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American Competitiveness Worldwide: Impacts on Small Businesses and Entrepreneurs

Testimony Presented By:

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On behalf of

The National Council of Textile Organizations
(NCTO)

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Chairman Rice and members of the subcommittee, Good afternoon and thank you for the opportunity to discuss the important role that over 500,000 men and women earning their livelihoods in the textile sector play in advancing the U.S. economy.

Good afternoon, my name is Smyth McKissick and I am the CEO of Alice Manufacturing. We are located in Easley, South Carolina. My company produces yarns and fabrics primarily for home furnishings, apparel, and health care applications. We also create home furnishing products, mainly fashion bedding, which we sell directly to our country's great retailers. Alice Manufacturing was established in 1910, and for four generations my family has lead this company through good times and bad including numerous recessions, the Great Depression, and World War II. Over the years, Alice and other U.S. textile manufacturers have consistently invested in the most technologically advanced equipment, continuing education, and technical training for our manufacturing facilities and workers. We employ best practices such as Lean, Six Sigma, and Maintenance Excellence. As a result our employee productivity, a key measure of competitiveness, has enjoyed incredible growth.

While our company and industry have adapted to changing times, U.S. trade policy has oftentimes hampered the growth and competitiveness of the U.S. textile industry. Our prosperity as an industry is dependent upon healthy engagement with the rest of the world. As the third largest exporter of textile products in the world, shipping nearly $23 billion in textile and apparel products to more than 170 countries, our industry is opposed to the unfair, or even in some instances illegal, trade practices that many foreign 'competitors' use to gain U.S. market share. These unfair practices are many and are damaging to the U.S. industrial base and run contrary to the core principles of "free trade".

The U.S. textile industry has been a world leader in innovation, developing biological resistant fabrics, wrinkle free fabrics, and sophisticated fabrics for military and other industrial applications. For all the positives that the U.S. industry enjoys, some serious challenges also confront U.S. textile manufacturers. For example, our chief competitors are located in countries that manipulate their currency, encourage nonperforming loans, ignore labor and environmental laws, tolerate nontariff barriers, and steal intellectual property. We also face the difficulty of the U.S. government's tendency to trade U.S. textile manufacturing interests away to competitors for perceived gains in other policy arenas. This does nothing more than erode the U.S. industrial base and displace workers and families in small towns and communities nationwide.

Prior to the Asian financial crisis, the textile industry in the United States was quite successful. One hundred percent of the apparel manufacturing process took place on American soil, from the cotton fields, to shirt, and retail. When the crisis hit, overnight, the U.S. market was flooded with artificially cheap goods. Due in large part to currency devaluations, our foreign 'competitors' gained a huge pricing advantage driven by weakened currency. These 'competitors' didn't become more productive nor did they develop new manufacturing practices that created a competitive edge, these 'competitors' cheated, and the United States textile supply chain was decimated. The industry was cut in half and thousands upon thousands of U.S. textile jobs were lost in the process.

At Alice Manufacturing, we realized that we had to quickly establish new business models in order survive. Our customers were being put out of business which required new strategies to access the consumer base. The first strategic move that Alice made was the creation of a new division whereby we would sell direct to retail. Before, we were an intermediate supplier of fabric in a complex, U.S. based, supply chain. Our new division, allowed Alice to become a “vertically integrated” home textile supplier. Knowing that the creation of outstanding designs is the “crown-jewel” of fashion bedding, we developed our own “in-house” design team by adding incredibly talented designers to our workforce. Using our fabrics, the product is finished with our designs, then cut and sewn, and sold to our country’s major retailers. Our focus is on great designs, outstanding customer service, outstanding quality, and competitive pricing. Later, we diversified our product mix with the use of outside suppliers. This division of our company is a great contributor to our overall success.

Our second strategy is one whereby we partner directly with our neighbors in NAFTA and CAFTA countries. By doing so we are able to optimize our supply chain by spinning fibers into yarns and weaving fabrics in our U.S. based plants and then export the fabric to Mexico for finishing and cut and sew. Most of the products made from our fabrics are sold abroad. It’s an optimal partnership and we are blessed to have “World-Class” producers in the NAFTA /CAFTA countries to partner with. We have benefited from having market access through our trade agreements to this region and our business is growing as a result. What makes these trade agreements so beneficial to the U.S. textile industry are the core tenants of textile and apparel trade: the Yarn Forward Rule of Origin, access to partnering countries markets, and customs enforcement.

Additionally, productivity is a critical component of competitiveness, and productivity growth is as important as anything we do. We invest in state-of-the-art manufacturing equipment as well as training to arm our workforce with the necessary skills and assets to compete. Most importantly, doing business with integrity is everything! We pride ourselves in doing what we say we’ll do. Our customers depend on us to deliver great quality on time.

