

Report for Congress

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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 U.S. trade partners, textile and apparel trade has been a major issue in trade relations with a number of countries and regions. In the last several decades, textile and apparel manufacture has been shifting to developing countries, with textiles and apparel accounting for large portions of their exports to developed economies. Lower wages in developing countries together with the labor-intensiveness of apparel production tend to give developing countries a cost advantage in apparel manufacture and a locational advantage for their textile production. Employment in these industries in the United States and most other developed countries has been decreasing.

Textile and apparel production and international trade have been important elements of economic activity and growth since the Industrial Revolution. Major reasons are (1) textiles and apparel are basic items of consumption in all countries, and (2) textile and apparel manufacture – particularly apparel – is labor-intensive, requiring relatively little fixed capital for entrepreneurs to establish production facilities. Thus, these industries are major generators of jobs.

In attempts to resolve conflicts between the interests of exporters and importers, a number of agreements (multilateral and bilateral) were signed over the years generally restricting the quantities of textiles and apparel traded. The international Agreement on Textiles and Clothing is a transitional instrument that provides for the phasing out of existing quotas by January 1, 2005 and places trade in textiles and apparel under the rules governing other products. 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 quota phase-out.

In moves to boost economic growth in poorer regions, Congress has eased trade terms on textiles and apparel from Andean, Caribbean, and sub-Saharan nations. In addition, the United States has concluded free trade agreements with several countries that probably will have negative consequences for U.S. textile and apparel producers. The extent of these trade benefits, however, is constrained by concerns that growth of textile and apparel production in the above regions has caused and could cause further difficulty for segments of the U.S. textile and apparel industries.

In early December 2002, the U.S. Trade Representative proposed to the WTO that all tariffs on non-agricultural goods (including textiles and apparel) be eliminated by 2015 – through a phase out procedure. The reactions by most countries to the proposal have not been enthusiastic so far. Also, U.S. textile manufacturers have objected, and it may be difficult for the U.S. government to sustain this proposal against the wishes of U.S. textile and apparel producers.

This report will be updated as events warrant.

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Textile and Apparel Trade Issues

Because of their importance to the U.S. economy and to many U.S. trade partners, textile and apparel trade has been a major issue in trade relations with a number of countries and regions. This report discusses and analyzes the reasons for the importance of textile and apparel production to U.S. trading partners and to the United States; and the report presents, discusses, and analyzes international and domestic measures that have been undertaken to resolve conflicts between the interests of exporters and importers. The report also presents and discusses measures that the United States has undertaken to boost economic growth in poorer regions by easing trade terms – particularly with respect to textiles and apparel. 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 for this 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 percentage of total manufacturing value added accounted for by textile and apparel production among developing countries was triple the percentage among industrialized countries in 2000.²

Lower wage rates in developing countries together with the labor-intensiveness of apparel manufacture tend to give developing countries a comparative advantage in apparel manufacture and a locational advantage for textile manufacture. Thus, textile and apparel manufacture is tending to shift to developing countries, with textiles and apparel constituting large portions of their exports. Textile and apparel manufacture (measured by constant-dollar value added) in industrialized countries decreased between 1980 and 2000, whereas textile and apparel manufacture in

¹ CRS analyses of a wide variety of trade issues, and references to CRS reports on those issues, can be found in the CRS electronic briefing book on trade. Some of those reports are cited herein. See [<http://www.congress.gov/brbk/html/ebtra1.html>.]

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

developing countries increased.³ Between 1980 and 1999, textile and apparel exports of developing economies (in nominal dollars) sextupled while developed economies' textile and apparel exports rose 125%. Textiles and apparel comprised 13% of developing economies' exports in 1999, versus 4% for developed economies.⁴

U.S. Textile and Apparel Production and Trade

U.S. production of textiles and of apparel rose modestly between 1980 and 2000, in contrast to declining production in industrialized countries as a whole. Total U.S. manufacturing output, however, doubled between 1980 and 2000.⁵ U.S. output of both textiles and apparel fell in 2001, reflecting the economic recession. More significant to many in the U.S. textile and apparel industries, employment in those industries fell by 44% and 55%, respectively, between 1980 and 2001. Nevertheless, the two industries together employed over one million people in the United States in 2001, or 6% of total manufacturing employment.

