Written Testimony
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International Trade Commission, Investigation No. 332-591
Economic Impact of Section 232 and 301 Tariffs on U.S. Industries

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This submission is in response to the International Trade Commission's (ITC) Investigation No. 332-591, *Economic Impact of Section 232 and 301 Tariffs on U.S Industries.* As a trade association representing American manufacturing companies that have been directly and severely damaged by China's intellectual property rights (IPR) violations, our comments will focus on the impact of Section 301 tariffs on the U.S. textile manufacturing chain and the need for continued application of these duties against finished Chinese textile and apparel imports as warranted under the July 6, 2018 and August 23, 2018 Section 301 actions, as modified, instituted by the U.S. government.

NCTO represents the full spectrum of the U.S. textile sector, from fiber through finished sewn products, as well as suppliers of machinery, chemicals, and other products and services with a stake in the prosperity of our industry. U.S. textile and apparel manufacturers make a substantial, positive contribution to our national economy, having produced $65.2 billion in output in 2021 through the direct employment of 534,000 workers from fiber to finished sewn products.

As supporters of robust trade enforcement and a worker-centric trade agenda, we appreciate the Biden administration's deliberative approach to addressing the economic harm caused by Chinese government policies that have perpetuated and exacerbated the offshoring of many U.S. industries. A key aspect of this policy is the need to maintain Section 301 tariffs, absent substantive improvements in China's pervasive, predatory trade practices. Those practices have put U.S. companies at a serious disadvantage, and tariffs give American manufacturers and workers a chance to compete. USTR officials have stressed that the penalty tariffs also create leverage and are a "significant tool" in ongoing negotiations with China.

Conversely, lifting these penalty duties will cement China's destructive dominance of global manufacturing, while failing to achieve the administration's goal of easing inflationary pressures within the U.S. economy. In fact, certain retailers recently acknowledged that removing tariffs would likely have a negligible effect on lowering retail prices, and Barclays noted the same in a recent analysis.

At the same time, it is well established that for decades China's illegal actions have undermined virtually every domestic manufacturing sector and contributed to the direct loss of millions of U.S. jobs. These devastating state-sponsored practices include intellectual property (IP) theft as well as pervasive state-ownership of manufacturing, industrial subsidies, environmentally harmful production methods and abhorrent labor and human rights abuses in the Xinjiang region.

In our previous submissions and testimony pertaining to the Section 301 IPR case, NCTO has specifically detailed China's unfair IP practices in the textile and apparel sector and the impact of China's unprecedented domination of global textile and apparel markets. A sample of our previous ITC testimony can be found here. Notably, domestic industry's acute focus on research and product development has and continues to make the U.S. textile industry a prime target for IP abuse. Moreover, China has made no substantive progress regarding their rampant IPR theft since the original determination of violations under the 301 case in March 2018. Consequently, canceling these tariffs would exacerbate an already unhealthy dependence on Chinese supply chains and embolden future systematic trade abuses, as bad actors know that the U.S. will not hold them accountable.

To further expand upon the point that canceling these penalty duties would do little to ease Americans' inflationary pains, we note that apparel prices out of China continue to hit rock bottom levels even with the Section 301 tariffs in place. As detailed in an economic study recently released by Werner International[1], U.S. import prices for apparel from China have dropped 25 percent since 2019 and 50 percent since 2011. Adding further to the remarkable nature of these sharp price decreases is the fact that certain data indicates that Chinese apparel pricing in the European Union (EU) market has actually been increasing over the past two years. Obviously, the EU has no current penalty duties in place similar to the U.S. government's IPR action against China.

The price declines experienced in the U.S. since 2019 are likely attributable to China's desire to undermine the impact of the Section 301 penalty duties and other enforcement actions in the apparel sector in order to maintain its nearly $35 billion[2] in annual exports to the United States in our sector. This inexplicable decrease in apparel pricing once again demonstrates the unparalleled capability of China's central government to artificially lower product pricing to dominate the U.S. and global markets for these goods.

Additionally, according to the U.S. Department of Commerce, there over 80 separate countries included in their monthly "Major Shippers" report that details import statistics on textiles and apparel shipped to the U.S. market. This multiplicity of sourcing options ensures that there is intense competition that, in most years, produces a deflationary dynamic for these goods within the U.S. market. Moreover, many of these alternative suppliers of finished textile and apparel products

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[1] Werner International: The Economic and Societal Impact of the Yarn Forward Rule on CAFTA-DR Signatories; January 2022

[2] U.S. Department of Commerce: Office of Textiles & Apparel Monthly Major Shippers Report; May 2022

manufacture in U.S. free trade agreement (FTA) and preference partner countries that have duty-free access and often incorporate U.S. textile components. Consequently, the lifting of these Section 301 duties will have a substantial negative ripple effect throughout our FTA and preference regions that comprise the Western Hemisphere textile and apparel coproduction chain.

