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Textile and Apparel Trade Issues

Bernard A. Gelb
Specialist in Industry Economics
Resources, Science, and Industry Division

Summary

Because of their importance to the U.S. economy and to many U.S. trade partners, textiles and apparel have been major issues in trade relations with a number of countries and regions. In attempts to resolve conflicts between the interests of exporters and importers, a number of agreements (multilateral and bilateral) have been signed over the years generally restricting, the quantities of textiles and apparel traded. Developing countries, whose exports have been limited, believe that developed countries have unfairly delayed import liberalization, and continue to press for accelerated implementation of the phase-out of quotas. Congress eased trade terms on textiles and apparel from Andean, Caribbean, and sub-Saharan nations in its latest move to boost economic growth in poorer regions. This report will be updated as events warrant.[1]

The Economics of Textile and Apparel Production and Trade

Textile and apparel manufacture, and international trade in those products, have been important elements of economic activity and growth since the Industrial Revolution. Major reasons are (1) textiles and apparel are basic items of consumption in all countries, and (2) textile and apparel manufacture – particularly apparel – is labor-intensive, requiring relatively little fixed capital for entrepreneurs to establish production facilities. Thus, these industries are major generators of employment. Modest capital requirements contributed to textiles and apparel being among the major industries at the start of the Industrial Revolution and being important to developing countries now. The share of total manufacturing value added accounted for by textile and apparel production among developing countries was triple that for industrialized countries in 2000.[2]

Lower wage rates in developing countries together with the labor-intensiveness of textile and apparel manufacture tend to give developing countries a comparative advan-

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[1] CRS analyses and references to CRS reports on a wide variety of trade issues can be found in CRS's electronic briefing book on trade [http://www.congress.gov/brbk/html/ebtra1.html.]

[2] United Nations, Industrial Development Organization. *International Yearbook of Industrial Statistics 2002*. Vienna: 2002. p. 55.

Table 1. U.S. Trade in Textiles and Apparel
(millions of current dollars)

Year	Textile Mill Products			Apparel & Fabricated Textile Products		
	Exports	Imports	Balance	Exports	Imports	Balance
1973	926	1,423	-497	381	2,261	-1,880
1980	2,488	2,034	454	1,604	6,543	-4,939
1989	2,803	4,786	-1,983	2,380	25,509	-23,129
1994	5,269	6,534	-1,265	6,350	38,561	-32,211
1997	7,225	8,369	-1,144	9,654	50,190	-40,536
1999	7,697	9,029	-1,332	9,291	59,114	-49,823
2001	8,798	9,214	-416	8,331	67,161	-58,830

[1] 11 months data at an annual rate.
Sources: U.S. Department of Commerce, International Trade Administration. *U.S. Industrial Outlook*, various editions; U.S. International Trade Commission Dataweb (compiled from U.S. Departments of Commerce and Treasury data).

tage in textile and apparel manufacture. Thus, textile and apparel manufacture is tending to shift to developing countries, with textiles and apparel constituting large portions of their exports. Textile and apparel manufacture (measured by constant-dollar value added) in industrialized countries decreased between 1980 and 2000, whereas textile and apparel manufacture in developing countries increased.[3] Between 1980 and 1999, textile and apparel exports of developing economies (in nominal dollars) sextupled while developed economies' textile and apparel exports rose 125%. Textiles and apparel comprised 13% of developing economies' exports in 1999, versus 4% for developed economies.[4]

U.S. Textile and Apparel Production and Trade

In contrast to industrialized countries as a whole, U.S. production of textiles and of apparel rose between 1980 and 2000; total U.S. manufacturing output, however, doubled between 1980 and 2000.[5] U.S. output of both textiles and apparel fell in 2001, reflecting the economic recession. More significant to many in the textile and apparel industries, employment in those industries fell by 44% and 55%, respectively, between 1980 and 2001. Nevertheless, the two industries together employed over one million people in 2001, or 6% of total manufacturing employment.

Some of the decline in U.S. textile and apparel employment is linked to gains in productivity, and some to increases in importation of textiles and apparel. Textile manufacturing output per hour rose 3.8% per year on average between 1980 and 2000; the corresponding figure for apparel was 3.9%. U.S. imports of textiles in 2001 (in current dollars) were 4½ times their 1980 level; and 2001 apparel imports were more than ten times their 1980 level. Imports of textiles and apparel exceeded exports by $59 billion in

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[3] United Nations. *op. cit.* p. 58-59.

