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Textile and Apparel Trade Issues

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Summary

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

The Economics of Textile and Apparel Production and Trade

Textile and apparel manufacture, and international trade in those products, have been important elements of economic activity and growth since the Industrial Revolution. Major reasons are (1) textiles and apparel are basic items of consumption in all countries, and (2) textile and apparel manufacture – particularly apparel – is labor-intensive, requiring relatively little fixed capital for entrepreneurs to establish production facilities. Thus, these industries are major generators of employment. Modest capital requirements contributed to textiles and apparel being among the major industries at the start of the Industrial Revolution and being important to developing countries now. The share of total manufacturing value added accounted for by textile and apparel production among developing countries was more than double that for industrialized countries in 1995.²

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

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

² United Nations, Industrial Development Organization. *International Yearbook of Industrial Statistics 1999*. Vienna: 1999. p. 57. 1995 is the latest year of such data for developing countries.

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

Year	Textile Mill Products			Apparel & Fabricated Textile Products		
	Exports	Imports	Balance	Exports	Imports	Balance
1973	926	1,423	-497	381	2,261	-1,880
1980	2,488	2,034	454	1,604	6,543	-4,939
1989	2,803	4,786	-1,983	2,380	25,509	-23,129
1994	5,269	6,534	-1,265	6,350	38,561	-32,211
1997	7,225	8,369	-1,144	9,654	50,190	-40,536
1999	7,697	9,029	-1,332	9,291	59,114	-49,823
2000	8,910	9,973	-1,063	9,758	67,505	-57,747
2001 ¹	8,960	9,310	-350	8,545	68,655	60,110

¹ 11 months data at an annual rate.

Sources: U.S. Department of Commerce, International Trade Administration. *U.S. Industrial Outlook*, various editions; U.S. International Trade Commission Dataweb (compiled from U.S. Departments of Commerce and Treasury data).

tage in textile and apparel manufacture. Thus, textile and apparel manufacture is tending to shift to developing countries, with textiles and apparel constituting large portions of their exports. Textile and apparel manufacture (measured by constant-dollar value added) in industrialized countries decreased between 1980 and 1996, whereas textile and apparel manufacture in developing countries increased.³ Between 1980 and 1997, textile and apparel exports of developing economies (in nominal dollars) sextupled while developed economies' textile and apparel exports rose about 150%. Textiles and apparel comprised 13% of developing economies' exports in 1997, versus 4% for developed economies.⁴

U.S. Textile and Apparel Production and Trade

In contrast to industrialized countries as a whole, U.S. production of textiles has risen since 1980; and apparel output has fallen only slightly. Total U.S. manufacturing output, however, doubled between 1980 and 2000.⁵ More significant to many in the textile and apparel industries, employment in those industries fell by about 35% and 50%, respectively, over the same period. Nevertheless, the two industries together are still significant, employing 1.2 million people in 2000 – 6½% of total manufacturing employment. The 2.1 million in 1980 were 10% of the total.

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

³ United Nations. *op. cit.* p. 61.

⁴ United Nations. *1994 International Trade Statistics Yearbook, Vol. II*. New York: 1995. p. S-20, 76, 92; *1997 International Trade Statistics Yearbook, Vol. II*. New York: 1997. p. S-22, 78, 94.

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

exports by \$59 billion. U.S. textiles have fared better with respect to trade than apparel because textile manufacturing is less labor-intensive, more suitable for automation, and, as a major input to apparel, textiles can be exported to serve as inputs to apparel products that are then re-exported to the United States.

