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House Ways and Means Trade Subcommittee Hearing on Supporting U.S. Workers, Businesses, and the Environment in the Face of Unfair Chinese Trade Practices

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Chairman Blumenauer and Ranking Member Buchanan, thank you for the opportunity to testify on this subject that is so important to our nation and to the U.S. textile industry and our workers.

My name is Kimberly Glas, and I am president and CEO of the National Council of Textile Organizations (NCTO), a not-for-profit trade association established to represent the entire spectrum of the United States textile production chain, from base fibers to finished sewn products, as well as supplier sectors that have a stake in the prosperity of the U.S. textile industry. We serve as the voice of the U.S. textile industry and represent approximately 150 member companies. I also have the honor of serving as an appointed commissioner to the bipartisan U.S.-China Economic and Security Review Commission, although I am not appearing before you today on behalf of the Commission.

The U.S. textile sector is an extremely diverse, technically advanced, and highly capital-intensive industry that involves a multi-stage production chain. This domestic production chain is comprised of the following: suppliers in the cotton, wool, and man-made fiber sectors; yarn and fabric manufacturers; textile home furnishings producers; dyers, printers, and finishers; and our customers in the U.S. apparel, home furnishings, automotive, aerospace, construction materials, energy exploration, and other end-use industries.

The domestic textile industry is an important component of the U.S. economy with production found in every region of the country. The industry provides much-needed jobs in rural areas and has functioned as a springboard for workers out of poverty into good-paying jobs for generations.

The U.S. textile sector further bolsters the national economy as a consumer of billions of dollars of inputs and support services, such as machinery, telecommunications, technology services, and numerous other products needed to manufacture textiles. According to the U.S. Department of Commerce, every job directly supplied by the U.S. textile sector provides three additional jobs throughout the economy. As such, direct and indirect employment supplied by the U.S. textile industry is responsible for nearly 2.4 million jobs nationwide. Additional details related to the U.S. textile industry are provided below:

U.S. Textile Industry Key Facts

- The U.S. textile industry supply chain — from fibers to apparel and other sewn products — employed 585,000 workers in 2019. One textile job supports three other jobs in the U.S.
- The U.S. is the second largest exporter of textile-related products in the world. Fiber, textile, and apparel exports combined were $29.1 billion in 2019.
- The U.S. textile industry exported to more than 200 countries, with 24 countries importing $100 million or more.

- Domestically, the U.S. textile industry invested $18.7 billion in new plants and equipment from 2009 to 2018.
- U.S. textile mills have increased productivity by 69 percent since 2000.
- The U.S. is the world leader in textile research and development, producing advanced materials with technical, medical, military, aerospace, athletic, and myriad other applications.
- The domestic textile industry is critical to our national security in that it supplies more than 8,000 different products to the U.S. military.

According to a recent study by North Carolina State University's Wilson College of Textiles, the national economic impact of textile investment is substantial. Thirteen jobs are created for every $1 million increase in the U.S. textile manufacturing economy. That means if only 5% of textile imports were converted to onshore production ($6.5 billion), 84,500 new U.S. jobs would be created.

Background: China and the U.S. Textile Industry

We greatly appreciate the committee's focus on the historical and ongoing predatory trade practices employed by China with an eye toward strong policies to rectify the problems we face, and we also recognize the complicated nature of the task at hand. We strongly agree with the committee that we need to hold China accountable for pervasive unfair trade practices that have undermined U.S. industry and those of our trade allies.

China's Rise to Dominance in Global Textile and Apparel Production

China continues to dominate global textile and apparel markets, including the U.S. market. According to the latest data available from the U.S. Department of Commerce, China alone represents over 44 percent of all U.S. textile and apparel imports for the twelve-month period ending in September 2021.[1] This is consistent with historical trends that have made China the world's dominant producer of textiles and apparel.

As has been the case for years, China is the single largest contributor to the U.S. trade deficit in textile and apparel products, accounting for 46 percent of the total. Last year, the United States imported $47 billion worth of textiles and apparel from China while exporting only $804 million, to run a $46.2 billion trade deficit with China in these products.[2] China's penetration into the U.S. textile and apparel market, coupled with illegal subsidies, rampant intellectual property theft, and other predatory practices has come at the direct expense of hundreds of thousands of domestic textile and apparel jobs and the numerous communities dependent on the sector's investment and production.

What we find is that until the mid-1990's there were fairly normal ebbs and flows within global textile and apparel markets. Until that point, manufacturers prospered, survived, or failed based on reasonable market forces. The rules of the game, however, changed dramatically in the mid-1990s with the advent of China as a large-scale predatory force benefiting from virtually limitless government programs intended to ensure that China's textile industry dominated world markets and displaced foreign competitors and workers.

