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Threadbare Excuses
The Textile Industry's Campaign to Preserve Import Restraints

by Dan Ikenson

Executive Summary

On January 1, 2005, the textile and apparel quota regime, administered under the World Trade Organization's Agreement on Textiles and Clothing, is slated to terminate. After decades of protectionist exceptions, textile trade finally will be subject to the same rules that govern international trade in other manufactured products.

Getting to this point has been difficult. The United States is widely perceived to have obstructed implementation of an agreement that was intended to achieve incremental liberalization in four stages over 10 years. To this day, most products that were to be liberated from quotas remain under quantitative restrictions. There can be little doubt that U.S. failure in this regard contributed to the breakdown of the September WTO talks in Cancun, Mexico, where developing countries were outspoken about the failure of rich-country policies to live up to their rhetorical promise.

Meanwhile, the U.S. textile lobby has launched a rearguard campaign to preserve and expand import barriers. Recently, a coalition of textile producers filed petitions seeking new restrictions on certain Chinese exports. Talk of filing new trade remedy cases has become more pronounced. And the specter of job losses in the U.S. textile industry is once again being used to vilify trade.

The reality, however, is that American textile workers have had decades to adjust their expectations and seek new skills. Textile communities, and their leaders, have had ample opportunity to prepare for transition to employment in new industries.

Meanwhile, the enormous costs of textile protectionism have been borne disproportionately by America's lower-income families, who spend a higher proportion of their earnings on clothing. Textile protectionism has also deprived poor countries of export opportunities—precisely the kind of opportunities the Bush administration identifies as vital for promoting economic stability and security. Considering its burgeoning propensity to use trade policy to advance foreign policy and national security objectives, the administration should clearly articulate its support for freer trade in textiles and apparel by denying the industry's rearguard efforts.

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Introduction

Few manufacturing sectors have been more immune from the broader strokes of international trade liberalization than the textile and apparel industries. Textile and apparel trade has operated under a set of rules distinct from those governing trade in other products for most of the post–World War II period.

Although international commitment to incremental trade liberalization under the auspices of the General Agreement on Tariffs and Trade precipitated decades of trade barrier reductions in other sectors, textile and apparel trade has been subject to heavy and prolonged restrictions. Specifically, most textile and apparel imports into the United States (as well as the European Union and Canada) have been subject to quantitative restrictions since 1974. Some restraints even go as far back as the 1950s.

But the textile and apparel quota regime, administered under the World Trade Organization's Agreement on Textiles and Clothing, is slated to terminate on January 1, 2005. Pursuant to the ATC, negotiated during the Uruguay Round, which concluded in 1994, textile and apparel quotas will be abolished and trade in those sectors will be considered "integrated" with the GATT and subject to the same disciplines that govern trade in other products.

Thus far, the United States has proven less than steadfast in its commitment to the objectives of the ATC. Incremental liberalization that was to transpire in four stages over the course of 10 years has been mostly cosmetic. The majority of products important to textile and apparel exporters have been back loaded for liberalization in the final stage.

As 2005 approaches, domestic voices of opposition to liberalization have been growing louder. New demands that foreign countries open their own textile and apparel markets as a precondition for further U.S. liberalization are being thrust into official commentary on the topic. Side deals effectively reversing previous liberalizations were demanded by some members of Congress—and granted by the Bush administration—to secure votes on the Trade Promotion Authority legislation in 2001 and 2002. In July 2003 domestic producers filed a special safeguard case against certain textile and apparel products from China, and textile producers are already signaling their intention to bring cases under the antidumping and countervailing duty laws.

The Bush administration's silence—and in some cases acquiescence to the textile industry's demands—is only exacerbating international perceptions of a shaky U.S. commitment to trade agreements, much as the 2002 steel safeguard has. Such acquiescence likely contributed to the failure to make progress on multilateral trade negotiations in Cancun, where among the crosscurrents was developing-country reluctance to forge agreements that are too often ignored by rich countries. The fact that a U.S. presidential election year will precede full implementation of the ATC only raises further doubts.

Despite decades of U.S. market share and employment losses, textile and apparel producers still have political clout. But the drive for continued protection comes primarily from the textile industry. For the most part, apparel producers heeded the writing on the wall and globalized operations years ago. They are less inclined to obstruct trade today.

Textile producers, on the other hand, are playing by the old rules—the only rules they understand, frankly—and are agitating for more restrictions. They are sure to exploit the specter of increasing legions of displaced textile workers to advance their claims. But the reality is that American textile workers have had decades to adjust their expectations and seek new skills. Textile communities, and their leaders, have had ample opportunity to prepare subsequent generations for transition to employment in new industries. There has been plenty of time to promote and adopt policies to attract investment in new business. Agitating for more protection now amounts to a confession that opportunities and time have been squandered. Those without options have nobody but themselves and their political and business leaders to blame.

Nevertheless, the employment outlook is not as bleak as industry advocates suggest. In recent years, the major textile-producing states have

attracted investment in manufacturing that far exceeds the national average. Manufacturing output and exports from those states have also been relatively strong. For workers having more difficulty finding jobs, the trade adjustment assistance program was expanded in 2002 to extend more benefits for a longer period of time. Accordingly, displaced textile workers have access to government benefits not available to most of the 2.6 million U.S. manufacturing workers who have lost their jobs since January 2001. Meanwhile, the economic costs of ensuring a soft landing for workers and communities who ignored the signs and warnings have been substantial. And they have been borne disproportionately by lower-income families throughout the United States.

The anticipated quota-free environment portends substantial upheaval in global production. While most textile and apparel trade still will be subjected to higher-than-average tariffs after integration, U.S. producers will face more intensive foreign competition than they are accustomed to, and there will be further contraction in a domestic industry long in decline.

Ironically, many countries that were presumably constrained by the quotas will be on the outside looking in, as they come to grips with the fact that their own industries cannot compete effectively in a quota-free marketplace. The fact that tariffs will remain relatively high accentuates the significance of the patchwork of free-trade agreements and regional trade preference programs, such as the North American Free Trade Agreement, the Africa Growth and Opportunity Act, the Andean Trade Preferences Act, and the Caribbean Basin Trade Partnership Act, as well as the proposed free-trade agreements with Central America, Southern Africa, Morocco, and the Dominican Republic. Producers in countries with preferential access to the U.S. market could have an extended lease on life, although duty avoidance under some of these programs is itself costly and does not guarantee business.

But preferential access implies that other producers have less favorable access. So any decision to bestow preferences on one country necessarily handicaps others, many of which suffer from a dearth of economic opportunities. And textile and apparel production is the primary manufacturing activity in many of the world's poorest countries.

Considering its burgeoning propensity to use trade policy to advance foreign policy and national security objectives, the Bush administration should seek to ensure that its trade and foreign policies are coordinated. That will require an assessment of the prevailing high tariffs on textile and apparel imports, the strengths and weaknesses of the various preference programs, and the wisdom of restraining trade in the future. An objective analysis will lead to the conclusion that it is time for U.S. trade policy to work for the benefit of all Americans, not just concentrated pockets of rent-seeking industries. Trade policy should not anoint winners and losers but should enable market-oriented decisionmaking to flourish. In the 21st century, there is no justification for prolonging the failed policies of the past.

Legacy of the Multifibre Agreement

There is perhaps no better example of the folly of managed trade than the ATC and its predecessor arrangements. What began as a shortsighted, GATT-subversive ploy by rich countries to insulate their textile and apparel industries from developing-country competition actually made matters worse for the intended beneficiaries. It encouraged worldwide capacity growth as industries budded in places not yet restricted, which intensified import competition and price deflation, which in turn begat progressive expansion of the web of restrictions to address the growing "problem." Meanwhile, job attrition in the U.S. textile and apparel industries continued unabated over the decades, while the cost of protecting those jobs was thrust upon unwitting American consumers. Today's muddled landscape is a direct result of the original sin of the 1950s.

