaders of the textile industry, its workers and their representatives, impacted communities and others to help define the crisis in the domestic textile and apparel industry as it related to trade with China and to define a plan of action to help address predatory trade practices and ensure that domestic capabilities exist to meet our Nation's economic and national security needs in this important area. As part of that effort, the Summit should:
 - Review recently completed free trade agreements and those under negotiation so as to avoid loopholes such as that present in the Central American Free Trade Agreement (CAFTA) that grant the Chinese textile industry the opportunity to circumvent American safeguard and tariff provisions.
 - Examine Customs Service efforts to monitor and inspect shipments of textile and apparel imports to ensure that the law is being appropriately enforced and determine what increases in resources are necessary to protect the rights and interests of the industry and its workers.

Community Impacts

The Commission heard powerful testimony on the extent to which trade-related economic dislocations have impacted many South Carolina manufacturing communities. The Commission was told that the significant loss of jobs in South Carolina due to import competition and off-shoring had resulted in externalities such as the erosion of the local tax base in many communities and the accompanying decline of law enforcement, infrastructure, and health services and had a debilitating impact on families and quality of life.

Preliminary Recommendations:

- U.S. trade policies have contributed to current high levels of unemployment. The Administration should authorize another unemployment insurance extension in an attempt to provide unemployed workers with a greater amount of time with which to locate employment.
- A new type of education program should be enacted for long-term and effective adjustment to the employment impacts of outsourcing and relocation abroad. Further, a series of Federal and local training programs in coordination with private U.S. firms aimed at tailoring education to meet future needs should be developed.
- The Congress should fund information sessions and a public awareness campaign to inform laid off workers about existing and newly established programs such as Trade Adjustment Assistance (TAA). Petitions for TAA eligibility should be processed expeditiously.

Thank you for your consideration of our recommendations. In addition to the above findings we commend you to also review the record of our September 25, 2003 hearing on China's investment, industrial, and exchange rate policies, our February 5, 2004 hearing on China's WTO compliance and a February 12-13, 2004 field investigation in San Diego on U.S.-China high-technology trade. We hope you will find all of these proceedings helpful as the Congress continues its assessment of the implications of China's growing role in global trade and manufacturing.

Sincerely,



Roger W. Robinson, Jr.
Chairman



C. Richard D'Amato
Vice Chairman

Note:

Commissioners Bryen, Reinsch, and Wortzel dissented in whole or in part from the Commission's majority in submitting these preliminary recommendations.

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HEARING ON CHINA'S IMPACT ON THE U.S. MANUFACTURING BASE

FRIDAY, JANUARY 30, 2004

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION,
Washington, D.C.

The Commission met in Room 101, Blatt Building at the South Carolina State House Capitol Complex, Pendleton and Assembly Streets, Columbia, South Carolina at 9:30 a.m., Chairman Roger W. Robinson, Jr. and Commissioner George Becker (Hearing Co-Chairs), presiding.

OPENING REMARKS OF CHAIRMAN ROGER W. ROBINSON, JR.

Chairman ROBINSON. I'd like to call for order, if I may, on the first field investigation of the U.S. China Economic and Security Review Commission, a practice that we hope to repeat on a number of occasions in the future. It's designed to get firsthand, on-the-ground information, in this case, on China's impact on the U.S. manufacturing base. And, regrettably, that's no more apparent or problematic than concerning the State of South Carolina. We're delighted to be here in Columbia. We thank all of those who have been so generous with their time and hospitality in making this happen, not to mention the great support we've received from the offices of Senator Graham and Senator Hollings. We are honored to have Senator Graham with us today to kick off this field investigation. We likewise think that it might be best to hold the opening statements of the Chair, Vice Chair and other Co-Chairman for today's hearing, Commissioner Becker, in order to permit Senator Graham to move right ahead and open for us. Senator Graham was elected to the South Carolina House of Representatives in 1992, and in 1994 became the first Republican to represent South Carolina's Third Congressional District in the U.S. House of Representatives since I believe it was 1877. He has served the Nation in the United States Air Force and the South Carolina Air Guard, was a veteran of Operation Desert Shield and Desert Storm, and continues to serve as a Lieutenant Colonel in the U.S. Air Force Reserves. After spending four terms in the House, Senator Graham was elected to the U.S. Senate in 2002. He is a Member of the Senate Arms Services Committee; the Senate Committee on Health, Education, Labor and Pensions; and the Senate Judiciary Committee and Senate Veterans Affairs Committee. We're honored to have him here today to appear before the Commission. We had the good fortune of hearing from him at an important hearing that we convened on September 25th where he provided a forceful presentation on a number of the issues that we're going to be addressing

here. And, if you'll indulge me, Senator, I can't resist sharing with our audience just a couple of comments you made——

Senator GRAHAM. Take your time.

Chairman ROBINSON. —in what we all would regard as plain talk and powerful points, one after the other. It was really an extraordinary presentation that I commend to all of your attention. But one of the points that Senator Graham made at that time was that it is hard to have free trade if you do not have free speech. "Somebody in our government has got to come to grips with the idea that we are dealing with a country that cheats and is a communist dictatorship and what do you expect. They are cheating and they are taking the money to build up their military. It's a lose, lose." There were many other dimensions to that particular address but it gives you a sense of how forcefully the State of South Carolina is represented and how powerful a proponent you have in Washington. So, with that, Senator Graham, we welcome your remarks.

CONGRESSIONAL PERSPECTIVES PANEL

STATEMENT OF LINDSEY O. GRAHAM A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator GRAHAM. Well, thank you, Mr. Chairman. Welcome to South Carolina. Our economy has improved over the last couple of days because of Presidential politics and this Commission. I don't know how you got both here, but we're glad to have you and I think this is a good idea for the Commission to get out of Washington and talk to people who are affected by China. And I do appreciate that compliment. There's a lot of talk about which party is best for the country and who's going to win the Democratic Presidential primary. And I'm glad they had one here and our Democratic party chairman has done a good job and it's been beneficial to the State to showcase South Carolina through this debate. But there were some things said last night that I would like to associate myself with. I'm obviously on the other side of the aisle and I'm a big fan of President Bush. But when it comes to trade, I don't think people really ask too much if you're a Republican or a Democrat when you get the layoff notice. You lose your job, you lose your job. And what Senator Lieberman said last night about China I thought was dead on. It's funny, during the Clinton years, it was a real effort to have a global economy to allow China to come in and be part of the Family of Nations. I was always leery of China. I voted one time, I think, for most favored nation status to see how it would play and ever since then I've voted continually to not open our doors to China until they change. I've never lived an extended period of time in a communist dictatorship. And we tend to forget that. Cheap labor is part of capitalism. Those of us in South Carolina who have benefited from the textile industry, my family included immensely, have to realize that these jobs came from the North. People came to South Carolina years ago to operate the textile plants because labor was cheaper and there were no unions. And it was a very good business climate. That's part of the capitalist dynamic. Where do I locate my business? What's the most favorable climate? And if one State can provide a better climate than the next, then that's just the way it is. What I'm talking about and what this Commission is exploring is not that at all. They level

against me and anyone else who wants to talk about China as being a protectionist; that I'm supporting the old economy and not realizing about the new economy; and I'm trying to defend the buggy-whip manufacturer when cars are right around the corner. This Commission has done an invaluable job. You've taken the rhetoric of both sides and you've analyzed it and you've come up with some findings. And if you look at this issue very close for a short period of time, you see trends. We're losing jobs to India and other places because of outsourcing. Cheap labor, very qualified, educated people competing against services here. I don't know how to stop that other than making our economy a better place to do business by reforming the way we litigate, regulate and tax. What's going on with China is totally, completely different. The reason our textile industry has been under siege, it's not because they haven't invested in modern technology. If you walk through a textile plant in South Carolina today versus when I was born in 1955 living in a textile town, there is a world of difference. The reason our textile industry, in particular, has been devastated is not because of NAFTA; it's because the Chinese government has decided to steal the market share. They have tried to benefit from NAFTA even though they're not a partner. Trans-shipment is a huge problem. And you know that. Billions of dollars of goods made in China are working their way through NAFTA and other trade agreements that the Chinese are not a part of because they cheat. I said before, it's hard to deal with somebody that has a totally different value system. Democracies seldom go to war and we're able somehow to resolve our trade disputes in court. Go to China and try to go to court. If you're in China and your intellectual property has been stolen, good luck trying to get it worked out. If you sell semiconductors in China, and they put a value-added tax just on Western made semiconductors, good luck going to Congress and trying to get a fair shake. The Chinese system of government and the Chinese trade policies are something that we really don't understand and have not come to grips with in terms of how it impacts our trade. The money. I've been told that if we try to float the Chinese currency that we will cause great instability in China with their banking system. I am not an expert on that issue, but I do know this. That in 1994, when the Chinese began to peg their currency to our dollar, the deficit with China trade wise was 29.4 billion. In 2003, the trade deficit with China is about 125 billion. I know this, that everybody that I represent from the textile industry, from any manufacturing entity, is telling me that having the Chinese currency valued the way it is is killing them. And they're hoarding dollars. The President talked about marriage and a lot of other issues that are important. I'm here to let the Commission know that I've read your report, and we may have bills talking about marriage, but the thing I like most about being a United States Senator is you can put legislation on anything you want to. We may have a bill talking about marriage but we're also going to have on that same bill talking about the value of the Chinese currency. I have promised the people that I represent that talk has been in abundance and action has been limited. I have behind me some big constituencies in this State—the textile people and the steel people. Usually, you use this opportunity to try to make them feel good

about their representative. I'm here to tell them that I don't feel like I've done a good enough job for them, any one of them. I don't see any short-term solutions. But we've got to fight back where we can. And your report about the manipulating of the Chinese currency is dead on. And if it has a ripple effect in the Chinese economy, so be it. It's time for them to change their economy. The numbers speak louder than I could ever speak. I've got statistics here that are just astonishing, and I'll read some of them before I end. But what I would like to see my country do, Republican and Democrat, is to ask that the Chinese government stop cheating; to try to persuade the Chinese government, through international organizations like the WTO and other avenues, to stop stealing market share; be a better member of the Family of Nations. And there's a lot of resistance to any idea about change. One of the reasons is that it costs some money. The plants that have closed throughout this country and have gone to China are not making products in China to sell to the Chinese. They're making the same widget that they made in America for a fraction of the cost, selling it back to the American economy and consumers' benefit in the short term. The Chairman mentioned about where the money goes in China. 0.1 percent of the people in China have benefited from this trade regime. It is not going to the average Chinese. It is going into their military disproportionately. The Chinese have launched a man in space. That same rocket could be used for different purposes. What I considered to be at one time a regional problem now is a national security problem. The Chinese have doubled their share of the steel industry in ten years. If you produce steel in China, the least of your worry is paying the power bill because the Chinese government pays the power bill for you. The American government doesn't pay the power bill for Nucor and Georgetown Steel. It's the number one cost of producing steel. There will be an effort this year, I hope, to shake things up. This Administration has listened; they have taken some action, but I don't believe they quite understand it yet. That we're dealing with a Chinese communist dictatorship that is an economic and military threat to our way of life. If we had had these same policies with the former Soviet Union in terms of trade and allowed the Soviet Union to enrich itself in the same manner that we're allowing the Chinese government to enrich itself by stealing market share, it is my belief that the former Soviet Union would still be in business. The reason it collapsed is that we took a firm view of their human rights record. We stood up to them at every turn. President Reagan went in front of the Wall, the Berlin Wall, and said tear it down. Right now, the wall that exists in China, our approach is can we sell you more bricks. I'm very disturbed about the long-term consequences of the China that is not met forcibly. They have taken the field and they have shown a willingness to do almost anything to enrich their economy. And their economy is a command-controlled dictatorship. People in China would only dream of being able to criticize their government the way I'm criticizing mine. If you had said what I'm saying today about the Chinese way of doing business, you would be in jail. When you talk about international wage standards and environmental standards, I'm listening. I don't want to over-regulate the world, but I do want a level playing field. My State, in South Caro-

lina, manufacturing has declined 6.6 percent. Nationally, it's declined 4.2 percent. Why? It's not that we're making buggy whips. We're making products that people want but we can't make them and stay in business because of China, and other places like China, but mainly China. There have been two States in the whole fifty State union that's had a plus up in manufacturing—Hawaii and Nevada. Productivity is part of it, but that's not what's happening. We're not that much smarter, that much more efficient. It's just slowly but surely our economy is bleeding. I don't care if the Dow gets to 20,000. It doesn't matter because we're having a jobless recovery. Why are we having a jobless recovery? Because if you want to create a new job, then you've got to pick the way we tax, the way we regulate, the way we litigate, makes it a hard choice to pick our country. The way the Chinese tax, the way they regulate, the way they litigate, makes it an easy decision to go over there in the short term. Here's what happens if you choose to partner with these folks, the government. The Chinese people, I'm sure, are wonderful people. I'm just not a big fan of dictatorships communist in nature. The number one complaint I'm getting back now is companies who decide to go into business with Chinese entities find themselves when they get to be profitable, the laws change. And next week there's a plant across the street making the same product with their own technology totally owed by the Chinese. So, if you go there to make some quick bucks, understand the consequences of what may happen to you. We've lost 41,000 jobs in South Carolina in 2003. I'm here to tell you, it's not because we're lazy; it's not because we're dumb. It's going on all over the country. We're not a lazy people; we're not a dumb people. Chinese access to the U.S. textile and apparel market doubled, more than doubled in 2002. 117 percent. In 2003, an additional 114 percent. It is not a two-way street. Our steel industry is having the same type of effects. More than 200,000 U.S. textile workers have lost their jobs. Here's what I say to the multi-national corporations who pooh-pooh the textile industry or any other industry like it: What do you tell a 45 or a 50 year old person who's gotten a notice that their job is over? Where do they go? We're having 250 million dollars for job retraining. What do we train people in that they can stay in business here? Eight percent of the lawyer jobs, God knows we've probably got too many lawyers, but eight percent of the lawyer jobs in this country in the research area are going to be lost to India. The number one deal in medicine now is to have somebody overseas read the diagnostic testing because they can do it so much cheaper. What area of the economy is not vulnerable to this? What do you train people to do if you don't regulate China? If they choose to play in your business, no matter how high tech it may be, if they choose to, they will eventually get you. Not because they're better business people; it's because they have absolutely no value system that we all play by. This Commission is extremely important only if we do something. We've wasted your time, the taxpayer money, put on a political show, if all we do with your report is say isn't that a shame. And every time I speak this way, people ask me well, what should we do. You're talking about concepts just in general. Start with the money. Why shouldn't the Administration and the Congress heed your call to actively get the Chinese to float their

currency to get its true value. Let's start with the money. Let's start with the dumping in textiles. Let's go to the Chinese government and say that if you keep dumping and trans-shipping, we're going to have permanent quotas. Let's fight back. If you continually steal intellectual property, you're going to find yourself before every world trade organization that exists. Let's fight back. We fought back against the former Soviet Union and communism at every turn. We spent trillions of dollars during the Cold War to make sure that communism did not spread. It was one of the best investments we've ever made. We're AWOL as a country when it comes to standing up to this communist dictatorship that's playing unfairly, that oppresses its people, is bleeding our economy dry. That's not protectionism. To me, that's just patriotism. Thank you for coming to South Carolina. The trade deficit with China will only get worse until we act. The numbers speak for themselves. You know them better than I do. I'm here today to say that numbers tell a lot. But I grew up in South Carolina like John Edwards. He said he grew up forty miles from the Greenville debate. He was born in Seneca, South Carolina. Guess where I was born? Seneca, South Carolina. Same hospital. Two years apart. He looks younger but he's not. I was born in the right wing and he was born in the left wing. John and I disagree on a lot but when he talks about seeing mills close and people thrown out of work, he's right. He's dead right. I know President Bush is a compassionate man. I know he believes in trade. I honestly and completely do. We need to make sure that every country can contribute in a way that's helpful to their people and everybody has a niche to play in the world market. There is no room in the world market for a communist dictatorship that cheats. God Bless You. Thanks for coming.

Chairman ROBINSON. Thank you, very much, Senator Graham.

Senator GRAHAM. Thank you.

Chairman ROBINSON. Do you have perhaps a moment or two for—

Senator GRAHAM. I've got all the time you need.

Chairman ROBINSON. I know our Co-Chairman would like to pose a question to you for today's hearing. Commissioner Becker. But I would only say on behalf of the Commission that, again, we're very pleased you would take the time to be with us. And I can also assure you, and after having you read our final report, I think you're probably persuaded, that this is not another academic exercise or rehash that this Commission is engaged in.

Senator GRAHAM. I'm completely floored by the details. You guys all have—

Chairman ROBINSON. Well, we're prepared to deal with the facts, as they exist. We are prepared to let the proverbial chips fall where they may. There's been extraordinary bipartisanship on this Commission. It's tough minded; it's security minded by mandate. We're not just here to be a cheerleader and look at what's right about the relationship, although there are a number of positive indicators as well. We're more mandated to look at the vulnerabilities of our country, what's unfair, what's wrong with this picture. And we're going to state those facts as forthrightly and powerfully and persuasively as we know how. And that's our pledge in turn to you

and to South Carolinians. And with that, I would like to turn it over to my Co-Chairman, George Becker.

**OPENING REMARKS OF COMMISSIONER GEORGE BECKER
HEARING CO-CHAIR**

Co-Chair BECKER. Thank you very much. I certainly appreciate your remarks, Senator. You've got a good hold on the problem. I want to echo a bit of what Chairman Robinson said about the mandate of this Commission. Certainly, we're not here just to document the loss of jobs and the loss of plants and the suffering of workers who have been displaced. We want solutions. And one I wanted to talk to you about is, as a Senator, you're in a position I think to do something about. I was glancing ahead at some of the ATMI testimony and their comments. One of the things that they were pleading for is that Congress reject CAFTA. You were talking about transnational shipments and you mentioned Mexico and other low wage countries. And if it's not China, it's going to be somebody else that's involved in this. We're fighting this battle on many, many fronts. And they're asking Congress to reject CAFTA. I don't know whether that extends to FTAA. But what they're concerned about is the trade agreements that are being initiated through USTR and which Congress has in effect given the Administration a blank check on. I was wondering how you feel about that, and what you feel can be done from that end. USTR goes their own way. And there was a resolution from Congress before the last round of bargaining in Doha that they hold the line and not give away anything concerning our safeguards or anti-dumping permissions. And yet they're on the table for bargaining. And when USTR puts it on the table for bargaining, I'm afraid it's gone. And I would like your comments on that.

Senator GRAHAM. Okay. Well, let's look at it less emotionally; kind of walk ourselves around the world and find out where we're at trade-wise. There are a lot of non-tariff trade barriers that exist that somehow we have to deal with. I think the European demands about genetically altered food and other aspects of the European Unions policy about some of our agricultural products are non-tariff trade barriers. I think they're using science in a way to try to deny market access. Having said that, our farm subsidies do not withstand scrutiny. So there's some practices within our own country that need to be changed because the subsidies that we have right now in our farm system are necessary because a lot of times you're competing with governments; not just a competitor. But I would like to see the subsidies in our country changed and try to get other people to do likewise. The Europeans are even worse than us in terms of agriculture. I just got back from Central America and South America, and the economies are really in bad shape. And the number one question I asked is what kind of influence do you have from Chinese business. The Chinese are coming there in droves. The African—I can't remember the acronym—but the trade agreement we have with Africa, the number one beneficiary of that trade agreement is people who own or build warehouses where Chinese companies are locating to get goods from China to send through that trade agreement. I would like to help Central American countries. The Singapore-Chilean trade agreement that came before the

Congress, Zoellick put on the table changing the professional immigration standards. In other words, he was trying to change the law through a trade agreement to allow certain professional people to come in and get citizenship and visas. The problem I have with him is he puts everything on the table. I wouldn't let him buy my car. I don't think he's a very good negotiator. I think that we're taking our foreign policy and trying to implement it through trade agreements. CAFTA and any other trade agreement that comes through the Congress is going to be met with resistance until you can prove to me that China will not take advantage of it cheating. I'm not going to extend any more vehicles in the trade area until we deal with the current problem of trans-shipment in an honest and serious way. I don't want to be an isolationist; I don't want to be a protectionist. I don't think I have to be. We're selling soybeans to China. So, if you're in the soybean business, you're doing great. There's no reason that you can't do well in the soybean business and have the textile industry put out of business or the steel industry put out of business or the semiconductor people not being able to do business in China. It's got to be a two-way street. So, sir, to answer your question, the Administration will aggressively pursue regional and bilateral trade agreements. I'm going to take your report and I'm going to highlight what China is doing in terms of our economy and I'm going to follow the paper trail. And any time someone brings up a trade agreement, whether it be regional or with a particular country, I'm going to ask questions about the role that China could play in terms of how they would benefit from that agreement. When you go to Central and South America, you know they need help. They need to have access to our economy. How we do that without bleeding further from Chinese intervention, I don't know. So I will be a no. It breaks my heart to be that way because having gone there, you want to help wherever you can. But I think my number one job not only is to reach out and try to make the world a better place, but to make sure people that live in my State, my country, can have a job. So, I don't like Zoellick's approach to trade, putting everything on the table. You take our dumping provisions out, you've emasculated us.

Chairman ROBINSON. You've been very kind with your time and I'd like to just turn it to our Vice Chairman, Dick D'Amato, for comment.

OPENING REMARKS OF VICE CHAIRMAN C. RICHARD D'AMATO

Vice Chairman D'AMATO. Thank you, Mr. Chairman. And, again, thank you, Senator, for coming and we appreciate the hospitality of South Carolina. I listened very carefully to your statement. I think your statement was a very important statement. This is a Congressional Commission. All the Commissioners are appointed by the leaders of the Congress. We have only one client and that's the Congress. And we will continue to provide our best judgment on action items that can be taken up by the Congress. I'd just like to point out one thing. A number of us traveled last month to Geneva to visit with the WTO. And both the National Association of Manufacturers and the Chamber of Commerce of the United States had a list as long as your arm of violations of the agreements that the Chinese reached in acceding to the WTO. We had extensive

conversations with representatives of many of the countries represented in the WTO, including for example Japan and the European Community, and we concluded there's going to be only one country that is going to be willing to take the Chinese to dispute settlement panels and complain about their behavior, and that is the United States. And we haven't done it so far. We're going to have a hearing on the WTO on February 5th. So, as to the question that you raised regarding unfairness on the part of the Chinese in terms of their performance in the WTO, the United States is going to have to bring them to the dispute settlement panels to try and develop fair treatment by China toward the U.S. in the context of their WTO obligations.

Senator GRAHAM. The value of your Commission, I think, is that it does kind of put it all into one neat package so that we can kind of look at it system-wide. I know you're just focusing on China, but when, you know, Representative Kucinich says that we shouldn't be in the WTO and we shouldn't have passed NAFTA, I don't know how I would have voted. But the idea of the world coming together so that we can open up each other's market was a good idea. And the WTO could be very helpful to us only if they respond in a clear way. And I think the case that you all are making against China needs to be echoed by our Government into some international body. Let's give the WTO a chance. But really we have no one to blame, in my opinion—you all please tell me if I'm wrong—but ourselves. We're sort of asleep at the switch here. And your Commission has performed a valuable service to us but I don't want to leave here ... it means nothing if we don't do something about it. And representative, you know, of the USTR ... what has changing the immigration laws, why should that be in a trade agreement? Should we let the Executive Branch change immigration laws through a trade agreement and Congress say nothing? That's why I'm so worried about the fast track. It kind of deals us out. And should we as a body allow any dumping provisions to be excluded or not to be used or enforced on the individual trade agreements? The only way we can answer that now is to kill the whole agreement. What I hope your Commission will do for us as a body, the Congress, is to give us some ammunition to kind of stand up and expect better. I'll end with the last comment that I made before. If you can figure out how to integrate a Chinese communist dictatorship with over a billion people who go where they're told to go; who work in the industry they're told to work; who get paid what they're told they're worth; who have no way to answer back, if you can figure out how to integrate that into a world economy, please let me know. Thank you all very much.

Chairman ROBINSON. Thank you, Senator.

Senator GRAHAM. God Bless You.

OPENING STATEMENT OF CHAIRMAN ROGER W. ROBINSON, JR.

Chairman ROBINSON. Well, we're expecting to be joined fairly shortly, I believe, by Senator Hollings. In the intervening time, however, I thought that it might be a good moment to go forward with our opening remarks so that we can, in effect, officially kick off this first field investigation. And, in that regard, I want to again

express all of our pleasure for being greeted so warmly in Columbia.

I'd like to note at the outset of today's event that we're being broadcast and web cast by South Carolina's Educational Television. ETV is South Carolina's statewide public broadcasting network. And we are very appreciative of their efforts to help expand the viewership of this important event. The web cast will be available on the Commission's website as well at www.uscc.gov.

Our Commission, the U.S. China Economic and Security Review Commission, was established by the U.S. Congress to investigate the national security implications of our trade and economic relationship with China. The Members of the Commission were appointed by the Republican and Democratic leaders of both the U.S. Senate and House of Representatives. In setting out our mandate, the Congress directed us to take a broad view of national security to include an assessment of how our economic relationship with China is impacting U.S. economic and broader security interests. It is this part of our mandate that's brought us to South Carolina.

As I mentioned earlier, today is the Commission's first field investigation outside of Washington. I think all of us believe this method of firsthand investigation will become a permanent and significant part of our Commission's work and we're very glad to be kicking it off here today.

The goal of today's investigation is to hear practical firsthand perspectives on how U.S. China trade is impacting the industrial base of South Carolina. U.S. manufacturers, labor unions, economists and others have increasingly identified China's manufacturing competition as the critical factor in the erosion of U.S. manufacturing capacity, an issue that raises clear concerns of an economic and national security nature.

We're honored to be joined today by both of the distinguished Senators from South Carolina, Senator Graham, who we've just heard from; Senator Hollings who will be along. And we will also hopefully be joined by the distinguished Representative from the Columbia area, Congressman Clyburn. Their participation with us demonstrates the bipartisan concern in the Congress over the issues we'll be discussing today. We thank all of them for their help, their offices and their staff, in helping put together today's event and commend them for their strong leadership on manufacturing-based issues more broadly. If I might, I would like to again quote from the testimony of Senator Graham when he appeared before the Commission on September 25th where he made clear his deep concern over the devastating losses being sustained by South Carolina's manufacturers and his conviction that the imbalanced U.S.-China trade picture, in general, was a major contributing factor. He told the Commission at that time, "Let me tell you what's going on at home. We've lost 250 textile plants. I know a lot of people say well, this is a high intensive labor-type production and you're just not going to make it in the 21st century. Well, if we do not make it, so be it. I just do not want to not make it because other people cheat. China cheats."

Today's event builds on the Commission's September hearing which was entitled "*China's Industrial, Investment and Exchange Rate Policies: Impact on the United States*," where we examined

China's currency policies, its foreign investment incentives and its strategies for industrial development, all of which factor into China's rapid manufacturing development. Following this hearing, we forwarded to Congress several key findings on these issues, including our conclusion that China has been deliberately manipulating its currency to maintain a favorable exchange rate against the U.S. dollar. A point forcefully made by Senator Graham. Specific to today's discussion, we concluded that, "The inappropriate exchange rate between the Chinese yuan and the dollar is negatively impacting the competitiveness of U.S. manufactured goods and is contributing to a migration of world manufacturing capacity to China and erosion of the U.S. manufacturing base."

The September hearing was effective also in unearthing some of the larger issues and concerns of U.S. workers and manufacturers. Today's field investigation is an effort to examine real, on-the-ground impacts of increased Chinese imports and offshore transfers by U.S. firms, particularly on workers and working communities. Today, we'll be exploring these and other important questions with representatives of industry, workers, communities and concerned members of the public.

Again, we're also honored to be joined by Senator Hollings and hopefully Congressman Clyburn in the near term. I look forward to hearing their perspectives as well as those of all of the distinguished panelists that we've assembled today.

At this time, I'd like to turn over the proceedings to the Co-Chair for today's event, my colleague, Commissioner George Becker, for his opening remarks. Thank you.

[The statement follows:]

Prepared Statement of Chairman Roger W. Robinson, Jr.

Good morning, it is a pleasure to be here in Columbia.

I want to note at the outset that today's event is being broadcast and webcast by South Carolina Educational Television (ETV). ETV is South Carolina's statewide public broadcasting network, and we are very appreciative of their efforts to help expand the viewership of this important event. The webcast will be available on the Commission's website at www.uscc.gov.

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Today our Commission will hold its first field investigation outside of Washington, DC. I believe this method of first-hand investigation will become a permanent and significant part of our Commission's work, and we are very glad to be kicking off this new process in South Carolina.

The goal of today's investigation is to hear practical first-hand perspectives on how U.S.-China trade is impacting the industrial base of South Carolina. U.S. manufacturers, labor unions, economists and others have increasingly identified China's manufacturing competition as a critical factor in the erosion of U.S. manufacturing capacity, an issue that raises clear issues of economic and national security.

We are honored to be joined today by both of the distinguished U.S. Senators from South Carolina, Senator Hollings and Senator Graham, and by one of the distinguished Representatives for the Columbia area, Congressman Clyburn. Their participation demonstrates the bipartisan concern in the Congress over the issues we are discussing. We thank all of them for the help their offices provided in putting together today's event and commend them for their strong leadership on manufacturing base issues. We had the honor of having Senator Graham address the Com-

mission at our hearing in September where he made clear his deep concern over the devastating losses being sustained by South Carolina manufacturers and his conviction that imbalanced U.S.-China trade was a contributing factor. He told the Commission: "Let me tell you what is going on at home. We have lost 250 textile plants. I know a lot of people say, well, that is high-intensive labor type production and you are just not going to make it in the 21st century. Well, if we do not make it, so be it. I just do not want to not make it because other people cheat. China cheats."

Today's event builds on the Commission's September 25 hearing on "*China's Industrial, Investment and Exchange Rate Policies: Impact on the U.S.*" where we examined China's currency policies, its foreign investment incentives, and its strategies for industrial development, all of which factor into China's rapid manufacturing development. Following this hearing, we forwarded to Congress several key findings on these issues, including our conclusion that China has been deliberately manipulating its currency to maintain a favorable exchange rate against the U.S. dollar. Specific to today's discussion, we concluded that: "the inappropriate exchange rate between the Chinese yuan and the dollar is negatively impacting the competitiveness of U.S. manufactured goods and is contributing to a migration of world manufacturing capacity to China and an erosion of the U.S. manufacturing base."

The September hearing was effective in unearthing some of the larger issues and concerns of U.S. workers and manufacturers. Today's field investigation is an effort to examine the real, "on-the-ground" impacts of increased Chinese imports and offshore transfers by U.S. firms, particularly on workers and working communities. Today we will be exploring these and other important questions with representatives of industry, workers, communities and concerned members of the public.

Again, we are honored to be joined by Senator Hollings, Senator Graham, and Congressman Clyburn. I look forward to hearing their perspectives, as well as those of all the distinguished panelists we have assembled today.

Now I would like to turn over the proceedings to my Co-Chair for today's event, my colleague Commissioner George Becker, for his opening remarks.

**OPENING STATEMENT OF COMMISSIONER GEORGE BECKER
HEARING CO-CHAIR**

Co-Chair BECKER. Thank you, Mr. Chairman. I would like to join the Chairman in thanking Senators Hollings and Graham and Congressman Clyburn for their assistance in helping put this important event together. Senator Hollings and Congressman Clyburn are going to join us a little bit later.

The Commission is convening today in Columbia, South Carolina, holding the first field investigation of its tenure outside of Washington, D.C. This is an important new procedure for the Commission and one that I hope will be repeated frequently in the future as it gives Commissioners the opportunity to see and hear firsthand how U.S.-China trade relations are impacting particular regions of the country.

Unfortunately, our first field investigation brings us to a region of the country whose economy is under siege. As we have come to learn, South Carolina has suffered the largest percentage job loss of any other State in the past year. Columbia, South Carolina is among the hardest hit metropolitan area in the country with regard to job losses. It comes as no surprise that the bulk of these losses are in the manufacturing sector. In fact, South Carolina has lost some 65,000 manufacturing jobs over the past three years, a staggering 19 percent decline in this sector.

Among the hardest hit industry sectors have been textiles, apparel and steel. At the same time we have seen imports of Chinese-made goods in these areas escalate dramatically during a similar timeframe. It's essential that the policymakers in Washington closely assess the extent to which these devastating declines in

South Carolina manufacturing bases are attributable to U.S. trade policy with China and take appropriate actions in response.

The Commission's mandate from Congress directs us to assess both the security and economic impacts of our economic and trade relationship with China. As a part of this examination, we have been asked by the Congress to look specifically at how the shift in U.S. manufacturing capacity to China as well as the relocations of high-tech and R&D, research and development, facilities is impacting the U.S. economy. In Congress' words, "The Commission is to assess the effect of these transfers on the U.S. economy, economic security, employment and the standard of living of the American people." Today's event will greatly assist us in this important endeavor.

Today, we will hear from a spectrum of individuals representing both industry and labor perspectives. We will begin with panels focusing on the textile, apparel and steel industries. We will then have a panel looking at broader trends with regards to trade with China and the South Carolina manufacturing base.

Our event will conclude with perhaps the two most important sessions of the day. We will have a panel focusing on how trade-related economic dislocations are impacting communities in South Carolina, providing what I expect will be a vivid picture of how the pain of these dislocations are felt more broadly than just by the companies and workers directly affected. Following this panel, we will move into an open microphone session, inviting interested members of the public to make their views known to the Commission. These concluding sessions will help bring home for the Commissioners a very real, human impact of the policy issues we are grappling with today.

Through these panels, the Commission will be able to gain important perspectives on how U.S.-China relations are impacting important segments of the South Carolina manufacturing base and how these trends may be indicative of the broader trends for the U.S. manufacturing base and economy.

We are honored to be here in Columbia today and look forward to the day ahead.

That concludes my opening statements. And we're shifting some of this around a little bit. We're ready to go directly to the first panel with the understanding that when Senator Hollings and Representative Clyburn show up we will probably suspend the proceedings for just a little bit and hear from these gentlemen and then we can get about the business of the day.

Okay. First panel. And let me tell everybody just broadly here a little bit of the rules of the game. We will allow seven minutes for presentations from each of the panelists. And then, in turn, we will have questions from the Commission. If this permits time at the end, we may go back to some further questions. So those who have real short statements, I guess you can expand yours a little bit. Those who have real long statements, try to adjust your statement as you're going along so that we stay within the framework of the seven minutes. With that, let's call the first panel to the forefront.

[The statement follows:]

**Prepared Statement of Commissioner George Becker
Hearing Co-Chair**

I would like to join Commission Chairman Robinson in welcoming Senators Hollings and Graham and Congressman Clyburn and thanking them for their assistance in putting this important event together. Senator Hollings has been a true champion and advocate for industrial workers throughout his long and distinguished career and I am particularly honored he could be with us today. I'd also like to extend my appreciation to South Carolina Educational Television for their assistance in broadcasting this event.

The Commission is convening today in Columbia, South Carolina, holding the first field investigation of its tenure outside of Washington, DC. This is an important new procedure for the Commission and one that I hope will be repeated frequently in the future as it gives Commissioners the opportunity to see and hear first-hand how U.S.-China trade relations are impacting particular regions of the country.

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Among the hardest hit industry sectors have been textiles, apparel, and steel. At the same time, we have seen imports of Chinese-made goods in these areas escalate dramatically during a similar timeframe. It is essential that policymakers in Washington closely assess the extent to which the devastating declines in the South Carolina manufacturing base are attributable in U.S. trade policy with China and take appropriate actions in response.

The Commission's mandate from the Congress directs us to assess both the security and economic impacts of our economic and trade relationship with China. As part of this examination, we have been asked by the Congress to look specifically at how the shift of U.S. manufacturing capacity to China, as well as relocations of high-tech and R&D facilities, is impacting the U.S. economy. In Congress' words, the Commission is to assess "the effect of these transfers on United States economic security, employment, and the standard of living of the American people." Today's event will greatly assist us in this important endeavor.

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Through these panels, the Commission will be able to gain important perspectives on how U.S.-China trade relations are impacting important segments of the South Carolina manufacturing base and how these trends may be indicative of broader trends for the U.S. manufacturing base and economy.

We are honored to be here in Columbia today, and look forward to the day ahead.

Vice Chairman D'AMATO. Senator Hollings has just arrived.

Co-Chair BECKER. Senator Hollings has just arrived so already you're put on hold.

Chairman ROBINSON. Senator Hollings, we're honored to have you with us today. You couldn't have timed your arrival better. We just finished our opening remarks. We've had a very stimulating and forceful presentation from your colleague, Senator Graham, who engaged in plain talk, as he always does, on behalf of the state and our national interests. And I'd like to turn the proceedings

over, if I might, to our Vice Chairman, Dick D'Amato, who is going to say some good words about you, sir.

Vice Chairman D'AMATO. Senator Hollings, welcome. Thank you for your hospitality and the hospitality of South Carolina in hosting this visit of the Commission. It's a great privilege to be here. Senator Hollings is truly one of the giants of the Senate. In his seventh term as a United States Senator, he is one of the most respected and one of the most productive legislators in the modern history of the U.S. Congress. I don't think I'm exaggerating. In that respect, having come from being the youngest Governor in the history of South Carolina, he has been a consistent leader in many, many areas, the Chairman and now Ranking Member of the Commerce Committee, third Ranking Member of the Appropriations Committee, has a list of major legislative accomplishments as long as your arm. Author of the landmark Telecommunications Act in the late 1990's; author of the first major American Land Use Act, the Coastal Zone Management Act thirty years ago; as a long-serving Member of the Budget Committee, author of the major budget balancing Act known as Graham-Rudman-Hollings, and author of many trade proposals, one of which is on the front page of the business section of your newspaper here today, a new idea from the Senator to create a senior position in the Justice Department for trade enforcement, to be introduced in Washington shortly. He's been a leader in combating unfair trade practices by our trading partners. And, in fact, was one of the major co-sponsors of the legislation that created this Commission three years ago on the floor of the United States Senate. Incidentally, for the first time, this Commission is being broadcast by an educational television network. And we understand this was one of your initiatives as Governor, creating the educational television system in South Carolina. We look forward eagerly to your testimony, Senator, and thank you again for your hospitality.

**STATEMENT OF ERNEST F. HOLLINGS
A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA**

Senator HOLLINGS. Well, thank you very, very much for your hospitality. It couldn't be a better time, in all candor, because the country is in real trouble. I'm glad that, and I'm glad always to join my colleague, Senator Lindsey Graham. He knows the subject and we work together on it, not only for the good of the State but the good of the country. And it's very, very important, your Commission, because while you are the Commission on the economic security, the national economic security, the China Commission, in all fairness, it represents a problem that we have with ourselves and all countries. To get right to the point, our national security is like a three-legged stool. And you've got the one leg which are the values of our Nation and it's unquestionable. Everyone knows our stand for freedom, individual rights, our willingness to sacrifice, as we're doing now in Afghanistan, Iraq and around the world. And the second leg of military is also unquestioned, the one remaining superpower. But the third or economic leg is fractured. And everyone in this room has got to understand how it occurred because it has resulted in that fracture and the enemy within, which I'll describe. Our problem is yes, with China, but more with ourselves.

And it's resulted in a bunch of sloganeering and symbols and free and "I want to level the playing field" and fair trade and all of that nonsense. Trade, the word is something for something. Come on. We all believe in a free and open market. But when it comes to trade, trade is trade. And all countries treat it that way and we treated it that way. In the earliest day ... and let me tell you how to build a country. You go to the greatest generation, not mine, the greatest generation, with Washington and Madison and Jefferson, and more than anybody else, Alexander Hamilton. In the earliest days, the Brits, right after we had won our freedom, corresponded to the colony and said you trade with us what you produce best and we'll trade back with you what we produce best. David Ricardo, *The Doctrine of Comparative Advantage*. And Hamilton wrote a booklet. There's one original copy that I know of at the Library of Congress. I've got a copy in my file. And it's *The Report on Manufacturers*. And I'd read it to the Commission because you folks would really be interested in it. But, in a line, Hamilton told the Brits bug off. He said we are not going to remain your colony, shipping you our rice, our cotton, our indigo, our lumber, our iron ore and bringing in the manufactured goods; we are going to build up our own manufacturing capacity. And, as a result, mark it down in the annals of this particular Commission; the first bill is like that seal of South Carolina behind you. The first bill was for the seal of the United States. The second bill to pass the Congress of the United States on July the 4th, 1789, was protectionism.¹ A tariff bill of 50 percent on some sixty articles. Go look it up and see. We started not only the first democracy—we're the oldest democracy in the world—but we started a trade war. All these children running around, "Oh, oh, we're going to start a ..." Come on. I say we're unilaterally disarming. We've been in it. We started it. I want to tell you how successful it was because—I wish I had the time, but I will refer to Theodore Rex. There was a law against manufacturing. England said the colony couldn't have it. Now, old Hamilton, he had a hard time putting it over, but he did. And even Lincoln, of course, followed with steel. They went and they were going to build the transcontinental railroad, Mr. Commissioner. He said, "Huh-uh, we're not getting the steel from England. We're going to build our own steel plants. And when we get through, we'll not only have a railroad, we'll have a steel capacity." Abraham Lincoln did that. Mark it down. But, listen to this. I'm referring just to page 20. I want to read a paragraph. Theodore Rex, Teddy Roosevelt, right at the turn of the century, after a hundred years in 1900, "The first year of the new century," that's how this thing starts off. "The first year of the new century found the United States worth 25 billion dollars more than her nearest rival, Great Britain, with a gross national product more than twice that of Germany and Russia. The United States was already so rich in goods and services that she was more self-sustaining than any industrial power in history. Indeed, it consumed only a fraction of what it produced. The rest went overseas at prices other exporters found hard to match. As our Andrew Carnegie said, 'The nation that makes the cheapest steel, has other nations at its feet.' More than half of the

¹First U.S. Tariff Act begins on page 142.

world's cotton, corn, copper and oil flows from the American cornucopia. And at least one-third of all steel, iron, silver and gold." Let me read on. This is a historian, not a politician. By Teddy Roosevelt. "Even if the United States were not so blessed with raw materials, the excellence of her manufactured products guaranteed her dominance of world markets. Current advertisements in British magazines gave the impression that the typical Englishman woke to the ring of an Ingersoll alarm, shaved with a Gillette razor, combed his hair with Vaseline tonic, buttoned his Arrow shirt, hurried downstairs for Quaker Oats, California figs, and Maxwell House coffee, commuted in a Westinghouse tram, body by Fisher, rose to his office in an Otis elevator, and worked all day with his Walden pen under the efficient glare of Edison light bulbs. 'It only remains,' one Fleet Street flag suggested, and I quote, 'for us to take American coal to Newcastle.' Behind the joke lay the real concern the United States, real concern, the United States was already shipping beer to Germany, pottery to Bohemia and oranges to Valencia." Now, we had the real super power because that's economic power. They don't talk about missiles and that you can't even use, nuclear to end the word. We're talking about real power, economic power and that economic leg. And, after that, now let me tell you, having built it up, how we tore it down. And it was intentional. At the end of World War II we had the only manufacturer, the only industrial power in the free world. And so in order to prosper, we had to spread prosperity, and we did. The Marshall Plan. And it worked. We sent over the money, we sent over the equipment, the machinery, we sent over the expertise. And capitalism defeated communism. It took a long time but it was good. It worked. My trouble is, because I testified before the old International Tariff Commission in 1960. That was 44 years ago. And Tom Dewey for the Japanese ran me around the hearing room. And we were worried in South Carolina and in the United States, up in New England particularly, if we didn't watch out, ten percent of the consumption of textiles in the United States was going to be imported. Now look around this room. Seventy percent of the clothing you're looking at is imported. Eighty percent of the shoes on the floor are imported. Eight-six percent to be exact. I can go down the list from cameras to equipment to semiconductors, to hand tools, to computers to, oh heavens above. I know they've got architects over there doing ... that light, somebody said the lights were out in the Columbia area, you had a power failure. Well, you know where you had to call? SCANA. You call SCANA and a Bangalore, India representative operator answers the phone. Yes. The lights in this room are administered in Bangalore, India. And if you're on food stamps, thank gosh we hadn't gotten that bad yet; but, if you're on food stamps, the food stamp program of South Carolina is administered in India. And just night before last I turned on Lou Dobbs. They've got not only the architects, they've got all of the medical personnel reading the mammograms and the CAT scans, they've got the lawyers. All the legal research work for billable hours. We sit around and we're lawyers in this big office and instead of paying a legal attaché, aide \$80 an hour, all we've got to do is pay them in India \$10 an hour and let them send it back here on the Internet. I'll tell you right now, the only thing that we're not going

to import, I guess, is politicians because we're already too cheap. I picked up my morning paper from Charleston, South Carolina last week and found out that the county attorney was making two hundred and ninety some thousand dollars, twice what I'm making as a United States Senator. I'm getting out. I'm running for county attorney. So, I understand ... I heard my good friend talk about Benedict Arnold. Suppose you started D'Amato Manufacturing. Well, before you open the front door, by law, under Congress, by law, Republican and Democrat, we agree on one thing—before you open that front door you've got to have a minimum wage; you've got to have Medicare, Medicaid; you've got to have Social Security; you've got to have clean air; you've got to have clean water; we've got to send OSHA after you and make you get a safe working place and safe machinery; you've got to have plant closing notice; you've got to have parental leave. I can go right on down the list. That's the high standard of living. But you can go to China for 58 cents an hour and none of that. I called Walter Alessandrini. Walter is a wonderful friend. I brought him in here over eighteen years ago over in Lexington County, right across the river, with Pirelli. They make all the fiberglass and a lot of the communications stuff. And he got really expert at it. He organized Avanex out on the West Coast. Walter's still got a home in Columbia. He loves South Carolina. And I saw about four years ago that his stock was way up and I called Walter and I said, Walter, I got you the water and sewer lines over there in Lexington now. I helped you out when you brought Pirelli in. You've got to help me. You're making a lot of money on your expansion. I want the next one back in South Carolina somewhere. He said I don't make anything in America. I said you don't? Oh, no. No. He said I got my research team and sales, but he said, I make everything in China. He said you go over there, I don't have to put anything in the plant; they've got the plant. I don't have to worry about labor; they've got the labor. I don't have to worry about a long-term investment; I can go from year-to-year and if it succeeds, I just get another plant, another, another opening and everything else of that kind. Or, if it fails, I don't have to renew the contract. I don't worry about any of that. If D'Amato Manufacturing got a 30 million dollar tax cut from Washington, that's all we talk about is tax cuts, would you put your expansion in Columbia, South Carolina or in China? You've got to go to China because your competition has gone. You continue to work your own people, you would go bankrupt. That's what this Commission has got to understand. And it's going out in a tremendous hemorrhage. And in order to change this thing, we got to understand the culture and everything else like that and the real enemy. Because when I first got to Washington almost 38 years ago, it was a Japanese representative come in there or some big slick Washington lawyer at the business round table. It's the National Association of Manufacturers. It's the conference vote in the front room. It's the United States Chamber of Commerce. They're not interested in main street Columbia, South Carolina; they're interested in main street China. Come on. And so you've got the opposition here of ... and it's the darndest thing in the world. The big banks started, in 1973, Chase Manhattan and Citicorp in New York began to make the majority of their profits outside of the United States. They organized the

Trilateral Commission with David Rockefeller. And they organized the Foreign Policy Association. And you've got all of those think tanks and all of those college people and you've got the newspapers. And the newspapers don't make money on what you pay for the 50 cents to get the paper. They make it from retail advertising. And I've been in the debates and, as you know, and we put a thousand, or I don't know how many dozens, a hundred thousand dozens of a shirt, a woman's blouse or whatever else, and they bring it in from China and then, if it sells good, and at the Christmas season they need another ten thousand dozen from New Jersey, they look right there and make a way bigger profit on the one from China than the one from New Jersey. So I've got the whole retail trade crowd and I've got the newspaper crowd against me. And they're all shouting free trade, free trade; level the field, level the field; free markets; free trade. Oh, baloney. They told me NAFTA was going to create 200,000 jobs and we've lost 2 million. Come on. It's been an outflow. We had in Spartanburg where we got BMW, three years ago we had 3.2 percent unemployment; now we've got 7 percent unemployment. So this problem is real and you've got to change the culture. And when I talk about protectionism, come on. The fundamental reason that you sent me to Washington is to protect you. We've got the Army to protect us from the enemy without; we've got the FBI to protect us from the enemy within; we've got Social Security to protect us from old age; we've got Medicare to protect us from ill health. We've got clean air, clean water. We all believe in that. Protect. But when you talk about protecting my standard of living that I require, D'Amato Manufacturing, oh, no, no. We better wake up. We better wake up. It's going out fast. We're in real trouble. When I say we're in real trouble, I got something here that's a measure. It's not only the Chamber of Commerce. You're looking at a fellow that's gotten every Chamber of Commerce award that you can get. In the '92 race, Thompson from Greenville was the national president of the National Chamber of Commerce. I was the man of the year. He had me up there and everything else like that. Now, I'm the skunk of the year. They've switched. And they've got a fellow over there that doesn't know anything about trade, but listen to this. I didn't know about this until December. The Administration says that they're trying their best. Jobs. You've got the President with jobs, jobs, jobs behind him. Let me tell you what's already out in front. This is from the December 10th *New York Times* and I'm going to read just three or four lines here about a conference in New York. "After the opening speeches, the 50 or so American executives gathered at the Hotel Pennsylvania in Manhattan. They were invited to divide up. Those interested in investing in China, putting an operation there and hiring Chinese workers were to go across the hall to the Penntop North Conference Room. Those who wanted help in exporting to China were to stay seated in Penntop South. More than half went across the hall. Given the explosion of business in China, the interest in setting up shop there is not surprising. What was surprising was the presence of the United States Commerce Department at the conference. While the Bush Administration complains about China unfairly tilting trade dealings to its advantage, the branch of government most responsible for promoting American

business is participating and financing conferences and workshops that encourage American companies to put operations and jobs in China.” The enemy within. The enemy we made. It’s us. You all are paying, we’re paying taxes to send the jobs out there as fast as we can. And it’s gotten so bad that we spend in South Carolina here recently, and I commend the State Legislature and those up in the Piedmont and in Clemson for putting in an automotive park, a research park. But read this here. This is great. Tuesday, January the 27th. “Bosch Decision Deals New Blow to Sumter.” The Bosch plant that makes automobile parts that we brought in over there is moving to Mexico over the next eighteen months costing Sumter County 400 manufacturing jobs. They say they can’t make it. So, we put a big investment up there to get an automobile park to get the automobile parts people there and everything and, then the ones we got we can’t keep. If you think that’s bad, let me read you finally, because you folks are really into something important. In China, I’ve watched it. I’ve just come back from lunch, dinner actually with my friend Howard Baker—we got into the United States Senate together—in Tokyo. And Nancy Kassebaum, the former Senator from Kansas, he married her. And her daughter’s down there helping with the College of Charleston. Her son, John Kassebaum, was down in Charleston in my backyard. So I keep up with them good. And they said you’re going to be amazed getting back over there into Shanghai. And, true enough, when I was coming in from the airport, I’m on the Commerce Committee, and here’s my Commerce Department using my tax money to get rid of the jobs and I’m trying to create them. And riding in from the airport to the city of Shanghai, the Maglev train just whizzed by me. I can’t even get money for Amtrak. But they already got the Maglev in China. They’re building in China as fast as they can. They have not developed a consumer society. And we are operating now on spending. We infuse the economy, listen to this closely. There was a 562 billion fiscal deficit last year and a 500 billion current account or trade deficit. So, five and five is ten. We goose the economy; we infuse the economy a trillion dollars. You’ve got to have some kind of recovery. But there are not any jobs. Yeah, they’re making profits on Wall Street. But when you put in a trillion dollars, come on. That’s the only thing keeping us going right now. It’s a crime. I’m home free. I’m 82 years, but I can tell you right now, the kids are going to have to pick up our bills. We’re going to run into a wall here right soon. It might happen before the election. I don’t know. But your work is the most important work going. The fears . . . I’m reading from the *New York Times*, Tuesday, January 27th, “Cisco Chief Calls Productivity a New Engine of Wealth.” But they had a big conference up there and here’s reading just a couple of paragraphs. “The fears are intensified by the rise of China, one of the prime destinations for jobs moving out of the United States and Europe. Norman Saks issued a study here predicting the Chinese economy would overtake that of Germany within a decade and surpass the American economy by 2041. Zoom in. An economic advisor to the President of China was met with silence at a dinner last week when he asked Americans at the conference how their country planned to finance its economy when both blue collar manufacturing and white collar service jobs were going elsewhere.” The

Chinese are worried about the United States. If our interest rates go up, what I call the debt tax, not death. There are politicians talking about death. I'm talking about debt, D-E-B-T, the debt tax. You can't get out of the way. It's going to come and hit us. And if the consumption goes down in the United States, then they go down on the momentum in China. So their whole success in getting 1,300,000,000 into a capitalistic society and it's moving in the right direction and we like it. But I can tell you, when the Chinese worry about us ... and, by the way, they're financing my debt. 170 billion. When you add up that with Hong Kong and the Peoples Republic, they're buying our bonds, 170 billion worth. And the Japanese have got over 400 and some billion. So, they're hoping that we'll sober up and start paying the bills and get competitive in trade. Because if we fail, China fails. But they're not worried about it in Washington. They're worried about it in Beijing. Can you imagine that? That's how bad off we are. Okay. What's the solution? The first thing is to quit financing and paying for the jobs to go overseas. If D'Amato Manufacturing puts a plant and you succeed in China and you make a profit, as long as you don't repatriate the dollar, the profit, you can build another plant. You don't have to pay any income tax. But if you put a plant in Columbia, South Carolina and you make a profit, you've got to pay the tax on it. So we favor the industry going and producing over there. So, I've got a bill in, and you've read about it in the morning papers, if you move, your tax goes up; if you stay and produce in the United States, a 35 percent corporate tax goes down to 32 percent. That's S. 584. We want to have an incentive to produce in the United States and a disincentive to leave. That's my job. Because you can't depend on the Chamber of Commerce; you can't depend on the leadership there in Washington. The only thing is the Congress. You can't depend on the colleges. The function of creating jobs is mine, Congress. And global competition, I'm the last clear hope. And you've got to have it. We've got to stop these other programs like the Secretary of Commerce, the International Trade Commission. I know my commissioner from the steel industry understands this because, goodness gracious me, if you're in international trade administration, they buck you over to the International Trade Commission. And they find out, since there is a dumping violation, what the injury is and they only find out there ain't no injury. I mean, time and again. I was there when Zenith, Zenith came in with Washington lawyers and everything else like that and they went through and won at the Administration, they won at the Commission, they went to the Supreme Court and they won and they were right on the Cabinet table, this was during President Reagan's day. And under the national security provision, the President has got the last chance to reverse that decision. And the Cabinet Members all had voted to sustain the finding in behalf of Zenith and, my gracious, in walked President Reagan and he said I just got off the phone with Nakasone and we're going to have to reverse that decision. So they say to heck with it. Why pay a bunch of Washington lawyers 500 dollars, 1,000 dollars an hour over a three year period, spend 10 million dollars and get nowhere. Nobody, nobody is enforcing the trade laws of the United States of America. I want me an Assistant Attorney General that enforces the trade laws of the

United States. We've got them over there to enforce the tax division; we've got them over there for the antitrust division. I want me an Assistant Attorney General to start enforcing the trade. They don't want to enforce them. They want to treat trade as aid. We've got to have the manufacturing extension partnerships. What they call ... and some of them are hauling Senators around and help us to step up and computerize and arrange a stock room and everything else. All these small businesses, they can't afford a consultant; they can't pay for bonds and everything else like that. The Manufacturers Extension Partnership Act is working all over the country. The advanced technology programs. You've got to look at the stock market and their practices. The chairman of the board, he's got to produce in three years. If he hasn't got his stock up, so he doesn't play around with any kind of new technology unless it's a sure shot. And so what we do is get new technology we have invented by the National Academy of Engineering then on a competitive basis before the Department of Commerce. They get a grant and help. They have to put up 50 percent; we put up 50 percent. The majority of it is for small business advanced technology program. They're not funding it. Customs agents. My office is in the Custom House down in Charleston, South Carolina. And I talked to the agent, I said man, come on, they've got 5 billion in transshipment of textiles through Matsui, through Hong Kong, through all of these funny countries. And they said wait a minute, Senator. They used to tell me, "Do you want me to get drugs or do you want me to get textiles?" I said oh, excuse me, no, you get the drugs first but let's try to enforce it. Now they tell me, "Wait a minute, Senator, do you want me to get security, homeland security, port security, you want me to get drugs or do you want me to get textiles?" So, we need at least a thousand more customs agents. They're totally understaffed there. The critical materials that the Secretary of Commerce, rather than financing seminars, how to get rid of the jobs, the Secretary of Commerce and the laws as to critical materials, there are over 500 necessary for our national defense. We have to wait up almost five months before we went in on Desert Storm in order to get the flat panel displays for the look down to attack Iraq and Kuwait. We don't have the materials to go to war. I don't know how to wake this country up except with your Commission. If you all blister us in Washington, give us the hell. I can tell you that right now. Because I could go on and on, but you can see the impossibility of the task. You've got to change the culture and the thought and everything else. And why they're leaving and how they're going to continue to leave and, in a line, we've got to get a competitive trade policy. I'm glad I answered your questions. I apologize, but I get wound up on this one.

