



The China Threat and the Quota Phase-out

1. What will happen quotas are phased-out on China on January 1, 2005? China wins, U.S. textiles and almost everyone else loses.

- In apparel categories removed from quota control in 2002, China has already taken a 65 percent share of the U.S. market (as of March 2004). That share is still continuing to grow. The country with the next highest share is Thailand at 4 percent. Prior to the quota removal, China had a nine percent share¹.
- *Business Week* estimated that 30 million jobs around the world could be lost once textile and apparel quotas are removed from China on January 1, 2004².
- In a survey taken at the Cotton Sourcing Summit in Miami, 87 percent of importers and retailers polled predicted that China would take more than 50 percent of the U.S. apparel market once quotas are lifted. 43 percent predicted that China's share would be between 75 and 90 percent³.
- In developed countries that have not used quota, China has taken between 70 and 80 percent of the market (Japan and Australia).
- The World Bank predicts that China will capture half the world's apparel trade once quotas are removed. A study by McKinsey and Company also predicted that China's share that would rise to 50 percent for both textiles and apparel⁴. The United States International Trade Commission predicted that once quota go away, "China would become the supplier of choice."⁵

2. A Rising World Tide: The Istanbul Declaration and the Global Alliance for Fair Trade in Textiles (GAFTT)

- 91 textile and apparel trade groups from 49 countries have banded together in a "Global Alliance for Fair Textile Trade" (GAFTT). The goal is prevent a Chinese takeover of world textile and apparel trade.
- The groups point out the massive economic destabilization as tens of millions of jobs move from the developing world to China. Much of the jobs losses will be in heavily Muslim countries, many of which could be severely effected and where the U.S. has important security concerns.
- GAFTT includes groups from the U.S., Turkey, Mexico, Bangladesh, Philippines, Sri Lanka, Uganda, South Africa, Morocco, Peru, Argentina, and many more. See www.fairtextiletrade.org and www.itkibusa.org
- This large coalition has formed over just the last 4 months. GAFTT for an emergency WTO meeting on the impact of the quota phase-out and strong use of China textile safeguard (eg, use "threat" track)

3. How Does China Do It? – The Chinese government uses unfair trade practices to under price manufacturers around the world.

¹ US Department of Commerce statistics, analyzed by NCTO.

² *Asian Business Week*, Dec. 15, 2003.

³ Cotton Sourcing Summit, Miami, Florida (WWD, 3/3/04)

⁴ "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.



- China dropped prices by an average of 48 percent after quotas were removed in a successful effort to dominate world trade in these product areas. Not a single competitor was able to match China's artificially low prices⁵.
- According the U.S.-China Economic and Security Review Commission, “China has artificially suppressed the value of its currency by as much as 40 percent and continues to heavily subsidize its manufacturing sector – in the form of tax incentives, preferential access to credit and capital from state-owned financial institutions, subsidized utilities, and other measures⁶.”
- In regards to textile and apparel production, China uses the following unfair trade practices to artificially under price 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

4. *What Needs to Happen to Stop China?*

- An Emergency WTO Meeting:
 - The U.S. government should support Mauritius in requesting an emergency meeting of the WTO to review the impact of the quota phase-out.
 - The purpose of the meeting is not to extend the quota system but to examine what should be done to prevent a disastrous take over world textile and apparel trade.
- Effective Use of the China Textile Safeguard by the U.S. and EU
 - Right now, the China textile safeguard, which is allowed by the WTO, has not been used effectively.
 - In the cases where the U.S. has used it, China has been able to gain 40 percent of the market by the time it has gone into effect - - and then the safeguard only lasts one year or less, before the process must start over again (takes at least six months).
 - There are two tracks for using the safeguard – threat of serious injury and actual market disruption. The market disruption track takes too long. The U.S. and E.U. need to use the “threat” track.
 - Congressional members should let the Administration know that they must use the safeguard effectively by using the “threat” track.

⁵ U.S. Department of Commerce statistics, analyzed by NCTO.

⁶ Roger W. Robinson, Jr., Chairman, U.S.-China Economic and Security Review Commission, before the House Committee on Armed Services, June 16, 2004.