

# AMTAC

American Manufacturing Trade Action Coalition

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**Testimony of George Shuster**  
**Co-Chairman, American Manufacturing Trade Action Coalition**  
**Central American Free Trade Agreement -- Ways & Means Committee**  
**April 21, 2005**

Mr. Chairman and Members of the House Ways & Means committee:

Thank you for this opportunity to testify at this important hearing. My name is George Shuster, and I am the Chief Executive Officer of Cranston Print Works, located in Cranston, Rhode Island. Cranston Print Works is the oldest textile company in the United States, originally established in 1824 as cotton a printing plant founded by Rhode Island governor, William Sprague. Today, Cranston Print Works is a high quality printer of all types of fabrics with various end-uses. We employ the most technologically advanced printing production techniques, which have earned Cranston Print Works the reputation of being one of the finest fabric printing companies in the world.

In addition, I serve as a Co-Chairman of the American Manufacturing Trade Action Coalition (AMTAC). AMTAC is a trade association founded by domestic manufacturers who are committed to manufacturing here in the United States. Our objective is to seek the establishment of trade policy and other measures designed to stabilize the U.S. industrial base and thus preserve and create American manufacturing jobs. AMTAC represents a wide range of industrial sectors including, tool and die, chemical, furniture, mold makers, metal products, packaging products, corrugated containers, lumber and luggage producers. Additionally, a significant component of AMTAC's membership consists of producers from the yarn, fabric, dyeing and finishing, and apparel sectors.

AMTAC strongly opposes the Central American Free Trade Agreement (CAFTA). Our opposition is based on the view that CAFTA replicates the flawed trade policy model of the NAFTA, Singapore, Chile and Morocco trade agreements. This model involves the granting of free access to the U.S. market for producers that use pennies-an-hour wages, low labor standards, and low environmental standards to undercut U.S. domestic manufacturers. In return, U.S. domestic manufacturers gain access to markets that are a fraction of the value of the U.S. market. CAFTA consumers, for example, only represent 1.86 percent of the U.S. economy and have virtually no ability to purchase finished goods made in countries that pay high wages and have strong environmental, labor, safety, and health standards.

The results of this failed model are clearly predictable. CAFTA will exacerbate the already astronomical U.S. trade deficit. One need only study the impact of NAFTA, which is virtually identical to CAFTA, to determine the outcome.

In the early 1990's, NAFTA was sold to the American public as a vehicle to substantially increase the minor U.S. trade surplus with Mexico which would in turn help to sustain and create millions of high-paying manufacturing jobs in our country. Assertions like the bold claim made below by the Institute for International Economics in October 1993 were common:

**“... with NAFTA, U.S. exports will continue to outstrip Mexican exports to the United States, leading to a U.S. trade surplus with Mexico of about \$7 billion annually by 1995 ... rising to \$9 billion to \$12 billion between the years 2000 and 2010.”**

Mr. Chairman, eleven years after adoption of NAFTA the facts demonstrate that nothing could be further from the truth. The U.S. has gone from a \$1.6 billion surplus with Mexico in 1993 to a stunning \$48 billion deficit last year. From surpluses before NAFTA, we have gone to continuous deficits since. Over this period, hundreds of U.S. factories have closed and relocated south of the border in order to take advantage of the low production costs in Mexico, while still enjoying free access to the valuable U.S. market. Even more troubling, the U.S. department of Labor reports that 1.8 million workers have filed for Trade Adjustment Assistance as result of NAFTA.

Today, proponents of CAFTA are purveying the same snake oil. The U.S. Chamber of Commerce claims substantial economic gains from CAFTA. But in the fine print of the study, the U.S. Chamber admits that it bases its conclusions on the assumption that exports from CAFTA countries will not increase to the United States! This assumption is preposterous, as U.S. imports have increased from all countries with which we have free trade agreements.

CAFTA's main purpose is clear: make it easier for U.S. companies to outsource high-paying manufacturing and service sector jobs offshore by guaranteeing investment rights and access to the U.S. import market. In addition, CAFTA rule-of-origin requirements are riddled with loopholes that allow U.S. duty free treatment for the assembly of component parts from every corner of the globe. The textile provisions in CAFTA illustrate this point perfectly and, in fact, to that extent, are even worse than the NAFTA model.

