

Update on Trade Developments for Readers of
Travels of a T-Shirt

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August 10, 2005

There have been a number of developments in textile and apparel trade and trade policy in the months since the book was published. Virtually all of these developments, however, conform to the broad patterns discussed in *Travels*.

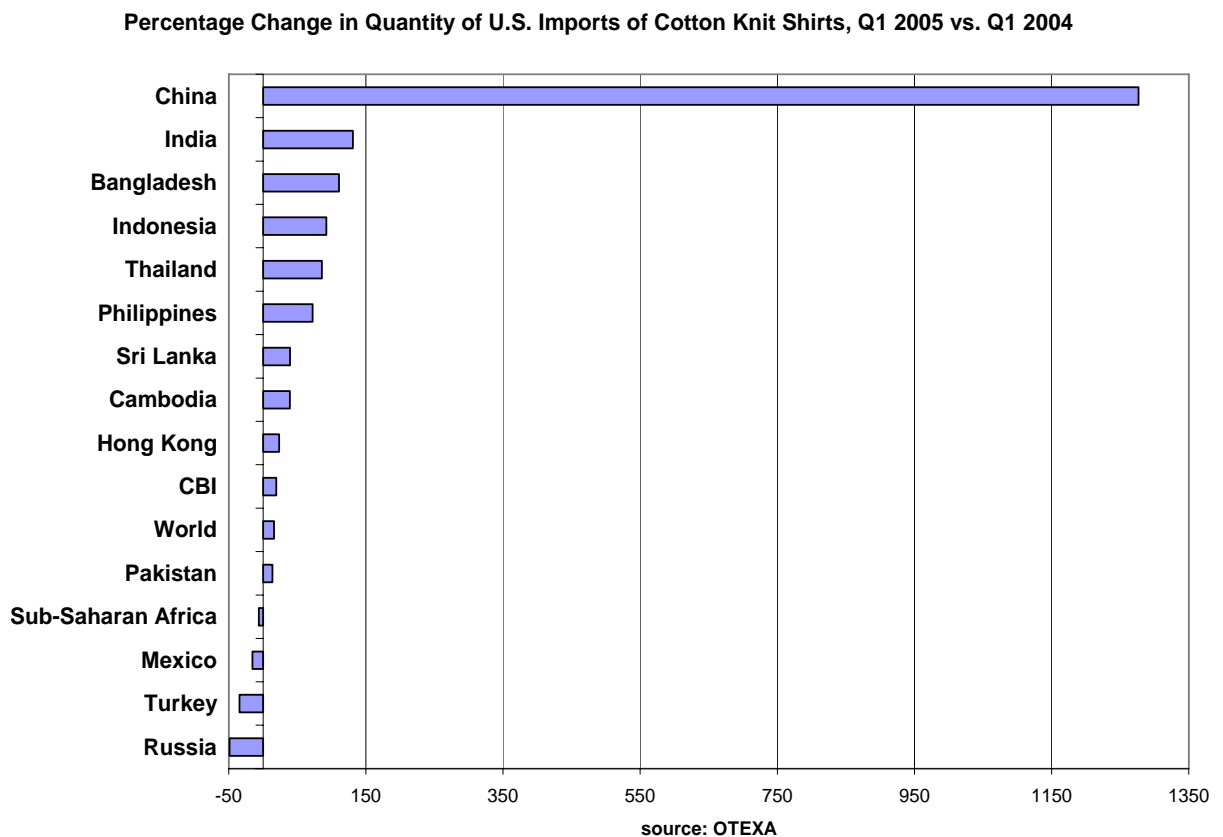
In particular, 2005 has been characterized by 3 broad continuing historical patterns: (1) significant political clout and activity of America's domestic textile industry for the reasons discussed in the book, (2) trade deals that continue to be almost numbingly complex because of the multiple interests at work, and (3) trade protection for the textile industry that continues to be a "price" of broader trade liberalization.

On January 1, 2005, most textile and apparel quotas were removed. Quotas remained in place, however, for several important exporting countries that were not WTO members, such as Vietnam, and quotas were also in place on a number of categories of Chinese exports. The China Safeguard mechanism, negotiated as part of China's entry into the WTO, has a provision for countries to limit textile and apparel imports from China through 2008.

