GLOBAL ALLIANCE For FAIR TEXTILE TRADE (GAFTT)

96 Trade Groups From 54 Countries Supporting Fair Trade for a Safer World

Global Alliance Meets to Press WTO for Solution to the China Threat in the Global Textile and Apparel Sector

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World trade in textiles and clothing is at a critical stage. Decisions made over the next several months will determine whether up to 30 million jobs around the world will be lost to China or whether a fair and beneficial trading system for this vital sector will be allowed to develop.

The worldwide quota system for textiles and clothing has allowed virtually every developing country access to key global markets. Today some 30 countries export more than $1 billion USD in textile and clothing products annually, creating desperately needed jobs and generating invaluable foreign earnings for some of the poorest countries on earth.

However, since China joined the WTO at the end of 2001, it has engaged in a premeditated and systematic effort to monopolize world trade in textiles and clothing by undercutting free market prices through a complex scheme of industrial subsidization and currency manipulation.

In the clothing categories removed from quota in 2002, China dropped its prices by an average of 53 percent in a successful effort to dominate world trade in the U.S. market in these product areas. Not a single competitor was able to match China's artificially low prices[1].

China has used and continues to use the following unfair trade practices to artificially undercut the prices every other country in the world:

- Currency manipulation (40 percent advantage)
- Export subsidies (rebate of export taxes: 13 percent)
- Free capital (US government reports that up to 50 percent of government loans to Chinese business are never repaid).
- Direct state subsidies to textile industry (50 percent is still owned by the Chinese government
- Plus many others……include tax holidays, land giveaways, power and freight subsidization

[1] U.S. Department of Commerce statistics, analyzed by NCTO.

These unfair trade practices undeniably have disrupted world trade in textile and clothing. In the critical U.S. market, China's market share in the clothing and home textile products categories removed from quotas surged from less than 10 percent in 2001 to more than 70 percent as of June 2004. Every player in the world trading community lost market share to China, even countries with geographic proximity and preferential trade agreements.

China saw substantial growth in its market share in Europe as well, capturing anywhere from 30 to more than 50 percent market share in several key categories.

Every significant study on world textile and clothing trade predicts China to capture similar market share in the categories to be released from quota in 2005. The World Bank predicts that China will capture half the world's apparel trade once quotas are removed. A recent WTO study has predicted China and India will take a 71 percent share of the global market[2]. A study by McKinsey and Company also predicted that China's share that would rise to 50 percent for both textiles and apparel[3]. The United States International Trade Commission predicted that once quotas go away, "China would become the supplier of choice.[4]"

Perhaps most significantly, top executives for major importing and retailing firms – the firms that make the sourcing decisions – predicted that earlier this year that China would dominate trade in apparel once quotas are removed. In a confidential poll, 87% said China's share would exceed 50 percent and half of those predicted that China would gain between 75 and 90 percent[5].

China's strategy for world domination has been evidenced by the fact that China has dominated world sales of textile and apparel machinery for the past four years, in some cases consuming up to two-thirds of world production of textile machinery (weaving looms). China has been reliably reported to have thousands of new textile and apparel plants ready to begin production once quotas are lifted. Chinese government statistics reveal that China has invested $21.2 billion in their textile and apparel over the past three years.

Because of the extraordinary threat that world trade in textiles and apparel faces today, the Global Alliance for Fair Trade in Textiles (GAFTT) calls for the following actions:

(1) Beginning with its upcoming meeting on October 1, the WTO must begin a review of the impact of the quota phase-out and of how market distorting trade practices threaten to monopolize trade in this vital sector in the hands of one or two countries;

(2) The WTO must develop new instruments as part of the Doha Round to prevent the textile and clothing sector from being monopolized in the future;

(3) Governments should immediately and effectively implement the WTO China textile safeguards to prevent China from monopolizing worldwide textile and apparel trade;

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[2] " The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing", Discussion Paper #5, WTO, 2004
[3] "Trade Liberalization in China's Accession to the World Trade Organization", Elena Ianchovichina and Will Martin World Bank, June 2001, p. 21. McKinsey study: *AFX News Limited*, 3/28/04.
[4] "Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market", Pub. 3671, U.S. International Trade Commission, Jan. 2004
[5] "Cotton Sourcing Summit, Miami, Florida: WWD, 3/3/04

(4) Governments whose textile and clothing industrial sectors export to the United States and the European Union must let those countries know that they support immediate and effective use of the China textile safeguard. This means that safeguards should be invoked on threat of market disruption rather than waiting for actual market disruption to occur.

In conclusion, the crisis in textile and clothing trade is a global problem requiring a global solution. That is why GAFTT is calling for timely and effective action by the European Union, United States and the WTO to prevent further disruption of trade.