A confluence of major economic developments and various U.S. policy initiatives drove a meteoric expansion of Asian export penetration into the U.S. textile and apparel market that began in the late

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[1] U.S. Department of Commerce; OTEXA Major Shippers Report; Imports by volume

[2] U.S. Department of Commerce, Office of Textiles and Apparel (OTEXA), Textile and Apparel Trade Balance Report

1990s and extended through the 2008 recession and beyond. From a macroeconomic standpoint, the Asian financial crisis of the late 1990s caused steep currency devaluations on the part of virtually all major Asian competitors, which cut their prices for textile and apparel exports by 30-80 percent virtually overnight. This was followed by an onslaught of exports from state-owned factories in China that benefited from a practice of persistent currency undervaluation by the Chinese government. These adverse macroeconomic factors were compounded by a series of U.S. policy decisions that devasted U.S. textile and apparel manufacturing and our partners in the Western Hemisphere. These trade liberalization policies included:

- December 2001: China allowed to join the WTO
- December 2001: Vietnam is granted temporary normal trade relations status with the U.S.
- January 2005: WTO Multifiber Arrangement Textile Quota phase-outs completed
- January 2007: Congress approves permanent normal trade relations for Vietnam

The impact of these macroeconomic and policy factors on the U.S. textile industry in the 1997-2009 timeframe was severe. Over this period, U.S. textile and apparel production declined by 61 percent, employment decreased by a staggering 69 percent, exports fell by 15 percent, and the U.S. trade deficit in these products increased by 82 percent.

This historic contraction in U.S. textile and apparel output occurred despite an unprecedented expansion of global consumption in this sector. For example, between 1992 and 2016 world textile and apparel trade grew from $279 billion to $695 billion, an increase of almost 150 percent.[3] The overriding factor behind this counterintuitive development was the emergence of China as a virtually unrestrained, predatory competitor.

Thanks to massive state-sponsored subsidies and rampant intellectual property theft, Chinese textile and apparel exports have exploded, making China the dominant player in the global market. Looking at the same 24-year period referenced above, 1992-2016, Chinese textile and apparel exports to the world grew by a staggering 910 percent, skyrocketing from $26.4 billion to $266.3 billion.[4] In fact, China's share of the world's textile and apparel trade quadrupled, growing from 9.5 percent in 1992 to 38.3 percent in 2016.

Clearly the United States has offered China incredibly generous access to its textile and apparel market, while failing to secure reciprocal export opportunities for U.S. manufacturers and exporters. This huge imbalance is not the result of organic trade flows; instead, China's activities in the textile and apparel sector have been guided by thirty years of aggressive planning on the part of their government to make China the dominant global supplier of these products.[5] Five-year plan after five-year plan has emphasized China's intention to expand its domestic production of textiles and apparel despite existing global overcapacity in textiles. Obviously, the logic behind production expansion in a saturated market is to couple that expansion with predatory planning to remove other players from the global marketplace.

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[3] World Integrated Trade Solution (WITS)

[4] Ibid.

[5] For a history of some of these earlier programs, see: https://www.uscc.gov/Research/china's-support-programs-selected-industries-textiles-

As a result, U.S. textile manufacturers compete on one of the most unbalanced economic playing fields of any industrial manufacturing segment. The United States is the largest single-country importer of textile and apparel products in the world. In 2020, the U.S. imported over $120 billion worth of textile and apparel products and ran a trade deficit of nearly $101 billion. The U.S. trade deficit in textiles and apparel is the fourth largest of any sector, behind only (1) electronic products, (2) transportation equipment, and (3) miscellaneous manufactures.[6]

Unfair Trade Practices
China's remarkable ascension to become the dominant global supplier of textiles and apparel was aided by a multifaceted system of emphasis and support on the part of the Chinese government. Further fueling China's dominant global position in the textile and apparel sector is the fact that many key competitors in China are state-owned enterprises, including companies owned by the People's Liberation Army.

Moreover, China holds the dubious distinction of being the world's leading purveyor of illegal trade practices that are designed to unfairly bolster a blatantly export-oriented economy. These predatory practices take many forms, from macroeconomic policies that grant across-the-board advantages to their manufacturers, to industry specific programs intended to dominate global markets in targeted areas. The U.S. textile industry has been a longstanding victim of China's predatory export practices.

Forced Labor
Further, China's abusive environmental and labor record is not unique to the textile sector. However, the apparel industry, which is highly labor intensive, is especially susceptible to workplace abuses, including certain repugnant practices associated with forced labor and child labor.

China's abuses in this area are not alien to the U.S. government and have been well documented over the years. These labor abuses and human rights atrocities regrettably are exposed in international and domestic news outlets on a daily basis. Between 2017-2019, the Chinese government has forcefully transferred an estimated 800,000 to 1.8 million Uyghur Muslims from their homes in Xinjiang to detention centers and factories throughout China forced to manufacture products for international sale under forced labor conditions.