Inspired by a renewed international commitment to trade embodied in GATT, the recovering postwar economies began to trade

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more vigorously and the world began to prosper. But just seven years after its inception, the United States fired the first significant shot across GATT's nascent bow. In 1955 the United States compelled Japan to "voluntarily" restrain its exports of cotton fabrics and clothing, which had risen to levels exceeding the prewar peak. The U.S. restrictions on Japanese exports were soon followed by similar undertakings by the United Kingdom, which extracted voluntary restraints on exports from Hong Kong, India, and Pakistan in the late 1950s.

By 1960 the concept of "market disruption" was recognized by GATT contracting parties as a justification for imposing extra-GATT measures. The "market disruption" standard—which departed from GATT Article XIX's "safeguard" provision by allowing protectionism targeted at specific countries—led to the introduction of discriminatory restraints in the Short-Term Arrangement of 1961, the terms of which were accepted by 19 exporting countries. In 1962 the Long-Term Arrangement replaced the STA as a five-year pact consisting of bilaterally agreed constraints and unilateral safeguard actions. The LTA was renewed in 1967 and again in 1970.

In 1974 the textile loophole in GATT discipline expanded dramatically. The Multifibre Arrangement provided a framework in which rich countries could limit the access to their markets of textile and apparel products from developing countries. The MFA covered trade in a much wider variety of products than was the case under the STA, LTA, and previous restrictive regimes. It was expanded to include products of wool, man-made fibers, and certain vegetable fibers.

The web of quotas that developed under the MFA contravened GATT's preference for tariffs over quantitative restrictions. It also violated the principle of nondiscrimination, which provided that all signatory members should have equal access to the markets of all other signatory members, since the MFA comprised a series of individual bilateral agreements with different quota levels.

Not only were the MFA and its predecessor arrangements a departure from GATT principles; they exacerbated the very problem they were supposed to address. World supply did not contract. World prices did not rise. Rather, supply expanded and prices fell as more and more unrestricted countries began producing textiles and clothing for export to rich-country markets. Consider the following trends. In 1965 the top 13 exporters of textiles and clothing were Japan, Italy, France, the United Kingdom, Germany, Belgium and Luxembourg, the United States, India, the Netherlands, Switzerland, Austria, Hong Kong, and China. Together, those countries accounted for 88 percent of the $10.33 billion of exports of textiles and clothing in that year. Exports from Japan, India, Hong Kong, and China were subject to MFA quotas.[1]

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By 1996 the Netherlands, Switzerland, and Austria dropped out of the top 13, and Korea, Taiwan, and Turkey were added. Exports from each of the newcomers were subject to quotas. From 1965 to 1996 China graduated from the 11th largest to the largest exporter, Japan descended from the largest to the 13th largest, Korea jumped from 23rd to 4th, Taiwan went from 21st to 6th, and Turkey moved up from 39th to 12th. But most telling is that the entire top 13 in 1996 accounted for only 56.2 percent of the $313.54 billion of exports, suggesting a widespread proliferation of textile and apparel production and exporting worldwide. Whereas the smaller exporters in 1965 accounted for only 12 percent (or $1.2 billion) of the $10 billion in exports, they accounted for 44 percent (almost $14 billion) of the $313 billion in exports in 1996.[2]

The "problem," it would seem, got larger. That is the legacy of the MFA. There are more countries producing textiles and clothing than probably would have been the case had the MFA never been implemented. And that overcapacity has suppressed worldwide prices, adding to the woes of all producers.

Meanwhile, jobs in the U.S. textile and apparel industries continued to decline despite the protection. According to U.S. Census Bureau figures, total employment in the textile and apparel industries was 2.3 million in 1977. By 2000 that figure had declined to 1.1 million.[3] Today, the combined figure is closer to 900,000.

In a 1994 study from the Institute for International Economics, Gary Hufbauer and Kimberly Elliot estimated that protection in the textile and apparel sectors cost the economy upward of $33 billion in 1990. According to their estimates, the cost per job saved was close to $200,000 per year.[4] It is a testament to the perversity of protectionism that Americans would protest violently if the government announced plans to pay textile and apparel worker each $100,000 not to work, yet they acquiesce to a bill that is twice as high.

Quotas and tariffs increase the price of textiles and clothing by restricting supply. They also introduce into the supply chain additional costs that get passed on to consumers. As an example, in 2002 the right to export (i.e., the right to use a quota allotment for) a cotton quilt made in China cost $8.50. In other words, Chinese exporters were required to pay $8.50 to the Chinese government (which owns all of the quota rights) for each cotton quilt exported to the United States in 2002. Those costs are reflected in the price U.S. consumers pay for quilts. So, in one year, U.S. consumers paid $50.3 million to the Chinese government just to cover the cost of quota rights to export cotton quilts.[5] Ted Sattler of Phillips-Van Heusen Corporation estimates that Chinese clothing producers paid around $360 million last year to the Chinese government for quota rights in 12 textile and apparel categories. He also estimates that quotas add from 10 to 50 percent to the average price paid by an American company for an imported garment.[6]

By any reasonable measure, the MFA was an abject failure. First, it subverted GATT principles and opened the door to bureaucracy, foot dragging, and exception making. Second, it failed to save textile and apparel jobs in rich countries. Third, it imposed an enormous economic burden on the U.S. economy—a burden borne disproportionately by lower-income Americans for whom clothing costs are a relatively large budget expense. Fourth, it inspired production decisions that were based not on optimal economic considerations but primarily on avoiding quota restrictions.

By the launch of the Uruguay Round in 1986, developing countries had made their case that no new multilateral trade agreements would be forthcoming without an agreement to end the MFA. The developed countries consented to the ATC, but only after securing loopholes in the agreement that undermine its honest implementation to this day.

Failing the Spirit of the ATC

Today, the vestiges of the MFA endure within the ATC, which allows for the continued use of quantitative restrictions with the ultimate objective of eliminating all quotas over 10 years. The four-stage process of quota retirement specified in the ATC began on January 1, 1995, and is slated for completion on January 1, 2005, at which point the textile and apparel sectors will be considered "integrated" into the GATT system and subject to the same rules and disciplines that apply to other commodities.

If the ATC was celebrated as a long-awaited step toward liberalization of the textile and apparel trade, the champagne was uncorked far too early. Importing countries quickly exploited loopholes, violating at least the spirit if not the letter of the ATC. At the launch of the Doha Round in 2001, developing countries expressed their outrage at the trivial degree of liberalization that had occurred:

> We remain deeply disappointed and concerned that major developed countries have not yet delivered on their commitment to liberalize trade in textiles and clothing in any meaningful manner, for developing countries to benefit from. Seven years from the Uruguay Round Agreement on Textiles and Clothing (ATC), few quota restrictions have been phased out. The plans announced for the remainder of the 10-year period are no more encouraging. Unless major improvements are effected, the large bulk of quotas will remain until the end of the transitional period on 1 January 2005; 701 out of 758 in the US, 167 out of 219 in the EU, 239 out of 295 in Canada.[7]

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Yet, in response to such allegations, U.S. and European officials have consistently taken the position that they have upheld their end of the bargain. How could such different conclusions be drawn from the same set of facts? Like too many trade agreements hastily drafted without tackling some of the stickier issues, the rules governing the ATC are intentionally murky. And as hindsight now confirms, the rules of implementation should not have been left to the discretion of the importing countries.

