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Textile and Apparel Trade Issues

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Summary

Textile and apparel production and international trade 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 jobs in many countries.

Because of its importance to the U.S. economy and to many U.S. trade partners, textile and apparel trade has been a major issue in trade relations with a number of countries and regions. Other industrialized countries have faced similar issues, and in attempts to resolve conflicts between the interests of exporters and importers, a number of agreements (multilateral and bilateral) were signed over the years generally restricting the quantities of textiles and apparel traded. A major recent event was the completion on January 1, 2005, of the phaseout of such quotas, as mandated by the Uruguay Round of trade negotiations in the 1990s.

In the last several decades, textile and apparel manufacture has been shifting to developing countries as a whole, with textiles and apparel accounting for large portions of their exports to developed economies. Lower wages in developing countries together with the labor-intensiveness of apparel production tend to give those countries a cost advantage in apparel manufacture and a locational advantage for their textile production. Also, there have been large shifts in many individual countries' shares of world textile and apparel trade since the mid-1990s. The basic worldwide shifts have affected and continue to negatively affect the U.S. textile and apparel industries. While there have been a few intermittent increases, overall U.S. output of textiles and apparel, and associated employment, in the mid 2000s are below peaks set in the last three or four decades, and are projected to decline further.

Most trade participants, analysts, and observers expected that the quota phaseout would result in increased exports of textiles and apparel by developing countries as a whole. However, it became widely believed and feared — now seemingly justified — that China will be a major beneficiary at the expense of most other developing countries, although India and Pakistan are expected to benefit appreciably as well. The United States and the European Union have imposed limitations on the initial surge in imports from China, as permitted by the rules governing China's accession to the World Trade Organization.

Notwithstanding the potential difficulty for some U.S. textile and apparel industry segments, Congress has eased trade terms on apparel from Andean, Caribbean, and sub-Saharan nations — in moves to boost economic growth in poorer regions. However, the preferences are contingent in many cases on requirements that beneficiary country industries use U.S.-made components in making apparel. In addition, the United States has concluded free trade agreements with a number of countries, mainly in this hemisphere, that probably will have negative consequences for U.S. textile and apparel producers. This report will be updated as events warrant.

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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 for this are (1) textiles and apparel are basic items of consumption in all countries, and (2) apparel manufacture is labor-intensive, requiring relatively little fixed capital. 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 contribute to these industries being important to developing countries now. The percentage of total manufacturing value added accounted for by textile production among developing countries in 2004 was three and a half times the percentage among industrialized countries; and the corresponding percentage for apparel production was two and a half times that for industrialized countries.[1]

Lower wage rates in developing countries together with the labor-intensiveness of apparel manufacture tend to give developing countries a comparative advantage in apparel manufacture and a locational advantage for textile manufacture. Thus, textile and apparel manufacture is tending to shift to developing countries, with textiles and apparel constituting large portions of their exports. Industrialized countries' textile and apparel manufacture (measured by constant-dollar value added) increased between 1980 and 2004, whereas textile and apparel manufacture in developing countries decreased.[2] Developing countries' textile and apparel exports (in nominal dollars) in 2001 were nearly seven times their 1980 level, whereas developed economies' textile and apparel exports somewhat more than doubled

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[1] United Nations Industrial Development Organization. *International Yearbook of Industrial Statistics 2006*. Vienna: 2006. p. 65.

[2] *International Yearbook of Industrial Statistics 2002,* p. 58-59; *International Yearbook of Industrial Statistics 2006,* p. 68-69.

during the period. Textiles and apparel comprised 12% of developing economies' exports in 2001, versus 3% for developed economies.[3]

U.S. Textile and Apparel Production and Trade

The basic worldwide shifts in textile and apparel production and trade described above have affected and continue to affect the U.S. highly developed and industrialized economy. Although there have been a few intermittent increases, overall U.S. production of textiles and apparel in the mid 2000s is below peaks set in the last three or four decades. The decline has been especially notable over the last several years. For example, U.S. output of textile product materials,[4] non-apparel textile end-products, and apparel in August 2006 was 33%, 11%, and 37%, respectively, below the 1999 levels. In contrast, output by U.S. manufacturing as a nearly doubled between 1980 and 1999, and increased 16% between 1999 and August 2006.[5] More significant to many in the U.S. textile and apparel industries, employment in those industries combined has fallen by more than 60% between 1980 and August 2006. The industries together employed about 610,000 people that month, compared with 2.1 million in 1980.[6]

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. Output per hour in U.S. textile manufacturing more than tripled between 1960 and 1987, then rose more than 50% between 1987 and 2000. Apparel manufacturing output per hour doubled in the earlier period, and nearly doubled again in the shorter later period. Thus, increases in textile manufacturing productivity were faster between 1960 and 1987; and those in apparel manufacturing more rapid more recently.

U.S. manufacturers of textiles and apparel have been facing intensifying foreign competition for much of the post-World War II period. By 1973, the United States had a trade deficit of nearly $2½ billion in textiles and apparel (combined); and it has continued to rise steeply.[7] Both textiles and apparel experienced increasing trade deficits into the mid-1990s, and it has continued for apparel and other textile end-

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[3] United Nations. *1994 International Trade Statistics Yearbook, Vol. II.*, 1995. p. S-20, S-76, and S-92; *2001 International Trade Statistics Yearbook, Vol. II.*, 2003. p. 506, 562, 578.

[4] Fiber, yarn, and fabrics.

[5] Federal Reserve System, Board of Governors, "*Industrial Production and Capacity utilization, Historical Data*" [http://www.federalreserve.gov/releases/G17/download.htm] viewed September 22, 2006. These output changes, based upon the Federal Reserve's industrial production indexes, reflect changes in production volumes rather than in value added (used by the United Nations).

[6] Bureau of Labor Statistics, [http://data.bls.gov/PDQ/outside.jsp?survey=ce] viewed September 22, 2006].

[7] The U.S.-focused trade data used in this section are from the Dataweb database compiled by the U.S. International Trade Commission (ITC) from Department of Commerce and ITC data, obtained in a sequence of steps from [http://dataweb.usitc.gov/scripts/user_set.asp] on September 15, 2006

products (**Table 1**). The annual rate of U.S. imports of apparel and other textile end-products in the first seven months of 2006 was 13 times the 1980 level. At this rate, U.S. imports of apparel and other textile end-products will exceed exports by an estimated $76 billion in the full year 2006.[8] To a great extent, the increase in imports of apparel over the years reflects a number of sharp increases in imports. For example, there were two such increases in the 1960s, one in the 1970s, one in the 1980s, and one in the 1990s.

However, imports of fibers and fabrics essentially have leveled off since the mid-1990s, and fiber and fabric exports have increased. If the rates of fiber and fabric imports and exports in the first eleven months of 2003 continued to the end of the year, US. fiber and fabric producers experienced a modest trade surplus of over $800 million.

Especially recently, U.S.-made yarn and fabrics have fared better with respect to trade than U.S.-made apparel and other textile end-products. Yarn and fabric production is less labor-intensive, more easily automated, and, as a major input to apparel, can be exported to serve as inputs to foreign-made apparel that then is exported back into the United States. Also, U.S. yarn and fabric manufacturers have been helped by requirements in trade agreements and trade preference programs that broadly require U.S.-made yarn and fabrics be used to produce the apparel made abroad. (U.S. trade preference programs are described later in this report.) Growth in U.S. fiber and fabric imports has leveled off; fiber and fabric exports have increased faster than imports; and exports of have exceeded imports since 2001.

U.S. textile and apparel trade with developing countries is considerable. In 2005, four of the top ten fiber and fabric import sources, seven of the top ten non-apparel textile product sources, and nine of the top ten apparel sources were developing countries. For U.S. exports, six of the top ten fiber and fabric destinations, two of the top ten non-apparel textile product destinations, and six of the top ten apparel destinations were developing countries. Mexico was one of the top-five in all the above import and export product groups; and China was first as a non-apparel textile end-product exporter and first as an apparel exporter to the United States.[9]

A key aspect of trends in U.S. textile and apparel manufacturing and in U.S. textile and apparel trade policy is the opposing interests of U.S. importers and retailers and U.S. manufacturers. The former groups seek to obtain goods at the lowest cost (which are imports in many cases) to maximize their sales, which, of course, tends to lower demand for the products of U.S. textile and apparel manufacturers.

