



September 22, 2009

The Honorable Ronald Kirk
Office of the United States Trade Representative
600 17th Street, N.W.
Washington, DC 20508

RE: China's Compliance with its WTO commitments

Dear Ambassador Kirk:

Thank you for the opportunity to write to you regarding the Office of United States Trade Representative's request for comments concerning China's compliance with its World Trade Organization (WTO) commitments. We are pleased to assist in the preparation of your annual report to the Congress on China's compliance with the commitments made in connection with its accession to the World Trade Organization (WTO).

Concerns regarding the Chinese government's intervention into its manufacturing export sector have grown significantly since the National Council of Textile Organizations (NCTO) sent comments last year. Despite a pledge not to take protectionist actions at the G-20 meeting earlier this year, China has embarked on a slew of mercantilist actions designed to increase its market share and exports to the U.S. textile sector, as well as other manufacturing sectors, during the global crisis. As a result, U.S. textile and apparel job losses have soared while the Obama Administration has failed to fulfill its commitment made during the Presidential campaign to institute textile and apparel monitoring on imports from China.

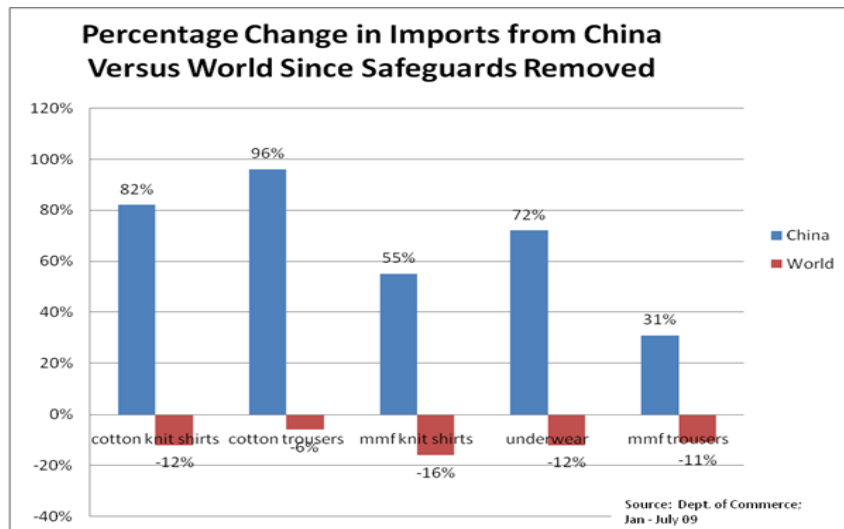
Since July 2008, the Chinese government has pumped nearly \$10 billion in new export subsidies into its textile export sector while other industrial products saw similar increases. China accomplished this by increasing its export tax rebates by 40 percent, from 11 percent to 16 percent. At the same time, China has halted the appreciation of the Yuan with the exchange rate now frozen in place for nearly 14 months.

The recent decision by the Administration to approve the 421 petition on passenger tires was an important step in beginning the path toward rebalancing the trade agenda. However, we are concerned that the United States has not taken China to task for implementing the above policies which so clearly favor its export sector. Without a strong response from the Administration, China will continue to use its currency as an economic weapon and will continue to rely on subsidies to provide its manufacturing

exports with an unfair competitive advantage. The loss of 1.1 million manufacturing jobs during the first eight months of the new Administration sends a critical message that U.S. manufacturing needs the Administration to act NOW.

In the case of textiles, China's actions were also done in conjunction with a new Textile Revitalization Plan announced in April 2009. This plan increased other subsidies, reduced labor costs (through forgiveness of payments to social insurance programs), extended new loans and credit guarantees to textile companies and provided increased government aid for research and upgrading equipment. The Chinese government also announced that it would accelerate its famous brand program in order to 'increase exports of famous brands by ten percent.'¹ This was a surprise given that last December the United States filed a WTO case against China's famous brands regulations because these programs were prohibited export subsidies.

The plethora of new Chinese subsidies have had their intended impact on its export sector. Since the remaining textile safeguards on China were removed on January 1st, Chinese exports on safeguard products have surged, rising on average 67 percent. These extraordinary Chinese increases have come during a period of time when the U.S. market is sharply contracting. Chinese unit prices have also dropped dramatically, down an average of 19 percent since the beginning of the year. U.S. textile sector losses have been heavy with more than 37,000 textile and apparel workers losing their jobs this year.



Review of Chinese government intervention in the textile sector:

Since China's accession to the WTO in 2001, 63 duty orders have been instituted by the U.S. Department of Commerce. The number of cases being filed is a direct reflection of increased subsidies and continued government intervention taking place in China. In

¹Translation of revitalization summary from the Chinese original, 4/29/09; http://www.uschina.org/public/documents/2009/04/textile_revitalization_plan.pdf; http://www.gov.cn/zwgc/2009-04/24/content_1294877.htm

2009 alone, the United States International Trade Commission has conducted eleven AD/CVD investigations against China on products ranging from electric blankets to steel grating to passenger tires.

In 2001, the U.S. textile industry was assured by the U.S. government that the People's Republic of China's (PRC) accession to the World Trade Organization would result in a turning point in China's central government policies. By agreeing to remove trade barriers and abolish its financial subsidies given to 'pillar' Chinese industries, China agreed to adhere to the rules governing open market economy systems. However, the PRC has failed to act in accordance with its WTO commitments because the Chinese government continues to administer massive subsidies, sometimes WTO illegal, to its textile and apparel industry, including a significant under valuation of the Chinese Yuan.