The ATC includes a detailed list of products—well over one thousand specific tariff provisions—to which its rules apply. Each importing country is required to integrate (remove from quota restraints) products from the list covered by the ATC in compliance with the following schedule:

By January 1, 1995—Products that accounted for at least 16 percent of the country's 1990 import volume
By January 1, 1998—Products that accounted for at least an additional 17 percent of the country's 1990 import volume
By January 1, 2002—Products that accounted for at least an additional 18 percent of the country's 1990 import volume
By January 1, 2005—All remaining products

In addition, growth in the quota levels for each product remaining under quantitative restraint after each stage of integration was to be accelerated. After the first stage, the growth rate of quotas applying to products still under restraint was to be increased by 16 percent above the rate prevailing under the MFA schedule. After the second stage, the rate was to be accelerated by at least another 25 percent. And after the third stage, the remaining quotas were to be increased by at least an additional 27 percent.

The ATC allowed the importing countries to decide which products would be integrated at each stage, with the condition that the list at each stage should include products from four subgroups: tops (unspun fibers) and yarns, fabrics, made-up textile products, and clothing.

In implementing the ATC, each of the importing countries took full advantage of the discretion afforded them. The list of products to be integrated under the ATC was included as the annex to the agreement. It included a substantial number of products that were never even restricted under the MFA. According to estimates in a 1994 *Journal of World Trade* article, previously unrestricted products accounted for 37 percent of U.S. total annex import volume in 1990 (the base year for integration considerations). For the EU, previously unrestricted imports accounted for 34 percent of the annex, and for Canada the figure was 47 percent.[8] Each of those members included previously unrestricted products in their respective integration schedules for the first three stages of the ATC,[9] thus enabling them to claim compliance without really liberalizing the quotas for many products.

Exercising more discretion, the importing countries chose to integrate primarily products in the tops and yarns, fabrics, and made-up textile categories in the earlier stages, pushing off most clothing categories to the final stage. Of course, developing countries have the greatest comparative advantage in labor-intensive clothing production. Clothing has also been more heavily restricted than the other groups of products.[10]

The use of historic imports as the basis for quota retirement offered the importing countries another way to defer liberalization. Imports do not necessarily reflect products that are restricted. In fact, many imports occur because there is no or little domestic production. So, by using imports as the benchmark, rather than domestic production, which more accurately reflects products restricted, the ATC was ripe for exploitation by the importing countries.[11]

Meanwhile, the growth-on-growth provisions of the ATC were marred by the fact that the base rates of growth (those in effect under the MFA) were relatively small. Applying factors of 16 percent, 25 percent, and 27 percent may have seemed like major concessions to the exporting countries, but in practice it kept growth rates lower than they might have been under the old system.

First, under the MFA each country's base quota allotment was renegotiated every two to

four years—and usually raised. Then the growth rate was applied to an expanding base allotment, resulting in a faster pace of liberalization than has been experienced by most categories under the ATC. But there is no renegotiation of bilateral textile agreements under the ATC. Second, in the run-up to implementation of the ATC, the United States used the last renegotiation of bilateral agreements to achieve reductions in annual growth rates. The resulting deceleration of quota growth, combined with increases in consumer demand, has made the ATC more restrictive on remaining quotas than would have been the case under the MFA.[12]

Furthermore, Article 6 of the ATC contains a transitional safeguard provision, which importing countries can invoke if "it is demonstrated that a particular product is being imported into its territory in such increased quantities as to cause serious damage, or actual threat thereof, to the domestic industry producing like and/or directly competitive products. Serious damage or actual threat thereof must demonstrably be caused by such increased quantities in total imports of that product and not by such other factors as technological changes or changes in consumer preference."[13] That an agreement to end 40 years of quantitative restrictions on textiles and apparel contains such a provision is incongruous to say the least. Its effect has been to expose products that had never been restrained to the possibility of country-specific sanctions.

Despite the language in Article 6 suggesting that "the transitional safeguard should be applied as sparingly as possible, consistently with the provisions of this Article and effective implementation of the integration process under this Agreement,"[14] the United States embraced the provision with zeal. In the first year of the ATC alone, the United States invoked the transitional safeguard mechanism on 24 occasions.[15] While the EU was more restrained in its use of the safeguard, it initiated 53 antidumping proceedings against imports of textiles and apparel between 1994 and 2001. Developing countries were targeted in 46 of those 53 cases (87 percent of the time).[16]

Although the importing countries can say for the most part that they have technically upheld their end of the deal, the objectives and vast potential of honest implementation of the ATC—as the exporting countries maintain—have not been realized. Wherever there was discretion, the importing countries exercised it to the detriment of the exporting countries—and their own consumers. Wherever the ATC specified goals and objectives, but not mandates, the importing countries ignored them.

Textiles vs. Apparel

Textile and apparel manufacturing are two of the oldest industries in the United States. Like other aging U.S. manufacturing sectors, the textile and apparel industries have been in a state of slow, steady decline over the past couple of decades. As the economy has grown and America has become wealthier, producing traditional textiles and clothing here has become a relatively inefficient use of resources. The increasing propensity of nations to trade has exposed that inefficiency, particularly in the more labor-intensive processes of apparel cutting, sewing, and assembly.

As noted previously, over the past few decades, as imports have taken a larger share of domestic consumption and new capital and technology have been introduced to make domestic production more efficient, jobs have declined in both industries. The industries' contribution to gross national product has also declined by about 50 percent, but in a shorter span of time. In 1987 the value added of textile and apparel production was about $4.31 billion. By 2001 that figure was nearly identical at $4.54 billion. However, during this period gross domestic product increased from $4.74 trillion to $10.1 trillion. Accordingly, the industries' joint value-added contribution decreased by more than 50 percent to just 0.4 percent of GDP. Overall manufacturing's share of GDP also declined, but at a less pronounced pace of 25 percent.[17]

It is customary in trade policy discussions to treat the textile and apparel industries as a single, cohesive entity. That perspective no longer makes sense. The two industries have pursued

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different strategies with respect to operating in a postquota environment. Perhaps the most succinct way to convey the differences is to compare the mission statements of their most prominent trade associations.

The American Apparel and Footwear Association represents more American clothing manufacturers than any other organization. Its mission is "to promote and enhance its members' competitiveness, productivity and profitability in the global market by minimizing regulatory, legal, commercial, political and trade restraints." During the 1990s, apparel producers came to understand that the only way to survive in the postquota world was to diversify production. Even after decades of quotas and high tariffs on foreign competition, clothing producers could not afford to have all of their manufacturing operations in the United States. So they began to invest abroad. Today, AAFA members produce and sell all over the world, optimizing operations in the face of continuing restraints and uncertainty. Those producers now want to be able to optimize without the restraints of quotas, high tariffs, and onerous rules of origin that increase the costs of production. And they want to minimize the uncertainty of investing in new production facilities—uncertainty that to this day renders business development in China a risky endeavor. For the most part, the apparel industry has adopted a favorable view of trade.

The November 2002 proposal by the U.S. Trade Representative to eliminate all industrial tariffs worldwide by 2015 was embraced by the AAFA. "Essentially, the United States is proposing to launch a Planet Earth Free Trade Agreement. The scope and reciprocal nature of this initiative are unprecedented. It is long overdue. . . . This proposal not only removes U.S. import barriers, but it also eliminates barriers that are imposed on U.S. branded apparel and footwear by other countries. . . . This is very exciting. Since WTO member countries would be required to eventually eliminate tariff and non-tariff barriers on *all* products from *all* nations, it will enable AAFA's members to enjoy greater access to *all* markets."[18]

AAFA is also on record as opposing the recent safeguard petitions brought by the textile industry against brassieres and dressing gowns from China.