[4] United Nations. *1994 International Trade Statistics Yearbook, Vol. II*. New York: 1995. p. S-20, 76, 92; *1999 International Trade Statistics Yearbook, Vol. II*. New York: 2000. p. S-42, 98, 114.

[5] These output changes are based upon industrial production indexes, which are designed to reflect changes in production volumes, rather than in value added (used by the United Nations).

2001. U.S. textiles have fared less badly with respect to trade than apparel because textile production is less labor-intensive, more easily automated, and, as a major input to apparel, can be exported to serve as inputs to apparel that then is exported to the United States.

The considerable extent of U.S. textile and apparel trade with developing countries is indicated by the following: For U.S. exports, 5 of the top 15 textile destinations and 8 of the top 15 apparel destinations in 2001 were developing countries. For U.S. imports, 4 of the top 15 textile sources and 8 of the top 15 apparel sources were developing countries in 2001. Mexico was among all four top-five groups; and China was fifth as a textile exporter and first as an apparel exporter to the United States.[6]

Textile and Apparel Trade Agreements

Because of their importance to the U.S. economy and to many trade partners of the United States, textiles and apparel have been major issues in U.S. trade relations with a number of countries and regions. Attempts to resolve the conflicts between the interests of exporters and importers have resulted in a number of agreements – bilateral and multilateral – bearing on, and generally restricting textile and apparel trade.

Agreement on Textiles and Clothing. The current Agreement on Textiles and Clothing (ATC) is a WTO adaptation of the Multifiber Arrangement (MFA), which came into being in 1974. The MFA, extended several times, was a set of rules governing bilaterally-negotiated agreements, mainly between developing and developed countries, that applied quantitative restrictions when surges of imports of particular products caused, or threatened to cause, damage to the industry of the importing country.[7] The ATC, which replaced the MFA on January 1, 1995, is a transitional instrument that phases out existing quotas, improves access to the textile markets of developing countries, and places trade in textiles and apparel under the rules governing other products. The ATC provides for a 10-year transition period for producers in developed countries to plan for and adjust to prospective intensified competition from developing countries. All quotas on textile and apparel imports are to cease to exist January 1, 2005. A notable component of the ATC is the provision that allows importing countries to impose transitional safeguard mechanisms to protect against damaging surges of imports of products not under quota and not yet integrated under WTO rules. In a four-step process of liberalization, importing countries have the choice of how much of each (defined) product category to liberalize at which step; and they can defer liberalization of the most "sensitive" products until the last step.[8] Thus, the nature of this procedure has not maximized the satisfaction of many exporting countries, who see it as a constraint on their economic growth. They believe it is unfair, and want a faster phase-out of quotas.

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[6] The trade information is based upon data from the Dataweb database compiled by the U.S. International Trade Commission from U.S. Departments of Commerce and Treasury data.

[7] The MFA departed from the basic rules of the General Agreement on Tariffs and Trade (as does the ATC), particularly with respect to the principle of non-discrimination.

[8] See CRS Report RS20889, *Textile and Apparel Quota Phaseout: Some Economic Implications*, by Bernard A. Gelb. A description of the provisions of the ATC can be found on the WTO Internet web site: [http://www.wto.org]. Click on "Documents" and then "Legal Texts."

Dispute Settlement. Despite the extensive body of WTO rules, disputes between member countries arise. Disputes arising under WTO agreements may be resolved under the WTO Dispute Settlement Understanding (DSU). Under the DSU, panels are established to investigate complaints and make findings. The DSU strengthens earlier dispute resolution procedures and practice (established under the General Agreement on Tariffs and Trade). There have been about one dozen complaints concerning textiles and/or apparel formally brought against or brought by the United States; nearly all cases have been resolved through pre-adjudication agreement, compliance with the recommendation of the Dispute Settlement Body (DSU), or settlement after the DSU recommendation. A number of other disputes have been settled by bilateral negotiation.[9]