The considerable extent of U.S. textile and apparel trade with developing countries is indicated by the following: For U.S. exports, four of the top ten textile destinations and seven of the top ten apparel destinations in 2000 were developing countries. For U.S. imports, five of the top ten textile sources and eight of the top ten apparel sources were developing countries in 2000. Mexico was among all four top-ten groups; and China was fourth as a textile exporter and second as an apparel exporter to the United States.⁶

Textile and Apparel Trade Agreements

Because of their importance to the U.S. economy and to many trade partners of the United States, textiles and apparel have been major issues in U.S. trade relations with a number of countries and regions. Attempts to resolve the conflicts between the interests of exporters and importers have resulted in a number of agreements – bilateral and multilateral – bearing on, and generally restricting textile and apparel trade.⁷

Agreement on Textiles and Clothing. The current Agreement on Textiles and Clothing (ATC) is a WTO adaptation and extension of the Multifiber Arrangement (MFA), which came into being in 1974. The MFA was a set of rules governing bilaterally-negotiated agreements, mainly between developing and developed countries, that applied quantitative restrictions when surges of imports of particular products caused, or threatened to cause, damage to the industry of the importing country.⁸ The ATC, which replaced the MFA on January 1, 1995, is a transitional instrument that phases out existing quotas, improves access to the textile markets of developing countries, and places trade in textiles and apparel under the rules governing other products. The ATC provides for a 10-year transition period for producers in developed countries to plan for and adjust to prospective intensified competition from developing countries. All import quotas on textiles and apparel are to cease to exist January 1, 2005.

A notable component of the ATC is the provision that allows importing countries to impose transitional safeguard mechanisms to protect against damaging surges of imports of products not under quota and not yet integrated under WTO rules. In a four-step process of liberalization, importing countries have the choice of how much of each (defined) product category to liberalize at which step; and they can defer liberalization of the most "sensitive" products until the last year.⁹ Thus, the nature of this procedure has not maximized the satisfaction of many exporting countries, who see it as a constraint on their economic growth. They believe it is unfair, and want a faster phase-out of quotas.

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

⁷ Other industrialized countries also have made bilateral agreements with developing countries that export textiles and apparel, and have participated in the multilateral agreements.

⁸ The MFA departed from the basic rules of the General Agreement on Tariffs and Trade (as does the ATC), particularly with respect to the principle of non-discrimination.

⁹ A description of the provisions of the ATC can be found on the WTO Internet web site: www.wto.org/wto/goods/textiles.htm.

Dispute Settlement. Despite the extensive body of WTO rules, disputes between member countries arise. Disputes arising under WTO agreements may be resolved under the WTO Dispute Settlement Understanding (DSU). Under the DSU, panels are established to investigate complaints and make findings. The DSU strengthened earlier dispute resolution procedures and practice (established under the General Agreement on Tariffs and Trade).¹⁰ There have been about one dozen complaints (concerning textiles and/or apparel) formally brought against or brought by the United States; nearly all cases have been resolved through pre-adjudication agreement, compliance with the recommendation of the Dispute Settlement Body (DSU), or settlement after the DSU recommendation.¹¹ A number of other disputes have been settled by bilateral negotiation.

China. On November 15, 1999, the United States and China reached an agreement covering a wide range of bilateral trade issues. Regarding textiles and apparel, the 1999 agreement incorporated the 1997 textile and apparel agreement between the two countries. Major elements of that agreement were (a) China, *upon accession to the WTO*, will "catch up" to the ATC schedule of quota phaseouts by 2005 for other WTO members, but the United States retains the right to impose safeguard measures through the end of 2008, allowing continuation of some quotas under some conditions (under ground rules in effect before WTO establishment), and (b) China will significantly lower its tariffs on a wide range of textile and apparel products, and not impose new nontariff barriers.¹² P.L. 106-286 granted permanent normal trade relations status to China *upon its accession to the WTO*, but also created mechanisms to monitor China's compliance with WTO and other trade agreements. Negotiations on China's accession terms were completed in September 2001; China officially joined the WTO on December 11, 2001.

U.S. importers of textiles and apparel praised the agreement, particularly the reaffirmation of the ending of quotas. U.S. textile manufacturers were disappointed that U.S. negotiators did not obtain an agreement whereby the United States would continue its quotas on Chinese textiles and apparel imports for 10 years, a phase-out faced by other WTO members; and the industry trade group expressed concern over its expectations of losses of jobs and U.S. production. U.S. labor, as represented by the AFL-CIO, severely criticized the agreement as failing to protect workers' and human rights.

