NATIONAL COUNCIL of TEXTILE ORGANIZATIONS

May 19, 2004

The Honorable James J. Jochum
Assistant Secretary for Import Administration
U.S. Department of Commerce
Central Records Unit, Room 1870
U.S. Department of Commerce
14th Street & Constitution Avenue, NW
Washington, DC 20230
BY MESSENGER, EMAIL AND FAX

Re: Public Hearings on U.S.-China Joint Commission on Commerce and Trade Working Group on Structural Issues -- China's Status as a Non-Market Economy - June 3, 2004

Dear Mr. Jochum:

The National Council of Textile Organizations (NCTO) welcomes this opportunity to submit comments regarding China's status as a non-market economy and that nation's request to be treated as a market economy for purposes of U.S. anti-dumping law.

NCTO is a new group designed to represent the entire unified spectrum of the U.S. textile sector, from fibers to finished products, including yarn, fabric, man-made fibers, cotton, textile machinery and chemicals and others concerned with the prosperity and survival of the U.S. textile industry.

By way of prefacing our comments, in 2003 alone, the United States textile industry lost 50,000 jobs while exports from China flooded the U.S. market. Last year, the trade deficit in textiles and apparel with China reached almost $14 billion, accounting for 12 percent of the total U.S.–China trade deficit. With this in mind, NCTO urges that if the government is intent on entering into negotiations on possible treatment of China as a market economy, then these discussions must be broad-based, addressing **all** Chinese trade practices, and not just within the context of applicability of U.S. anti-dumping laws.

The decision to negotiate regarding non-market status is not to be taken lightly. NCTO believes the U.S. government already has the tools at its disposal which are necessary to aggressively attack Chinese unfair trade practices. These include use of Section 301, countervailing duty laws, anti-dumping laws and direct bilateral negotiations. However, the government has failed to embrace these tools and thus workers and companies in the American textile industry, as well as the rest of U.S. manufacturing, are now facing destructive pressures from imports of artificially low-priced goods from China. The prospect of negotiating away non-market status while many effective tools remain underutilized by the government is extremely troubling.

If negotiations do occur, NCTO believes that any trade discussions between the governments of the United States and China must first of all address Chinese currency manipulation. By intentionally pegging the yuan to the U.S. dollar, China has willfully manipulated market forces in a manner which is inconsistent with fair trade and a free market economy. Such behavior has already had a devastating effect on U.S. textile producers, who have lost orders, been forced to lay off tens of thousands of workers and, in many cases, been forced to shut plants entirely.

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Imports of Apparel Products* (2001-2003)			
	China	Rest of World	
Average price per square meter	$2.65	$3.44	China's currency-driven price gap = 30%
Change imports in square meters	1.03 billion	-323 million	China import market share: 60%
Change in imports in dollars	+ $2.5 billion	- $1.4 billion	

**29 apparel categories removed from quota control on January 1, 2002.*

Last week, NCTO released a study (see summary chart above) showing that prices for Chinese apparel goods recently released from quota control are 30 percent lower than the prices for the same apparel goods made by dozens of other countries. These countries include Mexico and the nations of the Caribbean, which are the major export markets for U.S. yarns and fabrics. This 30 percent price gap has enabled China to amass a 65 percent import market share in those products in just the last two years and to increase its exports by more than 750 percent. During the same period of time, the import market share held by China's competitors declined sharply, from 91% to 35%. And according to year-to-date figures for 2004, China's share is continuing to climb.

Regarding the government's objectives regarding the Chinese yuan, the yuan must be revalued upward by 40 percent. Any other result would continue to leave U.S. manufacturing at a disadvantage and would leave U.S. manufacturing jobs at risk.

Further, China provides numerous other export and domestic industry subsidies other than its currency. These include direct subsidization of its state-owned textile industry, the use of illegal export rebates, and various export restrictions on textile raw materials in order to keep price of domestic supply low. In addition, China uses its banking system as a weapon to undermine the free marketplace. With estimates of a 50 percent non-performing loan rate for its manufacturing industries, capital costs in China are essentially non-existent. This must end.

