

Statement of Cass Johnson

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On behalf of 23 International Textile and Apparel Trade Associations

Regarding the Duty Free Quota Free Initiative in the Doha Round

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My name is Cass Johnson and I am President of the National Council of Textile Organizations (NCTO) which represents the United States textile industry. Before I discuss the issue at hand, I think it would be helpful if I review for you some facts about the textile sector in the United States as well as the other trade associations I am speaking on behalf of.

The U.S. textile sector is one of the largest manufacturing sectors in the United States, employing more than 800,000 workers in textiles, apparel and textile fibers and related industries. We are also one of the world's largest exporters of textile products, with nearly \$16 billion in exports last year. In fact, our largest export markets are to developing countries, with nearly 75 percent of our exports going to our trade partners in the CAFTA, NAFTA and Andean countries. I say this to point to the central fact that the future of the US textile industry is tied to the future of our trading partners in the developing world.

I speak to you not only as a representative of the U.S. textile industry but also on behalf of textile industries from around the world that have concerns about the duty-free, quota-free initiative and how it is to be implemented. These sectors include 23 textile groups from developing and least developed countries in Africa and the Western Hemisphere¹. Since 2005, these sectors have come together in order to raise concerns about the impact of the DFQF process as it applies to textiles.

This coalition is in itself an important statement. It tells us that DFQF is an issue that transcends both developing, developed and least developed country labels. That is because the DFQF initiative, particularly as it relates to textiles, is complicated. While it sounds to many like an obviously good thing, the manner in which it is being pursued, at least by some, raises serious concerns about whether the aims of the initiative will actually be achieved and what the costs of that achievement will be.

Let me review some facts. Today, according to the US Department of Commerce, roughly 95 percent of the apparel consumed in the United States is imported. And of that 95 percent, 95 percent is imported from developing and least developed countries. So in total, 90 percent of the garments purchased in the United States are from developing and least developed countries.

This 90 percent figure means that when we talk about shifting trade in garments in order to favor certain least developed countries, what we are actually talking about is shifting trade away from other developing countries and, as it turns out, a number of least developed countries as well. Thus, while the United States is the grantor of the DFQF benefits, the countries that will be most impacted are other developing and least developed countries. It is their exports that are being shifted. At the end of the day, these countries have a bigger stake in this issue than anyone else because these countries could potentially lose billions of dollars in export markets.

To be more specific, the last six years have been particularly difficult for developing and least developing countries in Africa and the Western Hemisphere. What trade figures have shown is that importers are increasing consolidating their sourcing not only into China but also into four other countries – Vietnam, Bangladesh, Cambodia and Indonesia. In fact, as of the latest trade data, these four countries are now the only major suppliers to have consistent growth in exports to the United States since the quota phase-out. These countries, plus China, make up what “the Big Five” and trade flows now shown them to be the super competitors of the textile world.

It will come as no surprise that China has been the biggest winner from the quota phase-out, and now accounts for 35 percent of all apparel imports into the United States. In dollar terms, China has increased its apparel exports by an astounding \$17.5 billion since 2001, an increase of 173 percent.

It may surprising to learn that as costs in China have risen, Vietnam, Indonesia and two LDCs - - Bangladesh and Cambodia - - have actually gained market share against China. Mr. Parvez, head of the Bangladesh Garment Manufacturers and Exporters Association, said earlier this year that on key categories, “China and India are our major competitors and we have proved our ability by beating them both in price and quality.”ⁱⁱ

Over the last seven months, in a declining retail market, Bangladesh has managed to increase its exports to the US by \$126 million while China has fallen off by \$557 million. Mr. Parvez is understandably upbeat about the future: "We are receiving huge orders from buyers and quite confident to achieve a rapid export growth in future." Imports from the two LDCs jumped \$2.6 billion, a 90 percent increase since 2001.