## **CAFTA LOOPHOLES**

CAFTA destroys the existing incentives that have created the system where large amounts of American yarn, fabric and components are used in the production of apparel in CAFTA countries.

It does this in two ways. First of all, CAFTA changes the “rule of origin” from what is currently in use under the existing preferential trade agreement with the region – the Caribbean Basin Trade Partnership Act (CBTPA). CBTPA requires (with one exception) the use of **American** yarn, fabric and components in order for apparel from CBTPA countries to be imported into the U.S. tax-free. This requirement is why \$4.2 billion in trade has developed between American textile firms and CAFTA apparel makers. It has become the key export market for U.S textile and apparel makers. However, **CAFTA eliminates the American only requirement** and allows for **American or Central American** yarn, fabric and components to be used in garments accorded tax-free importation into the U.S. This is not only a provision for legal non-U.S. inputs, but also a tempting invitation for illegal transshipments.

In addition to changing the rule of origin, CAFTA also contains numerous loopholes that will benefit countries that were not parties to the negotiation and did not have to give any type of concession in order to gain the benefits conferred under the CAFTA. The most likely beneficiary of this is the Chinese textile industry.

When the Central American Free Trade Agreement (CAFTA) was being negotiated, the U.S. textile and apparel industry adopted a unified platform urging the administration to negotiate a CAFTA with NO loopholes that would allow for non-regional yarn and fabric.

The industry sent a letter to the President on July 7, 2003 urging him to reject any loopholes that would permit foreign suppliers to benefit at the expense of domestic manufacturers. Furthermore, 141 members of Congress echoed this message in a letter to the President dated September 17, 2003. However, the U.S. government agreed to a large number of loopholes in the yarn-forward rule of origin. These loopholes will benefit Mexican, Canadian and Asian (likely Chinese) textile businesses and their workers at the expense of workers in the United States.

Consequently, CAFTA is riddled with loopholes that will kill U.S. jobs. The chart below outlines these loopholes and the number of U.S. factories that will likely close as a result.

<b>Loopholes</b>	<b>Amount</b>
1. Cumulation - Mexican and Canadian fabrics may be used for woven trousers (a Mexican & Canadian TPL): - also contains a growth factor that is NOT dependent on growth of U.S. exports -also allows other FTA countries to latch on	100 million square meters - could go up to 200 million square meters.
2. Non-U.S. or CAFTA yarn and fabric allowed for brassieres, woven boxers and woven nightwear	In 2004, 937 million square meters of duty-free brassieres, underwear, and nightwear entered the U.S. under CBTPA
3. Non-U.S. or CAFTA yarn and fabric for Nicaragua apparel.	100 million square meters

4. De minimus level raised from 7 to 10 percent	25 million square meters
5. Retroactive duty breaks to Jan. 2004 for importers and retailers	Encourages movement from U.S. yarns and fabric to regional or foreign yarns and fabric in 2004 and beyond.
6. Certain fabrics - pocketings, waistbands, interlinings and trim can be sourced from any country.	Eliminates incentive to use U.S. pocketing and other components. In 2004, 175 million square meters of these components were used under CBTPA.
<b>Total damaged caused by loopholes/side deals</b>	<b>Initial impact: 500-700+ million square meters</b>

Especially noteworthy is the second loophole listed above which would allow **Chinese** and other third-party yarn and fabric for brassieres, woven boxer shorts and woven nightwear. This renders useless the special China textile safeguard that the administration imposed last year on these very products and is considering re-imposing this year! Thus **Chinese** yarns and fabrics may legally displace U.S. yarns and fabrics in the production of garments in the CAFTA countries and those garments can still be imported into the U.S. duty-free!

To summarize, some 500 to 700 million square meters equivalent of yarn, fabric and components can be sourced from countries outside the CAFTA - U.S. region. Therefore, non-signatory countries like China gain duty-free access to the American market without giving up a reciprocal benefit. It will also mean lost contracts for U.S. businesses, closure of at least 10-15 U.S. textile facilities in the near term, and the loss of thousands of American jobs.

### **China and CAFTA**

Certain proponents of this agreement argue that the U.S. textile industry needs CAFTA in order to compete with China. In other words, the only way to prevent a monopolization of the U.S. market by the onslaught of Chinese textile imports is to marry it with low-wage production platforms like those in the CAFTA countries. This will provide a “regional bulwark” against the Chinese.

