3

Textiles and Clothing

Access to the US textiles and clothing (T&C) market may well present the toughest challenge in the negotiation for a US-Pakistan FTA. Historically the US T&C market has been highly allergic to trade liberalization, and it is currently under intense pressure following the termination of the Multi-Fiber Arrangement (MFA) in January 2005. In FTA talks, it is predictable that Pakistan will strive for maximum market access for T&C, its leading export sector. Such access implies a rapid reduction of US tariffs, liberal rules of origin, and no new quotas. A US-Pakistan FTA should strive to reach these goals. At the same time, Pakistan must dismantle its own barriers to US T&C exports. By eliminating barriers in both countries, and by introducing reasonable rules of origin, the agreement will promote the vertical integration of T&C production between the United States and Pakistan, thereby creating new market opportunities for producers in both countries.[1]

This chapter is structured in four sections. The first section provides a brief account of the industries in both countries and the trends in bilateral trade. The second section reviews trade barriers that persist since the MFA quota system was dismantled in January 2005. The second section also reviews the partial resurrection of quotas with respect to Chinese

1. Throughout this chapter, the words "textiles" and "clothing" correspond with the WTO product classifications. Textiles include inputs used in the clothing sector, such as yarn and synthetic fibers, as well as various items for household use, such as bed and bathroom linens and carpets. The abbreviation T&C thus refers to the entire textile and clothing industry.

T&C exports in the fall of 2005. The third section describes the T&C negotiating experiences of both countries in prior FTAs, focusing on phaseout periods, rules of origin, and safeguards. Finally, in the fourth section, we present our recommendations for a US-Pakistan FTA.

Textile and Clothing Production and Bilateral Trade

Pakistan and the United States are both major world producers, exporters, and importers of T&C. The United States is a leading textile exporter and one of the largest importers of T&C (20 percent of world imports).[2] Accordingly, US trade policy has important effects on world T&C trade (WTO 2004a), particularly in finished clothing, which accounts for 80 percent of US imports. With an export share of 2 percent of world T&C trade, Pakistan is a second-tier supplier of total T&C products, although it is a leading world producer and exporter of cotton-based products, particularly textiles.[3]

The importance of the domestic T&C industry for each national economy is quite different. Based on US Census Bureau (2004) data, the contribution of T&C manufacturing to the US economy is quite modest, in terms of both output (3 percent of manufacturing value added and just under 0.5 percent of total GDP) and employment (5 percent of employment in manufacturing and 0.7 percent of total employment). Moreover, the T&C industry has been declining in relative terms since at least 1980 (table 3.1).[4] By contrast, T&C is the leading manufacturing sector in Pakistan (9 percent of total GDP), the largest employer outside of agriculture (35 percent of the nonagricultural labor force), and the principal source of foreign exchange earnings (67 percent of merchandise export sales) (Government of Pakistan 2005a, World Bank 2004b).

2. In 2004, US imports ($96 billion) were significantly higher than extra-EU imports of the European Union ($40 billion). However, the relation changes if intra-EU imports ($169 billion) are considered. If the European Union and China/Hong Kong are regarded as unified trading blocs, the United States is also the third largest world exporter of T&C products ($16 billion), mainly textiles (WTO 2005b).

3. Pakistan has the world's third largest installed capacity of short-staple spindles for spun cotton yarn (USITC 2004a). In 2004 Pakistan supplied nearly 30 percent of world cotton yarn exports and 8 percent of world exports of cotton products. WTO statistics rank Pakistan as the 9th world exporter of textiles (Government of Pakistan 2005a).

4. The relative importance of the US T&C industry is also slightly lower than it is in the European Union, where it accounts for 4 percent of manufacturing value added and 7 percent of manufacturing employment (Nordas 2004). The decline of the US T&C industry accelerated after 1995, particularly in terms of employment.

Table 3.1 Long-term trends in the US textile and clothing industries, 1980–2002 (billions of US dollars)

Indicator	1980	1983	1986	1989	1990	1993	1995	1998	2000	2002
Manufacturing GDP	581	683	832	966	1,040	1,131	1,289	1,344	1,426	1,352
Textile and clothing value added	37	38	41	45	47	53	52	53	52	46
Share of textiles and clothing in manufacturing GDP (percent)	6.4	5.6	4.9	4.7	4.6	4.7	4.0	4.0	3.6	3.4
Imports and exports of textiles and clothing										
Exports	5	3	4	7	8	11	14	18	20	17
Imports	11	14	25	32	34	44	52	69	83	84
Net imports	4	10	21	26	26	33	38	51	64	67
Net imports to textile and clothing value added (percent)	12	27	51	57	55	63	73	96	123	146
Textile and clothing productivity and employment										
Value added in constant 2002 dollars (billions)	16	20	25	31	34	43	36	48	49	46
Number of employees (thousands)[a]	n.a.	1,906	1,753	n.a.	1,630	n.a.	1,502	1,172	1,091	846
Value added per employee in constant 2002 dollars[b]	n.a.	10,500	14,100	n.a.	20,700	n.a.	24,000	41,200	45,000	54,400

n.a. = not available

a. Values correspond to data for nearest available year when data for column year were not available. Years used: 1982 for 1983; 1987 for 1986; 1991 for 1990; and 1997 for 1998.

b. Figures rounded to the nearest hundred.

