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Apparel: Export Competitiveness of Certain Foreign Suppliers to the United States (Investigation No. 332-602)

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On behalf of the National Council of Textile Organizations (NCTO), thank you for the opportunity to provide input regarding the competitiveness of certain top Asian suppliers to the U.S. apparel market.

NCTO represents the full spectrum of the U.S. textile sector – a production chain that employs nearly 550,000 workers nationwide and produces almost $66 billion in output annually. We are an essential industry that equips U.S. warfighters and pivoted overnight to produce PPE during the COVID pandemic.

While the domestic textile industry is a key contributor to the U.S. economy and critical part of the military and public health industrial base, our sector is facing a crisis of historic proportions as the result of rapidly deteriorating market conditions coupled with unchecked foreign predatory trade practices and diminished customs enforcement activities.

This perfect storm is undermining U.S. textile output and investments as well as our members' ability to retain their workforces. Ten U.S. textile plants have been shuttered in a matter of months. Among those impacted are companies that survived the Great Depression, the Great Recession, and COVID shutdowns, and yet are now being forced to close plants, with some companies going out of business altogether, due to today's unprecedented levels of demand destruction.

The fallout also extends beyond our borders to hemispheric partners – parties to U.S. free trade agreements, including CAFTA-DR and USMCA – who, along with U.S. textile producers, form an integrated, vertical textile and apparel co-production chain and represent the counterweight to production in Asia. Under our FTA structure, access to the U.S. market is predicated on meeting the yarn-forward rule of origin, granting reciprocal market access, and adhering to labor and environmental standards.

Within the Western Hemisphere, there are 2 million workers directly employed in textile and apparel production. These jobs are also in jeopardy, including those tied to $2 billion in textile and apparel investments announced not very long ago as part of Vice President Harris's Call to Action, an effort aimed at stemming migration by fostering greater economic opportunity in the Northern Triangle countries that are a part of CAFTA-DR.

Building up to and coinciding with the economic depression that our industry is now facing has been the ascent to top supplier status of the five countries that are the subject of today's hearing – Bangladesh, Cambodia, India, Indonesia, and Pakistan. This is no coincidence, and it is imperative to understand and document what makes them so competitive, as well as how this growth has impacted domestic production and the larger Western Hemisphere production chain, to inform the necessary U.S. policy response and recalibration.

Comparing 2013 to 2023, U.S. textile and apparel imports from these five suppliers grew 30% by value ($22.3 billion to $29.0 billion) and 58% by volume (11.0 billion square meter equivalents (SME) to 17.4 billion SME). Over the same period, unit values dropped from $2.02 per SME in 2013 to $1.67 per SME in 2023, a decline of 18%. Note that this inexplicable pricing decrease covers the current three-year period of historic inflationary pressures exacerbating pressures on U.S. manufacturers. And the five countries' combined import market share increased from 21% in 2013 to 28% last year.

While 2013 represents the low point during this 10-year lookback period, 2023 was not the high. The peak was in 2022, after which U.S. imports from nearly all sources fell in 2023 due to excess inventories and shifts in consumer spending habits. If we compare, 2013 to 2022, U.S. imports from these five countries grew a staggering 67% by value and 91% by quantity.

Clearly this success is tied to ultra-low pricing capabilities, and, in that regard, these countries have arrived at an unstoppable, though ethically fraught, formula for success. Their recipe marries the sourcing of subsidized textile inputs from China, including those made from slave labor in Xinjiang where 1/5 of global cotton is produced, with domestic cut and sew operations that profit from some of the lowest wage rates and weakest labor and environmental standards on the planet.

While there is some cotton and textile production in India and Pakistan, upstream textile product of fibers, yarns, or fabrics is lacking in Bangladesh, Cambodia, and Indonesia. As a result, China is able to gain backdoor access to the U.S. market by shipping tens of billions of dollars of textile components to these intermediaries for final assembly. A garment may be labeled simply "Made in Bangladesh," but the bulk of its value – an estimated 70% - is attributable to its components, which are most likely "Made in China." The end consumer, as well as U.S. Customs & Border Protection (CBP), are none the wiser.

To document this supply chain, according to United Nations' trade data, China is the top supplier of fibers, yarns, and fabrics, to the five countries under review. Further, these countries account for 25% of Chinese exports of textile products globally. To put a dollar figure on it, China shipped more than $27 billion in textile shipments to this country grouping in 2022, the latest data available, an increase of 94% from 2013. So, while the U.S. has deployed Section 301 penalty tariffs and enacted the Uyghur Forced Labor Prevention Act (UFLPA) to respond to China's trade and human rights abuses, the subject countries are providing a pass through where China still retains the bulk of the value add and largely escapes U.S. enforcement actions.