This kind of rapid export growth means that, for the first time, the Big Five are now the majority players in the US market. Exports from the Big Five have increased \$26.1 billion or 127 percent since 2001 and the five countries now hold a 53 percent of the US import market for apparel, compared to just 21 percent in 2001.

For other developing and least developed countries, the picture is considerably darker. Apparel imports from other exporting countries have fallen \$10 billion since 2004, a decline of 24 percent in just three and half years, as the Big Five has siphoned off increasing amounts of trade. This has occurred despite an overall growth in apparel imports into the United States of \$8 billion dollars. All of this trade, \$18 billion dollars worth, has flowed to the Big Five during the last three and half years.

The list of who is now hurting has become surprisingly large and now includes a number of countries that initially benefited from the quota phase-out but whose exports are now declining. These countries include India, Malaysia, Sri Lanka, the Philippines, Jordan, Thailand and Egypt. Pakistan, which had seen big initial increases, is now dead in the water.

The biggest losses, however, have occurred in the preference countries and include developing and least developing countries in NAFTA, the Andean region, the CBI countries, including Haiti, and the AGOA countries. Since 2004, these countries have lost one quarter of their total exports, nearly five billion dollars worth, to the Big Five.

Losses to US Preference Partners Over Last 3 ½ Years to “Big Five”		
	Export loss since 2004	Percentage Loss
CBI	- \$1.7 billion	-17%
NAFTA (Mexico)	-\$2.5 billion	-35%
Andean	-\$93 million	-7%
AGOA	-\$590 million	-34%
- AGOA LDCs	- \$166 million	-20%
Total Preference Losses	- \$4.9 billion	-24%

These declines are certain to continue –in apparel categories where safeguards have been removed from quota, the share of the Group of Five is now 63 percent of the US market and is growing at a rate of four percentage points per year. Most of that growth is not coming from China but from Bangladesh, Vietnam and Cambodia. As the remaining safeguards come off China at the end of this year, trade projections show a not too far off future where the Big Five will likely control between 70 and 75 percent of the US apparel market. Again, recall that this figure just only 21 percent in 2001.

Bangladesh in fact sees that its industry rising rapidly. Both of Bangladesh's major apparel trade groups now project that Bangladesh will almost triple its exports of apparel over the next five years, from \$9 billion to \$25 billion. As a result, Bangladesh expects to increase its apparel workforce by 50 percent or 1.4 million workers. All this is expected regardless of whether Bangladesh is awarded full DFQF access for its garments.

So to put all these numbers all together, we see several trends.

- 1) Apparel trade is rapidly consolidating into five major suppliers, including two least developed countries, Bangladesh and Cambodia
- 2) Because of rising costs in China, these LDC countries are expecting even stronger exports in the future.
- 3) The gains by the Big Five have meant large declines and hardships by both preference countries and by other least developed countries, part those in Africa. These declines are now spreading to other exporters.
- 4) The declines that the preference countries are experiencing will likely continue as consolidation continues and safeguards on China are removed.

This now brings me to DFQF initiative and its impact on the textile sectors that I am representing today.

As we all know, the only major LDC countries that do not get DFQF treatment in the US market are Bangladesh and Cambodia. These two countries, by their own admission and as trade data clearly reveals, have textile sectors that are on a solid upward trajectory. They are growing rapidly, adding jobs and they see bright futures. They are even out competing China. They have done this without the benefit of preferences.

The textile sectors in these two LDCs are clearly not in need of assistance. In contrast, the LDCs that need assistance are the countries in Africa and in the Western Hemisphere that are rapidly seeing their only major manufacturing sectors being drained away, ironically, by the success of Bangladesh, Cambodia and the other members of the Big Five.

Giving Bangladesh and Cambodia duty free access for all of their garments would only compound and accelerate that trend, causing a development crisis in countries that are already struggling. The LDCs in Africa have lost twenty percent of their exports since 2004 and their losses are accelerating. In the first seven months of 2008, exports from AGOA fell 13 percent.