Discussion, Questions and Answers

Chairman ROBINSON. That was extraordinary, Senator, and I'm sure your comments have been taken to heart and certainly will be a valued part of our work. If you have a moment, I'd just invite any of our Commissioners that might have a question.

Commissioner REINSCH. I do.

Chairman ROBINSON. Commissioner Reinsch.

Commissioner REINSCH. Thank you. Senator, glad to see you. I want to begin with a tribute. For a very long period of time you have really led the country in identifying problems and forcing us to pay attention to things that people would rather ignore. You've done us a great service in doing that, the country's going to miss you when you retire. I'm sorry that you're leaving but you're certainly going out in style.

Senator HOLLINGS. I thank you a lot. I'm going out and make a living.

Commissioner REINSCH. You're entitled. You said something very important and I do have a question. You're only the second witness today, and I suspect you may be the only one today who really has approached the problem from the full context and perceived it not only as a trade problem but a budget problem, a debt problem, a deficit problem, a cultural problem. There's a whole range of things. And I hope one of the things that my colleagues and I are going to be able to do is to sort out pieces of that and end up blaming China for the things that are China's fault but assigning other blame where it belongs. Not everything that has happened in the last ten years is China's fault. There are some other mistakes, and you are kind to enumerate several of them. I certainly agree with your comments about debt because our children, 20 to 25, are going to pay; they're going to pay for a long time for our mistakes. We haven't figured it out yet. Just one question that I can't resist asking you. Your comments about Alexander Hamilton and manufacturing I thought were interesting and something that I learned a long time ago and forgotten so I'm thankful for you bringing it back to mind. I can't help but think though in a way what you're telling us is that Hamilton had the right approach. It seems to me that one could argue the Chinese are doing exactly the same thing, so they're smart too, right?

Senator HOLLINGS. Definitely, all the countries are. In Europe they're doing it, that's why we ended up with about——

Commissioner REINSCH. So they're doing what we——

Senator HOLLINGS. —a deficit with a balance of trade with Europe that we used to have, five years ago it used to be positive; it's now negative. It's going to 130 billion with China.

Commissioner REINSCH. It's hard to blame them for being smart like us.

Senator HOLLINGS. That's right. You've got to understand the opposition and we've got to start with ourselves, clean up our act.

Commissioner REINSCH. I agree. Let me ask one more thing. The situation isn't very good anywhere. It seems to be worse here in South Carolina than elsewhere, and there's a lot of evidence that we've assembled and Senator Graham has pointed out, and I'm sure our subsequent witnesses are going to point out as well. South Carolina seems to be worse. Why? Is that because of the makeup of industry here as opposed to elsewhere in the country?

Senator HOLLINGS. Well, it's been the, let's say not the most skilled like computerization or software and that kind of thing, it's the semi-skilled textile industry and you can make a t-shirt anywhere. And incidentally, you ought to understand that part of the problem. I'll never forget I brought in Oneida down in Andrews, South Carolina. All they made were t-shirts and they had to close

the plant, they went broke and moved and at the time when they left Andrews, South Carolina, there were 487 employees, the age average was 47 years of age in that plant. And let's cry on Washington's retrain, retrain, retrain, skills, retrain. I got training and skills coming out of my ears here in this State of South Carolina. Tomorrow morning we got 487 skilled computer operators. Are you going to hire the 47-year-old computer operator or the 21-year-old computer operator? You see, those at 47 years of age, they're deadlined, you're not going to take on the retirement costs, the health costs of a 47 year old.

Commissioner REINSCH. So what do we do about that?

Senator HOLLINGS. That's your whole problem. It's just not retraining but they're not dealing with . . . we're not dealing with the problem in the Congress. We're just given symbols and slogans and nonsense. They don't understand and we keep on trying on both sides, it's Republican and Democrat. Just the other day we had a State, Justice, Commerce Appropriations bill, Congressman Frank Wolf on the House side put in there two million dollars to enforce our trade laws with China and we got a letter from the White House threatening to veto, said take that two million out, we don't need to enforce our trade laws with China. Can you imagine that? They've got no idea. We're in the hands of the Philistine. I can tell you they've got no idea of a competitive trade policy. The whole movement is otherwise to get rid of the jobs, make the profit and we're losing the middle class of America, the strength of our democracy.

Commissioner REINSCH. I agree.

Chairman ROBINSON. We'd like to turn it to Commissioner Becker, then Vice Chairman D'Amato, Commissioner Mulloy and then Commissioner Dreyer.

Co-Chair BECKER. Senator, I appreciate very much your remarks. I'm following close and I'm making notes on this. I hope I can retrieve some of this information you were talking about with Alexander Hamilton and Lincoln. And it jarred me, I knew some of it, particularly with Lincoln, it resonated well. In the last question that you were answering you made reference to a plant that was shut down—

Senator HOLLINGS. Yes, sir.

Co-Chair BECKER. —and the people trained. I think you said it shut down and it moved.

Senator HOLLINGS. Right.

Co-Chair BECKER. Where did the plant move to?

Senator HOLLINGS. Mexico.

Co-Chair BECKER. Thank you.

Senator HOLLINGS. Incidentally, on steel, Bob McNamara and now my other friends that used to be at the Kennedy Center and the World Bank and they run around the world and tell these third world emerging countries that they cannot become a nation-state until they have the steel for the weapons of war, until they make the steels for the tools of agriculture so they give two percent steel plants. Willie Caulk, I dedicated one of his steel plants in Kiel, Germany right across from Strasburg. He built the Georgetown Steel Plant and several others all over the United States and Saudi Arabia and he built them in China before he crashed into the Alps

ten years ago. But now, as a result, I've got us a competitive steel company Nucor which is 25 miles from my office in the Custom House. But I'm looking outside the Custom House in Charleston and they're dumping Brazilian steel for all the manufacturing construction all over the Southeast. It's Brazilian. Because we've got steel plants all over everywhere and you can't compete with a two percent steel plant.

Chairman ROBINSON. Vice Chairman D'Amato.

Vice Chairman D'AMATO. Senator Hollings, thank you for your testimony. It's really a panorama of the problem that you've weighed in on. The Commission intends to consider as many action items as we can in terms of recommendations. And I think that the idea of providing tax and other incentives to staying in the U.S., and disincentives against leaving is a good concept that ought to be filled in many, many ways. That's one central concept. The second thing, in terms of your legislative proposal in terms of fair trade, it's clear and true that there is not a fair playing field out there. We just went to visit the WTO in Geneva; we visited with all our trading partners there. There's nobody but the United States that is even willing to bring a complaint against the Chinese. Everyone is afraid of Chinese retaliation against them in terms of access to the Chinese market. And yet the NAM and the Chamber both have long lists of unfair trade practices by the Chinese clearly violating their promises made when we let them in the WTO. The Chinese are on a roll and you can't blame them for being on a roll, but on the other hand, you've got to call them to account when they engage in consistently unfair practices. And I think if we're going to use that tool, the WTO, to our advantage, you better get on the stick and start bringing complaints before the appropriate WTO bodies. By the way, while you're in your last year of office we certainly look forward to working with you and your staff in developing a lot of these items.

Senator HOLLINGS. Thank you a lot. Incidentally, all of our enforcement now is going right in the face of the WTO and I'm trying to get the best, both the Congressional Research Service and my trade lawyer friends and everything else, how can we enforce our laws and not be in violation of the World Trade Organization. And I'm almost so mad I've got to retain some credibility so they'll listen. But I didn't want to come to your Commission saying get out of the WTO. But we studied it and, look here, we've got to look out for the economic security of the United States of America and if we've got an international entity that is not unelected and meets in caucus in secret and they come out and make findings and there are not any appeals and they repeal the laws of the United States of America, we've got a real problem, we might have to withdraw.

Co-Chair BECKER. Thank you.

Chairman ROBINSON. Commissioner Mulloy.

Commissioner MULLOY. Senator Hollings, it's a privilege that you're before us today. As you know, I worked on the Senate Banking Committee staff with Senator Sarbanes for many years. Senator Sarbanes came in here and testified at one of our first hearings and he showed us about the PNTR vote. When that vote, which was to get China permanent MFN, permanent access to our market, we used to only do it on an annual basis when we had a

little leverage and that was to get them into the WTO. The exporters would all come in and the industry would all come in and say State by State how many exports our guys were going to get and it would help our workers because we were going to get all kinds of export opportunities. The day after the House vote Senator Sarbanes brought us an article from the *Wall Street Journal* and the *Wall Street Journal* said the whole game was not exporting goods from the United States, these folks all wanted to export manufacturing and investment from the United States to China and they needed to lock our market open because if we could lock our market, then it would make sense for them to put all that investment into China. And in our first report we looked at that from the Chinese perspective. It revealed that a key part of their reason to get into the WTO was to get investment because they wanted the technology and they wanted the money and they wanted to move up the technological food chain, all as part of the WTO accession. So the other thing, we did a hearing just recently with exchange rates. Senator Schumer came in and talked about that with us. He and Paul Greg Roberts who was in the Reagan Administration as an Assistant Secretary Treasurer, both came in and said, if we let them in, why do they do it? If they can have an undervalued currency, it gives an incentive for people to move factories to China because they can get cheap labor and sell at a good price back here in this market so they have clearly from what we could see, they have a national strategy. And I'm not anti-Chinese, I think they, God bless them, they can have a national strategy. But it seems to me what we ought to be doing is thinking what is our national strategy. In my view, your testimony today is really kind of like a wake-up call and it's very important in my view to get these ideas out in the political debate in this year because I think the American people sense that something big is happening and we're not equipped to deal with it.

Senator HOLLINGS. You're right on target. There isn't any question that the China Commission has got to make a change with respect to China being treated as a third world or emerging country. Look here, I've been briefed and everything else. It's not just the Maglev train. Their nuclear is just as advanced as ours. They're already up into space. They aren't advanced but they got instead of five they've got ten years to comply and everything else. And then there's a third world emerging entity. They get all the consideration of the WTO and that's why it's tough even if you got them to the rates. Then you go to the WTO and say well, you know, they're still third world. Of course, what they're doing is getting the business. Everybody's in there just falling over each other, Germany, Great Britain, United States and France, United States, we're all just fighting for the business and then don't disrupt the fight. The Japanese, incidentally, have moved totally, they're advanced technology. Before General Motors could sell that Buick, they had to put in their most advanced technological research in downtown Shanghai so all automobile research now is in Shanghai if you want to see how to build a car. And now, once the Japanese two years ago started to join them, they are smarter than we are, they've got plus balance of trade and they send over all the materials still, they make it all. It's assembled only in China and come

back. But we send the whole manufacturing over. We're not competing. We don't even get to make the parts. But Japan does and by the way, all these here fellows running up and down, "If they're going near Taiwan that means war," that's bunk. Who do you think in the Congress is going to vote to go to war about Taiwan? Taiwan's got 130 billion invested in the mainland. That bologna is over. There's one China, that's our policy. We're not going to kill Americans on that kind of thing. We've got a whole culture of sort to change around to get us competitive and the theme is to rebuild our country. It's a good country, it's strong, it's the best and we are the most productive but as they keep on congratulating us on productivity we're going broke.

Chairman ROBINSON. Commissioner Dreyer.

Commissioner DREYER. I think your ideas are really excellent and as I think you'll agree, not one of them is going to be easy to implement. One of them in particular struck me, since I am an educator, of particular importance. That is changing the culture of this country. And there are some things that don't involve China that we can do better here to compete with China, and one of them is the culture of the country. You know, you joked about running for county commissioner because you would make more money than you do as a senator. Take a look sometime at what football coaches make. We have a culture in this country that emphasizes sports. I have nothing against sports—it promotes diversity, it promotes being able to get along with your fellow humans. None of that is wrong or misplaced but it comes at the expense of training people, in doing homework, learning math and physics. One of the reasons these jobs are being exported to India, to China and elsewhere is that there are people there who are computer experts. My son worked for Qwest. They have been importing their labor from Bangalore into the United States because they can't find enough trained Americans to take the jobs and that's something we've really got to change.

Senator HOLLINGS. I love you and I agree with you a hundred percent except for the fact that they can find enough to do the job, they just don't want to pay them. I voted against H1B visas. Silicon Valley is 42 percent part time, they don't want to pay the health costs; they don't want to pay the pension costs and everything else they got. You got to realize you're on target. The greatest man that ever lived was a teacher and since I married one the greatest woman that ever lived was a teacher. And when we had this here "leave no child behind," it was a gimmick. There are four and a half billion bucks in there to close the schools. Give them a test, close them and then we can validate giving vouchers, privatizing your public education system. Look, instead of the four and a half billion that went there to give all the tests that we were already giving in South Carolina, we were giving all of those tests, it's nothing new, give them to the teacher. I had a little young lady come in from Florence, South Carolina in November of last year, two months ago, and she was one of the 20 winners of Time-Warner AOL, Time-Warner, whatever it is, contests, national contests, and she was one of the 20 winners. And I said, "Let me ask you, I don't want to be personal, but at your range, what do you" ... she's making \$32,000 a year. Now, come on. How can she save

enough money and send her kid to college and so forth like that? She ought to be making \$64,000 a year. Double the pay of the teacher, not order reading and writing and monitoring and tutors. If you pay the good teachers, they'll come. When I go to the graduations and they say, "Senator, I wanted to be a teacher but I just couldn't save enough money and make it, and so I had to take the business course or I had to take the international relations course, I had to do this, I had to." They're just not coming into education because it's a non-entity; it's a bitter end.

Commissioner DREYER. Just one second. I'm very much afraid that you misconstrued what I was saying. I wasn't advocating paying teachers better, I was advocating working the students harder.

Senator HOLLINGS. Yes, well, of course.

Commissioner DREYER. I don't disagree.

Senator HOLLINGS. The students will work harder if they've got a good teacher. Man, I can tell you the best one I ever had was Coleman Parish over at the Law School. That fellow worked me to death. I slipped through torts. He was a good fellow and all that, we told stories to each other. But the good teacher makes you work harder.

Commissioner DREYER. Exactly.

Chairman ROBINSON. Well, Senator, you've been awfully generous with your time and I just want to assure you as you depart here that this Commission, and I mentioned this earlier when Senator Graham was here, has been extraordinarily bipartisan in nature. It is not in the business of soft-soaping or papering over these debilitating unfair trade practices, I'll tell you right now. We're going to let the chips fall where they may and we're going to try to be the wake-up call that you know this country needs and you expect us to be. This is not some popularity contest but rather a truth squad, even if the truth is going to hurt. And when you see our report at the end of the year, there are going to be lots of elements of it that hit like a brick through a plate glass window, I believe that. That's because we're going to tell this story the way it desperately needs to be told. So we are very grateful for your past support of the Commission and your appearance today and we greatly look forward to working with you down the road.

Senator HOLLINGS. I thank you and the Commission. You all have been very generous in indulging me. I appreciate it very much.

PANEL I: TEXTILES/APPAREL

Chairman ROBINSON. Thank you, sir. I'm going to turn the proceedings over now. If we could have our first panel. Co-Chairman Becker will be presiding over the proceedings for the balance of the morning. We also want to extend our apologies and gratitude to our first panelists for rolling with the punches so to speak and allowing for this important opportunity to hear from your State Senators. We certainly will provide whatever time is required to hear from you as well and we'll try to make sure you're not in any way short-changed because we enormously value your participation today. And with that I'll turn it over to our Co-Chairman.

Co-Chair BECKER. Well, we'll go ahead and proceed. Again, I want to emphasize that we're going to keep time as strictly as we can. We want to catch up if we can on our scheduling a bit, so obvi-

ously we're going to go past what would have been our lunch break. Norman Chapman is the President and Chief Operating Officer of Inman Mills. The Chapman family founded Inman Mills in 1902. Mr. Chapman is also a member of the Spartanburg Chamber of Commerce Executive Committee and has a B.S. in Economics from Clemson University. Larry Crowley is the President of Craig Industries, which is a textile mill. And Harris Raynor is the Southern Regional Director and International Vice President of the Union of Needle Trades, Industrial and Textiles Employees, commonly known as UNITE. Sarah Friedman has been the Executive Director of the Southeastern Apparel Manufacturers and Suppliers Association, commonly known as SEAMS, since January of 1999. And Smyth McKissick has been the President of Alice Manufacturing Company's four plants in Easley since 1988. He succeeded his father, Ellison McKissick, Jr. and is the fourth generation of his family to head the textile manufacturing company. We look for an interesting presentation from all of you. We'll start the clock when you start your presentation and let me go first then with Norman Chapman.

**STATEMENT OF NORMAN CHAPMAN
PRESIDENT, INMAN MILLS, INMAN, SOUTH CAROLINA**

Mr. CHAPMAN. Thank you very much and thank you for what you're doing. I could have sat and listened to Senator Graham and Senator Hollings all day, they were tremendous. On behalf of Inman Mills and our 500 associates I'm pleased to have this opportunity to address this China Commission hearing on the effects of Chinese imports on South Carolina textile manufacturing.

Inman is a textile manufacturer and has been in business for over 100 years. We have a wide variety of products from home furnishings, industrial and apparel markets. Our record year for both sales and profits was 1998. In 2001 we closed two plants and have been fighting the wave of imported fabrics and products ever since.

The current U.S. trade policy is one that favors import maximization, especially from China. The United States will run a trade deficit of approximately 550 billion in 2003. The U.S. trade deficit with China alone will exceed 130 billion dollars. The effects of this policy have been devastating to the U.S. manufacturing sector.

More than two and a half million manufacturing jobs have disappeared since January 2001, including 323,000 jobs in the textile sector.

U.S. trade policy must be reformed immediately to slow the unprecedented surge of job-destroying imports and to stabilize the U.S. marketplace, thereby preserving the nearly 15 million domestic jobs supplied by U.S. manufacturers, including the 271,000 jobs in South Carolina.

The surge of low-price Chinese imports has had a dramatic adverse impact on South Carolina textile companies and their communities. South Carolina has lost 56,800 manufacturing jobs since January 2001. 21,600 of those job losses were in the textile and apparel sector. Over 800 of these were Inman Mills.

The news only gets worse. South Carolina's precipitous drop in manufacturing employee has cast a pall over the state's economy. South Carolina has suffered job losses for three years running and the state has a projected 350 million dollar shortfall.

Clearly South Carolina's economic conditions are not good. The U.S. Government needs to take several decisive steps to help South Carolina and its textile manufacturing industry.

The United States must acknowledge that its trade policy with China is flawed. The current so-called free trade regime is running up an unsustainable trade deficit and unacceptable job losses.

The United States needs to more fully and effectively use the special textile China safeguard.

For years the textile industry has operated under an arrangement negotiated by U.S. government known as MFA. MFA was adopted in response to the threat of the ability of two or three low-wage countries to capture almost all of the United States textile and apparel market. MFA doled out the U.S. textile and apparel quotas to nearly all low-wage countries in the world. The result was a success. Apparel industries took root in dozens of poor countries, textile and apparel products are the leading exports in many of these countries, and the industry employs tens of millions in the third world. Last but not least, market share for U.S. manufacturers has been preserved.

Despite the success of MFA, the WTO Uruguay Round phased out all textile quotas after a ten year phase-out period ending January 1, 2005. At the time the quota phase-out was negotiated, China was not a member of the WTO and the addition of countries with non-market economies was not contemplated.

Despite its failure to convert to a market economy, China was admitted to the WTO on January 1, 2002. Moreover, China was not given a ten-year quota phase-out like the rest of the world but was allowed to join the phase-out in progress. This meant China received significant quota-free access to U.S. markets immediately upon its admittance to WTO.

In return for immediate quota-free access, China gave the United States the right to use a safeguard to place quantitative limits on imports of Chinese textile and apparel products if these imports were disrupting the U.S. market.

While the trade-off sounds great in theory, the reality has been a disaster for the U.S. textile industry. The U.S. Government has failed to implement the safeguard in a timely and effective manner.

Although the safeguard was first agreed to six years ago and although China joined the WTO on January 1, 2002, the United States government did not publish procedures to implement the safeguard until late May 2003. The U.S. domestic textile industry had asked the special textile safeguard mechanism be invoked against surges in several specific textile categories in 2002 but the answer was wait until the procedures are published.

The U.S. textile industry filed its first safeguard provisions in July 2003. Three safeguard provisions were approved in November 2003. Nevertheless, the inexcusable delay on the part of the government has already resulted in enormous damage to the U.S. textile industry and its workers. China's exports to the United States grew by 340 percent between January 2002 and November of 2003. Meanwhile the U.S. textile and apparel industries continue to lose tens of thousands of jobs.

China will wreak havoc on the economies of dozens of both least-developed and first-world countries if allowed to export unchecked.

Business Week reports that an estimated 30 million textile and apparel workers worldwide, including 630,000 in the United States, will lose their jobs to China's textile and apparel exporting machine.

In light of the impending worldwide calamity alluded to above, the United States should attempt to convene an emergency session of the WTO governing body to extend all current textile quotas through January 1, 2008. This would give WTO time to study whether phasing out textile quotas is the best interest of the world's least developed countries.

And can talk about this later, that the United States must stop negotiating free trade agreements like CAFTA. CAFTA has loopholes in it that allow Chinese to come in through Central America duty-free to this country.

Last, the United States should enhance and extend Federal buy American purchase requirements. The current Defense Department buy American requirements should be revised to eliminate waiver authority for inappropriate and arbitrary reasons. Buy American provisions should be extended to other national security agencies such as the Department of Homeland Security. The measures would help the health of the U.S. textile industry.

If the United States loses its textile industry, we'll be losing a critical military research and development capability.

Lastly, clearly it's time for action. U.S. textile and apparel manufacturers do not need any more promises, commitments or hollow announcements. What the industry needs are results and results will only occur when the U.S. Government actually implements the policy tools mentioned in this testimony to keep Chinese exports from totally undermining U.S. manufactures of textiles and apparel. With the elimination of textile quotas looming on the immediate horizon it is imperative that the United States confront the Chinese threat to U.S. textile and apparel manufacturing forcefully and effectively. Thank you for your time.

[The statement follows:]

**Prepared Statement of Norman Chapman
President, Inman Mills, Inman, South Carolina**

Effects of Chinese Imports on South Carolina Textile Manufacturing

On behalf of Inman Mills and our 500 associates, I am pleased to have this opportunity to address this China Commission hearing on the effects of Chinese imports on South Carolina textile manufacturing.

Inman is a textile manufacturer and has been in business for over 100 years. We weave a wide variety of products for the home furnishing, industrial, and apparel markets. Our record year for both sales and profits was 1998. In 2001 we closed 2 plants and have been fighting a wave of imported fabrics and finished products ever since.

The Fruits of Flawed U.S. Trade Policy

The current U.S. trade policy is one that favors import maximization, especially from China. The United States will run a trade deficit of approximately \$550 billion in 2003. That's just over \$1 million per minute! The U.S. trade deficit with China alone will exceed \$130 billion. The effects of this policy have been devastating to the U.S. manufacturing sector.

More than 2.5 million manufacturing jobs have disappeared since January 2001, including 323,000 jobs in the textile sector.

U.S. trade policy must be reformed immediately to slow the unprecedented surge of job-destroying imports and to stabilize the U.S. marketplace and thereby preserve

the nearly 15 million domestic jobs supplied by U.S. manufacturers, including the 270,900 jobs in South Carolina.

The surge of low-priced Chinese imports has had a dramatic, adverse impact on South Carolina textile companies and their communities. South Carolina has lost 56,800 manufacturing jobs since January 2001. 21,600 of those job losses were in the textile and apparel sector. Over 800 of these were at Inman Mills.

The news only gets worse. South Carolina's precipitous drop in manufacturing employment has cast a pall over the State's entire economy. South Carolina has suffered net job loss for three years running and the State has a projected \$350 million shortfall in its FY 2005 budget.

Clearly South Carolina's economic conditions are not good. The U.S. Government needs to take several decisive steps to help South Carolina and its textile manufacturing industry.

A Six-Point Action Plan to Help Domestic Textile Manufacturers

First, the United States must acknowledge that its trade policy with China is flawed. The current so-called free trade regime is running up unsustainable trade deficits and unacceptable job losses.

Second, the United States needs to more fully and effectively use the special textile China safeguard.

For years the textile industry has operated under an arrangement negotiated by the U.S. Government known as the Multi Fiber Arrangement (MFA). The MFA was adopted in response to the threat of the ability of two or three low-wage countries to capture almost all of the U.S. textile and apparel market. The MFA doled out U.S. textile and apparel quotas to nearly all low-wage countries in the world. The result was an unqualified success. Apparel industries took root in dozens of poor countries. Textile and apparel products are the leading exports in many of these countries and the industry employs tens of millions in the Third World. And last but not least, market share for U.S. manufacturers was preserved.

Despite the success of the MFA, the WTO Uruguay Road phased out all textile quotas after a ten-year phase-out period ending January 1, 2005. At the time the quota phase-out was negotiated, China was not a member of the WTO and the addition of countries with non-market to the WTO was not contemplated.

Despite its failure to convert to a market economy, China was admitted to the WTO on January 1, 2002. Moreover, China was not given a ten-year quota phase-out like the rest of the world but was allowed to join the phase-out in progress. This meant China received significant quota-free access to the U.S. market immediately upon its admittance into the WTO.

In return for immediate quota-free access, the China gave the United States the right to use a "safeguard" to place quantitative limits on imports of Chinese textile and apparel products if those imports were disrupting the U.S. market.

While the trade off sounds great in theory, the reality has been an unmitigated disaster for the U.S. textile industry. The U.S. Government has failed to implement the safeguard in a timely and effective manner.

The textile safeguard was designed to protect U.S. textile manufacturers and workers from a rapid and disruptive increase of low-cost Chinese textile imports and was first negotiated as part of the Chinese/U.S. textile agreement in 1997. The China safeguard was reaffirmed as part of China's World Trade Organization (WTO) accession agreement in 2001.

Although this safeguard was first agreed to six years ago and although China joined the WTO on January 1, 2002, the U.S. Government did not publish procedures to implement the safeguard until late May 2003. The U.S. domestic textile industry had asked that the special textile safeguard mechanism be invoked against surges in several specific textile categories in early 2002, but the answer was always wait until the procedures were published.

The U.S. textile industry filed its first safeguard provisions in July 2003. To the credit of the U.S. Government, three safeguard petitions were approved in November 2003. Nevertheless, the inexcusable delay on the part of the U.S. Government has already resulted in enormous damage to the U.S. textile industry and its workers. China's exports to the United States grew by 340 percent between January 2002 and November 2003. Meanwhile, the U.S. textile and apparel industries continued to lose tens of thousands of jobs.

Comprehensive implementation of the special textile China safeguard will take on even greater importance in 2004. Quotas on all categories especially sensitive to U.S. textile manufacturers expire on January 1, 2005. If the special textile China safeguard is not implemented in a comprehensive fashion, China is expected to capture 70 to 75 of the entire U.S. textile and apparel market within two to three years! China is also expected to capture 45 percent of the world market.

China will wreak havoc on the economies of dozens of both least developed and First World countries if allowed to export unchecked. *BusinessWeek* reports that an estimated 30 million textile and apparel workers worldwide, including 630,000 in the United States, will lose their jobs to China's textile and apparel exporting machine.

Third, in light of the impending world-wide calamity alluded to above, the United States should attempt to convene an emergency session of the WTO governing body to extend all current textile quotas through January 1, 2008. This would give the WTO time to study whether phasing out textile quotas is in the best interest of the world's least developed countries.

Fourth, the United States must stop negotiating free trade agreements like the Central American Free Trade Agreement that grant the Chinese textile industry enormous loopholes to exploit at the expense of the U.S. textile industry.

For example, the U.S. Government included loopholes in CAFTA that will likely lead to the loss of 500 to 700 million square meters of U.S. textile production. One loophole is "single transformation," an exception to the rule of origin that allows for Chinese-made components to be used in the assembly of an unlimited amount of brassieres, boxers and pajamas in CAFTA countries and then be exported to the U.S. duty free. This loophole will almost certainly most all domestic manufacturing of the textile components for these sensitive products.

As you recall, the U.S. Government approved a special textile safeguard petition on brassieres because Chinese imports were disrupting the market. Yet with the stroke of a pen only a month later, the United States included a loophole in CAFTA that consigns nearly the entire brassiere-component manufacturing market to China.

Another loophole is tariff preference levels (TPLs). TPLs are an exception to the rule of origin allowing for a specific amount of trade to receive duty free treatment without having to use U.S. or regional yarns and fabrics. Under a TPL scheme, Chinese yarns and fabrics are shipped to Central America, cut and sewn into garments and then exported to the U.S. duty free. CAFTA includes a TPL for Nicaragua of 100 million square meters of production.

TPLs take away U.S. jobs because U.S. industry they give incentives for Central American apparel manufacturers to send vital yarn and fabric orders to China and other Far Eastern suppliers at the expense of their American counterparts. China, which was not even a party to CAFTA and gave nothing up, receives all the benefits from the loophole. Finally, TPLs are unnecessary because "short supply" provisions in the agreement allow CAFTA countries to use Asian yarns and fabrics if those components are no longer produced in the U.S.

It should be noted that other third-party countries may also exploit the loopholes discussed above. That being said, China will reap the lion's share of the benefits.

Fifth, the United States should enhance and extend Federal buy-American purchase requirements. Current Defense Department buy-American requirements should be revised to eliminate waiver authority for inappropriate and arbitrary reasons. Moreover, buy-American provisions should be extended to other national security agencies such as the Department of Homeland Security. The measures would help ensure the health of the U.S. textile industry.

The U.S. textile industry manufactures such essential products as camouflage uniforms, Kevlar body armor, polar jackets, waterproof and insect-repellant fabrics, etc. In addition, U.S. researchers at the Massachusetts Institute of Technology are developing military apparel with nanotechnology that would be lightweight, bullet-proof and waterproof. This technology could save innumerable lives in a time of war. The importance of the textile industry research and development capability cannot be understated. If the United States loses its textile industry, it will be losing a critical military research and development capability too.

Sixth, Congress should pass a Foreign Sales Corporations/Extraterritorial Taxation Initiative (FSC-ETI) reform bill that focuses tax relief much more on domestic manufacturing, rather than continuing to provide large tax incentives for outsourcing corporations.

In 2001, the current FSC/ETI law giving tax credits to U.S. corporations for their offshore activities was deemed illegal by the WTO. The European Union has threatened to impose tariffs on U.S. imports unless the FSC tax breaks are removed. Legislation advocated by the House Ways and Means Committee would divide tax benefits between domestic manufacturers and outsourcing companies and overseas investors. Congress should instead direct much more of this benefit to domestic manufacturers. Moreover, benefits of the legislation should be extended to Subchapter S corporations as in the Senate bill. This tax relief would help U.S. manufacturers compete with heavily subsidized Chinese manufacturers.

Conclusion

Clearly it is time for action. U.S. textile and apparel manufacturers do not need any more promises, commitments or hollow announcements. What the industry needs are results. And results only will occur when the U.S. Government actually implements the policy tools mentioned in this testimony to keep Chinese exports from totally undermining U.S. manufacturers of textiles and apparel. With the elimination of textile quotas looming on the immediate horizon, it is imperative that the United States confront the Chinese threat to U.S. textile and apparel manufacturing forcefully and effectively.

Hopefully, such action will come in time to save the nearly one million textile and apparel jobs that are still left in this country.

Co-Chair BECKER. Thank you. We will wait until the entire panel has presented their testimony before we'll get into questions. Sarah Friedman.

**STATEMENT OF SARAH FRIEDMAN
EXECUTIVE DIRECTOR, SOUTHEASTERN APPAREL MANUFACTURERS
AND SUPPLIERS ASSOCIATION (SEAMS)**

Ms. FRIEDMAN. Good morning. Thank you for the opportunity to speak with you this morning. I come to you today representing SEAMS. That is an association to the sewing products industry. The association was formed 37 years ago in South Carolina by manufacturers and suppliers to the apparel industry mostly at that time. It was formed to work together to strengthen our industry and to try to help manufacturing companies and contracting companies keep their businesses competitive. In the early 1990's our association had approximately 450 companies that were members; we now have 182 companies. Today I want to talk to you about our South Carolina companies that are members. In 2001 we had over 100 companies in South Carolina that were members of our association. Today we have 51. We've lost 50 companies in the last three years. The reason they closed the doors is not because they're not competitive. It wasn't because they did not have the latest equipment and that they did not have skilled workers in their facilities. The doors were closed because of the unfair trade that's going on and that they could not compete. Why could they not compete? Not just because of the wages in other countries, but because of the greediness with the retailer, and what they wanted. As we go into the stores and look at products that are made here, or if they're made in China, and I did this yesterday, the prices are the same. A lot of it is not being passed on to the consumer even though we're told that it is. A lot of these contracts that they lost were maybe pennies per piece for the products that they were willing to make in their facilities. And what it's done in closing these plants is that so many people, and I'm not sure if you've ever been into an apparel plant or textile products plant. A lot of the workers are minorities, they're women and they have a high skill level and they want to do these jobs, they're prepared to do them, they've been doing them for years. A lot of them are in their 40's and 50's and I've spoken to some of them that have lost their jobs, and I'm asking what are you doing. Well, of course the first thing they do is they sign up for unemployment while they seek work. Some of them have been retrained. But after being retrained, there are still not the jobs out there for them because they're in their 50's. And if you've got somebody that's in their 50's and someone that's in their 20's, even though we're not supposed to, guess who's going to

get the job. That's what's going to happen. So these women, a lot of them are faced with if they do other work, they work for less money than they were making, they're away from their families more and they lose benefits that they had to protect their families. So it's devastating to talk to these people or go into their facilities and know that there's not a lack of the way they're managed or the equipment that they had or their skill level. And then in changing hats, also I am part owner of an apparel company in Aiken, South Carolina, a plant that was built in 1962. And many people will tell you that you need to diversify. If you diversify, you can keep your facilities going. You have to think out of the box; you have to be willing to do different things. Aiken Industries did that, and in the early 1990's had 165 employees; today they have 42. As I sit here with you today, those employees are laid-off because of lack of work. They diversified, tried different things. Eight months ago I went to work for a company that assured me only that they would give them work. They went out and bought modern equipment, put it into the facility. The last week in November they came to them and said we will not give you any more work, the reason being that this work was going to be made in China. Not because of anything they'd done wrong, not because of the delivery or quality but because they wanted it coming out of China. So what I ask you today is do we want to keep manufacturing in the United States? If we do, what can we do about it? We need help from our government and in order to do that there's many ways. Senator Hollings mentioned the Berry Amendment and so did Senator Lindsay Graham. We need to strengthen the Berry Amendment, also maybe look at procurement laws in each State as far as the products that are made and where they're made and be given an opportunity. We need your help, please.

Co-Chair BECKER. Thank you very much. Mr. Crolley.

STATEMENT OF LARRY CROLLEY, PRESIDENT, CRAIG INDUSTRIES

Mr. CROLLEY. Commissioners, thank you for the opportunity to come before you. My name is Larry Crolley. I'm President of Craig Industries. Craig Industries was a company formed in 1979 to manufacture apparel and then was later changed to a company that does what is known in our industry as cut make and trim apparel. As I prepared to come before you, I spent several days writing out what I was going to say and as I was preparing to leave this morning, I just threw it all in the trash. I felt like I should come talk to you from my heart. I guess my company represents small business America. We're a small company. Wasn't always that way. In 1990 we had 500 employees. Today we have less than 100. I was brought up to believe in American pie, Chevrolet and motherhood. I have a strong sense of loyalty to my employees. I have a strong sense of loyalty to the politicians that we elect and I'm proud to be an American. But it's awful hard to compete when you are constantly being told, "Larry, you've done a good job for us for 20 years. We're just going to have to buy in China or India or Pakistan." And you know I was around when we fought the Japanese on this same area, and I said, "Well, we'll whip all those countries too." So we're fighting the fight. How long will we last? I don't know. My faith is in this country, my faith is in the politicians that

I have ... as best as I have the ability to study and try to understand and elect, I hope they'll represent what's best for me and the employees that work with me. Then what happens is we've become such a selfish society. If you don't perform and if you don't make money, you cannot exist. And you say, "Well, Larry, that's about as fundamental economics as there are." Well, that's true, it is. You cannot continue to spend out more than you take in. But the problem that we have is that as small companies, we can't compete with multi-national companies, we can't go open a plant in China, we can't go open a plant anywhere that we ... if somebody wants us to open. We as small business have to deal with what's put before us. We've been told, us small businessmen, that we're the backbone that will get the economy going again, we're the ones, the entrepreneurs, the creative ones, that we'll get things going. Well, I'm here to tell you it's getting harder and harder. I mentioned a while ago about money. You know, bankers aren't blind to what we're talking about, they read the papers and they're smarter than most of us. I would like for one of you one day to go with me to a banker and say, "You know, I can get a little more efficient if I can buy this piece of equipment. Would you be interested in financing it for me for ten years?" "Larry, I've known you all your life but you know, we just don't look in favor at all on the apparel and textile businesses. Why don't you just go ahead and do something else? Just quit, try to do something else." But I come to you and I will conclude by saying these things, I've been in this business 40 years. For 25 of those years I've been in business for myself. When I started in business in 1979 I hired 13 people. Those 13 people and I started making what then was known as sundresses. Twenty-five years later, six of those women are still working with me and the others are dead. You know, they depend on me to find work. They depend on me for a paycheck. They depend on me to help them make their house payment, their car payments, send their kids to college and give them a better life than what they had. It's very hard to walk away from that. It's very hard to say, you know, I fought the fight; I've done all I can do. I'm just going to throw up my hands and walk away. You know, to the success we have, we owe it to a lot of people and I owe my success to my employees, I owe my success in life to my family. You just can't walk away from it, you just keep fighting and you keep scratching and you keep clawing and you keep praying. And we depend on people like you to get laws passed to help us. One of the things that Craig Industries has done is we went to, we attended some seminars, we went and talked to some professors at Francis Marion University which is in Florence, South Carolina. We talked with some professors here at South Carolina. I have a ... I was blessed to be able to get a college education. I understand supply and demand and economics, or I thought I did. And so we aggressively went after Japanese business because made in the USA has some value over there and we were successful at that. The first two years we shipped them over three million shirts a year going out of the Port of Charleston. This year we may ship 600,000. Guess who our biggest competitor in Japan is? China. China can sell in Japan the same shirt we make for 60 percent of what we're paid, of what we charge. Something's wrong with that picture. I don't

know the answers, Mr. Chairman. I guess you all have been charged to find that answer. And I can conclude with a little emotional thing that happened to me. There's a plant 15 miles from my plant. This happened on January 7th. "Timmonsville Plant Closing to Leave 100 People Without Jobs." "Oxford Drapery officials claim that they cannot compete with cheap labor," and the article goes on to say that the goods are going to be made in China. But we need to think about what this worker says. "Unemployment in the seven counties of the region is more than 13 percent. Only two of these counties had jobless rates in single digits in November. For some of the workers at Oxford one of the biggest blows will be the loss of benefits. 'The one thing that's hard is insurance,' said Nettie Chappel, a 16 year employee of Oxford. I'm on a lot of medication. Without insurance that's really going to be hard." What are we going to do about Ms. Chappel? What are we going to do about us baby boomers? Thank you, gentlemen.

Co-Chair BECKER. Thank you, Mr. Crolley. We will now hear from Harris Raynor from UNITE.

**STATEMENT OF HARRIS RAYNOR, SOUTHERN REGIONAL DIRECTOR
AND INTERNATIONAL VICE PRESIDENT, UNION OF NEEDLETRADES
INDUSTRIAL AND TEXTILE EMPLOYEES (UNITE)**

Mr. RAYNOR. Thank you. I'm going to try to be brief. I shouldn't lie from the beginning. I'm going to try put some of this in context. I've spent about half my adult life trying to get to the table with some of the people who are sitting on either side of me and their companies. It was a different table that I envisioned we'd be meeting at but the seriousness of this problem I think is sort of embodied in the fact that here we are, the union and companies that have been opposed to having unions all of their lives, in one room in one place together on one issue because our very lives are at stake right now and the lives of the people that we represent, and, as some of these company owners so eloquently have expressed how much they care for. I was a little late getting back to the table because I was voting on a bankruptcy creditor's committee call for Cone Mills, the largest denim company at one time in the United States. And Cone Mills, as part of its bankruptcy, is trying to auction itself off to the highest bidder. We have one bidder that Mr. Becker knows, a gentleman named Wilbur Ross, and the creditors went out trying to see if there's any other bidder who could see some value to this company. There's not a person, there's not a company, there's not a financial organization that has put in a bid for Cone Mills.

I had the pride and the honor to represent 7,000 workers at Pillowtex Corporation, better known as the old Fieldcrest and Cannon, the two best known brands in the home furnishings industry, a company that made profit when it sold Fieldcrest and Royal Velvet towels. In that bankruptcy we could not find a bidder for that company despite the fact that it had from 24 to 34 percent profit margins on its high-end products. Why not? Because everybody we approached said, "2005 is coming and you want me to put my money in the textile industry?" No way in Hades. This is not a change we're talking about here; this is a massive dislocation of entire industries at light speed. It's not some gradual thing that's happening or that's been happening over the years. This trade and

the threat that China brings is enormous, and it's like something that we've never seen. I hope that the President doesn't dare make his speech about all those jobs that he's creating in Kannapolis, North Carolina because the only jobs he'll create will be for tons of the Secret Service people we're going to have to keep those workers off his back. Nobody's finding jobs that were affected by the Pillowtex bankruptcy.

Now, there's a lot of statistics that have been thrown around here and I'm not an economist, but you have them and you've heard them. Senator Hollings said something and I think we have to examine some of the things that he said. Let me first say this is the most modern, the most efficient, the safest and by far the best textile industry in the world and we can't compete. Why not? Senator Hollings made a whole list of things that you have to do if you want to run a company. You've got to pay into a retirement system for your workers, through Social Security if not through your own pension plan; you have to pay minimum wage; you have to obey an Occupational Safety and Health Act that has almost eliminated brown lung disease in this country. You have to take care of your people and have workers' comp insurance. You have to pay overtime after a certain number of hours. You can't go out and get 12 year olds to come and work in your factory for nothing. You can't tell them to take the work home and finish it and that's their overtime. You have to pay taxes to support school systems and hospitals. You have to pay into a medical system for your people. And it goes on and on and on. How do those things happen? You go by a textile mill in this country and out in front or on the side or in back of every one of them is a water treatment plant to make sure that our natural resources are safeguarded. We don't pollute the air. What happens to us when we cross the borders? I go in Wal-Mart and I find everything made in China, but I didn't realize the air we breathe said, "Made in the U.S.A.," or made in China. But when you go to China and you do business, none of those things matter at all. You are dealing with a state-run economy that says to its businesses, your job is to support the state. It says to its labor union, your job is to support the state, not the workers who might be your members, who might want better wages or better benefits, your job is to support the state. And you know what happens to people in China, I don't have to tell you, when they go against the party and they go against that government.