While there is still a significant amount of domestic apparel production—about 500,000 workers are employed in the industry—many of the operations are owned by companies that have diversified production overseas. The trade views of most of those companies are reflected by the policy positions articulated by the AAFA. There are some apparel producers, however, who produce exclusively in the United States. Many such producers are located near military bases and produce clothing for the armed services under the "Buy American" provisions of the Berry Amendment. In a sense, they cater to a captive market within an import-restricted U.S. market. There are also certain high-end or specialty apparel producers that are able to avoid competing with imports exclusively on the basis of price.

Some of the 500,000 apparel workers are members of organized textile and apparel labor unions, the most prominent of which may be the Union of Needletrades, Industrial, and Textile Employees. It is unsurprising that those unions are committed to promoting products made in the United States. Nevertheless, their focus has been on pushing for labor and environmental provisions in trade agreements and strengthened "Buy American" provisions rather than on opposing international economic integration outright.

By contrast, the textile industry has pursued a path of intransigent obstruction. It has lobbied for minimal compliance with the ATC, the inclusion in trade agreements and preference programs of strict rules of origin mandating the use of U.S. textiles in garments imported into the United States, an easy-to-wield safeguard mechanism, and outright rejection of the administration's proposal to eliminate industrial tariffs by 2015. The industry is represented by a multitude of trade associations, but the American Textile Manufacturing Institute touts itself as "the textile industry's primary spokesman with the legislative and administrative branches of the federal government as well as the news media."[19] Its approach to trade policy is made clear by this "scorecard,"

appearing on the ATMI website, of lobbying successes:

- ATMI convinced the administration to oppose efforts to accelerate the phaseout of textile quotas.
- ATMI successfully lobbied Congress and the Bush administration to reject Pakistan's request for improved market access in return for that nation's support in the war on terrorism.
- ATMI continued to assist members in opposing "short supply"[20] petitions filed by importers in connection with the Caribbean Basin and African preferential trade programs.
- ATMI prevailed on Congress to approve legislation specifying that printing, dyeing, and finishing of U.S. fabrics used in apparel imports from the Caribbean Basin must be performed in the United States.
- ATMI worked to ensure that the Berry-Hefner "Buy American" law for military purchases of textile products is maintained.
- ATMI lobbied the Bush administration to incorporate strict rules of origin and customs enforcement provisions in the Singapore and Chilean free-trade agreements.
- ATMI pressed the U.S. government to take action against rising imports from Vietnam and to negotiate a bilateral agreement to better control such trade.
- ATMI actively lobbied Congress to preserve U.S. dumping, countervailing duty, and other trade remedy laws.
- ATMI recently requested that the government impose special "textile safeguard" quotas on surging textile and apparel imports from China in product categories that were recently released from quota restraint.
- ATMI convinced the Bush administration to remove textile and apparel products from a proposed Qualified Industrial Zone for Turkey. QIZs allow countries to ship goods to the United States duty-free from the zones.[21]

In stark contrast to the apparel producers' pro-trade stance, the textile industry is clearly pinning its hopes on stifling foreign competition through every available policy means.

Resistance to Reforms and Liberalization

The impending fulfillment of the ATC has led to familiar refrains from the textile industry and its supporters. In a coauthored op-ed placed in the *Charlotte Observer* in April 2002, then-senator Jesse Helms (R-NC) and Sen. Ernest Hollings (D-SC) intoned, "Never has there been a more crucial time than now for us to stand up against the reckless destruction of the textile and apparel industry."[22] Democratic North Carolina senator and presidential hopeful John Edwards has charged that the industry is "clearly being destroyed by trade."[23]

Such handwringing is not new to the textile industry. Its use of alarmist rhetoric is well documented:[24]

- 1948: "[S]ix more months . . . would bring an almost complete collapse of the textile industry here." David E. Hand, president, John Hand & Sons, *New York Times*, March 9, 1948.
- 1955: "[T]he textile industry . . . faces losing odds in its struggle to keep mills running." A. K. Winget, president, American Cotton Manufacturers Institute, *New York Times*, September 10, 1955.
- 1961: "[T]he collapse which the industry had been predicting to our Government for several years arrived with a bang." Robert T. Stevens, president, J.P. Stevens & Co, testimony before the Senate Committee on Interstate and Foreign Commerce, February 6–7, 1961.
- 1961: "[U]nless immediate relief is provided, the domestic textile industry will be destroyed by foreign textile imports." J. M. Cheatham, president, American Cotton Manufacturers Institute, testimony before the Senate Committee on Interstate and Foreign Commerce, February 6–7, 1961.

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- 1970: "We are going out of business, and fast. The Mills bill [a textile quota bill] is the only thing that is going to save us." Rep. L. Mendel Rivers (D-SC), before the House Ways and Means Committee, 91st Cong., 2d sess., 1970.
- 1985: "If we do not act now to curb imports, in five years our entire industry . . . will simply cease to exist." John Gregg, president, Man-Made Fiber Producers Association, March 19, 1985.
- 1985: "Well, this is the last gasp of the industry." Rep. Ed Jenkins (D-GA), sponsor of the Textile Quota Bill (HR 1562), prior to the House vote on October 10, 1985.
- 1990: "If the current trend continues . . . at the turn of the century the U.S. textile industry will go the way of the dinosaurs—an extinct species." Sen. Ernest Hollings (D-SC), during Senate floor debate on the Textile Quota Bill (HR 4328), July 12, 1990.

In early 2003, ATMI published its "Textile Action Plan for Growth," in effect the industry's trade policy wish list. Interestingly, none of the eight points would seem to have anything to do with "growth." Among the points is ATMI's insistence that the United States not negotiate any further textile tariff reductions in the Doha Round unless and until other countries eliminate their nontariff barriers and reduce their tariffs to U.S. levels. ATMI urges the administration to "reject demands of developing countries to change the terms of existing agreements and programs to further increase their access to the U.S. market at the expense of U.S. textile producers." No terms of any agreements would need to be changed for the United States to abandon its miserly approach to the ATC. ATMI implores the administration to impose new quotas on textile imports from China. It insists on strong, enforceable yarn-forward rules of origin[25] in free-trade agreements and strong enforcement by U.S. customs. And it implores that access to the U.S. market not be used to enlist support for the war on terrorism.[26]

One oft-repeated gripe of the U.S. textile industry is that other countries should reduce their barriers to U.S. textile products prior to any commitment by the United States to further reduce its own tariffs. The industry cites Article 7 of the ATC, which mandates that all members undertake efforts to achieve improved access to their own textile and apparel markets. Despite the bald hypocrisy of insisting that other countries improve access to their markets when the United States has continually exercised its discretion to ignore optional language in the ATC, U.S. textile producers have little about which to complain on that score. Although overall U.S. export value decreased by 2 percent between 1999 and 2002, exports of textile products actually increased by 19 percent during that period.[27] Even more recent comparisons suggest that textile producers are having a relatively easy time exporting. Between the first half of 2002 and the first half of 2003, overall U.S. export value increased by 2 percent. The value of textile product exports increased by 10 percent over the same period.[28]

Although overall U.S. export value decreased by 2 percent between 1999 and 2002, exports of textile products actually increased by 19 percent during that period.

The industry's response to a USTR zero-tariff proposal—a bold proposal that answers firmly the ATMI's foreign market access issue—confirms that its interest in foreign trade barriers is less than sincere. Although the proposal was met with general enthusiasm by most U.S. manufacturers, it was strongly criticized by the textile industry. ATMI chairman Van May issued a statement that began: "Simply put, this tariff proposal is an outright gift to China—one which will come at the expense of U.S. textile manufacturers and workers, and our potential export markets in the Western Hemisphere."[29]

Certainly the industry has experienced substantial job decline over the past several decades, a trend that will likely become more pronounced after 2004. But there is nothing unexpected about that. It has been entirely expected. Decades of quantitative restraints were justified by the importing countries as a means of allowing domestic businesses and workers to adjust gradually without having to endure overwhelming social costs. That rationale is being cited again because little meaningful liberalization has yet occurred.