The issue of forced Uyghur labor is particularly serious within the global textile and apparel industry, where China is the leader in textile production; 20% of global cotton production is sourced from Xinjiang, and 1 in 5 garments sold globally from China involve forced labor production. A New York Times report unmasked how certain companies were utilizing Uyghur forced labor to respond to the pandemic by making personal protective equipment for the U.S. and global marketplace.[7]

China has come under fire by global human rights groups, governments and consumers for forced detentions of over 1 million Uyghur minorities and other ethnic groups in internment camps in this region, subjecting them to abuses ranging from relocation, re-education, and sexual violence, to forced labor and genocide.[8] A recent U.S. State Department report noted that "Genocide and crimes against

[6] Shifts in U.S. Merchandise Trade, 2020, Inv. No. 332-345, Publication 5239 (November 2021)
[7] See: https://www.nytimes.com/2020/07/19/world/asia/china-mask-forced-labor.html
[8] See: https://www.vox.com/2020/7/28/21333345/uighurs-china-internment-camps-forced-labor-xinjiang

humanity occurred during the year against the predominantly Muslim Uyghurs and other ethnic and religious minority groups in Xinjiang."[9]

Perhaps just as troubling are countless news reports that have identified several well-known global brands and retailers suspected of using suppliers that use forced labor to produce their apparel and footwear in China's Xinjiang Uyghur Autonomous Region (XUAR).[10] Noting that 85 percent of China's total cotton crop is grown in the XUAR, and that Xinjiang is also a center for textile and apparel manufacturing, all of China's textile and apparel production is inextricably fused to the country's widespread implementation of its forced labor policies in the XUAR.

In addition to labor abuses, textile and apparel producers in China routinely pollute the air and water with impunity. For example, in Xintang, China, where one in three pairs of jeans sold globally is made, the dust in the streets is blue, the water in the rivers is indigo, and garment workers' lungs are embedded with fine silica according to reports.[11] Another concern is that the level of occupational disease and injuries is alarmingly high. One of the biggest risks to the health of textile workers is sandblasting, a technique used to treat denim so that the fabric has a worn look. Sandblasting exposes workers to silica dust particles which severely damage their respiratory passages causing silicosis, a serious disease which, if left untreated, is fatal.[12]

It is no coincidence that these cost reduction practices occur in a country that during the past twenty years has overtaken every other competitor in the global textile and apparel sector.

Chinese Apparel Pricing

Today, despite supply chain disruptions, increased shipping costs, longer lead times, inflationary pressures, and other factors leading to increased costs in every sector, we are startled by the fact that unit prices for Chinese textile and apparel shipped to the U.S. are dropping precipitously. According to our analysis, average export prices for Chinese apparel items shipped to the U.S. have dropped by 25 percent since 2019. Amazingly, for the twelve-month period August 2020 to July 2021, apparel import prices from China are down 17.3 percent while U.S. consumer apparel prices are up by 4.2 percent during the period, according to the Bureau of Labor Statistics.[13]

Adding further to the remarkable nature of these severe price decreases is that data indicate that Chinese apparel pricing to the European Union has actually been increasing over the past two years. It is likely that China is slashing apparel prices to absorb added costs that U.S. brands and retailers are confronting because of current Section 301 IPR penalty tariffs. It is also likely that China is further cutting prices to U.S. customers to mitigate risks associated with their Uyghur forced labor atrocities. Regardless of the motivation, this stunning drop in China's apparel pricing demonstrates why many U.S. brands and retailers remain overly addicted to Chinese supply chains. Further, the fact that U.S. consumer apparel prices are simultaneously rising shows the incredible mark-ups and profitability for certain brands and retailers who continue to source from China.

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[9] See: https://www.state.gov/reports/2020-country-reports-on-human-rights-practices/china/

[10] See: https://www.nytimes.com/2020/11/29/business/economy/nike-coca-cola-xinjiang-forced-labor-bill.html

[11] See: https://chinadialogue.net/en/pollution/6283-the-denim-capital-of-the-world-so-polluted-you-can-t-give-the-houses-away/

[12] See: https://www.dailymail.co.uk/news/article-2994650/Secret-footage-shows-factory-workers-China-use-controversial-method-linked-dozens-deaths-make-jeans-Abercrombie-Fitch-American-Eagle-Outfitters.html

[13] BLS CPI Summary; September 14, 2021

Impact on U.S. Trade Partners in the Western Hemisphere

The adverse impact of these predatory practices has not only harmed U.S. manufacturers and workers but has also directly impacted our valued political and economic allies in the Western Hemisphere, contributing to economic instability and outward migration. Despite our promises of preferred access to our consumer market through free trade agreements, our trading partners—like domestic manufacturers—find themselves at a distinct disadvantage to China's aggressive trade tactics.

To better understand the extent that China's predatory trade practices impact our trading partners, it is worthwhile to review some underlying factors for context. Broadly speaking, there are two main global supply chains for textiles and apparel: the Western Hemisphere with the U.S. as a key player, and Asia with China as a key player. As noted earlier, China is the world's largest producer and exporter of textile components for downstream production of final consumer goods, while the U.S. is the world's second largest textile exporter.

The main difference between these two competing platforms is the U.S.'s commitment to ethical labor and environmental standards both at home and with higher enforcement standards from our FTA partners. This stands in stark contrast to China's industrial policy which prioritizes offering the lowest price at all costs. We try to mitigate the non-market prices of Chinese products by maintaining a robust tariff system, without which below-price Chinese state-subsidized products made with forced labor would move unfettered into our market displacing competing products made with higher standards by market economies. It is the tariff differential in many cases that ensures that products from our FTA partners are price competitive with competing Chinese products.