This bad news is matched by the problems of Haiti in the Western Hemisphere. Over the years, the US Congress has devised no less than four preference programs to help Haiti's apparel industry. The plight of Haiti, like Africa, draws intense attention in the United States. Despite these efforts, garment exports

from Haiti have fallen nearly ten percent this year. And these figures do not include the impact of Haiti being hit by two devastating hurricanes in the space of less than a month.

The impact of DFQF on vulnerable developing economies that are heavily dependent on textile exports also needs to be taken into account. These countries include the CBI countries, where textile and apparel exports are by far the largest export item, with over \$8 billion in exports supporting hundreds of thousands of badly needed jobs. These countries have been afforded no stake in the DFQF discussion despite the fact that the total ramifications for their economies of the initiative are probably greater than for anyone else. Moreover, the impact of DFQF on them is magnified because these countries are so heavily dependent – and therefore vulnerable – to fluctuations on textile trade. Upwards of 65 percent of their exports are in garments.

Our sectors recommend that the tariff lines that are most important to the struggling textile sectors in Africa, Haiti and the CBI region remain outside the DFQF 97 percent. This will still allow Bangladesh and Cambodia to reap significant rewards – 70 percent of all textile and apparel tariff lines will become duty free – while preventing a wholesale development collapse in many of these countries. In addition, the DFQF initiative must remain part of the entire Doha Round package and not be speeded up or unilaterally implemented.

On the issue of implementation, the US Congress already has demonstrated that it has real concerns about the dangers that wholesale implementation could bring. Over a year ago, a bill was introduced that would give DFQF to Bangladesh and Cambodia immediately. The two countries pleaded that they needed it because of the end of safeguards on China, a view that trade figures now appear to refute. This bill has gone nowhere principally because of textile and African country opposition. With popular support for trade agreements at record lows, the US Congress is clearly in no mood to make the plight of Africa and Haiti and the U.S. textile industry worse in order to benefit textile sectors in countries that are already thriving.

Regarding the preference erosion issue, I would like to make two points. The first is that major players such as the CBI countries are being left out of the discussions despite the fact that these countries have built their apparel export markets on preferences. These countries have only recently graduated to free trade partner status and when the preference erosion issue was put on the table in Hong Kong, they clearly envisioned being part of it.

Second, preference erosion is not a solution. It merely delays by a few years the destruction of the competitive platform that preferences were built upon. Under preference erosion and the existing formula, small and vulnerable economies and a large number of least developing countries will see their textile and apparel export markets turned over to the Big Five. This is not development, it is a radical concentration. It is anti-development at its core because it rewards a select few winners while punishing the rest of the developed and least developed world.

There is however a solution and that is a textile sectoral. Turkey has presented several versions of a textile sectoral in the past and the United States has repeatedly acknowledged that textiles must be dealt with in a manner that is different than the overall formula. This means a sectoral that is comprehensive, including all the major producers, and balanced, which means reciprocal, and that market access to the US market must be balanced by market access to all other producers. The US Congress has already

mandated that textiles must receive reciprocal benefits as part of a Round. And given the increasingly pessimistic mood in the United States and the US Congress regarding the benefits of trade, I am personally more convinced than ever that it will be impossible to move an agreement through Congress if both the U.S. textile industry and important US trade partners in Africa, Haiti and the CBI are targeted for destruction. The U.S. Congress did not take the time and effort to establish these programs only to see them sacrificed to a select set of textile powerhouses.

In closing I would like to thank the Secretariat for hosting this important panel and look forward to continuing discussions on this important issue.

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ⁱ Textile and apparel groups from Botswana, Colombia, the Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, Guatemala, Honduras, Kenya, Lesotho, Madagascar, Malawi, Mexico, Nicaragua, Peru, South Africa, Swaziland, Tanzania, Uganda, United States, Zambia and Zimbabwe.

ⁱⁱ “Bangladesh eyes \$25 bln in textile exports by 2013”, Reuters India, April 16, 2008, <http://in.reuters.com/article/businessNews/idINIndia-33072920080416>