Developing Countries: Issues and Initiatives

Push for Accelerated Phaseout. As indicated above, developing countries, whose exports of textiles and apparel have been limited, believe that developed countries have unfairly deferred substantial liberalization of imports, and are eager for acceleration of the benefits of existing agreements. Before and during the WTO Seattle Ministerial Meeting (November 30 to December 3, 1999), much of the negotiations related to textiles and apparel pertained to this issue. The developing countries received some support from the European Union and Japan for acceleration of implementation of existing agreements.

¹⁰ For more details on the DSU, see CRS Report RS20088, *Dispute Settlement in the World Trade Organization: An Overview*, by Jeanne J. Grimmett, or the Dispute Settlement page of CRS' electronic briefing book on trade on CRS' web site.

¹¹ See "Overview of the State-of-Play of WTO Disputes," October 13, 2000, at the WTO's Internet web site (www.wto.org/wto/dispute/bulletin.html).

¹² This agreement served as a necessary step toward China's accession to the WTO. On May 24, 2000, the House of Representatives approved permanent normal trade relations with China. For more on U.S.-China trade relations in general and textile and apparel trade in particular, see CRS Issue Brief IB91121, *China-U.S. Trade Issues*, by Wayne M. Morrison, and CRS Report 97-371, *China-U.S. Textile Trade: Growth and Confrontation*, by Edward Rappaport.

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

Congressional Initiatives. The U.S. Congress has made efforts to stimulate economic growth in poorer regions of the world, but these are moderated by concerns that such growth poses a threat to the domestic U.S. textile and apparel industries. In its latest moves to help poorer regions, Congress eased trade terms on textiles and apparel from Caribbean, sub-Saharan, and Andean region nations

The Caribbean and Central America. The Caribbean Basin Initiative (CBI) was established by the 1983 Caribbean Basin Economic Recovery Act. CBERA put into law (effective January 1, 1984) trade preferences and some other benefits. It authorized unilateral preferential treatment (duty-free, or at duty rates lower than those generally applicable) for most articles imported from 24 CBI countries designated as beneficiaries. The 1990 Caribbean Basin Economic Recovery Expansion Act made the program permanent. Eligible for duty-free preference were all otherwise dutiable products except certain import-sensitive items, which included textiles and apparel subject to textile agreements.¹³ However, the tariff and quota treatment of U.S. imports from Mexico under the North American Free Trade Agreement (effective January 1, 1994) resulted in a competitive disadvantage for imports from the countries intended to benefit from CBERA. There were calls to extend to imports from the Caribbean Basin preferential treatment equivalent to that accorded imports of identical Mexican goods, but legislation to that effect was not enacted until "The Trade and Development Act of 2000," below).¹⁴

Andean Countries. The Andean Trade Preference Act (ATPA) (P.L. 102-182, title II) provides a 10-year period of duty free or reduced-rate treatment of selected products from Bolivia, Colombia, Ecuador, and Peru. This limited program, which expired December 4, 2001, has produced limited results.¹⁵ S. 525 would expand the scope of benefits, particularly by making textile and apparel articles newly eligible for benefits.

Sub-Saharan Africa. Given the large role usually played by textiles and apparel in early industrial development, it is reasonable to expect that these industries would be among the first to grow rapidly in this under-developed region. Africa presently exports only small amounts of textile and apparel products to the U.S. market. Several bills in the 106th Congress would have extended a variety of benefits to sub-Saharan African countries (e.g., tariff-free entry to selected products, debt relief, quota abolition, development

¹³ There is a special program for apparel assembled in a CBERA country and imported under the "production sharing" provision, provided it is assembled from fabric formed and cut in the United States. Under this, regular duty rates are applied to a base that excludes the value of U.S.-origin components. Such products may be imported from CBERA countries above the regular quotas up to bilaterally agreed "guaranteed access levels" (GAL) at the regular duty rate.