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[8] U.S. International Trade Commission Dataweb.

[9] U.S. International Trade Commission Dataweb.

Table 1. U.S. Trade in Textiles and Apparel

(millions of current dollars)

Year	Textile Mill Products			Apparel & Other 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	2,900	4,786	-1,886	2,451	25,509	-23,058
1994	5,151	6,534	-1,383	6,145	38,561	-32,506

Year	Fibers and Fabrics			Textile Mill Products			Apparel and Accessories		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1997	5,487	6,343	-856	2,124	4,780	-2,656	8,274	47,084	-38,810
1999	5,935	6,443	-508	2,118	6,350	-4,232	7,876	55,104	-47,228
2001	7,098	6,336	762	1,991	7,580	-5,589	6,469	62,429	-55,960
2002	7,397	6,778	619	1,875	8,643	-6,768	5,462	62,313	-56,851
2003	7,557	6,791	779	1,881	9,857	-7,976	4,923	66,499	-61,576
2004	8,352	7,387	965	2,062	11,707	-9,645	4,346	70,553	— 66,207
2005	8,471	7,453	1,018	2,343	13,508	-11,165	4,069	74,473	-70,404
2006[a]	8,726	7,441	1,285	2,521	14,471	-11,950	3,858	71,694	-67,836

Sources: U.S. International Trade Administration (ITC). *U.S. Industrial Outlook*, various editions; U.S. International Trade Commission Dataweb (compiled from Department of Commerce and ITC data) [http://dataweb.usitc.gov/scripts/user_set.asp].

Notes: Import data are imports for consumption; export data are domestic exports. U.S. trade and other data now are based upon the North American Industrial Classification System; trade data based upon the previous classification system (Standard Industrial Classification System) are available only through 2001. With respect to textiles and apparel, the main differences between the two systems are that apparel items previously classified under “Textile Mill Products” now are classified under “Apparel and Accessories;” non-apparel textile products (e.g., linens, curtains, tents) previously classified under “Apparel and Fabricated Textile Products” now are classified under “Textile Mill Products;” and essentially all fiber and fabric products sold or otherwise transferred for further manufacture now are classified under “Fibers and Fabrics.” Data for “Textile Mill Products” in the upper part of the table are mainly for fibers and fabrics, but include some finished fabricated textile products.

a. First seven months at an annual rate.

Trade Agreements

The United States and other developed industrialized countries began to experience steep increases in imports of textiles and apparel from developing countries in the 1950s and 1960s that displaced domestic production in the former countries. For example, imports of apparel and fabricated textile products (in current dollar value) into the United States rose at an average annual rate of 18% between 1963 and 1968, and 20% between 1968 and 1973. Developing countries increased their percentage of world exports of textiles from 18% to 22% between 1963 and 1973, and their percentage of world exports of clothing from 15% to 35%.[10]

Attempts to ease the resulting conflicts between the interests of textile and apparel exporters and importers resulted in a number of bilateral agreements, mainly between developed and developing countries, bearing on and generally restricting textile and apparel trade. Japan agreed to voluntarily control exports of cotton textiles to the United States as early as 1957.[11] Exporting and importing nations agreed, under the auspices of the General Agreement on Tariffs and Trade, to a Short Term Arrangement in 1961 and to a Long Term Arrangement in 1962 that controlled trade in cotton textiles. Among many subsequent agreements were those between the United States and five countries (Hong Kong, Japan, Korea, Malaysia, and Taiwan) in 1971 and between the U.S. and Macao and Singapore in 1973 to establish maximum import levels of wool and man-made fiber textiles and apparel.

Other agreements, some multilateral such as the North American Free Trade Agreement (discussed below), however, have sought to increase trade, with particular attention to textiles and apparel in many cases.

Multifibre Arrangement

In the early 1970s, the United States led in moves toward an international agreement on textile and apparel trade. The Arrangement Regarding International Trade in Textiles was reached in 1973. Known as the Multifibre Arrangement, or MFA, it provided for a set of restrictions — including a schedule of individual country quotas — on international textile *and apparel* trade.[12] The United States negotiated 18 bilateral agreements under the terms of the overall Arrangement.

The MFA consolidated virtually all of previous bilateral agreements and applied a common set of rules. The bilaterally negotiated agreements departed from the basic rules of the General Agreement on Tariffs and Trade, particularly with respect to the principle of non-discrimination. These agreements applied quantitative restrictions such as quotas when surges of imports of particular products caused, or threatened to cause, damage to the industry of the importing country. The MFA, effective January 1, 1974, was intended to last four years, with the aim of eventually phasing

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[10] General Agreement on Tariffs and Trade, GATT Secretariat. *Textiles and Clothing in World Economy*. Geneva, July 1984. p. 40-41.

[11] In the early Post World War II period, Japan could fairly be called a developing country.

[12] The Multifiber Arrangement sometimes is called the Multifiber Agreement, incorrectly.

out the restrictions, but it was extended several times. It was replaced by the Agreement on Textiles and Clothing, which did phase out the quotas.

Agreement on Textiles and Clothing

Among the outcomes of the Uruguay Round of the General Agreement on Tariffs and Trade, which include the creation of the World Trade Organization (WTO), was the Agreement on Textiles and Clothing (ATC). The ATC, which replaced the Multifibre Arrangement on January 1, 1995, was a transitional instrument that, unlike the MFA, phased out existing quotas, improved access to the textile markets of developing countries, and eventually placed trade in textiles and apparel under the rules governing other products. As part of the process, the agreement calls for cuts in tariffs to achieve improved access to markets for textile and clothing products, but no systematic tariff reductions occurred under the ATC.[13]

The ATC provided for a 10-year transition period for producers in the developed countries that had quotas to plan for and adjust to prospective intensified competition from producers in developing countries. Quotas on textile and apparel imports were eliminated in four stages (by set percentages of 1990 import volumes), limits on remaining quotas rose at each stage, with the final stage occurring on January 1, 2005. A notable feature of the ATC was a provision allowing 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. Also, while the ATC specified the percentages of goods subject to quotas that must be phased out at each of four stages, importing countries could and did defer liberalization of the most "sensitive" products until the last stage.

Many developing countries, whose exports of textiles and apparel had been limited by past agreements, saw this strategy as unfairly deferring substantial liberalization of imports and a constraint on their economic growth. They wanted a faster phase-out of quotas and were eager for acceleration of the benefits of existing agreements. Much of the negotiations related to textiles and apparel before, during, and between the Seattle and Doha Ministerials pertained to this issue. Developing countries received some support from the European Union and Japan for accelerated implementation of agreements reached in Seattle, and they continued to press for accelerated implementation of the ATC between those meetings. A Doha declaration stated that the special needs and interests of developing and least developed countries were to be taken into account.

Disputes arising under WTO rules may be addressed under the WTO Dispute Settlement Understanding (DSU). Under the DSU, panels are established to investigate complaints and make findings. The DSU strengthens earlier dispute

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[13] Article 7 of the ATC says "As part of the integration process and with reference to the specific commitments undertaken by the Members as a result of the Uruguay Round, all Members shall take such actions as may be necessary to abide by GATT 1994 rules and disciplines so as to: (a) achieve improved access to markets for textile and clothing products through such measures as tariff reductions and bindings, reduction or elimination of non-tariff barriers, and facilitation of customs, administrative and licensing formalities...."

resolution procedures and practice (established under the General Agreement on Tariffs and Trade). Nearly all complaints concerning textiles and/or apparel formally brought against or brought by the United States cases have been resolved through pre-adjudication agreement, compliance with the recommendation of the Dispute Settlement Body, or settlement after the DSU recommendation. A number of other disputes have been settled by bilateral negotiation.[14]

NAFTA

The North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the United States has been in effect since January 1, 1994.[15] Textiles and apparel are among the major product groups affected by that agreement. The main NAFTA provisions related to textiles and apparel are the elimination of tariffs and quotas on goods coming from Mexico and the elimination of Mexican tariffs on U.S. textile and apparel products. To benefit from such free trade, goods must meet the rules of origin, which require in most cases that textile and apparel products trade among the NAFTA partners are made of yarn and fabric manufactured in the free trade area. The strict rules are meant to ensure that U.S. fiber and fabric producers could continue to supply U.S. textile and apparel companies that move to Mexico.[16]

Under NAFTA, U.S. tariffs on textiles and apparel fell from an average of 9.1% in 1992 to 1.3% in 1996, while Mexican tariffs on these goods decreased from an average of 16.0% to 5.7%, according to a study by the U.S. International Trade Commission (USITC). In comparison, U.S. tariffs on all Mexican products fell from an average of 2.1% to 0.7%, while Mexican tariffs on all U.S. goods decreased from 10.0% on average to 2.9%.[17] The elimination of non-tariff barriers includes the U.S. import quotas on North American textiles and apparel previously in effect.