Now we are not here begging for a handout. The people I represent are too proud to want charity. What we want is to be able to help those people and help ourselves at the same time. China's not the only one; this is the problem of trade in general. These countries are desperate to have access to U.S. capital, to U.S. markets and to U.S. technology and we give it away with no price. We don't say, "If you want to trade with us, you will obey international labor laws, you will pay a minimum wage, you will not employ children, instead you will educate children." We don't use trade to do anything to uplift the rest of the world; we don't make any insistence that there be a deal here. We have the power to do that. Instead we hide behind the veil of free trade, which says this should be a race to the bottom. My union was founded on ending sweatshops in this country and there were a number of employers who

wanted to join us in that effort. China is the world's sweatshop and we either have a responsibility to our workers and to the workers of the rest of this world to try to end that sweatshop by not prostituting our country and its resources on the bier of free trading. If we continue to do that, we won't need to have any more of these hearings. We can't compete in that way but we can have a plan, a sensible trade policy that recognizes that we have a global marketplace we're trying to deal with national institutions. The two don't match up and we have got to use the rest of the world and our ability to negotiate trade agreements and to participate, as long as our President will let us participate and not keep telling everybody he doesn't give a damn about the rest of the world, participate in decisions with all the countries of the world to try to raise living standards through trade for all people. Thank you.

Co-Chair BECKER. Thank you, Mr. Raynor. We'll now hear from Smyth McKissick.

**STATEMENT OF SMYTH MCKISSICK, CHIEF EXECUTIVE OFFICER
ALICE MANUFACTURING COMPANY, INC., EASLEY, SOUTH CAROLINA
AND REPRESENTING AMERICAN TEXTILE MANUFACTURERS
INSTITUTE (ATMI)**

Mr. MCKISSICK. Thank you, Commissioners. I very much appreciate your being here. Our company, Alice Manufacturing, was established in 1910. We have 750 associates in Easley, South Carolina and four generations of my family have guided this proud company through good times and bad, including numerous recessions, World War II and the Great Depression.

Over the years our company, Alice Manufacturing, has consistently invested in new equipment in order to remain highly productive and competitive in the global trading environment that we now face. We are typical of the entire U.S. textile industry that has taken steps to make sure that our industry, the U.S. textile industry, is the most modern and productive textile industry in the world.

But make no mistake about it, the threat we face today from unrelenting and massive surges of unfairly traded imported textile products, particularly from China, make the Great Depression pale by comparison. The crisis we face today will determine whether Alice Manufacturing, along with much of what remains of the American textile industry, even survives.

Alice Manufacturing views the Chinese trade practices as the major threat to world stability in textile and apparel trade. We are threatened today because of unfair and illegal trade practices, which the Chinese government has instituted to help their textile industry and to ensure continued employment for their textile and apparel workers.

I'm talking about currency manipulation to drive down the prices below the levels that anyone can compete with. I'm talking about direct government subsidization of inefficient, money-losing Chinese textile manufacturers, which enable their exports to undercut our products. I'm talking about no-cost loans from Chinese government-owned banks to build textile plants to produce goods for export.

Let me give you some facts and figures. In 2002 after China had just joined the World Trade Organization, as Norman mentioned earlier, China was allowed to benefit from the elimination of a number of quotas on textile and apparel products.

As a result, in 18 months' time, the Chinese share of total U.S. imports in these categories went from nine percent to 53 percent. And that trend has continued to the point that we estimate China's share of imports in these categories will be between 65 and 75 percent by June of this year.

China is doing this because it dropped its prices on average of 55 percent.

No one can compete with a 55 percent price cut. Not the Philippines, not Bangladesh, not even Mexico with zero duties, and many American textile companies have been wiped out.

Here are some more facts. Over the past 12 months China's exports into this country have increased by 85 percent. That's the biggest increase by any country in history. Over the same period of time, the U.S. textile industry has closed 53 plants and has seen the elimination of 49,000 jobs and that's only a fraction of what is to come if our government does not do something fast.

In 11 months, as you folks know, all remaining quotas on Chinese textile and apparel import will be removed. A recent study by the American Textile Manufacturers Institute shows that if China merely repeats its pattern of behavior from 2002, the entire U.S. textile and apparel industry will be virtually wiped out.

This study projects that over the course of two or three years 630,000 hard working American textile and apparel jobs will be eliminated if this occurs. This industry, one of the largest manufacturing employers in the United States, will be destroyed and all these good jobs will be gone forever.

And the damage won't be limited just to our country. The World Bank estimates that because China will get the same quota-free access to all other countries, it will take over as much as one-half of the world's trade in apparel. That's over 200 billion dollars a year in trade. In fact, according to Business Week, increased Chinese production will displace upwards of 30 million textile and apparel jobs in other countries around the world, many of them in developing, or least-developed countries. This will be one of the biggest short-term shifts of wealth in history. It will be devastating to dozens of countries and in Africa, Central America, the Caribbean and Asia, countries whose economies depend upon apparel exports to the United States and Europe.

And there is no apparent U.S. Government response or concern to the enormously destabilizing effect that a China takeover of this manufacturing sector will cause.

Now truth be told, and we've heard this before, none of this is entirely China's fault. China is doing what is in its own best interest. China is acting aggressively on behalf of its own national interest and its people. China is sticking up for its own textile industries.

So we have to ask ourselves when is our government going to stick up for us? Not talking, not promising but actually doing something. When will our government insist, not ask but insist that China cease manipulating its currency? Why isn't the U.S. taking legal action today to force China to stop currency manipulation and when will our government insist that China stop subsidizing its textile manufacturers? When will the U.S. challenge China in the WTO regarding its illegal export tax rebate scheme?

I also understand that our government has a rule on the books that makes it impossible for our company to ask for a trade action against Chinese subsidies because China is a non-market economy. That's ridiculous. How can our government allow things like this to happen?

The U.S. market, our market, is what China is after. We have all the leverage but we apparently are doing nothing while our jobs and our wealth disappear. As a final point I want to address the serious implications this situation has for our national security.

The Defense Supply Center in Philadelphia estimates that it procures 8,000 different textile items annually for use by the armed forces and this figure actually rises to over 30,000 line items when individual sizes are added into the item mix. We supply the American war fighter with everything from uniforms to high-tech protective clothing. We supply defense contractors with industrial fabrics that are vital to the operation of key pieces of military equipment.

We are, in the words of one former Secretary of Defense, second only to steel in importance to the Armed Forces of the United States.

But if this industry, this key supplier to the U.S. Department of Defense is allowed to wither away because of unfairly traded imports from China and other countries, where will our Armed Forces go for these 30,000 line items? Do we really want to have to depend on communist China or any other nation for these critical military items?

In conclusion, our workers see the future and they know that their jobs could be gone if the U.S. government doesn't start taking their side. They see China taking away job after job after job because it has not played fairly and they see our government looking the other way. Our government is letting us down, it is letting our families down, and it is letting our communities down. I hope you members of the Commission send a message to the folks in Washington that it is time to implement trade policies that are first and foremost designed to benefit the U.S. economy and the workingmen and women of the United States. Thank you very much.

[The statement follows:]

**Prepared Statement of Smyth McKissick, Chief Executive Officer
Alice Manufacturing Company, Inc., Easley, South Carolina, and
Representing American Textile Manufacturers Institute (ATMI)**

China's Impact on the U.S. Textile Manufacturing Base

Mr. Chairman, Members of the Commission, my name is Smyth McKissick. I am the CEO of Alice Manufacturing, a relatively small, privately held textile company with four plants located here in South Carolina. We currently produce a variety of woven fabrics and home furnishings ultimately used for home furnishings, apparel, industrial goods, and pocketing and linings, among other things. These products are ultimately used by our customers for home furnishings, apparel, industrial goods, and pocketing and linings, among other things.

Alice Manufacturing was established in 1910. Four generations of McKissicks have guided this proud company through good times and bad, including numerous recessions, World War II and the Great Depression. Both my grandfather and father served as President of the American Textile Manufacturers Institute, and I have served for a number of years on the Board of Directors of that association.

Over the years, Alice Manufacturing has consistently made prudent and necessary investments in new equipment in order to remain highly productive and competitive in the global trading environment we now face. We have described our modernization program as "aggressive" because to be passive in our business means you get left behind. We are typical of the entire U.S. textile industry, which has taken steps to make sure it is the most modern, productive textile industry in the world.

But make no mistake about it—the threat we face today from unrelenting and massive surges of unfairly traded imported textile products, particularly from China, makes the Great Depression pale by comparison. The crisis we face today will determine whether Alice Manufacturing, along with much of what remains of the American textile industry, even survives.

Alice Manufacturing views Chinese trade practices as *the* major threat to world stability in textile and apparel trade. It's not simply a question of their low wages—in fact, if wages were the only factor, China's 40 cents/hour wages would put it at a competitive disadvantage vis-a-vis Bangladesh, which only pays its textile workers 25 cents per hour. Nor is it the fact that China does not face the same labor law, tax, environmental or safety and health requirements that we face. While we wish that China and our other competitors had to abide by these same requirements, we know that is not going to happen anytime soon.

Instead, we are threatened today because of the unfair and illegal trade practices which the Chinese government has instituted to help their textile industry and ensure continued employment for their textile and apparel workers.

- I am talking about currency manipulation to drive down prices below the level that anyone can compete with.
- I'm talking about direct government subsidization of inefficient, money-losing Chinese textile manufacturers, which enables their exports to undercut our products.
- I'm talking about no-cost loans from Chinese government-owned banks to build textile plants to produce goods for export.

Let me give you some facts and figures. In 2002, because China had just joined the WTO, China was allowed to benefit from the elimination of a number of quotas on textile and apparel products. Other WTO member countries got to do the same. It was a case of China versus the rest of the world, including U.S. textile companies.

What happened? In 18 months time, the Chinese share of total U.S. imports in these categories went from 9 percent to 53 percent. And this trend has continued to the point that we estimate China's share of imports in these categories will be between 65 and 75 percent by June of this year.

How did China do this? China did this because it dropped its prices by an average of 55%!

No one else could compete with a 55 percent price cut. Not the Philippines, not Bangladesh, not even Mexico, with zero duties. And many American textile companies have been wiped out.

Here are some more facts. Over just the last twelve months, China has increased its exports of textiles to the United States by 85%, the biggest increase by any country in history. Over the same period of time, the U.S. textile industry has closed 53 plants, and 49,000 U.S. textile workers have lost their jobs. And that is only a fraction of what is to come if this government does not do something fast.

In eleven months, all remaining quotas on Chinese textile and apparel exports will be removed. A recent study by the American Textile Manufacturers Institute (ATMI) showed that, if China merely repeats its pattern of behavior from 2002, the entire U.S. textile industry will virtually be wiped out.

This study projects that, very quickly, over the course of two or three years, 630,000 hard-working American textile and apparel jobs will be eliminated if this occurs. This industry, one of the largest manufacturing employers in the United States, will be destroyed, and all those good jobs will be gone forever.

And the damage won't be limited to the U.S. The World Bank estimates that, because China will get the same quota-free access to all other countries, it will take over as much as one-half of the world's trade in apparel. That is over \$200 billion in trade. In fact, according to *Business Week*, increased Chinese production will displace upwards of 30 million textile and apparel jobs in other countries around the world, many of them in developing and least developed countries. This will be one of the biggest short-term shifts of wealth in history. And it will be devastating to dozens of countries in Africa, Central America, the Caribbean and Asia, countries whose economies depend on apparel exports to the United States and Europe.

Yet there is no apparent U.S. Government response to or concern over the enormously destabilizing effect that a China takeover of this sector will cause. The only thing we have heard out of the government thus far is a comment from Ambassador Zoellick, suggesting that the African countries should try making shoes instead. China already has an 82% share of the import market for shoes, which doesn't leave much room for anyone else to break in. China also has more than an eighty percent share of the market for small appliances, lighting, bicycles and toys. Just what on earth are these other countries supposed to try and make?

Now, truth be told, none of this is entirely China's fault. China is doing what is in its own best interests. China is acting aggressively on behalf of its own national interests and its people. China is sticking up for its own textile industry.

So we have to ask:

- When will our government begin sticking up for us? Not talking, not promising, but actually doing something?
- When will our government insist—not ask, but insist—that China immediately cease manipulating its currency?
- Why isn't the U.S. taking legal action today to force China to stop its currency manipulation?
- And when will our government insist that China stop subsidizing its textile manufacturers?
- When will the U.S. challenge China in the WTO regarding its illegal export tax rebate scheme?

I also understand that the U.S. Government has a rule on the books that makes it impossible for my company to ask for a trade action against Chinese subsidies because China is a non-market economy. That's ridiculous. How can OUR government allow things like that to happen?

The U.S. market is what China is after. We have all the leverage, but the U.S. is doing nothing while our jobs and our wealth just drains away.

This Commission was authorized as part of the Floyd Spence Defense Authorization Act, a law named after the late Congressman from South Carolina who understood the link between our Nation's military security and the need for a strong defense industrial base in textiles. In light of this fact, I want to address the serious implications this situation has for our national security.

The Defense Supply Center—Philadelphia estimates that over 8,000 different textile items are purchased annually for use by the Armed Forces, and this figure actually rises to over 30,000 line items when individual sizes are factored into the item mix. We supply the American warfighter with everything from uniforms to high tech protective clothing. We supply defense contractors with industrial fabrics that are vital to the operation of key pieces of military equipment.

We supply such combat essential items as combat and flight uniforms, helmets, flak jackets, gear for extreme weather operations, chemical defense suits, parachutes, aircraft fuel cells, sandbags, tents and shelters, sheets, blankets and hospital supplies, as well as airplane panels (made of Nomex and Kevlar), ammunition, bags/pouches, fabric for bullet-proof vests and helmets, chemical protective suits, communication lines (optical fiberglass), extreme weather protective fabrics, interfacing and lining in apparel and shoes, parachutes and parachute harnesses, personal flotation devices, pontoon bridges, rafts, ropes and cables, ship composites, stealth fighter plane graphite fibers and wet suits, to name just a few of the thousands of items.

We are, in the words of one former Secretary of Defense, second only to steel in importance to the Armed Forces of the United States.

But if this industry, this key supplier to the U.S. Department of Defense, is allowed to wither away because of unfairly traded imports from China and other countries, where will our Armed Forces go for these 30,000 line items? Will our soldiers have to wait on China to agree to meet our military's specifications not just for quantity but for quality? Will our soldiers then have to wait for China to produce the items needed? Will they then have to wait for them to be shipped on the proverbial slow boat from China? And what if our military receives the items it needs but they do not meet the rigid specifications we have established—do we send them back and start over again?

Finally, and most importantly, what do we do when China does not agree with a particular U.S. foreign policy or defense policy, and decides to cut off the pipeline? We saw what happened when OPEC did that to us in 1973–74 with respect to oil. Do we want to be faced with an embargo on potentially thousands of different textile items? Do we want our military's supply needs to be held hostage to the whims of the government of China, whose principles of government differ so greatly from our own?

In conclusion, our workers see the future and they know that their jobs will be gone if the U.S. Government doesn't start taking their side. They see China taking away job after job and job because it is not playing fairly, and they see our government looking the other way. This understandably makes them very angry. This government is letting them down, it is letting their families down and it is letting their communities down. I hope you send the message to the folks in Washington that this is a dangerous game to play and the day may come, sooner than they expect, when they will be held accountable.

BusinessWeekDECEMBER 15, 2003
ASIAN COVER STORY**Where Free Trade Hurts****Thirty million jobs could disappear with the end of apparel quotas**

By Cambodia's modest standards, Tuch Phearom is a success story. For the past four years she has been sewing sweaters, a job that now earns her as much as \$80 per month, including overtime. The money has helped her family build a new wooden house that sits on stilts, leaving room for the chickens, pigs, and cattle to sleep and forage below. And her wages have allowed her father to expand the plot of land he farms to 4.5 hectares.

The winds of global commerce, though, may soon blow right through Tuch's humble prosperity. The U.S. and Europe next year are set to remove a 30-year-old regime of strict import quotas on clothing and textiles, which could put Tuch and the 1,300 other workers at the Thai-Pore Garment Manufacturing Co. Ltd. out on the street. The reason: Once the quotas are lifted, a handful of countries—most notably China—are expected to quickly dominate the clothing industry worldwide, using their low wages, modern factories, and good infrastructure to put outfits like Thai-Pore out of business. "I'm worried my family will have nothing," says the 24-year-old Tuch. Adds her boss, managing director Roger Tan: "China is a major, major threat."

It's not just a threat to Cambodia. From the Dominican Republic to Bangladesh, some 30 million workers in dozens of developing countries could see their jobs suddenly evaporate. Under a 1974 global pact called the Multi-Fiber Arrangement (MFA), 47 nations each gets a share of the European and U.S. markets for clothing and textiles. Cambodia, for instance, this year can export to the U.S. 1,721,232 cotton pillowcases, 72 silk dresses, 1,136,229 knit shirts, and 37,896 playsuits—in all, \$1.4 billion worth of clothing and textiles. The original idea of the quotas was to afford some protection to the declining textile industries of the developed countries. The reality was different: With quotas effectively guaranteeing market access, manufacturers sprang up in such unlikely places as Jamaica and Sri Lanka, which before the quotas had no significant textile industry.

"Trade Not Aid"

Talk about unintended consequences. Clothing exporters such as Ghana, the Dominican Republic, and Turkey had long protested that quotas were holding back their development. Not so many years ago, each expected to ramp up production dramatically if the quota system were dismantled. The World Bank, meanwhile, estimated that the quota system, by limiting market access, deprived poorer nations of twice what they received in foreign aid. So "trade not aid" became the prescription for Asia, Africa, and South America. In 1995, the U.S. and Europe agreed to begin phasing out their quotas on clothing and textiles as part of the deal that created the World Trade Organization. Of the 140 categories of clothing covered by the MFA, quotas on about 50 less contentious categories have already been eliminated. By Jan. 1, 2005, the rest are scheduled to disappear, though most products will still face import duties of 16% in the U.S. and 18% in the European Union. Developing nations hailed the agreement.

That was before China was invited to the party. In December 2001, after 13 years of negotiations, China joined the WTO. Now, as a member of the global trading club, China will be able to compete on an equal footing to sew blazers, blouses, and bedspreads for the fashion-conscious consumers of Europe and America. The grand prize: \$500 billion in global garment trade.

As in so many other areas, China's weight is likely to be felt far beyond its borders. Apparel industry workers in China earn an average of \$73 per month, compared with \$75 in Indonesia, \$102 in the Dominican Republic, and \$300 in Honduras. Moreover, with the help of trading companies in Taiwan and Hong Kong, China can quickly deliver its goods to stores thousands of miles from its shores. Last year, China's exports amounted to 17% of the global clothing market. Once all quotas are lifted, its share is expected to quickly jump to 45%, the World Bank estimates. China now sells the U.S. \$6.5 billion of its \$60 billion in apparel and textile imports. The number may hit \$40 billion by 2010, the World Bank says. China is "the 800-pound gorilla," says **Ronald J. Sorini**, a former U.S. trade negotiator for textiles.

Making China the Scapegoat

Suddenly, the much-maligned quota system looks like a lifeline. Rather than helping developing nations, the phaseout of quotas creates a Darwinian survival of the fittest—or, as critics of globalization would have it, a race to the bottom, where wages and benefits are certain to be sacrificed in a frantic effort to retain market share. When quotas on baby clothes and soft luggage ended last year, China's exports of baby clothes to the U.S. leaped 826%, and its soft luggage shipments rose fivefold. In Thailand, the Philippines, Indonesia, and Mexico, production of those products dropped by half. In the Dominican Republic, luggage exports plummeted by 70%, to \$8.2 million.

That kind of competition benefits consumers around the developed world. Prices have already fallen by 30% on dozens of items that went off quota last year, according to industry estimates. And buyers from companies such as the Gap and Nike have been flooding China in search of new suppliers in anticipation of the end of the quota regime. M. Maniwanen, CEO of Indonesia's Busana Apparel Group, got a taste of what life may soon be like when he met in November with officials of Phillips-Van Heusen Corp. (PVH). The Van Heusen team kicked off the discussion by insisting that Busana's prices of \$12 to \$15 for a dozen dress shirts were too steep. "They're taking advantage" of the quota phaseout, says a dispirited Maniwanen. Van Heusen could not be reached for comment.

Still, China is sure to take plenty of heat for the shift. Last year's surge in U.S. imports of three off-quota items from China—bras, bathrobes, and woven fabric—has already created a mini-crisis in Beijing's relations with Washington. On Nov. 30, the U.S. announced it would impose emergency "safeguard" quotas on the three categories to give domestic manufacturers some breathing room. China pleads that it needs the clothing industry to absorb legions of workers from rural areas and those laid off from inefficient state-owned industries. Modernized textile and garment factories could go a long way toward meeting the goal. "China is still a developing country, so for a long time we will need labor-intensive industry," says Cao Xinyu, vice-chairman of the China Chamber of Commerce for Import & Export of Textiles.

One of the primary victims of the end of quotas is likely to be the U.S. apparel and textile industry. In the past 12 months, nearly 50,000 U.S. textile and garment jobs were lost, leaving just 780,000 workers in the two sectors. Some expect the U.S. industry to nearly disappear, much as production of toys, bicycles, and consumer-electronics moved offshore with the quiet acquiescence of Washington policymakers years ago. The union representing U.S. textile workers, UNITE, puts the potential job loss from the quota phaseout at 500,000. Even the Bush Administration acknowledges the outcome could be grim. "The industry has been used as a bargaining chip ... traded off for benefits elsewhere in the U.S. economy," **Grant Aldonas, Under Secretary of Commerce for International Trade**, said at a Greater Mt. Airy (N.C.) Chamber of Commerce lunch last year.

Washington is also worried about the destabilizing impact of the end of apparel quotas in the developing world. Last spring, **U.S. Trade Representative Robert B. Zoellick** ordered a report on the effects of a quota phaseout on poorer nations. His main concern: America's closest neighbors in the Caribbean, Central America, and the Andean nations. Their inefficient industries survive today only because they have guaranteed quotas and can export to the U.S. duty-free as long as they use American-made fabric. But after the study was completed in October, Zoellick refused to release its contents. According to sources familiar with its conclusions, it warns of a devastating effect on many developing economies. Dominican officials say they've been told they will lose more than a third of the country's 119,000 garment workers, while exports will decline by 35%.

The likely losers, meanwhile, are scrambling for ways to fight back. Central American nations, for instance, are desperately trying to negotiate a free-trade deal with the U.S. by Jan. 1. Such a pact would eliminate tariffs on their apparel exports, even when they don't use cloth or yarn made in the U.S. "For us, [a free-trade pact with the U.S.] is a question of life or death," says Jesús Canahuati, president of the Honduran Maquiladora Assn., an industry group representing clothing manufacturers. "It's the only instrument that will permit us to survive." Such a deal, though, may be a hard sell in Washington during an election year.

The situation could be even worse for Vietnam. Clothing is Vietnam's largest export, and its biggest growth industry, employing 2 million workers. As a non-WTO member, Vietnam will continue under quotas even after next year's phaseout—which won't be an advantage once the country faces full-blown competition with China. While Vietnam's minimum wage of \$28 to \$48 a month is competitive with China's labor rates, its plants are only 60% as efficient as those north of the border, according to U.S. buyers. "We have to bear the huge pressure from competition, es-

pecially manufacturers in China, India, Indonesia, and Pakistan,” worries Le Quoc An, chairman of the Vietnam Textile Garment Assn.

“No More Handouts”

Cambodia is banking on its adherence to international labor standards to carry it through. With the clothing industry producing 93% of its export earnings, it’s highly vulnerable. Since 1999, Cambodia’s garment quotas in the U.S. have been determined by its willingness to improve working conditions at its factories. While the requirements have forced many smaller manufacturers to shut down, larger companies quickly realized that they could get additional quota allowances by treating their workers better, so overall textile employment has increased to 220,000 this year from 96,500 in 1999. Exports have grown by 153% over the same period.

Now some are wondering whether those gains will be lost as factory owners will no longer have the incentive of bigger quotas to provide better conditions for workers. The hope is that factories will realize they can use their labor records as a selling point. Cambodia “has started to realize it might give it an edge over other countries as a way of attracting buyers,” says Lejo Sibbel, an official of the International Labour Organization in Phnom Penh. Adds Chea Vichea, president of the Free Trade Union of Workers of the Kingdom of Cambodia, whose 40,000 members account for about 20% of garment workers: “Cambodia has a good reputation with buyers and consumers.”

Indonesia, meanwhile, will have a hard time competing on price. Like many other countries, its textile industry is inefficient and has trouble supplying garment makers. The country’s 1.2 million workers make as much as \$90 a month—plus benefits—stitching clothing for export. But they use mostly Chinese fabrics, so when quotas are lifted Indonesian manufacturers will likely lose out to Chinese companies. Last year, at least 10,000 jobs were lost as eight factories closed and Indonesia’s clothing exports plunged 13.2%, to \$3.8 billion. So far this year, 30 more Indonesian garment operations have shut down, according to industry figures.

That has companies such as Busana searching for another way out. Busana’s plan: Quit the garment business, close half of its factories, pay workers \$5 million in severance pay, and start over as a garment buyer providing a bridge between manufacturers in Asia and retailers in the U.S. “Indonesian garment factories that are running are not making money. They’re only surviving,” says J. Baskaran, chief financial officer of Busana.

China won’t be the only winner. India and Pakistan are also likely to benefit from the lifting of quotas. “There will be no more handouts, and everyone will have to survive by sheer economic competitive advantage,” says Abid Farooq, an official of the All Pakistan Textile Mills Assn. Wages in Pakistan are comparable to China’s, factories are being upgraded, and both countries grow plenty of cotton and make high-quality synthetic fibers. Pakistan’s textile and clothing industry is the country’s largest, employing more than a third of all industrial workers. Its \$7 billion in sales abroad this year will account for two-thirds of the country’s export earnings.

Under Political Pressure

With so much at stake, Pakistan is gearing up for the shift. Imports of textile machinery—some of it used equipment from shuttered American plants—rose from \$160 million in 1999 to \$550 million this year. Over the past four years, the industry has invested \$3 billion to upgrade factories and expand capacity. The goal: to double exports to \$14 billion by 2005. Aziz Memon says he welcomes the challenge. His Karachi-based Kings Apparel Industries Ltd., which employs 2,000 and already ships knit-cotton clothing to Europe and the U.S., has added \$8 million of imported machinery to expand capacity by 45%. “We’re going to fight against China” and other rivals, Memon says.

India is in an even stronger position. With its sophisticated, growing middle class, it has already created a sizable domestic market. India claims the world’s third-largest cotton production, behind China and the U.S. And Indian exporters have established close ties to major U.S. retailers such as J.C. Penney (*JCP*) and Target (*TGT*). Optimists in the industry are already getting a jump start on 2005. Welspun India Ltd., the world’s fifth-largest towel maker, is doubling capacity at its plant outside Bombay, where a stream of U.S. buyers are placing orders in anticipation of the quota phaseout on towels. “We see ourselves as one of the dominant players,” says Rajesh R. Mandawewala, executive director of Welspun.

China, meanwhile, is preparing for its new bounty. Shanghai Three Gun Group Co. Ltd. spent \$36 million on a factory in Shanghai’s Pudong district that began producing knit fabric last year. By October the company had exported \$65 million worth of textiles—up from only \$1 million in 2002. “The phasing out of the quota system should be a new point of growth for us,” says a Three Gun official. All over

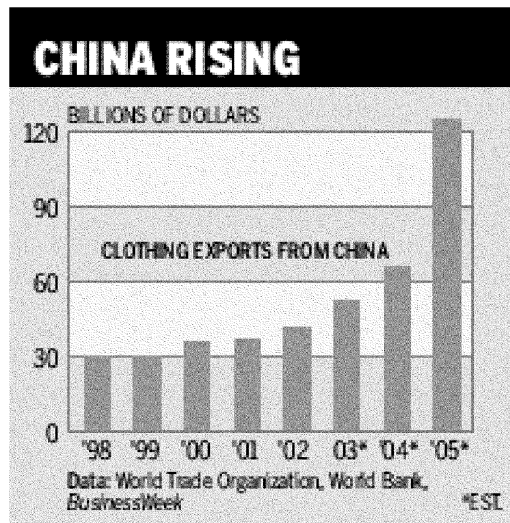
China's textile belt, producers "are adjusting our industrial structure, improving our research and development capabilities, and actively following new trends in fashion," says China Textile International Exchange Center Vice-President Zhao Hong.

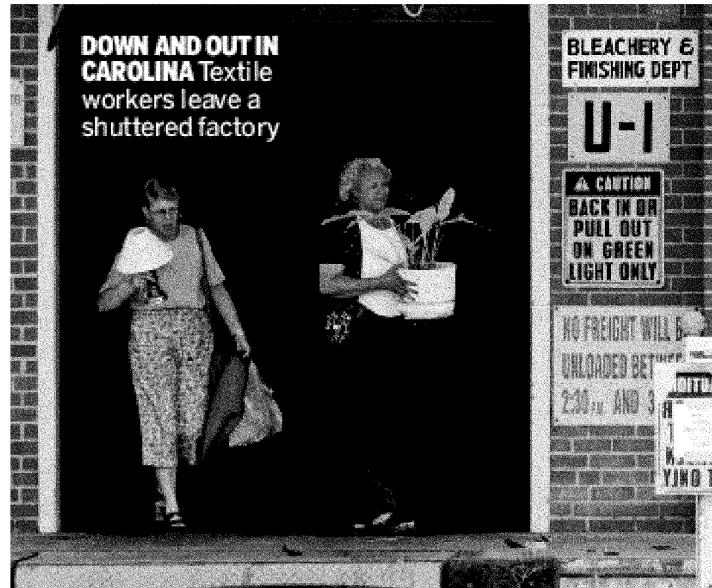
Will the Bush Administration yield to pressure from political leaders at home and allies abroad to save their apparel factories? "Politically, it's not going to be possible to do nothing," says **Fernando Silva, managing director of Kurt Salmon Associates**, a worldwide consultant on strategic planning for consumer product companies. "If nothing is done, we will have a very rapid shift to China and a rash of bankruptcies in the U.S., Mexico, the Caribbean, Central America, and Africa."

U.S. officials concede the pressure is intense. "I have people in my office all the time saying, 'You gotta do something,'" says **James C. Leonard III**, the U.S. Commerce deputy assistant secretary for textiles, apparel, and consumer goods. "What am I going to do? Everybody agreed to do away with quotas." Still, many are skeptical that the U.S. will let China own the global apparel industry. "There's a bigger risk that when the quotas come off, rich nations will impose anti-dumping penalties and other sanctions against China, particularly if we start seeing widespread unemployment in Central America and the Caribbean," says Nancy Birdsall, president of the Center for Global Development, a Washington think tank.

But China has so many advantages that its rise seems inevitable. "Take anything—garments or textiles—and people will say, 'Sorry, China is cheaper than anywhere else,'" says G.K. Ram, general manager of a Kahatex Group factory in Bandung, Indonesia, that churns out apparel for Wal-Mart Stores Inc. (WMT) and Kmart (KMR). Perhaps sooner than most realize, Tuch Phearom and millions like her will be struggling to find new jobs.

By Paul Magnusson in Washington, Frederik Balfour in Phnom Penh, and Michael Shari in Jakarta, with Manjeet Kripalani in Bombay, Dexter Roberts in Beijing, Geri Smith in Mexico City, and Naweem Mangi in Karachi.





DOWN AND OUT IN CAROLINA Textile workers leave a shuttered factory

Looming Gloom

A 30-year-old pact that controls global trade in apparel will end in 2004. The shift will eliminate import quotas on clothing and textiles and slash prices in the U.S. and Europe. But it will also devastate developing economies that depend on textile exports.

THE HISTORY To persuade developing nations to beef up intellectual property protection and loosen investment rules, rich nations agreed to phase out import quotas on textiles and apparel.

THE REASONING Developing nations initially liked the agreement because they have low-cost garment industries and hoped to be able to export more when quotas for WTO members ended.

NEXT YEAR A 10-year process of phasing out European and American import quotas will be completed. Trade in most categories will be liberalized during the year and all quotas will be lifted by Jan. 1, 2005.

THE RISE OF CHINA When the deal was struck, China wasn't a WTO member so it didn't stand to benefit. But China joined the group in 2001, and now it is expected to quickly dominate the market.

UPDATE: The China Threat to World Textile and Apparel Trade

- **September 12, 2003: includes updated trade figures covering the first half of 2003**

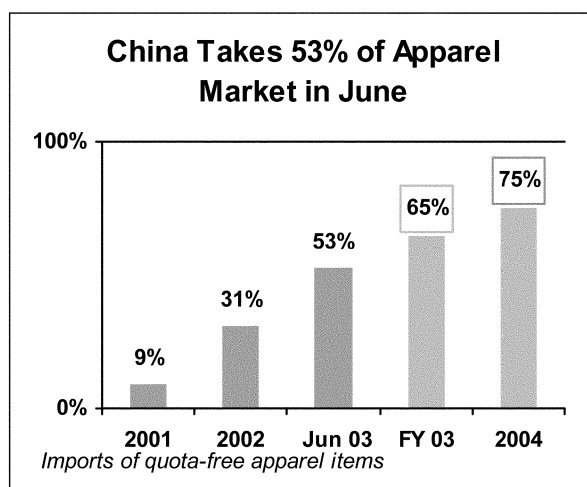
American Textile Manufacturers Institute
1130 Connecticut Ave., NW, Ste. 1200
Washington, DC 20036
202-862-0500 / f: 202-862-0570 / www.atmi.org

Summary

This updates ATMI's July 2, 2003 study, *The China Threat to World Textile and Apparel Trade*, incorporating new trade data covering the first six months of 2003.

The most recent trade figures, which were compiled from U.S. Department of Commerce, confirms the conclusions of the original ATMI study.¹ As that study predicted, during the first six months of 2003, China has continued to move aggressively to take control of the 29 apparel categories removed from quota control on January 1, 2002.

In June 2003, the Chinese share of market topped 50 percent for the first time. Imports from China during the first six months of the year increased by 175%. Meanwhile, the rest of the world fell still farther behind, with market share held by other suppliers falling from 91 percent in 2001 to 69 percent in 2002.



This trend has continued and even accelerated in the first six months of 2003, as market share held by other suppliers fell to 47 percent as of June 2003. This share is projected to drop to 35 percent by year-end and to 25 percent by the end of 2004.

Chinese share of market remains on target to meet the July 2003 ATMI projections of 65 percent by the end of 2003 and 75 percent by the end of 2004. The Chinese surge has been fueled by continuing declines in Chinese prices: during the first six months of the year, Chinese prices have fallen by 17% and opened up an even more significant price gap of \$0.44/square meter (compared to just \$0.04 in 2002) between China and other world suppliers.

The implications of China's ability to increasingly dominate world textile and apparel trade remain stark. If China follows the same pattern when the remaining quotas are lifted in 2005, U.S. textile and apparel sector job losses are estimated to total approximately 630,000 workers in the two and one-half year period from June 2004 through December 2006.

During that period of time, it is projected that 1,300 textile plants in the United States will close—**the equivalent of 100 Pillowtex's being put out of business**. The textile and apparel industry, described by President Bush as a cornerstone of U.S. manufacturing and a vital supplier to the U.S. military, will virtually cease to exist.

¹ Available at <http://www.atmi.org/Textiletrade/china.pdf>

Projected Export Losses to China

Country/Region	Loss (\$ mil.)
<i>CBI</i>	– \$6,279
Mexico	– \$5,423
<i>EU</i>	– \$2,477
Canada	– \$1,861
Honduras	– \$1,763
Korea, South	– \$1,620
Indonesia	– \$1,390
Turkey	– \$1,316
Dominican Republic	– \$1,287
Guatemala	– \$1,265
Philippines	– \$1,236
Italy	– \$1,218
Thailand	– \$1,161
Bangladesh	– \$1,051
El Salvador	– \$1,015
<i>SUB-SAHARAN AFRICA</i>	– \$926
<i>ANDEAN</i>	– \$731

The impact on other exporting countries will be even greater. \$42 billion in trade from Mexico, the Caribbean region, Africa, East Asia, Turkey, Sri Lanka and Bangladesh, among others, will shift to China. As a result, millions of jobs will be lost in one of the most rapid and devastating transfers of wealth in modern history. **Mexico and the nations of Central America and the Caribbean alone are projected to lose one million textile and apparel jobs.**

What could head off this coming catastrophe? The United States, as well as other countries, retains the right to re-impose quotas on imports from China if they cause disruption in the United States. By using the China WTO textile safeguard, the United States Government can push back the day of reckoning for some products until the safeguard expires on January 1, 2008.

For those products that are made in the United States or their components are made in the United States, the U.S. textile industry will closely monitor Chinese imports of such items and ask for the safeguard to be used where warranted. And ATMI and other industry groups will strongly urge other countries and groups who will be affected to demand its use as well.

The safeguard, however, is not a comprehensive answer. It must be reapplied product-by-product on a yearly basis, and even though China agreed that it could be used, there is no mechanism which says that the U.S. Government must use the safeguard. And, as already noted, the safeguard itself expires in 2008.

Recent China Increases and U.S. Job Losses

	2002	YTD 6/03
Increase from China:		
• Square meters (billion)	2.75	1.7
• Percentage	124%	90%
U.S. tex/apparel job losses	69,300	69,900
U.S. textile plant closures	42	27

Unless action is taken on other fronts, as this analysis shows, even if the safeguard is used in a comprehensive manner, it merely postpones an eventual day of reckoning that will have catastrophic consequences for millions of textile and apparel workers around the world.

During the last three months, increasing attention has been focused in the United States on anti-competitive programs that China employs to gain an artificial price advantage over other suppliers for manufactured goods. China's currency regime has recently been cited by President Bush as harmful to U.S. workers and manufacturers, and several bills have recently been introduced in the United States Congress to impose punitive tariffs on imports of Chinese goods if China persists on undervaluing the yuan.

U.S. textile manufacturers have also made note of numerous other artificial advantages China employs, including subsidization of state-owned textile and apparel facilities, preferential tax and financing schemes for export operations and the use of export tax rebates, among others.

All told, China's anti-competitive practices make Chinese goods virtually unbeatable in not only world textile and apparel trade, but, increasingly, in other manufacturing sectors as well. These practices have fueled the biggest increase in manufacturing exports to the United States in history and the Chinese government has remained resistant to removing any of these anti-fair trade props out from under its export machine.

Impact on U.S. industry if Chinese trade follows same pattern when quotas are removed in 2005. ...

- *Equivalent to 100 Pillowtex's closing*
- 630,000 textile and apparel jobs will be lost
- 1,300 textile plants will close

Given such a response, the major exporting countries, particularly those in developing countries, would be justified in insisting that existing quota restraints remain in place on goods produced by foreign manufacturers that have used unfair trade advantages to rapidly gain market share. While more than 70 countries around the world are major exporters of textile and apparel products to the United States, few countries to date have been willing to confront China on this issue. If they do not do so soon, they may discover that not only the development and investment that they had counted on is not only missing but that their existing export markets have collapsed in the face of the Chinese onslaught.

UPDATED FIGURES FROM JUNE 2003

Here are the relevant statistical updates from the previous report. See appendices for detailed figures by product category.

(1) China market share hits 53% in June

On a volume basis, *Chinese average market share for the 29 apparel categories removed from quota control on January 1, 2002 rose from 31 percent in 2002 to 53 percent for June 2003, an increase of 71 percent.* Market share for the rest of the world fell from 69 percent in 2002 to 47 percent for June 2003. Prior to quotas being removed, Chinese market share was 9 percent while the rest of the world accounted for 91% (2001).

The Chinese increase tracks ATMI's original prediction made in July for China to achieve a 65 percent share by the end of this year and to achieve a final market share of 75 to 80 percent by the end of 2004.

On a dollar basis, Chinese market share showed a similar track. Chinese market share reached 49 percent in June 2003 compared to 31 percent in 2002. As a result, the market share for the rest of the world fell from 69 percent in 2002 to 51 percent in June 2003. By way of background, prior to quotas being removed on January 1, 2002, Chinese market share was 15 percent while the rest of the world accounted for 85 percent.

(2) Imports from China increased by \$871 million in first six months of 2003

Imports from China during the first six months of 2003 in the de-controlled categories increased by \$871 million, or 126%, rising from \$691 million to \$1.56 billion. In fact, since quotas on 29 Chinese textile and apparel categories were lifted in 2002, imports from China have increased by a total of \$1.9 billion.

In volume terms, imports from China during the first six months of 2003 increased by 321 million square meters, or 175%, rising from 183 million square meters to 504 million square meters.

(3) Imports from other countries drop by \$158 million

Imports from other countries fell by \$158 million, dropping from \$2.05 billion to \$1.83 billion, a decrease of 8 percent. Since quotas on Chinese imports were lifted, imports from the rest of the world have fallen by a total of \$972 million.

In volume terms, imports from the rest of the world fell by 30 million square meters, declining from 572 million square meters to 542 million square meters. Since quotas were lifted in 2002, imports from the rest of the world have now fallen by a total of 205 million square meters.

(4) Chinese prices fall another 17 percent, while the spread between world prices and Chinese prices widens significantly

Chinese prices continued to decline during the first six months of 2003, falling an average of 17%, from an average of \$3.37/square meter in 2002 to \$2.79/square meter in June 2003. Since quotas were lifted in 2002, Chinese prices have declined by an average of 55 percent, dropping from \$6.23/square meter to \$2.79/square meter.

The spread between the average world price and the average Chinese price widened during the first six months of 2003. Chinese goods undercut world prices by an average of 13 percent in June 2003, with Chinese goods averaging \$2.79/square meter while the rest of the world averaged \$3.23/square meter. The \$0.44 difference in prices in June was significantly larger than the \$0.04/square meter gap at the end of 2002, when Chinese prices averaged \$3.37/square meter and world prices averaged \$3.41/square meters.

Appendices follow.

Sources: Unless otherwise noted, the U.S. Department of Commerce, Office of Textiles and Apparel (www.otexa.ita.doc.gov).

Questions or more information? Please contact Cass Johnson at 202-862-0545/cjohnson@atmi.org.

IMPORTS OF 29 DE-CONTROLLED QUOTA CATEGORIES—DOLLARS

Category	CHINA				CHANGE YTD 6/02-6/03		
	2001	2002	YTD June 02	YTD June 03	Jun/2003	Percent	Dollars
TOTAL	888,220,034	1,867,759,720	690,704,419	1,561,251,991	277,379,925	126%	\$870,547,572
239	\$120,698,220	\$479,794,059	\$142,029,023	\$369,161,518	\$86,946,327	160%	\$227,132,495
330	\$12,994,798	\$13,050,777	\$5,659,638	\$5,274,222	\$592,051	-7%	-\$385,416
349	\$54,884,438	\$70,899,568	\$35,433,738	\$51,001,975	\$9,696,874	44%	\$15,368,237
350	\$19,005,853	\$66,059,933	\$21,962,311	\$46,576,140	\$7,753,549	112%	\$24,613,829
431	\$13,856,396	\$11,306,646	\$1,254,926	\$1,362,927	\$900,184	9%	\$108,001
432	\$1,986,071	\$928,463	\$294,171	\$294,161	\$85,042	453%	\$240,990
459	\$67,704,716	\$66,541,163	\$5,436,114	\$12,905,771	\$5,658,040	137%	\$7,469,657
630	\$2,087,403	\$1,121,709	\$653,443	\$397,373	\$30,548	-39%	-\$256,070
631	\$28,220,505	\$41,635,030	\$6,338,821	\$17,455,948	\$4,166,406	175%	\$11,117,127
632	\$4,210,725	\$24,289,216	\$4,516,597	\$25,027,358	\$6,819,859	454%	\$20,510,761
649	\$65,285,388	\$218,912,769	\$77,994,716	\$164,406,899	\$32,842,520	111%	\$86,412,183
650	\$14,670,588	\$56,022,092	\$7,756,099	\$14,519,298	\$3,913,240	87%	\$6,763,199
653	\$92,608,048	\$88,182,671	\$8,177,073	\$8,375,892	\$5,544,004	2%	\$198,819
654	\$72,216,558	\$85,915,916	\$8,651,944	\$12,213,040	\$8,816,544	41%	\$3,561,096
831	\$1,706,808	\$2,403,138	\$895,129	\$1,594,786	\$194,099	78%	\$699,657
833	\$840,598	\$1,352,948	\$272,886	\$5,513,622	\$325,418	1920%	\$5,240,736
834	\$5,082,269	\$3,198,064	\$331,307	\$6,015,012	\$1,068,964	1716%	\$5,683,705
835	\$26,434,742	\$8,138,237	\$24,464,444	\$39,147,058	\$7,341,147	60%	\$14,682,614
836	\$31,803,902	\$36,510,061	\$29,243,244	\$48,486,743	\$2,660,049	66%	\$19,243,499
838	\$68,161,071	\$192,550,434	\$66,437,282	\$114,967,341	\$29,988,413	73%	\$48,530,059
839	\$4,066,497	\$7,423,991	\$1,846,267	\$4,564,871	\$510,108	147%	\$2,718,604
840	\$59,578,011	\$144,892,988	\$97,104,774	\$224,471,645	\$9,131,845	131%	\$127,366,871
842	\$21,855,977	\$30,349,562	\$22,874,600	\$56,584,489	\$3,654,279	147%	\$33,709,889
843	105060	983491	319715	1505614	71432	371%	\$1,185,899
844	\$1,639,161	\$2,913,099	\$1,541,772	\$7,596,706	\$531,654	393%	\$6,054,934
847	\$89,890,775	\$160,699,755	\$108,979,402	\$300,745,436	\$44,565,976	176%	\$191,766,034
851	\$91,912	\$723,479	\$459,819	\$459,027	\$2,880	0%	-\$792
858	\$2,452	\$1,213,653	\$485,214	\$503,089	\$114,428	4%	\$17,875
859	\$6,531,092	\$19,746,808	\$9,530,950	\$20,124,030	\$3,454,045	111%	\$10,593,080
ALL TEXTILE AND APPAREL IMPORTS FROM CHINA:							
Total	\$6,536,315,121	\$8,744,040,790	\$3,527,649,762	\$5,252,498,552	\$997,267,508	49%	\$1,724,848,790
Apparel	\$4,602,352,784	\$5,593,697,500	\$2,140,838,169	\$3,191,241,334	\$589,115,210	49%	\$1,050,403,165
Textiles	\$1,933,962,337	\$3,150,343,290	\$1,386,811,593	\$2,061,257,218	\$408,152,298	49%	\$674,445,625

IMPORTS OF 29 DE-CONTROLLED QUOTA CATEGORIES—DOLLARS

Category	REST OF WORLD					CHANGE YTD 6/02-6/03	
	2001	2002	YTD June 02	YTD June 03	Jun/2003	Percent	Dollars
TOTAL	\$5,040,204,354	\$4,226,307,019	\$2,051,876,941	\$1,893,446,618	\$282,783,206	- 8%	-\$158,430,323
239	\$1,772,480,894	\$1,348,528,906	\$637,654,787	\$560,915,646	\$100,033,000	- 12%	-\$76,739,141
330	\$13,612,123	\$5,733,525	\$3,247,495	\$1,494,764	\$334,392	-54%	-\$1,752,731
349	\$106,245,292	\$112,999,420	\$52,148,706	\$66,666,000	\$12,523,910	28%	\$14,517,294
350	\$299,692,712	\$262,142,307	\$105,086,887	\$103,880,109	\$16,569,104	- 1%	-\$1,206,778
431	\$5,191,042	\$4,162,877	\$861,781	\$429,470	\$200,791	-50%	-\$432,311
432	\$14,925,891	\$17,744,450	\$3,262,447	\$3,037,368	\$886,684	- 7%	-\$225,079
459	\$110,456,631	\$97,185,904	\$21,751,891	\$27,294,893	\$8,798,456	25%	\$5,543,002
630	\$3,661,592	\$2,199,175	\$1,129,339	\$695,518	\$75,345	-38%	-\$433,821
631	\$95,402,431	\$74,979,695	\$21,942,787	\$20,590,976	\$4,867,643	- 6%	-\$1,351,811
632	\$370,723,729	\$340,702,122	\$145,086,532	\$136,793,268	\$24,566,150	- 6%	-\$8,293,264
649	\$1,158,378,898	\$1,198,588,175	\$571,944,440	\$525,573,038	\$85,325,468	- 8%	-\$46,371,402
650	\$170,721,775	\$128,492,371	\$35,817,869	\$29,669,976	\$6,398,486	-17%	-\$6,147,893
653	\$27,985,697	\$24,752,705	\$1,630,975	\$4,518,360	\$1,931,859	177%	\$2,887,385
654	\$33,016,049	\$32,483,556	\$2,034,058	\$5,273,097	\$2,865,739	159%	\$3,239,039
831	\$1,433,578	\$930,023	\$470,609	\$582,967	\$67,858	24%	\$112,358
833	\$16,688,630	\$14,634,486	\$9,674,281	\$12,733,937	\$407,949	32%	\$3,059,656
834	\$5,150,993	\$2,218,432	\$1,264,371	\$1,332,894	\$91,916	5%	\$68,523
835	\$64,578,306	\$36,480,849	\$28,523,518	\$29,618,528	\$1,105,501	4%	\$1,096,010
836	\$77,726,139	\$43,545,685	\$37,720,668	\$29,072,421	\$750,979	-23%	-\$8,648,247
838	\$109,958,350	\$35,454,872	\$21,353,822	\$12,027,759	\$1,301,336	-44%	-\$9,326,063
839	\$11,070,468	\$8,230,783	\$5,114,381	\$3,231,009	\$185,878	-37%	-\$1,883,372
840	\$264,653,461	\$191,283,957	\$160,114,326	\$135,571,849	\$3,756,951	-15%	-\$24,542,477
842	\$35,852,166	\$22,731,369	\$19,014,608	\$25,041,746	\$748,437	32%	\$6,027,138
843	\$1,295,983	\$1,328,470	\$923,177	\$1,850,788	\$84,054	100%	\$927,611
844	\$4,441,636	\$2,524,282	\$1,591,689	\$1,735,486	\$75,607	9%	\$143,797
847	\$214,621,328	\$175,827,245	\$141,324,097	\$130,630,355	\$6,062,208	- 8%	-\$10,693,742
851	\$1,948,618	\$996,916	\$494,963	\$180,690	\$6,401	-63%	-\$314,273
858	\$9,777,212	\$9,948,374	\$5,854,774	\$3,786,110	\$373,711	-35%	-\$2,068,664
859	\$38,512,730	\$29,476,088	\$14,837,663	\$19,217,596	\$2,387,393	30%	\$4,379,933
ALL TEXTILE AND APPAREL IMPORTS FROM REST OF THE WORLD:							
Total	\$63,703,449,450	\$63,439,089,780	\$28,724,636,779	\$31,394,507,118	\$5,526,964,188	9%	\$2,669,880,339
Apparel	\$51,858,030,181	\$51,369,252,711	\$22,825,768,460	\$25,533,091,129	\$4,543,571,276	12%	\$2,707,322,669
Textiles	\$11,845,419,269	\$12,069,837,069	\$5,898,868,319	\$5,861,415,989	\$983,392,912	- 1%	-\$37,442,330

