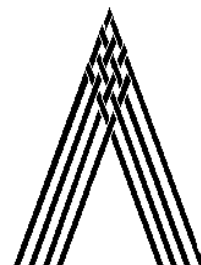


The China Threat to World Textile and Apparel Trade

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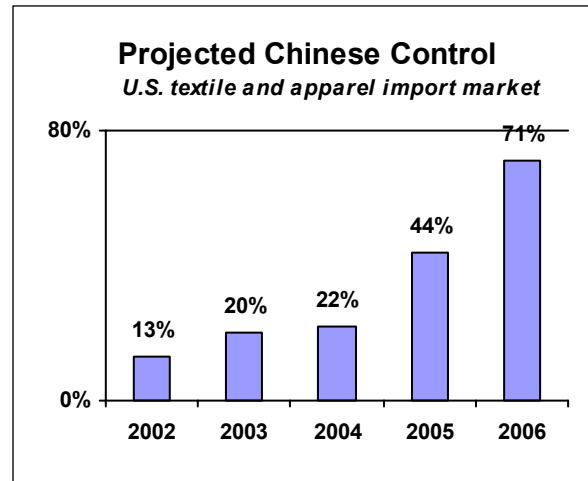
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Executive Summary

The following report is a 22 page analysis of Chinese import increases and price shifts in 29 quota de-controlled categories since January 1, 2002. It concludes that if China follows the same pattern in 2005, when the bulk of its quotas will be removed, then **China's share of the U.S. textile and apparel market will rise to over two-thirds of the U.S. market within 24 months.**

If this occurs, the result will be the largest wave of job losses and plant closures in U.S. textile and apparel history and will likely result in the elimination of textiles and apparel as a major manufacturing employer in the United States. **Total U.S. textile and apparel job losses from 2004-6 could reach 630,000, with over 1,300 textile plants closing in the United States over a three-year period.**



Job losses in the United States will be only a fraction of those that will occur overseas **as an estimated \$42 billion in export orders from other countries shift to China.** This would probably represent one of the largest short-term transfers of wealth in the history of the developing world.

A large number of countries, from Mexico to South Africa, from Bangladesh to Haiti, from the Philippines to Turkey, depend on exports of textiles and apparel to the U.S. market for much of their foreign exchange, not to mention the livelihoods of millions of their workers. The United States is far and away the world's largest textile and apparel consuming nation, importing \$75 billion worth of such goods from more than 70 countries last year¹.

After a review of the trade data, this analysis also concludes that countries with trade preferences -- Mexico, the nations of the Caribbean, Central America and Sub-Saharan Africa, among others -- are no more likely to retain market share against China than any of the traditional exporting powers in the Far East.

The dependence of a substantial portion of the U.S. textile industry on these preferential agreements is a significant reason that the textile outlook for U.S. producers is so grim. Mexico, the Caribbean and Central America account for over \$10 billion worth of U.S. textile exports -- and none of these countries appears capable of countering the enormous

Country/Region	Loss (\$ mil.)
<i>CBI</i>	-\$6,279
Mexico	-\$5,423
<i>EU</i>	-\$2,477
Canada	-\$1,861
Honduras	-\$1,763
Korea, South	-\$1,620
Indonesia	-\$1,390
Turkey	-\$1,316
Dominican Republic	-\$1,287
Guatemala	-\$1,265
Philippines	-\$1,236
Italy	-\$1,218
Thailand	-\$1,161
Bangladesh	-\$1,051
El Salvador	-\$1,015
<i>SUB-SAHARAN AFRICA</i>	-\$926
<i>ANDEAN</i>	-\$731

¹ According to WTO figures, the U.S. imports 50 percent more textiles and clothing than the EU, and more than three times as much as Japan.

advantages that China’s currency and subsidy regime grant its export machine. In addition, the ability to source fabric and yarn from outside the region does not appear to help – Sub-Saharan Africa’s exports, which may contain such yarns and fabrics, fell just as rapidly as did the CBI’s in China de-controlled categories.

As a result, U.S. textile production is expected to plunge and, in relatively short order, many of the nearly one million U.S. workers who depend on the U.S. textile complex appear likely to lose their jobs.² Indeed, because textile formation is a precursor to apparel assembly, heavy textile job losses are expected to begin in mid-2004 and then continue into 2005 and 2006. **One textile executive predicted that the industry could be “closing a plant a day” if China is not restrained.**

The report’s conclusions are based on a sharp drop in Chinese prices once quotas on apparel products were removed in 2002. **During those twelve months, the average Chinese price fell by 44 percent, declining from \$6.23 per square meter to \$3.37 per square meter, a drop of \$2.86 per square meter.** Prices by suppliers other than China fell as well but not by nearly as much. The average price of other suppliers fell by 2 percent, dropping from \$3.55 per square meter to \$3.47 per square meter.

Projected Textile & Apparel Job Losses	
State	Job Losses
North Carolina	85,000
California	81,000
South Carolina	42,000
Alabama	30,000
New York	29,000
Georgia	25,000
<i>Total all states</i>	<i>630,000</i>

The impact on trade patterns from the Chinese price drops was swift and definitive. China increased its exports in the 29 apparel categories by \$980 million in 2002 while all other suppliers saw their exports drop by \$813 million. This trend also accelerated in the first quarter of 2003, when Chinese imports increased by \$493 million (compared to Q1 2002) while imports from the rest of the world fell by \$71 million.

The analysis also examined other “proxies” for Chinese behavior in a post-quota world. It looked at Chinese penetration of the Japanese and Australian textile and apparel markets (which have no quota regime in place) and at imports into the U.S. of similar manufactured goods which have not been restrained by quotas. Both proxies found Chinese penetration of these markets at 70 percent and above. The proxies belie the oft-stated notion that importers or retailers will seek to “spread the risk” by sourcing from multiple major platforms. In each case, importers or retailers instead embraced the cost savings available from China and focused almost all of their sourcing there.

The analysis illustrates the need for the U.S. government to move quickly to initiate use of the special China textile safeguard to restrain Chinese imports once quotas are removed. Without early and comprehensive use of the special textile safeguard, China will quickly come to dominate the U.S. textile and apparel market.

In addition, the report notes that Chinese export subsidies in the form of Chinese currency manipulation, state subsidization and the use of export tax rebates have given China an unassailable edge in textile and apparel trade.

It concludes with the observation that until these anti-free market advantages are removed, WTO members would be within their rights to ask that China be kept under restraint after quotas are removed in 2005. The report notes that the use of the China textile safeguard, *even if used effectively*, is only a short term solution. Thus it is important for the world community to devise some sort of more permanent restraining mechanism which would remain in effect until China removes these anti-competitive supports from its textile sector.

² Consisting of the apparel, textile and textile machinery and chemical manufacturers and cotton and man-made fibers producers.

Analysis Results

In this analysis, ATMI reviewed fifteen months of trade data on imports from China and the rest of the world in 29 apparel categories that were removed from quota on January 1, 2002. The results showed that on average the Chinese share in those categories more than tripled, rising from 9 percent in 2001 to 45 percent by the first quarter of 2003.

During the same period of time, imports from other suppliers fell by 200 million square meters, while imports by China rose by 411 million square meters. The decline by other suppliers occurred despite the fact that quotas on these countries had also been removed.

This trend persisted into the first quarter of 2003, when Chinese imports increased by another 175 million square meters while the rest of the world fell by 13 million square meters.

The motivating factor that led to the decline was a sharp drop in Chinese prices. The average Chinese price fell by 46 percent, declining from \$6.23 per square meter to \$3.37 per square meter, a drop of \$2.86 per square meter.

Prices by suppliers other than China fell as well but not by nearly as much. The average price of other suppliers fell by 2 percent, dropping from \$3.50 per square meter to \$3.41 per square meter.

In terms of dollar value, the contrasts were even more extreme. China increased its exports in the 29 apparel categories by \$980 million in 2002 while all other suppliers saw their exports drop by \$813 million. This trend also accelerated in the first quarter of 2003, when Chinese imports increased by \$493 million (compared to Q1 2002) while imports from the rest of the world fell by \$71 million.

Analysis background

ATMI analyzed 29 apparel categories removed from quota control on January 1, 2002 for China (the same categories were also made quota-free from all other WTO member countries). The categories, which spanned a wide spectrum of products, included such items as gloves, infants wear, brassieres and dressing gowns.

The products were made of a wide range of fibers, from cotton to man-made fiber to silk. The categories also ranged from those that China was already dominant in prior to 2002 (in volume terms, a relatively small number) to those that China previously was a smaller supplier in or a very small supplier (because of quota restraints).

