
Textiles and Clothing

Textile and clothing (T&C) products are the most contentious of all Chinese exports, both because China has enormous competitive strength in this sector and because the Multi-Fiber Arrangement (MFA), which severely restricted the natural flow of trade, expired on January 1, 2005. While the January 2006 bilateral US-China T&C agreement resolved disputes over brassieres, socks, and other items, more T&C disputes are practically certain. Thus a sketch of the celebrated brassiere case remains relevant. After summarizing the brassiere case, this chapter turns to the wider implication of the end of the MFA.

The Brassiere Case

In November 2003 the US Department of Commerce imposed a 7.5 percent quota growth limit on Chinese brassieres, knit fabrics, dressing gowns, and robe imports above the levels reached between September 2002 and September 2003.¹ The Department of Commerce and Committee

1. In July 2003, after three leading US textile lobbying groups requested consultations with the Committee for the Implementation of the Textile Agreements (CITA), the Department of Commerce invoked special safeguard provisions to limit brassieres and kindred imports from China. Draft paragraph 238 of China's WTO accession agreement established the China-Specific Textile Safeguard Mechanism, in effect until December 31, 2008. (Paragraph 238 became paragraph 242 in the final protocol for China's accession.) WTO members can request consultations with China if rising Chinese T&C imports cause "market disruption." Unless both parties reach a different agreement, the quota limit will terminate one year after the consultation request. However, the United States could then invoke a new quota limit. See WTO (1995).

for the Implementation of the Textile Agreements (CITA) based their decision on rapidly rising imports of Chinese brassieres; while US production declined, China advanced from being the sixth-largest exporter in 2001 to the largest exporter in 2003. Brassiere imports from China increased by 294 percent, from \$120 million in 2001 to \$474 million in 2005, when they accounted for 31 percent of total US brassiere imports from the world.² The brassiere situation is typical of many T&C imports from China and was seen to validate an overriding fear of a potential flood of Chinese T&C exports after the MFA quotas expired in January 2005. From 2000 to 2005, US imports of T&C products from China, mainly clothing, increased from about \$8 billion to \$19 billion. In the same years, China's share of US T&C imports from the world grew steadily from 11 to 25 percent.

Under the terms of China's accession to the WTO (paragraph 241 of China's draft protocol of accession),³ a WTO member can apply safeguard tariffs and quotas against any Chinese product without applying comparable safeguards against imports from other countries (see appendix B for further details). After an evidentiary hearing and a finding of "material injury," WTO members can impose these product-specific safeguards against any Chinese export until December 2013.⁴ In the special case of T&C (paragraph 238 of the draft protocol), safeguards can be applied almost automatically until 2008, whenever imports create "market disruption" (a lower standard than "material injury"). Both provisions (paragraphs 238 and 241) are contrary to the WTO's principle of nondiscrimination, which China agreed to waive as a condition of accession.

The End of the MFA

The Agreement on Textiles and Clothing (ATC) negotiated in the Uruguay Round (1986–95) called for the phaseout of quota restraints imposed under the auspices of the MFA. The phaseout was to be spaced over 10 years, with all T&C quotas to be eliminated by January 1, 2005 (box 3.1). The

2. US producers only sell synthetic fabric rather than cotton brassieres and have long since shifted brassiere assembly to Mexico and Central America.

3. Paragraph 241 of China's draft protocol of accession (the safeguard clause applicable to any product) became article 16 in the final protocol; paragraph 238 in the draft protocol (the T&C specific safeguard) appears as paragraph 242 in the final protocol. Richard Seldin, Comments on China Bashing 2005–06, personal e-mail correspondence, March 7, 2006, on file with authors.

4. In 2004 the European textile-lobbying group, the International Association of Users of Artificial and Synthetic Filament Yarns and Natural Silk (AIUFFAS), petitioned the European Union to impose this WTO safeguard mechanism (paragraph 241) against Chinese fabric and fiber imports. See "European Group to Submit First China Textile Safeguard Petition," *Inside US Trade*, January 28, 2004. Also see Knappe (2003).