The effect of NAFTA on U.S. imports and exports of textiles is complicated. Total U.S. textile and apparel trade with Mexico (imports plus exports) rose 218% between 1993 and 2002, and the deficit in textile and apparel trade with Mexico

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[14] For discussion of the DSU, see CRS Report RS20088, *Dispute Settlement in the World Trade Organization: An Overview*, by Jeanne J. Grimmett.

[15] This discussion of NAFTA is based largely upon CRS Report RL31386, by M. Angeles Villarreal, CRS Report RS21737, *NAFTA at Ten: Lessons from Recent Studies*, by J.F. Hornbeck, and upon two reports by the International Trade Commission: *Impact of the North American Free Trade Agreement on the U.S. Economy and Industries: A Three Year Review*, Publication 3045, July 1997; and *The Impact of Trade Agreements: Effect of the Tokyo Round, U.S.-Israel FTA, U.S.-Canada FTA, NAFTA, and the Uruguay Round on the U.S. Economy*, Publication 3621, August 2003.

[16] Without the rules of origin, apparel manufacturers located in Mexico would be able to import low-cost fabrics from Asia and export the final product to the United States tariff-free and quota-free. For more detail on, and discussion of, rules of origin, see CRS Report RL31934, *Textile and Apparel Rules of Origin in International Trade*, by Bernard A. Gelb.

[17] U.S. International Trade Commission, *Impact of the North American Free Trade Agreement on the U.S. Economy and Industries: A Three Year Review*, Publication 3045, July 1997, pp. ii and 32.

jumped 439%, particularly in apparel.[18] However, U.S. fabric makers benefitted from increased use of U.S. fabric in apparel and other made-up textile goods assembled in production-sharing operations in Mexico, although growth in U.S. exports of yarn and fabric to Mexico has leveled off. And, given the low-cost lower-quality of Mexican production, the agreement's rules of origin generated high demand for high quality U.S. (and Canadian) fabrics and yarns.[19] In meantime (between 1993 and 2002), U.S. textile and apparel trade with all countries increased 79%, with the deficit doubling. Since 2002, U.S. textile and apparel trade with all countries has risen 18%, and the deficit has risen by 25%.

While the big increase in U.S. imports from Mexico may have displaced, at least temporarily, some U.S. textile and apparel workers, a 1997 USITC study suggested that NAFTA may have shifted production from Asian countries to North America. The study reported that U.S. textile and apparel imports from NAFTA countries tended to have a higher U.S. content than imports from outside the region.[20] Total U.S. textile and apparel trade with Mexico increased considerably more than trade with Asia or the world as a whole. However, this trend may have ended; after increasing steadily through 2001, Mexico's shares of U.S. textile and apparel trade for the most part have decreased since then, while those of Asia have increased.

Overall, the effect of NAFTA on the U.S. and Mexican economies has been modest according to a CRS analysis of the findings of a number of studies by non-CRS academic and other non-partisan analysts, researchers, and organizations.[21] And growth in U.S. imports from and exports to Mexico of textiles and apparel has tended to level off in the last several years.

Other Agreements

In the last decade, the United States has entered into, with both large and small countries, two regional trade agreements and several bilateral trade agreements that have been reached since the expiration of textile and apparel quotas. Some of these agreements have not yet been approved and implemented by Congress. The following focuses mainly on matters pertaining to textiles and apparel.

China. A series of agreements between the United States and China and related U.S. legislation have been very important. A February 1997 Memorandum of Understanding regarding textiles and apparel, among other things, extended through December 2000 existing U.S. quotas on Chinese textiles and apparel made of most types of natural and manmade fibers, penalized China for evading quota limits on certain products by transshipping through third countries, and strengthened

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[18] *Industry Trade Effects Related to NAFTA*, p. 10.

[19] *The Impact of Trade Agreements: Effect of the Tokyo Round, U.S.-Israel FTA, U.S.-Canada FTA, NAFTA, and the Uruguay Round on the U.S. Economy*, p. 298.

[20] *Impact of the North American Free Trade Agreement*, p. 82.

[21] *NAFTA at Ten: Lessons from Recent Studies.*

enforcement against such illegal transshipments.[22] Major elements of a November 15, 1999, agreement[23] included (a) China, *upon accession to the WTO*, will "catch up" to the ATC schedule of quota phaseouts by 2005 for other WTO members,[24] (b) the United States retains the right to impose safeguard measures on textiles and apparel through the end of 2008, allowing continuation of some quotas under some conditions, and (c) China will significantly lower its tariffs on a wide range of textile and apparel products, and not impose new nontariff barriers. The terms of this agreement were incorporated into China's final overall WTO accession agreement.

The U.S.-China Relations Act (P.L. 106-286, October 10, 2000) was enacted, partly to ensure that the WTO agreements would fully apply once China joined the WTO. Among other things, this Act (a) authorized the President to grant China permanent normal trade relations (PNTR) status after it joined the WTO, provided the President certified that the terms and conditions for China's accession to the WTO were at least equivalent to those of November 1999, (b) established a Congressional-Executive commission to monitor and report on aspects of China's human rights policies, (c) directed the President to increase duties and impose other restrictions on products of China being imported into the United States in such increased quantities or under such conditions as to cause or threaten to cause market disruption to U.S. producers of like or directly competitive products, and (d) required the U.S. Trade Representative (USTR) to annually assess China's WTO compliance.

On November 10, 2001, the President certified that the terms of China's WTO overall accession agreement were at least equivalent to those of November 1999. As provided in that agreement, a key textile-specific safeguard provision in China's WTO accession allows the United States and other Member countries to impose temporary quotas on textile and apparel from China if they determine that Chinese-origin imports of a product are causing "market disruption." Under a safeguard quota, China must hold its shipments of the goods in question at a level no greater than 7.5% above the quantity entered during the previous year. A quota may continue for a maximum of a year unless reapplied for, or unless the parties reach an agreement. The safeguard provision expires December 31, 2008.

China officially joined the WTO on December 11, 2001, and the President extended PNTR status to China on December 27, 2001, effective January 1, 2002. However, the USTR's WTO compliance reports have stated that while China has made progress in meeting its WTO obligations, a number of serious problems remain and new problems have emerged.[25] The USTR's December 2005 report stated that

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[22] This was negotiated under the authority of Section 204 of the Agricultural Act of 1956 as amended, which authorizes the President to negotiate trade terms for agricultural products (broadly defined) without subsequent Congressional approval.

[23] This was negotiated under the authority of the Trade Act of 1974, Title IV, Section 405. Because it did not change U.S. tariffs or require change in U.S. law, it did not require Congressional implementing legislation.

[24] As noted above, other WTO members began the phase-out on January 1, 1995.

[25] For example, see Executive Office of the President, United States Trade Representative. *2004 Report to Congress on China's WTO Compliance*, December 11, 2004.

China's failure to comply with key areas of its commitments largely stemmed from incomplete transition to a market-based economy.[26]

Other Countries. Trade agreements with Australia, Bahrain, Chile, five Latin American countries, Israel, Jordan, Morocco, Singapore, and Vietnam also are part of the textile and apparel trade context. Of these countries, however, only Singapore and Vietnam presently are among the top 15 country sources of U.S. imports of non-apparel textile end-products or apparel.

The July 2001 bilateral trade agreement with Vietnam was followed up in December 2001 with the U.S. granting conditional normal trade relations status to Vietnam. Such status greatly reduced U.S. tariffs on most imports from Vietnam, leading to a steep rise in Vietnamese exports of apparel to the United States. To address this, an April 2003 agreement imposed quotas on 38 categories of Vietnam's clothing exports,[27] which has been extended to the end of 2006; but Vietnamese apparel exports to the United States continued to rise markedly.