China. On November 15, 1999, the United States and China reached an agreement covering a wide range of bilateral trade issues. Regarding textiles and apparel, the 1999 agreement incorporated the 1997 textile and apparel agreement between the two countries. Major elements of that agreement were (a) China, *upon accession to the WTO*, will "catch up" to the ATC schedule of quota phaseouts by 2005 for other WTO members, but the United States retains the right to impose safeguard measures through the end of 2008, allowing continuation of some quotas under some conditions (under ground rules in effect before WTO establishment), and (b) China will significantly lower its tariffs on a wide range of textile and apparel products, and not impose new nontariff barriers.[10] P.L. 106-286 granted permanent normal trade relations status to China *upon its accession to the WTO*, but also created mechanisms to monitor China's compliance with WTO and other trade agreements. Negotiations on China's accession terms were completed in September 2001; China officially joined the WTO on December 11, 2001.

U.S. textile and apparel importers praised the agreement, particularly regarding the ending of quotas. U.S. textile manufacturers were disappointed that the agreement did not provide for continuation of quotas on Chinese textiles and apparel for 10 years, a phase-out duration faced by other WTO members; and the industry trade group expressed concern over expectations of U.S. job and production losses. U.S. labor, as represented by the AFL-CIO, criticized the agreement as failing to protect workers' and human rights.

Developing Countries: Issues and Initiatives

Push for Accelerated Phaseout. As indicated above, developing countries, whose exports of textiles and apparel have been limited, believe that developed countries have unfairly deferred substantial liberalization of imports, and are eager for acceleration of the benefits of existing agreements. Before and during the WTO Seattle Ministerial

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[9] For details on and discussion of the DSU, see CRS Report RS20088, *Dispute Settlement in the World Trade Organization: An Overview*, by Jeanne J. Grimmett, or the Dispute Settlement page of CRS' electronic briefing book on trade on CRS' web site. In addition, the dispute settlement page of the WTO web site has extensive information on the dispute settlement process and the status and disposition of complaints. See [http://www.wto.org] and click on "disputes."

[10] This agreement served as a necessary step toward China's accession to the WTO. On May 24, 2000, the House of Representatives approved permanent normal trade relations with China. For more on U.S.-China trade relations in general and textile and apparel trade in particular, see CRS Issue Brief IB91121, *China-U.S. Trade Issues*, by Wayne M. Morrison, and CRS Report 97-371, *China-U.S. Textile Trade: Growth and Confrontation*, by Edward Rappaport.

Meeting (November 30 to December 3, 1999), much of the negotiations related to textiles and apparel pertained to this issue. The developing countries received some support from the European Union and Japan for acceleration of implementation of existing agreements. Notwithstanding the failure of the Seattle Ministerial and the slow movement toward a new general round of trade talks, phase-out of the ATC textile and apparel import restrictions is proceeding; and developing countries continue to press for accelerated implementation of the ATC. Those countries won modest gains at the Doha Ministerial (November 10-14, 2001). The Ministerial's final declaration included agreement to negotiations aimed at (a) reducing or eliminating tariffs, particularly regarding products of export interest to developing countries, without any prior exclusions, and (b) reducing or eliminating non-tariff barriers. In this provision and others, the special needs and interests of developing and least developed countries are to be taken into account.

Congressional Initiatives. The U.S. Congress has made efforts to stimulate economic growth in poorer regions of the world, mainly by providing textile and apparel trade benefits. Among its latest efforts, Congress has eased trade terms on textiles and apparel from Caribbean, sub-Saharan, and Andean region nations. Given the large role usually played by textiles and apparel in early industrial development, it is reasonable to expect that these industries would be among the first to grow rapidly in these regions.

The Caribbean and Central America. The Caribbean Basin Economic Recovery Act (CBERA) established the Caribbean Basin Initiative (CBI), putting into law (effective January 1, 1984) trade preferences (and some other benefits) in the form of unilateral preferential treatment (duty-free, or at duty rates lower than those generally applicable) for most articles imported from 24 beneficiary countries. The Caribbean Basin Economic Recovery Expansion Act of 1990 made the program permanent. Eligible for duty-free preference were all otherwise dutiable products except certain import-sensitive items, which included textiles and apparel subject to textile agreements.[11] However, the tariff and quota treatment of imports from Mexico under the North American Free Trade Agreement put imports from the countries intended to benefit from CBERA at a disadvantage vis à vis imports from Mexico. Congress has considered and passed legislation to address this.