Some of the decline in U.S. textile and apparel employment is linked to gains in productivity, and some to increases in importation of textiles and apparel. Textile manufacturing output per hour rose 3.8% per year on average between 1980 and 2000; the corresponding figure for apparel was 3.9%. U.S. imports of textiles in 2002 (in current dollars) ran more than three times their 1980 level; and 2002 apparel and textile product imports were more than ten times their 1980 level (see table). Imports of all textiles and apparel exceeded exports by an estimated \$62 billion in 2002. U.S. textiles have fared less badly with respect to trade than apparel and other fabricated textile products. Textile production is less labor-intensive, more easily automated, and, as a major input to apparel, can be exported to serve as inputs to foreign-made apparel that then is exported to the United States. This attribute comes into play in Congressional initiatives to stimulate the economies of countries in poorer regions of the world, as described in a subsequent part of this report.

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

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

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

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

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.

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

Year	Fibers and Fabrics			Apparel & Other Fabricated Textile Products		
	Exports	Imports	Balance	Exports	Imports	Balance
1973	926	1,423	- 497	381	2,261	-1,880
1980	2,488	2,034	454	1,604	6,543	-4,939
1989	2,900	4,786	-1,886	2,451	25,509	-23,058
1994	5,270	6,534	-1,264	6,350	38,561	-32,211
1999	6,055	6,443	-388	10,404	61,454	-51,050
2000	7,284	7,042	242	10,891	70,275	-59,384
2001	7,365	6,336	1,029	9,039	70,010	-60,971
2002 ¹	7,774	6,797	977	8,149	71,323	-63,174

Note: Data for “Fibers and Fabrics” for years prior to 1999 include some fabricated textile products, which now are included in “Apparel and Other Fabricated Textile Products.”

¹ 11 months data at annual rate.

Sources: U.S. International Trade Commission Dataweb (compiled from Departments of Commerce and Treasury data).

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. As described below, such restrictions are being phased out under an international agreement.

Agreement on Textiles and Clothing

The Agreement on Textiles and Clothing (ATC), currently in force, is a WTO adaptation 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.⁷

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

The ATC, which replaced the MFA on January 1, 1995, is a transitional instrument that phases out existing quotas, improves access to the textile markets of developing countries, and places trade in textiles and apparel under the rules governing other products. The ATC provides for a 10-year transition period for producers in developed countries to plan for and adjust to prospective intensified competition from developing countries. All quotas on textile and apparel imports are to cease on January 1, 2005. A notable feature of the ATC is a provision allowing importing countries to impose transitional safeguard mechanisms to protect against damaging surges of imports of products not under quota and not yet integrated under WTO rules. In a four-step process of liberalization, importing countries can choose how much of each product category to liberalize at which step, and can defer liberalization of the most "sensitive" products until the last step.⁸ Many exporting countries see this procedure as unfair and a constraint on their economic growth, and want a faster phase-out of quotas.

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

Developing Countries' Push for Accelerated Quota Phaseout. As indicated above, developing countries, whose exports of textiles and apparel have been limited by past agreements, 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.

Notwithstanding the failure of the Seattle Ministerial and the extended period before the current general round of trade talks, known as the Doha Round, phase-out of the ATC textile and apparel import restrictions proceeded; and developing countries continued to press for accelerated implementation of the ATC. Those

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

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

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.

U.S. Bilateral Agreements

The United States has entered into several bilateral trade agreements in recent years with both large and small countries. That with China probably is most important; those with Vietnam and Singapore are illustrative of others.

China. The United States and China reached an agreement covering a wide range of bilateral trade issues on November 15, 1999. The agreement incorporated the 1997 textile and apparel agreement between the two countries. Apparel is one of the largest categories of exports by China to the United States. Major elements of the 1999 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, and (b) China will significantly lower its tariffs on a wide range of textile and apparel products, and not impose new nontariff barriers.¹⁰

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

To ensure that the WTO agreements would fully apply between the United States and China (once China joined the WTO), P.L. 106-286 was enacted (October 10, 2000) creating mechanisms to monitor China's compliance with WTO and other trade agreements, and authorizing the President to grant China permanent normal trade relations (PNTR) status after it joined the WTO. China officially joined the WTO on December 11, 2001, and the President extended PNTR status to China on December 27, 2001.

