



**NCTO STATEMENT TO THE HEARING RECORD
The U.S.-China Economic Relationship**

October 25, 2011

Submitted by Cass Johnson, President

NCTO appreciates the opportunity to provide written remarks to the hearing record examining the U.S. China Economic Relationship. NCTO represents the domestic textile industry, an industry whose survival is dependent on the development of strong export markets and reciprocal trade practices. U.S. textile exports continue to be a bright spot in 2011, with a 16 percent increase so far this year. This has contributed to a rebound in the industry, with four new textile plants opened over the last 18 months, including a \$500 million DuPont textile fiber facility in South Carolina.

The strong textile export growth not only includes our major export markets with our free trade partners in the Western Hemisphere but also China, which is now the industry's fourth largest export market. Over the last twelve months, the U.S. textile industry exported \$1.2 billion in textiles to China, an increase of 20 percent. Unfortunately, even with the increase in U.S. textile exports, the U.S. textile and apparel trade deficit with China reached a record \$43 billion in 2010 and accounted for nearly 20 percent of the total U.S. trade deficit with China.

Given the industry's strong export orientation, there is no more frustrating an issue for U.S. textile producers than the unfair playing field created by overseas subsidies such as currency manipulation. These schemes directly and indirectly subsidize export sectors throughout Asia, and they are responsible for the loss of billions of dollars of both existing exports and potential exports of U.S. textile products. That is why, over the past decade, it has become increasingly difficult for the domestic industry and our Western Hemisphere partners to compete directly with countries like China and Vietnam whose governments heavily subsidize their textile and apparel export platforms.

NCTO and the Fair Currency Coalition was pleased that the U.S. Senate recognized the damage that currency manipulation can have in destroying competitive advantage, hurting our domestic manufacturing base and preventing our economy from moving ahead. The Senate vote, 63-35, sent a strong bipartisan message to China and other governments in that the United States will no longer allow our economic future and those of our workers to be undercut by artificially undervalued and low cost goods. NCTO strongly urges the Ways and Means Committee to move H.R. 639, the Currency Reform for Fair Trade Act, to the House floor for debate and final vote.

In our analysis, H.R. 639 represents the most effective single step the U.S. government could deploy to reverse the tide of U.S. manufacturing jobs moving to China and to begin to rebuild our manufacturing sector. Currency manipulation is by far the largest export subsidy that China gives to its manufacturing sector, and it is the only significant subsidy that is illegal under WTO rules. While China has redesigned many of its subsidy programs in order to shelter them under WTO rules, H.R. 639 finally gives U.S. manufacturers WTO-legal tools to defend them from this

practice. By doing so, U.S. companies will be safe to invest in a long term U.S. manufacturing strategy that will bring sorely needed jobs and wealth back to our country.

Impact of Currency Manipulation and Chinese Subsidies on the U.S. Textile Industry

In the use of currency manipulation as well as other subsidies for textiles and apparel, China is in a class by itself. Over fifty years ago, the Chinese government declared textiles to be a “pillar industry of the state” and reaffirmed its support earlier this year by establishing its 11th Five-Year Plan for the textile sector. This plan has provided government assistance to every corner of its immense textile and apparel complex, with most benefits concentrated in China’s export sector. Earlier this year, NCTO released an [analysis](#) showing that the Chinese government was supporting its textile/apparel export sector through 30 different subsidy programs. The cost advantage that China’s subsidization schemes have conferred amounts to an astonishing 35 to 75 percent. These subsidies include reductions in the cost of financing, land, shipping, raw materials, utility costs, capital equipment, customs duties, marketing and research.

Estimate of Government Benefits for Chinese Textile and Apparel Sector			
Type	Description		Size
1.	Subsidies and Grants	A wide range of industrial and textile specific measures covering financing, land use, technology upgrades, fiber use, taxes etc.	5 to 30 percent
2.	Increased VAT Export Tax Rebate	Increased from 11 percent to 16 percent	5 percent
3.	Currency Manipulation	Sourced from a wide range of estimates.	25 to 40 percent
TOTAL			35 to 75 percent

Because of these predatory actions, over the last ten years China has experienced an export surge that dwarfs every other country that is a major producer of textile and apparel products. China has increased its textile and apparel exports to the United States by nearly \$35 billion over the last ten years. During that time, China’s share in the U.S. apparel market has exploded, increasing from 12 percent in 2000 to nearly 40 percent today. China is now six times larger than its next largest competitor, Vietnam.