Most notably, doing so would work at direct cross-purposes with the administration's effort to stimulate investment and stabilize employment within the Northern Triangle countries of the Dominican Republic-Central American Free Trade Agreement (CAFTA-DR). Since these countries compete directly with Chinese finished textiles and apparel in the U.S. market, any improvement in China's market access and competitive positioning is sure to displace CAFTA-DR exports and employment.

Simply put, finished textile and apparel imports from China are not driving or making a discernible contribution to current inflationary pressures. As such, lifting the existing Section 301 duties on Chinese finished textiles and apparel will have no impact on the administration's effort to reduce inflation, while simultaneously rewarding China for its highly damaging and predatory trade activities.

Maintaining 301 penalty tariffs is critical as they are also a logical companion to other important enforcement actions including the Uyghur Forced Labor Prevention Act and the current Customs and Border Protection Withhold Release Orders on certain products originating in Xinjiang. The textile and apparel sector is among the most adversely impacted product sectors by China's forced labor atrocities in that the Xinjiang region produces 85 percent of China's total annual cotton crop. Given that export dependent sectors, such as textiles and apparel, have benefited from forced labor and are pillar industries in China's economy, Section 301 penalties and other enforcement actions create leverage the U.S. can exert on China to reform its trade and industrial policies.

It is also important to note that lifting Section 301 penalties would threaten to reverse the once-in-a-generation nearshoring trends that are bringing supply chains back to the U.S. and Western Hemisphere, including for products identified as critical to our economy and national security. Recent government data shows that apparel imports from the Western Hemisphere to the U.S., which largely incorporate U.S. textile inputs due to strong bilateral trade agreements and rules of origin, are up 30.7 percent for the year ending May 31.[3] The 301 tariffs on China have been a significant contributor to these onshoring and nearshoring trends.

In terms of critical items, historic levels of investment have been made since the beginning of the COVID pandemic to reconstitute a viable domestic medical personal protective equipment (PPE) supply chain. American textile manufacturers reconfigured manufacturing lines, retrained workers and formed production partnerships virtually overnight to fill the massive PPE shortages that the United States experienced during the height of the pandemic. Sadly, we learned a tragic lesson over

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[3] U.S. Department of Commerce: Office of Textiles & Apparel Monthly Major Shippers Report; May 2022

these past two years—our almost complete dependence on China for these critical medical supplies has had deadly consequences. In order to secure the momentum needed to permanently reconstruct a domestic PPE supply chain capable of meeting national health care security needs, finished PPE across the board should be subject to 301 penalties, including removal of any remaining finished PPE related items that currently enjoy an exclusion.

While we certainly have strongly held concerns with lifting these duties, we also recognize the administration's thoughtful approach to this matter, and, as such, we support a fair, transparent Section 301 exclusion process for items that are not sensitive to U.S. manufacturers and workers and that are not available domestically. As opposed to a broad rollback of 301 penalty duties, targeted exclusions can help boost domestic competitiveness related to input materials and machinery otherwise unavailable that can help U.S. manufacturers invest. We urge the administration to take this targeted approach on exclusions to help onshoring trends.

In conclusion, China's virtually unlimited and unrealistic pricing power, derived from IP theft, massive state-sponsored subsidies and a lack of enforceable labor and environmental standards continues to disrupt the U.S. textile and apparel market. Today, China holds over 27 percent[4] of the total U.S. textile and apparel import market share. This astounding figure gives China a U.S. import market share that is nearly twice as large as the next closest supplier to the U.S. market—Vietnam, which not coincidentally is also a non-market economy.

Not only does China's dominance severely damage U.S. textile and apparel manufacturing, investment and employment, it strips benefits and undermines policy objectives throughout the U.S. free trade and preference program structure. A strategy of maximum pressure must be applied and fully enforced to reconfigure textile and apparel sourcing patterns that have for decades created an extremely unhealthy and heavily weighted dependance on China. This includes the need to resist the inevitable pleas for Section 301 duty avoidance from the very importers who, for the past 40 years, have driven and profited from China's dominance of global textile and apparel markets.

I thank you for the opportunity to submit this testimony and for the Commission's attention to our concerns regarding this critical issue.

[4] U.S. Department of Commerce: Office of Textiles & Apparel Monthly Major Shippers Report; May 2022