Box 3.1 Limits to textile and clothing liberalization: The MFA quota phaseout

US textile and clothing quotas are not a new phenomenon. Since the US Agricultural Act of 1956, the US government has used quotas to limit textile and clothing imports. In the 1960s industrialized countries, led by the United States and Europe, imposed short- and long-term agreements to protect their own markets from cheaper foreign textile and clothing competitors. These were later consolidated in 1974, under GATT, as the Multi-Fiber Arrangement (MFA), which in turn was revised and extended three times. As an outcome of the Uruguay Round of multilateral trade negotiations, the WTO Agreement on Textiles and Clothing (ATC) established a staged and back-loaded liberalization of MFA textile and clothing quotas. In 2005 all quotas were supposed to have been eliminated and the MFA abolished. The stages are summarized below. However, in 2005 the European Union and the United States both reinstated quota limits on their imports of Chinese textile and clothing. The limits were imposed consistent with the terms of China's protocol of accession to the WTO.

Year	Quota relaxation
1994	WTO members required to permit quota-free volume of textile and clothing imports to grow at 6 percent annually.
1995–97	WTO members required to remove quotas on 16 percent of the total volume of each WTO member's 1990 textile and clothing imports.
1998–2001	WTO members required to remove quotas on an additional 17 percent of the total volume of each WTO member's 1990 textile and clothing imports.
2002–04	WTO members required to remove quotas on an additional 18 percent of the total volume of each WTO member's 1990 textile and clothing imports.
2005	WTO members required to remove all remaining quotas, usually the remaining 49 percent of the total volume of each WTO member's 1990 textile and clothing imports.
2005–07	In June 2005 the European Union signed an agreement to restrict the growth level (between 8 and 12.5 percent annually) of 10 categories of Chinese textile and clothing imports. The agreement will hold until the end of 2007.
2006–08	In November 2005 the United States and China agreed to a memorandum of understanding that places quotas on 34 categories of Chinese textile and clothing imports beginning January 1, 2006. The quotas are increased annually: 8 to 10 percent in 2006, 10 to 16 percent in 2007, and 15 to 17 percent in 2008.

Sources: Gereffi and Memedovic (2003); "EU, China Reach a Deal on Textile Imports," Associated Press/MSNBC, September 5, 2005; USTR, press release, Media Availability of USTR Portman and Minister Bo Xilai on the US-China Textile Agreement, November 8, 2005.

ATC outlined the stages of liberalization over the 10-year period, requiring a minimum level of annual quota expansion. Most importing countries stuck to the bare minimum called for at each stage, leaving about half of the required quota elimination until the eve of 2005.

With the end of the MFA, Chinese T&C exports to the United States grew rapidly. The US textile industry claimed that the surges were harming the domestic industry and beseeched the Bush administration to impose import restraints. To support its case, the US industry cited cheap labor in China, the massive loss of jobs in the United States, and a further deterioration of the US trade balance. The textile industry claimed that 19 textile plants had closed and 26,000 jobs had been lost since the end of the MFA, assigning the chief blame to China.⁵ For its part, China argued that its exports are mainly displacing other US T&C imports, not enlarging US imports of T&C goods as a whole.

From 2002 to 2004, China's T&C exports to the United States grew on average by 22 percent annually. However, in 2005, after the MFA expired, Chinese T&C exports to the US market grew by 50 percent. Simply noting the superfast growth in Chinese exports, however, does not answer the question of which suppliers are being displaced. Total US T&C imports grew 6.8 percent in 2005, which is actually less than the 2004 growth rate of 7.8 percent.⁶ In broad terms, these figures appear to support China's claim that its exports to the US market mainly displace third-country suppliers. The end of the MFA regime apparently allowed China to realize its comparative advantage over alternative foreign suppliers.

Whatever the facts, US T&C producers are convinced that their competitive problems originate in China. Hence the impending end of the MFA regime at the end of 2004 caused many textile lobbyists to call for action against Chinese T&C exports. Facing pressure from abroad, China took preliminary measures to ward off complaints. Early in 2005 China voluntarily placed a tax on its T&C exports.⁷ However, US firms criticized the tax as being too small to be effective.