China’s growth has been particularly damaging because it has come during a time of slow growth in consumption of textile and apparel products in the United States. Over the last ten years, the value of imports of textiles and apparel from the world increased by only 39 percent while imports from China increased 517 percent. As a result, almost all of China’s gain has come at the expense of other producers, with a majority of the impact hitting the U.S. textile industry and its customers in the Western Hemisphere. In the United States, the cost has been heavy - over half a million textile and apparel manufacturing jobs have been lost during the last ten years as Chinese subsidies have allowed their exporters to pay any price to get a sale. Western Hemisphere apparel producers, whom U.S. textile companies depend on for orders, lost over half their market share.

Today, the overall U.S. textile and apparel sector employs nearly 600,000 workers in the United States, many of which work for small and medium manufacturers (SMEs) in rural areas of the southeast. These textile manufacturers are export-oriented and have become more and more important to small towns and communities, as other manufacturing has moved offshore over the past decade. In many small towns and counties, textile mills are not only the primary source for tax revenue for local governments, but the communities themselves depend on the taxes, utilities, salaries, and benefits that mills provide to the local area and residents. Government statistics show

that a single textile job supports three other jobs locally; if a textile mill closes, small communities suffer disproportionately compared to an urban area.

Even while facing Chinese subsidies, the U.S. textile industry has continued to invest heavily, spending more than \$10 billion in new plants and equipment over the last ten years. This has enabled the industry to retain its position as the third largest textile exporter in the world with more than \$20 billion in exports in 2010. As noted earlier, the industry exports yarns and fabrics primarily to NAFTA, CAFTA and Andean countries, and those yarns and fabrics are manufactured into apparel and imported to the United States duty-free. This textile-apparel supply chain was created because of the enactment of trade preference and free trade agreements in the Western Hemisphere and now supports nearly two million textile and apparel jobs region wide.

As noted above, currency-subsidized Chinese exports of apparel have displaced Western Hemisphere exports and have caused the loss of billions of dollars of U.S. export orders for yarns and fabrics from those countries. Thus, currency manipulation is not only an economic weapon, it also undermines current U.S. Free Trade Agreements because the undervaluation is so significant that it eliminates or negates the duty free benefits that our FTA and preference partners enjoy.

First Step: Enact Currency Reform Legislation – H.R. 639

The Currency Reform for Fair Trade Act seeks to level the playing field between countries like the United States, which have a long history of playing by the rules, and Asian exporters who view currency manipulation as a strategy to gain competitive advantages over other countries' industries. The legislation accomplishes this by ensuring that World Trade Organization (WTO) consistent remedies are available to U.S. producers. It directs the U.S. Department of Commerce to measure whether a country's currency is fundamentally misaligned; clarifies that any foreign government's undervaluation of its currency can be offset by countervailing duties or antidumping duties; and directs the U.S. Department of Commerce to treat currency undervaluation as a prohibited export-contingent subsidy. This provides a meaningful tool in the U.S. arsenal for manufacturers to defend themselves against China and other countries who manipulate currency.

With near record unemployment rates in the United States, the time has come for the U.S. House of Representatives and the Senate to pass meaningful currency reform legislation. There is little question that China and other Asian nations manipulate their currencies to gain export advantages. There is also little question that the federal government has thus far failed to act in the best interests of U.S. manufacturers and our workers by using its own authority to ensure that these activities are stopped. The House and Senate have held four hearings in the last twelve months specifically examining currency manipulation. The issue has been examined, the cheating countries have been exposed, and it is time for Congress to take the lead by enacting strong legislation.