I wish this were the case and that counteracting China was as simple as passing CAFTA. Unfortunately, believing that CAFTA will help this hemisphere combat China requires one to ignore the lessons of the past as well as current realities of trade.

In the previous section of my testimony, I clearly identified the various loopholes included in the agreement that enable China to ship components to the CAFTA countries for assembly. It is illogical to argue that CAFTA will keep China in check when China is going to be one of the largest beneficiaries of the agreement while giving up nothing in return.

But even if all these loopholes were closed, it is still nonsensical to purport that some formulation of a U.S./Central American production platform will be the magic combination of technology and low-wages to compete with the Chinese juggernaut.

Obviously, China possesses numerous advantages such as low labor costs, a large workforce, natural resources, etc. However, combining these inherent advantages with its rampant use of predatory trade practices is what really makes China unstoppable.

**In its 2004 Report to Congress, the U.S.-China Economic and Security Review Commission stated:**

**China is continuing to attract massive levels of foreign direct investment (FDI), including \$57 billion in 2003. Its policies to attract FDI have been supplemented by industrial policies aimed at developing national productive capacity in selected “pillar” industries. These policies support Chinese corporations through a wide range of measures that include tariffs, limitations on access to domestic marketing channels, requirements for technology transfer, government selection of partners for major international joint ventures, preferential loans from state banks, subsidized credit, privileged access to listings on national and international stock markets, discriminatory tax relief, privileged access to land, and direct support for R&D from the government budget. Such policies give Chinese industry an unfair competitive advantage, thereby contributing to erosion of the U.S. manufacturing base. Many of these policies are not permitted under World Trade Organization (WTO) and U.S. trade rules.<sup>1</sup>**

We have already seen that China’s absolute advantages outweigh preferential trading arrangements and close proximity once before with Mexico and NAFTA. We do not have to speculate about this.

When quotas were removed under the Uruguay Round agreement for 29 textile and apparel categories in 2002, Chinese exports to the United States surged dramatically, and exports from Mexico fell sharply.

Exports from Mexico to the U.S. in these de-controlled categories have fallen by 45 million square meters over the last three years, with Mexican exports dropping from 85 million square meters to 40 million square meters. Mexican market share declined from 8 percent in 2001 to 2 percent in Nov. 2004. At the same time, China moved from a ten percent share to a 73 percent share.

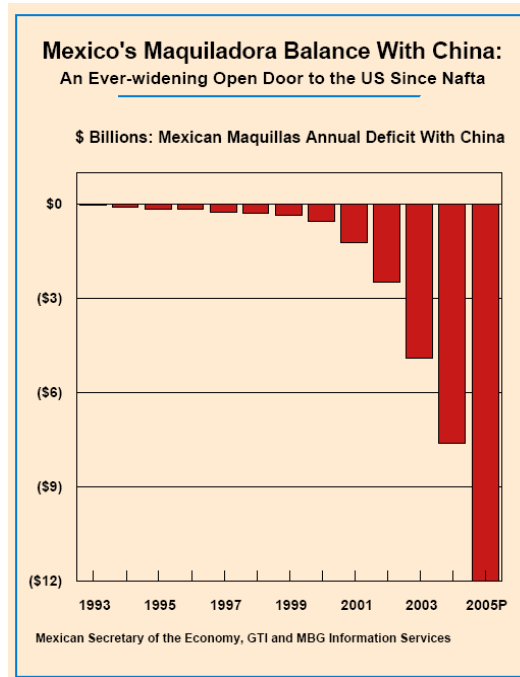
Obviously, Mexico has a free trade agreement with the U.S. Mexico is in the position that the CAFTA countries will be in if CAFTA is approved. Yet despite having a free

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<sup>1</sup> 2004 Report to Congress of the U.S.-China Economic and Security Review Commission, June 2004. The report is available online at <http://www.uscc.gov/researchreports/2004/04annual.report.pdf>.

trade agreement and land bridge with the U.S., Mexico lost seventy-five percent of its share of the U.S. market to the Chinese in categories released from quota. China has clearly monopolized trade in those categories, and NAFTA did nothing to stop it.