As already described, under China's accession agreement to the WTO (paragraph 238), special safeguard measures can be applied to Chinese T&C exports until 2008.⁸ If a WTO member country believes imports from

5. See Martin Crutsinger, "US Renews Limitations of Clothing from China," *Washington Post*, September 2, 2005.

6. The lower 2005 growth rate may partly reflect the new quotas against Chinese T&C imports in the second half of 2005. Based on January to September comparisons, total US T&C imports grew 9.5 percent in 2005, similar to the growth rate for 2004 (9.4 percent).

7. See "Sharp Rise of China's Textile Exports to EU, US Curbed," *People's Daily Online*, May 13, 2005, available at english.people.com.cn (accessed June 1, 2005).

8. Another category of special safeguards—so-called paragraph 241—can be applied with more demanding conditions against any Chinese export, including T&C items, until 2013.

China are causing “market disruption,” the member is allowed to limit Chinese imports to a maximum of a 7.5 percent annual growth for specific and identified T&C categories. Between October 2004 and December 2004, CITA received petitions to review over 20 T&C categories with a view to invoking special safeguard measures under the WTO provisions.⁹ In May 2005 CITA began putting quota limits on individual items, and by the end of that year, nine T&C quotas were in place: five in May, two in September, and one in early November. These safeguards, invoked under WTO provisions, were scheduled to end on December 31, 2005, but were extended with somewhat more liberal terms under the January 2006 memorandum of understanding (MoU) between China and the United States, discussed shortly.¹⁰

European firms were also distressed by rapidly rising T&C imports from China. In 2004 and 2005 the European Commission held extensive negotiations with Chinese officials to reach an agreement that would satisfy both regions. On June 10, 2005, an agreement was signed that placed prospective limits on 10 categories of Chinese T&C imports. However, the one-month grace period before the EU-Sino textile agreement was to be enforced caused many European retailers to place extensive orders for Chinese garments. As a result, 77 million garments were held at customs, requiring a further round of negotiations to deal with the sudden flood.¹¹

Following the EU-Sino textile agreement and the US safeguards, China enforced a quota system to limit its exports. The system, similar to that in place under the MFA, was introduced on July 20, 2005.¹² Some commentators feared that reintroducing a quota system akin to the MFA will favor larger Chinese companies at the expense of small and medium-sized T&C exporters. Thus, for example, in early 2006 only 76 of the 6,200 textile companies in Foshan, China, had received their export quotas.¹³

When the EU-Sino pact was announced, CITA called for US consultations with Chinese officials. The broad goal was to establish a comprehensive agreement as an alternative to the annual product-by-product system contemplated in the special WTO safeguards (paragraph 238).

9. Petitions were filed by several US textile organizations: American Manufacturing Trade Action Coalition, National Council of Textile Organization, National Textile Association, and UNITE HERE!

10. The MoU is available at the Web site of the Office of Textiles and Apparel, www.otexa.ita.doc.gov.

11. See “EU, China Reach a Deal on Textile Imports,” Associated Press/MSNBC, September 5, 2005, available at www.msnbc.msn.com (accessed November 15, 2005).

12. See Mei Fong, “China Will limit Textile Exports Amid Trade Rift,” *Wall Street Journal*, June 21, 2005, A14–A15.

13. See “Textile Producers Cut Jobs on Fall in Export Orders,” *Sina English*, January 14, 2006, available at english.sina.com (accessed May 31, 2006).

Because China employs 1.9 million workers directly in the T&C industry and the United States employs about 700,000, the talks were a trade priority for both countries. After five months and seven rounds of negotiations, on November 8, 2005, the above-mentioned MoU between China and the United States was finally signed. The MoU was implemented starting January 1, 2006, and will be enforced through December 31, 2008. It covers 34 categories and calls for an annual increase in the quota for each category: 8 to 10 percent growth in 2006, 10 to 16 percent growth in 2007, and 15 to 17 percent growth in 2008. When the MoU was signed, 19 categories were already covered by safeguards and 15 were not.¹⁴

After the MFA ended in 2005 the common perception was that China would dominate global T&C production, displace exports from other developing countries, and cause further job loss in industrialized countries (Nordas 2004). World Bank analysts estimated that roughly \$200 billion in clothing production for export markets would shift to China over the next few years, with the main losers being non-Asian developing countries.¹⁵ We think that the wave of Chinese clothing exports may be smaller and slower. Chinese T&C exports have actually been declining as a share of total Chinese merchandise exports. As the Chinese economy continues to mature and shifts toward technology exports, Chinese T&C exports should continue their decline as a share of total Chinese merchandise trade (see table 3.1). This process should lessen the much-feared flood of low-cost clothing from China into the United States. Moreover, WTO members other than the United States and the European Union are likely to impose special safeguards on Chinese T&C exports.