Through H.R. 639, Congress and the Administration have a rare opportunity to boost exports, increase domestic manufacturing, build jobs and do so at no cost to the U.S. Treasury. Our industry is convinced that our exports and domestic production will increase dramatically if China allows its currency to float to free market levels. We strongly urge the Committee and the House to move expeditiously on this legislation.

Cass Johnson
President
National Council of Textile Organizations (NCTO)

Following are examples from a number of U.S. textile companies explaining the impact that Chinese subsidies have had their businesses:

NCTO Member Companies
Anecdotes on the Business Impact of Undervalued Currency

Mount Vernon Mills, Inc. ("MVM") has experienced the adverse impact of Chinese currency manipulation and government sponsored subsidies. There are two good examples and in each case, an entire market for MVM products has all but disappeared, forcing MVM to retrench and find other, smaller niche markets to help MVM survive. The retrenching includes two plant closures.

The first example is 100% cotton pant fabric for sportswear. MVM's Trion, Georgia piece-dyeing and finishing facility was designed to be most efficient when running at least half of its production on 100% cotton fabrics. We used to take advantage of that by making hundreds of thousands of yards per week of 100% cotton pant fabric for sportswear. When sewing moved to Latin America after NAFTA and CAFTA, we shipped this fabric there, giving our customers much quicker response than they could get from China. But the cost difference became too great. China's practices meant prices were so low that even without labor cost factored into our fabric, we couldn't drop our price enough. Now, we just do small amounts of fill-in, as China has taken over the 100% cotton pant market.

The second example involves pocketing and waistbands for pants. MVM is the only vertically integrated manufacturer of front and back pockets in the U.S. (and likely this hemisphere). But that's not doing us any good now. MVM used to provide quick response for supplying pant fabric to apparel makers, but could also provide front and back pockets (and waistbands) as well. We were a one-stop shop for these makers. The cost differential brought on by Chinese currency manipulation and other unfair trade practices became too great. The retail community shifted its purchasing and just bought the completed pants from China, leaving MVM and many of our Latin American customers without sales. We closed an operation that used to make pockets and sharply curtailed production elsewhere in our effort to survive.

--Mount Vernon Mills, Mauldin, SC

The American Cotton Growers denim mill, currently the second largest manufacturer of denim fabric in the United States, has felt the impact of China's currency policies directly and indirectly. Our customers frequently compare our prices for denim fabrics to those of China during sales negotiations. In fact, we have seen a number of our customers move all of their sourcing to China presumably due to its lower prices, and unless something is done, we expect this trend to continue.

From 2002 through 2009, China's exports of denim trousers to the United States increased a staggering 1,763 percent. Prior to the removal of quotas in 2005, China's share of the U.S. denim market was less than 1 percent, but today it is almost 31 percent. In 2009, China surpassed Mexico as the top exporter of denim trousers to the U.S., shipping more than 160 million pairs versus 107 million from Mexico. It is obvious to us that this could only be achieved by China's currency manipulation and government subsidies provided to the country's textile and apparel industries.

--Plains Cotton Cooperative, Lubbock, TX

We used to make a number of acrylic, polyester, and rayon products that we have been forced to discontinue because of extraordinarily low costs coming out of China. The China price simply does not make business sense. Even if we had zero labor costs, we would not be able to come

close to the price that China sells these products. There are specific costs that everyone must pay, no matter where the product is made; plus the Chinese have to pay more to ship the product to the U.S. – but we see prices from China that must be getting major relief from other operating costs through subsidies. It forced us to leave a formerly profitable business, close a plant and put many loyal employees out of jobs.

--National Spinning, Washington, NC

EDITORIAL

Gaston Gazette
China devalues American industry
August 12, 2010
By Anderson Warlick

China is stealing American jobs. Ninety thousand U.S. textile and apparel jobs have disappeared since the start of the recession. China is responsible for the lion's share of them. We have already racked up a textile and apparel trade deficit of \$17.7 billion with China so far this year. Simply put, the Chinese government's predatory practices are effectively shutting down U.S. production and throwing American workers out of their jobs while artificially bolstering Chinese exports.