¹⁴ For more discussion and details on the CBI and related legislation, see CRS Issue Brief IB95050, *Caribbean Basin Interim Trade Program: CBI/NAFTA Parity*, by Vladimir Pregelj.

¹⁵ For more discussion of the ATPA and related legislation, see CRS Report RL30790, *The Andean Trade Preference Act: Background and Issues for Reauthorization*, by J. F. Hornbeck.

assistance, investment promotion, and the establishment of institutions and forums to promote cooperation and improve trade relations). One of the bills, H.R. 434, metamorphosed into Title I of the "Trade and Development Act of 2000" (see below).

Growth of African textile and apparel production could cause difficulty for some segments of the U.S. textile and apparel sector; some argue that it would shift jobs from low-income Americans to Africans. In general, increased African production is likely to affect the U.S. industry very little in the short run, largely because it starts from a very small base – less than 1% of imports from all sources and a fraction of a percent of domestic output. Investment in the African textile/apparel sector could become substantial, and exports with it. But these might be partially offset by decreases from other sources, notably East Asia. Some opponents of giving trade preferences to African countries state that some countries may choose to contribute only the statutorily required 35% of the total product value to be exempt from tariffs and quotas, rather than develop full-fledged indigenous industries. Since the cost of fabric cutting and stitching could come to 35% for many products, apparel made from fabric originating in Europe, Asia or elsewhere could enter the United States duty-free, indirectly. Trade preferences may ease transshipment – the fraudulent practice of mis-labeling country of origin, as it could be very difficult to verify the origin of goods over the expanse of a continent.¹⁶

Trade and Development Act of 2000. Together with several other measures, this legislation (P.L. 106-200, enacted May 18, 2000) liberalized trade with qualifying sub-Saharan and Caribbean Basin countries. In addition to broad provisions aimed at encouraging economic development and trade, Title I (African Growth and Opportunity Act) gives preferential treatment to certain apparel articles from countries meeting transshipment requirements. Items admitted duty-free and quota-free include apparel assembled from fabrics wholly formed and cut in the United States, and yarn wholly formed in the United States, apparel cut and assembled or knit-to-shape from fabrics or yarns wholly formed in the United States, knit-to-shape sweaters made from cashmere and fine merino wool, and certified handmade and folklore articles. Certain other apparel items will be free of duties and quantitative restrictions up to a specified level of imports.

Title II (Caribbean Basin Trade Partnership Act) focuses mainly on the preferential treatment of textile and apparel products. It adds several eligibility criteria and sets the transitional period of CBERA preferential treatment to run from October 1, 2000 through September 30, 2008. Articles accorded duty-free and quota-free treatment include apparel assembled in a beneficiary country from fabric wholly formed and cut in the United States from U.S.-made yarn, or from a fabric made in the United States from U.S.-made yarn, cut in a beneficiary country and sewn together with U.S.-made yarn. Also included are certified hand-loomed, handmade, and folklore articles, and apparel assembled in a beneficiary country from fibers, fabric, or yarn not formed in the United States or a beneficiary country that are not widely available in commercial quantities.

On November 16, 2001, the House passed H.R. 3009, which would liberalize the ATPA and extend it to December 31, 2006, liberalize somewhat trade benefits to Caribbean Basin and sub-Saharan countries, and treat U.S.-knit-to-shape components in the same way as U.S.-made and -cut components in the preferential treatment of textile apparel assembled in Caribbean countries. However, a rescission of some ATPA benefits was promised in connection with a close House vote on trade promotion authority on December 6; and the provisions related to the Caribbean and sub-Saharan were omitted from the Senate Finance Committee version of H.R. 3009 reported on December 14.

¹⁶ For more on legislation to promote trade with Africa, see CRS Report RS20063, *U.S. Sub-Saharan Africa Trade and Investment: Programs and Policy Direction*, by Lenore Sek.