Andean Countries. The Andean Trade Preference Act (ATPA) (P.L. 102-182, Title II) provided a 10-year period of duty free or reduced-rate treatment of selected products from Bolivia, Colombia, Ecuador, and Peru that excluded textiles and apparel. This limited program, enacted in part to counter illicit drug production and trade by enhancing other economic opportunities, has produced limited results; and it expired December 4, 2001. After a delay, Congress reinstated and extended the scope of the benefits to include some textile and apparel products (see below).

Sub-Saharan Africa. Africa presently exports only small amounts of textile and apparel products to the U.S. market. Important measures to improve U.S. economic relations with sub-Saharan Africa began in the mid-1990s. In 1994, the Uruguay Round

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[11] There is a special program for apparel assembled in a CBERA country and imported under the "production sharing" provision, provided it is assembled from fabric formed and cut in the United States. Under this, regular duty rates are applied to a base that excludes the value of U.S.-origin components. Such products may be imported from CBERA countries above the regular quotas up to bilaterally agreed "guaranteed access levels" (GAL) at the regular duty rate.

Agreements Act (P.L. 103-465) directed the Administration to develop an Africa trade and development policy and report on this policy to Congress annually for five years. The Administration's first report spurred Congressional interest in African economic growth and in improving U.S.-sub-Saharan economic relations. The Partnership for Economic Growth and Opportunity in Africa, announced by President Clinton in 1997, supported economic reforms in Africa and encouraged closer economic ties between the United States and Africa, and included ideas Congress already was considering.

106th and 107th Congresses. Together with several other measures, the Trade and Development Act of 2000 (P.L. 106-200, enacted May 18, 2000) liberalized trade with qualifying sub-Saharan and Caribbean Basin counties. Title I, the African Growth and Opportunity Act (AGOA), gave preferential treatment to certain apparel articles from countries meeting transhipment requirements and contained broad provisions aimed at encouraging economic development and trade. Items admitted duty-free and quota-free include apparel assembled from fabrics wholly formed and cut in the United States and yarn wholly formed in the United States, apparel cut and assembled or knit-to-shape from fabrics or yarns wholly formed in the United States, knit-to-shape sweaters made from certain wools, and certified handmade and folklore articles. Certain other apparel items are free of duties and quantitative restrictions up to a specified level of imports.

Title II (Caribbean Basin Trade Partnership Act) focused mainly on the preferential treatment of textile and apparel products. It added several eligibility criteria and set the transitional period of CBERA preferential treatment to run from October 1, 2000 through September 30, 2008. Articles accorded duty-free and quota-free treatment include apparel assembled in a beneficiary country from fabric wholly formed and cut in the United States from U.S.-made yarn, or from a fabric made in the United States from U.S.- made yarn cut in a beneficiary country, and sewn with U.S.-made yarn.

The Trade Act of 2002 (P.L. 107-210), in addition to providing trade promotion authority to the President, liberalizing trade adjustment assistance to workers, effectively reinstates and liberalizes the Andean Trade Preference Act and liberalizes benefits under CBERA and AGOA under Title XXXI. The Andean provisions extend the ATPA to December 31, 2006 and newly include certain textile and apparel items as eligible for duty-free treatment. Caribbean Basin benefits are liberalized through a substantial increase in the quota ceilings for knit-to-shape apparel and exclusion of the cost of trimmings and findings from the cost of U.S. fabric components. Sub-Saharan benefits are liberalized by a clarification that apparel assembled from knit-to-shape components made in the United States and garments from components cut both in the United States and beneficiary countries are eligible for preferential treatment, and it increases the import cap on certain duty-free apparel items. However, P.L 107-210 also specifies that all dying, printing, and finishing of U.S.-made fabric incorporated in imported apparel must occur in the United States for that apparel to be eligible for CBERA or ATPA benefits.[12]

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[12] For more discussion of legislation regarding trade with sub-Saharan Africa, the Caribbean, and the Andean regions, see CRS Report RS20063, *U.S. Sub-Saharan Africa Trade and Investment: Programs and Policy Direction*, by Lenore Sek, CRS Issue Brief IB95050, *Caribbean Basin Interim Trade Program: CBI/NAFTA Parity*, by Vladimir Pregelj, and CRS Report RL30790, *The Andean Trade Preference Act: Background and Issues for Reauthorization,* by J. F. Hornbeck.