

May 19, 2004

TO: Mr. James J. Jochum
Assistant Secretary
Import Administration, U.S. Department of Commerce
Central Records Unit, Room 1870
Pennsylvania Avenue and 14th Street NW, Washington, DC 20230
The United States of America

From: John Cheh
Executive Director
Esquel Enterprises Limited
12/F, Harbor Center, 25 Harbor Road
Wanchai, Hong Kong

**Re: Response to U.S. Federal Register's request for public comments with regard to
China's request for consideration as a Market Economy**

On behalf of Esquel Enterprises Limited, I am pleased to provide this submission in support of China's request for consideration as a Market Economy:

Company Background:

1. Esquel Enterprises Limited is a vertically integrated textile and garment manufacturing company headquartered in the Hong Kong Special Administrative Region of the People's Republic of China, with manufacturing facilities in China, Malaysia, Vietnam, Philippines, Mauritius, and Sri Lanka.
2. We are one of the largest wholly owned foreign companies in China, employing close to 30,000 people, operating in 6 provinces/regions (Beijing, Shanghai, Hong Kong, Guangdong, Xinjiang and Zhejiang), with annual export value out of China amounting to about USD 250 million.
3. The Chairman of Esquel, Ms. Marjorie Yang, is the founding chair-person of the Textile and Clothing Sector Committee under the China Association of Enterprises with Foreign Investment (CAEFI). CAEFI is a platform for foreign-invested firms to voice their views and concerns independently on policy issues as well as on the conditions under which they operate in China.

China is a Market Economy given our own experiences operating on the ground:

4. Overall, we are not discriminated against as a foreign-invested company.

5. From the sales end, all of our export product prices are negotiated independently with our customers in Japan, Europe, U.S. and the rest of the world. The government exercises no influence over market prices.
6. The Chinese Government also sets no constraints as to how much we produce. Obviously, in the textile and clothing industry, quotas under the Agreement on Textiles and Clothing (ATC) and formerly the Multi-Fiber Agreement has much more impact on export quantities than any particular government.
7. We receive national treatment on machinery and raw material imports. There is no material difference between State-owned enterprises and private firms.
8. On domestic raw material purchasing, utilities, land and other key factors crucial for production, we are again accorded treatments similar to domestic, state-owned firms.
9. Like many other market economies, there is a minimum wage to protect labor in China. Apart from that, there are virtually no restrictions on wage negotiations. There is also labor mobility: workers and other staff are free to seek jobs in different locations throughout China.
10. In the many years we have operated in China, we have not encountered incidents where different levels of government, Central, Provincial or Municipal, try to control or influence through administrative mechanism the way we manage our production. We do sometimes collaborate with officially recognized institutes on new products and technologies like what a company would do in many market economies.
11. As a foreign firm operating in China, we have not found financing or domestic procurement of raw material particular challenges. In fact, banks pursue our business quite aggressively on a fully commercial basis.
12. Given our experience operating in different countries for many years, we have found that the comparative advantage of China in textile and clothing really comes from labor quality/productivity and aggressive application of world leading technologies, with many of these technologies originating in developed economies such as the U.S. One recent example is the application of Nano-technology. Our firm, as an example, has paid to a US technology firm royalty in the neighborhood of USD 500K in just a few months for the testing phase of a Nano-product.

Macro-views also support China as a Market Economy:

13. In recent years in the textile and clothing industry, the share of output from foreign companies and domestic private companies has increased significantly versus state-owned enterprises.
14. New Zealand and Singapore have already recognized China as a Market Economy.
15. We understand that Australia will soon recognize China as a Market Economy.
16. Russia, not even being a WTO member, has been granted Market Economy Status.

Concluding Comments:

17. While China's textile and clothing sector may seem to be exporting a very high volume of products, it is closely integrated with corporate players outside: a high proportion of the value-added, in terms of design, brands, machinery and technology, dye material and even management know-how comes from outside China.
18. Under adverse trade environment, this will negatively affect not just China but many of its suppliers, customers and partners outside of China as well.
19. Esquel firmly supports and practices free trade and we strongly oppose protectionism.
20. Recognizing China as a Market Economy will not only reinforce the remarkable reforms that China has already implemented over the past few decades, but also provide further impetus to regional and global growth.

Respectfully submitted,

John Cheh