As the U.S. was poised to finalize CAFTA-DR and enable the region to compete for the U.S. consumer apparel market against a rising China, other major developments served to directly counteract that opportunity. As noted earlier, these trade liberalizing policy changes included China's accession to the WTO, which ensured the country would enjoy preferred trading status with the U.S. and other WTO members, and the final phaseout of the international quota system that had limited the products shipped to the U.S. from China and other Asian suppliers. These changes positioned China to explode its industrial investment and output in textile and apparel. To be clear, these events directly impacted investment, sourcing, and production decisions in the CAFTA-DR region, which was not equipped to compete on an unfair and unlevel playing field with the aggressive and predatory policies and practices employed by the Chinese Communist Party.

It is remarkable that CAFTA-DR has been a success despite the headwinds from China's increased access to our market during the agreement's existence. This is due to a key element of the CAFTA-DR agreement and all other U.S. FTAs, the yarn forward rule of origin. This unique investment-based rule for textiles and apparel ensures that the signatory countries benefit from investments made in capital-intensive yarn and fabric production, capturing that important value-add from third-party countries like China. Under this model, every stage of manufacturing from yarn formation through apparel assembly must take place within a CAFTA-DR country to receive duty benefits. This construct is responsible for creating a massive regional market for U.S. textile exports in the Western Hemisphere resulting in $35 billion in annual two-way trade and supporting 2 million direct jobs.

Some point to the fact that CAFTA-DR textile and apparel trade has not more effectively countered China in textile and apparel production as evidence that the agreement's rules are fundamentally broken or deficient. They would ask us to consider a wholesale reassessment of CAFTA-DR with an eye toward allowing Chinese textiles to displace American and regional textiles in an effort to artificially drive down the cost of sourcing from the Western Hemisphere. This would be a grave error that would not only reward China's often illegal trade practices, including forced labor abuses, but would undermine existing and future investment and relegate the region to low-cost apparel assembly with no incentive to expand into more advanced manufacturing or product offerings. It would also destabilize North American high value-added fiber, yarn, and fabric production, leading to a deconstruction of the current vertical textile/apparel production chain in the region. Allowing Chinese yarns and fabrics, or other third-party inputs, to displace current and future regional production would deindustrialize the CAFTA-DR countries and exacerbate the migration crisis. Further, it would contribute to massive job losses in the U.S. and the entire region.

Now, as supply chains are breaking down, more brands and retailers are looking to "de-risk" out of Chinese and Asian supply chains. Since CAFTA-DR has been signed, tens of billions have been invested in the entire textile and apparel production chain in the U.S. and the region. Significant investments are poised to be announced shortly as a result of this turning tide, and, with additional policy support from Capitol Hill, we a have once in a generation opportunity to onshore and nearshore these critical production chains. This is now a pivotal point to onshore and nearshore critical production – and the opportunities couldn't be more plentiful.

Recent Congressional Action on China

We are largely supportive of efforts to meaningfully and aggressively address China's national policy of predatory trade practices. We are supportive of the general direction of the China-specific provisions contained in both the Senate's U.S. Innovation and Competition Act (USICA) and the various pieces of China legislation in the House, like the EAGLE Act. However, we note that the Senate's USICA is an uneven bill that contains both helpful provisions and several provisions that run counter to the bill's overall objectives by actually <u>benefitting</u> China at the expense of U.S. producers and our regional allies.

As the committee well understands, during floor consideration of USICA the Senate advanced an amendment that added the Trade Act of 2021, a massive trade bill that did not receive a markup by the Senate Finance Committee. As a result, the provisions in the bill's trade title have not been fully vetted, and we are concerned that some of Congress is largely unaware of the benefits that several provisions would afford to China at the expense of American manufacturers. I would like to highlight several problematic provisions for our industry.

Stop PPE Taxes

Sec. 72001 of USICA contains a version of a bill known as the Stop PPE Taxes Act that would suspend all tariffs on a range of personal protective equipment (PPE) for an extended period. While Stop PPE Taxes was offered at the height of PPE shortages during the pandemic, the factors largely contributing to critical PPE shortages have subsided as domestic industry pivoted to fill the gaps. As a result of this massive response from domestic manufacturers, the bill was not reintroduced in 2021 and has not been marked up either on its own or as part of other legislation. Yet remarkably Stop PPE Taxes still found its way into USICA.

Congress is rightly focused on ensuring we have a robust U.S. public health industrial base to produce PPE domestically to mitigate the risks associated with a widespread public health emergency like the COVID-19 pandemic. At the onset of the pandemic in 2020, we learned all too painfully the result of offshoring the world's PPE production and centering it largely in China. As we know, China downplayed the severity of the infection, instituted substantial export controls on certain PPE and essential raw materials, and also massively purchased these products on the global marketplace months before the extreme nature of the crisis was evident. This combination of factors coupled with COVID-19 outbreaks denied the rest of the world access to lifesaving PPE, forcing many of our frontline workers to reuse N95 masks and wear garbage bags as isolation gowns. U.S. textile manufacturers and our regional trade allies pivoted at our own expense to produce billions of pieces of PPE and other public health supplies over the past 18 months.