In May 2006, U.S. and Vietnam signed a bilateral agreement on the conditions for Vietnam's accession into the World Trade Organization (WTO). However, because the WTO requires its members to extend permanent normal trade relations in order to receive the benefits of WTO membership in their bilateral trade relations, and U.S. trade relations with Vietnam are governed by a provision of the Trade Act of 1974 that prohibits the U.S. from granting normal trade relations with certain countries unless certain conditions are met, Congress has to enact legislation removing Vietnam from Title IV coverage. This may occur in the Fall of 2006.

The trade agreement with Singapore,[28] covering a broad range of goods and services and of types of market access, contains rules of origin specific to textiles and apparel. Singaporean textile and apparel exports to the United States are duty free if made from yarn or materials further along the production chain of Singaporean or U.S. origin. A limited amount of apparel from Singapore will be exempt from this origin rule for eight years; and tariffs on such exports will be phased out over five years. The United States commits to more liberal rules of origin once further liberalization of such rules is achieved in the WTO.

The U.S.-Chile Free Trade Agreement, and enacted September also covers a broad range of goods and services and types of market access. Textiles and apparel became duty-free upon implementation of the Agreement if they meet the Agreement's rules of origin specific to textile and apparel goods. In addition, a

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[26] USTR, *2005 Report to Congress on China's WTO Compliance*, December 2005, p. 3. For more details and analysis of U.S.-China trade relations, see CRS Report RL33536, *China-U.S. Trade Issues*, by Wayne M. Morrison.

[27] The bilateral agreement with Vietnam was enacted October 16, 2001 (P.L. 107-52) and entered into force December 10, 2001. The textile agreement did not require Congressional approval; Section 204 of the Agricultural Act of 1956 (P.L. 84-540) gives the President authority to negotiate quotas on agricultural and textile goods.

[28] The substance of the trade agreement with Singapore was concluded in November 2002. Signed into law September 3, 2003 (P.L. 108-78), it entered into force December 30, 2003.

limited yearly amount of textiles and apparel containing non-U.S. or non-Chilean yarns, fibers, or fabrics may also qualify for duty-free treatment.[29] Chile is not among the top 15 destinations of U.S. exports or 15 top sources of textiles and apparel.

Before the U.S.-Vietnam Agreement of 2001 went into effect, Vietnam was not among the top 30 sources of U.S. apparel imports. It was sixth in 2005. Singapore was the 12th largest exporter of non-apparel textile end-products to the United States in 2005. Some allege that Singapore is an illegal transshipment point for goods produced in China.[30] If true, greater scrutiny of origin under the Agreement may reduce such transshipments.

The U.S.-Central America-Dominican Republic Free Trade Agreement (DR-CAFTA) initially was reached with El Salvador, Guatemala, Honduras, and Nicaragua in December 2003. Costa Rica signed on in January 2004, and the Dominican Republic joined in August 2004. DR-CAFTA immediately eliminates duties on textiles and apparel that meet the rules of origin, but with significant exceptions. Moreover, many products already enter the United States duty free under the Caribbean Basin trade preference program (see below), as is the case for goods if assembled from U.S.-made fiber or fabric. In 2005, the Dominican Republic, El Salvador, Guatemala, and Honduras were among the top six export markets for U.S. fibers and fabrics; and the Dominican Republic, Guatemala, and Honduras were among the top twelve sources of U.S. of apparel imports.

DR-CAFTA passed the U.S. Congress in July 2005; and it was signed by the President in August 2005 (P.L. 109-53). Labor groups and other interests criticized the labor and environmental provisions and opposed easier entry of Central American apparel and agricultural goods; and the U.S. Trade Representative threatened to exclude the Dominican Republic from the implementing legislation because of a dispute with that country. The DR-CAFTA countries announced their intention to strengthen compliance with laws protecting labor rights in mid-December 2004.[31]

DR-CAFTA has been ratified by the legislatures of the Dominican Republic, El Salvador, Honduras, Guatemala, and Nicaragua. However, there is significant opposition to the agreement in many of the signatory countries, and ratification has stalled in Costa Rica. Implementation of the agreement has been delayed from the original target date of January 2006, causing negative political, and possibly economic, repercussions in many countries.[32]

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[29] The trade agreement with Chile was signed June 6, 2003, was signed into law September 3, 2003 (P.L. 108-77), and went into effect January 1, 2004.

[30] See, for example, *Inside U.S. Trade*, "FTAs Pass With Majority of Republicans; Democratic Caucus Splits," August 8, 2003.

[31] "CAFTA Countries to Unveil Labor Initiative to Thwart Congressional Critics," *Inside U.S. Trade*, December 17, 2004. [http://www.insidetrade.com].

[32] For discussion and analysis of Caribbean regional issues in the context of DR-CAFTA, see CRS Report RS22164, *DR-CAFTA: Regional Issues*, by Clare Ribando.

Trade Preference Programs

Other parts of the U.S. textile and apparel trade are the trade preferences granted by the United States to various countries, as a result of Congressional efforts to stimulate economic growth in poorer regions of the world. Among its measures, Congress has eased trade terms on textiles and apparel, as well as on other goods, from Sub-Saharan, Caribbean, and Andean region nations. Given the large role usually played by textiles and apparel in early industrial development, noted earlier, it is reasonable to expect that these industries would be among the first to grow rapidly in these regions.

Sub-Saharan Africa

Significant steps to improve U.S. economic relations with sub-Saharan Africa began in the mid-1990s. Legislation implementing the Uruguay Round agreements, directed the Administration to develop an Africa trade and development policy and report on it to Congress annually for five years, which in turn, spurred Congressional interest in African economic growth and in improving U.S.-Sub-Saharan economic relations. A series of measures have aimed at encouraging economic development and trade, partly by liberalizing trade with qualifying sub-Saharan countries.

The African Growth and Opportunity Act (AGOA; Title I, Trade and Development Act of 2000; P.L. 106-200) gave preferential treatment to certain apparel items from countries that met certain anti-transhipment and other requirements. Articles admitted duty-free and quota-free included 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 items. Imports of certain apparel items were freed of duties and quantitative restrictions only up to specified levels.

The Trade Act of 2002 (P.L. 107-210) amended AGOA by, among other things, increasing the import cap on certain duty-free apparel items and clarifying 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. In 2004, the AGOA Acceleration Act (P.L. 108-274) extended the AGOA program to 2015, liberalized apparel rules of origin and benefits eligibility, and extended to 2007 the right of "Lesser Developed Countries" (LDC) to use yarn and fabric from third countries in apparel production and still export duty-free to the United States.[33]

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[33] For more complete information on trade preferences for sub-Saharan Africa, see CRS Report RL31772, *U.S. Trade and Investment Relationship with Sub-Saharan Africa: The African Growth and Opportunity Act and Beyond,* by Danielle Langton, and CRS Report RS21772, *AGOA III: Amendment to the African Growth and Opportunity Act*, by Danielle Langton. The latter report has more extensive discussion of the LDC provision.

The Caribbean Basin 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. A 1990 Act made the program permanent, and made many otherwise dutiable products (except certain import-sensitive items) eligible for duty-free preference.

However, the treatment of imports from Mexico under NAFTA put CBERA country imports at a disadvantage vis à vis imports from Mexico. To address this, the Caribbean Basin Trade Partnership Act (CBTPA), Title II of P.L. 106-200, focused mainly on preferential treatment of textiles and apparel. It added several eligibility criteria and extended the transitional period of such treatment through September 30, 2008. Among other liberalizations, duty-free and quota-free treatment were accorded to apparel assembled in a beneficiary country from fabric wholly formed and cut in the United States from U.S.-made yarn, or from U.S.-made fabric from U.S.-made yarn cut in a beneficiary country, and sewn with U.S.-made yarn. Next, benefits were enhanced 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. But all dyeing, printing, and finishing of components except sewing thread were newly required to be done in the United States

Andean Countries

Trade preferences for Andean nations began with the Andean Trade Preference Act (ATPA), which provided a 10-year period of duty free or reduced-duty treatment of selected products from Bolivia, Colombia, Ecuador, and Peru. A limited program enacted partly to counter illicit drug production and trade by enhancing other economic opportunities, it excluded textiles and apparel, expired December 4, 2001.

