

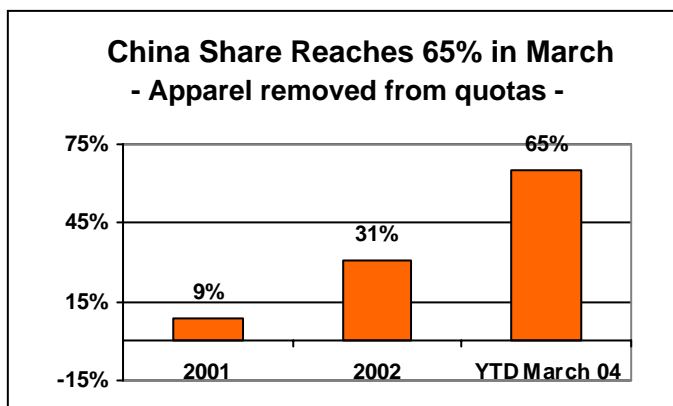
## UPDATE NUMBER TWO: The China Threat to World Textile and Apparel Trade

- **June 15, 2004:** Includes updated trade figures covering the first quarter of 2004

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This revision updates NCTO's ongoing analysis of the impact of China on world trade in textiles and apparel through March 2004. The analysis tracks changes in imports of apparel items removed from quota control on January 1, 2002 (see appendix II) and is the second update in the series (1<sup>st</sup> update: Sept. 2003, original study: March 2003). For copies of previous reports, go to [www.ncto.org](http://www.ncto.org) and click on "2005 quota phase-out."

### 1. Chinese Market Share: 65% As of March 2004



Data on China's shipments over the past fifteen months have confirmed the original study's initial conclusion that, once quotas are removed, China will quickly come to dominate textile and apparel trade in the United States and more than 650,000 textile and apparel jobs in the United States will be lost.

Over the past 27 months, China's shipments in the apparel categories removed from quota control increased by an average of 794 percent.

China's share of the U.S. market increased from 9 percent in 2001 (while quotas were still in place) to 65 percent as of YTD March 2004. Even though amassing a 65 percent share, the wave of imports from China has not yet crested and they are continuing to grow at a rate of approximately one percentage point of market share each month.

At the current rate of growth, China will reach nearly a 75 percent share of the U.S. market by the end of this year.

## 2. Market Share Changes: Losses for All Major Competitors Except India

This revision analyzed for the first time changes in market share by the leading competitors with China in the product areas removed from quota control.

Changes in Import Market Share - Quota-Free Apparel Categories -		
Country	2001	YTD March 04
<b>CHINA</b>	<b>9%</b>	<b>65%</b>
Thailand	10%	4%
Mexico	8%	2%
CBI	8%	3%
Taiwan	7%	2%
Bangladesh	7%	2%
Philippines	6%	2%
India	3%	3%
Korea	3%	1%
Sri Lanka	3%	1%
Italy	2%	1%
Cambodia	1.8%	.4%
Pakistan	1.5%	.5%
Turkey	1%	.5%

The analysis shows that, with one exception, China took dramatic amounts of market share, usually on the order of one-half or two-thirds, from every major competitor. These competitors included major producers such as Bangladesh, Mexico, the nations of the Caribbean, Turkey, the Philippines and Pakistan.

The only country that held its own was India, which managed to maintain, but not improve, a 3 percent market share in the quota-de-controlled products.

In all, 31 countries suffered between a 75 percent to 100 percent loss of market share, 40 countries suffered a 50 percent to 74 percent decline in market share and 17 others suffered a 25 percent to 49 percent loss of market share (see appendix I).

While these countries were losing share, China's share increased from 10 percent to 65 percent.

## 3. Changes in volume (square meters): China Increases By 915 Million Square Meters or 794% in 28 months.

In terms of actual shipments, declines were across the board for major suppliers in the quota-free categories, with the exception of India, which managed a 5 million square meter increase in shipments over the past 28 months. In contrast, China's shipments increased 915 million square meters, a jump of 794 percent on a volume basis.

Experiencing the largest declines in actual shipments were Mexico, Thailand, Bangladesh, the Philippines and the nations of the Caribbean.

<b>Changes in Volume - Quota free apparel</b> (Millions of square meters)	
<b>2001 – YE 3/04</b>	
<b>CHINA</b>	<b>+ 915</b>
India	+ 5
Mexico	-42
Thailand	-37
Bangladesh	-34
Philippines	-30
CBI	-28
Taiwan	-26
Indonesia	-24
Sri Lanka	-15
Cambodia	-12
Malaysia	- 6
Pakistan	-5
Canada	-4

As has been noted in previous reports, the establishment of free trade or preferential trade areas has still not appeared to have had a significant impact on competitiveness vis-à-vis China. Mexico and the nations of the Caribbean have not performed any better than any other suppliers.

#### **4. Prices: China's Price Declines Average 48% Since 2001**

China's prices declined an average of 48 percent after quotas were removed, falling from an average of \$6.23/square meter in 2001 to \$3.12/square meter as of YTD March 04.

Actual Chinese prices did edge up in the first quarter of 2004 as China consolidated

its hold on these markets and was thus able to retreat from the severe cost cutting that enabled it to secure a dominate share.

