



2007 Proves to be a Transitional Year for U.S. Industry

Industry Takes Aim at China in 2008

NCTO's Year-End Economic and Trade Review for the Textile Industry

In its 2007 year-end textile trade and economic review, the National Council of Textile Organizations (NCTO) cited the Commerce Department's decision to overturn a 20-year precedent and allow companies to file subsidy cases against China as one of the most significant events for all U.S. manufacturers in 2007. This decision is important because at the end of 2008, the current U.S.-China textile agreement expires and the industry will be seeking new restraints to prevent a devastating flood of subsidized textile and apparel products from China in 2009. Other events of significance to the industry in 2007 include the implementation of the Vietnam monitoring program and the passage of China currency legislation by two major Senate committees.

NCTO Chairman Harding Stowe commented,

"2007 was a transitional year for the U.S. textile industry. As imports from China continued to surge and DR-CAFTA entered into force for all the major textile and apparel producing countries, the industry worked to secure trade opportunities in this hemisphere as one part of a strategy for remaining competitive against China. We also began looking ahead to 2008 and preparing for the expiration of the U.S.-China textile agreement.

Let's take a look at the hard facts of our trade relationship with China. In 2007, the U.S. trade deficit with China was \$256.2 billion, up 10 percent compared to 2006. With respect to textiles and apparel, the U.S. trade deficit with China grew from \$26.6 billion in 2006 to almost \$31.8 billion in 2007. This represents an almost 20 percent increase and occurred despite the fact that China is under quota in a large number of products. And in those products where China is not under quota, China has already taken an average 60 percent of the U.S. market.

2007, while a very difficult year for the industry, also provided us with several new tools, in addition to existing trade remedies, with which to address the China issue. This includes a decision by the U.S. government to finally allow companies to file subsidy cases against China, which is clearly the world's largest subsidizer of industry. NCTO, along with other manufacturing sectors, pushed hard for this change in policy which overturned a 20-year precedent regarding subsidy cases against

China. In this context, an analysis by NCTO shows that there are at least 63 subsidies made available by the Chinese government to China's textile industry. Because of this change in policy regarding China and its subsidies, these subsidies can now potentially be attacked and, indeed, many of them have already been successfully attacked by companies in other sectors, including one case on textile products. In addition, the imposition of dumping monitoring on Vietnam, which was a major initiative by NCTO, set another precedent that could possibly be extended to China. Finally, Congress appears to have exhausted its patience relative to the lack of decisive action by China to allow its currency to float, and now thanks to efforts by the China Currency Coalition, of which NCTO was a founding member, members of Congress are demanding that an effective China bill is passed this year. Our industry should be proud that textile-state members of Congress have been key players in sending this message.

2008 – A Look Ahead

As the data above clearly demonstrates, the threat from China to the U.S. textile and apparel industries, as well as our companion industries around the globe, continues to grow. And as we look down the road into 2008, the threats and the challenges are greater still. With the expiration of the safeguards at the end of 2008, NCTO has already begun work on a strategy to ensure that restraints remain on China until the Chinese government lives up to its WTO commitments and stops subsidizing its textile and apparel sectors.

Of course, the threat from China not only impacts U.S. textile workers, but textile and apparel workers around the globe. While China's textile and apparel exports were rising by \$4.5 billion last year, exports from the rest of the world fell by \$2 billion. And the elimination of quotas at the end of 2008 means the prospect for unrestrained textile and apparel imports from China could threaten \$40 billion in trade in products that are currently under quota. Every major exporter of textile and apparel products is threatened, from Lesotho to El Salvador, from Pakistan to Mexico. We look forward to working with our colleagues to ensure that China's predatory practices are either addressed or that restraints are continued until China becomes a responsible participant in the global trading system.

With imports from China on the rise and trade from preference areas down, NCTO will continue its campaign for a robust and aggressive textile enforcement campaign into 2008. Thanks to the efforts of our industry leaders as well as textile-state members on Capitol Hill, we are beginning to see a new focus on textile enforcement initiatives already in 2008. These efforts must be continued if free trade agreements with Peru and Colombia are to have any meaning for the industry. If the industry is not confident that textile enforcement will remain a priority within the Department of Homeland Security, then our support for the pending free trade agreement with Colombia could be jeopardized.