Between 1980 and 2000, U.S. textile and apparel industry employment declined by 35

and 50 percent, respectively. But most of that decline, in both industries, is attributable to gains in productivity, which were 111 and 115 percent, respectively, during that period. In other words, while employment fell in both industries by no more than 50 percent, productivity more than doubled in both.[30] Even a joint resolution seeking special treatment for the textile and apparel industries, introduced in the House of Representatives by Howard Coble (R-NC) in the 107th Congress, acknowledged the vast productivity gains experienced by those industries: "Whereas according to the Bureau of Labor Statistics, the textile and apparel industry was one of the most productive in the United States during the decade of the 1990s, experiencing significant productivity growth in practically all major product sectors. . . ."[31]

Although it is likely that productivity growth was stimulated by foreign competition, the fact is that technological progress all but ensures a steady decline in U.S. manufacturing employment across the board. The textile industry is no exception to that general trend. Accusations that policies promoting freer trade are unfair to displaced workers are without foundation. On the contrary, because of trade adjustment assistance, "trade-displaced workers" (as broadly as that is defined) actually enjoy special treatment relative to workers who lose their jobs because of technological change, changes in consumer taste, or macroeconomic downturns. Accordingly, displaced textile workers have access to government benefits not available to the millions of other U.S. manufacturing workers who have lost their jobs in recent years.[32]

The textile industry's reliance on the specter of job loss to inspire sympathy for its cause continues to pay dividends, however. In August 2003 the Department of Labor announced plans to provide grant assistance to workers who lost jobs on account of the closure of Pillowtex in North Carolina. This is federal assistance on top of the recently expanded trade adjustment assistance program.

Meanwhile, economic prospects in textile-producing states are hardly bleak. Investment in manufacturing facilities in the southeastern United States, where most U.S. textile production occurs, has been strong in recent years. Foreign automobile producers and parts suppliers have set up factories in South Carolina, Georgia, and Alabama. Fiber optics and new technology steel companies, such as Nucor, have set up shop and expanded operations in North Carolina.

Between 1997 and 2000, U.S. exports of manufactures to the world increased by 15.3 percent. And in each of the major textile-producing states (with the exception of Virginia), the rate of export growth exceeded the national average. Alabama's exports increased by 24 percent. Its largest manufacturing export category, reflecting both domestic and foreign investment in automobile plants, was transportation equipment, which registered over $1.5 billion in exports in 2000, growing by more than 300 percent from 1997.

Over the same period, Georgia's exports of manufactures increased by 21.3 percent, reflecting strong investment and growth in sales of beverage and tobacco products; nonmetallic mineral manufacturing; and electrical equipment, appliances, and parts.

North Carolina's manufactures exports increased by 18.8 percent. The largest export categories, with sales of between $2 billion and $3 billion each, were computers and electrical products and chemical manufactures. But there was also strong export growth in leather and related products (84.9 percent), primary metal products (57.7 percent), and plastic and rubber products (43.2 percent).

Exports of manufactures from South Carolina experienced the fastest growth of the textile-producing states at 39.2 percent. Three sectors experienced more than $1 billion in exports: computer and electronics products ($1.7 billion), transportation equipment ($1.2 billion), and plastic and rubber products ($1.1 billion). Seven other manufacturing sectors experienced double-digit growth between 1997 and 2000.[33]

Textile states have international trade and investment to thank for the vitality of their economies. Foreign investment and foreign purchases are possible because U.S. consumers purchase foreign products. Consequently, lower-paid

Textile states have international trade and investment to thank for the vitality of their economies.

textile workers and their children have opportunities to improve their standards of living outside the mills.

Life after Quotas

In July 2003 the textile industry filed special safeguard petitions against Chinese exports of brassieres, dressing gowns, gloves, and knit fabric. Although the petition on gloves was rejected, those concerning the other products—all removed from quotas in 2002—have gone forward.

Those petitions come on the heels of a high-profile textile industry campaign to alert policymakers to China's "imminent domination" of world textile and apparel trade. In a letter written in July 2003, AMTAC urged the president to "reaffirm [his] commitments to a healthy U.S. textile sector by taking strong specific actions regarding the enormous threat from China."[34] AMTAC asserts that China is "poised to seize 65 to 75 percent of the U.S. textile and apparel market once remaining quotas are removed."[35]

Textile producers have much less to fear from Chinese exports than the current level of hysteria would indicate.

But according to those who should know—clothing producers, importers, and retailers—that is hardly the case. Removing quotas naturally encourages return to where production is optimal. And for many of the products liberated from quotas in 2002, China is the most efficient producer. For many other products, though, China is not expected to gain significant market share. As Peter McGrath explained in his testimony before the U.S. International Trade Commission in January 2003 (six months before the safeguard petition):

> It is important to note that China's gains to date in those few products that are no longer under quota is not necessarily indicative of what will happen with all other textile and apparel products after 2004. The products that have become quota-free—integrated—are precisely those for which China is clearly the most desirable producer. To some extent, USA-ITA [U.S. Association of Importers of Textiles and Apparel] suspects that the U.S. Government chose to integrate brassieres and textile luggage in Stages Two and Three in part because it did not expect China to be a member of the WTO by 1998 or even 2002.
>
> As one example, brassieres fit the model for what China does best. High sewing needle dexterity is what sets China apart from many other countries. Its advantage is detail and ability to work with difficult to sew fabrics. Brassieres typically have more than 24 components, involve at least 32 sewing operations and are linked together with 145 feet of thread. It is no wonder business moved to China last year.
>
> Textile luggage is also most logically produced in China both because of the complexity of the manufacturing process and because that is where the raw materials are located. Like brassieres, luggage is a highly labor intensive product involving a large number of components and sewing operations. But just as significantly, luggage also requires hardware—items such as metal frames, buckles, clips and hooks, rivets, hinge partitions, handle and wheel systems, and zippers—which are produced in China. Previously, because of the quota restrictions on China, companies were compelled to ship all that hardware from China to other manufacturing sites outside China. Now that logistical nightmare, including additional costs and time, has finally ended.[36]

Realistically, textile producers have much less to fear from Chinese exports than the current level of hysteria would indicate. U.S. textile producers manufacture some finished products, such as bed linens, which they sell to retailers. But most textile output goes directly into manufacturing other items, such as clothing, luggage, tires, furniture, and automobiles. Most of the industry's apparel customers have moved

operations offshore, where U.S. import restraints against Chinese *textiles* have no effect. That's why the petition on knit fabrics is so curious. Besides, as Laura Jones of the United States Association of Importers of Textiles and Apparel points out: "China is not even the largest supplier. Canada is number one, accounting for almost 40 percent of the imports, and its trade is up, and Korea is number two, accounting for 25 percent of the imports. In fact, Korea's trade is up by over 100 percent and is four times the size of China's trade. That petition doesn't even attempt to try to explain why China should be restrained when the larger suppliers should not."[37]

With respect to the cases brought on the other products, the industry is suggesting that its customers, mostly in Latin America, will lose business as U.S. importers choose instead to purchase from China. But the facts don't support this claim. Imports from China are displacing imports from other Asian suppliers. They are not displacing imports from suppliers in the Western Hemisphere. Imports of dressing gowns increased by 57 percent from Honduras, by 35 percent from El Salvador, and by 17 percent from the Dominican Republic in 2002 compared with 2001. Imports of brassieres from Honduras and El Salvador have increased by 22 percent and 31 percent, respectively.[38]