Apparel Categories Removed From Quota	
<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

The analysis utilized publicly available data from the U.S. Department of Commerce (<http://otexa.ita.doc.gov/msrpoint.htm>). All categories that were fully removed from quota control were analyzed; categories that were only partially removed from quota control (e.g. some products in the category remained under quota) were not included.

A smaller number of non-apparel categories have also been removed from quota control; these included three yarn categories, five fabric categories and eight made-up categories. These categories will be reviewed at a later date (note: a preliminary review shows that Chinese price drops and import increases have occurred in a range similar to those seen in the 29 apparel categories reviewed in this report).

Chinese Price Changes

According to ATMI’s analysis of the 29 apparel categories removed from quota control on January 1, 2002, over the next twelve months prices of goods from China dropped an average 46 percent, falling from an average of \$6.23/square meter to \$3.37/square meter. Prices of competitive goods from other suppliers also fell, though they could not match the Chinese level.

Other suppliers dropped from \$3.50/square meter to \$3.41/square meter, a drop of 2 percent. In looking at individual categories, China under-priced other suppliers in 22 of 29 apparel categories. However, even in the categories China did not under-price other suppliers, imports from China still rose sharply while imports from those suppliers still fell sharply.

Chinese Price Changes by Fiber	
<i>Fiber</i>	<i>Price Drop</i>
Cotton	-48%
Man-Made Fiber	-46%
Vegetable Fibers	-29%
Wool	-4%
Mixed Fibers	-57%
Total	-46%

In the first quarter of 2003, Chinese prices continued to fall, dropping another 2 percent, to \$3.32/sq meter. World prices increased eight percent, rising back to \$3.55/square meter. By March of 2003, China had under-priced the rest of the world in 26 out of the 29 apparel categories³.

Reviewed on a category basis, the Chinese price drops during 2002 were heavily clustered around the 31 percent to 51 percent range.

Chinese Price Changes by Category	
<i>Percent Drop</i>	<i>Number of Categories</i>
0 – 10 percent	2
11 – 30 percent	7
31 – 50 percent	12
51 percent or more	6

In terms of principal fiber, with the exception of wool apparel, the price drops were likewise consistently large, averaging between 40 and 50 percent for apparel made from the largest fiber groups – cotton and man-made fiber – and 26 percent for vegetable fiber products (those made of linen, ramie, etc.). The mixed fiber group, which means that the category can contain goods made from any fiber group, saw Chinese prices drop by 57 percent in 2002.

Chinese Dominance

Looking at market share, China established a quick dominance in all the fiber groupings except in wool, where its share increased only slightly. (Wool, however, represented only one half of one percent of trade in the categories analyzed.) In all other categories, Chinese share either doubled or tripled, with the average increase among all categories amounting to 244 percent. This continued in the first quarter of

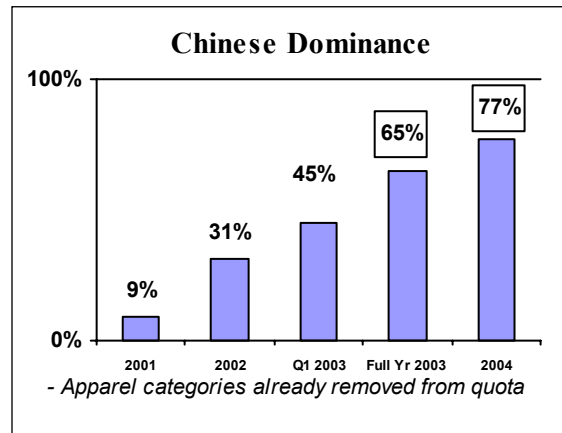
³ In three categories (431, 843, 844), Chinese prices actually rose, but in these cases the categories were so small (accounting for 2/100ths of total trade) that the effect was insignificant. Regardless of the price increases, Chinese share jumped in two of the three categories – in the third category, China already had a 73 percent share, which it maintained.

2003, as the Chinese share jumped to 45 percent. Using current rates of growth, China is projected to increase its share of these imports from 9 percent to 65 percent (or more) in two years' time.

As measured in volume terms, in 2002, Chinese imports in the decontrolled categories increased by 411 million square meters while imports from the rest of the world fell by 200 million square meters.

This trend persisted into the first quarter of 2003, when Chinese imports increased by another 175 million square meters while the rest of the world fell by 13 million square meters.

The awesome scale of the Chinese increases deserves some consideration. The apparel categories de-controlled in 2002 represented just 9 percent of apparel imports into the United States yet China's growth over the next twelve months in these relatively few categories represented over one third of all growth of all apparel imports into the United States.



Bringing the textiles into the picture, the impact of China is even more astonishing. Using almost entirely de-controlled textile and apparel categories, China increased its exports by more last year – a total of 2.8 billion square meters -- than every other country in the world combined.

Using a relatively small number of categories, China was able to leapfrog both Canada and Mexico in 2002 to become far and away the largest exporter of textiles and apparel to the United States.

By way of contrast, in 2001, Mexico, with 4.3 billion square meters in exports, was more than twice as large as China, at 2.2 billion square meters. By the first quarter of 2003, China, at 6.2 billion square meters, was exporting almost 50 percent more than Mexico.

Apparel	2001	2002	Percent Change
Cotton	17%	28%	+65%
Man-made fiber	13%	22%	+69%
Wool apparel	11%	9%	-18%
Vegetable fiber	27%	53%	+96%
Mixed	6%	26%	+333%
Total	15%	31%*	+106%

* China's share rose to 44% during the first quarter of 2003.

In dollar terms, Chinese exports to the U.S. increased by \$980 million in 2002 while imports from the rest of the world fell by \$813 million. This trend accelerated in the first quarter of 2003, when Chinese imports increased by \$493 million (compared to Q1 2002) while imports from the rest of the world fell by \$175 million.

In terms of market share as measured by dollar, prior to 2003, the Chinese share rose less quickly because of the sharp price adjustments China undertook in order to increase volume.

Apparel	2001	2002	Percent Change
Cotton	11%	28%	+155%
Man-made fiber	8%	24%	+200%
Wool apparel	11%	12%	+9%
Vegetable fiber	20%	54%	+160%
Mixed	3%	27%	+200%
Total	9%	31%*	+244%

* China's share rose further to 45% during the first quarter of 2003.

Still, Chinese share by dollar volume increased robustly in all major categories except for wool. Overall, the average Chinese share more than doubled in 2002, rising from 15 percent to 31 percent. By Q1 2003,

Chinese price drops had leveled off and, as a result, its dollar volume share rose sharply, climbing to 44 percent of all imports.

Peril for Mexico, the CBI and Africa

Trade preference and free trade areas including Mexico, Canada, the CBI, the Andean Region, Sub-Saharan Africa, Israel and Jordan appears to suffer the same vulnerability to China that other nations face. Many of these countries are major export markets for U.S. textile products – over \$13 billion a year in textile products are exported to Mexico, the CBI and Canada.

Despite the presence of relatively high duties on a number of these products and the ability of goods produced in Mexico, Central America and the Caribbean to get a duty-free advantage that amounts to 20 percent in some cases, trade figures show that China has rolled into these markets in the same unstoppable manner that it has done elsewhere. Indeed, even the ability by Sub-Saharan Africa to import Asian yarns and fabric appears not to have diminished the Chinese advantage.

Brassieres – Category 349/649

Perhaps the most striking example of the vulnerability of trade preference areas to the Chinese onslaught is found in brassieres, category 349/649. Long a significant building block in the development of a North American textile-apparel base, Mexico and the countries of the Caribbean Basin Initiative (CBI) have dominated the trade in brassieres for over ten years with a 50 percent market share. U.S. textile mills supply over three-quarters of the fabrics and yarns that goes into the brassieres.

Once a Mexican/CBI Stronghold - Brassiere Production Moves China				
		Market Share		
	Duty	2001	Q1 2003	2004 (proj.)
China	20%	5%	32%	67%
Mexico & CBI	0%	47%	30%	6%

However, with the removal of the Chinese quota in 2002, the North American dominance has been replaced by surging Chinese imports. Over the past twelve months, China has dropped prices on man-made fiber brassieres by 54 percent, from \$15.19/square meter to \$7.04/square meter.

Prices offered by major Mexican and Caribbean suppliers, at around \$10/square meter, were uncompetitive even with the 20 percent duty break, and the Chinese share of the brassiere market has jumped from 5 percent to 20 percent in the space of the last twelve months. During the first quarter of 2003, China's share increased to 32 percent.