Congress reinstated and liberalized the ATPA in the Andean Trade Promotion and Drug Eradication Act (part of the Trade Act of 2002). This expanded the scope of benefits to newly include several categories of products, including some textile and apparel items, as eligible for duty-free treatment; it provided treatment similar to that received by Caribbean countries, including more relaxed certificate of origin rules (similar those under NAFTA); it tightened transshipment and safeguard rules; and it extended the program to December 31, 2006. However, the 2002 Trade Act requires that all dying, printing, and finishing of U.S.-made fabric incorporated in imported apparel be done in the United States for the apparel to get ATPA benefits.[34]

U.S. Fiber and Fabric Exports to Trade Preference Regions

As described above, to reserve markets for U.S. manufacturers of yarn and fabric, the trade preference programs for the most part require U.S.-made yarn and/or

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[34] For more on Andean region trade preferences, see CRS Report RL30790, *The Andean Trade Preference Act: Background and Issues for Reauthorization*, by J. F. Hornbeck.

fabric as inputs for textile and apparel end-products for them to qualify for trade preference. U.S. domestic exports of fiber, yarn, and fabric to two of the three trade preference regions increased steeply in the early 2000s (**Table 2**), when the programs went into effect. Among the three trade preference regions, CBTPA countries as a group constitute the largest market by far for U.S. fiber, yarn, and fabric, with ATPA and AGOA countries a distant second and third. U.S. exports of fiber, yarn, and fabric to CBTPA countries, which had been rising at least since the mid-1990s, increased sharply in 2001 and have risen further since then, although not as rapidly. Exports to ATPA beneficiary countries rose sharply in 2003, and appear to be doing so again in 2006. However, U.S. exports of fiber, yarn, and fabric to AGOA countries, have remained low relative to those to ATPA and CBTPA countries, actually have declined since the late 1990s.[35]

Table 2. U.S. Exports of Fiber, Yarn, and Fabric to Trade Preference Countries

(millions of dollars)

Year	AGOA	ATPA	CBTPA	Total
1997	41	76	607	724
1998	42	66	635	743
1999	34	54	562	650
2000	28	77	784	889
2001	34	68	1,529	1,631
2002	27	63	2,085	2,175
2003	30	105	2,233	2,368
2004	31	114	2,609	2,754
2005	24	119	2,523	2,666
2006[a]	24	160	2,571	2,755

Source: U.S. International Trade Commission (ITC) Trade Database, compiled from tariff and trade data from the Department of Commerce and the ITC.

Notes: AGOA — African Growth and Opportunity Act; ATPA — Andean Trade Preference Act; CBTPA — Caribbean Basin Trade Partnership Act.

a. First seven months at an annual rate.

[35] For details on U.S. exports of fiber, yarn, and fabric to trade preference regions, see CRS Report RL32895, *Textile Exports to Trade Preference Regions*, by Bernard A. Gelb.

Shifts in Shares of World Textile and Apparel Trade

Reflecting changes in relative competitiveness, there have been large shifts in many countries' shares of world trade in textiles and apparel since the mid-1990s — reverses as well as single-direction changes. Probably the most notable and well known absolute and relative gains have been those by the People's Republic of China, which almost quadrupled its exports of textiles and more than tripled its exports of clothing between 1993 and 2004 according to WTO data, which reflect different definitions of textiles and clothing than used herein for U.S. trade data (**Table 3**). (The WTO's textile category includes non-apparel textile end-products as well as fibers and fabrics. As of this writing, the latest WTO data are for 2004).

While much smaller in absolute terms than China's gains, substantial changes have been experienced by a number of other countries (also shown in **Table 3**). However, in at least several cases, these changes have been quite uneven over time. For example, textile exports by Turkey and the Czech Republic rose by 304% and 104%, respectively, between 1993 and 2004, and Romania's exports of clothing jumped by 638% between 1993 and 2004. Mexico's exports of clothing in 2000 were seven times their 1993 level, but its 2004 clothing exports were 17% less than its clothing exports in 2000. Other reversals involved the United States and Indonesia. Exports by the former grew 82% between 1993 and 2000, but rose slightly between 2000 and 2004. The 25 members of the European Union (EU) saw their combined exports of textiles and of clothing to non-EU countries both increase 41% between 2000 and 2004.

As a result of changes in export levels, some countries' shares of world textile and clothing exports have changed markedly. China's share of world exports of textiles more than doubled between 1993 and 2004, and its share of world exports of clothing rose by two thirds over the same period (**Table 4**). India's and Turkey's shares of world textile exports grew from 2.6% and 1.4%, respectively, to 4.0% and 3.3%. Korea's, Japan's, and Indonesia's shares fell by about one third or more. The United States' share of world textile exports increased significantly between 1993 and 2000, but shrank between 2000 and 2004. EU members slightly expanded their combined share between 2000 and 2004.

With respect to clothing, Mexico's share of world exports grew from 0.9% to 4.4% between 1993 and 2000, but then fell to 2.8%. Romania's 2004 share was about three and a half times that of its very small 1993 portion. Hong Kong's share of clothing exports shrank from 7.2% in 1993 to 3.2% in 2004. Bangladesh's share doubled from 1.0% in 1993 to 2.0% in 2000, but then decreased to 1.7% in 2004; Indonesia's share decreased during both sub-periods. The United States saw its share of clothing exports shrink by almost one-half — from 3.8% in 1993 to 2.0% in 2004. EU members slightly increased their combined share of world clothing exports between 2000 and 2004.

Thus, China has increased its share of textile and apparel exports appreciably, particularly rapidly since 2000, and the increase has come at the expense of both developing and industrialized countries, except for the 25-member European Union.

Table 3. Selected Countries With Large Changes in Exports of Textiles and Clothing, 1993 to 2004

Textiles

Country or Group	Value of Exports (billions of $)			Total Percent Change	
	1993	2000	2004	1993-2000	2000-2004
Turkey	1.59	3.67	6.43	+131	+75
Canada	0.97	2.08	2.43	+114	+17
India	2.92	6.00	6.85[a]	+106	+14[a]
China[b]	8.70	16.14	33.43	+85	+107
European Union (25)	n.a.	17.27	24.31	n.a.	+41
United States	6.03	10.95	11.99	+82	+9
Czech Republic	0.81	1.22	1.65	+51	+35
Taipei	8.18	11.89	10.04	+45	-16
Republic of Korea	8.95	12.71	10.84	+42	-15
Indonesia	2.64	3.51	3.15	+33	-10
Hong Kong[c]	2.09	1.18	0.68	-44	-42

Clothing

Country or Group	Value of Exports (billions of $)			Total Percent Change	
	1993	2000	2004	1993-2000	2000-2004
Mexico[b]	1.19	8.63	7.20	+625	-17
Romania	0.64	2.33	4.72	+264	+103
Bangladesh	1.24	3.91	4.44	+215	+14
China[b]	18.44	36.07	61.86	+96	+71
European Union (25)	n.a	13.54	19.13	n.a.	+41
United States	4.95	8.63	5.06	+74	-41
Indonesia	3.50	4.73	4.45	+35	-6
Vietnam	n.a.	1.82	3.98	n.a.	+119
Hong Kong	9.29	9.94	8.14	+7	-18
Thailand	4.18	3.76	4.05	-10	+8
Republic of Korea	6.17	5.03	3.39	-18	-33

Sources: World Trade Organization (WTO), *Annual Report 1996*, Volume II, Tables IV.51, IV.52, IV.58, and IV.59; WTO, *International Trade Statistics 2005*, Tables IV.74 and IV.82.

Notes: Percent changes calculated from figures to three decimal points. Textiles include non-apparel textile end-products as well as fibers and fabrics. Clothing excludes footwear.

n.a. = Not available or applicable.

a. 2003 instead of 2004.

b. Includes significant shipments through processing zones.