A review of U.S. import data contradicts the assertion that China will dominate textile and apparel trade. While there may have been substantial increases in import volume from China in products recently liberated from quotas, the same does not hold for all products. The volume of imports of textiles and clothing from China increased by 11.74 percent per year between 1994 and 2002. But imports from Mexico, the second largest source just behind China in 2002, increased at an annual rate of 20.48 percent. Combined imports from Caribbean and NAFTA countries were 132 percent higher by volume than imports from China and were growing at a faster annual rate of 18 percent. Honduras, El Salvador, Pakistan, and Maldives each had higher annual rates of growth than China.[39]

With respect to clothing, the evidence is even less persuasive. Both import volume (2.2 billion square meter equivalents, or SME) and the annual rate of volume growth (21 percent) are highest from Mexico. China's volume was 1.6 billion SME and experienced an annual growth rate of 7 percent between 1994 and 2002. By contrast, combined import volume from Caribbean and NAFTA countries was 6.2 billion SME and growth was at an annual rate of 14 percent.[40]

At the request of the U.S. Trade Representative, in early 2003 the U.S. International Trade Commission conducted an investigation of "Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market." Although a public report of the ITC investigation has not been published, some of the testimony provided in that investigation is available. The predominant theme in the testimony of apparel producers, importers, and retailers is that, even without the new safeguard case, there are plenty of reasons to limit business with China. The notion that apparel is a commodity for which production costs are the exclusive business consideration is a myth. And even if input costs were the only or most important consideration, China would be passed over in favor of many other lower-priced producers.

Kevin Burke, president and CEO of the American Apparel & Footwear Association, an organization representing 700 companies that produce and market clothing and shoes, testified that sourcing decisions are based on whether an apparel company can deliver the right garment at the right time at the right price. Determining factors include the following:

1. Ease of compliance with local and U.S. customs requirements;
2. The level of U.S. customs enforcement efforts with respect to the country;
3. Labor conditions in the factories;
4. Ability to guarantee security of shipments from the factory through the country's infrastructure;
5. Cost and availability of a trained or trainable workforce;
6. Price and availability of the appropriate textile inputs;
7. Price and availability of quota or export licensing regimes;

Imports from China are displacing imports from other Asian suppliers. They are not displacing imports from suppliers in the Western Hemisphere.

J.C. Penney, one of the largest U.S. apparel retailers, emphasized the diversity of sourcing considerations as well as the risk of sourcing from China exclusively.

8. Speed and quality of output;
9. Whether the country has preferential access to foreign markets and whether compliance with conditions conferring such access is relatively simple and inexpensive;
10. Transparency and predictability of the country's commercial, regulatory, and legal system;
11. Transparency in the country's political system;
12. Ability to communicate efficiently and effectively with the factory; and
13. Ability to move inputs into the factory and final product out of the factory.[41]

Burke added: "A country's competitiveness depends largely on its ability to meet each of these key factors. Not all these factors carry the same importance for each factory in each country, but in most cases they all play a role. . . . But it is naïve to assume—as many do—that costs only manifest themselves through wages. Each of the factors identified above has the ability to add costs at multiple points in the supply chain."[42]

In testimony for the same investigation, the U.S. Association of Importers of Textiles and Apparel, the largest organization representing importers of textiles and clothing, offered the following:

> Logistics, infrastructure, supply chain management, social and government stability, human rights, plant efficiency, including skill levels and quality control, reliability, trusted relationships and costs, including compliance costs, are also all factors in the sourcing process. Each of the additional factors will continue to influence the decision-making process. . . . While China will inevitably pick up more business as a result of the elimination of quotas, because the quotas have held China back, the basic strategy for most U.S. importers and retailers is to maintain business relationships with longtime trusted suppliers, particularly where those suppliers are vertically integrated and can provide a "full package," from inputs to completed product. A number of suppliers that are the focus of the Commission's study fit this description, including but not limited to Korea, Taiwan, India and Pakistan. . . . Moreover, different suppliers serve different price points in the U.S. market, and China is not the lowest cost supplier in a broad range of goods.[43]

J.C. Penney, one of the largest U.S. apparel retailers, also emphasized the diversity of sourcing considerations as well as the risk of sourcing from China exclusively:

> While quota limitations are just one element in sourcing decisions, the elimination of that factor means that each company can make some adjustments. However, the core considerations for selecting a particular supplier and country for each product will remain these five criteria: speed, quality, legal compliance, logistics and product costs. . . . There will be a variety of business models that will be used in the post-2004 environment, just as there are today. . . . Given the risks involved, no company can afford to put too large a portion of its business in a single country. . . . As a practical matter, the major importers in the United States will limit the amount of business they place in China. . . . Putting too much of your business in one country, or one factory for that matter, is not a good business practice and this is especially true for China. . . . Given the possibility of special textile safeguard measures being taken against Chinese goods under rules and definitions that are still not yet decided upon, added to the threat of antidumping measures and broader safeguard actions, companies have no choice but to be concerned and to limit their exposure.[44]

Thus, the belief that China will dominate world textile trade after 2005 is not held by those whose business decisions will influence production and trade in those commodities. Producers, importers, and retailers all allude to the risk of investing too heavily in relationships with single sources of supply, which is an even riskier proposition when that source is Chinese because of the variety of arrows in the protectionist quiver designed specifically to thwart imports from that country.

Considerations of timeliness and the desire to shorten the supply chain work to the benefit of Western Hemisphere producers, who are obviously in closer proximity to U.S. consumers. But supply chain optimization is also a function of minimizing transportation and other logistical costs of multiple location production arrangements. The quota system necessitated such convoluted supply chains. Its elimination will offer greater opportunities to garment suppliers in countries with substantial production of the requisite apparel inputs: threads, yarns, and fabric.

In a speech in early 2003, Brenda Jacobs, an attorney and former U.S. textile negotiator, gave Indian textile and apparel producers cause for confidence in the postquota environment.

> Asian suppliers have developed a major presence in the U.S. market because of their ability to offer vertical integration at a low cost. India is a prime example of this point. The development of substantial yarn, fabric, and garment production (as well as "made-ups" such as bed linens) that allows you to provide a full package to customers means that you will continue to be important sources of supply to the U.S. market in the post-2004 world.[45]

For similar reasons, textile and apparel industries in Pakistan and some of the Andean countries are expected to fare well after the quota system expires.

But again, other factors influence sourcing decisions. Since tariffs will remain relatively high on textile and apparel products after the quotas are gone, one potentially important factor is whether the producer is a party to a free-trade agreement or preferential program—and whether the costs of preferential access are manageable.

Many of the costs associated with these programs stem from the need to comply with so-called rules of origin. In order for garment exports to qualify for duty-free or preferential access to the U.S. market, they must meet certain qualifications that confer status as a product of that country. In many cases, those qualifications are so rigid that they introduce additional costs that negate the benefits of preferential access.

Most U.S. free-trade agreements and trade preference programs feature to a greater or lesser degree a "yarn-forward" rule of origin, under which clothing from the beneficiary country receives duty-free treatment only if it is cut and sewn in the preference area from fabric woven of yarn spun in the United States or the preference area. This extremely rigid rule greatly restricts the benefits of duty-free treatment under NAFTA, the new free-trade agreement with Chile, the CBTPA, the ATPA, and the AGOA. (Fortunately, our FTA partners Israel and Jordan enjoy much more liberal rules of origin, as do some of the poorest African countries under AGOA.)

Maintaining generally high tariff levels on textiles and clothing, and restrictive rules of origin in trade agreements, is the U.S. textile industry's game plan for preserving an artificial market for its products. With such trade barriers in place, U.S. textile producers will have an inside track with offshore clothing producers looking to sell to the lucrative U.S. market.