While Chinese industry today is roaring ahead, the outlook is not so good for the countries like the U.S. that compete against them where unemployment remains at record levels. In order for our domestic industry to recover these jobs and get the unemployed working once again, the United States must step up enforcement of international trade agreements, particularly where China is concerned.

China subsidizes its textile industry by offering large tax rebates to its domestic manufacturers, providing massive loans through state-run banks and restricting access to raw materials. The worst of these practices is currency manipulation, which means the Chinese government keeps its currency artificially low in order to increase its exports. This has enabled China to become the largest exporter of manufacturing goods (including textile products) in the world.

Chinese currency manipulation gives its exporters a 10- to 30-percent price break over goods made in other countries, including U.S.-made goods. While currency manipulation has been extraordinarily effective for Chinese industry, it has also caused hundreds of U.S. mills and thousands of other U.S. companies to shut down.

The textile industry is not the only industry that has suffered closed plants and lost jobs. The Economic Policy Institute estimates that 2.4 million jobs have been lost since 2001 because of China's unfair trade practices. Think how much better shape our economy would be in today if we had not allowed the Chinese government to take these jobs!

Jobs would remain in the United States if the government did more to assist American businesses to export more. The goal of President Obama's National Export Initiative (NEI) is to double exports in five years. That will not happen unless China begins to play fair. In order to accomplish the goals of the NEI, businesses need to recapture the competitive advantage to increase exports for products in demand in the global marketplace.

However, American businesses, especially the textile industry, cannot regain a competitive advantage if they are forced to compete against foreign governments that subsidize their exports. Add currency manipulation to the long list of subsidies and it is virtually impossible for the domestic industry to compete.

There is a solution. The U.S. House of Representatives returns from a six-week summer recess in September, and the House Ways and Means Committee will hold a hearing on China's exchange rate policy on Sept. 15. One focus of that hearing will be a bill, H.R. 2378, that will hold China's feet to the fire and force the Chinese government to rebalance the renminbi (RMB).

Congress must approve legislation rather than hold hearings. Enacting H.R. 2378, the Currency Reform for Fair Trade Act authored by Reps. Tim Ryan (D-Ohio) and Tim Murphy (R-Pa.) would give the Commerce Department the authority to accept countervailing duty and anti-dumping cases against countries that manipulate their currency to gain an unfair export advantage. This bill will finally give businesses in the United States the ability to fight back.

Diplomatic efforts to press for China to float its currency have failed. It is time for action. Call on the House of Representatives to bring H.R. 2378 to a vote. I urge you to meet with or call on your congressperson to support the textile and apparel industry in the United States. (You can find out who they are and how to contact them by visiting www.house.gov.)

Stand up to China's job stealing and support H.R. 2378. Call your congressperson and tell them to demand an up or down vote on the bill.

Anderson Warlick is CEO of Gastonia's Parkdale Mills.

Key Facts about the U.S. Textile Industry

- The U.S. textile industry is one of the largest manufacturing employers in the United States. In 2010, the overall textile sector, from fibers to final garments and other textile products, employed nearly 600,000 workers. Textile companies alone employed 255,000 workers.
- The U.S. textile sector is the third largest exporter of textile and apparel products in the world with exports growing 19 percent in 2010 to more than \$20 billion.
 - U.S. textile exports support a textile and apparel platform created by the NAFTA/CAFTA/Andean free trade areas that now employs nearly two million workers.
- The U.S. textile industry supplies more than 8,000 different textile products each year to the U.S. military.
- The U.S. textile industry has a long history of creating innovative, hi-tech products, from heart valve prosthesis and nanotube body armor to non-iron apparel and moisture wicking athletic wear.
- The U.S. textile industry invested more than \$15 billion in new plants and equipment from 2001 to 2009. U.S. textile shipments totaled \$51 billion in 2010.
- The U.S. textile industry increased productivity by 45 percent over the last 10 years, making textiles one of the top industries among all industrial sectors in productivity increases.
- In 2010, textile workers on average earned 155% more than clothing store workers (\$559 per week vs. \$219) and received health care and pension benefits.