The lifting of most quotas had the effects that many had been anticipating: China does indeed appear to be the main winner thus far. In 2004, China's import share of goods that had been released from quota was 70% (the next highest share was Thailand, with 3%). Overall, US imports of Chinese textile

and apparel in 2005 (through June) increased by approximately 90% over the same period in 2004.

However, this aggregate figure disguises more dramatic “surges” in US imports from China in some categories that were released from quota, where increases in imports from China were 1000-2000%. Imports of t-shirts and other cotton knit shirts from China surged approximately 1200% in the first quarter of the year, as the figure below shows:



The response to the rapid increase in imports from China has been an aggressive pursuit of “safeguards” by the US industry. As of summer 2005, the industry had filed for safeguard import limits in approximately 15 categories of

goods from China, including, for example, underwear, socks, cotton and wool pants, and filament yarns. Most of these petitions have been granted, including that for cotton knit shirts. The limits called for in the safeguard petitions were quickly reached in some categories, and no further imports from China will be allowed in these categories during 2005. For cotton knit shirts, China reached its 2005 limit in July.

US importers and retailers had some success in fighting the wave of safeguard petitions. In particular, they were successful in limiting safeguard actions to those categories of goods where actual imports surges from China had occurred, rather than – as the domestic industry had demanded – to categories where there was a potential threat of import surges.

As the political battles over Chinese imports continued, there was at the same time a push by the Bush administration for passage of the Central American Free Trade Agreement, or CAFTA. CAFTA would liberalize trade flows between 5 Central American countries and the US, and would replace the CBTPA described in *Travels*, which was due to expire in 2008.

As of early 2005, the US textile industry was united in its opposition to CAFTA. However, through a series of complex negotiations some major players from the industry were won over to the CAFTA side. The price to get (some) of the industry players on board was high, and indeed, various observers were quoted in the press as saying that, at least in textiles, CAFTA was a step backwards, not forward, for free trade.

The National Council of Textile Organizations (NCTO) agreed to support CAFTA in May when it was promised aggressive use of the China safeguards (though accounts differ somewhat regarding the safeguard-CAFTA link), and was also

promised a change to the language of the agreement wherein certain fabric components (“certain invisible linings and pocketings”) would be required to come from within the Agreement countries. In addition, CAFTA requires that all textile and apparel imports must be regional “yarn forward,” that is, the use of Asian yarns and fabrics disqualifies apparel for trade benefits. Finally, CAFTA contains an import safeguard provision for textiles and apparel; indeed the textile/apparel safeguard is the only safeguard provision in the CAFTA.

Even with these concessions, however, in late July it appeared that enough textile state Republicans remained opposed to CAFTA to block its passage. CAFTA “squeaked by” with a 217-215 vote after two additional textile promises. One of the last votes to switch to CAFTA’s side was that of Rep. Robert Aderholt (R-AL), who requested and received special assurances about Chinese socks.

CAFTA finally passed only after Rep. Robin Hayes of North Carolina agreed to switch his no vote to a yes. Before switching, Hayes wrote to the NCTO asking for their “top priority”. The textile organization responded that its priority was a comprehensive agreement that would limit Chinese textile and apparel imports through 2008. This comprehensive agreement would provide an overarching agreement and would free the industry from the burden of the case by case (and year by year) petitions.

The administration agreed, leading Gary Hufbauer of the Institute for International Economics to wonder whether “the trade liberalization we got with CAFTA could actually be less than what we gave up” for the textile industry.

The broad historical pattern, then, of trade liberalization progressing through compensation for the domestic industry, seemed as evident in the summer of 2005 as it had during the rest of the post-war period.

Note: All data in this update are from OTEXA. I also relied on conversations with lobbyists and trade association officials from both sides. The Hufbauer quote and the account of the CAFTA negotiations is drawn largely from “US to Consider Broad Accord in China Textile Trade,” By Mark Drajem (Bloomberg Newswire, August 1, 2005). I welcome comments and questions from readers of *Travels* (rivolip@georgetown.edu). A further update will be posted in January 2006.