As of March 2003, China was more two and one-half times the next largest supplier, while Mexico, Honduras, Nicaragua, the Dominican Republic and even Haiti are falling fast. By YTD March 03, the CBI and Mexican share was down to 30 percent. Under present trends, by the end of 2004, China will control over half of the brassiere market while Mexico and the Caribbean will supply less than 10 percent, a startling reversal from 2001 as noted in the chart above.

Man-made fiber gloves – Category 631

The gloves category is also instructive because it pits countries from two major trading blocks, the CBI and Asian sub-continent, in a head-to-head contest with China. This is an important category for U.S. textile companies, which supply much of the fabric that goes into gloves made in the CBI. In addition, as a very low labor content product, there is still substantial glove production left in the United States.

In this case, the countries involved were Sri Lanka, Bangladesh and Guatemala. As a Caribbean Basin Trade Partnership Act (CBTPA) beneficiary nation, Guatemala enjoys a 20 percent tariff break while Bangladesh has the advantage of the lowest wage rate in the world. None of these countries, however, could compete against China, which dropped its prices by 59 percent once its quota was removed.

As a result, during 2002, glove exports from Sri Lanka fell by 40 percent, from Guatemala by 65 percent and from Bangladesh by 36 percent. At the same time, Chinese glove exports increased by 242 percent. By the end of 2002, China had gained a 28 percent share of the U.S. glove market. By the first quarter of 2003, China had further increased its share to 40 percent. At the end of 2003, if present trends continue, China will control two-thirds of the U.S. glove market.

Sub-Saharan Africa and 350/650 – Looser fabric origin rules don't stop Chinese takeover

While some have argued that the inclusion of exceptions (tariff preference levels) to the rule of origin in the proposed free trade agreement with Central America would shelter the region from Chinese competition, the experience of Sub-Saharan Africa argues otherwise.

The African Growth and Opportunity Act (AGOA) has led to impressive gains in exports from the region to the United States – apparel exports were up 27% in 2002 and are up 37% during the first four months of this year. However, trade data show that once China enters the scene, the gains quickly disappear, regardless of whether non-regional yarns and fabrics are used.

Sub-Saharan Africa Nightwear Exports Collapse				
<i>Exports to U.S. in thousand dozen</i>				
	Duty	2001	2002	Proj. 2003 (using YTD 4/03 data)
China	16%	339	2,171	4,410
AGOA	0%	98	68	>30

For example, in the Sub-Saharan Africa's largest export category to go head to head with China, nightwear (cat. 350/650), neither zero duty nor the ability to use Asian yarns and fabrics has helped to stem the Chinese onslaught. Imports from AGOA countries fell sharply once Chinese quotas were removed as imports from China to the United States skyrocketed.

Exports of nightgowns to the U.S. from AGOA countries fell from 98 thousand dozen in 2001 to 68 thousand dozen in 2002 and then fell another 58% during the first four months of 2003. They are now projected to be less than 30,000 dozen in 2003. Meanwhile, Chinese exports of such garments increased by 739 percent since January 1, 2002 and totaled 2.8 million dozen for the twelve month period ending April 2003.

Other exports from Sub-Saharan Africa also suffered. For example, infants wear (category 239) showed a strong increase in 2002, up 53%, from 343 thousand kilograms to 528 thousand kilograms. By the end of 2002, however, trouble had set in and exports began dropping off rapidly -- by the first four months of the 2003, exports had already dropped back to 2001 levels.

March and April data showed the fall-offs in infants wear accelerating, with exports running at 260,000 kilograms a year if sustained at the current level. Chinese exports during the same period of time increased from 3.2 million kilograms to 42 million kilograms, up over 1200 percent.

2005 – How Much Will China Take?

To examine how deeply China might cut into the U.S. apparel market, ATMI looked at three different proxies. These were:

- 1) Projecting China's growth patterns in 2002 in decontrolled quota categories as well as examining "tell-tale" categories;
- 2) Reviewing apparel trade patterns with similar countries that have not utilized a quota regime; and
- 3) Examining proxy products for textile and apparel goods, principally non-durable manufactured goods with a relatively high labor content and/or a relatively low (for a manufactured product) value-added component.

Each proxy revealed that China could reasonably be expected to take between 65 and 75 percent of the U.S. textile and apparel market.

Proxy One: Chinese export growth in 2002

Looking at China's growth through March 2003 in quota-decontrolled categories, China averaged an increase of eight percentage points of world import share per quarter. China's share of imports in these categories as of YTD March 2003 was 45 percent.

If this rate is sustained for another year, China will control approximately 65 percent of the market by end of 2003 and will reach 75-80 percent by the end of 2004.

Is China's growth in likely to be similar when quotas on removed on other products as well in 2005? In looking at two "tell-tale" categories – infants wear and man-made fiber luggage – the likelihood of Chinese dominance in the range of 70-80 percent of U.S. textile and apparel market share seems a reasonable possibility.

- *Infants wear, Cat. 239*

Infants wear, category 239, is a good proxy for examining China's competitive heft compared to other countries. The infants wear category, with the exception of diapers, was removed from quota control for all countries but China in 1998.

**A Reversal of Fortune -
Infants wear, Category 239**

Category 239 – infants wear – provides a perhaps prophetic picture of China's overwhelming power to dominate world trade in textiles and apparel, even when going head to head with the best of the best – in this case, countries such as Thailand, Bangladesh and Mexico.

The infants wear category was actually removed from quota control in 1998 as part of stage two of the quota integration process. Not yet a member of the WTO, China remained under quota control while other apparel exporting nations fought for market share in a new quota-free world. From 1996 to 2001, five countries emerged as the kings of the market, capturing half the import share and perhaps offering a view of what a quota-free world absent China might look like.

However, in 2002, China's quota on category 239 was removed. China promptly dropped prices an average of 57 percent, from \$5.92/square meter to \$2.54/square meter. The competition struggled to remain competitive, dropping prices by 8 percent, but at \$2.69/square meter, remained uncompetitive.

The result has been a massive hemorrhage of orders from the former leaders in this category to China. In 2002, Chinese exports of infants wear increased almost tenfold from 20 million to 250 million square meters while the rest of the world fell by 150 million square meters. By the first quarter of 2003, Chinese share of the market increased from 3 percent (2001) to 34 percent and was continuing to increase of 7 percentage points per quarter.

At its current rate, China will control 70 percent of the infants wear market by June 2004.

By the time, Chinese quotas were removed in 2002, the competition has shaken out the weaker players and the category was dominated by Thailand, the Philippines, Mexico and Bangladesh.

Going head to head, China overwhelmed them all and, by the end of the first quarter of 2003, with 34 percent of the market China was more than two and one-half times larger than Thailand, the former top

supplier. If present trends continue, China will control 70 percent of the infants wear market by June 2004. (See box for more information.)

- *Man-fiber luggage, category 670L*

Category 670 L – man-made fiber luggage – presents another good proxy. In this case, with a relatively small number of producers, change happened at breakneck speed.

Within six months, China was by far the dominant supplier. Within one year, it controlled 65 percent of the luggage market.

By the first quarter of 2003, China was still gaining share at a rate of 6 percentage points per quarter, with a projected 85 percent of the import market looking likely by the end of 2003.

The losers were Thailand, Taiwan, the Philippines, Indonesia, Sri Lanka and Mexico. Thailand, again the former top supplier, saw its share cut from 26 percent to 10 percent in just twelve months.

More bad news is on the way – during the first quarter of 2003, Thailand’s exports of man-made fiber luggage dropped another 36 percent, while Mexico’s exports fell by 40 percent, Sri Lankan exports by 57 percent and even exports from Indonesia, with probably the world’s most undervalued currency, fell by 59 percent.

Lest anyone imagine that size of market can be an obstruction, or even much of a delaying factor, man-made fiber luggage is one of the true behemoths, larger than all apparel categories save two (underwear and women’s pants). China increased its textile luggage exports from 28 million square meters to 220 million square meters in just fifteen months. (See box for more information.)

**Back to the Future?
A look at man-made fiber luggage**

The most astonishing example of China’s takeover of a textile sector occurred not in an apparel product but in a textile made-up product– man-made fiber luggage, category 670.

In the space of twelve months, China increased its share of the U.S. import market from 10 percent to 66 percent. During that time, imports from China increased from 106 million square meters to 673 million square meters, while the rest of the world saw its exports drop by 280 million square meters.

The reason was again price. China slashed its price for man-made fiber luggage by 64 percent, from \$3.73/square meter to \$1.33/square meter. By doing so, it dramatically under-priced other suppliers, which offered an average of \$2.04/square meter.

China’s march has continued into the first four months of 2003. During those four months, its share increased to 79 percent. Its exports grew by another 46 million square meters, while the rest of the world fell by an additional 9 million square meters.