IMPORTS OF 29 DE-CONTROLLED QUOTA CATEGORIES—SQUARE METERS

Category	CHINA					CHANGE YTD 6/02-6/03	
	2001	2002	YTD June 02	YTD June 03	Jun/2003	Percent	Square Meters
TOTAL	142,477,614	553,521,047	183,398,673	504,803,474	99,587,954	175%	321,404,801
239	20,373,715	188,618,529	50,326,693	160,069,297	40,783,856	218%	109,742,604
330	5,556,711	8,223,951	3,542,792	4,191,760	392,591	18%	648,967
349	8,403,652	11,180,168	5,263,836	9,235,648	1,669,416	75%	3,971,812
350	9,367,868	58,421,555	21,021,098	53,913,964	8,929,812	156%	32,892,866
431	1,430,532	1,096,947	166,865	183,361	137,084	10%	16,495
432	87,835	115,363	1,849	70,072	20,677	3689%	68,223
459	7,069,431	7,712,676	556,621	1,438,319	539,804	158%	881,699
630	1,206,545	859,795	543,697	346,284	5,635	-36%	-197,413
631	4,196,990	15,107,939	2,829,321	7,872,166	1,757,017	178%	5,042,845
632	2,213,253	20,658,259	4,867,770	29,951,148	7,306,864	515%	25,083,378
649	4,336,780	31,139,948	10,340,600	22,806,428	4,651,440	121%	12,465,828
650	5,080,817	34,101,215	5,230,428	11,716,022	3,617,762	124%	6,485,594
653	11,655,101	14,919,732	1,242,690	1,617,809	871,953	30%	375,119
654	9,760,257	14,091,525	1,385,451	2,008,418	1,414,880	45%	622,967
831	1,920,702	3,033,368	1,221,753	2,070,704	284,281	69%	848,952
833	140,289	546,067	25,604	2,283,741	148,288	8820%	2,258,138
834	1,460,558	1,379,379	105,087	2,953,545	531,231	2711%	2,848,458
835	4,051,163	9,412,946	4,930,602	12,445,013	2,539,200	152%	7,514,411
836	7,242,387	12,721,021	9,860,974	18,292,132	1,225,307	86%	8,431,158
838	9,385,635	33,363,217	11,058,126	20,020,396	5,516,035	81%	8,962,270
839	647,149	2,052,905	426,132	1,445,718	140,774	239%	1,019,586
840	7,865,416	28,089,083	17,431,493	45,446,495	1,914,972	161%	28,015,002
842	2,498,089	5,256,433	3,373,658	10,680,111	971,122	217%	7,306,453
843	38,352	254,435	83,844	280,748	13,363	235%	196,904
844	313,862	775,466	515,816	2,029,137	135,074	293%	1,513,321
847	13,889,929	32,441,785	19,331,394	65,183,268	11,091,858	237%	45,851,874
851	17,444	296,322	154,643	365,748	52,200	137%	211,106
858	17,106	278,243	93,212	91,997	26,044	-1%	-1,214
859	2,267,050	17,370,775	7,466,625	15,794,025	2,899,413	112%	8,327,400
Total	2,210,674,207	4,963,116,352	1,893,508,829	3,596,627,661	716,216,631	90%	1,703,118,832
Apparel	975,979,534	1,564,963,032	586,769,468	981,485,043	188,466,640	67%	394,715,575
Textiles	1,234,694,673	3,398,153,319	1,306,739,361	2,615,142,618	527,759,990	100%	1,308,403,257

ALL TEXTILE AND APPAREL IMPORTS FROM CHINA:

IMPORTS OF 29 DE-CONTROLLED QUOTA CATEGORIES—SQUARE METERS

Category	REST OF WORLD					CHANGE YTD 6/02-6/03	
	2001	2002	YTD June 02	YTD June 03	Jun/2003	Percent	Square Meters
TOTAL	1,412,519,761	1,238,205,318	572,486,488	542,809,308	87,479,693	- 5%	- 29,677,180
239	606,750,562	500,822,513	228,472,291	201,667,492	38,430,473	- 12%	- 26,804,799
330	7,215,961	2,592,866	1,612,181	486,658	162,728	- 70%	- 1,125,523
349	15,909,460	16,676,860	7,563,860	10,258,336	1,912,900	35%	2,674,476
350	166,798,383	176,228,106	75,455,633	92,784,930	14,628,968	23%	17,329,297
431	818,269	335,794	75,892	41,735	9,689	- 45%	- 34,157
432	1,929,935	1,914,230	470,727	260,321	80,689	- 45%	- 210,406
459	9,713,332	6,649,015	1,431,844	1,864,386	621,841	30%	432,541
630	801,185	677,322	387,031	290,941	26,433	- 25%	- 96,090
631	52,452,955	38,208,828	13,862,281	11,231,552	2,411,565	- 19%	- 2,630,729
632	147,366,831	147,289,946	65,000,041	62,584,548	10,729,038	- 4%	- 2,415,493
649	118,960,424	119,567,252	57,874,552	51,488,184	7,845,896	- 11%	- 6,386,368
650	101,865,163	94,971,375	30,548,588	26,046,620	4,466,695	- 15%	- 4,501,968
653	2,693,346	3,685,566	178,952	808,577	457,091	352%	629,625
654	4,428,903	5,096,202	194,822	475,617	268,479	144%	280,796
831	486,066	539,275	335,440	232,647	44,625	- 31%	- 102,793
833	603,273	535,401	346,208	489,709	14,090	41%	143,501
834	1,552,983	672,198	226,251	163,530	59,616	- 28%	- 62,721
835	12,098,598	7,190,628	4,955,649	4,797,605	353,522	- 3%	- 158,045
836	27,109,188	16,536,945	14,649,601	10,203,286	237,330	- 30%	- 4,446,314
838	17,940,265	6,085,778	3,486,284	1,916,249	305,499	- 45%	- 1,570,035
839	2,265,770	1,856,119	1,051,155	728,979	49,392	- 31%	- 322,176
840	48,683,957	37,415,465	29,843,952	26,137,754	1,058,062	- 12%	- 3,706,198
842	4,969,835	3,219,190	2,540,346	4,245,457	236,865	67%	1,706,111
843	27,215	37,389	27,313	67,233	2,324	146%	39,920
844	557,796	218,730	169,354	315,231	6,847	86%	145,877
847	39,026,706	34,354,200	23,600,378	25,527,827	1,983,980	8%	1,927,449
851	1,222,785	495,465	199,013	41,717	2,001	- 79%	- 157,296
858	1,569,877	534,448	337,425	208,151	20,321	- 38%	- 129,274
859	17,700,738	13,797,613	7,569,425	7,444,038	1,052,738	- 2%	- 125,388
ALL TEXTILE AND APPAREL IMPORTS FROM REST OF THE WORLD:							
Total	30,601,072,694	33,325,037,739	15,802,688,662	16,604,901,419	2,810,386,655	5%	802,232,757
Apparel	15,127,492,086	15,690,694,401	7,107,601,168	7,992,497,524	1,378,557,990	12%	884,896,357
Textiles	15,473,580,608	17,634,343,338	8,695,087,494	8,612,403,895	1,431,828,665	- 1%	- 82,663,600

IMPORTS OF 29 DE-CONTROLLED QUOTA CATEGORIES—AVERAGE PRICES

Category	CHINA					CHANGE YTD 6/02-6/03	
	2001	2002	YTD June 02	YTD June 03	Jun/2003	Percent	Price
TOTAL	\$6.23	\$3.37	\$3.77	\$3.09	\$2.79	-18%	-\$0.67
239	\$5.92	\$2.54	\$2.82	\$2.31	\$2.13	-18%	-\$0.52
330	\$2.34	\$1.59	\$1.60	\$1.26	\$1.51	-21%	-\$0.34
349	\$6.53	\$6.34	\$6.73	\$5.52	\$5.81	-18%	-\$1.21
350	\$2.03	\$1.13	\$1.04	\$0.86	\$0.87	-17%	-\$0.18
431	\$9.69	\$10.31	\$7.52	\$7.43	\$6.57	-1%	-\$0.09
432	\$22.61	\$8.05	\$28.75	\$4.20	\$4.11	-85%	-\$24.56
459	\$9.58	\$8.63	\$9.77	\$8.97	\$10.48	-8%	-\$0.79
630	\$1.73	\$1.30	\$1.20	\$1.15	\$5.42	-5%	-\$0.05
631	\$6.72	\$2.76	\$2.24	\$2.22	\$2.37	-1%	-\$0.02
632	\$1.90	\$1.18	\$0.93	\$0.84	\$0.93	-10%	-\$0.09
649	\$15.05	\$7.03	\$7.54	\$7.21	\$7.06	-4%	-\$0.33
650	\$2.89	\$1.64	\$1.48	\$1.24	\$1.08	-16%	-\$0.24
653	\$7.95	\$5.91	\$6.58	\$5.18	\$6.36	-21%	-\$1.40
654	\$7.40	\$6.10	\$6.24	\$6.08	\$6.23	-3%	-\$0.16
831	\$0.89	\$0.79	\$0.73	\$0.77	\$0.68	5%	\$0.04
833	\$5.99	\$2.48	\$2.48	\$2.41	\$2.19	-77%	-\$8.24
834	\$3.48	\$2.32	\$3.15	\$2.04	\$2.01	-35%	-\$1.12
835	\$6.53	\$4.05	\$4.96	\$3.15	\$2.89	-37%	-\$1.82
836	\$4.39	\$2.87	\$2.97	\$2.65	\$2.17	-11%	-\$0.31
838	\$7.26	\$5.77	\$6.01	\$5.74	\$5.44	-4%	-\$0.27
839	\$6.28	\$3.62	\$4.33	\$3.16	\$3.62	-27%	-\$1.18
840	\$7.57	\$5.16	\$5.57	\$4.94	\$4.77	-11%	-\$0.63
842	\$8.75	\$5.77	\$6.78	\$5.30	\$3.76	-22%	-\$1.48
843	\$2.74	\$3.87	\$3.81	\$5.36	\$5.35	41%	\$1.55
844	\$5.22	\$3.76	\$2.99	\$3.74	\$3.94	25%	\$0.75
847	\$6.47	\$4.95	\$5.64	\$4.61	\$4.02	-18%	-\$1.02
851	\$5.27	\$2.44	\$2.97	\$1.26	\$0.06	-58%	-\$1.72
858	\$23.22	\$4.36	\$5.21	\$5.47	\$4.39	5%	-\$0.26
859	\$2.88	\$1.14	\$1.28	\$1.27	\$1.19	0%	\$0.00
ALL TEXTILE AND APPAREL IMPORTS FROM CHINA:							
Total	\$2.96	\$1.76	\$1.86	\$1.46	\$1.39	-22%	-\$0.40
Apparel	\$4.72	\$3.57	\$3.65	\$3.25	\$3.13	-11%	-\$0.40
Textiles	\$1.57	\$0.93	\$1.06	\$0.79	\$0.77	-26%	-\$0.27

IMPORTS OF 29 DE-CONTROLLED QUOTA CATEGORIES—AVERAGE PRICES

Category	REST OF WORLD					CHANGE YTD 6/02-6/03	
	2001	2002	YTD June 02	YTD June 03	Jun/2003	Percent	Price
TOTAL	\$3.57	\$3.41	\$3.58	\$3.49	\$3.23	-3%	-\$0.10
239	\$2.92	\$2.69	\$2.79	\$2.78	\$2.60	0%	-\$0.01
330	\$1.89	\$2.21	\$2.01	\$2.07	\$2.05	52%	-\$1.06
349	\$6.68	\$6.78	\$6.88	\$6.50	\$6.55	-5%	-\$0.38
350	\$1.80	\$1.49	\$1.39	\$1.12	\$1.13	-20%	-\$0.27
431	\$6.34	\$12.40	\$11.36	\$10.29	\$20.72	-9%	-\$1.06
432	\$7.73	\$9.27	\$6.93	\$11.67	\$10.99	68%	\$4.74
459	\$11.37	\$14.62	\$15.19	\$14.64	\$14.15	-4%	-\$0.55
630	\$4.57	\$3.24	\$2.92	\$2.39	\$2.85	-18%	-\$0.53
631	\$1.82	\$1.96	\$1.58	\$1.83	\$2.02	16%	\$0.25
632	\$2.52	\$2.31	\$2.23	\$2.19	\$2.29	-2%	-\$0.05
649	\$9.74	\$10.02	\$9.88	\$10.21	\$10.88	3%	\$0.33
650	\$1.68	\$1.35	\$1.17	\$1.14	\$1.43	-3%	-\$0.03
653	\$10.39	\$6.72	\$9.11	\$5.59	\$4.23	-39%	-\$3.53
654	\$7.45	\$6.37	\$10.44	\$11.09	\$10.67	6%	\$0.65
831	\$2.95	\$1.72	\$1.40	\$2.51	\$1.52	79%	\$1.10
833	\$27.66	\$27.33	\$27.94	\$26.00	\$28.95	-7%	-\$1.94
834	\$3.32	\$3.30	\$5.59	\$8.15	\$1.54	46%	\$2.56
835	\$5.34	\$5.07	\$5.76	\$6.17	\$3.13	7%	\$0.42
836	\$2.87	\$2.63	\$2.57	\$2.85	\$3.16	11%	\$0.27
838	\$6.13	\$5.83	\$6.13	\$6.28	\$4.26	2%	\$0.15
839	\$4.89	\$4.43	\$4.87	\$4.43	\$3.76	-9%	-\$0.43
840	\$5.44	\$5.11	\$5.37	\$5.19	\$3.55	-3%	-\$0.18
842	\$7.21	\$7.06	\$7.49	\$5.90	\$3.16	-21%	-\$1.59
843	\$47.62	\$35.53	\$33.80	\$27.53	\$36.17	-19%	-\$6.27
844	\$7.96	\$11.54	\$9.40	\$5.51	\$11.04	-41%	-\$3.89
847	\$5.50	\$5.12	\$5.99	\$5.12	\$3.06	-15%	-\$0.87
851	\$1.59	\$2.01	\$2.49	\$4.33	\$3.20	74%	\$1.84
858	\$17.16	\$18.61	\$17.35	\$18.19	\$18.39	5%	\$0.84
859	\$2.18	\$2.14	\$1.96	\$2.58	\$2.27	32%	\$0.62
ALL TEXTILE AND APPAREL IMPORTS FROM REST OF THE WORLD:							
Total	\$2.08	\$1.90	\$1.82	\$1.89	\$1.97	4%	\$0.07
Apparel	\$3.43	\$3.27	\$3.21	\$3.19	\$3.30	-1%	-\$0.02
Textiles	\$0.77	\$0.68	\$0.68	\$0.68	\$0.69	0%	\$0.00

Co-Chair BECKER. Thank you, Mr. McKissick, and I want to compliment the panelists for keeping their testimony within the time frames, roughly. We did that and I appreciate that very much. Turn now for questions from the Commission and I'll start with our Chairman, Mr. Robinson.

Panel I: Discussion, Questions and Answers

Chairman ROBINSON. This has been a real eye opener to be with you. We obviously have briefing books, we can read the statistics, and we were also briefed by our staff prior to coming to Columbia. It is quite another thing to hear these very moving and debilitating tragic stories one after another. I'm still reeling from what I've heard to be honest with you and what I have is more of a comment than a question. That is, that there's dramatic work to do. The idea of incremental steps and working within the existing system is clearly not going to be remotely sufficient for the textile and apparel crisis, not only for South Carolina, but also for the United States. It's nothing short of that. You've been extremely persuasive and the numbers don't lie, not to mention your own experience, your day-to-day lives and what you're seeing. I know that the Vice Chairman and I are not only deeply impressed by the scale of this crisis but also moved personally because these are human beings and you've made that very poignant and very clear. And I can only tell you that as I've said to our Senators when they were present, that we are going to take to heart what we have heard here. Some of the testimony I can tell you will be remembered for a long time. I'm delighted that it's being broadcast and obviously we have transcripts and we will put out these proceedings so that your words will be shared with a broader audience in Washington. But I think what's really important is what we do in our findings, in our recommendations to the leadership of the Congress to whom we report, not to mention the general public and you know we have both the classified but particularly unclassified version that's due every year and this year will probably be in the May timeframe that we release our report. So I would only tell you that the remedies that we'll be seeking won't be the some kind of re-hash. They won't be the same kind of incrementalism that can't hope to address the scale of this challenge or the radical adjustments that need to be made to preserve one of America's most valued industrial sectors. We are going to be committed to taking these stories on board and taking clear and decisive action, we are not shrinking from that, we are not afraid of that and that's important that you know that we're going to play this straight and forcefully. So that's just a comment for you as I again reflect on your comments and try to formulate perhaps a question or two later on. But I think that you should know the profound impact you've had on my fellow Commissioners and me. Thank you.

Co-Chair BECKER. Thank you, Chairman.

Vice Chairman D'Amato.

Vice Chairman D'AMATO. Thank you, Mr. Chairman. First of all, I wanted to reiterate what the Chairman said. I think we're all moved by your sense of loyalty to your people and to the country. That's the way it should be, except that we are faced with substantial confusion on the part of many of our political leaders and our

business leaders about what is the right thing to do for the country. I don't understand exactly why we have reached this state of confusion, frankly. But there certainly are alarm bells ringing when you have to plead with politicians to do what's right for the country. That shouldn't have to be, you shouldn't have to remind politicians that they should be doing what's right for the country. Any country that doesn't care about its people is doomed. I don't think this Commission is ready to join the funeral procession. What we are interested in, though, is what kind of action items we can recommend to move this situation out of the red zone back into the blue zone. Certainly the 2005 deadline has got to be changed in some way that's basic. The second thing is the kind of procurement policies that you mentioned, for example with the military. I don't want to see American soldiers walking around with shirts that are made in Bangladesh, that doesn't make any sense to me. Berets or whatever it is can be made in this country. Our economy in some ways is under attack but we are probably more responsible than anybody else in allowing that to occur. So what we will be interested in in your testimony and further down the road in consultation with you is the action items that we can recommend, specific things that will move this thing off dead center back into a positive area before it's too late. So thank you. Yes, Mr. Chapman?

Mr. CHAPMAN. Can I comment on that for a second?

Vice Chairman D'AMATO. Yes.

Mr. CHAPMAN. Part of the confusion that we have is you take, for example, the safeguards that were implemented on braziers and a couple other items. The recently negotiated CAFTA agreement puts single transformation in, which allowed for all the components that go into these products to come in unlimited through Central America and be transformed, and they come in duty-free to the United States. So with less than a month after we got the safeguards implemented, they put in a trade agreement or are attempting to pass a trade agreement that makes it all worthless. We're confused.

Vice Chairman D'AMATO. Well, that's the kind of information that we would like to have so that we can call that out and make it clear what we've got is subterfuge of the original safeguard agreement. If that's what's going on, we want to know about that so we can head off so that and we can do something about it.

Co-Chair BECKER. I want to make just a comment and ask a question. Is this all the trade agreements, is this CAFTA, this is NAFTA, is this FTAA, is this generally across the board, the same loopholes exist in all of them?

Mr. CHAPMAN. We had a meeting yesterday to map out what we want our politicians to answer going forward and there are loopholes in numerous trade agreements. The one I was referring to was specific to CAFTA.

Vice Chairman D'AMATO. Mr. McKissick, did you have—

Mr. MCKISSICK. You asked for some specific suggestions and our industry has a platform that we shared with you in our submitted documents that speak to the quotas and speak to the Berry Amendment and speak to a couple of other issues that are critically important to us. In my opinion, though, another piece of the equation should be that our leaders ought to cease and desist with all free

trade agreements from now on and take the time to analyze the impact of all the past trade agreements on the U.S. economy, and on the jobs front. Let's take a look at what we've already done because it seems as soon as we sign a trade agreement we can't start negotiating another agreement fast enough. We've written so many trade agreements. We ought to put the brakes on and do a thorough analysis of all past trade agreements. And if our leaders are going to put the integrity of the U.S. economy secondary to the world economy, I wish our leaders would at least have the courage to stand up and say so. If the world economy is more important than the U.S. economy, let's at least have the guts to say so. But I believe the U.S. economy ought to be first and foremost, the beneficiary of any trade agreement our government negotiates. I think if we're going to have trade agreements, the two parties to the agreement should be the only ones that benefit. For example, in the recent CAFTA agreement, the only beneficiaries should be the signatory nations—the CAFTA countries and the United States—not third nations. I think it would be critically important to do an analysis of what we've already done and the impact on the U.S. economy, particularly the jobs equation. I, for one, believe that there are things that are more important than just “everyday low prices” at your local retailer. I think the country's standard of living is also important.

Co-Chair BECKER. Thank you very much. Commissioner Dreyer.

Commissioner DREYER. I again echo the Chairman's words about being very brave. If any of you can think of any specific suggestions that the Commission can make such as the one Mr. Chapman made to repeal the provision that was put in afterwards that allowed goods to come in duty-free through the CAFTA loophole, this is something. We are soliciting concrete suggestions that we can put in our report, something that can be implemented. We would greatly appreciate that.

Mr. RAYNOR. If I can just comment on something. Every time we negotiate one of these sort of piecemeal trade agreements somebody then thinks of the loopholes that have to go around the agreements. And there's a number of policies that people at this table could suggest and a number of very specific suggestions and we would suggest like we thought we had on CAFTA and we'll be back here a year from now saying “well, wait a minute, this group is doing this, this group is doing that.” I think you've got to do that because I think these kinds of things move along some kind of a continuum. But I come back to the main point that I was trying to make, we don't have a coherent trade policy that says our goal is to get from here to there. And if we don't have that, then all we have is this patchwork of small policies that basically are about politics. Whoever says ouch the largest and whoever's district happens to be closest for the vote and whoever happens to be running for office we get a thrown-together policy to deal with that and those policies don't work. And part of the reason they don't work is because they are just that, thrown together. And part of it is because people in Washington don't consult the people actually doing the work and making the trade when they come up with policies. And I think both of those things have to change if we want to get something that's going to be comprehensive and is going to be de-

velopmental. We recognize that there's a global economy. Let's deal with it; let's not hide from it.

Co-Chair BECKER. Thank you. Commissioner Bartholomew.

Commissioner BARTHOLOMEW. Thank you very much and thank you to our witnesses, both for your testimony and for your leadership on behalf of your companies and also the people who work for you. It's heartbreaking and heartwarming at the same time. I'm pleased that Mr. Raynor noted for the record how unusual the situation is that he's at the same table with all of these people because I had been thinking that exact same thing remembering back to boycotts and all of those things a number of years ago. And as somebody who worked on a Congressional staff, I was honored to work for Congresswoman Nancy Pelosi for 15 years, I can really attest to the work that UNITE, the Ladies Garment Workers Union before then, had done on this issue going back certainly to 1990. This was not a problem that people couldn't foresee and it was really one of the blessings of my Congressional career that I got to work with Emmy Dubrough who is just an extraordinary woman who was the face of garment workers in Washington for so long and actually continues to be in her own way. It's really wonderful which is, of course, no reflection on Mr. Raynor's brother who is doing a wonderful job also. A couple of points that have really struck me listening to you all and thinking about the situation and one of which is how difficult it has become for people who want to buy American in American stores. There are a lot of people who I think would like to buy garments made in the United States but it's become extremely difficult to even find them, and I think that that's something that people really need to think about even if we take on another buy American type campaign or something like that, how we do it. I remember reading in one of the industry publications, this is probably five or six years ago now, that there was this hope for a little while that quality control issues like there are problems in China and seasonal turnaround time would help the American industry and it doesn't sound, listening to you all, as though it has and I wonder if you have any reflections on that. You've certainly told us about the modernization of plants here and how skilled the work force is but I wonder what happened to those trends.

Mr. McKISSICK. Well, I don't think there's any question that if you're going to compete in the future and go forward and you're a U.S. based manufacturer, you must leverage the close proximity we have in the U.S. market with outstanding service and our operations have to be lean and efficient. I believe that we have got to provide advantages to our customer base in terms of being able to have much lower inventories and take advantage of the changing fashion. You know, rapid response to fashion changes is the U.S. textile industry's greatest friend, and that will be what carries us forward. But the fact that we have outstanding service here is not enough to save a company when we go toe-to-toe with China because, as shown by our own data, Chinese companies are losing money. Now if a state-owned, communist owned textile company in China that's paying people 40 cents an hour still loses money and half of their industry is owned by the state—and my understanding is almost half of those companies lose money—if they can't cut it,

it's going to be tough for a U.S.-based company that competes head-to-head within the product category to be successful.

Mr. RAYNOR. Let me comment just for a second. A number of years ago our union and Levi Strauss formed a partnership. As part of that process Levi's went and surveyed all of its customers and said the salvation of our American manufacturing is going to be just-in-time delivery, quick response, carrying the inventory for the retailer, getting the right size jeans in the right place, and we went out to all of our plants and redid those plants, made them much more flexible, had people be able to sew different styles using team manufacturing they changed all of their distribution centers, investing millions of dollars into making them from warehouses into throughput centers. This year the last Levi Strauss plant closed. The company decided that despite all of that it's cheaper to buy it in China, put it in a warehouse here and then bring it to the stores and they decided their salvation is the mass merchants. So we have that brand which was never sold in Target, Wal-Mart and K-Mart before is now sold there. And I think that the drive for price which somebody mentioned earlier coming from the retailers, my belief is that soon Wal-Mart will merge with Toys-R-Us and we'll just call it Chinese-R-Us.

Mr. CROLLEY. One of the things that you mentioned from where I sit about fashion and style, I really think . . . I don't know the answer but I do think there's a totally new definition of fashion and style the way when we were younger we bought a . . . the last fashion item that I can recall that we had was in the middle 90's when we made tons and tons of what was called stirrup pants. There are not any more fashion items. These companies go and buy so far in advance offshore that that aspect of our business I think is history. What we do have is the opportunity with some companies to do what's called blending where we blend. If they sell a style and the color chartreuse takes off, then we will come in and try to make the chartreuse color of that style. But in mainstream I don't think there is the fashion items that you envision exist today. I think it's just another change we went through so quickly we didn't even realize the change.

Ms. FRIEDMAN. You mentioned about the quality aspect. I speak to companies every week and I ask that same question, why? Because I know of companies that of course went to Mexico and then into Honduras and now they're into China. And because of what they can get in China and everything that's given to them that they cannot get from us, our government here, if they have poor quality that comes in from China, they will set up a shop and they will do the re-work and then send it out to the stores and my understanding and I've been told is that they still make more money doing it that way than having it manufactured here in the United States.

Commissioner BARTHOLOMEW. And are they doing the re-work in the United States?

Ms. FRIEDMAN. Yes, they are. Yes, if they can find someone to do it. That is a problem. But there are some companies that have their own plant that that's all these plants do is they do repairs and re-works that come in from China to pass it on to the consumer.

Mr. CHAPMAN. Sometimes perception is greater than reality. We had a large program this year where we were actually competitive. When the garment was delivered to the shelf we were competitive but the retailer in this case that was buying the garment said that if you're not giving it to me from China you're not giving me your best price. We lost a very large program where we were actually competitive on the garment and that's a fact.

Commissioner BARTHOLOMEW. That's just amazing to hear.

Commissioner DREYER. And you couldn't convince him?

Mr. CHAPMAN. No.

Commissioner BARTHOLOMEW. And this was an American-based company?

Mr. CHAPMAN. My customer was American-based, yes.

Commissioner BARTHOLOMEW. That's just amazing. Somebody had mentioned the Lou Dobbs programs that have been going on and I've found those of particular interest. Part of me is tempted to go back ten years and see if Mr. Dobbs himself was on the free trade will solve all of the woes of the world bandwagon and whether he's changed or whether he was saying the same thing. But it really has struck me that while people in the textile industry, again, I've said for at least ten years have recognized that these problems were taking place, I think they've happened faster than anybody was really expecting them to. But now that people see ... we at the time, of course you know this better than I, had been told, well, our textile industry is gone and our service economy is the wave of the future for the United States, that and our intellectual property. And now that we're seeing service jobs being shipped overseas and our intellectual property being stolen, people I think are paying a little bit more attention. I just say that I hope that it's not too late for our textile industry. We'll do what we can.

Ms. FRIEDMAN. One other comment I'd like to make. We mentioned the manufacturers and I think that Senator Hollings mentioned this when he was speaking. They're being driven to ... their competitors are in China so he mentioned I think Levi Strauss. They're being driven to go over there. If they do not, then they will lose. They have no choice to do this so, it's—

Commissioner DREYER. Ms. Friedman, could you give me an example of re-work. I think I know what it is but it would help me if you could give me some examples.

Ms. FRIEDMAN. The blouse you have on, if it were to come in and I know this has happened in the last few months, I know a company that actually brought in some garments from China and the blouse was supposed to have top stitching on the collar, a stitch that outlines collar.

Commissioner DREYER. Right.

Ms. FRIEDMAN. When it came in, part of them had the stitch; part of them did not and also it had ... the ones that had stitches made, form stitches, they were loose so you could not pass them on until you had the re-works done.

Commissioner DREYER. So that's a repair or something similar—

Ms. FRIEDMAN. Yes.

Commissioner DREYER. —that wasn't done right?

Ms. FRIEDMAN. Repair, re-work, yes.

Commissioner DREYER. Thank you.

Co-Chair BECKER. Commissioner Reinsch.

Commissioner REINSCH. My perspective on these things is sometimes a little bit different than my colleagues. My heart goes out to all of you. I think you're dealing with the most difficult economic problem that America has. You've got people, real people, who've spent their lives, and in many cases, generations of lives working in your industry. And as those jobs go away they find themselves without a lot of other choices, without any choices. And the ones that are 45, 40, 47 could be in the worse situation of all for reasons that you all very eloquently stated. I think that's a much more difficult problem than other sectors have, and one that, I was pleased to see, Senator Hollings in particular had suggestions for how to deal with. Because at one level one can talk about trade solutions and we'll get to that minute, but I'd also venture to say that we can do everything you want tomorrow and a lot of those jobs are not going to come back. They're gone. But the people are still here. I'm glad to see that Senator Hollings and you all are concerned about the people because that's the most important consideration that we all have—which is what we're going to do about those people? How are we going to help them become more agile in an economy that is going to demand increased agility whether we like it or not. I approach this from—a lot of us are old Capitol Hill people. I worked for John Heinz for 14 years and then I worked for Jay Rockefeller, and I learned when I was working for John Heinz that actually textiles and apparels was the largest manufacturing employer in Pennsylvania, not steel workers. I don't know if that's still true because so many are gone. They were mostly more apparel than textiles. But I spent a lot of time working on this. And Mr. Raynor said we don't really have a policy, it's sort of a patchwork of addressing whoever screams the loudest. And it struck me that in a bizarre way that the reality may actually be reversed. We do have a policy, but nobody wants to talk about it because the policy really is to let this sector go because it can't be saved. We could have had this hearing ten years ago or probably did. I'm sure Senator Hollings had one ten years ago. We talked about Japan and Korea or Pakistan or whoever. These are not new developments. Let me just ask a question. What are the tariffs on imports of your items? What is the average tariff?

Mr. MCKISSICK. It would roughly be in the teens.

Commissioner REINSCH. So you've got tariffs that are four or five times the average in manufacturing tariffs, more than that coming in. You've got quotas at least for ten more months. You've got safeguard mechanisms. You've got trade law that I share your concerns about, particularly on the safeguard enforcement issue. There's this whole network of things going on here, which I think are the result of squeaky wheels, well placed squeaky wheels. But despite all that network which frankly is more than any other sector of this economy has in terms of protection, you still have these problems. And so that leads me to think that this isn't good news, but certainly leads me to think that rather than Mr. Raynor's comment that we're sort of fumbling around responding to politicians; in fact successive Administrations have sort of made an implicit decision that this one sector is going to go and what we're really talking about,

and I do this with apologies because Carolyn and I, we're trying to declare a cliché-free zone up here—without any success as you notice—but it just strikes me we're just rearranging the deck chairs on the Titanic in this case. And I know that's bad news, but I don't see a lot of other solutions. It's going to be very hard to extend the MFA because that takes consensus. That's not something the United States can do unilaterally. Ironically, as Pat and I were talking a minute ago, the biggest losers here are the Bangladeshis, the Pakistanis, Mauritians, the Maldives, they're all going to be eaten alive by the Chinese when the quotas go away. And there's some sign they have started to figure that out, which means you might get some support for extending the MFA from some unexpected sources, i.e. the very people who tried to get rid of it when it was ... we all agreed to get rid of it ten years ago. But I think that's a long shot. I'm not sure what the answer is. We're stuck still with the very human problem of how to we deal with these people. So I just sort reflect gloomy thoughts and ask you to comment, if anybody wants to.

Mr. McKISSICK. Mr. Chairman, I'd like to. First and foremost, I'm sure you all understand this problem goes so far beyond textiles. Our country's lost three million manufacturing jobs in the last few years. Only 335,000 have come out of our industry. Yes, our industry's been decimated. But overall our country 17 million manufacturing jobs and now we have 14 million. Our industry's detractors will say, "It's just textiles, we'll trade that sector away." I live in Greenville, South Carolina. There are all kinds of manufacturers there from gas turbines to the finest automobiles on the planet to Michelin tires. All across the board all manufacturers are losing jobs in our area and in this country. So we may be further along in the trajectory, but we're all going in the same direction. And one thing interesting I find about the U.S. textile industry, many people like to describe us as an old smokestack industry, a buggy-whip industry, and we shouldn't be here anyway. But up until just prior to the Asian currency crisis, ours was a growth industry. It was a high-tech growth industry with growing profitability, growing sales, all of that. Then overnight came the Asian currency crisis, and then the demise began in the industry. So my two points would be, first, it goes way beyond textiles. Second, this is a new phenomenon that wasn't here ten years ago, 15 years, 20 years ago. It really began with the Asian currency crisis in the mid to late 1990s.

Commissioner REINSCH. Let me ask Mr. Raynor. While you were growing productivity, which is a point, I certainly take and I agree with you and I alluded to the right things that we're doing, were you growing jobs during that period? It seems to me the union story has been a 30-year decline in jobs.

Mr. RAYNOR. Were we growing jobs? I think not. But I think that's part ... that's part of improving people's lives. There were jobs at some of these places that don't need to be done. They can be done better by equipment than people, that's not a bad thing. And allowing us to improve productivity also allowed us to improve earnings. You're talking about industry that on the textile side was paying people \$14 and \$15 an hour. This industry is a lot of different industries. It's very interconnected. You want to see tech-

nology? Let me take you into a synthetics fibers mill, which is an extrusion process, which is as technically vibrant as any in the world.

But what you've got to look at is trade policy. Take up a whole other industry. You walk around in the South and throw a rock up in the air five years ago and you either hit a textile mill or you hit a furniture plant. Now you would think that furniture which apparently has to be made out of pine if it's in the Carolinas or maple if it's in New England or some other wood would still be here because you need the forests in order to have your raw materials. What has happened to the furniture industry in this country in the last five years? The advantage that we have of owning those raw materials is gone because of this cost. And I come back to it again and again and again. Free trade ain't free. And unregulated trade, unplanned trade is going to destroy entire industries.

The textile manufacturers need sewing plants to be their customers and many of our textile mills are of such a size that they need a certain size sewing industry in order to be able to produce to survive. Some of them are smaller, but some of them are larger as well. We gave away light manufacturing without thinking about what would happen to the heavier higher tech manufacturing that supplied it. Now I've got plants that sew who say to me I can't find the raw materials to make my product anymore. I know a curtain manufacturer a hundred miles from here who says to me, "I may have to leave this country because I can't find raw materials to sew because we're the only ones left and we don't provide enough business to somebody to keep them going in business." Planning and putting industries together and, again, looking at this is an interconnected world economy is the only reality.

Co-Chair BECKER. We still have two more Commissioners.

Commissioner REINSCH. My time's up. Thank you.

Co-Chair BECKER. Commissioner Mulloy.

Commissioner MULLOY. First, we want to thank you and the Chairman for bringing us out of Washington and hearing what's going on. Too often when we're in Washington, and you suspect this big problem and this really confirms what you think, what you instinctively feel is going on. But people who think like I do and I think like you about these issues, we're immediately called protectionists and that's like a bad word and you're shut off in the corner. This Commission, the wisdom of the founders was that industrial manufacturing, these are ultimately the national security base of the United States. We could talk about Iraq. We could spend billions. But if we don't have an industrial base, manufacturing, good jobs for our people and ultimately what's going on here, we're losing our tax base. When the tax base goes, then your ability to even educate your people is gone. So these are important issues. I want to thank Mr. Crolley. I grew up in small town in Pennsylvania. My granddad was a coal miner, so when you talk about how important paychecks are for people and how important jobs are for dignity that really struck me because I know it and I've seen it in the people that I grew up with. Then when, Mr. Raynor, when you talked about this is going on in a much more rapid state, pace than we've ever thought would happen. We're globalizing this economy. We're bringing in China, 1.2 billion people. We're bringing in India, an-

other billion people. And the technology (inaudible) must be outsourcing of these jobs that are held by Americans and that you talked about, all the things that we pay our people to preserve a good lifestyle. And so the companies (inaudible) and it's going on. Now it seems to me, and I'll tell you what, I've watched this culture in Washington for a long time. I've been in State, I've been in Justice. I've worked on Capitol Hill. I've been an appointee of the Commerce Department working in trade. This culture cannot be changed except by political action. Politicians have to change this culture. And to me, it seems to me it has to be almost like a Presidential election issue. These are the issues that have to be talked about in a Presidential election. That's the only way they're going to get it. And the bureaucracy will take its clues from the political leadership that wins such an election and says this is an important issue. I don't know how all to deal with it. But once we decide it's a problem and we don't want it happening, then we can develop a national strategy to deal with it. And I'm telling you, you guys have to do it at your level. You have to make these politicians do it. Because the bureaucracy isn't going to do it because it's too acculturated into a game that's been going on here for 30 years. And they don't understand, in my view, how fast it's going out. It's a whole new ball game and we're not ... and we don't have the strategy or the thought on how to deal with it. Finally, when you, Mr. McKissick, you talked about the textiles, and when Bill was saying, that it's not just textiles. To me textiles are the canary in the mineshaft or something. That industry's going, but we have to say there are a lot of others that are going to happen very quickly after it. This is a rapidly changing game when you have a \$500 billion current account deficit. That means we're importing \$500 billion more than we're exporting. And what do we do? We borrow the money to finance that from abroad. This is a game that can't go on. And when it can't go on, well some people say, well, let the market force correct it. Well, it will correct it with a much lower standard of living for the average American. So it seems to me this has to be a national strategy and I'm urging you to really get your ... the multinational corporations, the CEOs, they get their big compensation package and they move on. So that's what they're working for. And the Wall Street guys who are moving their investment around, they don't care either. It has to be done with the business community that creates the jobs and the employment opportunities. And I think it has to be done by you guys saying we have to have an alternative forum. You can't rely on the great associations in Washington who are tied up in the old culture. And I've given you what I've seen now. I've been in this game watching this for 35 years. Thank you very much for all your testimony.

Co-Chair BECKER. I want to thank all of the Commissioners. I'm the only one left that hasn't asked any questions. I'm going to try to do a couple of wrap-up things. Mr. Chapman, you made reference to a loophole paper and I'm paraphrasing on that.

Mr. CHAPMAN. Loophole what?

Co-Chair BECKER. Loophole paper or a document or something, you made some reference to loopholes in various trade laws.

Mr. CHAPMAN. Correct.

Co-Chair BECKER. Do you have that documented somehow?

Mr. CHAPMAN. I can get it.

Co-Chair BECKER. Can you furnish that to the Commission?

Mr. CHAPMAN. Yes.

Co-Chair BECKER. I'd appreciate that. Second, I'd like to throw out for your consideration what to do immediately. We've got a crisis that we're going to be facing in December 2004. I don't even know if there's enough time left to do something about it. I'm assuming that the quota that's going to expire, that this government cannot unilaterally extend that, can we?

Mr. CHAPMAN. I don't know.

Co-Chair BECKER. You ought to know something about it—

Mr. RAYNOR. I just heard a speech where somebody said, "I don't have to ask anybody's permission." I think we can do a lot of things.

Co-Chair BECKER. Okay. You think that we can unilaterally extend that? This is—

Mr. RAYNOR. I don't know all the legalities of it. What I'm saying is this country seems to have the power to do a lot of things when it has the will to do it, and the idea of doing this politically is that idea, it has to have the will to do it.

Co-Chair BECKER. But you have to have the will—

Mr. RAYNOR. A lot more people than just us have to rise up and say, "We will not support you if you don't have that will."

Co-Chair BECKER. We're going to do as much as we can, obviously, about bringing this forward and pressure to do something on that. But most everybody at that table belongs to some trade association. You run one yourself, Ms. Friedman. And you have the ATMI association that does something. Most of the business community supported all these trade agreements, right? Most of the business community supported NAFTA. Most of the business community supported PNTR with China. There has to be a lot of pressure from business to do this. When these trade agreements come up, they're fought, they're supported by business generally in the United States. And there has to be a lot of pressure mounted from the business community to do something about it. We want to do something about it, we want to work at this, but we need some assistance on this. We need these same business groups that you belong to to take strong positions against this. Now, you have talked, several of you have talked about transnational shipments; that even if something is done with China, that you expect the exports to go from China through other countries, whether it be through Central America, whether it goes through Mexico, right?

Mr. CHAPMAN. Correct.

Co-Chair BECKER. Or if we pass the FTAA with 34 countries, the whole Western Hemisphere will come in in a Caribbean Basin. Am I reading this wrong? This is the problem. And so what we're looking—one of the Commissioners mentioned how difficult it is to change something, and I don't think anybody's looking at just changing the furniture in a room and just having a different way to get in and out. We need a change in policy in the United States and that has to be driven by the business community. I'm just stating this out the way that I see it. The reason we have these trade agreements is because of the business community in conjunction with the government, the government's responding to the pressure

from the business community to do that. I had a question here. We've been told that there's between 200 and 400 plants that have shut down, textile plants. How many of these went overseas and are exporting back into the United States? Is this where the exports are coming from, from American companies that are over in China and Mexico and places like that?

Mr. CROLLEY. No. No, I don't think so. They're just eliminated.

Mr. RAYNOR. These are generally not multinational businesses. The people you're talking to here generally own their own businesses and are here. Maybe one of you could describe what some of these reverse auctions are you're dealing with in the home furnishings industries. These days Wal-Mart will get a bunch of companies; let's say they want to buy towels. They'll call up a bunch of towel companies and say we're having a bid on this level, this size, this towel and you will get on the Internet, and the major companies, West Point Stevens, Springs, used to be Pillowtex, and a whole bunch of people in Pakistan and in China and in other places will bid. And whoever has the lowest bid gets the towels. No worry about service. No worry about delivery. No worry about what colors you can provide. You've got the bid.

If you don't perform, they take the bid away from you and give it to somebody else next time. But that's all it is. And sometimes you don't even know in many cases who you're bidding against. It all comes in over a computer screen. And that's how this stuff is handled these days. By and large in this industry, I think the majority of it is just coming in from other countries or is being outsourced and sometimes directly by the large retailers.

Mr. MCKISSICK. I would add to that, the absolute vast majority fits that description. It's got to be in the high 90s as far as percentage of imported textiles that come from non-U.S. ownership, non-U.S. companies. I don't know of instances where folks have shut plants down, shut down their spinning and weaving operations and moved them. I'm sure there are some. But, the vast majority of these imports come from companies with non-U.S. ownership, companies that did not pack up and leave the U.S. in search of cheaper wages.

Co-Chair BECKER. Very good. Thank you. I want to say again how much I appreciate the presentation from the committee. You made a profound effect on this Commission. I want you to know that. And I want you to feel free to submit any additional information that you might have that would help us in this, or any suggestions that you have as we go forward. We're going to take a break now for lunch. I want to invite the panelists to join us.

Thank you very much.

[Lunch break from 12:45 p.m. until 1:20 p.m.]

PANEL II: STEEL

Chairman ROBINSON. Okay. I'd like to begin our afternoon session with our second panel of the day. We'll examine South Carolina's steel industry. We'll hear testimony from a number of executives. We'll be first hearing from Mr. Bob Johns who is marketing director for Nucor Corporation, followed by Tim Dillon who is a VP for Sales for Georgetown Steel, and Larry Murray, finally, of United Steelworkers Association. As China's demand for steel has

grown, Nucor has been facing steep price increases for its raw material. Georgetown Steel is currently in bankruptcy and in search of a buyer that can revitalize its aging facilities. And Mr. Murray will be sharing the views of the steelworkers themselves. And we thank you very much for being with us today. We've had an extraordinarily powerful set of testimonies this morning that put into sharp relief the nature of the challenges that are being faced in the textiles and apparel industry and very moving human stories, I might add. This wasn't just involving cold statistics and debilitating trend lines. This really put not just a human face to it but made very plain the multidimensional costs involved in all that you're facing as well as an industrial sector for the State, and obviously, this can be projected to include our country as a whole. We feel especially privileged to have a chance to be here with you and to hear your stories firsthand because that's the extra value-added that we need, not to mention your good recommendations as to how we can help in a material way. We report to Congressional leadership directly. Our report will probably be out in May of this year will have some very stark findings and we hope the kind of robust recommendations for legislation and otherwise that can make a real difference. We're not just a listening post here or some academic body. This is an activist, let the chips fall where they may operation. And I just want to assure you that we are looking to take action on your behalf and on behalf of others in your industry. So with that, if I might, I'd like to begin with Mr. Johns. We have some rules of the road to share. We have generally a seven-minute opportunity for your opening remarks each. We'll be restricting Commissioners to about five minutes in terms of their question period, and Mr. Swanson behind me will be reminding you the old fashioned way, with a little sign because we're not in Washington with our fancy lights where we have the one minute drill for wrap up. So again, it's with our great appreciation that you could be with us today and I'm happy to start in any order, but it strikes me that perhaps Mr. Johns, you might go first.

**STATEMENT OF BOB JOHNS
MARKETING DIRECTOR, NUCOR CORPORATION**

Mr. JOHNS. Okay. Before you start the timer, first of all, Nucor appreciates being here and we're very happy to testify in this hearing. Carrying over from the lunchtime conversation that I overheard, if I could prompt the Commissioners with a couple of notions for questions at the end I certainly would like to address, would be the currency issue I want to talk a lot about, but the realignment has to start before you will ever change capital flow and that is a critical mass in this thing. The velocity of capital flow I think has caught everybody by surprise and I think that needs to be addressed. Also, if the Commissioners would be so kind as to consider the motivation to cheat on the rules acceding to the World Trade Organization and others. And then the general practice and the pattern that's created by rules violations via currency intervention and the model that it establishes for others and I can give you some anecdotal information I've got. I'll get into the testimony at this point. As stated, I am Bob Johns with Nucor Corporation. Like many other companies, Nucor has found South Carolina to be an

excellent place to invest. Companies outside the United States have reached the same conclusion. I don't think it's any accident that South Carolina leads the country in foreign investment per capita. Precisely because South Carolina is so integrated into the world economy, it's essential to think that what we think about what's going on in a world economy could affect South Carolina will affect the rest of the country. China's economic policies are having an immediate and very direct effect on companies operating in South Carolina, including Nucor. At first blush, many of these effects appear to be positive. Many of you have seen or may have seen an article in this month's issue of *Fortune Magazine* talking about the boom times in U.S. steel industry. The article provides the explanation in a word—China. As you all know, the Chinese economy is growing at a sizzling rate. China's demand for steel last year approached 250 million tons. But behind that growth there are some economic policies that have the effect of transferring much of the cost of China's growth onto workers and companies in the United States. As importantly, these policies are not sustainable, or should not be sustainable. If continued, they will ultimately have a destructive impact on China, on the United States and the entire world economy. China's growth represents a classic export driven development strategy and serves as a model to others. Chinese production of all sorts of manufactured goods has exploded and much of this production is exported. Some of this production is by companies that are foreign to China, including U.S. companies that have moved to China to take advantage of lower labor costs. With those lower labor costs go lax environmental regulation, subsidies, export incentives and other inducements to locate there. Other manufacturers or state-owned companies have been able to make massive investments in new equipment via local, provincial and central government support. In all too many cases the ultimate result is the same. Hundreds of American manufacturing companies have been driven out of business and thousands of Americans have lost their jobs. China's economic development is not in itself a bad thing. To the contrary, it is absolutely essential that China develop a free market economy that can provide its billion plus people with jobs. A major problem is the policy instruments the Chinese government is using to push that development. Currency intervention, direction of credit. China does not allow its currency called, what I'm going to call RMB, to be freely traded or exchanged. Instead, it is pegged to the dollar. Whenever you have a fixed exchange rate, it's difficult to determine what the free market rate for the currency would be, whether it is undervalued or overvalued. Fortunately, the *Economist* magazine has developed a reliably, widely accepted method for assessing exchange rates, its Big Mac Index. According to the most recent index, the RMB is undervalued to the tune of about 56 percent versus the dollar, making it the most undervalued major currency in the world. At the same time, the initial devaluation in 1994 was 60 percent, so we haven't had any change in a decade in spite of the fundamentals. The Chinese government has deliberately kept its currency undervalued. There are two immediate consequences for the U.S. The first is obviously it makes Chinese goods cheaper than they would be otherwise. An office desk made in China that sells for \$300 would cost over \$450 if the cur-

currency were fully convertible. The consequences for the U.S. furniture manufacturer competing with the Chinese are obvious. If the currency were subject to valuation by the market rather than being fixed, Chinese goods would be much less competitive in the United States. Our own government adds some odd twists to this. The Treasury Department claims that China isn't manipulating its currency through the convenience of a very narrow definition of the word manipulation. Whether intervention or manipulation, I don't care what you call it, it's clear that they're setting the exchange rate at such a low level it's costing the United States tens of billions of dollars a year in lost sales, lost profits, lost wages, lost tax revenues, higher government expenditures for laid off workers, and it goes on and on. And a minor byproducts of this and not so minor byproduct of this is a laid off worker is certainly less a consumer and is a tax drain, not a taxpayer. The domino effect moves through the economy. I firmly believe that the artificial exchange rate for the Chinese currency is one of the main reasons why the current economic recovery has generated so few new jobs in manufacturing. Even in an improved economy, U.S. manufacturers simply can't compete against Chinese exporters, on top of lower labor and regulatory costs, plus have a wholly artificial 50 percent plus currency advantage. An undervalued Chinese currency doesn't just hurt American companies that compete directly with Chinese exports. It also hurts our suppliers and our customers. Nucor sells steel to furniture manufacturers as well as to companies in dozens of other industries that are losing ground to Chinese imports. As our customers reduce production they cut back on steel purchases from us. If they move out of the country, i.e., move to China, typically they're gone forever. Nucor happens to be the most efficient steel producer in the world, but quite frankly, there's no point in making steel here if we don't have any manufacturing customers that need to buy it. And we certainly aren't going to export that steel into a market protected by an enormously undervalued currency. An undervalued RMB has a second negative effect, one that affects exporting companies even more directly. Just as a cheap currency makes Chinese imports into U.S. less expensive, it makes all U.S. exports to China more expensive. The second economic policy China uses to artificially boost investment is the direction of credit through state-owned banks. The government of China still exerts tremendous control over the allocation of credit. Tens of billions of dollars of loans have flowed from the state-owned banks into state-owned companies allowing them to fund enormous investments and this way the Chinese government created much of the manufacturing capacity that has enabled Chinese manufacturers to swamp the U.S. with low priced imports. The Chinese steel industry has been one of the major recipients of state-directed loans. Just in brief on this, they have added more capacity in the last three years than the entire United States industry has the ability to produce. That capacity will eventually find a home the first time the Chinese economy has a downturn, and we strongly suspect it will start here. In 2001, China joined the WTO and they are a member also of the International Monetary Fund. They have a certain obligation to abide by WTO principles and rules when they join. They have not. They've gained an enormous advantage

by being accepted in the international community and they're abusing it. We can't dictate what Chinese policies are going to be internally but we can make it clear to China that this currency manipulation must cease. We can certainly help them technically resolve some of their banking issues, but the bottom line is that until or unless this issue is addressed firmly by the United States Government, this is not something businesses can do. We are in an accelerated spiral. I think the flushing sound in this hemisphere is clockwise when a business goes down the toilet.

