

UPDATE NUMBER 3: The China Threat to World Textile and Apparel Trade

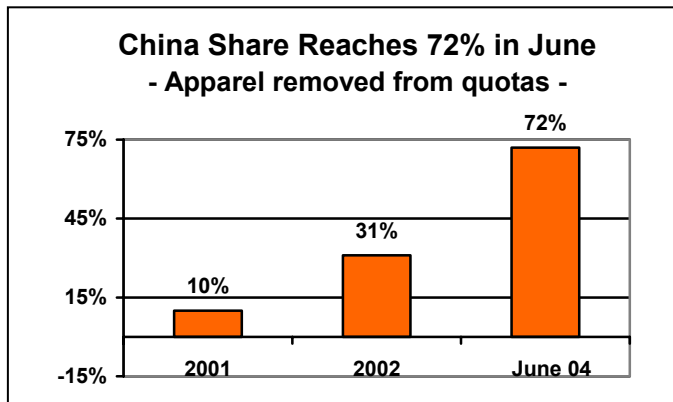
- **Sept 1, 2004: Includes updated trade figures covering the first half of 2004**

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This updates through June of 2004 NCTO's ongoing analysis of the impact of China on world trade in textiles and apparel. The analysis tracks changes in imports of apparel items removed from quota control on January 1, 2002 (see appendix II) and is the third update in the series (2nd update: June 2004; 1st update: Sept. 2003, original study: July 2003). For previous reports, visit www.ncto.org and click on "2005 quota phase-out."

This analysis includes for the first time, tracking for home furnishings products removed from quota control (see #5).

1. June 2004 China Apparel Market Share in Quota Free Categories: 72%



Updated data on China's shipments over the first six months of 2004 have confirmed the original study's initial conclusion that, once quotas are removed, China will quickly come to dominate textile and apparel trade in the United States and more than 650,000 textile and apparel jobs in the United States will be lost.

According to June 2004 data, China's shipments in the apparel categories removed from quota control on January 1, 2002 increased over the following 30 months by 1,009 percent. Over the same period of time, the share of market held by another 50+ supplying countries has fallen from 90 percent to 28 percent as of June 2004.

China's share of the U.S. market increased from 10 percent in 2001 (while quotas were still in place) to 72.3 percent as of June 2004. Despite amassing a 72 percent share, the wave of imports from China has not yet crested, and these imports are continuing to grow. In the last three months (April – June), China's share has increased at a rate of two percentage points per month, which is double the rate of increase for January – March.

At the current rate of growth, China is now predicted to reach an 80 percent share of the U.S. market by the end of this year – an increase of 5 percentage points over previous predictions.

2. Apparel Market Share Changes: Losses for All Major Competitors, Including India

This update changes in market share by China’s leading competitors in the product areas already removed from quota control.

Changes in Import Market Share Since Apparel Quotas Removed		
Country	2001	June 04
CHINA	9%	72.3%
Thailand	10%	3.4%
CBI	10.0%	3.4%
Mexico	8%	2.0%
Taiwan	8.0%	2.9%
Bangladesh	7.0%	2.0%
Philippines	6.3%	1.2%
India	2.8%	1.6%
Korea	3.3%	1.6%
Sri Lanka	2.8%	.3%
Italy	2.5%	1.4%
Cambodia	1.8%	.4%
Pakistan	1.5%	.5%
Turkey	.9%	.3%

The analysis shows that, with one exception, China took dramatic amounts of market share, usually on the order of one-half to two-thirds, from every major competitor. These competitors included major producers such as Bangladesh, Mexico, the nations of the Caribbean, Turkey, the Philippines and Pakistan.

Also, for the first time, China began to cut into India’s share. Until now, India had been the only major WTO member to withstand the Chinese onslaught and maintain its level of market share since the quotas were removed. However, over the last three months, India’s share dropped sharply, falling from 2.8% to

1.6%, a decline of 46 percent.

In all, 31 countries suffered between a 75 percent to 100 percent loss of market share, 40 countries suffered a 50 percent to 74 percent decline in market share and 17 others suffered a 25 percent to 49 percent loss of market share (see appendix I).

Meanwhile, as all these countries lost share, China’s share increased from 10 percent to 72 percent.

3. Changes in volume (square meters): China Increases Apparel Shipments by One Billion Square Meters, or 1009%, in 30 months.

In terms of actual shipments, declines were across the board for major suppliers in the quota-free categories, with the exception of India, which managed a 6 million square meter increase in shipments over the past 28 months. In contrast, China’s shipments increased 1.05 billion square meters, a jump of 1,009 percent on a volume basis.