The category may be prophetic of the long-term future of worldwide textile and apparel trade. In the case of luggage, with the number of luggage producers dominated by a relatively small number of large players, consolidation was relatively easy and so came with striking speed. For apparel products, where there are more producers, the length of time may be extended somewhat but the end result seems likely to be the same.

Proxy Two: Chinese apparel penetration in Japan and Australia

Australia and Japan were chosen as proxies because they may offer today a compelling picture of what the U.S. market is likely to look like after the effects of the quota phase-out have shaken out.

Like the United States, both countries are developed with large consuming markets and relatively low tariffs on textile and apparel products.

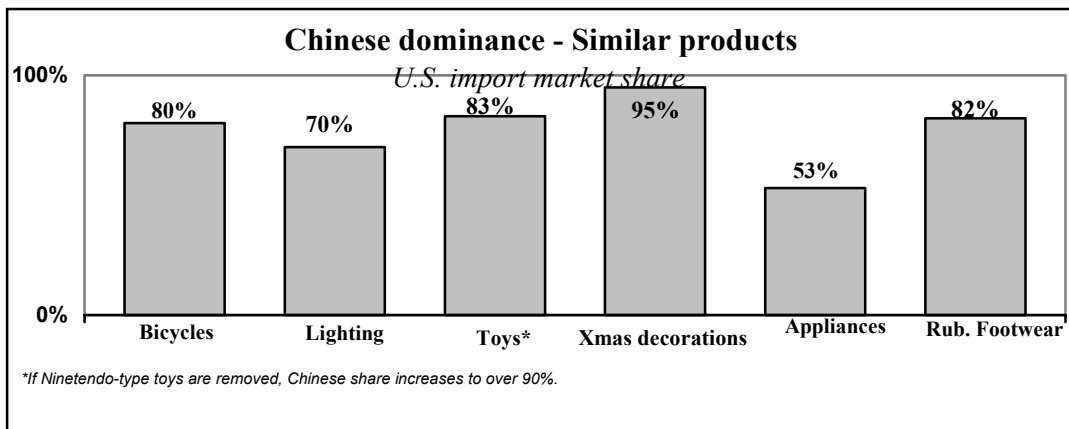
Proxy for 2005? – Japan and Australia in 2001	
<i>Developed countries with no quotas</i>	<i>Chinese Share of Apparel Market</i>
Japan	77 percent
Australia	70 percent

In contrast to the United States, neither Japan nor Australia ever imposed a quota system and thus their markets today can stand as an example of how the upcoming battle for the apparel market in the United States may be determined.

In both cases – Japan and Australia – China won, hands down. Despite the close proximity of many powerful competitors, including Vietnam, Bangladesh, India and Pakistan, China today controls 70 percent or more of the apparel markets in each country.

Proxy Three: Similar Products

ATMI also examined imports of manufactured products that are similar to textile and apparel – light or non-durable manufactured goods with relatively high labor costs – to get a third proxy on how an unrestrained China would affect the U.S. apparel import market.



In this case, bicycles, household appliances, Christmas decorations, lighting, rubber footwear and toys were reviewed on a value basis. None of the products has had any quota restraints and all have low tariff levels. As the chart shows above, China won, again, hands down, with an average 72 percent share of the market in the five categories.

Impact of 2005 on the U.S. Textile and Apparel Sector

If 2005 plays out in the same manner that 2002 did, imports of Chinese apparel products presently under quota will quadruple in the first twelve months after quotas are lifted on January 1, 2005, while imports of the same apparel products from other countries will simultaneously fall sharply.

This will be caused by a dramatic reduction in Chinese prices, averaging somewhere around 40 percent. Other countries will cut prices to compensate, but lacking China’s anti-competitive advantages they are likely bound to fail. The effects for the U.S. textile industry will begin in 2nd quarter of 2004 as orders for U.S. fabric and yarn for apparel products (to be produced in 2005; textile orders are typically placed six to nine months out) begin to drop precipitously.

Projected U.S. Textile and Apparel Job Losses: 2004-06	
North Carolina	85,000
California	81,000
South Carolina	42,000
New York	29,000
Alabama	30,000
Georgia	25,000
<i>Total all states</i>	<i>630,000</i>

As orders are moved to China, a massive series of layoffs, mill closures and bankruptcies will ripple through the textile belt throughout the middle part of 2004. One textile executive has predicted that plant

closings in the Southeast will become virtually a daily event. Cotton and man-made fiber producers will see orders for their goods disappear overnight. Overall, assuming a Chinese textile and apparel market penetration of 65%, U.S. job losses in textiles, apparel and related sectors (fibers, machinery, chemicals, etc.) could reach 630,000. With an average of 200 workers employed per textile plant, over 1,300 textile plants could close from 2004 to 2006. In addition, hundreds of apparel plants would close as well.

While the Southeast would be hit hardest, other states, such as California and New York, which have large amounts of textile or apparel production, would be hurt as well.

Impact on Other Countries

A Chinese share of 65 to 75 percent of the U.S. textile and apparel import market would result in a net shift of approximately \$42 billion in trade from other exporting countries to China (see box next page). While it is impossible to definitively assess which countries will be hurt the most by China's dominance, by assuming a proportional reduction in exports among all countries, one can get an idea of the degrees of damage that China will cause.

Using such an assumption, the biggest impacts would be on Mexico, the countries of the Caribbean Basin, Canada, South Korea and the Philippines, among others. Seventeen countries in all would lose more than one billion dollars in export trade with the United States while another 33 countries would lose from \$100 million to one billion dollars in trade.

As noted in a previous section, this analysis also concludes that countries with trade preferences -- Mexico, the nations of the Caribbean, Central America and Sub-Saharan Africa, among others -- are no more likely to retain market share against China than any of the traditional exporting powers in the Far East.

As the analysis of proxies in the last section shows, the oft-stated notion that importers or retailers will seek to "spread the risk" by sourcing from multiple major platforms runs strongly against the facts. In cases involving textile products, textile markets overseas and others similar products, importers or retailers have ignored the risk instead embraced the cost savings available from China time and again.

In addition, the ability to source fabric and yarn from outside the region does not appear to help -- Sub-Saharan Africa's exports, which may contain such yarns and fabrics, fell just as rapidly as did the CBI's in China de-controlled categories.

The impact of such a dramatic trade shift on an individual country basis will in part depend on the significance of textile and apparel exports to that country's economy. In many cases, it will be large -- the 2002 CIA World Factbook lists 59 countries that rank textile and apparel exports as one of their most important export items.

In addition, the impact is not limited to countries that export to the United States. China will also get quota-free entry to the European Union and Canada on January 1, 2005. Countries that are major suppliers to those markets will likely also see dramatic export declines.

Projected Export Losses to China	
Country/Region	Loss (\$ mil.)
CBI	-\$6,279
Mexico	-\$5,423
India	-\$2,623
EU	-\$2,477
Hong Kong	-\$2,285
Canada	-\$1,861
Honduras	-\$1,763
Korea, South	-\$1,620
Pakistan	-\$1,412
Indonesia	-\$1,390
Turkey	-\$1,316
Dominican Republic	-\$1,287
Taiwan	-\$1,282
Guatemala	-\$1,265
Philippines	-\$1,236
Italy	-\$1,218
Thailand	-\$1,161
Bangladesh	-\$1,051
El Salvador	-\$1,015
Vietnam	-\$981
<i>SUB-SAHARAN AFRICA</i>	<i>-\$926</i>
Sri Lanka (Ceylon)	-\$791
<i>ANDEAN PACT</i>	<i>-\$731</i>
Macau	-\$693
Cambodia	-\$676
Malaysia	-\$456
Jordan	-\$447
Israel	-\$424
Costa Rica	-\$418
Japan	-\$400
Nicaragua	-\$377
Colombia	-\$369
Peru	-\$339
Egypt	-\$292
Lesotho	-\$289
United Kingdom	-\$269
France	-\$250
Russia	-\$222
Brazil	-\$209
Portugal	-\$189
Mauritius	-\$187
Kenya	-\$182
South Africa	-\$181
United Arab Emirates	-\$175
Haiti	-\$172
Singapore	-\$165
Australia	-\$157
Belgium	-\$136

Why is China So Dominant?

While China may be blessed with many competitive advantages – a productive workforce, low wage rates and a large labor supply – these advantages are by no means unique in the developing world and certainly are shared by many major Asian exporting countries. Indeed, Chinese wages are not the lowest in the world – wages in India, Vietnam and Bangladesh, among others, are even lower. Why cannot even Haiti, El Salvador and Nicaragua, three countries in the Western Hemisphere with rock bottom wage rates AND zero duties still not compete? Why the seemingly unstoppable rush to China for not only textile and apparel products but other manufactured goods as well?