The U.S. textile lobby is pushing hard for rigid rules of origin in the Central American Free Trade Agreement now under negotiation. The Central American countries are seeking the ability to use inputs from any country with which the United States maintains trade agreements or preference programs. The U.S. textile industry is insisting that only inputs from the United States or Central America may be used. Ultimately, the way to cut the Gordian knot of all artificial restrictions is to eliminate all duties on textiles

The quota system necessitated convoluted supply chains. Its elimination will offer greater opportunities to garment suppliers in countries with substantial production of the requisite apparel inputs: threads, yarns, and fabric.

and clothing. Little wonder, then, that despite its professed concern with foreign trade barriers, the U.S. textile industry was strongly opposed to the USTR's zero-tariff proposal.

Getting to 2005

Precisely because so many products—about 80 percent of those slated for integration—are still subject to quotas, 2004 promises to test U.S. commitment to real liberalization. For almost 30 years under the MFA and through the current year of the ATC, the quota system has accommodated the need for "carry forward." When exports are nearing their quota limits, countries are permitted to borrow a percentage from the following year's quota allotment. That mechanism mitigates price spikes and supply shortages and was included to prevent a total disruption to U.S. retailers and consumers. But in 2004, the final year of the ATC, there will be no "carry forward" from which to borrow (since there will be no quotas in 2005). This portends a particularly unstable situation next year, when competition for quotas will be fierce, driving up the price of quotas and, ultimately, the prices of textile and apparel imports in 2004.

In many ways, this is an apt conclusion to a 10-year phaseout that has not lived up to its promise. The intent was incremental integration to allow gradual and measured adjustment. For many products and countries, however, the experience has been one of decreasing access. That the final year of the ATC will likely feature even greater restrictiveness should be a lesson to the developing countries as they negotiate in the current Doha Round: Buyer beware. Indeed, it appears that this sentiment played a significant role in the failure of ministers to achieve consensus on any new agreements at the critical Cancun meeting last month.

That the final year of the ATC will likely feature even greater restrictiveness should be a lesson to the developing countries as they negotiate in the current Doha Round: Buyer beware.

Not only will reduced market access and higher prices be felt by U.S. consumers, but the dramatic price decreases and volume surges expected after the quotas expire in 2005 are precisely what the domestic industry hopes to use to advance new protectionist measures. Significant price declines are expected in 2005 because of the sudden availability of previously restrained supply, much of which stems from capacity that was built around the world in response to the quantitative restraints. The removal of quotas will also eliminate the substantial cost of owning quota rights, which has been a significant component of import prices for 30 years.

The combined volume surges and dramatic price declines in a variety of products are necessary conditions of a successful safeguard (Section 201) petition. But meeting the condition under the WTO Safeguard Agreement that the import surge be "unforeseen" is simply implausible. At this point, the surge is inevitable unless something is done to prevent the severe fluctuations that are forecast.

Alternatively, lower prices in the United States could invite the filing of dozens of antidumping cases. Although affirmative findings in those cases depend on findings of dumping, current rules allow such findings even in the absence of anything that could plausibly be considered "unfair trade."[46] In any event, the credibility of the threat of either safeguard or antidumping petitions could intimidate foreign producers into new voluntary export restraints. In this industry and others, there is a rich history of using protectionist threats to coerce voluntary restraint measures. There is accordingly a very real possibility that the end of import quotas under the ATC will not mark the true end of quantitative restrictions.

Stuck with the Bill

In its annual report on the cost of trade barriers, the U.S. International Trade Commission estimated that the quantitative restrictions and tariffs on textile and apparel imports constitute a $13 billion drag on the economy.[47] In light of the stubbornness of the recent economic downturn and the diminishing scope for further monetary or fiscal stimulus, the time is ripe for revising trade policies that interfere with economic growth. Removing barriers to trade in raw materials such as steel, lumber, and textiles and consumables such as clothing

would be a windfall for businesses and consumers alike. The wealth effects on corporate and family budgets—particularly those of lower income families—would be good medicine for the economy.

In a 2002 paper from the Progressive Policy Institute, Edward Gresser demonstrates how duties on imported shoes and clothing account for the bulk of U.S. tariff revenue and are most punitive for lower-income Americans. While accounting for only 6.7 percent of the value of U.S. imports, shoes and clothes account for almost half of all tariff revenue collected. In 2001, $8.7 billion of the $18.6 billion of tariffs collected came from shoes and clothes alone. Those tariff revenues were almost twice the amount of revenues collected on the next five largest sources (autos and auto parts, electronics, industrial machinery, nonclothing leather goods, and food) combined.[48]

The tariff on "women's underwear and pajamas" ranges from 2.4 percent to 16.2 percent. Those made of silk, which are purchased by wealthier consumers, are subject to a 2.4 percent tariff. Those of cotton and of man-made fiber are hit with tariffs of 11.3 and 16.2 percent, respectively. With respect to "men's knitted shirts," the pattern is the same. Silk shirts are subject to a 1.9 percent tariff; cotton shirts get a 20 percent tariff; and shirts of man-made fiber are hit with a whopping 32.5 percent duty. Tariffs on babies' clothes "are still more troubling, as they fall directly on young mothers who have to buy new sets of jumpers, shirts, and trousers every few months." Tariffs on "woven baby trousers" reach as high as 29 percent, if the trousers are made of man-made fiber, while those of silk are subject to a rate of only 2.8 percent.[49]

The Way Forward

The costs of textile protectionism are not limited to higher prices paid by U.S. consumers for clothing. When the United States maintains closed markets, other countries find it easier to adopt similar policies—policies that deprive U.S. exporters of sales opportunities. If the United States fails to implement the ATC in good faith—which means without adoption of substitute measures and with addressing the imminent problem of quota shortage in 2004—America's role in encouraging economic liberalization abroad will be needlessly compromised. In particular, the Doha Round of WTO talks could very well wind up a casualty of any failure to stand up to the textile lobby.

Developing countries are already bitter about what they see as broken promises on textiles trade. At the close of the Uruguay Round in 1994, the ATC was perceived as the single most important success of the round for developing countries. If disappointment about its track record thus far is compounded by further betrayals, the United States will be hard-pressed to obtain agreement from developing countries on its own negotiation priorities: tariff reductions, services liberalization, intellectual property, and so on.

The political and economic stakes are too high to justify any further appeasement of an industry that has been given decades to prepare for the inevitable. Further trade protection is undeserved and would undermine U.S. policy objectives. Failure to open markets in the current round of multilateral trade negotiations would be a major psychological and economic setback for the world economy. And honoring commitments to the developing world is requisite to the realization of U.S. foreign and security policy objectives. As U.S. Trade Representative Robert Zoellick wrote in December 2002, "America's trade policies are connected to our broader economic, political and security aims."[50]

In similar remarks made before the National Press Club in October 2002, Zoellick proclaimed that

> America's strategy to promote a more secure world recognizes the ties of free trade and free societies. Our enemies targeted the World Trade Towers because they recognized that economic strength is at the foundation of America's hard and soft power. Our campaign against them and others should employ economic and trade

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policies to underpin America's long-term security.

The source of terrorism is not poverty. . . . Terrorism's roots lie in a deep evil. But there is no doubt that societies that fragment, that are poor, that have no sense of hope, become fertile grounds in which terrorists can burrow. So all of us have a stake in development, in democracy, in openness, in hope, in opportunity.[51]

The Bush administration's trade legacy will depend heavily on its success in defusing resistance from the textile and apparel lobbies and honoring its commitment to liberalize trade in those sectors.

The U.S. approach to textile and apparel trade has undermined those virtuous objectives. The Bush administration's national security strategy, released in September 2002, emphasizes the need for "[promoting] the connection between trade and development."[52] Yet in that same month, the Commerce Department published its "Report to the Congressional Textile Caucus" in which it boasts of "[successfully resisting] demands in the WTO by textile supplying countries to accelerate the integration of our textile quotas."[53] But those are precisely the products that much of the developing world can trade.

