

# **GLOBAL ALLIANCE for FAIR TEXTILE TRADE (GAFTT)**

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*96 Trade Groups from 54 Countries Supporting Fair Trade for a Safer World*

## **Global Alliance Presses Governments and WTO to Halt Chinese Monopolization of Global Trade in Textiles and Clothing**

January 26, 2005

*WASHINGTON, D.C. – Representatives from the Global Alliance for Fair Trade in Textiles (GAFTT) and government officials from 25 countries met on Wednesday, January 26 in Washington, D.C. to discuss a coordinated international response to the crisis associated with the worldwide expiration of quotas on textiles and clothing. Private briefings for U.S. government officials and the U.S. Congress are planned for later on Wednesday and on Thursday morning.*

*GAFTT represents 96 trade groups from 54 countries that exported over \$170 billion in textile and apparel products in 2003. It issued the following communiqué from the 3<sup>rd</sup> International Textile Summit:*

By allowing worldwide quotas on textiles and clothing to expire without adequate measures in place to prevent the rapid monopolization of the market by a small number of countries through the use of unfair trade practices, the World Trade Organization (WTO) has allowed global trade in textiles and clothing to become severely disrupted. Absent immediate and responsible action by individual governments, up to 30 million jobs around the world will be lost to China and the continued development of a fair and beneficial trading system for this vital sector will be strangled.

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) Governments, especially those of the United States, European Union and Canada, should immediately and effectively implement the WTO special China textile safeguards to prevent China from monopolizing worldwide textile and apparel trade;
- (2) The WTO must undertake an urgent 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;
- (3) The WTO must develop new permanent instruments<sup>1</sup> as part of the Doha Round to prevent the textile and clothing sector from being monopolized in the future;
- (4) As a part of the development of new permanent WTO instruments to prevent a small number of countries from monopolizing global trade in textiles and clothing, GAFTT urges other governments to support WTO paper 496 submitted by several developing countries that calls for the WTO to actively monitor and address the economic impact of the quota phaseout and to support WTO paper 497 submitted by the Republic of Turkey that calls for a permanent, global

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<sup>1</sup> The China textile safeguard mechanism expires at the end of 2008.

safeguard mechanism. GAFTT believes that it is critical that the WTO Council on Trade in Goods give fair and extensive consideration to these papers during formal meetings in 2005.

- (5) Governments whose textile and clothing industrial sectors export to the United States, European Union, Canada and other countries 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;
- (6) Governments must move aggressively at the WTO and within their own trade regimes to attack unfair trade practices employed by countries that seek to dominate world trade in textiles and apparel. These practices, which are illegal under the WTO, include currency manipulation, industrial subsidization of state-owned companies, the extension of “free” capital by central banks and illegal export tax rebates; and,
- (7) GAFTT recognizes the importance of an active policy of access to markets, especially on the part of countries that are the major beneficiaries of the quota phaseout, such as India, by achieving acceptable levels tariffs together with the elimination of non-tariff barriers.
- (8) GAFTT also notes that Vietnam has applied to become a WTO member and that as a non-market economy, it has been able and willing to mirror many of unfair practices used by China to monopolize key sectors of the global textile and clothing market. Consequently, GAFTT calls for the WTO to include safeguards or other specific provisions that would prevent Vietnam from using unfair trade practices to monopolize segments of global trade in textiles and clothing, such as the \$82 billion U.S. import market, as a part of any accession agreement allowing Vietnam to become a member of the WTO.

GAFTT announced that its efforts over the next twelve months would be focused on ensuring that safeguard actions are implemented in key markets and that unfair monopolistic trade practices are attacked. GAFTT will also focus on persuading the WTO to introduce new permanent safeguards for textile and apparel products into the current round of worldwide trade talks.

### **GAFTT Review of the Textile and Apparel Trading System**

The now expired worldwide quota system for textiles and clothing was arguably one of the most successful economic aid packages for developing countries in history. The system allowed virtually every developing country access to key global markets by preventing any single country from monopolizing the market. In 2003, 41 countries exported 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 highly damaging 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. By November 2004, the next largest supplier of these products to the U.S. market was Thailand, with 3 percent<sup>2</sup>. Also, GAFTT notes that

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<sup>2</sup> U.S. Department of Commerce statistics, analyzed by NCTO.

China's average export prices for trousers, underwear, and woven and knit shirts are 58 percent below the average prices charged by other countries<sup>3</sup>.

Moreover, China already controls a combined 40 percent share of world exports for cotton and man-made fiber trousers, men's woven shirts, cotton and man-made fiber knit shirts, and underwear. When one excludes U.S. and E.U. exports in these categories, China's world export market share rises to an astounding 57 percent!<sup>4</sup> Finally, in these same categories, China already controls an 88 percent market share of the lucrative Japanese and Australian markets.<sup>5</sup>

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

These unfair trade practices undeniably have severely disrupted world trade in textile and clothing. In the critical \$82 billion U.S. import market, China's market share in the clothing and home textile products categories removed from quota in 2002 surged from less than 10 percent in 2001 to more than 73 percent as of November 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<sup>6</sup>. A study by McKinsey and Company also predicted that China's share that would rise to 50 percent for both textiles and apparel<sup>7</sup>. The United States International Trade Commission predicted that absent safeguard actions, "China would become the supplier of choice."<sup>8</sup>

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

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<sup>3</sup> According to the UN Comtrade database, the average Chinese export price for trousers, shirts and underwear was \$1.82 per item compared to an average export price charged by other suppliers of \$4.42 per unit. For more information, go to [www.ncto.org](http://www.ncto.org), 12/15/04 press release.

<sup>4</sup> Source: NCTO press release, "NCTO Analysis Shows Chinese Apparel Prices 76% Below U.S. Prices and 58% Below Rest of World's Prices," December 15, 2004, available at [www.ncto.org](http://www.ncto.org).

<sup>5</sup> Id.

<sup>6</sup> "The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing", Discussion Paper #5, WTO, 2004

<sup>7</sup> "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.

<sup>8</sup> "Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market", Pub. 3671, U.S. International Trade Commission, Jan. 2004

quotas are removed. In a confidential poll, 87 percent said China's share would exceed 50 percent and half of those predicted that China would gain between 75 and 90 percent<sup>9</sup>.

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). Chinese government statistics reveal that China has invested \$21.2 billion over the past three years in order to dramatically increase its textile and apparel production capacity.

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 all countries, but especially by European Union, United States and Canada, and the WTO to prevent further disruption of trade.

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<sup>9</sup> "Cotton Sourcing Summit, Miami, Florida: WWD, 3/3/04

# **3<sup>RD</sup> INTERNATIONAL TEXTILE SUMMIT**

**GRAND HYATT WASHINGTON  
JANUARY 26-27, 2005**

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