Experiencing the largest declines in actual shipments were Mexico, Thailand, Bangladesh, the Philippines and the nations of the Caribbean.

Changes in Volume - Quota free apparel (Millions of square meters)	
2001 – YE 6/04	
CHINA	+ 1.09 billion
India	+ 6 million
Mexico	-45
Thailand	-41
Bangladesh	-38
Philippines	-33
CBI	-34
Taiwan	-27
Indonesia	-29
Sri Lanka	-18
Cambodia	-12
Malaysia	- 6
Pakistan	-6
Canada	-4

Of particular importance, as has been noted in previous reports, the establishment of free trade or preferential trade areas has still not appeared to have had a significant impact on competitiveness vis-à-vis China. Preferential trading partners Mexico and the nations of the Caribbean have not performed any better than have any other suppliers.

4. Prices: China's Apparel Prices Declines Average 53% since 2001

China's prices for apparel declined an average of 53 percent after quotas were removed, falling from an average of \$6.23/square meter in 2001 to \$3.12/square meter as of YTD June 04.

Actual Chinese prices did edge up in the first half of 2004 as China consolidated its hold on these markets and was thus able to retreat from the severe cost cutting that enabled it to secure a dominate share.

Change in Average Chinese Prices (Quota-free apparel categories per square meter)				
2001	2002	Dec 2003	YTD June 2004	Change: 2001 – YTD 6/04
\$6.23	\$3.37	\$2.65	\$3.12	- 53%

5. China takes a 70 percent market share for home furnishings products

This update also reviews (for the first time) imports of home furnishings products that were removed from quota control on January 1, 2002.

In these categories, Chinese share increased from 5 percent in 2001 to 70 percent as of June 2004, paralleling Chinese dominance in apparel products also removed from quota control. Shares held by other supplying countries fell from 95 percent to 30 percent.

Import market share fell sharply for all major suppliers with the biggest losses being

Changes in Import Market Share for Home Furnishing Products		
Country	2001	June 04
CHINA	5%	70%
Mexico	38%	4%
Pakistan	12%	7%
Thailand	8%	3%
Taiwan	4%	0%
India	5%	4%
South Korea	4%	5%
Philippines	2%	0%
Cambodia	2%	0%
Sri Lanka	2.8%	.3%

being felt by Mexico (down 34 percentage points), Pakistan (down 8 percentage points), Thailand (down 5 percentage points) and Taiwan (down 4 percentage points).

In these home furnishing products, which include certain blankets, curtain and miscellaneous products (see appendix), China dropped prices by an average of 70 percent, from \$1.28/square meter to \$.39/square meter.

6. Studies and Analyses Show Dominance by China with Quota Elimination

Multiple studies and analyses done by widely varying groups and institutions have all come to the same conclusion – that China will dominate world trade in textiles and apparel once quotas are removed. These include studies by the WTO, the World Bank, the U.S. International Trade Commission, and the McKinsey Company, as well as analyses of China’s past trade behavior in non-quota countries and in apparel categories removed from quota control.

Many Analyses Predict Chinese Dominance	
Source	Predicted China Share
Cotton Sourcing Summit ¹	87% said: 50-90% 43% said: 75-90%
Past experience, other markets (apparel) ²	Australia & Japan: 70-77%
Quota removed categories ³	72% +
WTO Study ⁴	56% (China + India + 71%)
McKinsey Study ⁵	50%
World Bank Study ⁶	50%
ITC Study ⁷	“supplier of choice”

7. *New Study* – WTO Study Predicts China and India Will Take 71% of U.S. Apparel Market

A study⁴ recently released by the WTO on the phase-out of quotas, predicted that China and India would take 71 percent of the U.S. apparel market, with China (including Hong Kong) taking 56 percent and India taking an additional 15%.

The study’s econometric model shows sharp declines for all major suppliers, with Mexico and the Caribbean Basin countries taking an especially hard hit, with sourcing there dropping by three-quarters.

The analysis used 2002 trade flows as a baseline and calculated sourcing changes based on estimated quota costs in China and other countries. The study did not take into account “real life” Chinese price drops in de-controlled categories since 2001. These price drops, which have averaged 53%, are much larger than the study’s estimate for quota costs of 33%.

¹ Cotton Sourcing Summit, Miami, Florida (WWD, 3/3/04)

² National import statistics for Japan and Australia, 2002.

³ U.S. Department of Commerce statistics, analyzed by NCTO.