Co-Chair BECKER. Well, I'll try to restrain myself in making comments now, but it is a dark day when to run a steel operation like you're running you have to become a financial and currency specialist to that extent. We certainly will take this up in the questions and answers. If we might move to Mr. Dillon second.

**STATEMENT OF TIMOTHY J. DILLON, SENIOR VICE PRESIDENT
COMMERCIAL GEORGETOWN STEEL COMPANY, LLC**

Mr. DILLON. Hello, my name is Tim Dillon and I represent Georgetown Steel Company, LLC. I'd like to thank you for allowing me the opportunity to participate in the investigation of China's impact on the American manufacturing base.

First, let me tell you about our company. The Georgetown steel mill was established in 1969 in Georgetown, South Carolina, and operates in the wire rod sector of the steel industry. U.S. shipments of wire rod are about six million tons per year and accounts for five percent of the U.S. steel market. We sell primarily to domestic wire drawers and process wire rod into products for diverse end use applications including the automotive, construction, industrial, and consumer industries.

In the automotive industry, our wire rod is used in many applications including tire cord and tire bead for steel-belted radial tires, hose wires, springs, shock absorbers, brake pads, fasteners. We supply the construction industry with products for end uses such as pre-stress concrete strand, galvanized guy strand for use in constructing office buildings, parking garages, and cable stay bridges such as the Cooper River bridge now under construction in Charleston. Other construction uses include metal building cross members, cable TV and telephone support wires and highway barrier strand among many other applications. Our consumer end uses include upholstery and bedspring wire, steel wool, coat hangers and fishhooks. General industrial uses for our products include screws and bolts, ball bearings, cutting wire, bailing wire and wire rope.

Our steel mill is the only one in the United States with a direct iron reduction plant, which produces a high quality raw material. This is known as DRI. Other U.S. mini-mills rely solely on buying scrap or scrap substitutes for their raw material feed which is mostly lower quality and now much higher cost. We also operate an 80-ton electric furnace, a continuous caster, and a wire rod rolling mill. The entire operation is located on approximately 65 acres and operates in a 500,000 square foot manufacturing facility located on a deepwater seaport on the Sampit River.

The mill's capacity is about 900,000 tons per year and up until a few months ago we employed more than 600 workers and we were shipping near capacity levels. Today we are in bankruptcy,

the mill has ceased operations and most of our work force is without jobs.

The Georgetown facility has been a profitable company during each of the last ten years leading up to 2003. Though escalating wire rod imports have made business conditions difficult in previous years, the combination of dumped and subsidized imports depressing the price for our products and the rising scrap cost, natural gas costs and electricity, all of this was overwhelming this past year and did not allow us to continue operations after October 21, 2003.

As I mentioned, wire rod imports have been a problem for our industry for several years. Wire rod was not part of the highly publicized and now terminated section 201 steel tariff program. Wire rod producers have spent several millions of dollars pursuing remedies for trade extorting practices. Finally in April of 2002 after several months of litigation and affirmative rulings by the International Trade Commission and the U.S. Commerce Department, anti-dumping and countervailing duty orders were implemented calling for some of these unfairly traded imports to pay a duty upon entry into the U.S. Seven countries were found to be guilty and are either paying or not shipping to the U.S. Also anti-dumping and countervailing duty suits against four other countries are now on appeal.

These unfair trade cases leveled the playing field with countries investigated and found guilty; however, China was not included in these cases that began in early 2001 and they since have emerged as a new dominant importer of wire rod into the United States. After shipping less than 25,000 tons to the U.S. for all of 2001, China's 2002 imports increased to 414,000 tons or more than a 1,500 percent jump from the previous year. Last year in 2003 China's wire rod imports were about 252,000 tons and although less than the extraordinary 2002 year, their recently established share of the overall U.S. imports remained about the same. We estimate China's wire rod production capacity is about seven to eight times larger than that here in the U.S. Our concern is when inventories need to be balanced in China or normal business adjustments occur, shipments from China surge into the U.S.

Our customers have similar stories on how China's affecting their business. The garment hanger industry, for example, has also seen an explosion of Chinese imports. Imported hangers from China account for 95 percent of all imported hangers today as their sales to the U.S. have grown more than 800 percent during the last five years. The underselling margins of these imports average 30 percent and many times exceed 50 percent. The ITC actually ruled five to nothing that significant injury had occurred to this industry in a recent Section 421 investigation. But the President decided against any relief. Last year one of our largest U.S. hanger manufacturers and one of our customers went out of business.

Our pre-stress concrete strand customers are also feeling the effect of imports from China, which was less than 100 tons total in 2001 and 2002. Latest import figures tell us more than 17,000 PC strand tons from China have hit the U.S. through the first 11 months of 2003. Strandtech-Martin is a five-year old business located in Summerville, South Carolina, and is one of our largest

customers in this market. I'm sure they can tell you the negative effect of these surging Chinese imports have had on their business. Strand Tech and this entire industry are extremely concerned imports from China will only continue to grow.

Drawn wire imports from China have also grown including galvanized coated wire," which is more conducive for ocean transportation to the U.S. Leggett and Platt recently closed their wire galvanizing in Andrews, South Carolina, at least in part due to these increased imports. Other finished steel products from China such as nuts and bolts, brake pads, wire shelving and wire rope are also gaining an increasing share of our customer's markets. These markets are even being further eroded when you consider products ranging from steel handled pails to sophisticated automotive assemblies that are now coming from China and no longer requiring U.S. parts.

All of this is occurring as the Chinese economy is growing at a rate in excess of eight percent. As part of that amazing growth, China is consuming more; however, the consumption seems to be mainly raw materials which from our industry's perspective is primarily scrap and they're consuming this at a historically high rate and that rate is growing. Much of the scrap China is consuming is being exported from the U.S. resulting in some shortages of raw material here and costs that have more than doubled for U.S. steel makers in the past year. So in addition to depressing our prices, China also seems to be driving up our costs.

Obviously manufacturers in the U.S. today face the reality of survival; that is, competing in a global economy is not simply a choice. We hope that competition, however, will be fair. At Georgetown Steel we're not operating today partly because our costs were too high and partly because our prices could not be adjusted to cover these costs. I am optimistic today a buyer will emerge for the mill in Georgetown who will see what we believe is an opportunity to restart the lowest cost, high quality wire rod mill in the U.S. On a level playing field, we believe our mill will be able to compete against any one in the world, including Chinese imports traded fairly. Again, thank you for this opportunity to speak with you.

[The statement follows:]

**Prepared Statement of Timothy J. Dillon
Senior Vice President, Commercial Georgetown Steel Company, LLC**

China's Impact on Georgetown Steel and the Steel Wire Rod Industry

Hello. My name is Tim Dillon and I represent Georgetown Steel Company LLC. I would like to thank you for allowing me the opportunity to participate in your investigation of China's impact on the American manufacturing base.

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The mill's capacity is about 900,000 tons per year and up until a few months ago, we employed more than 600 workers, and we were shipping near capacity levels. Today, we are in bankruptcy, the mill has ceased operations, and most of our workforce is without jobs.

The Georgetown steel facility has been a profitable company on an EBITDA basis during each of the last 10 years, leading up to 2003. Though escalating wire rod imports have made business conditions difficult in previous years, the combination of dumped and subsidized imports depressing the price for our products, and the rising costs for scrap, natural gas, and electricity were overwhelming this past year and did not allow us to continue operations after October 21, 2003.

As I mentioned, wire rod imports have been a problem for our industry for several years. Though wire rod was not part of the highly publicized and now terminated section 201 steel tariff program, wire rod producers have spent several millions of dollars pursuing remedies for trade distorting practices. Finally in April 2002, after several months of litigation, and affirmative rulings by the International Trade Commission and the U.S. Commerce Department, anti-dumping (ADD) and countervailing duty (CVD) orders were implemented calling for some of these unfairly traded imports to pay a duty upon entry into the U.S. Seven countries were found to be guilty and are either paying or not shipping to the U.S. Also, ADD/CVD suits continue against four other countries on appeal.

These unfair trade cases leveled the playing field with the countries investigated and found guilty. However, China was not included in these cases which began in early 2001, and they since have emerged as a new dominant importer of wire rod into the United States. After shipping less than 25,000 tons to the U.S. for all of 2001, China's 2002 imports increased to 414,000 tons, or more than a 1,500% jump from the previous year. Last year in 2003, China wire rod imports were about 252,000 tons and although less than their extraordinary 2002 year, their recently established share of overall U.S. imports remained about the same. We estimate China's wire rod production capacity is about 7 to 8 times larger than that in the U.S. Our concern is when inventories need to be balanced in China or normal business adjustments occur, shipments from China surge into the United States.

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All of this is occurring as the Chinese economy is growing at a rate in excess of 8%. As part of that amazing growth, China is also consuming more. However, that consumption seems to be mainly raw materials, which for our industry is primarily scrap, and at a historically high rate, and that rate is growing. Much of the scrap China is consuming is being exported from the U.S. resulting in some shortages of raw materials here and costs that have more than doubled for U.S. steel makers in the past year. So in addition to depressing our prices, China also seems to be driving up our costs.

Obviously, manufacturers in the U.S. today face the reality of survival. That is, competing in a global economy is not simply a choice. We hope that competition will be fair. At Georgetown Steel, we are not operating today partly because our costs were too high and partly because our prices could not be adjusted to cover these costs. I am optimistic today a buyer will emerge for the mill in Georgetown who will see what we believe is an opportunity to restart the lowest cost, high quality wire rod mill in the U.S. On a level playing field, we believe our mill will be able to compete against anyone in the world, including Chinese companies, ... fairly trading.

Chairman ROBINSON. Thank you very much, Mr. Dillon. Well done. If I may turn to Mr. Murray.

**STATEMENT OF LARRY MURRAY, STAFF REPRESENTATIVE
UNITED STEELWORKERS OF AMERICA (USWA)**

Mr. MURRAY. Good afternoon. Thank you for having me and by me following Mr. Dillon, you may hear some repetitive statements, but I'll try my best to be very brief. My name is Larry Murray. I'm United Steelworkers of America staff representative assigned to service our members of Local Union 7898 at Georgetown Steel in Georgetown, South Carolina. I sincerely appreciate the opportunity to speak to you about our members there at Georgetown. Georgetown Steel Company has a proud history of production of high quality wire rod products produced by some 600 plus worker residents of Georgetown, South Carolina area. The mill was built and began production in 1969. Since that time the mill has provided high quality products to customers across the U.S. and more importantly has provided family and community supported jobs in the Georgetown area. On October 20, 2003, Georgetown Steel filed for bankruptcy protection and subsequently closed the mill. This tragedy to our members and their community was not caused by excessive costs, low productivity, lack of quality or any of the newest excuses often offered in the event of plant closings. Employees of Georgetown Steel worked hard, played by the rules and dedicated themselves to their families, their coworkers, their company and their community. This tragedy was caused by unfair trade and dumping of steel products into the United States and should never be blamed upon the dedicated employees of Georgetown Steel. The women and men of Georgetown Steel had risen to the challenge of the American dream. They worked hard, raised their children and supported their churches and community. For that investment their dreams were sacrificed to free trade. Over the years employees of Georgetown Steel have made concessions, sacrifices and accommodations to adapt to keep their mill alive. After surviving the near collapse of the entire U.S. steel industry in the 1980s and surviving depressions throughout the 1990s, it became evident that they could no longer give enough to level the playing field and have their mill survive. The sacrifices of the individuals involved in this and other plant closings deserve more than to simply be classified as a negative step in the global economy. The workers of Georgetown Steel are real people with real families, real dreams and real

needs. They have spouses and children that depend upon them for their survival. They have dreams of their children being able to be educated and prosper beyond what they have been able to accomplish. They have mortgages, grocery bills, health care costs and utility bills. A force they could not see or touch has crushed their dreams and aspirations and without the assistance of their fellow citizens and the government they cannot defend against it. Dedicated workers have been forced to join the ranks of the unemployed in Georgetown County, already at double-digit rates. Dreams of college education and a more prosperous life for their children are being swallowed up with more immediate needs. Proud and once prosperous workers have had to accept charity they were once proud to offer to others. Former workers, retirees, and other families are left with no health care coverage and are having to do without necessary treatment and prescription drugs vital to their continued health. What little savings workers were able to put away is being sacrificed to attempt to pay mortgages and bills they can no longer afford. In a few short months many will face bankruptcy, foreclosure and eviction. The devastation suffered in the Georgetown Steel closure goes beyond the personal tragedy suffered by the individual workers and their families. The payroll generated through the Georgetown Steel operation supported hundreds of additional workers who provided contracted services to the mill, drove trucks, and provided other support for the mill operation. Nearly two million dollars in local taxes is lost that supported local schools and community services. Approximately 70 percent of Georgetown Steel employees attended religious services and contributed to local churches. Many of these are now in a position of needing support from these same churches. This reversal will put a tremendous financial strain on these institutions. The local economy has and will continue to suffer tremendously. The approximately \$30 million payroll of Georgetown Steel pumped money into the community, supporting doctors, dentists, hairdressers, barbers, lawyers, accountants and a multitude of other self-employed. Employees shopped locally, fueling income for restaurants, grocery stores, clothing stores, and car dealerships. The loss of health care coverage for workers at Georgetown Steel will put significant additional pressure on the local hospital to remain viable as more and more residents have little or no health care coverage. The Chinese steel industry experiencing unprecedented growth adding hundreds of millions of tons of steel capacity with much of the equipment being acquired from United States mill closures. The Chinese economy is currently growing at 9.1 percent per year. What will happen to the global steel market if the Chinese growth rates fall by any significant amount? After having made this enormous investment in steel capacity, the Chinese will want to continue producing steel and return to the export market to maintain steel production. The Chinese steel is dumped into the global market; it will dwarf the surge of imports that the United States experienced in 1998 as a result of the Asian crisis. While the loss of one mill and one plant may not seem like a significant event to some, as one looks deeper into the impact on the workers, their families, and their community, the true impact is intense. Workers at Georgetown Steel and a multitude of other facilities in all industries closed across the

United States deserve better. They deserve the ability to compete on a level playing field and have the willingness to work hard and play by the rules not to be undermined by unfair trade and dumping of products while exporting American jobs. Thank you for listening and giving me the opportunity and privilege to speak with you.

Panel II: Discussion, Questions and Answers

Chairman ROBINSON. Well, the privilege has been ours. And I dare say, just as a personal observation, that the Chinese will not be able to maintain those robust growth rates and so I'm afraid that you will see the very phenomenon that you're most concerned about in terms of even a further penetration of international markets, but we'll get into that shortly. As you may know, we're running a little behind because of the morning session. I'm prepared to forego my five minutes reluctantly, but I would like to ask my fellow Commissioners if they could observe theirs rather strictly so that we might be able to conclude this panel at about 2:35 or so, as a courtesy to our third panelists as well. But this should give us a full opportunity to hear from all of our Commissioners. I think that as established by our Co-Chairman for today's hearing, George Becker, who had a rather simple formula, we just go down the line. And so I'll, in keeping with that, begin with him if I might and we'll just proceed right down the dais.

Co-Chair BECKER. Thank you, Mr. Chairman. It's *deja vu*. I sit here and I look at the steel industry and staff representatives together testifying. In my other life I would be on that side of the table. Let me just make a few comments about each company. I know Nucor and I've never been inside one of the mills but I've been in front of the gates a few times in my life. Nucor is really a well-managed company. I've always said that if Nucor can't make it in the United States, there's no steel company going to make it. It's well managed. It's diversified. And they run a real, a very, very tight ship. The rollback of the 201 had to be devastating to Nucor, as well as the rest of the steel industry in the United States. That was a hard fought trade concession for us to be able to give the United States. I was listening about on the scrap and reading some of the comments in here of what's happening with scrap. I've been through this before with the mini mill operations and where they could drive the prices up and really damn near put you out of business by just paying premiums. We've seen that in other industries. The leather industry where Japan and then China would bid ten cents over premium. Whatever was bid out there they would pay a premium over that to be able to take the product out. And I was just wondering if there was any thought about or plans from the company, if there's anything that can be done to restrict the sale of scrap to China and whether that's a viable option in some way.

Mr. JOHNS. I don't think the panel has the time to go through the nuances of what I'll call the iron unit business because we use quite a bit of scrap substitute in our manufacturing, things like pig iron, PRI, HBI, in fact Georgetown has a scrap substitute plan. The scrap situation is rather interesting and rather intricate and it involves foreign government manipulation in commodities markets. And the most specific example I can give you is when Russia put

a 30 percent tax on scrap exports, they and the Ukraine, it upset the entire balance of the global scrap market. The Chinese increased their intake by about nine million tons. Russia curbed their exports by about ten million tons and guess where the other scrap came from. It came from around the globe, but certainly a fair amount's coming from the United States which puts pressure on its market. The good news for the steel companies is that it's a global issue whether it's scrap iron or coke, pig iron or whatever. The Chinese have put enormous pressure on all commodities markets and when you look at the increase in those costs and the ability to transport it, that's where you come into shortages. Relative to shortage, we don't really have a scrap shortage in the United States because if you're willing to pay enough for it, then you can recoup it in price then you can buy the scrap to take care of your customers. But at the end of the day there's a limit to what you're going to pay for scrap. It's something that we're addressing on ... you talked earlier about involvement and we are with the termination of the Russian suspension agreement, we are very actively working in D.C. to address this whole manipulation of global scrap. Part of the Russian thing is China happens to be a very large target, but the principles that they exhibit in terms of how they're going about their export growth and the growth of their economy is something that should be alarming. India does it, Russia's already done it. In 1998 they devalued the ruble by 485 percent. That's the next step. You know, the model is moving on and I think that China's a great spot to start, if the government has the nerve to deal with China.

Co-Chair BECKER. Short comment on the Georgetown Steel. It's heartbreaking for that place to shut down. It's the major industry in Georgetown and it's by far the best paid as I understand it of any job that you can get around there. It's been devastating to the community in many, many respects. If a buyer isn't found for the mill, it's going to change the face of Georgetown itself before it's all over. You mentioned the ITC ruling on the 421 on the coat hangers. All that required after the ITC determination, all it required at that point was for the President to sign it, as I understand it; is that correct?

Mr. DILLON. That's my understanding as well

Co-Chair BECKER. And it's my understanding that every 421, which is a safeguard provision of some kind, that's went forward from the ITC sought relief. And the ITC has agreed and this went to the President, and each one of them he's refused. The President has refused to give relief in any case on those, is that not correct? So this is an Administration decision, not a legal—not being able to make your case or anything. It's the President.

Mr. DILLON. Mr. Becker, I'm not certain how many cases have been brought before this Administration or the previous one but I'm not aware of one that has gotten relief from the President.

PANELIST. I can comment on that. They were not available in the previous Administration. But there's a provisional law they call a China specific safeguard, and it came when China entered the WTO, and that has happened in the last three years. So there have been a number of recommendations, probably four I think, to grant

that relief by the ITC, but the Administration has chosen not to grant it in any case so far.

Co-Chair BECKER. That was designed to be able to circumvent a lot of other long procedural, expensive challenges to China's imports and to allow the President, upon a determination of the ITC, just simply decide on a safeguard. I might mention that when talking about the capacity in China, China is buying steel mills in the United States that are shut down. There have been at least three, maybe four that I've been aware of rather recently where China has bought mills that are supposedly inefficient in the United States to operate. They dismantle these old mills and take them to China and put them into production there and help them build capacity. There's a tremendous amount of capacity being built in China. So, I think you're absolutely right that this is going to come back to bite us at some point in time if there's any kind of a downturn in the industry. I just wanted to make those few comments and let you know I appreciate the fact that you came in and certainly the dire circumstances that Georgetown finds itself in, I hope something is going to be worked out to help them.

Chairman ROBINSON. Well, thank you very much, Co-Chairman Becker. I'd like to turn to Vice Chairman D'Amato.

Vice Chairman D'AMATO. Thank you, Mr. Chairman. Thank you all for your testimony. I've always been an advocate of taking steel completely out of the WTO game and declaring it a national security—that's been my position consistently. You may know that Senator Byrd and other Senators have taken that position officially as well. In terms of ending the safeguards early, I'm curious. What kinds of benefits would there have been to maintain the safeguards in place until their end? What were the down sides? What are the down sides of having terminated them early? And do you have any recommendations as to what other new actions we can recommend in terms of U.S. trade laws to help bolster the industry? You can take it each one.

Mr. DILLON. Well, I should really pass this onto Bob as wire rod product, the product that we make at Georgetown, was not covered by the 201 safeguard program. So I'm going to pass the question.

Mr. JOHNS. I think the industry dodged a huge bullet with the timing of the discontinuation of the 201. Certainly if China had not taken off at the time it did, I think it would have been a disaster. But like I said, I think we lucked out on the safeguard itself. Relative to the ... however, one of the giveaways in terminating the safeguard was what you started to get to and that is the WTO plus agreement on steel to eliminate subsidy and facilitate the elimination of subsidized capacity, particularly where it's totally inefficient. And I'd like to give Mr. Becker a statistic when I'm done with this comment, kind of backs up what he said. With the termination of the 201, in our view, this is just Nucor's view, this is not necessarily shared by everybody on the face of the earth, but the impetus for the OECD discussions to be meaningful beyond that went to zero. And immediately everybody turned their hand out, palm extended up, saying that China wants DME status. Well, nonsense. When you had growth and I'm sure when their growth has exceeded the entire U.S. capacity, they're not a factor. Brazil doesn't have an advanced steel industry. Who's kidding who here?

It's ridiculous. And then the Europeans want to be subsidized for something that we will never have a subsidy here for and that's an EPA type issue. They signed on to Kyoto. Now they want some undefined hundreds of millions that could exceed a billion dollars to subsidize signing on to Kyoto. Something that the United States didn't do. Normal business expenses, R&D, they want that, an allowable subsidy. And then they want those allowable subsidies to be excused from coverage under U.S. anti-dumping and countervailing duty orders. So this all happens after the 201. So the President had three legs on the 201 stool. One was give the industry a chance to get back on its feet, which it did and it's restructured in massive proportions. The second leg was to engage in the international discussions for this elimination and that leg is, on this stool, is gone. So while we've had a recovery and restructuring, we've had nothing happen on the backside. And that's a terrible loss because I don't think it's going to happen. The industry just fired off a letter that says the entire NAFTA region feels the same way. Canadian mills and the Mexican mills feel exactly the same. It is amazing. We've just had some people in China and I've got a couple friends that are on the ground in China working there in China, in Shanghai. You can't walk through the steel district and see the other side of the street. It's that polluted. We import a ton of steel, import a ton of pollution. The irony of this whole thing is that the infrastructure for supply is so fragile the U.S. coking coal goes to China to be turned into coke there. And now they're not going to export the coke back to the United States, which will inhibit production here while enhancing their own, regulation has basically forced closure of coke ovens in the United States. If you look at the condition of the industry at the time, it was time to reinvest in that particular end of the business, it didn't make any sense. To give you an idea of efficiency, our people just came back from touring a brand new Chinese mill; roughly the same size and product mix as our Berkeley County, South Carolina facility, which is a relatively new facility as well. It takes 15,600 people to produce 3.1 million tons of steel at this mill in China. Last year it took all of 750 Nucor employees to produce 3.2 million tons of steel in a like facility. This isn't an issue about productivity and labor costs. Our labor costs are about a third of what it costs in ocean freight to bring steel here. This is about subsidy. It's about when the banks don't collect on the loans. I'm sorry, but Wachovia collects on our loans. We don't have a choice in the matter. So it gets to a myriad of other things like that.

Vice Chairman D'AMATO. Let me ask you some follow-up, Mr. Chairman. Two things that let me ask you whether you think they would be useful. There's a debate growing now as to having exported U.S. Manufacturing Capacity Board, we ought to start talking about manufacturing American labor standards and environmental standards. Would it be useful, have you considered what would the impact be of our trying to include in our mix the cost of Chinese putting an equal environmental standards into their plants that we have in our plants?

Mr. JOHNS. I think yes, we can do that and the—
Vice Chairman D'AMATO. Can you quantify that?

Mr. JOHNS. Yeah, I think we can through the American Steel Institute and we will do that because it varies depending on whether you're an EAF operator or an integrated. But if you look at the cost of regulation, I think there was a great study put out by the NAM that took the non-currency issue to task. And steel runs pretty much along the same lines. The cost of regulation and tax differences is it exceeds a 20 percent differential in cost. It's just the cost of production.

Vice Chairman D'AMATO. Twenty percent?

Mr. JOHNS. Twenty percent. I think 22.4 percent was the precise number the NAM had. We don't disagree with that number but when we get the currency that's undervalued 56 percent, it kind of pales by comparison. What you get when you put them together, you get a doggone good picture on how efficient a lot of American industry really is. You've been soliciting suggestions. We have been working. We're trying to get some minor enhancements to the trade law, duty as a cost in an AD/CVD case. We also would like to see, Blanch Lincoln and Marion Berry have a piece of legislation in both houses now that covers the repeat dumper situation so we can expedite the procedure. It reminds the Department of Commerce that they can self-initiate, which they never do. Part of the trade-off, if you will, for the expiration of the 201 was a commitment to self-initiate. We can't even get good numbers from Customs first shot out of the box and the licensing system has bad information. How are you going to self-initiate if we can't count?

Vice Chairman D'AMATO. Real quickly, the second question I had was do you in the industry have you considered the question of whether it would be useful to attempt to put pressure on the Administration to bring a WTO case on the question of subsidization of steel by Chinese because of the loan issue and all that?

Mr. JOHNS. In a typical AD case, you have to be injured and that process takes you about a year of injury to even start to file the case. So would it come up in a case, a normal AD case, yes. If we had a surge and we felt it was dumped and we prosecuted a case, about a year later you might get a determination that that happened. I think the biggest pressure that's been put on the Administration is going to come out of what's called the Fair Currency Alliance, which is kind of a subset of the Sound Dollar Coalition. About 35, 40 trade associations retained an attorney in D.C., Collier Shannon, I'm sure you're familiar with them, to prepare a 301 petition on currency intervention by the Chinese. Chinese aren't the only one. They just happen to set the standard and of course the rest of Asia will follow.

Chairman ROBINSON. Commissioner Dreyer.

Commissioner DREYER. You have all been extremely eloquent in talking about your problems and I assume that you have been equally eloquent in complaining to people in Washington to your representatives and yet nothing has been done really to help the problems that you folks have outlined. And I wonder where you see the major obstacle. Is it that people in Congress are nodding but not doing anything? Is it that the U.S. Trade Representative, as Senator Hollings indicated earlier, doesn't seem to be doing what he's hired to do very well? Or do we have an Administration that thinks that China is some important to its foreign policy that it's

willing to sacrifice American workers and American factories to it or none of the above?

Mr. MURRAY. I'd like to take that one first. All of the above. It's simply that their priorities are way out of whack and we or I can say the steelworkers, we've spent enormous amounts of time going to different locations and we do it almost weekly trying to make a change, and I think we've got to get it out to the working people. Sometimes even those that are hurt the most tend not to believe that there's anything that can be done. They think it's all being shouted out to a deaf ear. So yes, we've got to do the groundwork, the footwork to get out there and tell our people that they have to get involved. I don't think there's any one simple solution. I know it's not going to be easy, it's not going to be easy, but it can be done and it's sad that we even have to be here as somebody said earlier. But we're here and we've just got to give it our best shot. But I don't think there's any one thing that can tell us why this horrendous situation is upon us.

Commissioner DREYER. And would Mr. Johns and Mr. Dillon agree with that? It looks like you do.

Mr. DILLON. I'd also just add some comments based on personal experience. We've had a situation in wire rod where imports have been a problem for a long time and the problem is that the remedies that are available to our industry or other industries for trade distorting practices such as what we're seeing from China right now is that, by the time you get around to providing care for the patient, the patient's dead. It's a long process. As Bob mentioned, if you file an anti-dumping suit or a countervailing duty suit, you have to prove injury, you have to prove a number of things.

Commissioner DREYER. So part of it is the time and expense of litigation, is that correct?

Mr. DILLON. Exactly. The processes available either through AD or CVD cases or Section 201 proceedings. We won a 201 case that was initiated in 1999 on wire rod for three years. We were provided relief in the form of a tariff rate quota system and this was from the previous Administration, and the relief provided for imports to continue to surge into the United States at lower prices. So it was practically no relief at all. And after we spent a lot of dollars pursuing that case in addition to seeing our problem exacerbated, we were then ineligible for the big steel 201.

Commissioner DREYER. There was a similar case in our briefing material by Goss. It's not the one you're talking about, because this one involved newsprint and dumping and by the time they won, which they did, the company was out of business.

Mr. DILLON. The other comment I'll make is that currently today there's a provision for "CDO" funds to be refunded to effected parties. And of course there's a lot of conversation about those funds no longer being available and using those funds for something else rather than the industries that have been harmed by the ... the reason those funds were collected. So I would say looking forward a continuation of the Byrd Amendment would be helpful to our industry.

Commissioner DREYER. Mr. Johns.

Mr. JOHNS. Exactly. There are several remarks I'd like to make; I just wish we had a lot of time to do it. I agree with Larry. There's some of all of the above. The frustration that you run into in Washington is that: (A) it's above somebody's grade level; (B) it's another department. We've got a business issue here. The Commerce Department says the dollar belongs to Treasury; Treasury said well, it's a narrow definition, nobody's manipulated it. What do we do? Well, doggone it; right now we've got a business issue that transcends two departments of government. And they need to get their heads together to get the problem resolved. This is above my grade level and out of my department doesn't fly. As regards to the trade case themselves, let me just draw a little example. Typically, in an AD case is more than \$50 per ton, but let's just call it 50 and let's use a company the size of Tim's, call it a million ton steel company. You got hit with 50 million dollars worth of price suppression in a year, a million bucks to pursue a trade case isn't the issue. It's the time you spend losing that 50 million dollars of revenue that puts you on the deathwatch. That's what happens here. And not only do you have to prove injury, you have to prove material injury. Beauty is in the eye of the beholder and you've got political appointments to the ITC and it depends on the philosophy of those political appointments. So you could have a slam dunk case and flat out lose it. Our system is broken and badly.

Co-Chair BECKER. If I could just make a comment on that. What's happened in past cases, after you spend the 50 million dollars and you win the case after fighting it a year, a year and a half and then they change the mix.

Mr. JOHNS. That's the repeat dumper rule, that's—

Co-Chair BECKER. They change the mix and start sending something else over and you're right back where you started.

Mr. JOHNS. On country switching?

Co-Chair BECKER. Right.

Mr. JOHNS. Very easy to do.

Chairman ROBINSON. I turn to Commissioner Bartholomew.

Commissioner BARTHOLOMEW. Thank you very much. First, I think we have an esteemed guest in our audience. Former Congressman Jim Jontz from Indiana, who was talking about these issues ten years ago maybe in Congress. So welcome. I was pleased to see you walk in. It's always disappointing to know that we're further down a bad path rather than having resolved some of these issues. But thank you for coming. Also, I wanted to just commend the Co-Chairs of this hearing for putting it together. It has in a lot of ways brought us much closer to the reality of what these problems are. It's one thing to sit in Washington and know about them. It's another to talk to people who are struggling with how to keep businesses afloat and talk to people who are dealing in their communities with very real ramifications of people losing their jobs. So thank you all for coming. And again, I wish that it were an easier situation that we were all facing, but at least we have a better sense of the reality of it. Commissioner Becker mentioned how the Chinese are buying steel mills in the United States and I would just note that a couple of years ago there was a mill in Northern California that was being sold and the workers there faced the further indignity of the fact the Chinese insisted on bringing in Chi-

nese workers to dismantle the mill so that the workers didn't even get paid for taking apart what it was that they had been doing, and the communities didn't get the tax base that those salaries would have provided. So it's sort of a package deal; that you sell your mill and you sell your jobs and you don't even get the income out of taking it apart. One of the things of course that our U.S. steel industry has been known for is the quality of its product and I want to take the questioning just a slightly different way. Cost of course is not just price. And as we face a situation where we it looks like we're going to end up importing Chinese steel, I wondered if you had any comments on the quality of what it was that we might be facing because steel of course is the backbone of everything that we build. A couple of years ago Congressman John Dingell had done an important study on fasteners, screws and bolts, I think they were, and there were some real quality concerns about what was coming out of China. I wonder if you have any sense of the quality of the products being made there?

Mr. JOHNS. I can address a lot of the long and flat rolled products. Interestingly enough, Nucor is not substantially in the rod business. Georgetown is, but there are a couple of Chinese steel companies that make decent quality products. Can they make surface quality in the shape of a coated sheet you'd be happy with on the roof of your car or the hood? No, not yet. You can buy technology globally. It's a matter of applying it. People like Baosteel are making rapid moves to improve the quality. But then there are a lot of products, for lack of a better term, call them sink in water, commodity type grades that they can make. It's not an issue and quite a lot of that is used. I think one of the textile people hit on it. You can't live on the fashion designer type of stuff. If you've got a steel mill, you've got to have a base load of some volume because you've got a billion dollar investment in a large steel plant. Something like our Berkeley, South Carolina plant. So we've got to run several million tons and we aren't going to run several million tons of automotive roofs. That just doesn't happen in the real world. So the best way to kill a steel company is attack its base volume and push it in the niche business and you will eventually kill it.

Mr. DILLON. Today the imports coming into the United States from China are really a wide variety of qualities. As Bob mentioned, a big part of our business and I tried to give you a flavor of some of the products that our steel ends up into, they're perfectly capable of making those quality levels taking that volume away from our mill and making it very difficult to operate. Even the niche businesses in the United States can be unit based businesses and volume is very important to the survival. So I don't see product coming in from China to be, let's say going into steel belted radial tires today, but I do see wire capable of making wire rope. And these are critical safety applications in some cases. So there would be some concerns there, but there's also a concern for the volumes that they make.

Commissioner BARTHOLOMEW. And since I don't really know much about your industry, when you have to shut a plant down, how long can it stay shut down before it becomes no longer viable to bring it back up and be productive again?

Mr. DILLON. Well, I think that probably varies from plant to plant. We closed our plant with the intent of restarting it. I've known mills to be down for two years and restarted. It really depends on what you're doing at that particular facility.

Mr. JOHNS. On the EAF side, electric components producers, you're going to get furnace damage and certain utility damage when you're down. On the so called integrated side which are the traditional steel producers making product from iron ore, if you shut down a blast furnace, you're going to sustain millions and millions of dollars worth of shut down damage on these type of facilities. The infrastructure breaks down pretty quickly.

Commissioner BARTHOLOMEW. And the point of that question of course was if the remedies in the trade process that have taken so long, we really need to figure out ways to speed things up so that you're not forced into a situation where if you finally get some sort of relief you're no longer viable as a company. So thank you.

Chairman ROBINSON. Thank you, Commissioner Bartholomew and we certainly already chatting about what the Commission can do to have an emergency relief mechanism, in changing the game, changing the timetable of this because this is ridiculous where the patients are dying as they wait for remedy or for a restart. We're going to take a hard look at that. That's just right off the cuff. We'll certainly have a chance to do this. Before I turn to Commissioner Mulloy, there was just a very quick intervention by our Vice Chairman on the point that was made concerning the niche industries.

Vice Chairman D'AMATO. Yes, actually, I wanted to ask. I think this is a question that I might as Georgetown. One of the industries I know I understand is in jeopardy is wire rope. And I understand the Chinese are making wire rope. Is that correct?

Mr. DILLON. Yes.

Vice Chairman D'AMATO. How many wire rope manufacturers are there left in the United States?

Mr. DILLON. There are three primary wire rope manufacturers. There's Williamsport Wire Rope, which is struggling to stay out of bankruptcy and they're about to change ownership right now. There's Wire Rope Corporation of America in Missouri and they have just gone through bankruptcy; and then there's Bridon, which is owned by a U.K. company.

Vice Chairman D'AMATO. And I understand that the Chinese are making wire rope and they're subsidizing their wire rope and they're beginning to export that to the United States?

Mr. DILLON. That's my understanding.

Vice Chairman D'AMATO. Do we use wire rope for catapults on aircraft carriers?

Mr. DILLON. Yes.

Co-Chair BECKER. There has to be a little bit of follow-up on that. When you say primary wire rope, the cable that you would use to string the Golden Gate Bridge, does that come under primary?

Mr. DILLON. I'm not sure.

Co-Chair BECKER. I've had testimony given me on a different hearing that we cannot make the wire rope to string the bridges like the Brooklyn Bridge or the Golden Gate Bridge—that's gone

from the United States. I just wanted to make that point. When you said primary wire rope.

Chairman ROBINSON. If I might turn to Commissioner Mulloy.

Commissioner MULLOY. Again, Mr. Chairman, thank you for scheduling this hearing outside of Washington, enormously important. Mr. Dillon, you mentioned the Byrd Amendment. I think it would be very important to describe what that is. It is an amendment offered by Senator Byrd enacted into law by the U.S. Congress, so it would be helpful if you told the audience, television viewers, what that was and why it was needed by the steel industry.

Mr. DILLON. The Byrd Amendment, as I understand it, is an amendment that allows for the duties that are collected as a result of trade cases resulting from unfair trade practices. The monies are then refunded to the affected parties in that particular industry. In the wire rod industry, I mentioned we have trade cases that we have won with dumping and countervailing duty margins of over three hundred percent; Brazil was over a hundred percent. \$83 million of wire rod duties have been collected since April of 2002 through the end of September 2003. We might see \$36,000 out of that collection from what has been disbursed so far, and we're probably two years away or at least a year away from seeing any disbursement over and above the \$36,000. If there was a way that we could have accessed a portion of what ultimately would be due to us if the Byrd Amendment continues, and, again, there's no assurances that that'll happen by the time these funds are due to be paid out, we might have been able to avert bankruptcy.

Commissioner MULLOY. Well, let me understand and I think it's important I do and then I'll go to currency. The Byrd Amendment was enacted by the Congress, put into law with the theory that an injury that . . . a company that's been injured by unfair trade practices, and we've heard testimony today how long it takes to get that kind of ruling, how expensive it is, you have to hire lawyers, and you finally get the relief, meanwhile you couldn't get the capital that you really needed because people don't want to invest if you're losing money, but there's a relief. The Byrd Amendment provided that the money could go to the industry so that the industry could recompensate itself for the injury it suffered. This is taken to the WTO. The WTO is stacked with people who have free trade ideology. They immediately declare what our Congress did, what the President signed into law illegal under the WTO. So, now the pressure is back on the United States that we have to repeal the Byrd Amendment, not because we want to, but because the WTO is stacked with this . . . and I'll describe one other thing. There's a seven member appellate body in the WTO who are the ultimate decisionmakers in the WTO on dispute settlements. The U.S. has one of those seven. My understanding is the U.S. representative on that appellate body, his term expired and we wanted to replace him. The Administration, instead of sending one name over, sent two names over. The WTO interviewed them both and instead of picking Bob Lighthizer, who was formerly a Deputy U.S. Trade Representative, one of the top trade lawyers in Washington, they picked someone who teaches international trade law and has a free trade ideology to put on the WTO panel. I just want people to un-

derstand what is going on here. So even though the United States wants that law in effect, it's been ruled WTO illegal. Currency, let's come back to that one more point. Part of the deal after World War II when we set up this international trading system was that tariffs, we would have a multi-lateral forum to deal with tariffs and that we would engage in mutual tariff reductions. But during the 30's it was also realized currency manipulation was a key problem in the international trade. After World War II, the IMF ... we fixed currency so people couldn't manipulate the currencies and they were supervised by the IMF. That system fell apart in the 1970's and since that time trade flows no longer drive currency values. Capital flows are driving currency values. So capital sloshes around the world and what is a one-day competitive industry because of capital movements, your exchange rate changes, and therefore you are no longer competitive in the market. I've worked on the Senate Banking Committee. We enacted into law the provision that you're talking about requiring the Treasury to identify countries that manipulate their currency to gain trade advantages and there are countries that do that. In the beginning, Treasury did identify Korea, Taiwan, and I think early on they even said China. But then for various reasons, that people lost interest in staying on top of that Treasury Department to do that. And now it's become a big issue because China pegs its currency to the dollar. Even though the dollar has declined against other currencies, it has not declined against the Chinese currency, and they gain, as you pointed out, tremendous trade advantage. But part of the deal that the American worker when we signed into these deals, what they had, you don't have this going on. That was part of the deal after World War II to create this international trading system and a key part of it has fallen off the board and we're not dealing with that problem. Would you ... I'd just like your comment. Do you agree with what I—

Mr. JOHNS. Yes, we are flat out not dealing with the problem. You've got the Japanese who are part of the problem. They intervene in currency markets to the tune of I think it was \$187 billion last year. You have something in just the four countries, a group of Taiwan, Korea, Japan, and China, about 1.3 trillion in dollar reserves in those countries. That's about, according to my new professors, who happen to be Robert Blecker at American University, and Peter Morici at the University of Maryland, these guys estimate that this is like three times any normal currency reserve based on the trade patterns with the United States. The intervention is so obvious it's painful. And then on top of that, you end up with a periodic default devaluation events that are common in South America, then Russia did the same thing. So everybody has figured out that this currency game is a wonderful thing to do to if you want to export your way out of a problem, and nobody does anything about it. That's the damnable thing about it. We don't do anything about it.

Commissioner MULLOY. Well, thank you. Those are two important points. It plays out the point, you need a national strategy. You cannot ... you can deal with all these things piecemeal, but you've got to put together a whole strategy on what you need to do on the two parts of it.

Chairman ROBINSON. I think that's a very good point, Commissioner Mulloy. Thank you. We're just about to wrap up. I would like to just turn for one last quick question to our Co-Chair for today, Commissioner Becker.

Co-Chair BECKER. Yes, and this is to Mr. Johns. The WTO has been instructed by Congress several times to keep their hands off the trade laws in the United States and a safeguard position provisions, not to bargain these, not to put them on the table at the WTO negotiations. And they promised that this wouldn't be done, but to make a long story short, it is on the table. We found out when we got to Cancun that USTR had placed our trade laws on the table to be bargained. And to me, anything that's been on the table and you bargain and our trading partners are desperate to get rid of them, something's going to happen. And I was just wondering if that gave you any pause for concern.

Mr. JOHNS. We are very nervous about that issue.

Co-Chair BECKER. Pardon?

Mr. JOHNS. We are very nervous about that whole issue. You are correct, any time it appears on the table, it's prone to be a give-away and there are a lot of industries, there are a growing number of industries that don't want to see that happen. The dilemma is if everybody played by the rules, you wouldn't need it. The problem is nobody plays by the rules.

Co-Chair BECKER. That's good. Thank you.

PANEL III: TRENDS IN TRADE AND SOUTH CAROLINA MANUFACTURING

Chairman ROBINSON. Well, I wish to again, on behalf of my fellow Commissioners and Co-Chairs of today, thank all of you for a very provocative and important set of testimony. You know that we are taking it very seriously and, you will hear back from us loud and clear on these subjects. And we're going to try to catalog an action plan. This is not a matter of, as I've said, academia. We're looking to resolve these issues fairly and forcefully with the Congress with the Executive Branch, and with the general public. So you can be sure that we're going to use all of our executive time that's been invested in this exercise wisely. So, with that, I thank you and I would ask for our third panel to gather with apologies for the delay in getting that third panel underway. If no one would object, we would like to resume today's field investigation with our third panel of the day, Trends in Trade in South Carolina Manufacturing. We're very pleased and privileged to have with us a group of panelists that are going to talk about the broader trends in the trade and manufacturing area for the State. Donna DeWitt is with us, the President of the South Carolina AFL-CIO, and she'll help us examine the needs of South Carolina's manufacturers, workers and how trade with China impacts them. Jon T. McClure, President of ISO Poly Films, Inc., will speak on South Carolina's plastics industry and how they're fairing in the China trade. And finally, Mr. Richard Dillard, Director of Public Affairs for Milliken & Company, will likewise be on this panel and address these same category of issues. So, with that, we'd like to proceed with Donna DeWitt, please.

**STATEMENT OF DONNA DEWITT
PRESIDENT, SOUTH CAROLINA AFL-CIO**

Ms. DEWITT. Thank you. Well, first of all, let me thank the Co-Chairs of the event, Co-Chair Becker and Co-Chair Robinson and all of the Commission for this opportunity. I especially would like to thank David Ohrenstein, the Executive Director of the Commission, for his professionalism and patience in dealing with us in South Carolina. I think throughout this process David began to understand that Southerners don't deal with ice crisis as well as folks from up north. So, therefore, you don't have a written statement from me and I have assured David that I will get you a written statement. It will be forthcoming. And once again, my staff is here with me today and we have been donning sweatshirts, jeans, and tennis shoes and visiting with the different candidates here in our State, and so we are delighted to be with you this afternoon and we've had a very busy schedule, and we really appreciate you being here with us. And I'm going to share the South Carolina AFL-CIO labor perspective of the economic impact of the China trade on the industrial and community base of our State. And I hope you will indulge me because I've heard some of the statements of the prior speakers and I know that you've seen many of the statements from the AFL-CIO from Secretary-Treasurer Richard Trumka speaking recently of the trade issue and also of President John Sweeny with more recent employment numbers. But I would like to talk to you as a native of South Carolina, having been born and raised here all of my life, about the impact that we see as a labor perspective. I apologize also that President Ken Riley of International Longshoremen 1422 could not be here. They changed his airline schedule. I think he would have brought a very good perspective of what's happening in our State ports. It is the most productive port in the world next only to Hong Kong. And along with my staff, Ken has taken us on a tour of the port and it was very enlightening to see what is happening through the ports of South Carolina. So I'm sure that a lot of the speakers today will have questions dealing with the numbers and I could quote you the numbers, but you know the numbers. What I'd like to do and what David sent me to talk about is the trade impact and what it's done in South Carolina, the trends. So I'd like to give you a little history since most of you are probably visiting here, and so I'd like to just tell you a little bit about the labor history from our perspective, and that is beginning in the ports of Charleston two centuries ago. The same ports that we watch the busy ports today import and export, that same port imported forty percent of the slave labor of our country. Forty percent of it came through Charleston ports. So there was a huge trade industry in those ports in the 1700's. Also in the beautiful city of Charleston, if you look around at the architecture, you'll see some of the skills of the first guilds of our country. And those guilds were formed in three of the first cities in the colonies because the artisan and the craftsman and the skillsman couldn't compete with the charges of the wages that were being charged by the slave labor, which the plantation owners would send into the city of Charleston to compete, so they formed the guilds. So we do have a very long and rich history of organized unions in South Carolina, as well as the trade industry. But then I think if you look

at the western part of our State, and I know you've heard from the manufacturers this morning, and I know that Mr. Becker, Commissioner Becker, and many of you know of the era of the 1930's. And if you've read the book *The Uprising of '34*, it's documented, of the impact of the strike of '34 and the struggles of the textile workers in our State to organize in '34, and it was here in South Carolina where seven of those workers were killed during that strike. So we do have a very long history of struggle with trade. But if you'll take the time to walk around the Statehouse grounds, you'll see the complexity of the trade here in South Carolina, as well, in the monuments as you walk. And you'll see some that still are very, very difficult to deal with on the Statehouse grounds here in South Carolina. As one legislator put it, the only thing wrong with southern men is that they eat too much rice and worship their ancestors. And it's pretty evident as you take a stroll around the Statehouse grounds, of some of the complexities that we've dealt with. However, if you'll stop just to the left of me to the Statehouse grounds, there's a beautiful monument that was erected to honor the African-American here in South Carolina, and I think we are the only State or one of very few States that has done that. It'll take you through that history of where the slave ships came in and it'll walk you through the history of South Carolina from the African-American perspective and you will see there engraved in bronze an astronaut, a Congressman, a Supreme Court justice of our State. So throughout the struggles of labor in our history, we've achieved great things, many things. So, what I would say to you today is in overcoming those struggles, we look now where are we. Where are we with trade in South Carolina and the impact on these workers? We've come so far. And the South Carolina worker is unable to invest in a stock market that's based on the profits of products that are made and produced in China. We can't do that here in South Carolina. And we look at other countries whose culture, whose work culture has remained basically unchanged for centuries, and yet we know when we look at that African-American monument, that we have been able to overcome circumstances in 200 years. And now we find ourselves dealing with a trade issue that we dealt with 200 years ago. So we feel like we've made progress in South Carolina. So we want to encourage you and we want to look at where we are and we want to say that we need to look at other countries and other nations. We need to look at China and we need to use an example of our athletes, our athletes here in our country. We need to look at how they compete globally in Olympics for a gold medal and the rules are there and they'll never change. They compete with other nations with the same rules. And we've worked hard with a free enterprise system, as well as a system that has struggled to provide safety in the workplace, an environment that protects the families, and in South Carolina we've struggled with that, as well. So, when we look at other countries, we see that countries deserve to have the respect of our country. They should be willing to assure that the same local rules apply to all of the players in a global trade environment just as they do when we compete in an Olympic sport. The rules shouldn't change. We've had to overcome many struggles as a nation and, as a state, to ignore the ability of another nation to address the impact of global

trade on its economic and social standards is unconscionable. I would just end by saying to you is there a correlation to the fact that South Carolina's ranking among women who are killed by their spouses or their partners is the highest in the Nation? Is there a correlation to what we are struggling with that we have the highest growth in the Hispanic community of any State? These are things we have to ask when we look at the evolving changes in our trade. And we ask ourselves are these things impacting our citizens in South Carolina? So I'm here to say from all of the workers, and we've heard from folks that have real expertise in steel and in textile, but as a South Carolinian and someone who's been here all her life, who has seen the changes that we've been able to make, the struggles we've overcome, the struggles we continue to make, we would ask you to look at the nations that we have trade agreements with and that we would ask that they respect what we have worked so hard for in a free enterprise system and with workers who have struggled to accomplish so much. Thank you.