While these questions are obviously too complex to be fully answered here, two enormous advantages that have contributed to China’s dominance leap out – export subsidies granted by China currency regime as well as other subsidies granted by state control and subsidization of its textile industry as well as China’s export rebate plan.

While the benefits of Chinese state ownership and subsidization cannot be easily estimated, China’s currency regime has been studied. According to the United Nations, China’s currency is undervalued by as much as 50 percent while other estimates suggest 40 percent. In any case, the combination of these two factors has allowed China to develop an unassailable competitive edge in textile and apparel trade.

- **Currency Manipulation - A 40 Percent Export Subsidy**

Despite the most rapid economic growth in the world, enormous trade surpluses and huge foreign investment inflows - - each of which normally causes a currency to appreciate - - China has used government controls to keep its currency pegged at 8.2 yuan to the dollar since 1994. In 1994, China devalued the yuan by over 40 percent, helping to set the stage for the East Asian financial crisis of 1997. In order to maintain an undervalued currency, China has amassed reserves second only to Japan’s, totaling over \$330 billion during the past five years.

According to a report by the Manufacturers Alliance⁴, as of 2002, the Chinese yuan was still 40 percent undervalued. Since the weakening of the dollar against competitive currencies such as the Canadian dollar and the Euro, the Chinese yuan has become even more undervalued as the Chinese peg has “rode the dollar down.” One financial analyst concluded that the yuan had become undervalued by another ten percentage points since the decline of the euro versus the dollar began in the third quarter of 2002.

While no country has yet filed cases against China, currency manipulation is expressly illegal under Article IV of the International Monetary Fund (IMF) and Article

⁴“Exchange Rate Manipulation To Gain an Unfair Competitive Advantage: The Case Against Japan and China”, 9/02, available at: http://www.mapi.net/html/prelease.cfm?release_id=393

XV of the WTO. It is also expressly against the United States' own currency policies, which state that markets, not governments, should determine exchange rates.

For more information on the problems caused by Chinese subsidization of its exports through currency manipulation, see the Coalition for a Sound Dollar website at www.sounddollar.org.

- ***Other Chinese Subsidies - State Textile Industry Ownership and Use of Export Tax Rebates***

According to recent statistics, the Chinese government retains ownership of 52 percent of its textile sector and 25 percent of its apparel manufacturing sector. As such, the government has regularly run its textile sector at a loss, subsidizing its output in order to gain market share around the world. In 2000, the government revealed that its state-owned textile sector had made its first profit in seven years and last year reported that over a third of its textile output (which is the largest in the world) came from money-losing state enterprises.

In addition to direct state ownership, China subsidizes its textile industry through use of an export tax rebate, currently set at 10 percent. While ostensibly a rebate of its VAT tax, the European Union reports that Chinese enforcement of its VAT is selective and, in the case of exported items, the rebate is often granted though the VAT has never been paid.

What Can Be Done?

At least three potential courses of action are available to prevent Chinese dominance of the world's trade in textiles and apparel. The first avenue – imposition of the China textile safeguard – is already provided for under China's WTO accession agreement. It is however, a short-term instrument and the U.S. government's determination to use it in an effective manner is in doubt. The second avenue is through WTO action on the ministerial level and would involve a new mechanism for retaining quota control over Chinese textile and apparel exports after 2005.

The refusal of the U.S. government thus far to act against surging Chinese imports heightens the need for action of this kind. The third avenue, which is longer term but ultimately necessary to restore a fair competitive marketplace, would require governments around the world to use WTO, IMF and other mechanisms to force China to abandon its currency manipulation, export tax and state subsidy programs.

1) China special textile safeguard

In the short term, the most effective tool against a Chinese takeover of the U.S. market is for the U.S. government to self-initiate use of the special Chinese textile safeguard included in China's WTO accession agreement.

This safeguard, which was agreed to by China, allows for quotas to be imposed in the event of market disruption or even the simple threat of market disruption, by imports of Chinese textile and apparel products. Modeled on the safeguard in the Multi-Fiber Arrangement and available to all WTO member countries, the textile safeguard allows for quotas to be imposed through 2008. In the case of the United States, use of the safeguard is at the discretion of the Executive Branch, in particular, the interagency Committee for the Implementation of Textile Agreements (CITA).

Given the speed at which Chinese imports are expected to climb – in addition to the three-month administration process that safeguard rules require -- the safeguard must be used quickly and comprehensively if Chinese imports are not to cause enormous market disruption. Even then the safeguard

is an unwieldy instrument, with a quota lasting only twelve months or less (depending when the safeguard decision is made) before a new petition must be submitted and adjudicated.

The 17-month delay by the U.S. government in issuance of rules for use of the safeguard, which became active on January 1, 2002, has raised concerns about whether the U.S. government will effectively administer the safeguard once quotas on sensitive product categories are lifted in 2005. China has already indicated in numerous press statements that it will strongly oppose any attempts to use the safeguard. To date, the U.S. government has refused to self-initiate the safeguard despite the fact that it routinely self-initiated hundreds of similar safeguard actions under the Multi-Fiber Arrangement.

Indeed, China's ability to influence the U.S. government on previous non-textile (Section 421) safeguard actions involving pedestal actuators and wire hangers has contributed to concerns that the U.S. government presently lacks the will to confront China on economic matters. In both cases, rare unanimous rulings in favor of the imposition of safeguards by the U.S. International Trade Commission, were overturned by the White House⁵.

Contributing to these concerns has been the longstanding refusal by the Treasury Department to list China as a currency manipulator, despite widespread acknowledgement of this fact in the academic, press and financial markets⁶. In addition, an extremely damaging textile bilateral agreement with Vietnam, despite personal reassurances to the industry from Ambassador Zoellick as well as broad commitments from the President, has caused many in the industry to doubt whether the government intends to live up to its many public statements of support for the industry⁷.

Responding to these concerns, on June 10th, 2003, the leading fiber and textile associations in the United States agreed to work together to generate political pressure on the government to fulfill its commitments regarding China. The groups noted that other countries stand to lose as much or more than the domestic sector and should contact the U.S. government quickly regarding the need for the safeguard to be used⁸.

Countries should contact the U.S. State Department, the U.S. Trade Representative's Office and the White House to urge that the government self-initiate use of the safeguard in an effective manner. In addition, and perhaps even more importantly, interested countries should contact members of Congress that support their development of export markets to the United States and ask them to support use of the safeguard.

2) WTO Ministerial Initiative on China Textile and Apparel Trade

The use of the China textile safeguard is a short-term vehicle at best. Its short lifetime, lasting only until 2008, means that, *even if it is used and used effectively*, the rest of the world would have only a few years of breathing room before facing the Chinese monolith again.

In 2008, any existing textile safeguards with China expire while China's use of anti-free market methods such as currency manipulation⁹ and state subsidization will still remain a problem. As such, WTO members would be within their rights to demand NOW that, because of the singular threat that China poses

⁵ The president of one of the companies bringing the wire hangers safeguard action, Milton Magnus of M&B Metal Products Company, said after the White House action, "Unfortunately, the Administration caved in to unremitting pressure from the Chinese Government in our case," noting that "China lobbied hard against the application of Section 421, even sending a delegation of senior officials to Washington shortly before the President's decision was announced."

⁶ See ATMI testimony at <http://www.atmi.org/Newsroom/FCL.pdf>

⁷ Available at: <http://www.atmi.org/Newsroom/releases/statements.asp>

⁸ See <http://www.atmi.org/Textiletrade/six.pdf>

⁹ In June 2003, China stated that it had no plans to remove its illegal currency peg. See <http://www.sounddollar.org/mnews73.html> for details.

to exporting countries, the WTO should continue to keep China under restraint after 2005 and until China removes its anti-competitive currency and subsidy regimes.

This would allow China to retain by the far the largest share of the world's textile and apparel trade it would also prevent the wholesale loss of tens of billions of dollar in exports and millions of jobs by other developing countries. China would be kept under restraint until it removes the anti-free market advantages - a pegged currency, state sector subsidization of its textile sector and the use of export tax rebates - that give it a stranglehold over this sector.

3) End Chinese Currency Manipulation and Other Subsidy Regimes

In the longer term, the only solution to the China threat is for China to be required to float its currency and to stop manipulating its currency to gain an export advantage. The key to this effort will be a determination by the United States as well as other governments to challenge China in this area. To date, this determination has been missing even as China has piled up the largest trade deficit with the United States of any country (\$103 billion in 2002).