Table 4. Leading Country Exporters of Textiles and of Clothing, 1993, 2000, and 2004

Share of Total World Exports of Textiles

Country or Group	1993	2000	2004
China[a]	8.0%	10.4%	17.2%
European Union (25)[b]	n.a.	11.2	12.5
United States	5.3	7.1	6.2
Republic of Korea	7.9	8.2	5.6
Taipei	7.2	7.7	6.8
India	2.6	3.9	4.0[c]
Japan	5.9	4.5	3.7
Pakistan	3.1	2.9	3.1
Turkey	1.4	2.4	3.3
Indonesia	2.3	2.3	1.6

Share of Total World Exports of Clothing

Country or Group	1993	2000	2004
China[a]	14.3%	18.3%	24.0%
European Union (25)[b]	n.a.	6.9	7.4
Turkey	3.4	3.3	4.3
Hong Kong	7.2	5.0	3.2
Mexico[a]	0.9	4.4	2.8
India	3.0	3.1	2.8[c]
United States	3.8	4.4	2.0
Bangladesh	1.0	2.0	1.7
Indonesia	2.7	2.4	1.7
Romania	0.5	1.2	1.8

Sources: World Trade Organization (WTO), *Annual Report 1996*, Volume II, Tables IV.52 and IV.59; WTO, *International Trade Statistics 2005*, Tables IV.75 and IV.83.

Notes: Countries were selected on the basis of their ranking for 2004. Textiles include non-apparel textile end-products as well as fibers and fabrics. Clothing excludes footwear.

a. Includes significant exports through processing zones.
b. Extra-EU exports.
c. 2003 instead of 2004.

Implementation and Effects of the Quota Phaseout

Completion of the phaseout of quotas on textile and apparel trade removes a hindrance to industries with competitively-advantageous characteristics in some countries to win markets from their counterparts in other developing countries and in industrialized countries. Exporting country industries that had some assured market access along with restricted quantities by virtue of an agreement with an importing country now face more open competition, especially in labor-intensive apparel manufacture/assembly. The actual extent of implementation of the phaseout, however, has been uneven so far.

Implementation Caveats

If implementation is defined as the ability of countries' political leaders to permit the provisions of the Agreement on Textiles and Clothing to take full effect, it can be argued that complete implementation may be difficult for at least three reasons: (1) The fourth stage of import quota phaseout was large in terms of the proportion of the volume of textile and apparel items that are scheduled to be freed from quotas; (2) the fourth stage covered items that were left to the end because of their domestic sensitivities; and (3) the phaseout is a major symbolic, as well as actual, step toward further "globalization," considered by some as economically and environmentally oppressive and/or as an intrusion into their economic or personal lives. The actuality of the economic consequences of the full effect of the ATC may aggravate those negative feelings.

With respect to procedure, some considered it likely that parties that are harmed by or perceive a threat from goods produced abroad would use the safeguard mechanisms available,[36] and at least with respect to the United States and the EU, some safeguards already have been put in place (see discussion under "Pre- and Post-Implementation Developments"). As described earlier, China's WTO accession agreement allows the United States and other Member countries to impose temporary quotas on textile and apparel from the People's Republic of China if they determine that Chinese-origin imports of a product are causing "market disruption." Moreover, trade in textiles and apparel still is constrained to some extent by tariffs, which are not *required* to be reduced by the ATC.

Competitiveness Factors

The expiration of the quotas on textile and apparel trade removes a hindrance to winning markets for industries in countries with competitively-advantageous characteristics. While low labor costs are important, numerous other factors in one country can combine to offset lower labor costs in another country, or provide an advantage over another country with comparable labor costs. "Other" factors include labor skills, workforce availability, managerial quality, proximity to markets,

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[36] This was anticipated by J. Michael Finger and others. See, for example, J. Michael Finger. "Legalized Backsliding: Safeguard Provisions in the GATT," in *The Uruguay Round and the Developing Countries,* Will Martin and L. Alan Winters, Editors. World Bank Discussion Paper No. 307, 1995.

infrastructure suitability, degree of market access, quality and cost of material inputs, availability and cost of capital, level of service, and business climate.

Labor skills and work force availability are among the factors that determine effective labor costs. Better trained workers tend to be more productive, and wages tend to be higher if textile and apparel producers face substantial competition for workers from other parts of the economy. Geographical location and transportation availability and proficiency affect delivered prices and shipment times. The market access afforded by a trade preference (unilaterally provided or by agreement) might offset disadvantageous characteristics, but this can depend heavily upon the strictness or looseness of any rules of origin provisos. Quality and cost of inputs depends upon factors such as the presence or absence of supplier industries, and/or upon other access to raw materials and intermediate inputs, including the sizes of any tariffs on imports of material inputs. Level of service includes product quality, scope of service, reliability, and flexibility. Political stability, citizen safety, security of operations, reliability of telecommunications, and the consistency, efficiency, and honesty of the legal and commercial systems are among characteristics determining a country's business climate.

Pre- and Post-Phaseout Procedural Developments

Given the widespread pre-2005 prediction of substantial market capturing by Chinese and other Asian exports, some developing country governments and textile and apparel industries anticipated and serious negative impacts on their economies. This led to a series of meetings, requests for measures to ease or extend the transition to quota-free trade in textiles and apparel, and responses by China.

International Efforts. In March 2004, textile industry trade associations from Turkey and the United States formulated the so-called Istanbul Declaration calling for an emergency meeting of the WTO to review the the possibility of a three year extension of the phaseout. The declaration was joined by textile producing associations from 47 other countries in June 2004, at a meeting in Brussels, Belgium. The next month, the government of Mauritius requested an emergency WTO meeting, but did not propose to extend the quotas. Six other developing countries joined Mauritius in September 2004 in calling for the WTO Secretariat to prepare a study on adjustment-related issues and costs arising from quota elimination and to establish a WTO program to discuss solutions to the problems identified by the study.[37]

[37] Global Alliance for Fair Textile Trade. "Istanbul Declaration Regarding Fair Trade in Textiles and Clothing." [http://www.fairtextiletrade.org/istanbul/declaration.html]. International Center for Trade and Sustainable Development. "International Textiles Coalition Calls for Emergency WTO Meet." *Bridges Weekly Trade News Digest*, June 23, 2004. [http://www.ictsd.org]; "Textile Makers Shift Focus from Quota Extension to Quota Safeguard," China Update, *Inside U.S. Trade*, July 23, 2004, [http://www.insidetrade.com]. Mauritius Makes First Attempt to Discuss Textile Quota Phase Out in WTO," China Update, *Inside U.S. Trade*, July 23, 2004, [http://www.insidetrade.com].

The "Istanbul Declaration" referred to here is distinct from several other Istanbul Declarations proclaimed by international groups in recent years. The others pertain to matters ranging from the competitiveness of small business to NATO collective defense.

Further efforts to establish a program to address such concerns were deadlocked at an informal meeting of the WTO Council on Trade in Goods on October 26, 2004 — primarily due to efforts by China, India, and Brazil. The talks continued under WTO auspices, however, and on December 10, 2004, China reached a compromise with other developing countries in which the WTO would provide technical assistance to the "beneficiaries" upon their request.[38] In addition, in what some observers consider an essentially ineffective gesture, China announced in mid-December 2004 that it planned to impose export tariffs on certain textile products based upon quantity "to encourage the export of high value-added products and optimize the mix of Chinese textile exports."[39] The number of items to be covered and expiration date, if any, was unclear, and one source estimated the average rate to be 1.3%.[40] Since the scheduled imposition date of January 1, 2005, the tariffs have received little notice.

An actual countermeasure was put in place soon after the quota phaseout became effective. Exports of textiles and apparel from China to EU countries rose steeply and unit prices in the latter fell in the first several months. Complaints from member countries led to a June 2005 agreement between the EU and China that applies permitted safeguards that limit imports of ten categories of products until the end of December 2007. In reality, while imports of China-origin goods had risen strongly, *total* quantities of imported textiles and apparel had increased relatively little.

U.S. Developments. U.S. textile and apparel market share gains by imports continued into the immediate pre-phaseout period. For example, imports' share of the U.S. market for non-apparel textile end-products increased from 16.2 % in 1998 to 20.0% in 2001, and their share of the market for apparel and accessories rose from 45.1% in 1998 to 53.8% in 2001 (**Table 5**).[41] These gains accelerated as a result of particularly rapid increases in imports from China after quotas on China's imports began to decrease in 2002 as per the 1999 U.S.-China agreement. China's shares of the fiber, yarn, and fabric, the non-apparel end-product, and the apparel markets all expanded substantially between 2001 and 2004.