Though we've been able to "re-create" ourselves and start a new and growing business inside our company; at the same time we had to downsize our core business. It's incredibly difficult to go to a workforce that has been part of our company for generations and tell them that their job will be lost. Especially knowing that these workers were being displaced by foreign 'competitors' relying on a foreign supply chain that is dependent upon unfair or illegal subsidies like: currency manipulation, technology transfer, theft of intellectual property, and rebates of import duties to name a few. That is why enacting fair trade and investment policies that promote the competitiveness of U.S. manufacturers, as well as the competitiveness of the nations we trade with is critically important. Government to government, economy to economy, and industry to industry, the two-way exchange of goods must be fair and create mutual benefits.

Yet, there is good news to share, over the past few years the U.S. textile industry has experienced resurgence. Textile manufacturing has begun to come back to the United States; in fact, the textile industry has invested over $3 billion in new technologies, machinery, and manufacturing facilities since 2010. This positive trend could be further bolstered by sound U.S. trade policy, particularly as the U.S. government works to complete negotiations on the Trans-Pacific Partnership or the TPP. The TPP is the largest free trade agreement since NAFTA that the U.S. is negotiating with eleven other nations – Japan, Mexico, Chile, Peru, Canada, Australia, New Zealand, Brunei, Singapore, Malaysia and Vietnam. If properly structured, the U.S. textile industry is poised to continue a positive trajectory of growth. However, if weak rules are adopted, particularly given Vietnam's participation in the TPP, our industry will be at the mercy of an unfair free trade agreement, which will decimate the United States textile industry once again.

There have been a number of U.S. policies that have complimented U.S. textile manufacturing over the past 10 years. New markets have opened, and new international partnerships have been formed. The yarn forward rule of origin has been especially important to our industry. The yarn forward rule of origin means that the yarn used to form fabric, dyeing and finishing of fabric, and the final cut, sew, and assembly must occur in a free trade partner country to gain U.S. market access. Yarn forward has been the standard bearer in the creation of nearly $25 billion in two-way trade between the industry and our FTA partners. The rule has been the primary force behind the more than two million textile and apparel jobs in the United States and amongst our Western Hemisphere free trade partners.

Other examples of policies that have helped Alice to remain globally competitive are cotton and energy policies. Programs such as the Economic Adjustment Assistance Act have allowed Alice and other textile manufacturers to invest in new machinery and equipment which has lead to the creation of thousands of textile jobs since the program was enacted in the 2008 farm bill. Energy costs have also been a huge contributor to our success. Textile manufacturing requires large amounts of energy and energy costs in the U.S. are an important competitive advantage.

While we have been able to regain a foothold over the past few years there are new policies which could present great danger to our industry. The Trans Pacific Partnership (TPP) could be the U.S. textile industry's single greatest threat since the Asian financial crisis. TPP negotiators must recognize that trade developed under free-market principles must be both defended and encouraged for the TPP to work as intended. In the case of Vietnam, a non-market economy, the government heavily subsidizes its industrial sectors particularly its textile and apparel sector. This requires new counterbalancing measures. These measures include long tariff phase outs for sensitive product categories and strict customs rules and enforcement to deter illegal trade. The U.S. textile industry continues to be concerned about the treatment of state owned and directed Vinatex, the 10th largest garment producer in the world, and by far the largest textile and apparel producer in Vietnam. This past week, news broke that the Chinese are considering heavy investments into Vinatex if the United States buckles to the single transformation rule that Vietnam would like to see in the TPP. Should the U.S. agree to a single transformation rule, Chinese state owned and operated textile producers will be granted duty-free access to the United States market through Vietnam. This is because single transformation rules requires that only the cut and sew part of the manufacturing process take place inside a TPP country in order to gain preferential access to the U.S. market. This means that Vietnam could continue to import textile inputs from China, cut and sew the apparel in Vietnam, and then export to the U.S. If this occurs, Vietnam and China stand to gain billions of dollars in textile trade at our industry's expense.

While the United States continues to hold fast on a yard forward rule of origin in the TPP, the Vietnamese oppose yarn forward. They are focusing on short-term foreign earnings and job growth from apparel exports. The Vietnamese are looking for a single transformation rule of origin and the U.S. apparel and retail importers have stated that they will support and push for single transformation as well. Single transformation creates an uneven playing field between the U.S. and Vietnam and will allow Vietnam to import goods from China and export those goods to the United States duty-free, circumventing the TPP agreement and flooding the U.S. market with duty-free Chinese textile and apparel products, leaving over 500,000 U.S. textile jobs at risk.

The initial 6-8 year impact of a single transformation rule in the TPP would prove devastating to the U.S. textile industry. Exports to the Western Hemisphere would decline by

$3.8 billion and exports of apparel to the U.S. from the CAFTA, NAFTA, and the Andean regions would decline by $4.5 billion. Total possible job losses in the Western Hemisphere could total more than 1.5 million. These figures do not include collateral damage to other textile sectors including industrial, home furnishings, and military which are likely to be significant as overall industry capacity declines. The total projected job loss in the United States after 10 years of a single transformation rule as part of the TPP would be equivalent to 532,363 jobs. Vietnam fully expects that the TPP will allow integration of textile and apparel trade under a single transformation rule.