While pressure on the United States government to act against China's illegal currency regime will undoubtedly grow – the National Association of Manufacturers predicted last month that the U.S. trade deficit with China will more than triple and reach \$330 billion within five years if action is not taken. – other countries must act as well. They must make their own concerns known to the U.S. government as well as to China.

While many venues for action are available, governments should use both bilateral and multilateral avenues (WTO and IMF) to bring pressure on China to end its currency and other subsidy programs. Regarding the WTO, not only traditional complaints should be taken (eg, using article XV) but also the use of anti-subsidy protocols that prohibit the use of export subsidies and as such should include the use of currency pegs to maintain an export advantage.

Conclusion

In less than a year and half, quotas on Chinese imports will be removed. As this analysis shows, unless deliberate actions are taken now, the effects will be catastrophic for both the U.S. textile and apparel sector as well as major exporting countries around the world. In total, millions of people could lose their jobs in one of the largest – and quickest – transfers of wealth in the developing world in modern history.

Can this be stopped? Without stringent and concerted actions on the part of the affected nations around the world, the answer is probably no. To date, the Bush Administration has shown little interest in using the China textile safeguard. And despite a great deal of murmuring and statements of concern, the countries most affected by the pending China take-over – the developing world to whose benefit the Doha Round has been dedicated – appeared uncertain as to what to do.

The irony that China alone might swallow up all the benefits that the end of quotas had promised to so many has not gone unnoticed. Nor has the notion that the Chinese monolith makes a post quota world a far poorer, more difficult place for developing countries than the one which had quotas in place.

Of course, a different scenario is also possible. If the sixty or so countries that will be hurt by China demand that Chinese exports of textiles and apparel continue to be restrained, it would be difficult for the United States to resist or China to stop. The World Trade Organization would have to act.

In a similar vein, if these same countries told the United States that implementation of the China textile safeguard was a top priority, the United States would find such widespread pressure hard to resist. The textile safeguard would indeed be implemented. Nor could such an alliance be put off for long on forcing a solution to the longer term problems of Chinese currency manipulation and state subsidization.

But of course first the world must act.

Sources: Unless other noted, the U.S. Department of Commerce, Office of Textiles and Apparel
(www.otexa.ita.doc.gov)

- Questions or more information? Please contact Cass Johnson at 202-862-0545 / cjohnson@atmi.org.

APPENDICES:

29 apparel categories integrated Jan. 1, 2002 or earlier

SQUARE METERS (millions): 2001-2002 comparison

Cat.	World		China		Rest of World		SME Change		% Change		China Share	
	2001	2002	2001	2002	2001	2002	ROW	China	ROW	China	2001	2002
239	627.1	689.5	20.4	188.6	606.7	500.9	-105.9	168.3	-17%	826%	3%	27%
330	12.8	10.8	5.6	8.2	7.2	2.6	-4.7	2.7	-64%	48%	43%	76%
349	24.3	27.9	8.4	11.2	15.9	16.7	0.8	2.8	5%	33%	35%	40%
350	176.2	234.7	9.4	58.4	166.8	176.3	9.4	49.1	6%	524%	5%	25%
431	2.3	1.4	1.4	1.1	0.9	0.3	-0.6	-0.3	-65%	-23%	62%	78%
432	2.0	2.0	0.1	0.1	1.9	1.9	0.0	0.0	-1%	31%	4%	6%
459	16.8	14.4	7.1	7.7	9.7	6.7	-3.0	0.6	-31%	9%	42%	54%
630	2.0	1.5	1.2	0.9	0.8	0.6	-0.2	-0.3	-19%	-29%	60%	57%
631	56.7	53.3	4.2	15.1	52.5	38.2	-14.3	10.9	-27%	260%	7%	28%
632	149.6	167.9	2.2	20.7	147.4	147.2	-0.2	18.5	0%	835%	1%	12%
649	123.3	150.7	4.3	31.1	119.0	119.6	0.6	26.8	1%	623%	3%	21%
650	106.9	129.1	5.1	34.1	101.8	95.0	-6.8	29.0	-7%	569%	5%	26%
653	14.4	18.6	11.7	14.9	2.7	3.7	1.0	3.3	37%	28%	81%	80%
654	14.2	19.2	9.8	14.1	4.4	5.1	0.7	4.3	15%	44%	69%	73%
831	2.4	3.6	1.9	3.0	0.5	0.6	0.1	1.1	18%	58%	80%	84%
833	0.7	1.1	0.1	0.5	0.6	0.5	-0.1	0.4	-11%	290%	19%	51%
834	3.0	2.1	1.5	1.4	1.6	0.7	-0.9	-0.1	-57%	-6%	48%	67%
835	16.2	16.6	4.1	9.4	12.1	7.2	-5.0	5.4	-41%	132%	25%	57%
836	34.4	29.3	7.2	12.7	27.2	16.6	-10.6	5.5	-39%	76%	21%	43%
838	27.3	39.5	9.4	33.4	17.9	6.1	-11.8	24.0	-66%	255%	34%	84%
839	29.0	3.9	0.6	2.1	28.4	1.8	-26.5	1.4	-94%	218%	2%	53%
840	56.5	65.5	7.9	28.1	48.6	37.4	-11.2	20.2	-23%	257%	14%	43%
842	7.5	8.5	2.5	5.3	5.0	3.2	-1.8	2.8	-35%	110%	33%	62%
843	0.1	0.3	0.0	0.3	0.0	0.0	0.0	0.2	44%	568%	54%	85%
844	0.9	1.0	0.3	0.8	0.6	0.2	-0.4	0.5	-62%	147%	35%	78%
847	52.9	66.8	13.9	32.4	39.0	34.4	-4.7	18.6	-12%	134%	26%	49%
851	1.2	0.8	0.0	0.3	1.2	0.5	-0.7	0.3	-57%	1641%	1%	37%
858	0.6	0.8	0.0	0.3	0.6	0.5	-0.1	0.3	-13%	13800%	0%	35%
859	20.0	31.2	2.3	17.4	17.7	13.8	-3.9	15.1	-22%	657%	12%	56%
Total	1,581	1,792	142	554	1,439	1,238	-200	411	-14%	288%	9%	31%

29 apparel categories integrated Jan. 1, 2002 or earlier

Dollars (millions): 2001-02 comparison

CAT	World		China		Rest of World		\$ Change		% Change		China Share	
	2001	2002	2001	2002	2001	2002	ROW	China	ROW	China	2001	2002
239	\$1,893	\$1,829	\$120.7	\$479.8	\$1,772	\$1,349	-\$424	\$359	-24%	298%	6%	26%
330	\$27	\$19	\$13.0	\$13.1	\$14	\$6	-\$8	\$0	-58%	1%	49%	70%
349	\$161	\$184	\$54.9	\$70.9	\$106	\$113	\$7	\$16	6%	29%	34%	39%
350	\$319	\$328	\$19.0	\$66.1	\$300	\$262	-\$38	\$47	-13%	248%	6%	20%
431	\$19	\$16	\$13.9	\$11.3	\$5	\$4	-\$1	-\$3	-18%	-19%	73%	73%
432	\$17	\$19	\$2.0	\$0.9	\$15	\$18	\$3	-\$1	19%	-53%	12%	5%
459	\$178	\$164	\$67.7	\$66.5	\$111	\$97	-\$13	-\$1	-12%	-2%	38%	41%
630	\$6	\$3	\$2.1	\$1.1	\$4	\$2	-\$1	-\$1	-40%	-47%	37%	34%
631	\$124	\$117	\$28.2	\$41.6	\$95	\$75	-\$20	\$13	-21%	48%	23%	36%
632	\$375	\$365	\$4.2	\$24.3	\$371	\$341	-\$30	\$20	-8%	479%	1%	7%
649	\$1,224	\$1,418	\$65.3	\$218.9	\$1,158	\$1,199	\$40	\$154	3%	235%	5%	15%
650	\$185	\$185	\$14.7	\$56.0	\$171	\$129	-\$42	\$41	-25%	281%	8%	30%
653	\$121	\$113	\$92.6	\$88.2	\$28	\$25	-\$3	-\$4	-12%	-5%	77%	78%
654	\$105	\$118	\$72.2	\$85.9	\$33	\$33	-\$1	\$14	-2%	19%	69%	73%
831	\$3	\$3	\$1.7	\$2.4	\$1	\$1	-\$1	\$1	-36%	41%	55%	73%
833	\$18	\$16	\$0.8	\$1.4	\$17	\$15	-\$2	\$1	-12%	61%	5%	8%
834	\$10	\$5	\$5.1	\$3.2	\$5	\$2	-\$3	-\$2	-57%	-37%	50%	59%
835	\$91	\$75	\$26.4	\$38.1	\$65	\$37	-\$28	\$12	-43%	44%	29%	51%
836	\$110	\$80	\$31.8	\$36.5	\$78	\$44	-\$34	\$5	-44%	15%	29%	46%
838	\$178	\$228	\$68.2	\$192.6	\$110	\$35	-\$75	\$124	-68%	182%	38%	84%
839	\$15	\$16	\$4.1	\$7.5	\$11	\$8	-\$3	\$3	-25%	83%	27%	48%
840	\$324	\$336	\$59.6	\$144.9	\$265	\$191	-\$73	\$85	-28%	143%	18%	43%
842	\$58	\$53	\$21.9	\$30.4	\$36	\$23	-\$13	\$9	-37%	39%	38%	57%
843	\$1	\$2	\$0.1	\$1.0	\$1	\$1	\$0	\$1	0%	900%	7%	43%
844	\$6	\$5	\$1.6	\$2.9	\$5	\$3	-\$2	\$1	-44%	81%	26%	54%
847	\$305	\$337	\$89.9	\$160.7	\$215	\$176	-\$39	\$71	-18%	79%	30%	48%
851	\$2	\$2	\$0.1	\$0.7	\$2	\$1	-\$1	\$1	-49%	703%	4%	42%
858	\$10	\$11	\$0.0	\$1.2	\$10	\$10	\$0	\$1	2%	60600%	0%	11%
859	\$45	\$49	\$6.5	\$19.7	\$39	\$30	-\$9	\$13	-23%	203%	14%	40%
Total	\$5,928	\$6,094	\$888	\$1,868	\$5,040	\$4,227	-\$813	\$980	-16%	110%	15%	31%

