

Statement to the Hearing Record
U.S. House of Representatives Committee on Ways and Means
China's Exchange Rate Policy

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NCTO STATEMENT TO THE HEARING RECORD

CHINA'S EXCHANGE RATE POLICY

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NCTO appreciates the opportunity to provide written remarks to the hearing record examining China's Exchange Rate Policy. NCTO represents the domestic textile industry, an industry whose survival is dependent on the development of strong export markets, and as such, NCTO strongly supports the President's National Export Initiative (NEI). While NCTO is pleased with the goals outlined in the NEI, we also believe that unless the federal government and the Congress can significantly reduce currency manipulation, which we believe is the single largest barrier to strong growth in U.S. exports, then the NEI will fail. If the NEI fails, then exports will not provide the boost our economy so desperately needs and our country will continue to see high unemployment for many years to come. Simply put, currency manipulation is a major barrier to restoring robust U.S. economic growth. In today's global economy, U.S. producers will only get the opportunity to 'make things in America' if the government and the Congress take actions that ensure that our products have a realistic opportunity to compete.

In today's competitive world, no issue is more frustrating for U.S. textile exporters than the unfair playing field that overseas subsidies like currency manipulation have created for textile and apparel trade and the lack of U.S. government attention to those subsidies. These schemes directly and indirectly subsidize export sectors throughout Asia, and they are responsible for the loss of billions of dollars in exports of U.S. textile products. That is why, over the past decade, it has become increasingly difficult if not impossible for the domestic industry to compete directly with countries like China, Vietnam, and South Korea primarily because these governments heavily subsidize their textile and apparel export platforms.

Impact of Currency Manipulation on the U.S. Textile Industry

The advantage that currency manipulation offers to Chinese exporters is immense – a 20 to 40 percent price advantage has enabled China to increase its textile and apparel exports to the United States by nearly \$35 billion over the last ten years. China's market share in apparel has increased from 12 percent in 2000 to nearly 44 percent today and it is still climbing.

In the use of currency manipulation as well as other subsidies, 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 by establishing its 11th Five Year Plan for the textile sector. This plan has provided government assistance to every corner of the textile industry for over fifty years, with most benefits concentrated in China's export sector. NCTO has discovered 63 subsidy programs that the Chinese government offers to its textile sector. These subsidies include reductions in the cost of financing, land, shipping, raw materials, utility costs, capital equipment, customs duties, marketing and research.

Because of these predatory actions, China has experienced an export surge that dwarfs every other country that is a major producer of textile and apparel products. China exports nearly \$161 billion in textile and apparel products around the world, nearly four times more than its next largest competitor (the European Union). In the U.S. market, China's market share in textiles and apparel is now 44 percent – China is six times larger than its next largest competitor, Vietnam. China growth has come during a time of slow growth in consumption of textile and apparel products. Over the last seven years, the value of imports of textiles and apparel from the world increased by only 12.2 percent while imports from China increased 263 percent. 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. Left unchecked, China's predatory currency policies are a disincentive for companies to continue the necessary capital investments needed to remain competitive if true market forces were allowed to work. If companies believe the government will not enforce laws or agreements addressing the most basic forms of market distorting actions like currency manipulation, the U.S. will see more jobs outsourced and downsized as companies struggle to remain competitive.

Impact on the Western Hemisphere Supply Chain and Jobs in the Region

The U.S. textile industry is the third largest textile exporter in the world with more than \$10 billion in exports in 2009, and as such, is one of the most export intensive industries in the United States. 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.

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.

Over the past five years our FTA and preference partners in the region have seen orders drop by 35 percent as more and more orders have shifted to China and Asian producers that undervalue their currencies. An unfortunate consequence has been the loss of hundreds of thousands of textile jobs in the United States and the Western Hemisphere – through what economist and New York Times columnist Paul Krugman calls a “predatory trade policy” that succeeds through “beggar thy neighbor policies.”

The U.S. textile and apparel industries employ more than 450,000 workers in the United States, most 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; so if a textile mill closes, small communities suffer disproportionately compared to an urban area.

Solution – Enact Currency Reform Legislation – H.R. 2378

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.

Conclusion

In order for the U.S. to realize the goals set forth in the President's National Export Initiative as well as to move our economy ahead, the government must work with small, medium, and large businesses to create opportunities for capital investment in manufacturing in the United States. Creating avenues for businesses to invest creates avenues for businesses to create jobs to support production of goods for export. However, U.S. products cannot compete in a global market against similarly produced Chinese products if there is a 20 to 40 percent price differential. It is simply impossible for a U.S. company to produce a product that is 20 to 40 percent more expensive and still successfully compete for the same customers. Enactment of H.R. 2378, the Currency Reform for Fair Trade Act, is the key mechanism to level the playing field for U.S. businesses and to bring more jobs back to the United States. Unless this or similar legislation is passed, it is likely that the NEI will fail, U.S. manufacturing will not rebound, and the U.S. economy will continue to suffer from high unemployment and stagnant growth. Passing H.R. 2378 is an essential part of our nation's move toward strong economic growth.

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 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 – Textile Industry

- One of the largest manufacturing employers in the United States, the overall textile sector employed over 421,000 workers in 2009. Textile mills alone employed 126,000 workers.
- The 3rd largest exporter of textile products in the world – more than \$10 billion in 2009.
- Nearly two-thirds of U.S. textile exports during 2009 went to developing countries. The U.S. textile industry exported to more than 50 countries, with 16 countries buying more than \$100 million a year.
- Supplies more than 8,000 different textile products a year to the U.S. military.
- U.S. textile shipments totaled \$48.7 billion in 2009.
- Invested more than \$9 billion in new plants and equipment from 2001 to 2006.
- Has increased productivity by 50 percent over the last 10 years and ranks second among all industrial sectors in productivity increases.
- In 2009, textile workers on average earned 143% more than clothing store workers (\$517 a week vs. \$213) and received health care and pension benefits.