Chairman ROBINSON. Thank you very much for that eloquent presentation.

Mr. McClure.

**STATEMENT OF JON T. MCCLURE
PRESIDENT AND CHIEF EXECUTIVE OFFICER, ISO POLY FILMS, INC.**

Mr. MCCLURE. Thank you. My name is Jon McClure. I'm a life-long resident of Greenville, South Carolina, in the upstate of South Carolina. I am the founder and president of ISO Poly Films in Gray Court, South Carolina, which is just south of Greenville, in a little rural town. We built a world-class facility. I risked everything I had, which at the time I started, wasn't much, but it was all I had. I built a plant that I felt I could compete with anybody in the world and I still believe that today. Although we're a small facility, we have over \$15 million in capital equipment that's been put in place in the last seven years. Of course, it pays good wages to our people that run the plant, as well as taxes to the community, and these are all things we want to do. In 1991, I traveled to Taiwan, Hong Kong, and to China long before people really started to recognize China as a real threat. I felt like I wanted to look the enemy straight in the eye because I thought they were the enemy, not that I wanted to fight them, I just wanted to size up my competition. I felt like my competitor is my enemy. There's no way to compete with a plant in China manufacturing plastic products that has a high labor component, so I built a facility that has a low labor component. I also couldn't compete with a plant where the workers are made to go to the restroom in . . . and I don't want to be too graphic here, but six inches of human waste and urine in the basement, and I personally witnessed that. I came back and I said if can manufacture a product and my labor and direct overhead is lower than the cost of freight to get it from Asia to America, I felt like I was safe and could compete in a world market. I didn't know anything about a pegged currency, and this was prior to them pegging the currency. At that time, China was a net importer of plastic resins and today they still are a net importer of plastics resins. That's a little background. My written report gets a little more specific. I'm here unofficially representing 20,000

small plastic producers in America, small and large, but primarily small producers like myself. We have seen a tremendous change in the environment just in the last few years. You would think that we're an industry that would be nothing like textiles and nothing like steel, but the economics are similar.

China is the fastest growing contributor to the plastics trade deficit. The U.S. plastic producer in general is highly efficient and automated, including ISO Poly Films. Labor is not a major component of cost. In most cases, the shipping from Asia is greater than all direct costs to produce the identical item in the U.S. Thus, it is my opinion that the data strongly proves that the U.S. plastic producer can be more than healthy and thriving on a level playing field. There's great debate, we've heard it here today, about the currency and subsidies, but if you take those away, we're healthy and we can grow and we can reinvest.

Both South Carolina and the United States Departments of Commerce tout the plastics industry as one of those growth industries, one of those industries of high-tech; they don't know what I know. It is a growth industry, but we're under the same threat as the textile industry and the steel industry's under. This is the case today, but there is an abundant amount of data available to prove that something is bad wrong and we need to address it.

Overall the U.S. plastics industry employs 1.4 million workers nationwide in 2000; another 772,000 persons are employed in the upstream and production of plastics presently and different types of additives and equipment to manufacture plastics. This is approximately 14 percent of all manufacturing jobs in the U.S.A.

There are nearly 20,000 industry establishments operated in 2002. Approximately 310 billion in shipments and another 83 billion were generated by upstream supply industries, bringing the total shipments from the plastics activity 393 billion.

We were a growth industry up until 2002 and since 2002 the industry shrunk in the U.S.A. The employment and plastics industry grew 1.7 percent per year between 1980 and 2002. The total of the plastics manufactured and plastics wholesale trade was at the same 1.7 percent a year during that period of time.

The real value added in plastic manufacturing industry moved 3.1 percent a year from 1980 to 2002, which means we were consistently getting more efficient in what we do. The value of the shipments grew by 2.9 percent.

The current situation, the U.S. plastics industry has amassed a \$14 billion trade deficit in 2002 with more than half of that shortfall coming from China. This data was gathered by Society in Plastics Industry.

This report goes on and goes a little deeper and where typical reports from the government only show actual products that are imported, the plastics report goes deeper and says, okay, a car's coming into the U.S. and it has plastic bumpers and plastic parts in it, and it was really staggering what happens. Actually, in NAFTA time period we grew. You know why? Because we're not labor intensive. The Mexican economy did not have a way to manipulate their currency or raw materials so the industry grew during that period. There are several case studies that I have listed in my written statement.

Just a few weeks ago, on January 20th, the first tariffs or the what do they call anti-dumping tariff has been put in retail plastic bags, which is the bag like you'd see in a store. Mainly what you'd see in a grocery store or a Wal-Mart.

If you look at my reports, you'll see that in 2002, the Chinese exported 29 billion bags to the U.S. for a total of \$146 million in revenue. Which is \$5.04 per thousand bags.

Do the math there and you divide it out, they sold the bags for less than the cost of my raw material. There is an income statement in my presentation. And if the labor was zero and it was produced in China and shipped to America, the cost to get it here is sixteen cents a pound. My cost to produce the same product and deliver it to my customer is sixteen cents a pound. How they are undercutting us right and left? I'm in an industry right now that's relatively healthy, but I can see what's happening in the future. We are investing a lot of our capital into technology and patents and aggressively because we don't want to happen to us what's happened to a lot of the earlier testimony.

[The statement follows:]

**Statement of Jon T. McClure
President and Chief Executive Officer, ISO Poly Films, Inc.**

Executive Summary

China is the fastest growing contributor to the plastics trade deficit. The U.S. plastics producer, in general, is highly efficient and automated. Labor is not a major component of cost. In most cases, shipping cost from Asia is greater than all direct cost to produce the identical product in the U.S. Thus, it is this author's opinion that the data strongly proves that the U.S. plastic producer would be more than healthy and thriving on a level playing field. There is great debate concerning China's exchange rate with the dollar, direct and non-direct subsidies and the effects on U.S. competitiveness with China. Below you will find my case documenting undeniable facts that something wrong is going on in China and it has nothing to do with the cost of labor in the United States as it relates to production of plastic related products.

Both the South Carolina and United States Departments of Commerce tout the plastics industry as an example of a high-tech growth industry. This is the case today; however, there is an abundance of data showing that our industry is under attack. If this is allowed to go unchecked, most small- to medium-size plastic producers will be forced out of business or forced to move offshore.

ISO Poly Films, Inc. shares the opinion presented by the Society of Plastics Industry (SPI) to the House Ways and Means Committee of October 30, 2003. Further exploration into the causes of the deterioration of the U.S. plastics trade surplus resulting in a rapidly increasing plastics trade deficit needs to be understood, especially with regard to the double-digit growth in imported Chinese products. Much of the deterioration in the plastics industry trade balance has been with China. Where it is due to deleterious domestic and international policies that have coalesced to drive plastics processors out of business or offshore and forced workers into unemployment, U.S. policymakers must undertake efforts to change these policies. If unfair trade practices are responsible, then the U.S. must use its resources to address and rectify such policies. We want to compete with the Chinese on a fair and level playing field both internationally and in our domestic marketplace.

**Plastic Industry Size
(Source: Society of Plastics Industry)**

Overall, the U.S. plastics industry employed approximately 1.4 million workers nationwide in 2002. Another 772,000 persons were employed by upstream industries that supplied the plastics industry, which brought the employment impact to 2.2 million—about 2 percent of the U.S. workforce.

The nearly 20,000 plastics industry establishments operating in 2002 generated approximately \$310 billion in shipments. Another \$83 billion was generated by upstream, supplying industries, bringing the total annual shipments from plastics activity to \$393 billion.

Rate of Growth**(Source: Society of Plastics Industry)**

Employment in the Plastics Manufacturing Industry grew 1.7 percent per year between 1980 and 2002. The total of Plastics Manufacturing and Plastics Wholesale Trade was the same, at 1.7 percent per year.

Real value added in the Plastics Manufacturing Industry grew 3.1 percent per year from 1980 to 2002. The value of shipments by this industry grew 2.9 percent per year.

The comparative growth rates suggest that productivity in Plastics Manufacturing grew about 1.2 percent per year from 1980 to 2002. This is almost equal to the productivity growth rate achieved by manufacturing as a whole.

As mentioned above, plastics industry growth rates slowed significantly in terms of shipments, employment and establishments toward the end of the 1990s and into 2002. This slowdown mirrors what happened to the rest of manufacturing as a result of various economic factors.

Over the past 22 years, plastics industry employment, real shipments and real value added grew significantly faster than manufacturing as a whole.

Current Situation**(Source: Society of Plastics Industry)**

The U.S. plastics industry amassed a \$14 billion trade deficit in contained plastics products in 2002, with more than half the total shortfall attributable to China, according to a new report from the Society of the Plastics Industry, Inc. (SPI).

Unique to the SPI report is data collected on the import and export of plastics that are contained in other products, such as automobiles, appliances, medical devices, computers and phones. Government data on the plastics industry takes into account only per se plastics, or those that are included in the plastics chapter of the Harmonized Tariff Schedule. The schedule includes some plastics products, but does not take into account plastics that are incorporated into other goods, such as automobiles and televisions.

According to the new SPI report, U.S. imports of both contained and per se plastics products grew 43.6 percent between 1997 and 2002, while exports in both categories grew only 10.7 percent in the same time period.

Data from the report also indicates that the plastics industry's per se trade surplus (not including contained plastics products) that existed through the 1990s reversed after 2000, with net exports falling 23.3 percent in 2002.

Examples of Plastics Business Lost to China**(Source: Society of Plastics Industry)**

Case 1: A plastics cutlery and housewares manufacturer lost 14% of his sales valued at \$4 million to imports from China. The imported products are being sold for less than the U.S. manufacturer's raw material cost alone. The manufacturer says he cannot understand how this is possible when the products have to be made then shipped halfway around the world. Lower-wage Chinese labor is not the issue because the manufacturing process is quite automated. This manufacturer would like to see the U.S. Government do a study to understand how his prices can be so undercut by the Chinese. To retain customers, the manufacturer has had to lower selling prices while absorbing higher prices for raw material that have resulted from high natural gas prices in the U.S. This company has taken the right steps to remain competitive and successful among U.S. and European competitors, but it is worried about the impact on his business from the increasing imports from China. The manufacturer is concerned that his lost profits means less money to invest in the company to help ensure its future and the jobs of his employees.

Case 2: A manufacturer makes Class II patented medical devices, which are registered with the FDA, and sells them internationally. He discovered that unauthorized copies of his patented products made in China were being offered for sale in Canada. For this manufacturer, the lack of enforcement of Intellectual Property Rights is his biggest concern for the long-term viability of his business because he is convinced that China is developing the capability to make and copy increasingly sophisticated products.

Case 3: A household goods manufacturer found his product for sale in Europe packaged to look like it was his, including the Made in the USA label. However, the U.S. manufacturer did not make it here or anywhere. It came from China, including the Made in the USA label!

Case 4: A packaging company, which believes that it is THE low cost producer in the U.S., lost a \$600,000 per month customer to China for whom he had already cut his price to the bone.

Case 5: A medical molder that makes proprietary stints for the medical imaging market had his product knocked off overseas for sale in less regulated markets overseas.

United States Department of Commerce Ruling
(Source: U.S. Dept. of Commerce)

On January 20, 2004, the Department of Commerce (the Department) announced its preliminary determinations in the antidumping duty investigations on imports of polyethylene retail carrier bags (PRCBs) from the People's Republic of China (PRC), Malaysia, and Thailand. We have preliminarily found that producers/exporters have sold PRCBs in the U.S. market at less than fair value, with margins ranging from 0.12 percent to 122.88 percent.

Import Statistics: In 2000 PRC exported to the United States 20,404,942,000 bags for \$107,326,789 at \$5.25 per 1,000 bags, in 2001 PRC exported 23,467,582,000 bags for \$132,696,703 at \$5.65 per 1,000 bags, in 2002 PRC exported 29,154,545,000 bags for \$146,959,406 at \$5.04 per 1,000 bags.

On average the approximate weight of 1,000 plastics bags is 12 pounds, which would give the average selling price of \$.42/lb. This is at or below U.S. raw material costs. Apart from subsidies, the Chinese producer cannot compete with the American producer. Below is an actual data showing a hypothetical USA vs. Chinese producer. As you can see without exchange rate and/or other subsidies the Chinese could not compete with the U.S. producer.

See Appendix

The Chinese importer to the U.S. is now quoting \$.60 per pound delivered to the U.S.A. on plastic film. This model clearly demonstrates that their cost savings is not in labor, but in raw material subsidies, other subsidies, and their exchange rate. For argument sake, let's conclude the only way to beat the U.S. producer is through some type of subsidies. It is our opinion that if the above model is used, even more production will be moved to China in the near term unless something is done to counterbalance these subsidies.

China's Currency Policy
(Source: Society of Plastics Industry)

China continues to follow a policy of one-way market interventions to maintain its currency at a level that economists estimate is between 15 and 40 percent undervalued. We believe that the artificially undervalued Chinese yuan is having a serious adverse impact on the competitiveness of U.S. manufactured goods and is contributing to a migration of world manufacturing capacity to China, and to an erosion of the U.S. manufacturing base. We believe that China is in violation of both its IMF and WTO obligations by manipulating its currency for trade advantage. Therefore, we think that the Treasury Department must immediately enter into negotiations with the Chinese government to successfully resolve this matter. Otherwise, China's continued maintenance of an undervalued exchange rate with the U.S. dollar will continue to promote major distortions in trade and investment, to the detriment of American companies and workers, including plastics.

China's Industrial Policies and WTO Non-Compliance
(Source: Society of Plastics Industry)

China has attracted over \$400 billion of foreign direct investment (FDI), most of it in the last six years. This compares with \$1.3 trillion for the U.S., \$497 billion for the U.K., \$482 billion for Belgium-Luxemburg, and \$480 billion for Germany. As FDI flows to China are now expanding by over \$50 billion per year, China will soon have accumulated the second largest amount of FDI in the world.

Experts have concluded that China's undervalued currency is just one of several factors behind its success in attracting massive inflows of FDI, particularly into its manufacturing sector. China has pursued industrial policies that have catalyzed its growth as a manufacturing powerhouse. The Chinese government has designated a number of "pillar industries," for which it provides preferential benefits for domestic development and foreign investment. Manufacturers in China are supported through a wide range of national industrial policies, which include: tariffs; limitations on foreign firms' access to domestic marketing channels; requirements for technology transfer by foreign investors; government selection of partners for major international joint ventures; preferential loans from state banks; privileged access to listings on national and international stock markets; tax relief; privileged access to land; and direct support for R&D from the government.

Some of these industrial practices violate China's WTO obligations. The Administration needs to engage more forcefully with the Chinese government where it violates China's commitments under the World Trade Organization (WTO).

Conclusion

ISO Poly Films, Inc. is stepping up to the challenge by continuing to innovate and further increase productivity to compete in the global marketplace.

We do not fear our global competition; we fear playing in a game that is dominated by large multinational corporations and their lobbyists to set the rules that benefit only the shareholders of their corporations. ISO Poly Films, Inc. and the U.S. plastics industry could thrive and provide good paying jobs for our citizens and a tax base for our communities, however we must have a level playing field.

It is our opinion that multinational corporations are complicit with the Chinese government's willingness to subsidize their operations in China. How long will it take for small- to medium-size businesses to follow suit? Eighty percent of Americans work for small family-owned businesses. These businesses cannot withstand the willingness of our government to stand by and allow unfair and subsidized trade to overtake the American plastics industry and other manufacturers that are the foundation of our country's economy.

Exhibit I

	USA \$ Per #	China Operation \$ Per #	
Net Sales	0.86	0.60	Exchange Rate pick up 30%
Cost Of Materials	0.52	0.32	Cost of Raw Material 40% less Subsidized Raw Materials
Materials Gross Margin	0.35	0.28	
Conversion Costs			
Direct Labor & Overhead	0.05	0.00	Assume Labor at Zero
Other Direct Costs	0.04	0.02	Assume Director cost at 3%
Depreciation Expense	0.04	0.04	Assume Equipment Cost the same as US
Total Conversion Costs	0.13	0.06	
Freight Expense	0.03	0.10	
Total Conversion & Frnt. Cost	0.16	0.16	
Total Cost Of Goods Sold	0.67	0.48	
Gross Margin	0.19	0.12	
Selling, Gen. & Adm. Expenses			
General & Administrative Exp.	0.04	0.01	
Selling Expense	0.03	0.05	
SG&A Depreciation	0.00	0.00	
Total Sell. Gen. & Admin. Exp.	0.08	0.06	
Operating Income or (Loss)	0.11	0.06	
Add Back: Depreciation Expense	0.04	0.04	
Operating Cash Flow (EBITDA)	0.15	0.10	

Chairman ROBINSON. It's a compelling story and you have a sense of pricing predator close to your heels that's already consumed entire industrial sectors of your colleagues that have testified today or is in the process of so doing. We're delighted you're staying ahead of the predator for the time, but we certainly do appreciate that it's gaining on you and something needs to be done because there's only one way it can gain and that's through unfair practices.

Mr. Dillard.

**STATEMENT OF J. RICHARD DILLARD, JR.
DIRECTOR OF PUBLIC AFFAIRS, MILLIKEN & COMPANY, IMMEDIATE
PAST CHAIRMAN, SPARTANBURG AREA CHAMBER OF COMMERCE
AND BOARD MEMBER, SOUTH CAROLINA CHAMBER OF COMMERCE**

Mr. DILLARD. Thank you. It's a pleasure to testify before you today. My name is Richard Dillard and I'm Director of Public Affairs for Milliken & Company, a large privately-held textile and chemical company headquartered in Spartanburg, South Carolina. We were founded in 1865. We are a Malcolm Baldrige National Quality Award winner. We were recently named the sixteenth best company to work for in America by *Fortune Magazine*. And, unfortunately, last year, we announced we would be closing two of our modern facilities due to markets being taken by low wage produced imports. Thus, we see trade policy is destroying not America's menial and unwanted jobs, but America's best jobs. Today Milliken still has over forty manufacturing facilities throughout the Southeastern United States. Those jobs along with others in our industry are in jeopardy. We also have manufacturing facilities in nine other countries to serve their regional markets. We make goods there to sell there.

The testimony I am presenting is the result of a collaboration of those in our company who have witnessed and experienced the devastation of unnecessary job loss, as well as those who are fully engaged in monitoring our Washington trade policy. I've worked for Milliken for twenty-eight years. During that time, I've witnessed the wealth-creating power of manufacturing jobs, for thousands of middle-income families in our company and others in our industry. I am not an economist and I can only present to you some startling observations that we see as a threat to America's manufacturing base and which are currently decimating our industry.

For the past ten years, the textile industry has been devastated by imports due to dysfunctional and irrational national trade policies.

During this period, we saw a U.S. trade policy that created NAFTA, accepted membership in and governance by the World Trade Organization, and enacted a myriad of unilateral preferential trade agreements that include almost 100 countries in Sub-Saharan Africa, the Caribbean, and Central America.

The effect has been the loss of over 900,000 jobs in the domestic textile and apparel industry and millions of additional manufacturing jobs in other sectors. You already heard the discouraging numbers and statistics today. Regardless, we are told these trade agreements are win-win propositions.

Yesterday, protectionist decried the loss of buggy-whip manufacturers with the onset of the automobile, or they believe the loss of jobs was created by the onset of advanced manufacturing technology replacing workers. They were called Ludites.

Today, we are seeing the loss of jobs not in the buggy-whip sectors, but in every sector exposed to international competition. We are losing jobs because of imports and the national policies that encourage them.

Speaking from my industry's perspective, you may have arrived today in a vehicle plush with velour seats, walked into this building on carpet, probably ate lunch on a table cloth with cloth napkins, in a room with curtains and fabric drapes, and are wearing

fabric from head to toe. In fact, demand for textile products has never been greater. And there is no logical reason we should not be doing everything we can to provide U.S. jobs and to use Americans to make these products that we use every day and will forever.

Unfortunately, for our country, the textile and apparel industries are only the canary in the mine for all of U.S. manufacturing. It is not just basic industries like steel and textiles that are losing jobs. Almost without exception we are sustaining losses across the board, high tech, low tech, capital intensive, labor intensive.

The People's Republic of China is the 800-pound gorilla on today's trade scene. China has been charged with everything from manipulating its currency and utilizing slave labor to improperly subsidizing state owned enterprises. These things and many others allow China to increase their ability to penetrate our market to the detriment of our country and its people. At Milliken, we do not blame China. China is merely doing what nations do. They act in their own self-interest. The issue before us is why are we not acting in our own national self-interest.

China with its 1.4 billion people must create one million jobs a month to have jobs for new entrants in their employment sector. It is a political imperative. According to many observers, without this necessary job creation, social and political instability will follow. That is China's problem, not ours. Surely it's not a burden U.S. manufacturing workers must bear.

When Henry Ford decided almost a hundred years ago to triple the wages of his autoworkers so that they might afford the automobiles they were making, he began the creation of the greatest market economy in the world. People that worked could buy things.

Today whether it's a running shoe made in China or an automobile made in Mexico, the offshore production worker cannot afford the item they are manufacturing. Consequently, it must be exported to another market. Usually that market is the market of first and last resort, the United States.

Were we to sacrifice all of our manufacturing jobs to China, they could theoretically absorb all fourteen million of them in a few short years. We would be left with no manufacturing, and China would still have the need to create one million jobs a month in perpetuity. We will have become a third world nation. It will be no one's fault but our own.

At Milliken we know and so does every manufacturer, that we can take any fellow human being, whether he be Chinese, Mexican, or Irish, and with proper training and equipment, he or she can produce as well as anyone else in the world with the same equipment and training. Since technology and capital can cross international boundaries with a click of a computer's mouse, we know that other human beings elsewhere can do what we can do and can do it as well as we can do it, only they can do it at a fraction of the cost.

No one is saying that we should build walls around our country and that we should stop trade. Trade is good, but only to the extent that it benefits us. Each nation must do what is in its own self-interest. Our political leaders are using free trade as a goal rather than as a strategy for economic development. China is fully capable

of becoming the workshop of the world from apparel to advanced technology products at the expense of the American worker.

No one here has the solution. However, the maddening situation is that no representative in Washington is looking for one. That is our fault, the American people. Not the politicians. Representative government is guaranteed by our Constitution. Good government is up to us. Thank you for having this hearing. I hope someone is listening.

[The statement follows:]

**Prepared Statement of J. Richard Dillard, Jr.
Director of Public Affairs, Milliken & Company
Immediate Past Chairman, Spartanburg Area Chamber of Commerce, and
Board Member, South Carolina Chamber of Commerce**

It is a pleasure to testify before the U.S.-China Economic and Security Review Commission this afternoon. My name is Richard Dillard, and I am Director of Public Affairs for Milliken & Company. Milliken is a large privately-held textile and chemical company headquartered in Spartanburg, S.C. and founded in 1865. We are a Malcolm Baldrige National Quality Award winner and recently were named the 16th Best Company in America to work for by *FORTUNE Magazine*. Unfortunately, last year, we announced we would be closing two of our modern facilities due to our markets being taken by low wage produced imports. Thus we see U.S. trade policy is destroying, not America's menial and unwanted jobs, but America's best jobs. Today Milliken still has over forty manufacturing facilities throughout the south-eastern United States. Those jobs along with others in our industry are in jeopardy. We also have manufacturing facilities in nine other countries to serve their regional markets. We make goods there to sell there.

The testimony I am presenting is the result of collaboration with those in our company who have witnessed and experienced the devastation of unnecessary job loss, as well as those who are fully engaged in monitoring our Washington trade policy. I have worked for Milliken for twenty-eight years. During that time I have witnessed the wealth-creating power of manufacturing jobs for thousands of middle-income families in our company and others in our industry. I am not an economist and can only present to you some startling observations that we see as a threat to America's manufacturing base and which are currently decimating our industry.

For the past ten years the textile industry has been devastated by imports due to dysfunctional and irrational national trade policies. Our massive job losses and numerous bankruptcies are not because the workers and executives in our industry all of a sudden forgot how to manufacture textiles. Our industries' devastation is caused by major trade policy paradigm shifts that were instituted by a government that pays more attention to capital (as a consequence of corporate-related campaign contributions) than to labor. From the beginning of time the pendulum has swung between labor and capital as to who should benefit from the value-added in a manufactured good. For decades the pendulum has been pegged at the capital end of the pendulum's swing.

During this period we saw a U.S. trade policy that created NAFTA, accepted membership in, and governance by, the World Trade Organization, and enacted a myriad of unilateral preferential trade agreements that include almost a hundred countries in Sub-Saharan Africa, the Caribbean and Central America. Most of these were negotiated and passed in a vain effort to resurrect failed third world economies and for other geopolitical reasons.

The purpose of our Nation's trade initiatives was not to develop our manufacturing base in the United States, it was otherwise. The effect has been the loss of over 900,000 jobs in the domestic textile and apparel industries and millions of additional manufacturing jobs in other sectors. You have already heard the numbers and statistics today. Regardless, we are told these trade agreements are "Win-Win" propositions.

When each and every manufacturing sector is being decimated, we are not experiencing "creative destruction." Under that theory, yesterday's jobs are replaced with other jobs further up the manufacturing and value-added food chain. Yesterday, protectionists decried the loss of buggy-whip manufacturers with the onset of the automobile. Or, they believed the loss of jobs was caused by the onset of advanced manufacturing technology replacing workers—they were called Luddites.

Today we are seeing the loss of jobs not in the buggy-whip sectors, but in every sector exposed to international competition. We are losing jobs, because of imports

and the national policies that encourage them. This includes sectors that are not in the buggy-whip categories, but in industries vital to having a diverse manufacturing and employment base, and in products that are used each and every day.

Speaking from my industry's perspective, you may have arrived today in a vehicle with plush velour seats, walked into this building on a carpet, you're sitting on upholstered chairs, probably ate lunch on a table cloth with cloth napkins, in a room with curtains and drapes, and are wearing fabric, head to toe ... in fact demand for textile products has never been greater ... and there is no logical reason we should not be doing everything we can to provide U.S. jobs and use Americans to make products that we use every day and will forever. No one is asking you to protect buggy-whip manufacturers or their workers.

Multinational corporate foreign direct investment has created massive global overcapacity in every industry. From autos, to t-shirts, to D-RAMs, the world makes more than it can consume—the victim in this environment is the unskilled worker and his company that chooses to manufacture in the developed countries.

Unfortunately for our country, the textile and apparel industries were only the 'canary in the mine' for all of U.S. manufacturing. It is not just basic industries like steel and textiles that are losing jobs. Almost without exception, we are sustaining losses across the board—high tech, low tech, capital intensive, and labor intensive. Dozens of manufacturing sectors have been decimated, both durable and non-durable.

This job loss is neither a regional phenomenon, nor one peculiar to particular States—we are losing jobs everywhere to outsourcing, offshoring, and unregulated international trade. China is fully capable of becoming the workshop of the world from apparel to advanced technology products.

So it seems the problem is not with individual U.S. manufacturing sectors or even with individual States—it is with our national trade and economic policies being decided by the Congress and the Executive Branch in Washington, DC. These policies have our country running a current account deficit of one million dollars a minute! As a society we are consuming more than we produce, and spending more than we earn. This is a prescription for disaster.

No one in Washington sees the problem, so no one is looking for a solution. After all, the safest job in America is an incumbent politician—they only lost a fraction of their jobs in the last two years. That is our fault (the American people), not the politicians. Representative government is guaranteed by our Constitution. Good government is up to us.

The People's Republic of China is the 800-pound gorilla on today's trade scene. China is being charged with everything from manipulating its currency and utilizing slave labor to improperly subsidizing state-owned enterprises. These things, and many others, allow China to increase their ability to penetrate our market to the detriment of our country and its people. At Milliken we do not blame China. China is merely doing what nations do—they act in their own self-interest. The issue before us is why we are not acting in our national self-interest?

China with its 1.4 billion people must create one million jobs a month to have jobs for the new entrants into their employment sector. It is a political imperative. According to many observers, without this necessary job creation, social and political instability would follow. That is China's problem, not ours. Surely it is not a burden the U.S. manufacturing worker must bear.

However, allowing China to insist on export-led job growth puts manufacturing in this country in peril. Under the guise of trade liberalization, our government has allowed China to continue on this path and seems willing to let our consumer market decide whether manufacturing stays in this country or not.

We did not let the market decide whether we would go to the moon—no, we assured it when we created NASA. We did not let the market decide whether we would have the greatest housing industry in the world—no, we gave mortgage interest tax deductions and assured it. Nor did we let the market decide whether we would be able to feed ourselves and a good part of the world—no we subsidized our agriculture.

When Henry Ford decided almost a hundred years ago to triple the wages of his autoworkers so that they might afford the automobiles they were making, he began the creation of the greatest market economy in the world. People that worked could buy things. They might even make enough to buy things that they did not need for their survival. This is called discretionary income. There is precious little discretionary income in today's economy, unless 'discretionary' has come to mean 'buying on credit.' Today being rich is having credit, not wealth. We are frittering our wealth away at an alarming rate because we are not creating it among the majority of our people.

Today globalization is starting to disintegrate for the simple reason that the people producing the goods cannot afford to buy them. Whether it is a running shoe made in China or an automobile made in Mexico, the offshore production worker cannot afford the item they are manufacturing. Consequently, it must be exported to another market—usually the market of first and last resort is the United States. The U.S., after all, had become the greatest consumer market in the world, which in earlier more robust times drove the greatest manufacturing base in the world. We are now in decline and decay.

Today, with globalization, no developing country can triple its wages so that its workers can become consumers. Name-brand marketers, retailers, and offshore producers will leave and go to another low-wage developing country flavor-of-the-month in a nanosecond.

Last year, the Dominican Republic lowered its minimum wage from \$150 a month, to \$100 a month—just so that they could remain in the hemispheric apparel manufacturing business. This is called the race to the bottom. Examples abound. Mexico is losing jobs to China too. Their wages are already too high to compete. The fifty or sixty countries who gain from textile and apparel exports today, will be reduced to five or ten tomorrow. Devastation of entire national economies will result. There will be no more Henry Fords tripling their workers wages so that they can become consumers.

The United States, a first world country with naive notions of global trade, is hemorrhaging excellent jobs at an alarming rate. However, the jobs we are creating do not pay as well, nor do they provide retirement and health care plans (the Clinton Administration created 23 million jobs in eight years, but not one net new job was created in an industry subject to international competition). As a result, we are not creating jobs in industries subject to international competition—namely manufacturing. There are no service economies with a quarter of a billion people who can maintain the role as ‘sole remaining superpower.’

Were we to sacrifice all of our manufacturing jobs to China, they could theoretically absorb all 14,000,000 of them in a few short years. We would be left with no manufacturing, and China would still have their need to create a million jobs a month in perpetuity. We will have become a third world nation. It will be no ones fault but our own.

Our problem rests with our elected officials. Our Constitution (through the genius of our Founding Fathers) gives the power to Congress (that branch of government created and designed to be closest to the people) to ‘regulate foreign commerce’ [Article I, Section 8, Clauses 1 & 3]. The people, through the election process, would guide Congress in this endeavor. In theory, our Founding Fathers felt the evil to be remedied was the king trading away the riches of the realm for purposes other than the good of the people.

Unfortunately for us, our children, and grandchildren, thirty years ago Congress started delegating their constitutional prerogative to the Executive Branch (the king) with Fast Track and Trade Promotion Authority (TPA). During that period this Nation went from the largest creditor nation in the world, to its largest debtor nation. Now our foreign debt is so great the value of our dollar is crashing and foreigners are taking ownership of our land, companies and Treasury bonds. Interest rates will start to rise as a consequence of our lenders’ increased risk, and the last bubble will burst—the debt bubble.

American triumphalism and hubris are also to blame. The notion of being the ‘sole remaining superpower’ has gone to our policymakers’ heads. There is this notion that the American working man and woman can outproduce anyone in the world. That somehow we are either genetically predisposed, or are preordained by God, to maintain this lofty role. At Milliken we harbor no such illusions.

At Milliken we know, and so does every manufacturer—that we can take any fellow human being (whether he or she is Chinese, Mexican, or Irish) and with the proper training and equipment, he or she can produce as well as anyone else in the world with the same equipment and training. Since technology and capital can cross international boundaries with the click of a computer’s mouse, we know that other human beings elsewhere can do what we can do, and as well as we can do it—only they can do it at a fraction of the cost.

We also know there is very little made in America that cannot be made cheaper elsewhere. China has 1.4 billion human beings. Tens of millions of them are disciplined, adequately educated, and willing and able to work for rock bottom wages that cannot be matched in the West for good and sufficient reasons. If India, China, Cambodia, and Vietnam only train a fraction of their people, they can take every worthwhile job in this country. There are after all, well over two billion people in the world that live on two to three dollars a day. We either decide to protect what we have, or reconcile ourselves (and our children and grandchildren) to losing it.

It is imperative that we protect our jobs, the manufacturing base, and our middle class, or we will become a nation divided. We will have those who have a college degree of some kind (about one-third of our population), and we will have those that do not have advanced degrees. It is incredible that Washington, in a democratic republic, seems willing to create an underclass of the two-thirds of the American workforce that are classified as unskilled workers. One must remember that free trade pits the unskilled workers of one nation against all the unskilled workers in the rest of the world. The U.S. 'unskilled' worker cannot win that competition. We are a first world nation and there is no going back without social and economic chaos. We will remain a first world nation only so long as we are willing to keep and defend it.

At Milliken we know this Nation became great by the sacrifice, blood, sweat and tears of many earlier generations of Americans. We believed in independence, not interdependence; managed and regulated trade, not free trade; in sacrifice now for future rewards, not instant gratification on credit. We believed in the importance of creating a stable middle class. Great men, not financiers, decided our Nation's future course.

The middle class is a buffer between the poor and the rich—something no third world nation has. Our economy, at one time, sustained a \$65,000 a year autoworker that could support his family, buy a house and a car, and could even pay to send his kids to college (and if his wife would agree, might even buy a mountain cabin). He did this with a high school degree (you will recall that two-thirds of our workforce has less than a college degree of any kind. This has not changed in half a century which indicates that this will not necessarily change tomorrow or in our lifetimes). We either find, create, or preserve jobs that can provide a middle class income for the majority of America with less than a college degree or, as my daughters would say, "This Nation is toast."

We are not better off when major automakers went from being the largest domestic employers in America to being the largest domestic employers in Mexico. Wal-Mart, with 1.4 million workers is now our largest domestic employer. This is an example of what happens if you take the needs of the consumer—rather than the needs of the Nation—to its absurd conclusion.

No one is saying that we should build walls around our country and that we stop trade. Trade is good, but only to the extent that it benefits us. Each nation must do what is in its own self-interest. If the purpose of our economy is to enrich our people and to give stability to our society, then a radical shift in course is warranted. We, and our market, have become a playground for multinational corporations of suspect national loyalties. Our political leaders are using free trade as a goal, rather than as a strategy for economic development. The politicians are owned by the multinationals that have not generated net employment growth in this country in decades. China is only their low-wage flavor at the moment. China is a symptom of our national problem, not the cause.

There are other options available to be studied. Warren Buffett has one whereby we could only import goods to the extent that we export goods. Buffett, who is buying foreign currencies for the first time in his life, knows that we cannot sustain half trillion dollar annual current account deficits. He says you only buy foreign currencies when you think yours will collapse.

Sir James Goldsmith suggested that the United States should invite any company that wished to sell goods here, to become a corporate citizen of America. The company could bring its capital, its technology, build U.S. facilities, hire Americans at American wages, pay U.S. taxes and compete on the only level playing field that exists—that which exists among the several States, the largest market in the world. Their level playing field would have the same exchange rate; the same environmental law; the same labor law; the same safety regulations; and, the same taxes and social welfare safety net for its workers. To think that we can create a level playing field on a global scale is Utopian at best and absurd at worst.

No one here has the solution. However the maddening situation is that no Representative in Washington is looking for one. Thank you for having this hearing. I hope someone is listening.

Chairman ROBINSON. We are listening and I agree that our political leaders tend to look at free trade as a goal and not a strategy. I think that particularly resonates among the Commissioners. With that, we'd like to take advantage of the question period at this stage and, in that respect; I'd like to move first to the Co-Chairman of today's hearing, Commissioner Becker. And we'd like to also stay

disciplined, if we may, at the five minute rule as we are still a little bit behind and we'd like to move through, if we could.

Panel III: Discussion, Questions and Answers

Co-Chair BECKER. In addition to the two possible solutions that you mentioned in your written testimony here, Warren Buffet said that we should only import goods to the extent that we export goods, and Sir James Goldsmith suggested that the United States should invite any company that wished to sell goods here to become a corporate citizen, bring its capital, its technology, its expertise, hire Americans, build plants in America, hire American workers, and you don't have an exchange difficulty or anything else. You quoted two people. Are these suggestions from yourself? This is what you projected yourself?

Mr. DILLARD. Certainly, these are parts of what we would call managed trade philosophies.

Co-Chair BECKER. I was going through the ATMI, that's an acronym I had to learn rather recently, in which they suggested rather strongly as a matter of fact in their written material that Congress must negotiate effective and comprehensive trade laws, new ones, with all of our trading partners. And absent that, if they can't do that, then stringent quotas have to be applied. Is this something that you would agree with?

Mr. DILLARD. Yes, sir.

Co-Chair BECKER. You would agree with that?

Mr. DILLARD. Yes, sir.

Co-Chair BECKER. I—

Mr. DILLARD. We see the problem from our perspective with the quotas is that as long as they can ship as much as they want to us with no restrictions, at the prices that they can produce it, that it will devastate certainly the industry that I'm in. You probably heard some of that this morning from the other panel.

Co-Chair BECKER. Many other people believe that too. I was just wondering where Milliken came down—

Mr. DILLARD. Yes, sir.

Co-Chair BECKER. —on this. When you were talking about China being the 800-pound gorilla; in South Carolina, Milliken is the 800-pound gorilla when it comes to textiles. There's another recommendation that they made at the ATMI was that we stringently reject—what they call the fatally flawed CAFTA agreement and that we be very concerned with trans-national shipments into any trade, any country in which we have trade relationship with, which would be virtually everybody. And if we included FTAA, it will include the whole Western Hemisphere that would come into this. Are these causes for concern with you or do you—

Mr. DILLARD. Yes, sir. Yes, sir.

Co-Chair BECKER. —subscribe to this yourself?

Mr. DILLARD. Yes, sir. CAFTA, any extension of or creation of any more NAFTA type agreements in which we're thrown into other economies that are at a significantly lower standard of living, at least from where I sit, and, again, I say I'm not an economist, but as I see it, we subject ourselves to a harmonization of our wage rates in this country when we're thrown into economies with a lower standard of living than we have. Certainly the effect would

be a harmonization whereby they come up, but at the same time we're going to be lowering our standard of living.

Co-Chair BECKER. Well, that's consistent with other recommendations that we have. I just wanted to see where you all fell. Lastly, and you may have heard me ask this question of the Nucor representative about our trade laws, including our safeguard provisions, are now on the table for negotiations with other countries through the USTR through the WTO and if this gives you pause or concern with the United States at least bargaining, willingness to bargain our trade laws, how do you feel about that?

Mr. DILLARD. Well, I think the conversation previously in which you said that ... I recall you talking about the WTO coming into play and putting our trade laws intended to benefit us in jeopardy through that body is a tremendous concern for us. We also agree that the safeguards for China that were put in place as a tenant of them joining the World Trade Organization, have to be preserved because severe market disruption, at least in the business that we're in, will result, and we'll see a complete wiping out of our domestic textile industry if those safeguards are not used.

Co-Chair BECKER. And lastly, if you have any suggestions, any ideas, that at least haven't been brought forward up to this point, concerning the termination of the multi-fiber agreement at the end of this year, December 31st, if there's a way to preserve that or any suggestions or ideas you have in that regard.

Mr. DILLARD. I don't know that I'm prepared to present any additional—I wasn't here for the morning sessions, so to provide any input on that, other than it should go forward and that in addition I don't know if it was brought up this morning. But certainly we feel that we should continue a strengthening of our Buy American laws for our defense system. We should certainly even extend that to Buy American for the Department of Homeland Security.

Co-Chair BECKER. Let me rephrase that a little bit. How disastrous would it be for Milliken if the multi-fiber agreement is allowed to terminate at the end of this year?

Mr. DILLARD. With all due respect, Milliken being a privately-held company, I would prefer to not speak specifically on those issues, as far as direct impact on Milliken.

Co-Chair BECKER. Fair enough. Does anyone else have any thoughts on any of these points?

Mr. MCCLURE. What I would do about the WTO?

Co-Chair BECKER. Pardon?

Mr. MCCLURE. Suggestion on what I would do about the WTO?

Co-Chair BECKER. I'm saying either one of the ... Mr. McClure—

Mr. MCCLURE. I would suggest for us to put the sovereignty in our Nation under the third world and have the courts (inaudible). And we should not have to take a negotiation from anyone. Remedies. We talked about the dumping lawsuit. A group of about ten, twelve of our industry went and did this, companies that banded together, and it took two million dollars just to find a lawyer and another two million to take it through. So it's very expensive, backwards. If I was breaking into your house, I'd call the Sheriff, the Sheriff would come. I caught you; I'd hold you there with my gun and I'd say, "He broke into my house. Arrest him." They'd arrest

him. They'd take him to jail. I wouldn't have to hire a prosecutor. They'd file the case; you've got a case. Broke into his house, put him in jail. It's that simple. That's the way America used to work. Why doesn't it work that way in trade?

Co-Chair BECKER. Exactly and—

Ms. DEWITT. Excuse me, Mr. Chairman, I think it's evidenced to all of us that we have come to the point where organized labor can sit down with Milliken and sit down with the business community and say that we're not happy with the trade agreements that we have. We see the impact on our workers; we see the impact on our companies and we feel from the South Carolina AFL-CIO perspective that these trade agreements need to all be reexamined; we need to look at them closely; we need new trade agreements that will be fair trade, so that we can address the concerns that we all have. I lobby these halls and have done so probably twenty-five years, and I think in the last couple of years is the first time that we have been able to come together to say things are not working, these trade agreements are not working, so I think that's evidence and that we need new trade agreements and we need to make sure they are fair trade agreements. So I think that's the statement that's coming from every community.

Mr. DILLARD. Commissioner Becker, if I could qualify my statement. I didn't mean to say I didn't want to answer your question. But as far as Milliken specific, I would say that certainly what impacts one company in our industry impacts all companies in our industry. And we would certainly oppose any weakening of any laws that prevent the U.S. Government from counteracting unfair trade practices that would have a devastating impact on our industry.

Chairman ROBINSON. Commissioner D'Amato, Vice Chairman D'Amato.

Vice Chairman D'AMATO. Thank you very much for your testimony, all three of you. I do have a quick question for Ms. DeWitt and I just wonder if you have . . . if you compile data in South Carolina, specific data, as to the impact of the China trade on South Carolina, both from the point of view of the impact as a result of import competition and the impact as a result of outsourcing. It would be useful for us to have that specific data if you've developed that.

Ms. DEWITT. I'm sorry; I don't have it with me.

Vice Chairman D'AMATO. Not with you, but if you developed it, we'd like to get it.

Ms. DEWITT. Yes, I'm sure I can get that for you and I'm going to . . . perhaps Mr. Raynor may have had that this morning when he testified. But I will, and I'm sure that maybe David can follow up with that, and I will try to get that for you.

Vice Chairman D'AMATO. Yes, and in addition, we'd like to know how the situation in regard to that impact changed after it got into the WTO. In other words, trying to get an assessment as to what the impact of their membership did in the WTO in terms of the overall numbers.

Ms. DEWITT. And let me say that I have had a study done by the State Workforce Investment Board and as most of you know that when there is a plant closing or downsizing, the Warren Act, you know, leaves a trace that you can find those workers. Unfortu-

nately, if it's fifty workers or less, or one-third of the workforce, those workers fall below a radar screen, so I've had the State Workforce Investment Board compile a list. I don't have it with me, but I'll probably be able to get that data. And what they did for us was look at those that have put in for trade—the TAA and if they have been approved and so we have staggering numbers of small businesses of fifty or less. I was amazed at the number of small businesses, so I will follow up on that. We are researching it from the State Workforce Investment Board.

Vice Chairman D'AMATO. Thank you.

Chairman ROBINSON. Thank you. Commissioner Dreyer.

Commissioner DREYER. I was interested in the statement that no representative in Washington seems to be looking for a solution, since certainly your Senators were very passionate this morning on solutions. And I am just wondering are you feeling you're up against perhaps other States with other concerns whose representatives have other interests, such as selling as much wheat as they can? Let's say, they're from North Dakota or somewhere like that. Is that the problem? Does one interest group cancel out another? Ms. DeWitt, you said you lobbied the halls here for some time. I assume someone is lobbying the offices, working the halls in the Capitol. What sort of feedback are you getting? Is it that other States' interests that are crowding yours out or what? That's a question for everybody.

Mr. DILLARD. I would say I would qualify that statement that I made with, "until today," certainly you are seeking a solution here and we appreciate that. In terms of representatives in Washington that don't seem to be looking for the solution, the numbers seem to speak for themselves. We continue to hear of the tremendous loss of jobs across the board in all of manufacturing. However, there doesn't seem to be a serious effort to remedy the situation with any real long-term solutions. We hear a lot of talk about it, but still as we talk, here in South Carolina we saw the loss of 41,000 jobs last year. We see looming on the horizon in 2005 as all quotas come off on Chinese products, textile and apparel coming into the U.S., the possibility of wiping out our entire industry here in this country, 680,000 jobs wiped out simply because, at this point, we haven't seen any clear indication that anything is going to be done about that. The fact that we allowed China to come into the WTO at the very end of the ten year phase-in of the agreement and, in doing that, didn't give them the same ten years of phase-in that all the other countries that were part of that agreement had to abide by, again says that we're not looking out after our own self interests.

Commissioner DREYER. Is it that your representatives are not looking out for your self-interests? That's what I'm trying to get at. You were describing a situation here in which something is very clearly wrong with the system and this reminds me by analogy of something someone has just gone out and killed somebody and there's no question that this individual did it, and so we then get into an excuse mentality: "Well, he watched too much television when he was a child or he ate too many Twinkies," and so it isn't the perpetrator who is to blame, it's the system. I hear you saying

it's the system, but the system here has points you can work on and that's what I'm trying to get to.

Mr. DILLARD. Exactly. And certainly, the two champions that you heard from, I didn't hear their remarks, but I happen to know they are champions of the issue we're discussing today. Senator Hollings and Senator Graham are certainly seeking solutions. There are representatives, and I'm not going to get into today specifics and names of those, but I will say that in a State that has been . . . that has had textiles, the industry that I'm in, as a backbone almost since its beginning, for the representatives of that State, all of them, not to be tap dancing on the Administration's desk saying, "We've got a problem here; we're losing our workforce in South Carolina," that tells me that they all are not seeking solutions. And they should be doing that because we're seeing the erosion of our entire manufacturing base, not just textiles, and we're seeing it at a rapid pace and the problem is off-shoring where we create policies that encourage companies—if they can't compete with imports coming in, then to relocate operations over in China, and produce those goods really cheaply and then ship them back to the U.S. at a fraction of what we can produce them for.

Commissioner DREYER. And there's no hope of voting these people out of office if they're not—

Mr. DILLARD. Well, there's hope.

Ms. DEWITT. And I would like to address that as well. I'm so glad that Mr. Dillard spoke to the testimony you had this morning because surely we have had some champions on this issue in South Carolina and it may be indicative of the State and the particular industry. And I think it's only recently, and I think you'll agree with me on this, Mr. McClure and Mr. Dillard, that we had very strong support for fighting the trade issue in past . . . well, in '92. However, it's been recently, more recently and in recent votes that we've seen a more, and I'm just going to say more partisan trend, a more partisan trend. I can say that. You folks may not be able to say that. I can say that. It's more of a partisan trend in our State with some of our elected officials and I don't believe they are actually voting their conscience. I see that in the Statehouse everyday. They come up to me, "I really would like to help you," but I know how they're going to vote on an issue. And a lot of these issues do impact the working issues of our State. I wish that we could work together on all issues as we are working on the trade issue. But we have really had some champions on this issue in South Carolina. And I see it becoming more and more of a partisan issue.

Chairman ROBINSON. If I may, Commissioner Bartholomew.

Commissioner BARTHOLOMEW. Just actually one quick statement. I thank all of our witnesses for appearing today and also for the work that they are doing in their communities. I wasn't going to make this statement, but I'm going to take Commissioner Dreyer's questions, and I think that one of the answers is that the policy is being shaped by the campaign contributions of multi-national corporations and special interests and their interests are not surprisingly their own. We shouldn't expect anything different. But their interest is not necessarily the national interest or in the interest of the communities that you all are working in. I think that

it's really important and would implore that people hold their elected leaders accountable for the differences between what they say and how they pass their votes.