The administration is committed to building and supporting PPE supply chains domestically. USTR recently announced that some 301 penalties on Chinese PPE that had been temporarily suspended during the height of the pandemic would be allowed to expire, helping U.S.-made PPE be more competitive. Additionally, Congress recently passed a massive new domestic procurement law for federal PPE purchases as part of the bipartisan infrastructure bill signed into law on November 15. There is strong bipartisan consensus that we need to help build support for U.S. supply chains for critical public health items, and our tariff policy must be consistent with this goal.

Domestic PPE manufacturers now face an environment where Chinese PPE production has ramped up significantly and cheap product is being dumped into the U.S. market below cost. Our nascent and growing U.S. PPE supply chains will be put at direct risk if Congress suspends tariffs on Chinese PPE as contained in USICA, no matter how temporary that suspension might be. Instead, Congress ought to consider how it can further support the U.S. public health industrial base and hold China accountable rather than reward China for its bad behavior.

MTB Renewal

The U.S. textile industry is a huge proponent of the Miscellaneous Tariff Bill (MTB) as a program that boosts the competitiveness of American manufacturers by reducing or eliminating the tariff costs for manufacturing inputs that are not available from a U.S. source. Textile manufacturing requires both certain textile inputs and chemicals as part of our production and finishing processes that can only be acquired from foreign sources, with the tariff acting as an anti-competitive strike against manufacturing here at home. In this context, the MTB doesn't just make sense but is a powerful tool to level the playing field in global sourcing and production for things like acrylic and rayon fibers, chemicals, and dyes.

As such, we call on Congress to make passing an MTB prior to the end of this year a top priority. The current inflationary cycle has raised costs for our members on inputs across the board. Relief from tariffs on materials and chemicals not available domestically is critical to our member companies that are fighting to maintain business both at home and abroad.

Beyond immediate passage of an MTB this year, we also urge the committee to thoroughly review the detrimental trend of allowing fully finished products to enjoy MTB benefits. Language contained in the American Manufacturing Competitiveness Act of 2016 has been interpreted to allow for completely finished consumer products from China to qualify for duty benefits. This loophole is so massive and the benefits available so lucrative that reports indicate that fully half of the MTB petitions in the current process are for finished goods that create no manufacturing jobs and require no further processing here in the U.S. For our sector, it has been estimated that roughly 70 percent of textile-related MTB applications are for completely finished products. Whatever slight benefit U.S. consumers might receive under this arrangement, the only real winner under this construct is the Chinese.

As domestic manufacturers, we very much want to engage with the committee to construct a renewal of MTB authority that preserves the original intent of the process to provide duty relief on imported materials that cannot be sourced domestically. At the same time, we urge Congress to construct any renewal of this manufacturing competitiveness process in a manner that prevents backdoor tariff benefits to imported finished consumer products from China. We urge Congress to pass the MTB renewal **quickly** and retroactively to provide manufacturers relief – especially in light of COVID's impact on this and so many other manufacturing sectors —and to construct a process moving ahead that ensures the benefits of the program go to bolster the U.S. manufacturing sector.

Recommendations

As an industry, we believe that keeping a laser focus on China is the critical issue of our time from an economic and national security perspective. This committee is in the driver's seat to articulate the goals of a comprehensive U.S. trade policy that prioritizes U.S. production and exports, protections for workers and the environment, and advancing U.S. values like a commitment to democracy and market economics in the world through trade. We also urge members of Congress to consider creating a framework that places these priorities above the lowest common denominator policy goals of unrestricted trade flows and low retail prices. Marginal, and likely only temporary, benefits for U.S consumers simply do not justify further incentivizing the worst global labor, production, and trade practices.

Strengthen Western Hemisphere Trade Relationships and Re-shore Manufacturing

One of our best strategies to counter China's trade practices and dominance in our sector is to lean into the regional trade alliances we have forged in the Western Hemisphere and make these near-shore supply chains as competitive as possible.

Several factors are putting increased pressure on international apparel sourcing decisions, including pandemic-caused supply chain disruptions, limited freight capacity, increased shipping costs from Asia, and U.S. Customs and Border Protection (CBP) actions banning cotton products from China's XUAR. These factors alone are shifting significant business to this region, with CAFTA-DR on course to have one of its best years ever in textile and apparel exports to the U.S. In fact, key CAFTA-DR suppliers are outpacing even major Asian exporters as the U.S. textile and apparel market recovers from a downturn in 2020 due to the pandemic. For the first nine months of 2021, compared to the same period in 2020, we note that regional exports of apparel to the U.S are up significantly:[14]

- Honduras: exports up 56.3%
- El Salvador: exports up 54.9%
- Nicaragua: exports up 45.7%
- Guatemala: exports up 38.7%
- Dominican Republic: exports up 33.2%

Over the same nine-month period, China and Vietnam have seen smaller gains, 25 percent, and 15 percent respectively.[15]

[14] U.S. Department of Commerce; OTEXA Major Shippers Report
[15] Ibid.

This important regional momentum would be upended by weakening rules to allow backdoor duty-free access for Asian products through CAFTA-DR. We need to maintain the strong yarn forward rule and other mechanisms meant to maintain the integrity of the rule of origin and reject efforts to liberalize our FTA and preference programs. Failure to do so would create a race to the bottom on pricing, cutting corners, and abandoning the high standards our FTAs have set up to this point.