29 apparel categories integrated Jan. 1, 2002 or earlier

Average Price/Square Meter: 2001-02 comparison

Cat.	China Price		China		Rest of World Price		Rest of World	
	2001	2002	Price Change	% Change	2001	2002	Price Change	% Change
239	\$5.92	\$2.54	-\$3.38	-57%	\$2.92	\$2.69	-\$0.23	-8%
330	\$2.34	\$1.59	-\$0.75	-32%	\$1.88	\$2.21	\$0.34	18%
349	\$6.53	\$6.34	-\$0.19	-3%	\$6.68	\$6.76	\$0.08	1%
350	\$2.03	\$1.13	-\$0.90	-44%	\$1.80	\$1.49	-\$0.31	-17%
431	\$9.71	\$10.30	\$0.59	6%	\$5.87	\$13.86	\$7.99	136%
432	\$22.61	\$8.07	-\$14.54	-64%	\$7.73	\$9.28	\$1.56	20%
459	\$9.58	\$8.62	-\$0.96	-10%	\$11.36	\$14.54	\$3.18	28%
630	\$1.74	\$1.30	-\$0.44	-25%	\$4.60	\$3.44	-\$1.17	-25%
631	\$6.72	\$2.75	-\$3.97	-59%	\$1.82	\$1.96	\$0.15	8%
632	\$1.90	\$1.17	-\$0.72	-38%	\$2.52	\$2.31	-\$0.20	-8%
649	\$15.19	\$7.04	-\$8.15	-54%	\$9.73	\$10.02	\$0.29	3%
650	\$2.88	\$1.64	-\$1.24	-43%	\$1.68	\$1.35	-\$0.32	-19%
653	\$7.95	\$5.91	-\$2.03	-26%	\$10.39	\$6.71	-\$3.68	-35%
654	\$7.40	\$6.10	-\$1.30	-18%	\$7.43	\$6.36	-\$1.07	-14%
831	\$0.88	\$0.79	-\$0.09	-11%	\$2.92	\$1.59	-\$1.34	-46%
833	\$6.00	\$2.47	-\$3.53	-59%	\$27.58	\$27.38	-\$0.20	-1%
834	\$3.49	\$2.32	-\$1.17	-34%	\$3.28	\$3.27	-\$0.02	0%
835	\$6.52	\$4.05	-\$2.47	-38%	\$5.32	\$5.08	-\$0.24	-4%
836	\$4.39	\$2.87	-\$1.52	-35%	\$2.86	\$2.63	-\$0.23	-8%
838	\$7.27	\$5.77	-\$1.49	-21%	\$6.13	\$5.77	-\$0.37	-6%
839	\$6.34	\$3.64	-\$2.70	-43%	\$0.39	\$4.46	\$4.07	1049%
840	\$7.58	\$5.16	-\$2.42	-32%	\$5.44	\$5.11	-\$0.33	-6%
842	\$8.77	\$5.78	-\$2.99	-34%	\$7.16	\$7.00	-\$0.16	-2%
843	\$2.63	\$3.94	\$1.31	50%	\$40.63	\$28.26	-\$12.36	-30%
844	\$5.10	\$3.74	-\$1.35	-27%	\$7.68	\$11.11	\$3.43	45%
847	\$6.47	\$4.95	-\$1.52	-23%	\$5.50	\$5.12	-\$0.38	-7%
851	\$5.29	\$2.44	-\$2.85	-54%	\$1.65	\$1.98	\$0.33	20%
858	\$1.00	\$4.37	\$3.37	337%	\$16.38	\$19.13	\$2.75	17%
859	\$2.83	\$1.13	-\$1.69	-60%	\$2.18	\$2.14	-\$0.04	-2%
Total	\$6.23	\$3.37	-\$2.86	-46%	\$3.50	\$3.41	-\$0.09	-3%

29 apparel categories integrated Jan. 1, 2002 or earlier

Dollars (millions): Q1 2002 - 03 comparison

CAT	World		China		Rest of World		\$ Change		% Change		China Share	
	Q1 2002	Q1 2003	Q1 2002	Q1 2003	Q1 2002	Q1 2003	ROW	China	ROW	China	Q1 2002	Q 2003
Apparel												
239	\$404	\$495	\$46.4	\$183.3	\$358	\$312	-\$46	\$137	-13%	295%	11%	37%
330	\$5	\$3	\$3.0	\$2.3	\$2	\$1	-\$1	-\$1	-69%	-23%	61%	80%
349	\$41	\$57	\$15.1	\$24.9	\$25	\$32	\$7	\$10	27%	65%	37%	44%
350	\$66	\$82	\$8.6	\$25.3	\$58	\$56	-\$1	\$17	-2%	196%	13%	31%
431	\$0	\$0	\$0.2	\$0.1	\$0	\$0	\$0	\$0	-25%	-35%	56%	52%
432	\$1	\$1	\$0.1	\$0.1	\$1	\$1	\$0	\$0	2%	0%	6%	6%
459	\$9	\$13	\$1.0	\$3.1	\$8	\$10	\$2	\$2	21%	224%	10%	24%
630	\$1	\$1	\$0.5	\$0.2	\$1	\$0	\$0	\$0	-39%	-55%	42%	35%
631	\$10	\$15	\$1.2	\$6.5	\$9	\$9	\$0	\$5	-4%	455%	11%	42%
632	\$72	\$74	\$1.0	\$8.0	\$71	\$66	-\$5	\$7	-7%	719%	1%	11%
649	\$295	\$349	\$30.5	\$79.1	\$265	\$269	\$5	\$49	2%	160%	10%	23%
650	\$20	\$23	\$2.8	\$6.6	\$18	\$16	-\$2	\$4	-10%	135%	14%	29%
653	\$1	\$1	\$1.1	\$1.1	\$0	\$0	\$0	\$0	56%	1%	86%	79%
654	\$1	\$1	\$1.1	\$0.7	\$0	\$0	\$0	\$0	85%	-31%	88%	73%
831	\$1	\$1	\$0.4	\$0.7	\$0	\$0	\$0	\$0	6%	70%	66%	76%
833	\$8	\$15	\$0.1	\$5.0	\$8	\$10	\$2	\$5	30%	4135%	1%	33%
834	\$1	\$3	\$0.2	\$1.8	\$1	\$1	\$0	\$2	28%	714%	24%	67%
835	\$39	\$48	\$16.7	\$24.1	\$22	\$24	\$2	\$7	8%	44%	43%	50%
836	\$45	\$51	\$18.8	\$31.4	\$26	\$20	-\$7	\$13	-25%	67%	41%	61%
838	\$35	\$63	\$22.3	\$55.5	\$13	\$8	-\$5	\$33	-42%	149%	63%	88%
839	\$5	\$6	\$1.2	\$3.3	\$4	\$3	-\$1	\$2	-34%	188%	23%	56%
840	\$173	\$241	\$61.6	\$146.9	\$111	\$94	-\$18	\$85	-16%	138%	36%	61%
842	\$28	\$53	\$13.9	\$34.6	\$14	\$18	\$4	\$21	31%	149%	50%	66%
843	\$1	\$2	\$0.1	\$0.6	\$1	\$1	\$0	\$1	62%	345%	17%	36%
844	\$2	\$6	\$1.0	\$5.1	\$1	\$1	\$0	\$4	-12%	409%	43%	81%
847	\$161	\$238	\$68.7	\$153.2	\$92	\$85	-\$7	\$85	-8%	123%	43%	64%
851	\$0	\$1	\$0.4	\$0.4	\$0	\$0	\$0	\$0	230%	-14%	91%	72%
858	\$4	\$2	\$0.1	\$0.1	\$4	\$2	-\$2	\$0	-52%	190%	1%	8%
859	\$13	\$21	\$3.9	\$10.1	\$9	\$11	\$3	\$6	30%	158%	31%	47%
Total	\$1,444	\$1,865	\$321.8	\$814.4	\$1,122	\$1,051	-\$71	\$493	-6%	153%	22%	44%