P.L. 106-286 also requires the U.S. Trade Representative (USTR) to annually issue a report assessing China's compliance with its WTO trade obligations. In December 2002, the USTR issued its first annual China WTO compliance report,

¹⁰ This agreement served as a necessary step toward China's accession to the WTO. 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.

finding that, China had made significant progress in meeting its WTO obligations, but also that a number of major problems remained.¹¹

Two Other Recent Trade Agreements. Recent bilateral trade agreements with Vietnam and Singapore also have ramifications for textiles and apparel. The July 2000 agreement with Vietnam was followed up in December 2001 with the granting by the United States of permanent normal trade relations status to Vietnam. Such status significantly reduced U.S. tariffs on most imports from Vietnam and has led to a very large increase in Vietnamese exports of textiles and apparel to the United States. In the first 11 months of 2002, imports of textiles and apparel from Vietnam were 17 to 18 times their level in the similar period of 2001. Before the actual increase, expectations of such gains prompted debate, and calls by the U.S. textile and apparel industries to negotiate a textile agreement that would place quotas on Vietnamese textile and apparel imports. The United States hopes to begin formal talks on a textile agreement with Vietnam in February 2003.

The December 2002 trade agreement with Singapore, covering a broad range of goods and services and of types of market access, contains specific rules of origin regarding textiles and apparel. Singaporean exports of textiles and apparel to the United States will be duty free if made from yarn or materials further along the production chain that originate in the United States or Singapore. However, a limited amount of apparel exports from Singapore will be exempt from this rule for eight years; and tariffs on such exports will be phased out over five years. The United States commits to more liberal rules of origin once further liberalization of such rules is achieved in the WTO. With the large jump in 2002 in imports from Vietnam, total imports of textiles and apparel from Singapore and Vietnam represent about 1¼% of total U.S. imports of textiles and apparel.

Congressional Initiatives

The U.S. Congress has made efforts to stimulate economic growth in poorer regions of the world, to a great extent by providing textile and apparel trade benefits. Among its measures, Congress has eased trade terms on textiles and apparel from Caribbean, sub-Saharan, and Andean region nations. Given the large role usually played by textiles and apparel in early industrial development, as noted earlier, it is reasonable to expect that these industries would be among the first to grow rapidly in these regions.¹²

¹¹ The problems relate especially to agriculture, services, intellectual property rights protection, and transparency of trade laws and regulations.

¹² See also CRS Report RS20063, *U.S. Sub-Saharan Africa Trade and Investment: Programs and Policy Direction*, by Lenore Sek, CRS Issue Brief IB95050, *Caribbean Basin Interim Trade Program: CBI/NAFTA Parity*, by Vladimir N. Pregelj, and CRS Report RL30790, *The Andean Trade Preference Act: Background and Issues for Reauthorization*, by J. F. Hornbeck.

Sub-Saharan Africa

Africa presently exports only small amounts of textile and apparel products to the United States. Significant measures to improve U.S. economic relations with sub-Saharan Africa began in the mid-1990s. In 1994, the Uruguay Round Agreements Act (P.L. 103-465) directed the Administration to develop an Africa trade and development policy and report on this policy to Congress annually for five years. The Administration's first report spurred Congressional interest in African economic growth and in improving U.S.-sub-Saharan economic relations. The Partnership for Economic Growth and Opportunity in Africa, announced by President Clinton in 1997, supported economic reforms in Africa and encouraged closer economic ties between the United States and Africa; it incorporated ideas Congress was considering at the time.

Together with several other measures, the Trade and Development Act of 2000 (P.L. 106-200, enacted May 18, 2000) liberalized trade with qualifying sub-Saharan and Caribbean Basin countries. In addition to broad provisions aimed at encouraging economic development and trade, Title I, the African Growth and Opportunity Act (AGOA), gave 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 certain wools, and certified handmade and folklore articles. Certain other apparel items are free of duties and quantitative restrictions up to a specified level of imports.

The Trade Act of 2002 (P.L. 107-210) liberalized benefits under AGOA, and CBERA (under Title XXXI) – in addition to providing trade promotion authority to the President and liberalizing trade adjustment assistance to workers. Sub-Saharan benefits were liberalized by a clarification that apparel assembled from knit-to-shape components made in the United States and garments from components cut both in the United States and beneficiary countries are eligible for preferential treatment, and it increases the import cap on certain duty-free apparel items. In the short run, increased African production generally is likely to affect the U.S. textile and apparel industries very little, largely because it starts from a very small base.