Furthermore, since NAFTA, the Mexican total merchandise trade deficit with China has gone from \$342 million in 1993, the year NAFTA was passed, to \$14 billion in 2004. Over the same time period the U.S. merchandise trade deficit with China went from \$23 billion to \$162 billion. NAFTA has functioned as a back door for Chinese goods to enter the United States, as 98% of Mexico's maquiladora exports go to the U.S., and the maquiladora trade balance with China has gone from roughly even in 1993 to a \$12 billion deficit in 2005.



NAFTA has left Mexico and the U.S. defenseless against China's massive economic growth. Why would CAFTA, a free trade agreement modeled after NAFTA, lead to a reversal of this trend?

So what is the answer to China?

In order to realistically address the China crisis, the U.S. must deal with China's pervasive and predatory trade practices directly. China's under valuation of its currency by approximately 40%, the \$45 billion in non-performing loans it forgave in January of 2004, its subsidy in the form of lax intellectual property rights enforcement, and the countless other ways it subsidizes its industries need real solutions.

Consequently, if the U.S. does not confront China directly, CAFTA will become a moot issue as China overruns the U.S. market, taking business away from the U.S. and Central

American industries. Allowing China to monopolize the U.S. market is bad for the U.S. and bad for Central Americans, and CAFTA will only exacerbate the problem.

Do not be misled. Voting FOR CAFTA is a vote FOR CHINA and a vote AGAINST American manufacturing!

## **CONCLUSION**

In conclusion, it is clear that CAFTA replicates the flawed policy model that has led to millions of job losses, crippled key manufacturing sectors such as the U.S. textile industry, and badly damaged the U.S. economy.

Instead of perpetuating this flawed model, Congress should insist on policies that prevent the outsourcing of high-paying jobs, the destruction of America's industrial base and the exporting of America's strongest long-term wealth creating assets.

In that regard, I would propose the following steps:

In order to get our exploding trade deficit under control, we should only focus on trade agreements with countries that can actually purchase finished U.S. goods, such as Great Britain or Italy. Accordingly, Congress should defeat CAFTA and any other proposed free trade agreements with countries that will simply serve as low cost export platforms to the U.S. market.

Second, the U.S. must insist that all future trade agreements share the benefits only between the contracting parties. This means precluding the inclusion of loopholes like TPLs, single transformation, and exemptions for so called "non-essential" fabrics or components. China's manufacturing sector already has enough advantages with the backing of its government's massive illegal subsidy schemes. Congress does not need to give China any more back-door avenues to the U.S. market through sieve-like trade deals such as CAFTA.

Third, the U.S. must tackle the China problem head on. Pass legislation making it easier to file anti-dumping and countervailing duty lawsuits against non-market economies. Halt any efforts to kill the Byrd Amendment. Pass legislation that directs the U.S. government to hire more officials to monitor and litigate violations of trade agreements and intellectual property agreements. Stop the exportation of critical military industrial sectors like electronics, soft ware production, textiles and machine tooling. Put pressure on the Administration to impose safeguards on Chinese imports of textile and apparel products.

Fourth, Congress must reassert its authority over trade policy. The Founding Fathers gave Congress the sole authority to regulate foreign trade for a reason. Congress, and specifically the U.S. House of Representatives is the branch of government designed to be closest, and therefore most responsive, to the people. Instead of embracing this responsibility, Congress has severely diluted it by passing Trade Promotion Authority

(TPA), Permanent Normal Trade Relations (PNTR) status for China and other laws designed to consolidate authority to place trade policy in the hands of the Executive Branch. As a result, on critical issues such as CAFTA, the legislation cannot be amended and it is considered under an expedited timeframe that no other legislative policy initiatives enjoy. This leverage must be reversed. Congress should withdraw both TPA and PNTR for China and reassert its rightful authority over the Executive Branch in trade policy matters.

Finally, Congress should require an independent trade impact study prior to the consideration of all proposed trade agreements and major trade bills. Do we expect the Executive Branch, which authored the concept and the text of CAFTA to give an objective view of its projected benefits? Congress must have an independent source of information to determine basic issues such as whether a proposed agreement is going to benefit U.S. producers or whether it will increase or diminish the trade deficit.

While these are not all of the changes needed to rectify the flawed trade policies responsible for America our nearly \$4 trillion trade deficit since 1990, they do represent a good start.

Thank you again for this opportunity to testify today and for your consideration of my views.