⁴ Global Textile and Clothing Industry post the Agreement on Textiles and Clothing, Hidegunn Nordas, ERSD, World Trade Organization, July 2004.

⁵“DHL-McKinsey Apparel and Textile Trade Report” AFX News Limited, 3/28/04.

⁶ “Trade Liberalization in China’s Accession to the World Trade Organization”, Elena Ianchovichina and Will Martin, World Bank, June 2001, p. 21

⁷ Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market (Investigation No. 332-448, sent to USTR in June 2003), Pub. 3671, January 2004

In addition, the study used 2002 figures to conclude that China would take only 18 percent of the U.S. textile import market once quotas are removed, a figure that is considerably below China's current share of 29% of the U.S. market. Thus, the study appears to dramatically underestimate potential China share.

U.S. Apparel Market Share – Post Quotas - WTO Study -		
Country	2001**	No Quotas
CHINA*	12%	56%
Central and South America	23%	5%
Mexico	14%	3%
India	4%	15%
Bangladesh	4%	2%
Philippines	4%	2%
Indonesia	4%	2%
Rest of World	24%	10%
*Includes Hong Kong; **U.S. Dept of Commerce data		

Sources for NCTO Studies: Unless otherwise noted, trade data is from the U.S. Department of Commerce, Office of Textiles and Apparel, <http://otexa.ita.doc.gov>

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Appendix I: Market Share Loss Country in Apparel Categories Removed from Quota Control - 2001 to YTD June 04

100-75% Loss

Albania
Bahrain
Belize
Bolivia
Brunei
Burma (Myanmar)
Cambodia
Cape Verde
Chile
Costa Rica
Czech Republic
Fiji
Guatemala
Hong Kong
Ireland
Jamaica
Kyrgyzstan
Luxembourg

50-74% Loss

_ASEAN
_CAFTA
_CBI
Australia
Austria
Bangladesh
Belgium
Canada
Dominican Republic
Finland
France
Germany
Haiti
Honduras
Indonesia
Israel
Japan
Korea, South

25-49% Loss

_EU12
_EU15
Armenia
Bulgaria
Egypt
Estonia
Iceland
Italy
Jordan
Nepal
Nicaragua
Peru
Portugal
Russia
South Africa
Syria
Trinidad and Tobago
Turkey

Macau	Macedonia
Maldiva Islands	Madagascar
Mexico	Malaysia
Moldova	Mauritius
Mongolia	Mexico
Netherlands	New Zealand
Netherlands Antilles	Nigeria
Niger	Pakistan
Norway	Panama
Seychelles	Philippines
Singapore	
St Lucia	Russia
St Vincent/Grenadines	Saudi Arabia
Taiwan	Sierra Leone
Uruguay	Slovak
Venezuela	Republic
	Slovenia
	Sri Lanka
	(Ceylon)
	Thailand
	Turkey
	UAE
	United
	Kingdom
	Zimbabwe

Appendix II: Apparel categories removed from quota control on January 1, 2002

Apparel Categories Removed from Quota 1/1/02	
<i>Category</i>	<i>Description</i>
239	Infants wear
330	Cotton handkerchiefs
349	Cotton brassieres*
350	Cotton nightwear and pajamas*
431	Wool gloves
432	Wool hosiery
459	Misc. wool apparel
630	Man-made fiber handkerchiefs
631	Man-made fiber gloves
632	Man-made fiber hosiery
649	Man-made fiber brassieres*
650	Man-made fiber nightwear and pajamas*
653	Men's man-made fiber down-filled coats
654	Women's man-made fiber down-filled coats
831	Silk and vegetable blend gloves
834	Men's silk and vegetable blend coats
835	Women's silk and vegetable blend coats
836	Silk and vegetable blend dresses
838	Silk and vegetable blend knit shirts
839	Silk and vegetable infants wear
840	Silk and vegetable blend woven shirts
842	Silk and vegetable blend skirts
843	Men's silk and vegetable blend coats
844	Women's silk and vegetable blend suits
847	Silk and vegetable blend trousers
851	Silk and vegetable blend nightwear
858	Silk and vegetable blend neckties
859	Misc. silk and vegetable blend apparel
*Safeguard actions applied; categories removed from analysis. See "safeguard action" review for details.	

Appendix III: Home Furnishings Products Removed From Quota Control

Tariff Line	Description
6301100000	Electric Blankets
6301200010	Blankets
6301300010	Blankets
630100020	Blankets
6301300020	Blankets
6301400010	Blankets
6301400220	Blankets
6301900010	Blankets
6301900030	Blankets
6302290020	Assorted Bed Linen