Sources of China's Comparative Advantage

China's trade advantage in clothing goes well beyond an undervalued exchange rate and public subsidies. China has a huge domestic market that enables economies of vast scale and scope. In addition to abundant cheap labor (more on this later), China is well positioned for raw textile materials. Using advanced technology, China is now the world's largest producer of manmade fibers.¹⁶ China has large domestic supplies of

14. USTR, press release, Media Availability of USTR Portman and Minister Bo Xilai on the US-China Textile Agreement, November 8, 2005.

15. See Krantz, Di Natale, and Krolik (2004); and *World Bank Press Review*, April 29, 2004. US industrial production of textiles contracted in real terms each year from 2000 to 2003, while US clothing production declined each year from 1997 to 2003. See also Gereffi (1999) and Nathan Associates (2002).

16. See USITC (2004a). In terms of quality, China is fast approaching the level of Korea and Taiwan.

Table 3.1 US-China textile and clothing trade, 2000–2005
(billions of dollars and percent of total merchandise trade)

Year	United States		China	
	Billions of dollars	Percent	Billions of dollars	Percent
2000				
Exports	.2	.0	49.4	20.0
Imports	8.0	.7	16.6	7.0
2001				
Exports	.3	.0	49.8	18.7
Imports	8.2	.7	16.3	6.7
2002				
Exports	.5	.1	57.8	18.1
Imports	9.6	.8	17.0	6.8
2003				
Exports	1.1	.2	73.3	16.7
Imports	12.0	1.0	19.3	4.7
2004				
Exports	1.9	.3	88.8	15.0
Imports	20.8	1.4	23.0	4.1
2005				
Exports	1.8	.2	n.a.	n.a.
Imports	19.1	1.3		

n.a. = not available

Source: *China Statistical Yearbook*, 2003 and 2005.

ramie, silk, and angora rabbit hair and imports large volumes of cotton and wool.

Unlike other competitive T&C exporters such as India, the Chinese government invests heavily in infrastructure. Major highways link impoverished western provinces with industrialized coastal cities. With deep-water ports, shipping times from China to the western coast of the United States are faster than those of neighboring southeast Asian countries and India.¹⁷ The government has encouraged higher-quality production of high-value fabrics by organizing the 600 best mills into

17. Shipping times from China to the western coast of the United States average 12 to 18 days, while shipping times from Southeast Asian countries to the United States average about 45 days. See USITC (2004a).

24 groups as part of its Fabrics China campaign and has taken other steps to strengthen the Chinese T&C industries.¹⁸

Above all, political and economic attention focuses on labor cost differences as a source of Chinese comparative advantage. In the clothing industry, the US hourly wage averages \$9.70 per hour including fringe benefits, while the Chinese hourly wage averages \$0.88 per hour including fringe benefits.¹⁹ If all other costs were equal, workers in the US clothing industry would need to be roughly 11 times more productive than China to offset the labor cost advantage. US clothing workers are substantially more productive than Chinese workers, thanks to better capital equipment, technology, and training, but they are not 11 times more productive.²⁰ Other factors, such as proximity to markets—especially for “replenishment” items—and access to raw materials, favor US production. However, for decades to come, the Chinese clothing industry will have a dramatic labor cost advantage over the US industry.²¹

Evaluation

The basic facts of comparative advantage pose the stark question of whether the US T&C industry will downsize to niches in which it can compete with Chinese and other low-wage producers. Downsizing is a matter of both adjustment speed and ultimate industry size. More policy measures like the current MoU between the United States and China will almost certainly be enacted to slow the feared Chinese rush into world

18. Since 1998, the Chinese government has provided about \$5.6 billion in grants and loans to restructure the domestic T&C industry. The government opened large garment manufacturing parks, and closed inefficient T&C state-owned enterprises. As a result, the T&C industry collectively shed about 1.5 million jobs, even as many small-scale clothing companies were launched and began to thrive. In addition, the Chinese T&C industry benefits from FDI, roughly 80 percent from Taiwan and Hong Kong. Foreign T&C companies generated \$30 billion in sales and \$1.3 billion in profit in 2000. See CITA (2003).