The Caribbean and Central America

The Caribbean Basin Economic Recovery Act (CBERA) established the Caribbean Basin Initiative (CBI), putting into law (effective January 1, 1984) trade preferences (and some other benefits) in the form of unilateral preferential treatment (duty-free, or at duty rates lower than those generally applicable) for most articles imported from 24 beneficiary countries. The Caribbean Basin Economic Recovery Expansion Act of 1990 made the program permanent. Eligible for duty-free preference were all otherwise dutiable products except certain import-sensitive items,

including textiles and apparel subject to textile agreements.¹³ However, the tariff and quota treatment of imports from Mexico under the North American Free Trade Agreement put imports from the countries intended to benefit from CBERA at a disadvantage vis à vis imports from Mexico. Congress has considered and passed legislation to address this.

Title II of P.L. 106-200 (Caribbean Basin Trade Partnership Act) focused mainly on the preferential treatment of textiles and apparel. It added several eligibility criteria and set the transitional period of 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 U.S.-made fabric from U.S.-made yarn cut in a beneficiary country, and sewn with U.S.-made yarn.

Caribbean Basin benefits were liberalized by the 2002 Trade Act through a substantial increase in the quota ceilings for knit-to-shape apparel and exclusion of the cost of trimmings and findings from the cost of U.S. fabric components.

Andean Countries

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

The Trade Act of 2002 effectively reinstated and liberalized the Andean Trade Preference Act. The Andean provisions extend the ATPA to December 31, 2006 and newly include certain textile and apparel items as eligible for duty-free treatment.

However, the 2002 Trade Act also specifies that all dyeing, printing, and finishing of U.S.-made fabric incorporated in imported apparel must occur in the United States for that apparel to be eligible for CBERA or ATPA benefits. This requirement had been sought vigorously by the U.S. textile industry.

Industry Concerns

The extent of these trade benefits is constrained by concerns that growth of textile and apparel production in the above regions has caused and could cause further difficulty for segments of the U.S. textile and apparel industries, which have

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 U.S. formed and cut fabric. Such apparel may be imported above regular quotas up to bilaterally agreed “guaranteed access levels” at the regular duty rate applied to a base that excludes the value of U.S.-origin components.

been affected negatively by “normal” gains in textile and apparel production by developing countries. Some argue that these trade benefits shift jobs from Americans to Africans and Latin-Americans. And, although current imports of textiles and apparel from these regions may be small in relation to U.S. output, investment in the textile/apparel sector of these regions could become substantial, and exports with it.

U.S. “Tariff-Free” Proposal

In early December 2002, the U.S. Trade Representative proposed to the WTO that all tariffs on non-agricultural goods (including textiles and apparel) be eliminated by 2015 – through a phase out procedure. In Phase One (2005 to 2010), (a) all tariffs of 5% ad valorem or less would be eliminated, (b) tariffs on a variety of specific categories of goods would be eliminated, and (c) tariffs above 5% would be “harmonized” to less than 8% by application of a formula. In Phase Two (2010 to 2015), remaining tariffs would be eliminated through linear cuts.¹⁴

The reactions by most countries to the U.S. proposal have not been enthusiastic so far. According to reports, a number of countries noted that tariffs are important to developing countries as a source of government revenues and as protectors of infant industries. Another reported objection is that the proposal undermines the advantages of preferences to beneficiary countries of preferential trade programs (such as those provided by the United States and described in this report under “Congressional Initiatives”).¹⁵ There also is concern about agreeing to a U.S. nonagricultural goods proposal that is not coupled with an acceptable agricultural proposal.

In addition, U.S. textile manufacturers have objected,¹⁶ and it may be difficult for the U.S. government to sustain this proposal against the wishes of U.S. textile and apparel producers.¹⁷

¹⁴ The formal text of the U.S. proposal to the WTO and supplemental materials can be found at the U.S. Trade Representative’s web site [<http://www.ustr.gov>]; click on “Tariff Free World.”

¹⁵ See “U.S. Plan for Scrapping Industrial Tariffs Receives Mixed Reception at WTO Meeting,” *Daily Report for Executives*. December 3, 2002 [<http://ippubs.bna.com/ip>]; and “U.S. Downplays Cool Response to Market Access Proposal in WTO,” *Inside U.S. Trade*, December 6, 2002.

¹⁶ See, for example, letter of December 13, 2002, from a group of 11 associations of textile manufacturers.

¹⁷ “U.S. Plan for Scrapping Industrial Tariffs Receives Mixed Reception at WTO Meeting,” *Daily Report for Executives*. December 3, 2003. [<http://ippubs.bna.com/ip>] It was reported in this article that some countries doubt that the U.S. would stand up to the textile industry.