This is a seminal moment if we are to capture more investment, increase cooperation, and shift sourcing to the FTA and preference programs we have created in the Western Hemisphere. Both U.S. and regional textile and apparel manufacturers are hungry to increase regional supply chains, production capacity, and employment. This is a win-win opportunity for U.S. and regional workers alike. Unfortunately, we find that many of the companies that have benefited from years of sourcing apparel through some of the worst supply chains in the world are now so addicted to cheap products that the idea of paying a reasonable price for a fairly made item is anathema to their business model. As the U.S. government is cracking down on these unfair practices, we are witnessing new efforts to fundamentally alter out FTAs and preference program structure with calls to liberalize rules of origin to permit cheap textiles from China and its supply chain partners to creep into the Western Hemisphere and displace America from the center of our own trade platform.

Further, we should develop incentives to help mobilize stronger co-production chains in the U.S. and Hemisphere. This includes continuing to push back publicly on retailers' efforts to undermine the Western Hemisphere with "flexibilities" to substitute Asian yarn and fabrics for those from the U.S. Notably, officials from the U.S. Trade Representative's Office and the Vice President's office recently convened an industry roundtable and released a statement signaling that the administration values the U.S.-Central American textile and apparel supply chain and are committed to maintaining certainty on the CAFTA-DR rules of origin to allow future investments and benefits to accrue to the CAFTA-DR signatories.[16] Congress must also remain steadfast on the critical importance of the yarn forward rule and reject any attempts to undermine or dismantle the CAFTA-DR rule of origin. Congress reaffirmed support for the yarn forward rule through its recent approval of the USMCA. Similarly, Congress should now firmly dismiss calls to dismantle the successful CAFTA-DR rule of origin.

It is also important for Congress to send a strong signal to retailers that the U.S. and Western Hemisphere supply chains are ready and open for business. This serves as an opportunity to gain long-term commitments by retailers that will unlock further domestic and regional investments to bolster this critical production chain. In addition, it will help grow jobs in both the U.S. and the region, while also nearshoring more production, help address the migration crisis, and assist us in addressing the urgent issue of climate change.

The U.S. textile industry has invested heavily in important carbon reducing technologies with vastly different sustainable footprints than Asia. Our industry is a world leader in clean energy, water reduction and recirculation, recycled product, and safer chemical technology to further drive innovation and sustainability. Sourcing closer to home, utilizing inputs from the U.S. and the co-production chain with the region, is critical to helping reduce dependence on an unsustainable Asian supply chain and its alarming global carbon footprint.

[16] See: https://ustr.gov/about-us/policy-offices/press-office/press-releases/2021/october/ustr-roundtable-highlights-united-states-central-america-supply-chain-textiles-and-apparel

While the U.S. textile industry would staunchly oppose any rewrite of CAFTA-DR textile origin rules, including concepts championed by retailers around short supply and hemispheric cumulation, we want to partner with Congress, the administration, and our regional allies in a concerted effort to stimulate and expand the economies of Western Hemisphere countries. In that a number of NCTO member companies have direct investment experience throughout the hemisphere, we are intimately familiar with the region's strengths and weaknesses. Many fundamental problems that plague the region are not unique to our industry and are instead systemic challenges.

While some of these issues may be difficult to resolve in the short-term, a comprehensive infrastructure plan with targeted, high impact investments and competitive loans to upgrade regional power grids, roads, and local ports would pay immediate dividends. These improvements would help to mitigate unnecessary cost factors associated with frequent production disruptions due to power outages and product delivery complications tied to clogged highways and inefficient regional ports. These unnecessary cost factors greatly diminish the region's ability to compete with other textile and apparel players in the hemisphere, not to mention dominant Asian suppliers, who are all vying for increased access to the U.S. market.

Beyond support for a comprehensive infrastructure package, there are several other initiatives that could be pursued to improve the competitive position of the CAFTA-DR region, including the Northern Triangle countries that are experiencing high rates of emigration to the U.S., such as:

- Better coordination among lending agencies of the federal government, like USAID, IDB, DFC, Export-Import Bank, etc., to ensure targeted, strategic investment in this sector. Lending and funding agencies should work directly with U.S. industry who are seeking to expand necessary capacity in the region—and not looking to put U.S. jobs at risk—as retailers are looking to diversify out of China/Asia. Regrettably, much of the financing that has previously been allocated to the region and has been segregated and not impactful for upscaling necessary strategic investments in this sector
- Working directly with U.S.-based textile companies to leverage further investment in the region to ensure it won't undermine U.S. employment/production
- Funding for textile and apparel workforce training in the region
- Promoting the region's advantages with brands and retailers, highlighting speed to market, and sustainable and ethical production. More studies need to be done to showcase the greenhouse gas emissions, recycling, and other sustainability associated progress being made in the hemisphere versus Asia
- Nearshoring tax incentives for U.S. companies that invest in the region
- Capital investment in the domestic textile industry to expand and improve the CAFTA/Northern Triangle co-production chain
- Product supply chain mapping to define opportunities for future investment
- Ensure trade stability in the region by not pursuing programs and policies that would undermine the critical co-production/employment benefits

A strong and viable Western Hemisphere supply chain for textile and apparel products devoid of abhorrent human rights abuses is one of our best counters to China's global influence.