Unfortunately, due to a Commerce Department ruling in the 1980s that China is exempt from U.S. countervailing duty (CVD) laws, U.S. producers are unable to use our CVD law, which is designed to mitigate the unfair competitive edge Chinese manufacturers enjoy due to the enormous web of interlocking subsidies the Chinese government has created.

How China, a communist nation, is allowed to provide both direct and indirect support to its textile and apparel sector without triggering this important U.S. trade law is the source of great bewilderment and resentment in the U.S. textile industry. Our closest allies in the world are subject to U.S. CVD law, but China is free to subsidize its textile and apparel manufacturers without fear of reprisal. Even more difficult to understand is the fact that every other developed country in the world permits CVD cases to be taken against China, while the U.S. does not. This unfair situation has to stop, which is why NCTO is supporting S. 2212 and H.R. 3716, bipartisan legislation to end China's exemption from U.S. CVD law, and we urge the Bush Administration to support enactment of these bills as well or to remove the administrative barriers that prevent CVD action by domestic manufacturers against China.

Finally, NCTO urges the task force to also discuss and favorably resolve numerous areas of concern for U.S. textile companies that have tried to enter the Chinese market. The major issues include, as noted above, currency manipulation, direct subsidization of its state-own textile sector, the use of non-performing loans as an economic weapon and illegal export tax rebates. However, there are many other issues which need to be resolved as well. These include:

- the difficult, time-consuming and non-transparent import documentation procedures required by China;
- non-transparent Customs valuation procedures (the use of unofficial reference price lists to hike effective tariff rates, which may be used to offset "agreed upon" declines in applied tariff rates);
- varying tariffs depending on port of entry and importing agents;
- restricting importation of textile products to foreign trading companies which are licensed by MOFTEC (the Chinese trade ministry) and which are nearly always manufacturers and exporters of similar products;
- China's actions in some cases (particularly joint ventures) to permit importation only with a 70 percent re-export clause;
- distribution channels for textile products that are controlled by state agencies and dominated by state-controlled enterprises, and with the dual pricing system in effect importers may receive lower price offers than domestic producers;
- expensive, time-consuming and discriminatory technical/quality testing procedures for imported goods;
- requiring "quality licenses" before textile and apparel goods can be imported;
- the use of testing standards that are not revealed by testing authorities; and
- the relocation of previously independent inspection agencies to put them under the control of Chinese Customs, and thus conflicts are no longer subject to international dispute settlement.

Not only are all of these trade practices inconsistent with those of a market economy, they have enhanced the ability of Chinese manufacturers to distort the world and U.S. markets and trade between our two nations.

As noted in the Istanbul Declaration, which has been signed by textile and apparel associations from 36 nations, China's admission to the World Trade Organization just two years ago has dramatically altered the textile and apparel trade landscape in a way that was not at all imagined when the Uruguay Round timetable for the quota phase-out was established. If all remaining quotas are removed as scheduled on January 1st, 2005, China and a few other nations will quickly monopolize world trade in textiles and apparel. The result will be tremendous economic dislocation here in the United States and abroad.

Accordingly, as a condition of granting China market economy status, we believe the United States government should actively push for an immediate meeting of the WTO to discuss and hopefully approve a motion to delay the final product integration stage as a way of averting certain economic disaster next year. We also believe the U.S. government should be willing to self-initiate and expeditiously use the special China textile safeguard in product areas where it is clear that Chinese imports are not only causing disruption but are poised to do so and are causing the threat of market disruption.

In closing, we view with great concern the speculation, as reported in a recent *Inside U.S. Trade* article, that Bush Administration officials are simply seeking "to use the new U.S.-China dialogue to reduce the effect that U.S. antidumping laws have on China." If the Bush Administration desires to grant China market economy status for the purpose of moderating the ability of U.S. producers to use the antidumping laws, the U.S. must demand action on the afore mentioned issues and it must achieve concrete results. Please do not give away what little leverage we have left to influence China's trade policies.

If you have any questions, please contact me at (202) 756-1422, or via email at cjohnson@ncto.org.

Sincerely,

Cass Johnson
President