More than 75% of the apparel produced in Vietnam uses fabric and other textile inputs from China. A yarn forward rule would encourage Vietnam to build its own textile industry or source its inputs from another TPP country, like the United States, so that the value of the orders for textile processing goes to Vietnam and not China, as it does now. Vietnam continues to insist upon a single transformation rule and is prepared to trade the long-term benefits of having a primary textile sector for short-term gain; giving away a yarn forward rule would be a disaster for the textile and apparel industries in this hemisphere. The only winner in this situation is China.

Another concern of the U.S. domestic industry is that Vietnam engages in currency manipulation. Trade with countries that manipulate currency to gain export advantages and drive down the cost of goods creates uneven playing fields that sends manufacturing and jobs overseas. Currency manipulation easily nullifies any U.S. export benefits in an FTA with Vietnam. The Vietnamese government has steadily devalued the dong by more than 25% over the past three years; these devaluations have been a crucial assist in making Vietnam the fastest-growing apparel exporter to the United States and in taking the market share of production jobs from the U.S. textile industry and its Western Hemisphere partners. Currency manipulation must be addressed in the TPP if U.S. textile producers are to get a fair and competitive playing field under the agreement. It makes no sense to ignore such a fundamental issue in the TPP, particularly one that has such significant impact on U.S. jobs. If currency manipulation by the Vietnamese government continues to depress the value of the dong it will erase any market opening benefits for U.S. textile exporters under the TPP.

The United States government has a unique opportunity to develop a high standard 21st century forward thinking agreement through the Trans-Pacific Partnership. The yarn forward rule of origin supports hundreds of thousands of U.S. jobs as well as 1.5 million textile and apparel jobs in countries bordering and near the United States. In our past FTA agreements this rule is serving to bring back jobs and production from Asia to the United States and the West Hemisphere. The yarn-forward rule of origin creates strong partnerships and export growth and opportunities for the U.S. textile industry around the world.

In conclusion, a flexible rule of origin will cause widespread plant closures and job losses in the United States and destroy enormous export markets that our free trade partners in CAFTA, NAFTA, the Andean region and African trade promotion programs depend on. It would also encourage Chinese textile manufactures to continue to displace U.S. production and retard our textile sector development. In the entire TPP region the principal beneficiaries would be the importers and retailers who would get more than $1 billion in new duty savings, while displacing more U.S. manufacturing jobs at a time when the need for these jobs is extremely high.

I am here today to urge you to endorse the fundamental trading rules that have encapsulated every major FTA over the last 25 years along with the principles of fair market access and strong customs enforcement in the Trans-Pacific Partnership. This will allow the

U.S. textile industry to continue to innovate, grow, and prosper. The distinguished members of this Subcommittee can support these principles by signing onto a Dear Colleague Letter authored by Representatives Coble (R-NC), McHenry (R-NC), and Pascrell (D-NJ) to the USTR that already has more than 143 of your colleagues supporting these important trading rules. I would like to thank those Subcommittee members who have already agreed to sign onto this important letter, including you, Mr. Chairman.

Thank you for the opportunity to provide testimony to the Subcommittee today and I would be pleased to answer any questions that you or any of the Subcommittee members may have of me, Mr. Chairman.

Respectfully Submitted:

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<u>Key Facts about the U.S. Textile Industry</u>

- The U.S. textile industry is a large manufacturing employer in the United States. The overall textile sector - from textile fibers to apparel - employed 499,000 workers in 2012.
    - Textile companies alone employed 235,000 workers.
    - The U.S. government estimates that one textile job in this country supports three other jobs.

- U.S. textile shipments totaled more than $53 billion in 2012.

- The U.S. textile industry is the third largest exporter of textile products in the world. Exports of all textile products exceeded $17 billion in 2011 and again in 2012. Total textile and apparel exports were a record $22.6 billion in 2012.

- Two-thirds of U.S. textile exports during 2012 went to our Western Hemisphere free trade partners. The U.S. textile industry exported to more than 170 countries, with 24 countries buying more than $100 million a year.

- The U.S. textile industry supplies more than 8,000 different textile products per year to the U.S. military.

- The U.S. is the world leader in textile research and development, with private textile companies and universities developing new textile materials such as conductive fabric with antistatic properties, electronic textiles that monitor heart rate and other vital signs, antimicrobial fibers, antiballistic body armor for people and the machines that carry them and new garments that adapt to the climate to make the wearer warmer or cooler.

- The U.S. textile industry invested $16.5 billion in new plants and equipment from 2001 to 2010. And recently producers have opened new fiber, yarn and recycling facilities to convert textile waste to new textile uses and resins.

- The U.S. textile industry has increased productivity by 45 percent over the last 10 years, making textiles one of the top industries among all industrial sectors in productivity increases.

- In 2011, textile workers on average earned 135% more than apparel store workers ($576 per week vs. $245) and received health care and pension benefits.