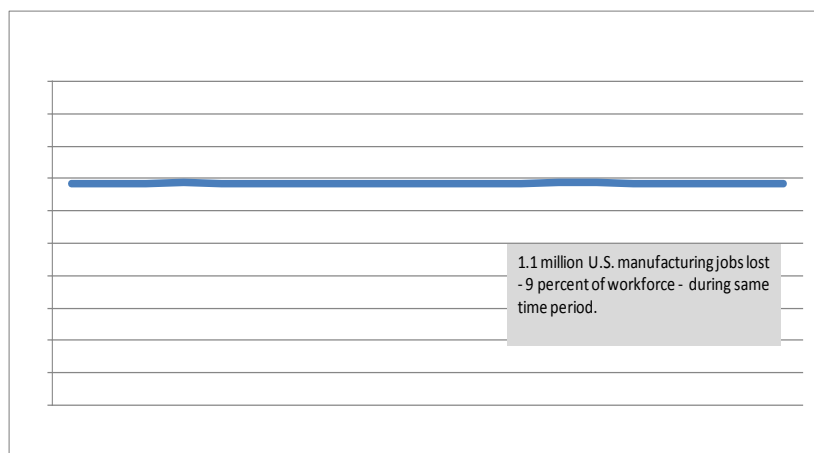
Three years ago, NCTO conducted an internal analysis of subsidies offered to China's domestic textile and apparel industries. The examination of government cases involving steel, paper products, woven sacks, auto parts, and other industries discovered 73 subsidies applicable to its domestic textile industry.

In December of last year, and in response to the NCTO analysis, the U.S. government announced that it would file a WTO case against Chinese export subsidies concerning China's Famous Brands initiative. Since that time, the U.S. government has continued to have talks with China regarding the case and has not filed the WTO case.

Unfortunately, the great majority of subsidies on the NCTO list are still in place and are the most significant subsidies in terms of size and impact. The list contains a broad array of financial schemes including research and technology grants, bank lending programs, tax exemptions, and preferential tax program, in addition to China's export tax rebates.

These subsidies are also in addition to the enormous financial support that Beijing offers through its managed exchange rate, which most economist estimate is undervalued by 20 – 40 percent.

Given that the information we gathered about these subsidies is relatively new, and was drawn from public filling and cases, we do not believe that the NCTO subsidy list is comprehensive in nature. We expect that there are additional subsidies available to the textile industries that have not yet been uncovered.



The lack of transparency about China's subsidy regime², a fact that has been commented upon repeatedly both by the U.S. government, other WTO members and industry groups, has meant that its subsidy regime has been difficult to penetrate.

During the China PNTR debate, the United States government stated it would strictly monitor China's WTO compliance. This included privatization schemes, export subsidies and the Chinese government's support of its state-owned industrial sectors, including textiles. In actuality, following passage of PNTR, the U.S. government has done virtually no oversight of China's WTO compliance in these areas and few resources have been deployed to either monitor or investigate Chinese government fulfillment of its WTO commitments. Credible economic studies have determined that millions of U.S. manufacturing jobs have been lost to China in the interim.

While the Obama Administration has pledged to crack down on illegal activity and to increase scrutiny of China, we are concerned that there still remains no central repository or information center on the Chinese subsidy structure and the Chinese system remains opaque. This makes it difficult for U.S. companies to take actions to defend themselves and for policy makers to fully appreciate the mercantilist nature of China's actions and to take actions to assist U.S. industry in remaining competitive.

The lack of enforcement of trade agreements is one of the major reasons that U.S. trade policy has lost popular support and we strongly encourage USTR to increase enforcement efforts and priorities, particularly in regards to China. As has been noted recently by the Nobel prize winning economist, Robert Samuelson, China's predatory trade practices, which essentially drain other countries wealth and jobs through targeting export markets, rather than developing a self sustaining consumer market, poses the most serious threat to the world trading system in the last fifty years. By failing to sanction these prohibited trade activities, the U.S. government has been essentially enabling China to continue its "winner take all" policy which is in effect destroying popular support for trade liberalization.

That popular support is now at an all time low and we do not believe it will recover until meaningful action is taken to reverse the current imbalances. During the last year, U.S. industrial production has fallen 12.2 percent, a decline not seen since the great depression. As noted earlier, 1.1 million U.S. manufacturing jobs have been lost during the last eight months, nine percent of the manufacturing workforce. At the same time, the Chinese government reported an astonishing 12.3 percent increase in industrial production in August and now predicts a 9.5 percent increase in GDP for 2009. China reports that industrial employment is actually rising, as the U.S. government figures show that China is now responsible for 80 percent of the U.S. manufacturing trade deficit.

² China did not even submit a list of the subsidies it employs until 2006, five years after it joined the WTO. Even then the U.S. government and others noted the list was woefully incomplete.

In conclusion, we urge that the U.S. government take four specific steps: 1) move quickly on its commitment of monitoring Chinese textile and apparel imports; 2) condemn recent Chinese actions on textiles and other industrial products that are mercantilist in nature; 3) to create a central public repository on Chinese government support for its industrial sector, and 4) to acknowledge that China manipulates its currency in order to gain an unfair export advantage and to support legislation and other actions that will either compel China to begin appreciating its currency or to allow U.S. manufacturers to defend themselves and their workers from these predatory practice. While we understand that the government may have been concerned that such actions could have significant side effects during the unprecedented global financial crisis earlier this year, this concern is no longer applicable as policymakers have concluded that global financial collapse has been averted.

Thank you again for the opportunity to present our views. We look forward to working with you on this critical issue. Please do not hesitate to contact us regarding information pertinent to the domestic industry.

Sincerely,

A handwritten signature in black ink, appearing to read "Cass Johnson". The signature is fluid and cursive, with a large loop at the end.

Cass Johnson
President
National Council of Textile Organizations