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[38] "WTO Members Deadlock on How to Address End of Textile Quotas, Pan Turkey's Proposal," *International Trade Reporter*, BNA, Inc. October 28, 2004, p. 1747; "China Ends Feud With Developing Nations on WTO-Sponsorship of Textile Aid Program," *International Trade Reporter*, BNA, Inc., December 16, 2004, p. 2030.

[39] Mei Fong and Greg Hitt, "China Sets Textile-Export Duties, Easing Tension," *The Wall Street Journal*, December 14, 2004, p. A2; "Spokesman of MOFCOM Chong Quan: Taking the Positive Measure to Promote Textile Export of Our Country to Realize Sustainable Development," Ministry of Commerce of the People's Republic of China, December 15, 2004; "U.S. Textile Makers Say New Chinese Export Tax Could Hurt U.S. Companies," *Inside U.S.-China Trade*, December 15, 2004, p. 1.

[40] "CHINA: Industry seems to be little affected by new tax policies," BharatTextile.com, December 28, 2004, [http://www.bharattextile.com/newsitems/1993030]; "China to levy export tax on textiles," China Economic Net, January 1, 2005, [http://en.ce.cn/Business/Macro-economic/200501/01/t20050101/_2728861.shtml]; "China Clarifies Tariff Rates on Textile Exports," [http://www.homelandsecuritymonitor.com/index.htm]; December 30, 2004, viewed on January 3, 2005.

[41] The percentages in **Table 5** are rough estimates, and should be considered approximations subject to the caveats in the appendix to this report.

Table 5. Imports' Approximate Shares of the U.S. Textile and Apparel Markets

(Percentages)

Year	Fiber, Yarn, & Fabric		Non-apparel Textile End-Products		Apparel & Accessories	
	China	Rest of World	China	Rest of World	China	Rest of World
1998	0.6	10.5	3.7	12.5	6.4	38.7
1999	0.6	11.1	4.0	13.2	6.6	40.8
2000	0.8	12.7	4.5	14.4	7.2	44.3
2001	0.7	13.4	4.9	15.1	7.8	46.0
2002	1.0	14.1	6.3	16.0	9.4	50.9
2003	1.3	15.0	8.5	16.6	11.0	52.8
2004	1.7	17.1	10.3	17.0	13.1	55.2
2005	2.4	16.4	12.5	17.2	17.2	47.5
2006[a]	3.3	19.5	13.4	17.5	17.5	52.1

Sources: Bureau of the Census. *Annual Survey of Manufactures, 2001*; Bureau of the Census. *Manufacturers' Shipments, Inventories, and Orders: December 2005*; International Trade Commission Trade Database [http://www.dataweb.itc.gov/scripts]. Percentages calculated by CRS.

Notes: The U.S. market in each category is approximated as U.S. manufacturers' shipments (manufacturers' prices) plus imports less exports. Import data are on a customs value basis.

a. First seven months. Preliminary.

The sharp increases in imports from China before the January 1, 2005 overall quota phaseout prompted a series of procedural, political, and legal actions by various U.S. interests, including the following. Three U.S. industry associations filed petitions to the Committee for the Implementation of Textile Agreements (CITA) in July 2003 to invoke the safeguard relief available under China's WTO accession agreement. CITA notified China in December 2003 that it intended to impose quotas on those product categories and requested consultations.[42] A number of subsequent petitions for safeguard actions were filed — a few pertaining to products still under quota restrictions, and other quotas on other products were imposed the following two years.

[42] Department of Commerce, "Evans Announces Result of China Textile Safeguard Decision," [http://www.commerce.gov/opa/press/Secretary_Evans/2003_Releases/November/18-evans_chinasafeguard_stmt.htm], viewed October 3, 2006.

Some Members of Congress, concerned over the potential impact of Chinese imports on U.S. workers and on workers abroad when the textile and apparel quotas expire, wrote to President Bush in mid-2004 requesting his support for asking the WTO to re-examine the scheduled ending of quotas.[43]

Reflecting their interests, a group of major apparel retailers filed a motion at the U.S. Court of International Trade on December 1, 2004, challenging the legality of CITA's action and asking for a preliminary injunction barring CITA, from taking further action on petitions to impose safeguard quotas on imports of Chinese textile and apparel products based on the *threat* of market disruption and on imports of products still under quota. The group claimed that CITA was causing irreparable harm by proceeding to consider the petitions using the threat of market disruption instead of actual market disruption as a criterion for considering safeguard quotas. Ultimately, an appeals court stayed an injunction imposed by the International Trade Court, and CITA proceeded on several of the cases.

Between December 2003 and late October 2005, CITA formally requested consultations with China — and simultaneously implemented quotas — on several categories of apparel. On November 8, 2005, it was announced that the United States and China had signed a three-year pact limiting China's exports of 34 textile and apparel products until 2008, which was very similar to the agreement the European Union had reached with China. China objected to U.S. imposition of the safeguard quotas, especially those based upon an alleged *threat* of market disruption.[44]

Effect on U.S. Producers and the U.S. Economy

As already discussed and shown, U.S. manufacturers of textiles and apparel have been losing market share to foreign producers for much of the post-World War II period, continuing to recent years. With significant volumes of textile and apparel imports already being affected, U.S. textile and apparel manufacturers, particularly apparel makers, are being affected appreciably by the quota phaseout.

Assuming eventual full implementation of the phaseout (after safeguard measures are no longer permitted), it is likely that imports will continue to increase, and U.S. textile and apparel manufacturing production and employment will decrease further, perhaps faster than in the past. The U.S. Bureau of Labor Statistics (BLS) projects large decreases in output and employment in several components of U.S. textile and apparel manufacturing. For example, production of five of the seven textile and apparel industries addressed by BLS is projected to decline between 22% and 32% between 2004 and 2014; and employment in those industries is projected to decrease from 46% to 56% (**Table 6**). Output is projected to rise in two of the industries (textile furnishings mills and other textile product mills), but BLS projects

[43] House of Representatives letter dated June 7, 2004; Senate letter dated June 9, 2004, [http://www.fairtextiletrade.org/newsroom/index.html], viewed October 3, 2006; "Members of House, Senate Urge Bush Support for WTO Meeting on Textiles," *International Trade Reporter*, BNA, Inc., June 17, 2004, p. 1014.

[44] "Chinese Charge Free Trade Violations in U.S. Acceptance of Apparel Petitions," *Daily Report for Executives*, BNA, Inc., November 15, 2004.

employment even in those industries to drop. In all cases, employment is projected to decrease faster than production.

Table 6. Production and Employment, 2004 and 2014, of Selected U.S. Textile and Apparel Manufacturing Industries

Industry	2004		2014 (projected)	
	Production (billion $)[a]	Employment (thousands)	Production (billion $)[a]	Employment (thousands)
Fabric, yarn, & thread mills	10.0	54.4	7.8	25.0
Fabric mills	20.4	117.4	14.0	63.4
Textile & fabric finishing[b]	11.2	69.9	8.4	35.7
Textile furnishings mills	25.4	103.0	34.5	90.7
Other textile product mills	10.7	84.3	11.5	65.4
Apparel knitting mills	8.0	44.0	5.6	21.5
Cut & sew apparel manuf.	43.9	231.5	32.8	102.9

Source: Bureau of Labor Statistics, obtained from "Industry Output, and Employment" [http://www.bls.gov/emp/empind2.htm] viewed October 3, 2006.

a. Constant 2000 dollars.

b. Includes fabric coating mills.

However, there also will be benefits to the overall U.S. economy (and European Union economies as well) from acceleration of imports of textiles and apparel from developing economies. To the extent that prices of textiles and apparel fall, or are lower than they would be without a quota phaseout, as a result of the expected increase in competition from foreign-produced goods, U.S. industrial users of these products and U.S. consumers/households should benefit. U.S. importers of textiles — domestic apparel manufacturers that use or hope to use foreign-made textile inputs, domestic apparel wholesalers, and large chain stores — will tend to benefit vis-à-vis competitors who use less imports.