Substantial Chinese foreign direct investment is also flowing into to these countries. All except India have joined the Belt and Road Initiative. In December 2023, a Chinese company committed to invest $89 million to produce “fabrics, garments, and garment accessories” in an export processing zone in Bangladesh that is expected to employ nearly 5,500 Bangladeshis.[1]

On the labor and environmental side, you will undoubtedly hear from groups that have greater insights than we do. However, you will likely recall the April 2013 Rana Plaza disaster in Bangladesh, when an eight-story commercial building that housed garment production for numerous apparel brands collapsed, killing over 1,100 people and injuring approximately 2,500 more. According to reports, the disaster occurred a day after engineers called for the structure to be evacuated, yet garment workers were ordered to return to work without regard to their safety.[2] Follow-up investigations indicated that a large portion of the output from that factory was destined for the U.S. market.[3]

Further, the U.S. Department of Labor’s *List of Goods Produced by Child Labor or Forced Labor* released in September 2022 cited textiles from four of the five counties - Bangladesh, Cambodia, India, and Pakistan.[4]

As is evident, unethical cost reduction practices and predatory trade activities plague global textile and apparel production and markets. There is, however, an alternative to the race to the bottom model. The U.S. textile industry and our Western Hemisphere co-production chain compete based on the stability created through our FTA structure and its investment-based rules of origin and labor and environmental commitments. We compete by prioritizing quality, consistency, innovation, speed to market, transparency, and a keen focus on ethical and sustainable business practices.

But doing things the right way has never been more at risk with the pressures of punishing economic conditions and loss of market share to trade cheats. The U.S. government must decide with much greater conviction what it will and will not tolerate in our supply chains. We need to make changes, or the current trajectory will continue and usher in devastating consequences for this industry.

Our top line recommendations include:

1) **No expansion of Generalized System of Preferences (GSP) product coverage to textiles or apparel - or reinstatement of GSP benefits for Bangladesh or India**. Duty-free imports of

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[1] https://www.fibre2fashion.com/news/industrial-textiles-news/chinese-firm-to-invest-89-mn-for-factory-in-bangladesh-s-mongla-epz-291702-newsdetails.htm

[2] http://www.latimes.com/world/asia/la-fg-bangladesh-factory-charges-20150601-story.html

[3] http://www.newsweek.com/year-after-bangladeshs-deadly-factory-collapse-western-companies-slow-248506

[4] https://www.dol.gov/agencies/ilab/reports/child-labor/list-of-goods

textiles and apparel would only further supercharge already dominant Asian supply chains, reward China, and undercut U.S. and regional competitiveness.

2) **Close the De Minimis tariff loophole.** Three million packages are entering the U.S. each day duty free and largely unexpected. CBP reports that textile and apparel goods comprise the single largest component of these entries. De Minimis serves as an unearned FTA for the world, and approximately half of these packages contain apparel. These entries are not subject to 301 duties and have been linked to UFLPA violations. This loophole is killing our industry and the industries of our FTA partners.

3) **Dramatically ramped up customs and trade remedy activities.** Tough market conditions are creating a frenzied environment where customs fraud and unfair trade practices are becoming even more prevalent as suppliers scramble to secure orders by whatever means necessary.

   This includes UFLPA violations on cotton as well as man-made fiber apparel, widespread dumping, undervaluation, misclassification, transshipment, failure to adhere to published minimum wages rates abroad, and false originating status claims under our FTAs.

   On trade remedies, the U.S. textile sector has no standing to file AD/CVD cases on apparel in that we are upstream suppliers. Our customers are largely in U.S. FTA countries, and the U.S. apparel industry is fragmented and conflicted due to pressure from apparel brands and retailers that rely heavily on imports.

   On customs enforcement, we have seen, for example, a large uptick in yarns and fabrics flowing into our FTA regions from Asia, including from India and Pakistan. Meanwhile enforcement activities have been anemic, including declining UFLPA activity in our sector and minimal isotopic testing by CBP. Dwindling enforcement and failure to apply penalties is an open invitation for cheating and a massive benefit for Asian competitors.

   Ramped up and public-facing customs enforcement activities as well as meaningful access to trade remedies are critical.

With the right response, we can reverse the current downward spiral and bring about a host of beneficial outcomes including saving U.S. jobs and investments, ensuring we aren't dependent on adversaries for military textiles and PPE, standing firmly against forced labor and environmental abuses, increasing sourcing from nearshore FTA partners that use U.S. inputs and create less greenhouse gas emissions, and providing for the economic stability of the broader hemisphere.

Thank you for the opportunity to testify today, and I look forward to your questions.