Close the Section 321 De Minimis Tariff Loophole

A *de minimis* shipment, also referred to as a Section 321 informal entry, allows for goods valued below $800 to enter the United States free of duty and certain import fees when imported directly by one person on one day. While such tariff exemptions may have been logical when this mechanism was established by the U.S. government in the 1930s, that was a time when virtually no international purchases were sent through the mail—and long before the advent of mass product distribution through e-commerce.

Now, nearly 100 years later, by pressing a computer button millions of e-commerce purchases are made and shipped from numerous countries directly to our doorsteps every day. U.S. Customs and Border Protection reports that nearly 2 million individual shipments cross the U.S. border each day under the mechanism's threshold of $800 per shipment.[17] This explosion in e-commerce shipments using the Section 321 tariff waivers has spawned new companies like Shein, a Chinese e-commerce conglomerate that built its multibillion-dollar business almost entirely on exploiting the de minimis loophole.[18]

In addition, CBP officials acknowledge that they do not have the manpower to track and inspect even a small percentage of these countless shipments and are unable to adequately identify and block Section 321 shipments that contain illegal drugs and other controlled substances, hazardous materials and adulterated products, posing health and safety risks to U.S. consumers, as well as counterfeit products that violate intellectual property laws.[19]

Moreover, the volume of these shipments has increased import price pressure on American manufacturers of consumer items that routinely sell for less than $800—such as apparel, footwear, home furnishings, toys, consumer electronics, flatware, and auto parts. And this mechanism severely undermines U.S. free-trade partners like those in Central America, Mexico, and Canada whose duty-free access to the United States is tied to purposeful origin rules and environmental and labor requirements.

Further exacerbating this problem is the fact that China is the largest exporter of consumer goods to the United States and, as such, is undoubtedly the major beneficiary of this generous mechanism.[20] It is worth noting that this unilateral concession to the Chinese is wildly imbalanced in the international trading system. China maintains a de minimis level of 50 yuan, which is approximately $7. The Chinese recognize the potential dangers to their domestic sectors if foreign manufacturers can access their consumers with zero tariffs and minimal customs requirements but are zealously exploiting this same loophole to push all other competitors from the U.S. marketplace.

This is especially devastating for U.S. textile manufacturers who have endured China's meteoric export growth into the U.S. market in recent decades, leading to shuttered manufacturing facilities and job losses. But this policy is just as devastating to manufacturers in every sector who must face the reality that virtually any consumer product they make in the U.S. or one of our FTA regions must compete against duty-free, direct-to-consumer e-commerce shipments of similar products made in a heavily subsidized non-market Chinese economy. As a result, our national de minimis policy is actually a deterrent to manufacturing consumer goods anywhere but China.

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[17] See: https://www.federalregister.gov/documents/2019/07/23/2019-15625/section-321-data-pilot

[18] See: https://www.bloomberg.com/news/articles/2021-06-14/online-fashion-giant-shein-emerged-from-china-thanks-to-donald-trump-s-trade-war

[19] See: https://www.federalregister.gov/documents/2019/07/23/2019-15625/section-321-data-pilot

[20] See: https://www.census.gov/foreign-trade/statistics/highlights/toppartners.html

We must undertake an exhaustive and immediate review of this problem to develop the critical policy changes needed to mitigate the damaging impact of Section 321 duty waivers on U.S. workers and manufacturers and our FTA and preference partners. We must ensure this loophole is addressed immediately to combat the use of forced labor in China and in other areas of the world. Failure to address the loophole will continue an "open door" policy that invites China to ship duty free to the United States illegal and unsafe products that undermine American businesses and jobs, while also diluting any efforts to rein in its abhorrent human rights abuses.

Congress can combat this in multiple ways, from reducing our de minimis level to be in line with international standards, designating the e-commerce shipper as the importer of record, barring utilization of de minimis for certain high impact/sensitive sectors and those sectors documented to use forced labor, denying 321 waiver eligibility for products that pose a consumer safety/health risk, denying 321 treatment for any products currently subjected to China 301 tariffs or other trade penalties, or barring e-commerce shipments from qualifying for de minimis waivers completely.

Step-up XUAR Enforcement

The full force of our country's investigative and enforcement capabilities must be applied to eradicate illegal and unfair trading practices and customs fraud. A top priority should include steps to severely punish and block the importation of counterfeit goods and those made with forced labor and child labor. Aggressive enforcement of the current CBP Withhold Release Order (WRO) to detain shipments containing cotton and cotton products originating or utilizing forced labor from the Xinjiang province is also needed. No other U.S. government initiative will do more to drive sourcing to the Western Hemisphere than a clear understanding within the trade that those continuing to source textile and apparel product from China that is likely tainted by human rights atrocities will be held accountable. Conversely, the failure to effectively enforce these WROs will afford China an enormous, illegal, and reprehensible cost advantage through the production of textiles and apparel that utilizes forced labor.