<b>Change in Average Chinese Prices</b> (Quota-free apparel categories per square meter)				
2001	2002	Dec 2003	YTD Mar 2004	Change: 2001 – YTD 3/04
\$6.23	\$3.37	\$2.65	\$3.12	- 48%

#### **5. New Proxy – Importers and Retailers Predict Chinese Dominance**

At a recent sourcing conference in Miami held in January by Cotton Incorporated, 300 leading importers and retailers were surveyed electronically regarding their predictions of the market share they believed China would take in U.S. apparel import trade once quotas were removed.

<b>Survey of Leading U.S. importers and Retailers on Post –Quota Sourcing</b> January 2004 – Cotton Sourcing Summit	
Predicted Chinese Share Once Quotas Removed	
43 percent of responders	75 - 95%
44 percent of responders	50 – 74%

The survey results tracked closely China's performance in quota categories already removed from quota control. According to Cotton Incorporated, 43 percent of

executives surveyed believed that China would take between 75 and 95 percent of the U.S. apparel market if quotas were completely lifted.

## **6. New Proxy - Chinese Dominate Worldwide Investment in Textiles**

According to recent information from the International Textile Manufacturers Federation (ITMF), China's preparations to assume a predominate position in world textile and apparel trade have continued at an extraordinary pace. ITMF figures show that China purchased nearly three-quarters of all shuttleless weaving machinery sold *in the world* during the last two years.

In addition, China was responsible for two-thirds of all texturing sales in 2002 and 2003 and nearly 60 percent of all wool spinning frames in two of the last four years. In terms of cotton ring spinning, China took 60 percent of all global sales in 2003.

## **7. New Data: China's Unfair Trade Practices Criticized by New U.S. Government Commission Report**

In a report issued yesterday by the *U.S. – China Economic and Security Review Commission*, unfair Chinese trade practices were harshly criticized as dangerous to U.S. national and economic security interests. The Commission also recommended that the U.S. government sharply increase its bilateral and WTO enforcement actions against Chinese trade practices. The Commission explicitly advocated for the U.S. Congress to direct the government to impose sanctions on China for currency manipulation.

Among the practices criticized by the Commission were China's currency manipulation, direct and indirect subsidization of industry, preferential Chinese access to capital markets for Chinese businesses, China's WTO compliance, efforts by the Chinese government to frustrate WTO monitoring of its trade regime, lack of distribution and trade rights, and intellectual property violations.

## **8. Safeguard use: China Gains 40 percent of U.S. Market Before Safeguard is Applied**

Analysis of the recent trade data regarding the two apparel groups currently under U.S. safeguard restraints shows that China has a 37 percent share of the brassiere market and a 40 percent share of the dressing gowns market. China's share in those product categories when under quota was 9 percent.

As currently administered, the safeguard mechanism forces the U.S. textile industry to show that substantial market disruption has already taken place before the government will begin a three-month review. It is only at the end of the review that levels are applied. The entire process, which takes between six and nine months, means that China has an opportunity to flood the U.S. market before a safeguard request can reach a conclusion. And, even worse, the entire process needs to be repeated after a year has lapsed.

The U.S. government has, however, the power to self-initiate a safeguard action, thus short-circuiting the process. In addition, the government may use “threat” of market disruption to launch a safeguard action, thereby eliminating the delays caused by obtaining and analyzing “recent” trade data. With these changes, the safeguard could actually become an effective tool against Chinese attempts to monopolize the US market.

Sources: Unless otherwise noted, trade data is from the US Department of Commerce, Office of Textiles and Apparel, <http://otexa.ita.doc.gov>

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### Appendix I: Market Share Loss Country in Apparel Categories Removed from Quota Control - 2001 to YTD Mar 04

<u>100-75% Loss</u>	<u>50-74% Loss</u>	<u>25-49% Loss</u>
Albania	_ASEAN	_EU12
Bahrain	_CAFTA	_EU15
Belize	_CBI	Armenia
Bolivia	Australia	Bulgaria
Brunei	Austria	Egypt
Burma (Myanmar)	Bangladesh	Estonia
Cambodia	Belgium	Iceland
Cape Verde	Canada	Israel
Chile	Dominican Republic	Italy
Costa Rica	Finland	Jordan
Czech Republic	France	Nepal
Fiji	Germany	Nicaragua
Hong Kong	Guatemala	Peru
Ireland	Haiti	Portugal
Jamaica	Honduras	South Africa
Kyrgyzstan	Indonesia	Syria
Luxembourg	Japan	Trinidad and Tobago
Macau	Korea, South	Turkey
Maldiv Islands	Macedonia	
Moldova	Madagascar	
Mongolia	Malaysia	
Netherlands	Mauritius	
Netherlands Antilles	Mexico	

<b>Niger</b>	<b>New Zealand</b>
<b>Norway</b>	<b>Nigeria</b>
<b>Seychelles</b>	<b>Pakistan</b>
<b>Singapore</b>	<b>Panama</b>
<b>St Lucia</b>	<b>Philippines</b>
<b>St Vincent/Grenadines</b>	
<b>Taiwan</b>	<b>Russia</b>
<b>Uruguay</b>	<b>Saudi Arabia</b>
<b>Venezuela</b>	<b>Sierra Leone</b>
	<b>Slovak Republic</b>
	<b>Slovenia</b>
	<b>Sri Lanka (Ceylon)</b>
	<b>Thailand</b>
	<b>United Arab Emirates</b>
	<b>United Kingdom</b>
	<b>Zimbabwe</b>

Appendix II: Apparel categories removed from quota control on January 1, 2002

<b>Apparel Categories Removed from Quota 1/1/02</b>	
<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
*Safeguard actions applied; categories removed from analysis. See "safeguard action" review for details.	