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CAFTA is a Continuation of Flawed U.S. Trade Policy

Statement of AMTAC Executive Director Auggie Tantillo Before the U.S. House of Representatives Textile Caucus

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AMTAC strongly opposes the Central American Free Trade Agreement (CAFTA). We base our opposition 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 only a fraction of the value of the U.S. market. CAFTA consumers, for example, only represent 1.8 percent of the U.S. economy and have virtually no ability to purchase finished goods made in countries that pay reasonable 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 \$617 billion U.S. trade deficit. One need only study the impact of NAFTA, which is virtually identical to CAFTA, to determine the outcome. It should be noted that 85% of the text of CAFTA is identical to the NAFTA. The other 15% is even worse, granting greater loopholes that will displace current exports of U.S. yarns and fabrics to the region.

In the early 1990's, NAFTA was sold to the American public as a vehicle to substantially increase the modest U.S. trade surplus with Mexico which would in turn help to sustain and create millions of high-paying and high-valued added 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.”

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 \$45 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 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 because their jobs were eliminated in the U.S. and sent to Mexico.

Five Year Trend For FTA Partners

US Deficits for Trade In Goods (in Millions)

	2000	2001	2002	2003	2004
Canada	-51,897	-52,844	-48,165	-51,671	-65,764
Mexico	-24,577	-30,041	-37,146	-40,648	-45,068
Israel	-5,219	-4,484	-5,389	-5,877	-5,329
Jordan	244	110	-8	-181	-541

CAFTA is a continuation of this type of unsound policy that is a driving force behind our \$617 billion annual trade deficit. The combined GDP of the CAFTA countries is just \$217 billion dollars, and the per capita GDP for the region is only \$4,632. These 6 countries are roughly 16% the size of the U.S. in terms of population and less than 2% in terms of economy.

CAFTA Countries	Population	% Below Poverty Line	Labor Force	GDP	Per Capita GDP
Costa Rica	4,016,173	18%	1,810,000	\$37.97 bil	\$9,600
Dominican Rep.	8,950,034	25%	2,450,000	\$55.68 bil	\$6,300
El Salvador	6,704,932	36%	2,750,000	\$32.35 bil	\$4,900
Gautemala	14,655,189	75%	3,680,000	\$59.47 bil	\$4,200
Honduras	6,975,204	53%	2,470,000	\$18.79 bil	\$2,800
Nicaragua	5,465,100	50%	1,930,000	\$12.34 bil	\$2,300
<i>Total</i>	<i>46,766,632</i>	<i>49%</i>	<i>15,090,000</i>	<i>\$216.60 bil</i>	<i>\$4,632</i>
United States	295,734,134	12%	147,400,000	\$11.75 tril	\$40,100

Clearly, these countries will not be able to buy a significant amount of finished U.S. made goods, at the same time they have the ability to export quota and duty free to the U.S. market while taking advantage of pennies per hour labor and minimal labor, safety and environmental standards.

CAFTA TEXTILE AND APPAREL LOOPHOLES

CAFTA destroys the existing incentives that have driven the system where large amounts of American yarn, fabric and components are used in the production of apparel in CAFTA countries. CBTPA requires, with one exception, the use of U.S. 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. However, **CAFTA eliminates the U.S.-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.

In addition to changing the rule of origin, CAFTA also contains numerous loopholes that will benefit countries that were not party to the negotiation, such as China.

Loopholes	Amount
Cumulation- Mexican and Canadian fabrics may be used for woven trousers (essentially 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; plus Free Trade Commission is scheduled to discuss an increase after passage of CAFTA)
Single Transformation- Unlimited amount of fabric and yarn from any country (such as China) allowed for brassieres, woven boxers and woven nightwear	Unlimited amount of duty-free imports of brassieres, underwear, and nightwear without U.S. or CAFTA components can enter under CAFTA. 50+ million square meters
Nicaraguan TPL- Non-U.S. or CAFTA yarn and fabric allowed for Nicaragua apparel.	100 million square meters
De Minimus Level Raised- Increased from 7 to 10 percent	25 million square meters
Costa Rican Wool TPL- Non-U.S. or CAFTA yarn and fabric allowed for Costa Rican wool apparel	500,000 square meters to be shipped to the U.S. at one-half the normal tariff regardless of origin of yarns and fabrics
Non-essential Fabric Exemption- Certain fabrics (pocketings, waistbands, interlinings and trim) can be sourced from any country	175 million square meters of these components were U.S.-made under CBTPA in 2004
Total damaged caused by loopholes/side deals	550 - 750 million square meters

When CAFTA was being negotiated, the entire U.S. textile 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. The amount of loss business to U.S. textile firms as a result of these various loopholes is estimated to be well in excess of \$1 billion. There is no reason why countries, that are not signatories of CAFTA, should benefit from this agreement to our detriment.

CAFTA IS NOT THE ANSWER TO CHINA

CAFTA supporters argue that the only way to protect the U.S. textile industry from the onslaught of Chinese textile imports is to create a “regional bulwark” with Central America. This notion is false and is a vast over-simplification of the current China trade problem.

It is naïve to believe that any combination of U.S./Central American production can overcome the massive benefits that Chinese manufacturers receive through production subsidies, export rebates and a manipulated currency. To demonstrate how overwhelming Chinese subsidies are, we need only examine Mexico’s experience when quotas were removed for certain textile and apparel categories in 2002. Chinese exports in those categories have surged dramatically, and exports from Mexico and the CBI countries fell sharply.

For categories released from quota in 2002, exports from Mexico dropped 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.** Caribbean and Central American countries exports dropped from 113 million to 68 million square meters, and **CBI market share declined from 10 percent to 3 percent.** And the Chinese gained the market share lost by all other countries.

Despite the fact that Mexico enjoys duty free access to the U.S. under NAFTA and sits directly on our southern border they were not able to compete with China in the U.S. market. This is a function of the fact that China employs a pervasive system of subsidies that allows them to be the undeniable price leader in the global market as demonstrated by the following chart:

▼ **Moreover, CAFTA will actually exacerbate the China problem. CAFTA contains loopholes that allow for massive quantities of Chinese yarn, fabric and other components to displace U.S. yarn, fabric and components.**

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Through loopholes such as the Nicaraguan TPL and the Single Transformation provisions, millions of square meters of Chinese components can and will be sent to CAFTA countries for assembly and then exported duty free to the United States. In fact, there are already well-established trading relationships between China and the CAFTA countries. In 2004, the six CAFTA countries imported \$566 million worth of textiles and apparel from China. Although China is not a signatory to the CAFTA agreement, they will be one of the biggest beneficiaries at the expense of U.S. companies and workers.

Summary

In conclusion, the CAFTA agreement that will be debated by Congress is a failed arrangement that is part of a larger failed trade policy. The agreement opens no new significant markets for U.S. exporters while giving a six low wage, low cost of production countries completely free access to the lucrative U.S. market. The agreement undermines the more logical existing arrangement under the CBTPA, which grants duty free access to the U.S. market for these countries when they use U.S. yarns and fabrics. Finally, the agreement actually provides enormous backdoor access to the U.S. market for countries like China that are not even signatories to the deal.

Consequently, CAFTA will displace production and employment in the U.S. textile and apparel sector in that the agreement will encourage U.S. firms to move operations to Central America and the Dominican Republic because the agreement allows for the use of third country yarns and fabrics instead of U.S. materials.