Mr. McCLURE. I'll add something to your comment. I serve on two industry boards and this topic has become very hot. One industry board more than the other, but they're both plastic industry boards. Typically these boards have larger multi-national type company representatives on the board. One trade group, fifty percent of the dues come from multi-national companies. The other one, it's a third, a third, a third, so we have processors, equipment manufacturers and suppliers of the resin, which the resin supplies are typically the multi-national corporations. In a recent meeting, and I won't specifically say who, we were discussing how to come out with a trade policy. One of the multi-national representatives said, and I quote, "I don't give a damn about China. I've got a plant in China. I can't compete here; I'll move to China." So that's the attitude we are up against. Now the Chinese they know how to work the system and whether it's the Presidential campaign here, he's right on track. He's right on the economy. That's the leader who I'm talking about, he's right on the economy. And the new economy has all the answers. Our Governor in South Carolina is very good in my opinion. I think he is doing a super job, people may disagree with me, but he talks about the new economy. Well, that's fine, that's a generation away. Right now, we're going broke. This State is taking in approximately \$900 million less in tax revenue this year than three years ago. If that's not telling you something's bad wrong that 65,000 people have lost their jobs, and I'm just saying I'm on the list of the next industry that China's going to take ... knock off, but it's not just China. It's going to be wherever.

Chairman ROBINSON. Thank you. Commissioner Reinsch.

Commissioner REINSCH. Well, having missed your testimony, for which I apologize, I had a conference call, it wouldn't be prudent to ask questions, and I was going to pass, but I did want to make one comment based on something that Commissioner Dreyer said. I can't resist. The fact that you haven't won doesn't mean that it's a flawed system. It could just mean you haven't won. And I think one of the things that I'm thinking about here is that this is a democratic system; Congress votes on these things. These issues do come before Congress and before the legislature, and I know everybody does the best they can to make sure their side prevails. I think there's no question that your side hasn't prevailed. We got into extended discussions on that this morning. But I wouldn't agree that that means there's something wrong with the system. What it means is you don't have enough votes. And, there's some things you can do to get some more votes, but I wouldn't argue that it's a systemic fault. Thank you, Mr. Chairman.

Chairman ROBINSON. Thank you. Commissioner Mulloy.

Commissioner MULLOY. Mr. Dillard, your testimony was a really nice piece of work. You identified one flaw in the system, fast track. We began doing this thirty years ago. The Congress gives the President the right to negotiate these trade agreements. And Congress only gets an up or down vote. They can't change them in any way. What this means—remember the fellow that came in here and talked about captive before—the little provision that was stuck

in there. Somebody worked on somebody in the Administration to stick that in the agreement and all the other people who will have something they want in that agreement, like Citibank, if they want services, they lobby to get the agreement regardless of the fact of what it's doing to your textile guys, and there's no way for Congress, they can only vote up or down. They can't amend it. This is a new phenomenon. It went into law thirty years ago and as you graphically point out, at the time this went into law, we weren't running these massive trade deficit. Thirty years later, we got a \$500 billion trade deficit. That's one thing. Secondly, well, how did the European Union, they started with six countries and now they have fifteen. But when they were going to bring in countries they started with France, Germany, and then when they brought in Portugal, they didn't bring them in immediately. They phased them in because they said you, Portugal, have a lower standard of living; they put restrictions. Portugal had to update its trade laws, had to increase its wages, and phased them in so it wasn't such a shock to the system. Look what we've done in this country. We've gone into a worldwide trading system, globalized, without any kinds of protections like that. Nobody has labor laws like we do. Nobody has environmental standards. So we've thrown this thing wide open for a race to the bottom. That is what is going on here. And I'm urging you to please work on your Congressmen and Representatives. But I think this has to be a debate at the national level and it will only come when the people of the country begin to understand what is going on and insist that it be changed. And we have to have a national strategy to do it. This isn't just one little thing. You've got to have a different perspective. I'm saying that our national interests, our national standard of living, our people, matter, and they have to be taking account of how we're doing the system. And so I really appreciate what you're doing here and your testimony and I'm a true believer that this cannot go on; we've got to change it. I thank you for what you've done. You helped me realize that what I've been thinking and how this was working and my observations over the number of years have a foundation in reality in what is happening to the country at large. Thank you.

Mr. MCCLURE. When I read about the U.S. China Commission a number of years ago and read its first report, I carried the report to my Congressman and met him in Washington and sat down. "Have you ever heard of this report?" And he said, "No." And I said, "You better read it." "You better read it." And he has and I think he's a strong supporter of workers in this State. I just wish we could get more like that.

Commissioner MULLOY. Another thing you mentioned in your testimony was you read a book called Sir James Goldsmith's, *The Trap*. What he said is you can have free trade between the United States and you; you can have free trade between the U.S. and Canada. Because there are similar standards of living and similar environmental, other things. He said what you have to do, you can't throw it into a WTO where everybody's equal. You've got to bring in these other people more gradually, the same way the Europeans brought in the countries like Portugal that didn't fit in at first. They made them step up. And we've done exactly the opposite of what Europeans did when they were creating the European Union

when we created the WTO. There is an outline that he says how to work this thing. I don't know if it's right or wrong—

Mr. DILLARD. Right.

Commissioner MULLOY. —but at least it's worth thinking about.

Mr. DILLARD. It is and certainly "*The Trap*," the book, was written many years ago, I guess. I think Sir James Goldsmith was a member of the European Parliament.

Commissioner MULLOY. European Parliament?

Mr. DILLARD. He was previously a businessman. The interesting thing that I would point out is that Roger Milliken brought the book to my attention about ten years ago in 1994, I guess it was. He sent it to a number of people in our company just urging them to read it. Sir James provided copies to everyone because he believed, as Mr. Milliken did, in similar philosophies, I guess. And I have the letter that Mr. Milliken sent with it in '94, but it tells me that he was thinking about this back then and urged us to read the first section on the General Agreement on Tariffs and Trade, GATT. And I was just scanning through that last night just for the heck of it. And it's amazing, really amazing, what Sir James Goldsmith predicts will happen, which is happening right now, and at that time the Internet was just really beginning, but he talks about the transfer of capital that will cause severe worldwide economic disruption because you can transfer at the stroke of a button at that time, it didn't talk of a computer mouse, but he speaks of what will happen when you are able to take your what we would call comparative advantage and then move labor and manufacturing to another country and then ship goods back to our market and, therefore, giving that country absolute advantage rather than comparative advantage.

Commissioner MULLOY. Right, but let me just . . . I wanted to ask one last thing. I think you all, and Mr. Dillard in particular, you said China's not an enemy and I agree with that. They have a national strategy. They had 150 years of being down. They were once a great civilization and they fell down and had a very bad period. They want to . . . they're hungry. They want to assume and they have a national strategy of how to do it. And we think it nothing that it can't happen to us; we can't run down the hill. But if you really watch what is going on in economic statistics, what really is happening is we are going down the hill. So, I'm not an enemy of China. I just think we ought to be looking out for ourselves and figuring out how to do it.

Mr. McCLURE. Well, I didn't say they weren't the enemy. I said they weren't the problem.

Commissioner MULLOY. Yes.

Mr. DILLARD. I said they were an enemy as a competitor.

Chairman ROBINSON. Well, unfortunately, our time for this panel has concluded. It's a shame because there's so much more that we would value going over with you, but we thank you very much for your participation and I think you can tell by the animated nature of the questions that this was not falling on deaf ears.

Mr. DILLARD. Can I make one last point?

Chairman ROBINSON. Please.

Mr. DILLARD. Is it out of order?

Chairman ROBINSON. No.

Mr. DILLARD. Something that kind of popped into my head that I had seen and you received information from this gentleman, Charles McMillion, some data about South Carolina.

Commissioner MULLOY. Yes.

Mr. DILLARD. But Charles is an economist and he uses the U.S. Bureau of Labor Statistics for his information, but he pointed out to me that in a normal recovery, economic recovery, which we say we're in, twenty-five months into that normal economic recovery, that we should have added six percent jobs during that period of time from the bottom trough of that recovery, which would equate to almost eight million jobs, 7.8, I think, million jobs. Instead in that period of time we've lost an additional million jobs. So, it certainly proves something is out of kilter in terms of the off-shoring problem.

PANEL IV: COMMUNITY IMPACT

Chairman ROBINSON. We certainly agree that that's the case and we thank you all again and we would ask if our fourth panel panelists would come forward on community impact. Again, with apologies for the delay in your starting time. Well, as you have already been very indulgent of us and we, again, apologize for the delay in getting to our fourth panel on community impact. We would like to begin if you're willing. In this panel we have with us, Jack Hutchison who is economic development coordinator for the Georgetown County Economic Development Commission. Evans Tindal, director of operation of Cheraw Yarns Mill, and State Senator, Larry Martin. And Senator, I think your position indicates that we would like very much to hear from you first.

STATEMENT OF LARRY MARTIN A STATE SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator MARTIN. Well, thank you very much. That certainly wasn't necessary, but I'm very honored and, Mr. Chairman, I appreciate it so much. One thing I've been thinking about as I observe the Commission today is how hard the job that you have to sit and listen, to be attentive, and I can tell you that I've observed and participated in a lot of public hearings in my time and you have done that very, very well—listening and watching and being attentive and asking very, very good questions. On behalf of the people of South Carolina, we appreciate you being here today. I think I'm the only seated Member of the legislature that's actually testifying, but Senator Graham was a Member of the legislature back a number of years ago before he got elected to U.S. Congress and did a good job, and I actually served in the Statehouse. Not with him, but served here. A matter of fact, in this room was the first hearing that I attended a number of years ago. But in the 25 years or so that I've been associated with State government—I'm one of those folks that Ms. Dewitt has lobbied over the years here in Columbia—I've never seen anything like what's going on in our communities. When we talk about community impact and how it's affected us and I'm sure that my fellow presenters here from the low country—I'm from the up country up near Pickens and near Clemson, for those of you that follow the Tigers when we play football, not so good basketball, but we're coming, we'll get there. In

any event, from one end of the State to the other, South Carolina has had and enjoyed a very diversified economy. We're talking a lot about textiles. I've worked all my adult life in the textile industry. When I'm not participating in public service, that's where I earn my livelihood. But I can tell you, Mr. Chairman, Members of the Commission, that there is a very diverse economy in South Carolina or has been and it has been primarily in the manufacturing business. When you hear reference to the new economy, we've had a lot of manufacturing facilities come in from all different parts of the world. Literally, from around the world, come into South Carolina and we've been a very good place to do business. When Senator Hollings spoke this morning there was mention made about the technical college system in South Carolina. That's something that he began back in the early 60's, 40 years ago, and I can tell you that that has been the catalyst on which South Carolina has moved forward and has really developed a very diverse economy and a high percentage of our workforce, as a result, work in manufacturing. Governor Hollings has spent a lot of time, our general assembly has spent a lot of effort in passing legislation, promoting legislation, to bring in economic development, to bring in jobs, and we've had that. The problem is today we've seen across the board the type of impact. The textile industry has been adversely affected, but so have a number of other businesses. A gentleman spoke earlier from Laurens County. He hit the nail on the head. He feels like he's going to be next and he has good reason to believe that, but let me tell you what the result is and the impact on our communities. Each job loss in South Carolina is a direct result of a \$2,100 loss in revenue for State and local governments. We've lost 10,000—you've heard the job loss, I won't go through all that. But it's unprecedented for South Carolina, and this is what I'm talking about from my experience. I remember the early '80 recession of '81, '82, somewhere along in there, the late 80's, early 90's, and then we had the long run of the 90's. We've never seen anything like this where we had back-to-back consecutive years of static or less economic activity in terms of general fund revenue from one year to the next. We actually lost money and I can tell you that it's impacted us in a variety of ways. I'm sure these gentlemen will talk about how it's impacted Main Street. We've seen that in the community I'm from in Pickens. We lost a textile plant that had been there for years, the largest employer in that community. We saw the water rates, the sewer rates, go up as a result of that large anchor company go under. We saw the local impetus behind our United Way effort every year go under. The largest benefactors, the local hospital, go away, and Main Street so adversely affected. I can tell you, as I drive across the State going to various hearings like your seating here, or go for other reasons and take the back roads and see those plants boarded—and it's not just textile plants because I mentioned earlier the other types of industries that have been adversely affected. I can tell you it's a sad state of affairs. It's had a direct impact on our schools, on our towns, our ability to provide water, sewer, that type of thing. It's had a direct impact on our ability as a State to deliver basic services. Our Medicaid, at a time when unemployment goes up, and we've seen it go up in areas that we never thought possible, and in a time like this

when you have a higher unemployment, you have the need to plug the basic community services. We don't have the general fund revenue to do it. Last year the Federal Government bailed us out to some degree. They borrowed money to do it. Put off one year what we're going to have to do this year in terms of our State budget and I can tell you, we're having a very difficult time. They mentioned the 350 million dollar deficit. It's probably more like eight or nine hundred million this year just to get us back where we ought to be, to fund our basic student costs, to fund our Medicaid program, to fund Corrections. You wouldn't believe what we've done in Corrections, what we've done to mental health, what we've done to the Department of Juvenile Justice, what we've had to do in other areas to keep our education funding up and to keep the Medicaid program going in South Carolina. The number of State Troopers that you don't have. There are a lot of areas of South Carolina's economy that have been adversely affected and, friends, I don't mind telling you, I don't see it turning around. That's where this situation is not cyclical anymore; it's structural as I see it. And we've got to do something.

With having said that, you all have asked some great questions. I've presented a little bit of written testimony to read into the record and I can tell you that on behalf of the people that I represent, and I think all the Members of the legislature, we appreciate you being here. It means a lot to us because you've been attentive. I think you are going to take the message back to Washington that, "Look, these folks have got problems down in South Carolina." And it's not just in South Carolina. I think if you go across the border in any direction you'll find the same kind of thing. We've seen it in the northern part of the State where I'm from, getting into northeast Georgia and North Carolina, as well. And it's tough, it really is. So thank you for coming and thank you for what you're going to do in hopefully assisting Congress in acting responsibly on this important issue. Thank you.

Chairman ROBINSON. Well, thank you. Those are, again, very eloquent remarks. I can tell you we're . . . we're going to try to make it difficult to ignore our messages. I can tell you it's not just going to be writing it down and sending it out to the airwaves. It's going to be a matter of talking to our Congressional sponsors and working hard to have our findings understood and, most importantly, our recommendations and remedial actions taken seriously in terms of legislation. Again, this is an action-oriented Commission. This is not just another hand wringing or recording operation I can assure you. And I think that we share your fear that it's not cyclical, it's structural, and that should this trend line continue, as it already has broken records, is very worrying indeed. And it is true that South Carolina is but a symptom of a national challenge and a growing national crisis, but I think it is already a crisis in South Carolina and that's why we think it's so important to be here because there's no time for normal remedies here such as waiting for two years to find out the outcome of a 201 case or something of that kind. That's of little interest to us. We want something faster, we want something more robust, and with that I'd like to turn to Mr. Hutchison, please.

**STATEMENT OF JACK HUTCHISON
ECONOMIC DEVELOPMENT COORDINATOR
GEORGETOWN COUNTY ECONOMIC DEVELOPMENT COMMISSION**

Mr. HUTCHISON. Thank you. I'm Jack Hutchison with the Georgetown County Economic Development Commission and I'd like to share with the panel today just what the impact has been there in Georgetown and Georgetown County. You all heard earlier about Georgetown Steel closing up. The impact that that plant has had is just one part of the story for the county. We've had, over the past two years, about 1,200 job losses; in our manufacturing workforce of 4,100 people, which equates to about 23 percent of our workforce. Now, out of our total workforce, the manufacturing portion of it equates to 22 percent and leaves 78 percent in other areas of mostly service. To show you the impact of what the steel mill means to the city of Georgetown, they pay 20 percent of the property tax base of the city. That will go away now. Also, prior to bankruptcy, the mill had appealed to the State to substantially reduce property and equipment taxable values. We don't know what, if any, the impact is going to be from now on. About 165,000 more dollars to the city will be lost from water sales and license sales. Of the 78 percent of the remaining workforce, we don't know how that will affect the small businesses. The city could lose license fees and other things. It means that the budget of the city of Georgetown is being heavily impacted. The city will be losing about 15 city jobs and most of those are going to be in public safety, I'm told by the city administrator. You've got other areas in the county, such as Andrews. Due to the steel mill closing down, we had a nail plant go out of business. We've had one company to move to Costa Rica, and one company to move to Mexico. People come up to me and they say, "Why are we getting so many Mexicans coming into South Carolina?" I said, "It's simple." I was told by the company that moved to Mexico when they first announced they were going to lose some jobs or move some jobs to Mexico I went over to talk to the plant manager and I asked him, I said, "Tony, are you all leaving?" He said, "Jack, I'll tell you, when can get made in Mexico for \$10 a day for what it's taken us \$10 an hour for here, what do you think?" And I said, "I think you're gone," and so we've lost the rest of those jobs this year. I was in Wal-Mart in the other night with my wife and I was standing there and I got to looking at a sign that said, "In 2002 we raised \$117,000 for community projects," and then I looked over and it says, "For 2003 they had raised \$9,000." I couldn't believe it; I couldn't believe the sign, that there had been that much impact, but that was from donations from people and that sort of thing. Our community United Way is way down this year. All aspects of the community have really been affected and we're out there every day trying to come up with solutions. We've just finished our yearly planning session and I don't know if we've come out with any good solid plans or not because they said, "Well, you need to retrain your people for a higher tech." Well, then you look around and they say, they're moving a lot of high tech jobs to India and to other places. So what are you training for? These are some of the questions I think that our Congress has to start looking at. Those are just some observations that I have and that we've been thinking about on the local level. But I

appreciate you all giving us this opportunity to express our feelings and share with you.

Chairman ROBINSON. Well, thank you very much. I was just sharing with our Vice Chairman the notion of the cascading impact of these job losses. I was very impressed that it impacts on charitable donations and the operations of the hospital, sewer, water costs. It is a debilitating chain reaction through the community that I think you expressed very well and I regret that Georgetown has bore the brunt of this. One out of every four jobs is in crisis according to your testimony.

Mr. HUTCHISON. Well, if you could excuse me?

Chairman ROBINSON. Please.

Mr. HUTCHISON. The U.S. Chamber, years ago, put out a little publication that says what 100 new jobs mean to a community and I think it created about 57 other jobs. Whatever 100 you lose, it's going to go the opposite way.

Chairman ROBINSON. That's right.

Mr. HUTCHISON. And that's the impact.

Chairman ROBINSON. Well, I think that this has been established for a long time and yet how easy it is to ignore it, forget it, be in denial about it, and I think official Washington has real problems there and I think that if it's not a systemic problem or flaw, it certainly is a flaw in the way we're represented right now. In any event, I'd like to turn to Mr. Tindal for his testimony.

**STATEMENT OF EVANS TINDAL
DIRECTOR OF OPERATIONS, CHERAW YARNS MILL**

Mr. TINDAL. Thank you, Mr. Chairman. I can't help but notice that I'm the last scheduled speaker today and so I want to tell you what an honor it is to be making a keynote address this afternoon. I can tell you that I've been in attendance for the entire hearing today and as much as I was looking forward to coming and testifying I'm about to bust right now and I'm so glad that you did not call for a five minute break before my testimony. This is a story that I think the Commission needs to hear. I am Evans Tindal and I'm from Cheraw, South Carolina and that's, Cheraw, the origins of the word are Native American and so it's been mispronounced many times before, and I'm here today to represent the Greater Cheraw Chamber of Commerce Economic Awareness Committee. Now, Cheraw is a town of 6,000 located in Chesterfield County in the northeast part of the State. And to truly understand the impact that China has had and has the potential to have on Cheraw it is important to understand our origins and our history. Cheraw is the oldest inland community in South Carolina. The first settlers to come to the area came in the 1730's. Like today, its very existence was tied to commerce. It was settled because of its importance as the highest navigable point on the Great Pee Dee River. Even then trade was the key to Cheraw's economy. Because of this fact, Cheraw played a role in the Revolutionary War and was occupied in 1779 by British troops under the command of General Cornwallis. We survived this assault and occupation only to be overrun and occupied almost a century later in the War Between the States by General Sherman. Cheraw persevered and, thankfully, was not destroyed after weeks of occupation. The citizens of Cheraw have

always had the ability to adapt and survive under the most difficult situations. Now, unfortunately, the assault we face today is more subtle, but no less dangerous. Since the middle 1900's until very recent years the town has thrived driven by a strong industrial base. In our small town we have 14 industrial plants including two Fortune 500 companies and this has provided us with a diverse citizenship, a strong community, and a high quality of life. However, since 1997 we have lost 716 industrial jobs and witnessed the closing of several plants. Now, many of these jobs can be tied directly to China and all have been significantly influenced by the surge of cheap goods into the American market from the so-called People's Republic of China. The impact of these 716 industrial jobs in manufacturing wages alone is over 19 and a half million dollars lost annually. Additionally, it has been well established by economists that every manufacturing job supports 1.4 service jobs. We have seen tangible evidence of this in Cheraw as our service jobs have disappeared taking another 15 and a half million dollars of service wages out of the local economy. This combined loss of wages of over 35 million dollars has a tremendous impact on a community our size. Unemployment in our county in November was 11.1 percent. In addition to loss of wages we have seen an erosion of our tax base along with a loss of water and sewer revenues. This totals over half a million dollars annually in the town of Cheraw alone. Property values, property values have actually decreased in the last three years and there are more houses on the market than anyone can remember. The citizens of Cheraw have always given generously to charities and churches, but now we are seeing the financial realities of unemployment and uncertainty overcome the spirit of generosity. In my own church, which was established in 1768, we have seen our congregation and, likewise our contributions, diminish as members have lost jobs or been forced to move to find other employment. The industrial jobs in Cheraw not only provide good wages, but also health care benefits. As people are stripped of these benefits, the quality of medical care in our community is sure to deteriorate. Now, I feel especially well qualified to discuss the impact of China on my community because I've been personally connected to 60 of the 716 industrial job losses. These jobs were lost in my company. I am the Director of Operations for Cheraw Yarn Mills, the oldest company in Cheraw. In our 87 years we have seen many changes and met many challenges. We survived the Great Depression. We have invested heavily in capital equipment and have as modern a facility as can be found anywhere in the world. We have financed these investments internally and that is to say we have absolutely no debt. Our employees are empowered and work with no direct supervision. We have a strong focus on product development and have discovered and penetrated several new markets in the last ten years. We are ISO certified and have a reputation as being the highest quality supplier in our business. Our second leading cause of turnover, the first being China by a large margin, but our second leading cause of turnover is death and retirement. It is extremely rare that someone leaves us on their own volition or that we have to terminate for cause. Quite simply, we are a well-run company that is a very good place to work. Two years ago we were forced to shut down one of our five

business units. The customers that this area served were driven out of business by imports from China and other Asian countries. That market just disappeared for manufacturers from this country. Sixty jobs were affected at our company, and while we worked hard to relocate as many people as possible, many had nowhere to go. I sat down one on one with each of these employees. Some had worked for our company for over 20 years; many had never worked anywhere else. I looked into their eyes and I saw their disbelief, I saw their uncertainty, I saw their fear. Thankfully, I often saw courage as well. I have been profoundly affected from the experience and it is not one that I wish to repeat. The impact of China on the community? I know it, I understand it, I am a part of it. I am a part of it because I am so connected with the impact of China on the individual. The real cause of alarm, as has been said today and as all of you know, is what we have seen as manufacturing leaves our community to be replaced in China is just the beginning. The exodus of jobs really begins with removal of quotas scheduled January 1, 2005. If nothing is done before then, I fear our community will be affected so significantly and so quickly we will all be helpless to save it. Now, while Cheraw is a very special place, its fate is not unique at all. There are towns, large and small, in Maryland, Ohio, Kansas, California, and all over the Nation that depend on industry to feed its citizens, fund its schools, support its churches, and breathe life into its very existence. Now, perhaps there is, as some would argue, a positive side to the revolution that is diminishing the manufacturing base of our country. Perhaps it is inevitable that it happens, and though unfortunate, the pain of transition is a necessary part of this change. Now, even if this were so, then surely the revolution, the transition, should not be driven by the artificial and contrived advantages that result from one communist country's illegal manipulation of their currency. Surely a vision of a worldwide free enterprise system is not set up to support the 40 percent currency advantage that China enjoys. If each employee in my company agreed to work for free we could not even offset half of this disadvantage that we suffer from China's currency policies alone. Some action must be taken to see that natural forces shape the fortunes of our businesses and communities. Some action must be taken that the best interest of our citizens are protected. Some action must be taken to ensure the national defense of our country supported by a strong industrial base is maintained and, most importantly, some action must be taken to see that communities like Cheraw and many others, some that I'm sure you are familiar with, some action must be taken that our communities and our way of life is preserved. Thank you.

Panel IV: Discussion, Questions and Answers

Chairman ROBINSON. Well, thank you very much, Mr. Tindal. I'm sure I speak for my fellow Commissioners in telling you that yours was one of the more poignant and moving testimonies that we've received today of many and it certainly hit home. I wish this dais were also filled with Bush Administration officials that could have heard your panel, much less those of your colleagues that preceded it. I'm delighted to know that we have these proceedings on broadcast-quality tape. We're certainly going to make use of it in Wash-

ington, not only for our own website, but others because there's no substitute for hearing it firsthand and put in such a powerful way as all of you have in your respective arenas. But the story of Cheraw will stay with us and is not going to be taken lightly. With that, I'd like to turn it over for questions beginning with our Co-Chair, Commissioner Becker. Okay.

Vice Chairman D'Amato.

Vice Chairman D'AMATO. Good.

Chairman ROBINSON. Commissioner Dreyer.

Commissioner DREYER. If you were to be on this Commission, since we are mandated to present our report to Congress, what would you suggest we put in the report to help do that?

Senator MARTIN. Well, I've heard a lot of statements today about the WTO, about quotas, about multi-fiber agreement expiration. There's a lot that I don't know about those issues. I know that China, based on my reading of it, came into the WTO in 2001. What little I kept up with there seems to be a direct correlation to job loss, an accelerated correlation to job loss has occurred since that time. I don't believe it would be fair for quotas to expire or if there are other agreements that were scheduled to expire and just drop all the walls that are in place. I would highly recommend to the Commission that it keep those quotas in place, that you urge the Administration to take action within the WTO. That's what was promised. Nothing was said at this table earlier about which of our Congressional Members supported the WTO, the fast track authority of the President. Well, I can tell you one of the votes that I'm familiar with. It was represented in the media here locally. Well, I was promised that the best way to enforce these agreements was to get them in the WTO and then we could enforce the agreement. No, that hadn't happened. So I think we let the horse out of the barn before we ever got serious about getting our hands on it. And I would urge you to state without any equivocation how serious this is in terms of what it will do. I think that Mr. Tindal summed it up. A lot of communities like Cheraw, Pickens, Easley, around this State, around this country—South Carolina—let me tell you this, South Carolina has the third highest mortgage delinquency in the country. We're proud people—I put that in my written comments—we're proud people. We pay our debts and we work hard, but you know, when you lose a job and there's no job to replace it in your community, and you don't have the resources or family money to fall back on, what do you do?

Commissioner DREYER. You default on your mortgage.

Senator MARTIN. You default on your mortgage. And that's what's happening rapidly in South Carolina and even more so, I believe, after the first of the year if we aren't successful in keeping in place what is there to keep the horse at least partially penned up.

Mr. TINDAL. From my part I would say that, perhaps all the solutions to this difficult problem won't be coming out of Cheraw, South Carolina, but I will offer a few simple ideas. First, echoing what was just said. We must find a way to extend the quotas beyond January 1, 2005 and understand that that is not at all solving the problem, but only buying us time that it can be solved. Secondly, to me all of the tactics, policy violations, whatever you want to call

it, that China does, the manipulation of their currency is the one that is most tangible. There is no one on any side of this issue that doesn't believe that China is manipulating their currency for trade advance. You cannot find anybody that has any of the facts that doesn't believe that. Something has to be done about it. And I don't know all the details about legislation and law and world trade, but I do know that we have a market here; we have the market that everybody wants. If we want to do something about it, we most certainly can, we hold the market. It's really a matter of us deciding that we do want to do something about it. Well, I can tell you 6,000 people in Cheraw want to do something about it.

Vice Chairman D'AMATO. Let me just say, Mr. Tindal, you are absolutely right. Access to the American market is the golden goose for these folks and we have given it away too frequently and the reason is we don't have enough political will to stand up for ourselves. That's really the bottom line when you cut through all the issues, is whether we have the political will. The people in the community of Cheraw and other communities.

Commissioner DREYER. Mr. Hutchison.

Mr. HUTCHISON. I agree with these gentlemen.

Chairman ROBINSON. If I might, we'll go down the row if we can. Commissioner Bartholomew.

Commissioner BARTHOLOMEW. Yes, sir. Once again, I want to thank our witnesses who have given us a very real picture of what's going on. I guess the question I have, though, is, is the Administration providing the resources that your community needs for job training, for job creation, for revenue replacement? It's a snowballing effect, isn't it, when people lose their jobs? We've heard about hospitals, we've heard about charities, we've heard about all sorts of things, the impact on the community. Are you getting what you need for basic health care, for education, and the basic services that communities need to provide in order to give people the stability they need to rebuild their lives?

Mr. HUTCHISON. I don't believe any of the people in South Carolina are looking for charity or a handout. They're looking for jobs. And the manufacturing, I've learned all my life, manufacturing is the only wealth creator. You can just flip so many hamburgers and that don't create wealth but manufacturing does. And we're losing that every day and it started back some time ago. I've been in this business about 35 years and I have never seen it go as fast as it's going now. We've gone through ups and downs before, but as I was saying earlier, I think Mr. Malloy, that it bothers me as a citizen when Congress tries to pass a law that says for our national defense that it's got to be 100% American made and then the Defense Department says, "No, we can't live with that because 40 percent of our stuff is made out of the country." Well, that frightens me.

Senator MARTIN. Well, the answer to your question, as I alluded earlier, we did get some revenue from Congress back in the spring that helped tide us over. That money won't be there this year. There's an ever increasing demand on State government services and that will continue to grow as our unemployment, unfortunately, has grown. Retraining—we've made a tremendous effort in that regard as had been pointed out earlier. What are you going to retrain them for? You've got to have some jobs to train them for

and there's been just a big void, a big hole if you will, in the jobs that are coming to South Carolina. I will say that in the upstate there's been a partnership. Senator Hollings mentioned this morning, that's developed between Clemson and BMW and the State and that has the potential for putting upstate South Carolina and the whole State on the map in terms of that part of the economic engine of this country. But that's four or five years away of even getting started. Graduate school for automotive research and so forth, is four or five years away. What are we going to do in the meantime if everything dropped December 1 and Cheraw and Pickens and every other community is decimated? There's not enough retraining money in the world for the job if it doesn't exist.

Mr. HUTCHISON. People aren't going to retrain if there's not a job out there for them because it's a hopeless situation.

Commissioner BARTHOLOMEW. Mr. Tindal.

Mr. TINDAL. I can only support what's already been said. My complaint and the reason I'm here is not because of a dissatisfaction with those things that you mentioned, but only that there will be a need for those to begin with and, as it's been said, the retraining to learn how to cook fries at McDonalds is about 15 minutes and it's very inexpensive and really that's the job that's available when a plant goes out of business.

Commissioner BARTHOLOMEW. I think it's important that everybody has stated how proud people in South Carolina are and, of course, we're part of a great Nation where people are proud. That the kinds of things that we're talking about are not what anybody should think of as charity. We're talking about investing in human capital, which is investing in the people of this Nation, and unless they're healthy and unless they have the highest quality education they're not going to be able to be part of the new economy, however the new economy is defined. So thank you for the leadership you've shown in your communities, and we will do what we can to take the message back.

Chairman ROBINSON. I'd like to turn over the questioning to Co-Chairman Becker at this stage who deferred his opportunity, but now would like to take advantage of it and then we'll move to Commissioner Mulloy.

Commissioner MULLOY. Thank you.

Co-Chair BECKER. Thank you. Listening to Commissioner Bartholomew reminded me of some things that we've experienced in single industry towns particularly, when they shut down. As a sense of despair sets in when there's no jobs and everybody knows there's no jobs and the health care runs out, and the city services become strained or there's no relief, there's another element that seems to pervade into this whole feeling and it's broken homes, the divorce rate goes up. Educational opportunities that are underway, children in college, the money runs out so they come home or leave and have to try to find work. And spousal abuse goes up pretty high after a while, and I guess because of the pride and the despair and the hopelessness that people face, alcoholism and mental health. These situations where we've brought people in, where a shutdown has been over an extended period of time. Those things surface right along with what all you've said. I just wanted to offer that out there as things and some people hesitate to say that or

even want to talk about that in a public forum. But they are things that you have to face when hope seems to run out. Thank you.

Chairman ROBINSON. That's also why it's important that we have such a diversity of backgrounds on the Commission itself. Commissioner Becker, having been a President of the United Steelworkers Union, obviously has seen up close the devastating multidimensional effects of job loss. And so this is not an academic exercise for us. It's something very present for the Commission.

Commissioner Mulloy.

Commissioner MULLOY. One of the things, we are actually doing a hearing next week in Washington. And we're bringing in right across the board people who evaluate what is happening with regard to China. Now, the reason that's so important is China didn't meet, did not have a free market economy, the criteria for entrance into the WTO. So they were kind of given a waiver. But then they were locked in to a very strict compliance record. And so they were kind of given a waiver. So following their WTO compliance is enormously important. Secondly, I was actually in Geneva in 1993 when the WTO was created. I wasn't there to help create it. I was there to keep financial services out of it because there's a principle in WTO that's called MFN. That means if you make a commitment in the WTO, say we gave European banks a clean run at our market, say the Japanese weren't giving us anything in their market, but if we give commitments to the European banks, the Japanese get the same thing under the MFN principle, most favored nation principle. So the other countries weren't giving us a lot of entry for our banks. And so we kept, we kept financial services out of that, the original WTO agreement. But I saw it. I was there when this all happened. The second thing to understand is under that same principle, if we reduce tariffs on an item from China, say we give them a ten percent tariff on automobiles from China into the United States, that doesn't mean that China has to give us a ten percent duty on our autos going to China. In fact, they have a 25 percent duty on our autos going to China. So it's a skewed system. And some of these agreements were made with the idea we helped developing countries move ahead. But we didn't understand the phenomenon of bringing a country like China and now, with new technology, a country like India into this global trading system. So there's an enormous impact that we're not facing up to. Now you noted the last three years seems to be accelerated. Well, that's when China came into the WTO. You understand that. And what that meant was that our market was locked open. We're locked open. We have to either get out of the WTO because if we put tariffs on Chinese goods, they'll take us to the WTO and those tariffs will be ruled illegal. So there's a big phenomenon going on here. I think people have to get educated as to how all this is working. You have to get to your elected representatives. This is a big problem. I'm a great believer in the American democracy. I think if the people wake up and really go after this issue, I think we can get it changed. I'm not saying that we have to. But we have to have a strategy. And we have to understand how it's been created and then put together a policy. Senator Martin, I really appreciate your testimony, all of you. But Senator Martin, why do you think that people have not paid attention to this issue?

You're an elected representative of the people. And what do you think is needed to make them aware of it?

Senator MARTIN. A couple things. Trade is a very complex issue—the way we play those games in Washington and international arenas. That's not something that the average person is going to keep up with. The second thing is that with the job loss that's been accelerated as it has, people are beginning to keep up with it. They're beginning to realize and recognize up until the mid-1990s, late 1990s, it was all textiles. Basically the textile industry was old, it just hadn't kept up even though we had invested and we had a great story I felt to tell. But I think the big reason is that we haven't had the other sectors of the manufacturing economy hit as they have been hit here in South Carolina. And people are beginning to wake up and realize, look, this isn't right. You mentioned what you did about the WTO, that the average person has no idea that they have a tariff on our autos. That BMW can't sell autos into China. But if they were made there they could send them back here duty free under the WTO rules.

Commissioner MULLOY. With a much lower duty than the one in—

Senator MARTIN. Or low duty. But the point is, once the American people ask those questions and wake up, I think there will be a demand. I think it's been said, I'll probably make a political statement and I probably ought not do this but I'm going to go ahead and do it anyway. The President's election is a debate about whether that's a foregone conclusion in South Carolina. And it probably is in terms of whether South Carolina is going to vote Republican or vote Democrat in November. But the most important vote that South Carolinians will cast in November is probably not for the Presidency in terms of trade. It's probably the other U.S. Senate seat to fill Senator Hollings Senate seat and to ensure that we've got a United States Senator. And I'm going to send that message in the area that I live; that we've got a Senator in Washington that reflects our view on trade. It's not going to go to Washington and listen to the multi-national, come back here and talk a great line about oh, we're going to make sure the agreements are in force and all that kind of thing. And then go to Washington and the first thing they do is vote to put a WTO agreement in place that cuts our throat. So you can be assured, based on past actions of certain folks in this Senate race, I intend to send that message loud and clear in my area of the State.

Chairman ROBINSON. Amen.

Commissioner MULLOY. And I have just one last thing. I'm hopeful. I'm always thinking that democracy works. But one more thing on whether you bring a case to the WTO against China. People think well, we need China's help on Korean nuclear weapons and therefore we don't want to alienate them. So we've got to just focus on your economic issues and say, that's a separate matter. If you haven't, too often we're playing off our economic interest for some kind of short political gain.

Commissioner DREYER. Which we've never gotten.

Commissioner MULLOY. And I think it's very important again that the people understand what's going on and hold people to account. I'm not one who says that I think you really need to change

it. The national leader has to understand these issues and want to do something about them. I personally don't, I think it's nice to have Congressmen and Senators, but I really don't think you can deal with this issue. And including President Bush, sensitize him to it. And again, I don't mean to be political. But I really think it takes the very top of the government to get this done.

Chairman ROBINSON. Thank you, Commissioner Mulloy. Before we open microphone, which we're keen to do, Vice Chairman D'Amato had a quick point leading into that exercise.

Vice Chairman D'AMATO. Yeah. I just have a question. And I think I know the answer. But I think it's an interesting question. I've heard today people suggesting that a new made in America type of movement should be undertaken, in other words, fabrics, garments, products that are made in America get a label and people would be encouraged to buy American. You've got Wal-Mart here.

Mr. TINDAL. I've heard of them. Yes, sir.

Vice Chairman D'AMATO. Is there any sensitivity that the other end of the problem that you face is coming in to the shelves of Wal-Mart and are people concerned about what they are buying? We might be concerned but, hey, one of the reasons I lost my job is this stuff's coming in on the shelves, maybe I shouldn't have bought it. I'm serious. Do you want to buy the products that was the reason that your neighbors were put out of work or is there a sense of the relationship I guess is my question, yet between the job loss and the consumer, benefits that come as a result of this process?

Mr. HUTCHISON. I don't think people really have studied it that much because, you know, we've got all of our own self-interests. And they go into Wal-Mart and say, hey, I can get it here for this amount where I can go to a local merchant, I'm going to have to pay more for it. I'm going to just buy it here, not realizing that most of it's imported. A personal story. I went into Wal-Mart and bought a radio. And it happened about the time that the Chinese took control of that plane. It made me mad and I happened to look on the box and I said this is made in China. So I carried it back. I said here. They said anything wrong with it? And I said yes, it was made in China. I went back to the shelf and tried to find one that was not made in China and I could not find one. I walked out without one.

Mr. TINDAL. The situation you describe is kind of a downward spiral too. As a primary income winner in a family loses his job and the family becomes more price-sensitive to the goods that they buy and are more likely to go to Wal-Mart or whatever big retailer it is and buy based on price alone. So it's a difficult situation but thought is going into made in America and buying campaigns and that side of it too. At the same time we're careful not to blame the U.S. consumer for the situation that we're in. But—

Chairman ROBINSON. No. But sensitizing the U.S. consumer to the connectivity. We have nationally funded drug advertisements, you know the ones, staying off of drugs, how an individual paying for cocaine or marijuana ultimately goes to the terrorists who execute the family in Columbia or something along these lines. In other words, we're trying to establish and explain a lot more complex connectivity and linkage in many of our taxpayer-funded cam-

paigns than this. This is actually very straightforward. And I can tell you that, we're not trying to penalize the consumer. We're also not trying to in effect blame the consumer here. But at the same time this is one of those moments where South Carolina is already there and the rest of the Nation is headed there. This is one of those times where we're going to have to stand together on this as a people. Or we're going to be divided and sliced and diced to an unrecognizable degree in the circumstances that we've recorded here today. And that we are on an unsustainable trajectory right now because of currency manipulation and too many other forms of subsidy to name, not to mention administered pricing and the fact that we're dealing with at the end of the day hardly a free market in China but a communist. These are the facts of the case and they are difficult to dispute. And we have to key off of that reality and start to translate it into our day-to-day lives including the lives of consumers. Anyway, these are the kind of sentiments that we're going to be bringing back from this experience and not just emotional ones but trying to translate them and channel them into achievable near-term policy prescriptions for the Congress of the United States. That's our task. And we will be undertaking that task and that mission with the utmost seriousness. That you can count on because we get it. And Mr. Tindal, you and others, I hope, have seen it in the course of the day. In my view, there has been a hundred percent laser beam focus on what's being said, it's implications for South Carolina and its implications for the United States. So you can be assured that we're going to look at all these possibilities including a regeneration, a re-igniting of a "Buy America" campaign that educates every American to get the picture that this is a kind of crisis that has already arrived here in South Carolina and very much in the making for our Nation as a whole and that we're going to have to step into this. And if the government is too slow to act, this is going to have to be a citizen's event.

Mr. HUTCHISON. One last comment. I think maybe a hundred million spent on a campaign like this would be dollars better spent than a billion and a half on marriage counseling?

Chairman ROBINSON. Well, I think so. I think so too because we found out in that Hainan case that you raised when our reconnaissance aircraft was forced down and the pilot and the crew were held hostage by the Chinese. Average Americans filled shopping carts in K-Mart, and particularly Wal-Mart, and went to the cashiers and then walked away and said this is what they would have purchased had they not been made in China. And that happened spontaneously, no advertising, no nothing, with tens of thousands of Americans. And when that made the front page of the *New York Times*, this hostage event ended two days later because ironically the Chinese got that. They were very slow to see the diplomacy. They didn't really believe the State Department. They didn't believe the resolve even of the White House. But they did understand the implications of an estrangement of the American consumer and the linkage of Americans' outrage toward the holding of our people hostage with the willingness to buy Chinese goods in the store. Maybe that's going to communicate a message to them, not just to our own government, and send a powerful message to Beijing that the free lunch program at our expense must end. And with that,

I would very much thank you all again for a memorable set of testimonies. I also would like to begin using the balance of our time for the open mike, public comment part of our program. And we have a sign-up sheet here. And although our time is tighter than we wanted it to be, I would like to begin asking if Sally Kay is with us. Sally, of the Hosiery Association, you have the floor.

OPEN MICROPHONE FOR PUBLIC COMMENT

Ms. KAY. Good afternoon, ladies and gentlemen. Thank you for this opportunity. Again, my name is Sally Kay. I am President of the Hosiery Association, and a native South Carolinian. We also have very many members that are located in South Carolina. But we are a national trade organization. We're located in Charlotte, North Carolina. And I'm here to talk to you today about the whole entire family of leg wear, socks, panty hose, trouser socks, you name it. There is an association for everything. And yes, we are a part of the textile industry, but we also are one of the more vibrant, what we believe to be bright spots of the textile industry. I would like to share with you today a couple of interesting facts and to talk specifically about China and its impact on us. Prior to the Chinese joining the WTO in 2000, there were 159,000 dozens of pairs of socks exported from China into the United States. This past year, 2003, there were 18 million dozen exported into the United States. That accounts for over 11,395 percent increase in socks. We are talking about manmade fiber. In 2001, China was ranked number eleventh in overall exports. In 2003, not only are they number one, but also they are exporting over three times the amount of the nearest country in that. And again the concern of the sock manufacturers is what has already happened in the synthetic fibers. When quotas come off cotton socks, there is great concern that there will be the same such action. Therefore, we believe on behalf of the Hosiery Association, again its sock manufacturers, its members constitute over eighty percent of all the hosiery that is made in this country, plans to file a petition to evoke those safeguards against China. Again, I think it is important to note that while world imports were only up 23.3 percent this past year—world imports that is—China's imports increased. Their exports to us increased by 564 percent. I also would like to say that over 23 companies have closed within the past year. These are directly attributed to China, and that 3,500 employees have lost their jobs. I think it's also important to note that over 70 percent of all our products were sold through the big box retailers. And they have that mentality. Therefore a lot of this is being driven by price. Therefore, the wholesale market value of socks is under significant price pressure, which is again impacting the whole supply chain for our economy. And I do believe that there is a significant concern over market access issues between the U.S. and China as it relates to retail and distribution. There is great contrast because it's unequal and that there are again very few large retail companies in America but they control the majority of our market. However, in China there are very few chain stores. That eases market penetration. And there's even language in the U.S.-China bilateral trade agreement which restricts the growth of chain stores in China. I think it is about equity, and obviously I think these facts state that

there has been exacerbation. I note since China's entrance into the WTO. And again, my association's been around since 1905. We're getting ready to celebrate our hundred-year anniversary. And the domestic sock industry, the manufacturers themselves represent over 34,000 people in this country. And we do believe that some action must take place now because our children are tomorrow's leaders and we certainly hope they have something to celebrate during the next hundred years. Thank you.

Chairman ROBINSON. Thank you, very much Sally. Those were very useful statistics to bring out and couldn't be more compelling. We will certainly factor them into our deliberations in Washington and they will be reflected in the proceedings. And I'm also glad that again we have a good audience for today's proceedings. So I thank you.

Commissioner MULLOY. Sally, if you can identify that provision of the China bilateral trade agreement that restricts the chain stores to give us better access.

Ms. KAY. Documentation for that?

Commissioner MULLOY. Could you give us that? That would be very important to look at.

Ms. KAY. Sure. Be glad to.

Chairman ROBINSON. And Vice Chairman D'Amato had a quick question.

Vice Chairman D'AMATO. You talked about a petition. What's the timing of that? When you finish writing it?

Ms. KAY. The draft is in hand.

Vice Chairman D'AMATO. Okay. So when you do that, would you give us a copy of it?

Ms. KAY. Certainly. And just again it goes through CITA and also too we were already talking about, we mentioned earlier about working through officials, through working through various Commerce people, Senators who were aware of that and we'll be glad to issue a copy of it as well.

Vice Chairman D'AMATO. Great. Thank you.

Chairman ROBINSON. If I might move to our next, our next speaker. Jim Jontz from Americans for Democratic Action. We want to all chime in and join Commissioner Bartholomew in welcoming you and are delighted that you can be with us today.

Mr. JONTZ. Thank you, distinguished Commissioners. I appreciate very much the opportunity to speak this afternoon. I am a recovering politician. I had the honor of representing Indiana's Fifth District in the Congress for six years in the late 80's and early 90's. And then my constituents were wrestling with trade issues that affected the automobile parts industry, affected the steel industry of course, and affected our agricultural economy. And as Commissioner Bartholomew noted I'm afraid, none of the problems we saw then have been solved and several new dimensions of the problems have been made manifest to us. I think that this hearing today is an excellent idea. I hope that the Commission can travel to other parts of the country and if your budget allows, other field hearings. Commissioner Becker will be interested to know that late last year I testified at a hearing similar to this that was being held in Gary, Indiana, by a Committee of the State legislature of Indiana that had been assigned the topic of investigating the impact of trade on

the manufacturing economy of Indiana. And we heard compelling testimony then from workers; one I remember was a worker in a plant in Valparaiso, Indiana that I used to represent in Congress, a steelworker where the plant was closing because of movement of the facility to China. Then just two weeks ago I was in attendance at a citizens hearing in Keene, New Hampshire where a couple of local State legislators and religious leaders convened a hearing to listen to testimony of citizens from southwestern New Hampshire about the impact of trade on their community. And we heard Robin Ito, one of the last, I'm afraid to say, textile workers in the State of New Hampshire. Testified that his job and the job of his colleagues at a particular mill are potentially, will potentially be gone, again because of offshore competition. We heard testimony from Jay Dewitt who had been spending the last couple of years at a workers assistance center in the northern part of the State, where a paper mill had closed because of the trade. So there are a lot of stories that need to be told and I think that the importance of educating the public about these issues is really important. I suppose it's not coincidence that your hearing today is in Columbia, South Carolina at a very important time in our Nation's political process. So perhaps it's not out of bounds for me to share with the Commission that this last year I have been spending in Iowa, New Hampshire and South Carolina, more Americans for Democratic Action, working with community organizations in all of these States, labor unions, students, family farmers, the faith community, some businesses who share concern about the global economy and our Nation's trade policies. And so I come here this afternoon with an unusual responsibility, which is as a Hoosier, to ask if I can enter into the record a statement from 31 groups in South Carolina on the subject of trade. And this is not directly about China, although China is referenced in this statement. It's a statement really about what kind of trade policies our country should have and it's addressed to all of the Presidential candidates, but I think to the public at large and hopefully will be of interest to your Commission. And one of the things that it illustrates is that there is a broad concern within society, not just with owners of the businesses who are directly affected, not just the workers at the businesses that are directly affected, but people in South Carolina of all walks of life understand that our country's trade policies concerning China and other countries have not been good for this State. So a diversity of groups, environmental, farm, women's groups, peace groups, and unions not just representing manufacturing sector, but bus drivers, fire fighters, communications workers, postal carriers, theater movie screen operators, they recognize that they have something at stake here too. I was very pleased earlier to hear the discussion, I believe it was Mr. McClure, who made reference to how we have all been told that we should endure the loss of manufacturing jobs because the new economy was on the way and somehow that was some mitigation for the loss of our country's industrial base. I don't think anybody here accepts the premise that we should be complacent about losing our industrial base. But I think that the notion that somehow the trade policies that have failed us in terms of protecting industrial jobs are going to create a new vibrant service economy are now being viewed with a great deal of

skepticism by people across the country. New Hampshire is a new economy. The textile and the shoe jobs that were the basis for the economy there are largely gone. New Hampshire is a State where new jobs are in information technology, white-collar jobs, and et cetera. Well, I can tell you, having spent a lot of time there since last year, workers in that sector of the economy are not very optimistic about their jobs because they're seeing them being shipped offshore too. And but the labor community, citizens of all kinds of backgrounds are studying the trade agenda that is now underway, expanded from the WTO, the free trade Americas, and they see that it extends not just to manufacturing and agriculture but to the other 70 percent of the economy, services. And they understand that the point of the objective of these new trade agreements and services is to give corporations more rights and the impact of that isn't undermined, the well-being of workers in all of those sectors. So I think it's good to have on the record, although the topic of focus for your Commission is manufacturing, that the argument that somehow we should be complacent about the loss of manufacturing jobs because there's something new right around the corner is not an argument that the American people are buying. I want to just cover a couple other points quickly. I'm not sure that we have as large a turnout from the public this afternoon as might be desirable, but of course you're competing with a lot today. And I should share with you that earlier today over at the Township Auditorium there were two or three thousand citizens, not just of South Carolina, but all of our country who were there because they had some questions for the Presidential candidates. And I think every Presidential candidate was asked about jobs and every one of the candidates talked about trade. And so at least at some level we're making the connection. But I want to quickly add that there's a lot of learning that yet needs to occur. And the testimony that you have heard this afternoon and the deliberations of your Commission I think are very valuable to share with the public at large and with our Nation's leaders and perspective leaders because I'm afraid that when they hear that ... I know that when they hear that their sense that ... of emergency about the need for new policies is going to be strengthened. Indeed it does bother me sometimes, people talk about the jobs issue and try to ignore the trade ... the rules of trade doesn't have anything to do with what's happening with jobs. I think you understand that it isn't just our trade rules, but when you live in a global economy and the rules that our Nation has been pursuing have been pretty much focused on how to facilitate the flow of capital to other countries, to China and elsewhere, when that's been the objective of our trade policies, why are we surprised that in fact the capital is moving to places where workers are paid much less and environmental, human rights protections are very weak. So I think we've made some progress. There was a poll released recently that perhaps some of you saw out of an outfit from the University of Maryland. The initials are PIPA, Program on International Policy Attitudes. I may have that wrong. That was quite interesting in terms of showing the level of public awareness. Question was asked of respondents nationwide, do you agree with the statement that the United States should be expanding trade with other countries and that we're going about it

the right way. Only 23 percent of the respondents said they agreed with that statement. Do you believe the United States should be expanding trade with other countries and that we're going about it the right way? Only 23 percent said they agree with that. Almost as many said we shouldn't be expanding trade. The majority of folks said, yes, we should be expanding trade but our country is going about it the wrong way. We're not paying attention to the interests of workers. Eight out of ten said that we should be paying more attention to the interests of workers. Two thirds said we should be paying more attention to the interest of the environment. And it also, if I'm remembering the poll correctly, eight out of ten said that they agreed with the statement that if we expand trade more slowly or we delay trade agreements in order to include protections for workers and the environment, do you think that that's okay and eight out of ten said yes. They said let's take our time and get it right. Well, we can take our time with new trade agreements. We cannot take our time with the situation that we face at the present. But I think the public is alert to the problem and I'm hoping that the work of this Commission will help educate them about some dimensions of it that we haven't been focused on. And I'll submit this statement for the record from 31 groups in South Carolina who I'm sure all would have liked to be here if they were not chasing Presidential candidates today and thank you so much for coming to South Carolina.