Also, value added per worker in textiles and apparel production is considerably lower than in manufacturing as a whole. Substitution of foreign-made for domestically-produced textiles and apparel will tend to further the long term shift in the U.S. economy from lower to higher value added industries, and tend to increase average wages in manufacturing if labor is sufficiently mobile.

Effects on Developing Countries

The phaseout of textile and apparel quotas tends to remove an obstacle to industries in lower-labor-cost nations (generally, developing countries) to win markets from their counterparts in industrialized countries. Thus, it is reasonable to expect that the shift in textile and apparel production from developed to developing countries will continue. Moreover, there is considerable scope for the shift to at least continue, inasmuch as industrialized countries still accounted for about 59% of world textile production and 66% of world apparel production in 2004.[45] Also, in general, elimination of quotas provides more scope to countries whose industries are more efficient to gain at the expense of countries with less efficient industries. (In this context, efficiency particularly connotes the ability to produce at a lower cost measured in a common currency.)

In some cases, whatever gains in physical sales volume that textile and apparel exporters derive as a result of the quota phaseout may be offset to some extent by lower prices per unit that result from free access to markets. In a quota regimen, prices tend to be higher than they otherwise would be as quotas act as a rationing device. In some cases, textile and apparel producers subject to quotas benefit by receiving the higher prices (on smaller volumes) themselves. Sometimes, the higher prices are in the form of formal quota charges added to the market price by private sector exporters (manufacturers or others) that hold entitlements to quotas, or by the government that administers the quotas.

A key goal of and expectation from the ATC quota phaseout was that world economic welfare will improve. A summary of quantitative studies on the impact of the phaseout that was prepared in connection with a conference on that subject[46] reported that all the reviewed studies produced estimates that global welfare will increase, but with considerable variation of magnitude among the studies and considerable variation in the distribution of welfare gains by region and/or country. The estimates of most of the studies indicated that developing countries will be the main beneficiaries of the quota phaseout, but some studies resulted in estimates showing that developing countries would experience diminished welfare in the aggregate. However, the modeling results of the studies consistently indicated that there will be a considerable shift in textile and apparel production and trade to Asian and other developing countries, with such production falling and imports increasing in industrialized countries.[47]

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[45] *International Yearbook of Industrial Statistics 2006,* p. 50.

[46] "The Future of Textiles and Clothing After 2004." European Commission for Trade, Brussels, May 5-6, 2003.

[47] Organization for Economic Co-operation and Development (OECD), Trade Directorate, Working Party of the Trade Committee. "Liberalizing Trade in Textiles and Clothing: A Survey of Quantitative Studies." Paris: May 2, 2003. Most of the studies reviewed used general equilibrium models in their analyses. This summary subsequently was included in the OECD report, *A New World Map in Textiles and Clothing*, Paris: 2004.

Similar outcomes regarding textile and apparel trade and production have been indicated by many other studies, including those by the U.S. International Trade Commission [48] and by Hildegunn Kyvik Nordås, for the WTO.[49]

China. As discussed above, most trade participants, analysts, and observers expected that the quota phaseout would result in increased exports of textiles and apparel by developing countries as a whole. During the Uruguay Round of trade negotiations, it was the developing countries that espoused the phaseout most strongly. However, it became widely believed and feared — now seemingly justified — that China will be a major beneficiary at the expense of most other developing countries, although India and Pakistan are expected to benefit appreciably as well.[50] Data and other information

China is an especially vigorous and strong competitor in a world textile and apparel trading regimen by virtue of its rapid industrialization, large economy, substantial natural resources, fast economic growth, and large population. Also, it has fewer trade rule restraints now that, as a member of the WTO, its quotas have expired. A major factor is China's quasi-privatization of its agricultural sector and consequent gain in productivity, which is releasing portions of its large rural population from agricultural work for employment in urban industrial centers. Such large availability of workers tends to restrain wage rates. The ITC study and some others see China as having low labor costs, high productivity, locally-produced materials, and able to make "almost any type of textile and apparel product at any quality level at a competitive price."[51] In addition, many assert, China uses unfair trade practices such as currency manipulation.[52]

Other Asian Countries. While China is expected to become, and may well have become, the supplier of choice, a few Asian countries are expected to retain significant roles as suppliers to the world market for textiles and clothing. U.S. and other major market importers are expected to try to reduce the risk of sourcing from only one country. India has a large, versatile, strongly competitive manufacturing base with low labor costs; and Pakistan, Bangladesh, and Vietnam have sufficiently low labor costs to compete well in some product markets. Vietnam has sharply increased its exports of clothing recently, but is subject to quotas until it becomes a member of the WTO. Once a major supplier of clothing to the world market, Hong Kong probably will continue to lose market share because of its relatively high costs.

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[48] U.S. International Trade Commission (ITC). *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market*, USITC Publication 3671, Vols. I and II. Washington: January 2004.

[49] Hildegunn Kyvik Nordås. *The Global Textile and Clothing Industry Post the Agreement on Textiles and Clothing.* World Trade Organization. Geneva: 2004.

[50] Such a conclusion was reached by both the ITC and Nordås.

[51] ITC. *Textiles and Apparel: Assessment.* Vol. I, pp. xi and xiii.

[52] For an analysis of the economic issues raised by China's currency policy, see CRS Report RL32165, *China's Currency: Economic Issues and Options for U.S. Trade Policy*, by Wayne M. Morrison and Marc Labonte.

Countries With U.S. Trade Preferences. Inasmuch as tariffs were not phased out along with MFA quotas on January 1, 2005, countries eligible for duty-free U.S. textile trade preferences may have a potential advantage over some other potential suppliers, depending greatly upon beneficiary countries' geographical proximity to the United States. Thus, it is not surprising that the Caribbean countries as a group constitute the largest market by far for U.S. fiber, yarn, and fabric among the three U.S. trade preference regions (**Table 2**). As noted earlier, U.S. domestic exports of fiber, yarn, and fabric to CBTPA countries, which had been rising at least since the mid-1990s, increased sharply in 2001 (the calendar year following the going into effect of the CBTPA) and have risen further since then. However, it should not be inferred that geographical proximity is the only factor in determining competitive advantage.

Regional Trade Agreements

There is a separate issue of the effects of the quota phaseout on the textile and apparel industries in countries that are parties to the numerous regional and bilateral trade agreements and now in place, and vice versa. Generally, it would appear that the phaseout would tend to diminish the benefits of regional agreements to the participating parties. On the other hand, the structural relationships formed as a result of such trade agreements may limit the hoped for gains of the textile and apparel quota phaseout.

Appendix: Estimating Imports' Share of the U.S. Textile and Apparel Markets

To reflect as closely as possible the structure of textile and apparel manufacturing, textiles and apparel were disaggregated into three categories: (a) yarns, fibers, and fabrics — the basic materials for manufacturing textile end-products; (b) finished textile products other than apparel; and (c) finished apparel and apparel accessories. The framework now used to collect and compile industry and product data in Canada, Mexico, and the United States, the North American Industry Classification System, uses these classifications for textiles and apparel.

The percentages provided in **Table 5** are rough estimates in which the total value of imports in each of the above textile and apparel categories is related to the approximate sizes of the U.S. market of each of the categories. In each case, the latter was estimated by a frequently used method of approximating the size of a national market for a particular category of goods, which adds total shipments by domestic manufacturers of the category of goods to total imports of the category of goods and subtracts exports of that category of goods. Thus, the "market" is implicitly defined as total purchases at manufacturers' prices of the particular category of goods in the country. The import data essentially are at manufacturers' prices and are on a customs value basis.

This approach to estimating market share, while relatively simple and convenient to use, disregards the fact that the total value of shipments by an industry contains some double counting of the value of its output. This is because some industry firms produce material inputs that are sold to other companies in the industry that further transform the materials. And, as is the usual practice, the sales totals (value of shipments) of the former group are both included as a component of total industry sales and, in effect, in the sales totals of the latter group, inasmuch as the value of the former group's output is included in the value of the latter group's output. The value of imported goods produced by industries in foreign countries does not include such double counting, however. Thus the numerator of the ratio (imports of textiles and apparel from China) is not comparable to the denominator, as the measure of the U.S. market for textiles and apparel includes double counting. The effect is to understate imports' share of the U.S. textiles and apparel markets.