At the highest levels, trade liberalization is touted as the path out of poverty for the world's poorest people and as the path to greater prosperity for all others. Yet the most enduring U.S. trade barriers have the distinct feature of affecting the world's poorest people—including some U.S. citizens—most adversely.

The Bush administration's trade legacy will depend heavily on its success in defusing resistance from the textile and apparel lobbies and honoring its commitment to liberalize trade in those sectors. New trade agreements will be elusive unless the administration takes a principled stance against attempts to prolong quantitative restrictions or to obtain other forms of textile and apparel protection.

As the first priority, the administration should act with dispatch to prevent the tight-supply, high-price scenario projected for 2004 from unfolding. No agreements need be breached or revisited. The U.S. government has the discretion to increase—or even eliminate—quotas as it sees fit. It is a perversity of the ATC phase-out schedule that the final year of the quotas will otherwise be characterized by a reduction in U.S. market access. Accordingly, the administration should announce plans to increase all quotas in 2004 to prevent that situation from unfolding. To compensate for its adversarial approach to the ATC over the previous nine years and to inject some good will into the Doha Round, the administration should lift several important quotas.

Second, the administration should deny the textile industry's request for new import restrictions on Chinese dressing gowns, brassieres, and knit fabric. The first cases filed under the China-specific textile safeguard law will set important precedents concerning evidentiary requirements and the correlation between Chinese imports and domestic "market disruption."[54] In light of the evidence that, as expected, quota elimination has led to increasing Chinese exports, which are displacing exports from other Asian countries—a dynamic that makes sense given China's relative strengths in producing those products—a determination of market disruption would set an unacceptably low threshold and encourage many more petitions.

Third, the administration should stop pushing restrictive rules of origin in FTA negotiations. Textile trade issues figure prominently in ongoing negotiations with Central America, the Southern Africa Customs Union, and Morocco. The value of these agreements will therefore be severely undermined if access to the U.S. market is blocked by yarn-forward rules.

Fourth, the administration should recognize that elimination of quotas in 2005 is likely to cause an increase in imports and a decrease in the price of most textile and apparel products. The probable response of the U.S. textile industry will be to bring or threaten multiple antidumping cases (irrespective of whether there is actually dumping). It is imperative to recognize that the mere threat of bringing an antidumping case is trade diverting because U.S. importers do not like the risk and uncertainty of purchasing from a source that may be dogged by allegations, proceedings, and possibly extra duties.

In light of the volatility of trade in textiles and apparel, as the system attempts to adjust to a greater market orientation after 40 years of managed trade, the administration should exercise restraint in accepting antidumping petitions on those products. In an effort to smooth the transition from managed to market-based trade, the administration should consider precluding acceptance of antidumping petitions for a period of two years after full implementation of the ATC. Otherwise, the domestic industry will likely use the threat of antidumping cases to achieve new restrictions before the objectives of the ATC can be realized.

Finally, the administration should not abandon the principles inherent in the zero-tariff proposal unveiled by the USTR in November 2002. Particularly in the area of textiles and apparel, tariffs will remain relatively high after the quotas are gone. A significant amount of the $13 billion annual welfare loss associated with textile and apparel protection is attributable to persistent high tariffs. Disproportionately, America's lower-income families carry that burden. The most effective means of promoting the noble goal of spreading prosperity through trade would be to eliminate tariffs on one of the developing world's most important sources of revenue.

Notes

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2. Ibid.

3. U.S. Bureau of the Census, 1993–1996 Annual Survey of Manufactures and 2000 Annual Survey of Manufactures, www.census.gov//prod/www/abs/industry.html.

4. Gary Hufbauer and Kimberly Elliot, "Measuring the Cost of Protection in the United States," Institute for International Economics, Washington, 1994.

5. Peter McGrath, president of J.C. Penney Purchasing Corporation, Testimony before the U.S. International Trade Commission, Investigation 332-448, January 22, 2003.

6. Cited in Murray Hiebert, "Getting Ready for Free Trade," *Far Eastern Economic Review*, July 31, 2003.

7. Statement circulated by the ministers of members of the International Textiles and Clothing Bureau, Doha, Qatar, November 9, 2001.

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10. Ibid.

11. Laura Baughman et al., "Of Tyre Cords, Ties and Tents: Window-Dressing in the ATC?" *World Economy* 20, no. 4 (July 1997): 412.

12. Conversation with Brenda Jacobs, trade attorney and former U.S. textile negotiator, July 2003.

13. WTO Agreement on Textiles and Clothing, Article 6.2.

14. WTO Agreement on Textiles and Clothing, Article 6.1.

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17. Bureau of Economic Analysis, Industry Accounts Data, Gross Domestic Product by Industry, 1987–2001, October 28, 2002, www.bea.doc.gov/bea/dnz/gpoc.html.

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19. American Textile Manufacturers Institute, www.atmi.org.

20. "Short supply" petitions are used to achieve relaxation of import restrictions when domestic production cannot satisfy domestic demand.

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22. Jesse Helms and Ernest F. Hollings, "We Unite against Destruction of the Textile Industry," *Charlotte Observer*, April 21, 2002, p. 3D.

23. Quoted in John Wagner, "Edwards Wins One

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24. The following bulleted quotes were compiled from a table titled "A History of Appeals," which appears in "The Politics of U.S. Textile Trade Policy: Two Centuries of Temporary Protection," Retail Industry Trade Action Coalition, Washington, 1986.

25. Yarn-forward rules of origin generally, with some limited exceptions, require the use of U.S. or local yarn in the final product if it is to obtain preferential access to the U.S. market.

26. "Textile Action Plan for Growth," American Textile Manufacturers Institute, January 2003, www.ati.org.

27. U.S. Bureau of the Census, IM145 Import Data 1999–2000, www.litr.com.

28. Ibid.

29. Van May, Comments in "ATMI Blasts Doha Tariff Proposal," ATMI Press release, November 26, 2002.

30. Calculated from data provided in Bernard A. Gelb, "Textile and Apparel Trade Issues," Congressional Research Service Report for Congress, RS20436, March 20, 2001, p.2.

31. H. J. Res. 105, 107th Cong., 2d sess., in the House of Representatives, July 11, 2002.

32. The U.S. Trade Adjustment Assistance program was revised and expanded to provide unemployment benefits to a broader group of workers for a longer period of time as part of the Trade Act of 2002. The primary requirement for qualification is that the worker's job loss be directly or indirectly attributable to import competition.

33. U.S. Department of Commerce, International Trade Administration, Office of Trade and Economic Analysis, "State Merchandise Exports to the World, 1997–2000, By Product Sector," n.d., http://itc.doc.gove/td/industry/otea/state/industry/world.pdf.

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36. McGrath.

37. Laura E. Jones, United States Association of Importers of Textiles and Apparel, Comments in "Importers Denounce Textile Safeguard Petitions against China," Press release, July 24, 2003, www.usaita.com.

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45. Brenda Jacobs, Speech before the Afro-Asian Textile and Apparel Congress, Mumbai, India, March 10, 2003.

46. For a detailed discussion of antidumping calculation methodology, see Brink Lindsey and Dan Ikenson, "Antidumping 101: The Devilish Details of 'Unfair Trade' Law," Cato Institute Trade Policy Analysis no. 20, November 26, 2002.

47. U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints, Third Update," 2002, p. 21.

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52. George W. Bush, *The National Security Strategy of the United States of America* (Washington: The White House, September 17, 2002), p. 19.

53. U.S. Department of Commerce, "Report to the Congressional Textile Caucus on the Administration's Efforts on Textile Issues," September 2002, p. 1.

54. In order for import protection to be granted under this statute, a finding by the authorities of "market disruption" is necessary. Since no cases have been decided under this statute yet, the decisions in the three cases in progress will establish a precedent for what constitutes market disruption.

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