Chairman ROBINSON. Well, we very much appreciate your insightful remarks and we will take your document on board for the record of these proceedings. If you'll just hand that to Bob Bean of our team. Thanks once again. We are a little short on time, but there are two people left on the sign-up sheet. I apologize if there are more than two, but those are the two that we have in front of us. And regrettably that is all that we would have time for in today's proceedings. But if Sarah Williams is with us from the Carolina Peace Resource Center, we'd like to hear from Sarah.

Ms. WILLIAMS. I'll make it very quick so that the other person can have some time too, because I'm certainly not an authority on trade or anything. I'm just a citizen of South Carolina, a health care worker out of work. That's a shame because I'm a physician's assistant and I can do health care for half the cost of a physician. Both the physicians that I've worked for over the past year have had to leave their private practices because they don't have enough clients, well, enough money from the insurance companies or the Medicaid in order to stay in business in their private practices, and they've had to go on and do independent work with other companies, so I'm not working as a P.A. I've been out of work for six months, and in that time I've been getting very politically active. I'm at the Carolina Peace Resource Center. It's wonderful. And through that I would like to mention that in learning more about fair trade instead of free trade. And I know these are catchwords, the race to the bottom. But Mr. Becker, you hit it right on the nose. What's going on in this country is going on around the world. China is not our enemy. Mexico, South America, they're not our enemy. They're people like me that want jobs, want better families, better homes, a living wage. So I come from across town—we were over at the Township today—over 4,000 people were there. Jobs,

health care, education, not just jobs, we need living wages, right? Living wage. A living wage, that's all. I want to work. One of the jobs I lost by the way is at the free clinic where I gave my services away. But my physician and supervisor had to go out of private practice. So I can't even take care of all these people that have lost their jobs, still have their diabetes, hypertension and the in-stage consequences of those diseases. So without job they have no health care. If we could think of a better system where corporations that belong to America are made to incorporate in America and pay taxes to America, where they are made to meet some minor worker rights responsibilities and environmental responsibilities I think that we would have a better ... now, you asked would the people recognize it. We have a fair trade coffee club. We only buy fair trade coffee, which is from South America. And a lot of us are in that movement. For Christmas, we only gave gifts that were made locally. We made them ourselves, and we're making this movement with blue jeans and we're looking more and more to do that, but not American made, fair-trade made. Let's make the world ... this is a world, a global, one world and we need peace and prosperity. We don't need trade wars. We want a peaceful world with peaceful trade. And we can do that if we think in terms of our global economy but bringing everybody up, not racing to the bottom. So, thank you. And tonight from seven o'clock at the Methodist church on Washington Street we're having an interdenominational prayer meeting and you all are welcome to come. I know you all had a hard day.

Chairman ROBINSON. Thank you very much, Sarah. And thanks for what is a very positive view of what could be the future of the planet. And because obviously no one here is interested in other than global fair trade and prosperity at the end of the day. It's all a matter of how you get there. And I just wish the Chinese people really had an opportunity to be more like us genuinely. But that's not going to happen until they have free speech and they shut themselves of a communist utilitarian system I'm afraid, and that's one of the reasons why we have to be concerned about the prospects, as we've discussed today. With that, if Brian McCanlis is with us from the National Business Association.

Mr. MCCANLIS. Yes, thank you. You all have done an excellent job today. I appreciate you being here. I'm going to be very brief. One of the Commissioners said earlier in testimony that he didn't believe that the process of international trade agreements was flawed. My experience in going to Washington, D.C. before the Senate Finance Committee, the House Ways and Means Committee, which considers all trade deals, is that it is flawed. I believe that it is tainted and corrupted by multi-national money. You've had a legitimate, viable hearing today. What I've experienced in Washington, D.C. is that the Members of the Senate Finance Committee for the most part, and the House Ways and Means Committee for the most part, already have their mind made up. It doesn't matter what kind of data I have, it doesn't matter what kind of merit there is to my argument. It doesn't matter. They've got checks from the multi-national corporations. Their ears are closed. Their minds are closed. So I believe that it is a very flawed situation. Addressing the jobs training issue, that is not the answer. The 40-year his-

tory of retraining people for jobs, according to a professor at Oregon State University, is that once that cycle is completed, women only make 47 percent of the poverty line. Men make 54 percent of the poverty line. So it's not working. The process is rigged against us. And we need some change. But I thank you for what you're doing. This is one of the best Commission hearings I've ever attended and I've attended a lot of them. So I salute you and I thank you. I salute you.

Chairman ROBINSON. Well, thank you very much and I would say that the salute is returned. But it's also the case that many of us on the Commission, not all as you can tell, believe that we do have systemic flaws. That this is not just a matter of not enough votes in a process that's working properly. I regret to say that I think that the system myself is in need of some serious reform and those flaws has to be addressed. So believe me, this is not a group that thinks that we just have some tinkering on the margins with the existing process. This is going to require more radical creative visionary solutions and a great deal of American unity and resolve among the people and communicating that in no uncertain terms to their collective representatives. Big money is spoiling our future and there's no question about the fact that too much, too many ears are closed and for the wrong reasons. And there's a lot of suffering as a result of that and it's very narrow-minded, it's very short-term. It's very profit driven and it's very destructive for the United States of America. I would like to ask if there is anyone else. Yes, please. I don't know your name, so if you could please state it.

Mr. WOOD. My name is Lloyd Wood. I'm with the American Manufacturing Trade Action Coalition and I wanted to address a couple technical points that were raised by Co-Chairman Becker and Commissioner Reinsch about the multi-fiber agreement, the MFA, and how it works. The MFA, when it was agreed to be phased out in 1995, the countries that asked for the phase-out of the MFA were third world countries, were the least-developed countries. And one of the things that's been expressed maybe to some extent that it might be politically difficult for the United States to advocate, to take a leading position on the continuation of the MFA. AMTAC represents a significant chunk of American textile industry, and one of the things we're very strongly supportive of was an extension of the MFA. But what I will say is this, these third-world countries realize what is happening out there and certainly I know that we, through other international textile associations have been contacted, people have contacted us about this problem, and you've seen other governments make hints about maybe doing something like this. But they've met with resistance from USTR. Last year they had a meeting—I think it was the U.S. African Business Council or something to that effect—where basically you had African business representatives and diplomatic representatives holding conference in Washington D.C. And textiles were brought up, and basically Ambassador Zoellick took them to the woodshed for bringing up even any thought of extending the MFA. It should be the position of the U.S. Government that the MFA should be extended so that if a third-world country asks, if there is a request for an emergency session with the WTO, this issue be brought up,

it should be the position of the U.S. Government that that is something that they would support. And I would tell Commissioner Bartholomew that your former boss, Minority Leader Pelosi, and 11 other Members of the Democratic leadership wrote a very eloquent letter to President Bush asking for basically that. There are going to be 30 million people that lose their jobs worldwide with the expiration of quotas and that we should be very supportive of extending the MFA. And certainly that letter would be fit in the record very, very well. So one of the concrete things that this Commission could ask for is that the U.S. Government take a formal position that if there is a request for a meeting of the WTO to extend the MFA, the U.S. should be supportive of that.

Second, very quickly, you talked about concrete things that need to be done. What can we do? I would urge the Commission to focus on recommendations that the United States can unilaterally implement. And what I mean by that is this. If you are talking about what can we do to get China to stop currency manipulation? The answer has been the government asks China to end currency manipulation. Well, that's not a process we can control. We are depending on China to act rather than be dependent on us to act. And so with the crisis of job losses and the crisis we're seeing in manufacturing, our position is we don't have the luxury of waiting for somebody else to act and that our government needs to be proactive and act first. Thank you so much. You guys have done a wonderful job with the hearing and let's hope that a lot of people are going to watch it. Thank you.

Chairman ROBINSON. Yes. Thank you so much. Commissioner Bartholomew had a response.

Commissioner BARTHOLOMEW. Just one. Well, actually, two comments. Commissioner Reinsch and I were having a version of the very discussions about the role of the ... it's ironic that the developing countries had wanted a phase-out of the MFA are not the countries who are recognizing what's going to happen to them. Countries like Sri Lanka and Bangladesh, and Pakistan—countries that have a vibrant textile producing industry. That's the first thing. The second thing is that the letter that you referred to—I want to of course acknowledge the leadership of Congressman John Spratt from here in South Carolina who is a very important Member of Congress and who is really one of the point people on this issue in helping out the textile industry in the House of Representatives.

Mr. WOOD. And the other thing I know the Textile Commissioner in Washington, I would say it's a non-partisan issue. You've got Republicans and Democrats that are supportive and some Republicans and Democrats are against. So it's very interesting out there about kind of regional breakdown that you see. But there's certainly a lot of people out there that have been very supportive of this issue and when we had left last year there was a letter sent to Congress asking for implementation of the China safeguard, there were more than 170 Senators and Representatives that signed that letter, including Minority Leader Pelosi, so certainly we are getting help from a lot of different corners on Capitol Hill. But unfortunately, not enough.

Commissioner MULLOY. I told you before that we did a hearing on China's exchange rate policies in September. I mentioned Senator Schumer came and testified. I also want to mention that your Senator, Senator Lindsey Graham came and gave very good testimony. Subsequent to that he invited me over to meet with him at his office to talk further about these issues. This is not a partisan issue. This is something that both parties should be aware of in trying to figure out how to deal with.

Mr. WOOD. Absolutely, I totally agree.

Chairman ROBINSON. And finally, before turning it over to Co-Chairman Becker who's going to gavel close today's proceedings, I would only say that we also very much share your view that the destiny of our country in the areas of trade and manufacturing based concerns is very much in our hands. There are some circumstances where obviously we're going to want to have dialogue with China and there are going to be other circumstances where multi-lateral consensus is a good and proper thing. This is not to say that we should just be proceeding solo as a nation. But I can tell you in the crisis that we're facing here on our manufacturing base and what we've heard today in the context of South Carolina, this is going to require unilateral U.S. action and resolve. There's no question about that. And we're certainly up to it as a Commission and we're going to be making powerful recommendations that we step up to this. It can't be watered down, it can't be diluted to the lowest common denominator. This is a time to stand up and take our destiny into our own hands. So those are my concluding words and I'd like to turn it over with thanks to Co-Chairman Becker and we'll close out the proceedings.

Co-Chair BECKER. I thank you very much, Mr. Chairman. There have been some very eloquent statements made here at the end. I won't try to equal them and I don't think they need to be said again. I want to thank everybody for their patience and hanging in there. I am thrilled to death. When we set this hearing up, I didn't quite know what to expect; I know what I hoped. But this Commission hearing has exceeded my fondest wishes. I want to thank you. I'm proud of all of you and your statements and your feeling and the way that you've expressed them. I want the Commission to know that I'm very proud of them too. And with that we'll just close the hearing and have a good trip back to wherever you're going.

[Whereupon, at 5:22 p.m., the hearing was adjourned.]

Testimony of U.S. Representative John M. Spratt, Jr. (D-SC)

Mr. Chairman, thank you for the opportunity to testify on behalf of the people of South Carolina. I represent the Fifth Congressional District of South Carolina, which lies well within the textile belt. Since 1997, 51,000 textile workers have lost their jobs in South Carolina and 66 textile plants have closed. The surge of imports from China is a significant cause of the problem, and unless something is done, the problem will only get worse.

Since China joined the World Trade Organization (WTO) on January 1, 2002, its exports of textile and apparel products to the United States have more than doubled. China's exports grew by 117% in 2002 and by an additional 114% by September 2003. We have been accustomed to import competition in textiles and apparel, but this surge represents the largest single increase in our history. Almost all of these imports (96%) are in categories that were released from quota control on January 1, 2002. China's increase has been so great—2.8 billion square meters—that it has surpassed the combined increases in textile and apparel imports coming from every other country in the world.

As things stand, I see four significant barriers to fair trade between the United States and China:

- (1) China pegs the yuan at an artificially high value to the dollar, making Chinese imports cheaper than ever.
- (2) China has no sense of balance and has caused enormous market disruption by flooding the United States with cheap imports.
- (3) China uses legal access to our markets to the maximum and then flouts the rules of fair trade by illegally trans-shipping textiles and apparel to the United States in huge quantities.
- (4) China has no sense of reciprocity and has failed to open its markets to our exports, even though it has substantial dollar reserves.

China's surge has been significantly abetted by pegging the yuan to the U.S. dollar. Currency manipulation has allowed China to gain a 38% unfair price advantage, on top of the advantage it already enjoys due to cheap labor. I introduced H.R. 3364 with Rep. Sue Myrick (R-NC) to impose a 27.5% duty on any Chinese imports unless China halts the manipulation of its currency within 180 days of enactment of our bill. H.R. 3364 was referred to the Committee on Ways and Means where it awaits consideration.

To limit the surge of Chinese textile imports, I and 144 of my colleagues in the House wrote the President asking him to invoke the Chinese textile safeguard. The safeguard was designed to protect U.S. textile and apparel products from disruption by large volumes of Chinese imports. This safeguard was included as key provision in the Chinese/U.S. textile bilateral in 1997 and reaffirmed as part of China's WTO accession agreement in 2001. It should be used and used aggressively, and having agreed to the safeguard twice, China should not be heard to complain when it is used fairly.

Although this safeguard was first agreed to six years ago, the Committee for the Implementation of Textile Agreements (CITA) did not publish procedures for implementing the measure until May 2003. This delay caused considerable damage to the U.S. textile industry. While China's exports to the U.S. grew by 117% last year, the domestic industry lost nearly 300,000 jobs nationwide since January 2001. China is the single largest exporter of textile and apparel products to the U.S. for 12 straight months, increasing at an annual rate of over 100%. As soon as the procedures were published, the industry began the process of getting the safeguard triggered.

On July 24th, the domestic textile and fiber industry petitioned President Bush to invoke the China safeguard in four categories: knit fabric; cotton and man-made fiber gloves; cotton and man-made fiber dressing gowns and robes; and, cotton and man-made fiber brasseries. The petitions for knit fabric, brasseries, and dressing gowns were accepted. The petition for gloves was rejected because the China safeguard is not applicable to a product under quota. Although knit cotton and man-made fiber gloves are no longer under quota, imports of woven cotton and man-made fiber gloves remain under quota until January 1, 2005. The industry will file a new petition on knit cotton and man-made fiber gloves early this fall.

CITA announced its approval of the first safeguard petitions on November 18, 2003. The United States will now begin a consultation process with China to limit growth of these imports. Once the Chinese are notified of the consultation, shipments from China will be limited to 7.5% above the amount that entered the country during the first 12-month period of the most recent 14 months preceding the request for such consultations. During the consultation process, which can last no more than 90 days, the United States may reach an agreement with the Chinese

that will resolve this issue. If we do not reach agreement, the safeguard will remain in effect for the remainder of the year. I emphatically support use of the China safeguard in as many product categories as may be necessary to restore some measure of fairness to our trading relationship.

I adamantly oppose the Bush Administration's proposal to eliminate all tariffs by 2015. Textile tariffs are our last line of protection, and modest protection at that. I have written U.S. Trade Representative Robert Zoellick asking him to drop the proposal during the round of WTO negotiations in Cancun, Mexico, and I urge again that we take tariff reduction totally off the table.

The United States should establish stronger enforcement methods and more punitive measures against countries like China that illegally trans-ship textile and apparel products into the United States. The Government Accounting Office (GAO), in a report released on January 23, 2004, found that the Customs and Border Protection Service targeted less than .01% of textiles shipments for inspection in 2002. According to GAO's report, under CBP's in-bond system, foreign textiles and apparel can transit through the U.S. before formally entering U.S. commerce or being exported to a foreign country. The report further found that ineffective controls often enable cargo to be illegally diverted from its supposed destination, and ultimately circumvent quotas and duties. CBP's penalties are set lower than the value of the cargo, so violators do not view the low payments as a deterrent against diverting their cargo. GAO also noted, after global textile quotas end in 2005, CBP will lose its authority to conduct foreign factory visits in former quota countries, and this will weaken its ability to curb illegal trans-shipment, mislabeling, and false declarations.

One of the most significant pieces missing from our trade relationship with China is a sense of reciprocity on their part. When we agreed to open our markets to China, we did so with the understanding that China would import American-made goods. In November 2003, the United States imported \$4.3 billion in textiles from China, and only exported \$192.5 million to China. When China entered the WTO, the textile industry was assured that many of the trade barriers preventing our exports from accessing China would be removed. Trade figures do not bear this out. The United States must press China to remove all of its trade barriers, visible and invisible, in order for our two countries to remain trading partners.

Mr. Chairman, thank you for accepting my testimony today. With textile quotas scheduled to be eliminated at the end of 2004 and the Bush Administration proposing to eliminate all textile and apparel tariffs by 2015, it is crucial that the four points I have laid out be implemented to protect the textile industry from China's heavily subsidized industry through 2008. The United States cannot afford further erosion of its manufacturing base, and protecting our textile industry is a strong step toward stopping the erosion.

South Carolina Fair Trade

Ten years ago the North American Free Trade Agreement (NAFTA) was implemented with claims that it would create more jobs and bring higher wages to workers in both the U.S. and Mexico. However, this has not happened. What has occurred, instead, is an erosion of environmental standards, a rash of human rights violations, and a steady decline in the status of workers on both sides of the border. NAFTA's provisions facilitating the flow of capital out of the U.S. made it easier for companies to relocate to Mexico where they have profited from less government oversight and lower wages. But now, some of these same companies are moving to China, seeking even lower wages in a "race to the bottom." Unemployment, more severe poverty, and the reduction of household income has been the unfortunate consequence of NAFTA for too many of its supposed beneficiaries.

South Carolina has lost 68,600 jobs from January of 2001 through September 2003, of which 55,200 were in manufacturing. This past November President Bush visited Greenville S.C., a city that has lost 11,700 jobs in its metro section alone. Workers are advised to "retool" and "re-educate" themselves so they can move from manufacturing jobs into the high-tech industry. But now IT jobs are also being moved overseas as "Free Trade" expands to technology and intellectual property.

At present, the Bush Administration is negotiating a new generation of trade agreements the most damaging of which would likely be the Free Trade Area of Americas (FTAA). The FTAA would extend NAFTA to 31 more countries in the Western Hemisphere. The FTAA would also expand NAFTA from manufacturing and agriculture into "services" such as water supply, electricity, health care, public safety, the postal service, and education. "Free Trade" would mean diminished authority for local, state and federal government to provide and regulate services, while giving corporations greater power.

The FTAA negotiations are unlikely to be completed when President Bush's term ends in January 2004. A new occupant in the White House can use his or her power to stop the FTAA, and write new trade agreements that emphasize "fair trade" rather than "free trade."

Therefore, we urge all candidates seeking support in the South Carolina Presidential primary on February 3, 2004, to support fair and equitable trade policies, and clearly reject the proposed Free Trade Area of the Americas (FTAA), the Central American Free Trade Agreement (CAFTA), the expansion of the WTO, and other agreement that fail to meet the following criteria:

1. Trade agreements should promote protection of workers and the environment by including binding, enforceable measures within the core text of the agreements to insure that:
 - a) No country fails to enforce its environmental and labor laws and regulations, or lowers its environmental and labor standards to attract investment or gain trade advantages; and
 - b) All countries protect in domestic law the rights established by the International Labor Organization (ILO) in its Declaration on Fundamental Principles and Rights at Work; and no nation is penalized for adhering to its obligations under the ILO or under international environmental agreements.

Labor and environmental provisions should be subject to the same dispute resolution and enforcement mechanism that apply to other aspects of the agreement.
2. Trade agreements should not allow private corporation to compel a government to pay the corporation for lost profits that may have resulted from a government's adoption or implementation of laws, regulations, or policies to protect the public welfare, including environmental protection, food safety, and worker safety.
3. Trade agreements should allow governments in the U.S. and elsewhere to enact farm and food policies that create a sustainable family farm system and a safe and healthy food supply.
4. Trade laws should not undermine the ability of governments to safeguard domestic industries against unfair foreign trade practices or to regulate the flow of speculative capital.
5. Trade agreements should not cover "services" such as education, health care, transportation, construction, the postal service, public safety, water supply, other public services, energy, and waste disposal, encouraging privatization and deregulation in these sectors of the economy.

Signed:

**South Carolina AFL-CIO
South Carolina Rainbow Coalition
Upstate South Carolinians for Fair Trade
Greater Piedmont Central Labor Union
UNITE
Amalgamated Transit Union (local 610)
CWA (local 3776)
South Carolina Forest Watch
Save American Manufacturing Now
Thinking People
Hilton Head for Peace
IFF Onlys
Prison Family Support Groups and Partnerships
Carolina Peace Resource Center
Lower Richland Community Council
South Carolina Natural Guard
Grimke Sisters
Charleston Peace
South Carolina Fair Share
APWU (local 807)
South Carolina Gay and Lesbian Pride Movement
South Carolina Progressive Network
Americans for Democratic Action
Upstate Secular Humanists
Peoples Coop
Columbia Food not Bombs
Charleston Food not Bombs
IATSE (local 491)
Columbia Central Labor Council
Catawba Central Labor Council
Malcolm X Grassroots Movement
PACE (local 30925)**

By whom the oaths or affirmations shall be administered in the several States.

appointed before the first day of August next, and who shall then be in office, shall, within one month thereafter, take the same oath or affirmation, except where they shall have taken it before; which may be administered by any person authorized by the law of the State, in which such office shall be holden, to administer oaths. And the members of the several State legislatures, and all executive and judicial officers of the several States, who shall be chosen or appointed after the said first day of August, shall, before they proceed to execute the duties of their respective offices, take the foregoing oath or affirmation, which shall be administered by the person or persons, who by the law of the State shall be authorized to administer the oath of office; and the person or persons so administering the oath hereby required to be taken, shall cause a record or certificate thereof to be made, in the same manner, as, by the law of the State, he or they shall be directed to record or certify the oath of office.

To all officers of the U. States appointed, or to be appointed, before they act.

SEC. 4. *And be it further enacted*, That all officers appointed, or hereafter to be appointed under the authority of the United States, shall, before they act in their respective offices, take the same oath or affirmation, which shall be administered by the person or persons who shall be authorized by law to administer to such officers their respective oaths of office; and such officers shall incur the same penalties in case of failure, as shall be imposed by law in case of failure in taking their respective oaths of office.

Oath of secretary of the Senate and clerk of the House of Representatives.

SEC. 5. *And be it further enacted*, That the secretary of the Senate, and the clerk of the House of Representatives for the time being, shall, at the time of taking the oath or affirmation aforesaid, each take an oath or affirmation in the words following, to wit: "I, A. B. secretary of the Senate, or clerk of the House of Representatives (as the case may be) of the United States of America, do solemnly swear or affirm, that I will truly and faithfully discharge the duties of my said office, to the best of my knowledge and abilities."

APPROVED, June 1, 1789.

STATUTE I.

July 4, 1789.

[Repealed.]

CHAP. II.—*An Act for laying a Duty on Goods, Wares, and Merchandises imported into the United States.*(a)

SEC. 1. Whereas it is necessary for the support of government, for the discharge of the debts of the United States, and the encouragement and protection of manufactures, that duties be laid on goods, wares and merchandises imported: (b)

Act of August 10, 1790, ch. 39, sec. 1 and 2.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That from and after the first day of August next ensuing, the several duties hereinafter mentioned shall be laid on the following goods, wares and merchandises imported into the United States from any foreign port or place, that is to say:

(a) Duty Acts. Act of July 4, 1789, chap. 2; act of August 4, 1790, chap. 35; act of June 5, 1794, chap. 51; act of January 29, 1795, chap. 17; act of March 3, 1797, chap. 10; act of May 13, 1800, chap. 66; act of March 27, 1804, chap. 57; act of June 7, 1794, chap. 54; act of January 29, 1795, chap. 17; act of March 27, 1804, chap. 46; act of July 8, 1797, chap. 15; act of May 7, 1800, chap. 43; act of March 27, 1804, chap. 57; act of July 1, 1812, chap. 112; act of February 25, 1813, chap. 30; act of August 2, 1813, chap. 38; act of April 27, 1816, chap. 107; act of January 14, 1817, chap. 3; act of April 20, 1818, chap. 107; act of April 20, 1818, chap. 98; act of May 21, 1824, chap. 136; act of May 19, 1828, chap. 55; act of May 24, 1828, chap. 103; act of May 28, 1830, chap. 147; act of July 14, 1832, chap. 227; act of March 2, 1833, chap. 62; act of September 11, 1841, chap. 24; act of August 30, 1842, chap. 270.

(b) The powers of Congress to levy and collect taxes, duties, exports and excises, is co-extensive with the United States. *Loughborough v. Blake*, 5 Wheat. 317; 4 Cond. Rep. 660.

- On all distilled spirits of Jamaica proof, imported from any kingdom or country whatsoever, per gallon, ten cents. Specific duties on certain enumerated articles.
- On all other distilled spirits, per gallon, eight cents.
- On molasses, per gallon, two and a half cents.
- On Madeira wine, per gallon, eighteen cents.
- On all other wines, per gallon, ten cents.
- On every gallon of beer, ale or porter in casks, five cents.
- On all cider, beer, ale or porter in bottles, per dozen, twenty cents.
- On malt, per bushel, ten cents.
- On brown sugars, per pound, one cent.
- On loaf sugars, per pound, three cents.
- On all other sugars, per pound, one and a half cents.
- On coffee, per pound, two and a half cents.
- On cocoa, per pound, one cent.
- On all candles of tallow, per pound, two cents.
- On all candles of wax or spermaceti, per pound, six cents.
- On cheese, per pound, four cents.
- On soap, per pound, two cents.
- On boots, per pair, fifty cents.
- On all shoes, slippers or goloshoes made of leather, per pair, seven cents.
- On all shoes or slippers made of silk or stuff, per pair, ten cents.
- On cables, for every one hundred and twelve pounds, seventy-five cents.
- On tarred cordage, for every one hundred and twelve pounds, seventy-five cents.
- On untarred ditto, and yarn, for every one hundred and twelve pounds, ninety cents.
- On twine or packthread, for every one hundred and twelve pounds, two hundred cents.
- On all steel unwrought, for every one hundred and twelve pounds, fifty-six cents.
- On all nails and spikes, per pound, one cent.
- On salt, per bushel, six cents.
- On manufactured tobacco, per pound, six cents.
- On snuff, per pound, ten cents.
- On indigo, per pound, sixteen cents.
- On wool and cotton cards, per dozen, fifty cents.
- On coal, per bushel, two cents.
- On pickled fish, per barrel, seventy-five cents.
- On dried fish, per quintal, fifty cents.
- On all teas imported from China or India, in ships built in the United States, and belonging to a citizen or citizens thereof, or in ships or vessels built in foreign countries, and on the sixteenth day of May last wholly the property of a citizen or citizens of the United States, and so continuing until the time of importation, as follows: On teas imported from India or China.
- On bohea tea, per pound, six cents.
- On all souchong, or other black teas, per pound, ten cents.
- On all hyson teas, per pound, twenty cents.
- On all other green teas, per pound, twelve cents.
- On all teas imported from Europe in ships or vessels built in the United States, and belonging wholly to a citizen or citizens thereof, or in ships or vessels built in foreign countries, and on the sixteenth day of May last wholly the property of a citizen or citizens of the United States, and so continuing until the time of importation, as follows: On teas imported from Europe.
- On bohea tea, per pound, eight cents.
- On all souchong, and other black teas, per pound, thirteen cents.
- On all hyson teas, per pound, twenty-six cents.
- On all other green teas, per pound, sixteen cents.

On all teas imported, in any other manner than as above mentioned, as follows:—

- On bohea tea, per pound, fifteen cents.
- On all souchong, or other black teas, per pound, twenty-two cents.
- On all hyson teas, per pound, forty-five cents.
- On all other green teas, per pound, twenty-seven cents.

On all other goods imported from India or China, 12½ per centum ad valorem.

On all goods, wares and merchandises, other than teas, imported from China or India, in ships not built in the United States, and not wholly the property of a citizen or citizens thereof, nor in vessels built in foreign countries, and on the sixteenth day of May last wholly the property of a citizen or citizens of the United States, and so continuing until the time of importation, twelve and a half per centum ad valorem.

On other enumerated articles, 10 per centum ad valorem.

- On all looking-glasses, window and other glass (except black quart bottles),
- On all China, stone and earthen ware,
- On gunpowder,
- On all paints ground in oil,
- On shoe and knee buckles,
- On gold and silver lace, and
- On gold and silver leaf,

} Ten per centum ad valorem.

On other enumerated articles, 7½ per centum ad valorem.

- On all blank books,
- On all writing, printing or wrapping paper, paper-hangings and pasteboard,
- On all cabinet wares,
- On all buttons,
- On all saddles,
- On all gloves of leather,
- On all hats of beaver, fur, wool, or mixture of either,
- On all millinery ready made,
- On all castings of iron, and upon slit and rolled iron,
- On all leather tanned or tawed, and all manufacture of leather, except such as shall be otherwise rated,
- On canes, walking sticks and whips,
- On clothing ready made,
- On all brushes,
- On gold, silver, and plated ware, and on jewelry and paste work,
- On anchors, and on all wrought, tin, and pewter ware,
- On playing-cards, per pack, ten cents.

} Seven and a half per centum ad valorem.

On every coach, chariot or other four wheel carriage, and on every chaise, solo, or other two wheel carriage, or parts thereof, } fifteen per centum ad valorem.

On all other goods, except certain articles, 5 per cent. on the value at the time and place of importation.

On all other goods, wares and merchandise, five per centum on the value thereof at the time and place of importation, except as follows: saltpetre, tin in pigs, tin plates, lead, old pewter, brass, iron and brass wire, copper in plates, (a) wool, cotton, dyeing woods and dyeing drugs, raw hides, beaver, and all other furs, and deer skins.

Duty on hemp and cotton imported after the 1st Dec. 1790.

SEC. 2. *And be it further enacted by the authority aforesaid,* That from and after the first day of December, which shall be in the year one thousand seven hundred and ninety, there shall be laid a duty on every one hundred and twelve pounds, weight of hemp imported as aforesaid, of sixty cents; and on cotton per pound, three cents.

Drawback allowed for the duties on goods exported within 12 months.

SEC. 3. *And be it [further] enacted by the authority aforesaid,* That all the duties paid, or secured to be paid upon any of the goods, wares and merchandises as aforesaid, except on distilled spirits, other than brandy and geneva, shall be returned or discharged upon such of the said goods,

(a) Round copper in bars, and copper plates turned up at the edges, are not subject to duty under this act, or under the act of August 10, 1790, and the act of May 2, 1792: by which "copper in plates, and copper in pigs and bars," is exempted from duty. United States v. Kidd & Watson, 4 Cranch, 1; 2 Cond. Rep. 1.

wares, or merchandises, as shall within twelve months after payment made, or security given, be exported to any country without the limits of the United States, as settled by the late treaty of peace; except one per centum on the amount of the said duties, in consideration of the expense which shall have accrued by the entry and safe-keeping thereof.

Except one per cent.

SEC. 4. *And be it [further] enacted by the authority aforesaid,* That there shall be allowed and paid on every quintal of dried, and on every barrel of pickled fish, of the fisheries of the United States, and on every barrel of salted provision of the United States, exported to any country without the limits thereof, in lieu of a drawback of the duties imposed on the importation of the salt employed and expended therein, viz :

Allowance in lieu of a drawback on dried and pickled fish and salted provisions exported.

On every quintal of dried fish, five cents.

1789, ch. 11, § 37.

On every barrel of pickled fish, five cents.

On every barrel of salted provision, five cents.

SEC. 5. *And be it further enacted by the authority aforesaid,* That a discount of ten per cent. on all the duties imposed by this act, shall be allowed on such goods, wares and merchandises, as shall be imported in vessels built in the United States, and which shall be wholly the property of a citizen or citizens thereof, or in vessels built in foreign countries, and on the sixteenth day of May last, wholly the property of a citizen or citizens of the United States, and so continuing until the time of importation.

Discount on duties for goods imported in vessels of citizens.

SEC. 6. *And be it further enacted by the authority aforesaid,* That this act shall continue and be in force until the first day of June, which shall be in the year of our Lord one thousand seven hundred and ninety-six, and from thence until the end of the next succeeding session of Congress which shall be held thereafter, and no longer.

Continuance of the act.

APPROVED, July 4, 1789.

STATUTE I.

July 20, 1789.

CHAP. III.—*An Act imposing Duties on Tonnage.*(a).

SECTION 1. *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the following duties shall be, and are hereby imposed on all ships or vessels entered in the United States, that is to say :

Repealed by act of July 20, 1790, chap. 30.

On all ships or vessels built within the said States, and belonging wholly to a citizen or citizens thereof; or not built within the said States, but on the twenty-ninth day of May, one thousand seven hundred and eighty-nine, belonging, and during the time such ships or vessels shall continue to belong wholly to a citizen or citizens thereof, at the rate of six cents per ton. On all ships or vessels hereafter built in the United States, belonging wholly, or in part, to subjects of foreign powers, at the rate of thirty cents per ton. On all other ships or vessels, at the rate of fifty cents per ton.

Six cents per ton on vessels built in U. S., or belonging to citizens. On vessels hereafter built in the U. S., belonging to foreigners, 30 cts. per ton. On all others, 50 cts. per ton.

SEC. 2. *Provided always, and be it enacted,* That no ship or vessel built within the aforesaid States, and belonging to a citizen or citizens thereof, shall, whilst employed in the coasting trade, or in the fisheries, pay tonnage more than once in any year.

Vessels built in the U. S., in the coasting trade, to pay tonnage but once a year.

SEC. 3. *And be it further enacted,* That every ship or vessel employed in the transportation of any of the produce or manufactures of the United States, coastwise within the said States, except such ship or

50 cts. a ton on foreign vessels engaged in the coasting trade.

(a) General acts relating to tonnage duties: Act of July 20, 1789, chap. 3; act of September 16, 1789, chap. 15; act of July 20, 1790, chap. 30; act of May 1, 1802; act of March 3, 1815, chap. 77; April 27, 1816, chap. 107; April 27, 1816, chap. 110; January 14, 1817, chap. 3; act of March 1, 1817, chap. 31; act of March 3, 1817, chap. 50; act of March 3, 1819, chap. 75; act of January 7, 1824, chap. 4.

NC STATE UNIVERSITY

North Carolina State University
Department of Wood and Paper Science
Biltmore Hall 1022F
Campus Box 8005
Raleigh, North Carolina 27695-8003
www.ces.ncsu.edu/nreos/wood (url)

From the desk of Urs Buehlmann
919.515.5580 (voice)
919.513.3496 (fax)
urs_buehlmann@ncsu.edu (e-mail)
www4.ncsu.edu/~ubuehlm (url)
www.ncsu.edu/woodrecycling (url)

February 12, 2004

Roger W. Robinson, Chairman
and
Members of
United States-China Commission
Hall of the States
Suite 602
444 North Capitol Street, N.W.
Washington, D.C. 20001

**Re: United States-China Economic and Security Review Commission
Field Investigation on China's Impact on the U.S. Manufacturing Base
Held on Friday, January 30, 2004 - Blatt Building, Columbia, SC**

Dear Mr. Robinson, dear Commission Members:

Congratulations on your successful fact-finding meeting regarding China's impact on the U.S. Manufacturing Base on January 30, 2004 in Columbia, SC, which I attended. I was impressed by the quality of the input to the commission by the speakers as well as by the pertinent questions and comments made by the commission members. This meeting was of particular interest to me, since Al Schuler from the USDA Forest Service, my team partner, and I closely follow the decline of the U.S. manufacturing base. We are particularly concerned about the forest products industries, since this is part of our research mission at the USDA Forest Service (USDA-FS) and at North Carolina State University (NCSU).

Unfortunately, there was no representative from the forest products industries present at this meeting. The picture from this sector of the U.S. manufacturing industry, and from household furniture industries in particular, would not have been different from what was shown for textiles, plastics or steel. The country has lost almost 3 million manufacturing jobs since 2000, about 300,000 alone in forest products industries. In North Carolina, 18 percent of the manufacturing employment is in forest products with the second highest annual payroll of all industries. However, due to imports, the state lost up to 50 percent of the jobs in furniture manufacturing over the last years. An end to the plant closures and lay-offs is not in sight. Figure 1 shows a snapshot of how imports have gained market share in kitchen cabinets, office furniture, upholstered furniture and, most alarmingly, in residential wooden household furniture over the last ten plus years.

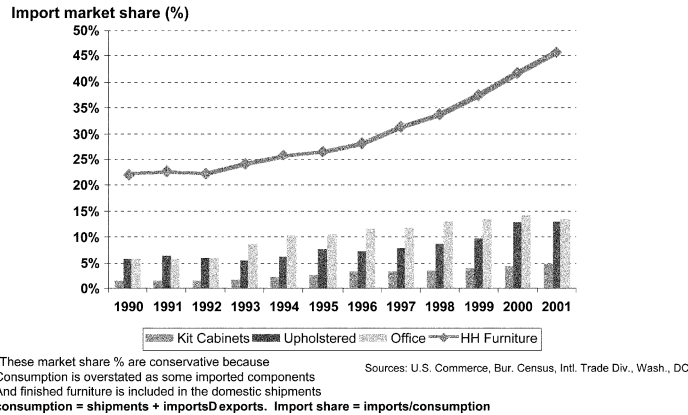


Figure 1: Market share of imported wood furniture 1990-2001.

U.S. manufacturers have started to search for ways to stay competitive against imports from low cost offshore countries located mainly in Asia, such as China. These low cost production countries are partially responsible for the decline in domestic manufacturing activity. Reducing manufacturing costs to regain international competitiveness and adapting new business models are the crucial tasks ahead. Also, we have to ask ourselves how we allowed some of our manufacturing industries to become so outdated in regards to plant and equipment modernization that updating is no longer an option or at least extremely difficult. Surely, this also has to do with our educational system, where we are not always teaching the skills needed but remain entangled in theoretical engineering and scientific concepts. Federal Reserve Chairman Alan Greenspan just yesterday, February 11, 2004, reiterated the importance of a better-educated U.S. work force in his testimony to Congress.

However, there are positive stories to tell. The U.S. kitchen cabinet industry is thriving and seems to be able to compete with imported products. Also, a recent study conducted by NCSU, the USDA-FS and Wood&Wood Products, a trade magazine, found that over 60 percent of the Kitchen Cabinet Producers disagree or strongly disagree with the statement that "*little manufacturing will remain in the U.S. by the end of the decade*". For your information, I have attached a copy of this study entitled "How can we compete?" to this correspondence.

To answer the question of how much protectionism, if at all, is favorable to the nation and the nation's manufacturers is beyond our capabilities. We firmly believe that successful business models exist or are emerging, which allow domestic manufacturers to compete successfully with imports from low production cost countries, such as China. However, how big this market will turn out to be and how many high paying jobs they will

offer is beyond our knowledge. We produced the enclosed publication entitled "*Identifying future competitive business strategies for the U.S. residential wood furniture industry: benchmarking and paradigm shift*", in which we tried to delineate paths into a prosperous future for the domestic industry. Among our findings are:

- produce customized, made-to-order (JIT) products with short delivery time (days, not weeks) – realize the success of Dell Computer with this model!
- invest in manufacturing facilities with state-of-the-art technology that allows flexible manufacturing and in employees to enable them to handle state-of-the-art equipment to its full potential
- use a well-developed, efficient supply chain of specialized companies to outsource whatever isn't done efficiently in a given manufacturing facility – for an efficient supply base it is important to maintain and improve the existing wood products industry clusters. Figure 2 shows, using furniture as an example, how such a collection of specialized industries would be used by a manufacturer and how the company then could sell their product to the customers. At present, our work focuses on the supply chain more than on the furniture manufacturers, since we believe that the industry can only survive when having access to suppliers.

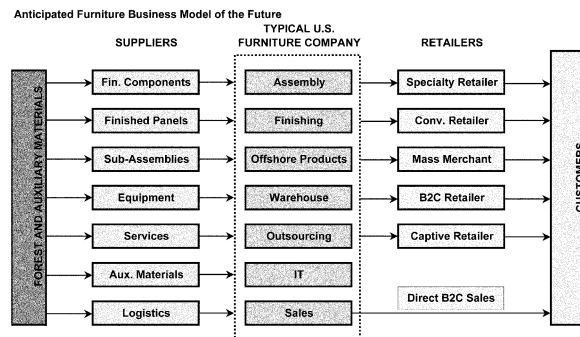


Figure 2: Future business model for U.S. furniture manufacturers

- in the market place, compete with the "total" product, not on price alone – e.g. provide services (interior design and furniture design, customized product sizes/finishes/features/etc., delivery, maintenance, finance, to name a few) to offer your customers something an offshore producer cannot match
- make furniture a statement of personality, something that the owner uses to tell his visitors who she/he is – it can be done with cars and many other products, why not with wood products, textiles, etc.?

Of course, this list is incomplete and achieving the vision will require hard work, ingenuity, and capital. And it most definitely requires help from the government in respect to market regulation, financial incentives and industry regulation, as well as support for educational initiatives that will educate the workforce of the future. Some European countries, with situations similar to the U.S. have proven that feasible solutions exist – they export large amounts of furniture throughout the world.

The decline of the forest products manufacturing industries in this nation has far reaching consequences. If we are unable to extract the full benefit from the nation's natural resources, such as from our forests, the intrinsic value of these holdings will decline. The demand for lumber by the wood products industries is linked to timber prices and ultimately land values. As lumber demand and lumber prices fall, stumpage prices fall, too, thus driving land values down. Figure 3 shows the appreciation of timberlands from 1985 to 2003. According to this data, the process may already have begun. In fact, over the last years, forest products industries sold in excess of 4.1 million acres of forest land holdings.

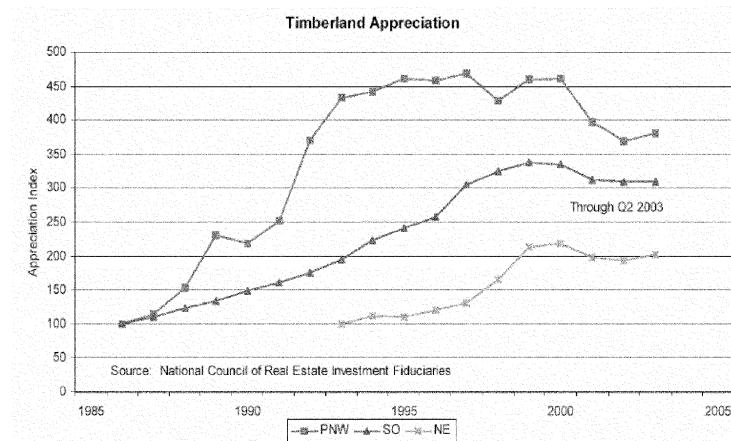


Figure 3: Timberland appreciation 1985 - 2003

I hope these lines and the enclosed material add to your background in respect to the influence of imports from China on the forest products industries in North America. We should not forget that wood products, construction lumber, furniture, and pulp and paper (e.g. the forest products industry) are among the most important industries in the nation and use one of the nation's most abundant and renewable raw material – wood. Therefore, the work of your commission is so important, to keep the "real power" of America, as Senator Hollings correctly pointed out at the meeting, alive and well.

Department of Wood and Paper Science

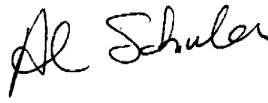
Should you have any questions or if you would like to obtain more information (we have an extensive set of data, presentations, and articles regarding the forest products industries), please feel free to contact us at any time.

We greatly appreciate your attention to this matter and we look very much forward to following your important work in the future.

Sincerely,



Urs Buehlmann
Assistant Professor
North Carolina State University
Department of Wood and Paper Science



Al Schuler
Research Economist
USDA Forest Service
Princeton, WV Research Station

Enclosures mentioned

CC: Bruce Hansen Project Leader, USDA Forest Service Forestry Sciences Laboratory, Princeton, WV
Mike Kocurek, Department Head, Department of Wood and Paper Science, NCSU
Tilla Fearn, Communications Specialist, College of Natural Resources, NCSU

**STATUTORY MANDATE OF THE U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION**

Pursuant to Public Law 108-7, Division P, enacted February 20, 2003

RESPONSIBILITIES OF THE COMMISSION.—The United States-China Commission shall focus, in lieu of any other areas of work or study, on the following:

PROLIFERATION PRACTICES.—The Commission shall analyze and assess the Chinese role in the proliferation of weapons of mass destruction and other weapons (including dual use technologies) to terrorist-sponsoring states, and suggest possible steps which the United States might take, including economic sanctions, to encourage the Chinese to stop such practices.

ECONOMIC REFORMS AND UNITED STATES ECONOMIC TRANSFERS.—The Commission shall analyze and assess the qualitative and quantitative nature of the shift of United States production activities to China, including the relocation of high-technology, manufacturing, and R&D facilities; the impact of these transfers on United States national security, including political influence by the Chinese Government over American firms, dependence of the United States national security industrial base on Chinese imports, the adequacy of United States export control laws, and the effect of these transfers on United States economic security, employment, and the standard of living of the American people; analyze China's national budget and assess China's fiscal strength to address internal instability problems and assess the likelihood of externalization of such problems.

ENERGY.—The Commission shall evaluate and assess how China's large and growing economy will impact upon world energy supplies and the role the United States can play, including joint R&D efforts and technological assistance, in influencing China's energy policy.

UNITED STATES CAPITAL MARKETS.—The Commission shall evaluate the extent of Chinese access to, and use of United States capital markets, and whether the existing disclosure and transparency rules are adequate to identify Chinese companies which are active in United States markets and are also engaged in proliferation activities or other activities harmful to United States security interests.

CORPORATE REPORTING.—The Commission shall assess United States trade and investment relationship with China, including the need for corporate reporting on United States investments in China and incentives that China may be offering to United States corporations to relocate production and R&D to China.

REGIONAL ECONOMIC AND SECURITY IMPACTS.—The Commission shall assess the extent of China’s “hollowing-out” of Asian manufacturing economies, and the impact on United States economic and security interests in the region; review the triangular economic and security relationship among the United States, Taipei and Beijing, including Beijing’s military modernization and force deployments aimed at Taipei, and the adequacy of United States executive branch coordination and consultation with Congress on United States arms sales and defense relationship with Taipei.

UNITED STATES-CHINA BILATERAL PROGRAMS.—The Commission shall assess science and technology programs to evaluate if the United States is developing an adequate coordinating mechanism with appropriate review by the intelligence community with Congress; assess the degree of non-compliance by China and [with] United States-China agreements on prison labor imports and intellectual property rights; evaluate United States enforcement policies; and recommend what new measures the United States Government might take to strengthen our laws and enforcement activities and to encourage compliance by the Chinese.

WORLD TRADE ORGANIZATION COMPLIANCE.—The Commission shall review China’s record of compliance to date with its accession agreement to the WTO, and explore what incentives and policy initiatives should be pursued to promote further compliance by China.

MEDIA CONTROL.—The Commission shall evaluate Chinese government efforts to influence and control perceptions of the United States and its policies through the internet, the Chinese print and electronic media, and Chinese internal propaganda.

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