29 apparel categories integrated Jan. 1, 2002 or earlier

SQUARE METERS (millions): Q1 2002 - 03 comparison

CAT	World		China		Rest of World		SME Change		% Change		China Share	
	Q1 2002	Q1 2003	Q1 2002	Q1 2003	Q1 2002	Q1 2003	ROW	China	ROW	China	Q1 2002	Q 2003
Apparel												
239	134.5	180.5	13.7	73.5	120.8	107.0	-13.8	59.8	-11%	436%	10%	41%
330	2.7	2.0	1.7	1.8	1.0	0.2	-0.8	0.1	-82%	8%	63%	91%
349	5.7	9.2	2.0	4.4	3.7	4.8	1.1	2.4	30%	120%	35%	48%
350	46.0	75.8	6.3	26.0	39.8	49.8	10.1	19.7	25%	316%	14%	34%
431	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100%	21%	67%	55%
432	0.3	0.1	0.0	0.0	0.3	0.1	-0.2	0.0	-58%	#DIV/0!	0%	0%
459	0.6	0.6	0.1	0.4	0.5	0.2	-0.3	0.3	-62%	279%	16%	66%
630	0.6	0.3	0.4	0.2	0.2	0.1	-0.1	-0.2	-42%	-47%	62%	60%
631	6.9	8.7	0.5	3.5	6.5	5.2	-1.3	3.1	-19%	673%	7%	40%
632	33.3	41.3	1.1	9.8	32.2	31.5	-0.6	8.6	-2%	771%	3%	24%
649	29.9	37.1	3.1	10.4	26.8	26.8	0.0	7.3	0%	235%	10%	28%
650	16.9	19.9	1.7	4.8	15.2	15.1	-0.1	3.1	-1%	179%	10%	24%
653	0.1	0.5	0.0	0.4	0.1	0.1	-0.1	0.4	-47%	2812%	9%	85%
654	0.1	0.2	0.1	0.2	0.0	0.0	0.0	0.1	88%	39%	89%	86%
831	0.7	0.9	0.6	0.9	0.2	0.1	-0.1	0.3	-58%	55%	74%	91%
833	0.3	2.4	0.0	2.1	0.3	0.4	0.1	2.0	34%	20420%	3%	85%
834	3.0	2.1	0.1	0.8	3.0	1.2	-1.7	0.7	-58%	1311%	2%	39%
835	6.9	11.2	3.2	7.7	3.7	3.5	-0.2	4.5	-5%	140%	46%	68%
836	15.6	19.0	5.9	12.0	9.7	7.0	-2.7	6.1	-28%	103%	38%	63%
838	4.8	10.1	2.9	9.2	1.9	0.9	-1.0	6.3	-53%	217%	60%	91%
839	1.0	1.7	0.2	1.1	0.8	0.6	-0.2	0.9	-25%	450%	20%	65%
840	30.2	46.8	10.1	29.2	20.2	17.6	-2.6	19.2	-13%	190%	33%	62%
842	3.6	9.2	1.9	6.3	1.7	3.0	1.2	4.4	72%	231%	52%	68%
843	0.1	0.2	0.0	0.1	0.0	0.0	0.0	0.1	36%	327%	55%	79%
844	0.5	1.5	0.3	1.3	0.1	0.1	0.0	1.0	5%	310%	70%	90%
847	27.2	47.3	11.7	31.3	15.5	16.0	0.5	19.6	3%	167%	43%	66%
851	0.1	0.2	0.1	0.2	0.0	0.0	0.0	0.1	775%	50%	97%	86%
858	0.2	0.1	0.0	0.0	0.2	0.1	-0.1	0.0	-61%	213%	3%	22%
859	6.9	12.0	2.5	7.9	4.4	4.1	-0.3	5.4	-7%	212%	37%	66%
Total	379	541	70	245	309	296	-13	175	-4%	250%	19%	45%

51 textile and apparel categories integrated Jan. 1, 2002 or earlier

Average price/square meter: comparison Q1 2002-03

Cat.	China Price		China		Rest of World		Rest of World	
	YTD 3/02	YTD 3/03	Price Change	% Change	YTD 3/02	YTD 3/03	Price Change	% Change
239	\$3.39	\$2.49	-\$0.89	-26%	\$2.96	\$2.91	-\$0.05	-2%
330	\$1.76	\$1.25	-\$0.51	-29%	\$1.87	\$3.30	\$1.43	77%
349	\$7.55	\$5.66	-\$1.89	-25%	\$6.83	\$6.69	-\$0.14	-2%
350	\$1.37	\$0.97	-\$0.40	-29%	\$1.45	\$1.13	-\$0.32	-22%
431	\$11.79	\$6.29	-\$5.49	-47%	\$18.86	\$7.07	-\$11.79	-63%
432	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	\$4.37	\$10.57	\$6.20	142%
459	\$9.71	\$8.31	-\$1.40	-14%	\$15.99	\$51.53	\$35.53	222%
630	\$1.30	\$1.09	-\$0.20	-16%	\$2.92	\$3.10	\$0.18	6%
631	\$2.57	\$1.85	-\$0.72	-28%	\$1.44	\$1.72	\$0.28	19%
632	\$0.88	\$0.82	-\$0.05	-6%	\$2.22	\$2.10	-\$0.12	-5%
649	\$9.86	\$7.64	-\$2.22	-22%	\$9.89	\$10.06	\$0.17	2%
650	\$1.62	\$1.36	-\$0.26	-16%	\$1.16	\$1.06	-\$0.10	-9%
653	\$79.34	\$2.76	-\$76.58	-97%	\$1.36	\$3.99	\$2.63	194%
654	\$8.23	\$4.08	-\$4.15	-50%	\$9.25	\$9.13	-\$0.12	-1%
831	\$0.75	\$0.82	\$0.07	10%	\$1.13	\$2.83	\$1.70	151%
833	\$11.80	\$2.44	-\$9.36	-79%	\$27.81	\$27.09	-\$0.72	-3%
834	\$3.89	\$2.25	-\$1.65	-42%	\$0.23	\$0.71	\$0.47	203%
835	\$5.22	\$3.14	-\$2.08	-40%	\$5.95	\$6.71	\$0.76	13%
836	\$3.18	\$2.62	-\$0.56	-18%	\$2.73	\$2.84	\$0.12	4%
838	\$7.70	\$6.04	-\$1.66	-22%	\$6.85	\$8.41	\$1.56	23%
839	\$5.77	\$3.02	-\$2.75	-48%	\$5.02	\$4.40	-\$0.62	-12%
840	\$6.12	\$5.03	-\$1.10	-18%	\$5.52	\$5.32	-\$0.20	-4%
842	\$7.33	\$5.51	-\$1.81	-25%	\$7.91	\$6.03	-\$1.89	-24%
843	\$4.83	\$5.04	\$0.21	4%	\$27.92	\$33.35	\$5.43	19%
844	\$3.13	\$3.88	\$0.75	24%	\$9.87	\$8.29	-\$1.57	-16%
847	\$5.87	\$4.90	-\$0.97	-17%	\$5.94	\$5.29	-\$0.65	-11%
851	\$3.01	\$1.73	-\$1.29	-43%	\$10.75	\$4.06	-\$6.69	-62%
858	\$6.38	\$5.92	-\$0.46	-7%	\$16.05	\$19.91	\$3.86	24%
859	\$1.55	\$1.28	-\$0.27	-17%	\$1.99	\$2.77	\$0.78	39%
Total	\$4.58	\$3.32	-\$1.27	-28%	\$3.63	\$3.55	-\$0.08	-2%