19. Including fringe benefits, the average US clothing hourly wage is \$9.70, the average US textile hourly wage is \$10.08, and the combined average hourly wage for US textile and clothing is \$9.89.

20. Using annual sales divided by the workforce as a very rough measure of productivity, the US T&C industry generates about \$237,250 in sales for each employee. By comparison, at the mid-2006 exchange rate of 8.00 renminbi to the dollar, the Chinese T&C industry generates about \$26,759 in sales for each employee. On these figures, US T&C workers are about 8.9 times more productive than Chinese workers.

21. See Abernathy (2004). As long as Chinese clothing factories can draw on the vast rural labor pool, they will easily remain competitive with plants in India, Bangladesh, Pakistan, and similar countries. Chinese factories have the advantage of better infrastructure and faster delivery.

T&C markets. It seems likely that import pressures from China will be moderated on an ad hoc basis, through the various safeguard and antidumping measures summarized in appendix B. Moderated, however, does not mean stopped. Meanwhile, over the next decade, the T&C industries in the United States, the European Union, and other industrialized countries will need to shed a substantial number of workers, as China, India, and other emerging countries enlarge their market share.

In searching for niches in which they can match Chinese competition, US clothing manufacturers will need to respond by emphasizing several factors: offering ultra-fast delivery of “replenishment” items,²² using the latest high-quality fabrics and stitching methods, making fashion items that are not price sensitive, entering high value-added product markets that are less labor intensive, and bypassing traditional retailers through direct e-commerce sales to consumers. Looking at the entire chain of clothing production and distribution, the US industry will need to migrate to the distribution end of the spectrum. Indeed, well-known US clothing producers, such as the Sara Lee Corporation, Nike, Levi Strauss, and Disney, have already deemphasized production activities in favor of better marketing of their brand names and retail outlets (Gereffi 1999).²³

The US government should not rely solely on safeguard measures and antidumping duties to protect US jobs. Instead it should speed up the adjustment process with an improved trade adjustment assistance (TAA) program that makes wage insurance and portable health insurance its centerpiece (Kletzer and Litan 2001). Unlike traditional unemployment insurance and TAA programs, wage insurance benefits, including portable health insurance, take effect once a person finds a new job, thereby encouraging displaced workers to find a new job as soon as possible.²⁴ When a worker is unemployed, the government should provide minimal income support and basic health insurance. Another useful idea, advocated by Kletzer and Rosen (2005), is broad-brush certification of

22. In this spirit, Central American clothing producers are taking advantage of their geographical proximity to the United States, betting that speed will sometimes win over price. See “As US Quotas Fall, Latin Pants Makers Seek Leg Up on Asia,” *Wall Street Journal*, June 16, 2004.

23. See also US Department of Commerce, US-China Joint Commission on Commerce and Trade Working Group on Structural Issues Hearing, Washington, June 3, 2004.

24. To be eligible, a worker must prove job displacement, earnings loss, and a minimum time of employment in his previous job (e.g., two years). Average annual payments would be capped (e.g., \$10,000 annually plus health benefits for up to two years). Kletzer and Litan (2001) estimate that a wage insurance program for the entire economy (not just trade) at current levels of worker displacement would cost about \$5 billion per year. See also Steve Lohr, “Debate Over Exporting Jobs Raises Questions on Policies,” *New York Times*, February 23, 2004.

wide swaths of the T&C industry for adjustment assistance.²⁵ This approach would bypass the slow process of plant-by-plant certification when large numbers of workers are dislocated by import competition. By using such approaches to create a much better safety net, the US government can alleviate some of the opposition to trade liberalization that is deeply embedded among T&C workers and encourage them instead to seek on-the-job training in new positions.

Concerns about trade with China do not end with questions of comparative advantage, however. The strength of China's legal mechanisms has also been called into question, particularly in the area of intellectual property rights (IPRs). Copyright and other IPR infringements, a sore point in US-China relations, are taken up in the next chapter.

25. This idea is now reflected in legislation offered by Senator Max Baucus (D-MT).