Review of 2007 Textile Industry Economic and Trade Statistics

In 2007, U.S. textile exports fell by five percent during the first nine months of the year, dropping from \$12.7 billion to \$12.1 billion. However, exports to trade preference areas showed sharper drops, with textile exports to Mexico down 13 percent and the CBI region nine percent.

Imports that are made under the "yarn-forward" rule of origin (i.e., from NAFTA, CAFTA and others) continued to fall sharply and are now down 11.3 percent for the first nine months of the year.

Imports from the CAFTA region, which had appeared to stabilize during the first half of the year, took a downward slide in the third quarter and is now off 4.6 percent for the year.

The losses in the Western Hemisphere came from China, which gained nearly 1.5 billion sme in 2007. Imports from Cambodia, India, Pakistan and Indonesia, all of which had been growing, stopped growing or fell back during the last quarter. In 2007, Vietnam gained 269 million sme and Bangladesh gained 47 million sme. The growth in imports from Vietnam and Bangladesh can partly be attributed to the fact that each of these countries relies heavily on subsidized inputs of yarns and fabrics from China for the bulk of their apparel export.

This data underpins more recent data released by the Federal Reserve in mid-January indicating that U.S. Textile Mill output in 2007 fell sharply by 12.1 percent. This drop was the largest drop in output since the U.S. government began publishing the data almost 35 years ago. During this same period, U.S. Textile Product Mill output also fell by 4.9 percent.

These figures clearly demonstrate that the time has come for our government to act in response to the predatory practices of the Chinese government which ensure Chinese manufacturers beat out the competition at any cost. “

TEXTILE INDUSTRY BENCHMARKS 2006-2007

National Council of Textile Organizations

	2006	2007	% CHANGE
SHIPMENTS (Billion, YE November)			
Total Textiles	\$68.6	\$68.8	0.3%
-Textile Mills (NAICS 313)	\$34.2	\$34.9	2.0%
-Textile Products (NAICS 314)	\$34.4	\$33.9	-1.5%
CORPORATE SALES (NAICS 313 & 314) (Billion) (YE September 07)			
	\$48.8	\$46.5	-4.7
PROFITS AFTER TAXES (NAICS 313 & 314) (Billion) (YE September 07)			
	\$1.54	\$1.00	-99.2
EARNINGS ON SALES (Percent) (YE September 07)			
Textiles (NAICS 313 & 314)	3.2%	2.1%	----
All Manufacturing	7.7%	6.8%	----
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EMPLOYMENT (Year End) (Seasonally Adjusted)			
Textiles (NAICS 313 & 314)	365,600	326,100	-10.8%
Apparel (NAICS 315)	247,600	217,500	-12.2%
All Manufacturing	14,216,000	14,032,000	-1.3%

HOURLY EARNINGS (NAICS 313) (Annual Average \$) (Not Seasonally Adjusted)	12.5	13.0	4.0%
WEEKLY EARNINGS (NAICS 313) (Annual Average \$) (Not Seasonally Adjusted)	\$451.00	\$525.40	16.6%
PRODUCER PRICE INDEX (YE November)			
Textiles (NAICS 313) (1982=100)	106.5	109.4	2.7%
Apparel (NAICS 315) (2003=100)	100.4	101.5	1.1%
All Commodities (1982=100)	164.5	171.5	4.3%
CAPITAL EXPENDITURES (2004/2005)			
Total Textiles	\$1,323	\$1,353	2.3%
- Textile Mills (NAICS 313)	\$853	\$885	3.8%
- Textile Product Mills (NAICS 314)	\$470	\$468	-0.4%
TOTAL TEXTILE & APPAREL IMPORTS (billions of square meter equivalents)	52.1	53.1	1.9%
Textiles Only (billions of square meter equivalents)	29.6	29.8	.68%
TEXTILE & APPAREL IMPORTS FROM CHINA: (billions of square meter equivalents)	18.6	21.4	15.05%
Textiles Only (billions of square meter equivalents)	12.1	13.3	9.92%
TOTAL TEXTILE & APPAREL EXPORTS Billion \$	\$16.7	\$15.9	-4.8%
Textiles Only (Billion \$)	\$12.4	\$12.3	-0.8%
TEXTILE & APPAREL TRADE BALANCE WITH WORLD (Million \$)	(\$103,780)	(\$107,321)	3.41%
TEXTILE & APPAREL TRADE BALANCE WITH CHINA (Million \$)	(\$32.2)	(\$37.5)	16.66%

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