We urge Congress and the administration to dedicate more resources to the enforcement of the current WRO on shipments containing cotton and cotton textile and apparel products originating from the XUAR. This should include an aggressive public relations campaign, including congressional hearings to warn brands and retailers that any capture of goods made with forced labor will be fully publicized. In addition, Congress and CBP should conduct further reviews to identify product categories tainted by Chinese forced labor that should be subject to WROs and banned from entering the U.S. Congress should also undertake a systematic review with the Department of Homeland Security regarding what resources and technologies are necessary to more fully enforce these WROs, given the pervasiveness of the cotton and cotton yarn production chain in both China and other areas of Asia.

Stand Firm on Section 301 Duties for Finished Textile and Apparel Products

As noted earlier, China is already covering for brands and retailers with inexplicable price cuts. They need no further assistance from the U.S. government through the waiver of penalty duties on apparel. Due to the extraordinary decline in the prices of Chinese apparel exported to the U.S., Section 301 has not impacted consumers. Section 301 duties on finished medical PPE should also be instituted to support those domestic companies that are attempting to maintain a position in the PPE marketplace. Our industry supports limited, targeted exclusions for certain inputs like rayon, textile machinery, and certain chemicals and dyes not made in the U.S. that enable our domestic manufacturers to compete in a highly globally competitive marketplace. In addition, Congress must reject any new tariff benefits for Chinese PPE, including the provisions of the Stop PPE Taxes Act that was included as part of USICA's trade title.

We note that some brands and retailers are citing rising freight costs and shipping disruptions out of Asia as an argument for tariff relief. Ironically, the very relief they are seeking would exacerbate the freight, supply chain, and shipping disruptions they claim are threatening their businesses. Section 301 tariff waivers would strengthen their allegiance to Chinese supply lines, while undermining the long overdue need to reconfigure global textile and apparel sourcing patterns in a fashion more favorable to the onshoring and nearshoring efforts that are a top priority in Washington.

Strengthen Buy-American Practices for PPE and other Essential Products

China is by far the dominant global producer and exporter of medical PPE, with the XUAR serving as a major hub of Chinese PPE production. We applaud Congress for adopting the "Make PPE in America" act as part of the recently passed bipartisan infrastructure bill, which will ensure that the Strategic National Stockpile, FEMA, our nation's veterans' hospitals, and other federal customers will avoid spending tax dollars on PPE tainted by forced labor, and instead purchase fully U.S.-made PPE in support of our national public health industrial base and emergency response preparedness. Reserving these federal PPE purchases for American manufacturers will incentivize critical U.S. investment in this sector and begin to lessen our unhealthy dependance on China for these lifesaving products.

However, with the federal government accounting for roughly only four percent of all domestic PPE purchases, we strongly urge Congress to also incentivize the purchase of U.S. PPE in the private health market as well. Having a robust private marketplace for American-made PPE and other health products provides critical demand that supports domestic capacity and readiness. As mentioned earlier, we also urge Congress to strongly oppose any effort to waive normal U.S. duties on imported PPE, which has the effect of almost exclusively benefiting China's PPE manufacturers. These steps are not only important from an economic standpoint, but also for U.S. national security. Together these policies will have significant job impact across our sector and build more resilient supply chains needed in a future national and international crisis.

Block GSP Expansion

The U.S. textile industry and our Western Hemisphere FTA partners oppose efforts by brands and retailers to expand the Generalized System of Preferences (GSP) to include textile and apparel products. This joint opposition is based on the fact that countries participating in GSP are already major exporters of apparel to the U.S. GSP expansion would also provide duty-free benefits to countries without the need to adhere to a yarn forward rule of origin and thus textile components would largely come from China who is already the top fiber, yarn, and fabric supplier to GSP countries. Any GSP expansion would severely threaten the 2 million direct textile and apparel jobs in the U.S. and in our Western Hemisphere trade partner countries.

Use Trade Enforcement in FTAs to Mitigate Transshipment

Due to the lucrative tariff-free benefits afforded under CAFTA-DR, USMCA, and other Western Hemisphere FTAs, unscrupulous importers attempt to illegally avoid duties through transshipment schemes. Non-qualifying goods are often labeled as a product of an FTA country and transshipped through the FTA region in an effort to falsely claim duty-free entry into the United States. CBP resources and focus must be intensified to ensure that FTA benefits are not siphoned off through illegal activity that damages legitimate textile manufacturers both in U.S. and our FTA partners.

Conclusion

In conclusion, until China's highly destructive and pervasive influence in the textile and apparel sector is addressed, U.S. trade policy in this area will continue to underperform. China's virtually unlimited and unrealistic pricing power coupled with its subsidies and lack of enforceable labor and environmental standards strips benefits and undermines policy objectives throughout the U.S. free trade and preference program structure. Unless adequately addressed, this reality will certainly make the goals of boosting U.S. and regional textile and apparel production, strengthening our regional trade platforms, and addressing outward migration unachievable in our sector.

A program of maximum pressure must be developed and fully enforced to reconfigure textile and apparel sourcing patterns that currently place an unhealthy and heavily weighted dependance on China. This includes the need to resist the inevitable pleas for relief from the very brands and importers who, for the past forty years, have driven and profited from China's dominance of global textile and apparel markets.

I thank you for the opportunity to testify today and the committee's attention to these critical issues.