Note: Figures may not add to line totals due to rounding. US import and export figures differ slightly from values in tables 3.3, 3.4, and 3.6 as data is based on different sources.

Sources: US Census Bureau (1990, 1993, 2001, and 2004); WTO (2005b).

The long-term decline of the US T&C industry has been particularly felt by US clothing firms. As a result, textiles have become the largest subsector in the industry, in terms of both shipments and employment. The US textile sector still supplies the bulk of US domestic demand, as indicated by the fact that, in 2002, imports amounted to only 20 percent of domestic textile shipments.

Despite high tariffs and quota protection, US imports of T&C have experienced sustained growth since the early 1980s (table 3.1), at a much faster rate than overall US imports of manufactures.[5] Rising imports of clothing are associated with the emergence of powerful retailing firms with strong connections to foreign suppliers.[6] Two other stylized factors provide the bedrock for import growth: the relaxation and eventual elimination of MFA quotas, and the vertical integration of the T&C industry, especially in the Western Hemisphere.

Until 1994, world trade in T&C was rigidly channeled by the MFA, which allowed developed countries to protect their domestic industries through detailed line item quotas.[7] These quotas limited the overall growth of imports and distributed shares in the US market between competing foreign suppliers. The result in practice was to severely limit market access for the most competitive foreign producers such as China, India, and Pakistan. For example, in 1996 Pakistan shipped only 9 percent of its total textile exports to the US market (table 3.2). China and India faced a similar situation. Correspondingly, the quota system created an incentive for firms to establish production in a wide range of countries that were not particularly competitive but were also not constrained by their assigned quota levels. In 1994 the WTO Agreement on Textiles and Clothing (ATC)—the successor to the MFA that was negotiated in the Uruguay Round—mandated an eventual end to the quota system, following a 10-year transition period. However, the ATC allowed backloaded phaseout schedules; consequently, the highly restrictive effects of textile quotas on the most competitive sup-

5. The ratio of net imports to domestic T&C value added jumped from 12 percent in the early 1980s to 63 percent in 1993, and approached 150 percent in 2002, when the ratio of net imports of all manufactures to all manufacturing value added was around 30 percent (Council of Economic Advisers 2004, 63–64).

6. Gereffi and Memedovic (2003, 7) define this phenomenon as the rise of "vertical retailing, whereby a diverse array of national department stores (e.g., JC Penney and Sears), discount chains (e.g., Wal-Mart and Kmart) and specialty retailers (e.g., Gap, Limited Inc., and Benetton) have taken on manufacturing responsibilities to produce private-label or store-brand lines. Today's retailers' overseas offices go well beyond their original buying functions, and they are actively engaged in product design, fabric selection and procurement and monitoring contracted sewing." This tendency is also recorded in EU countries.

7. For a general description of the MFA quota system, see Hoekman and Kostecki (1995). For a specific discussion of the implications of MFA provisions for the United States in the 1990s, see Hufbauer and Elliott (1994).

Table 3.2 Composition of Pakistan's exports of textiles and clothing (millions of US dollars or percent)

Exports	1996	2000	2004
To the United States			
Textiles	444	915	1,394
Clothing	631	1,016	1,217
Textiles and clothing	1,075	1,931	2,611
Share of textiles	41	47	53
Share of clothing	59	53	47
To the rest of the world (excluding the United States)			
Textiles	4,475	3,617	4,731
Clothing	1,241	1,128	1,809
Textiles and clothing	5,716	4,745	6,539
Share of textiles	78	76	72
Share of clothing	22	24	28
Share of the US market in Pakistan textile and clothing exports			
Textiles	9	20	23
Clothing	34	47	40

a. Exports to the United States as percentage of total Pakistani exports.

Note: Textiles and clothing are defined as divisions 65 and 84 of Standard International Trade Classification (SITC) Rev. 3. Therefore, table excludes fibers (raw cotton, man-made, and synthetic fibers) in division 26 of SITC Rev. 3.

Sources: UN Statistics Division (2005); USITC (2005a).

pliers (including Pakistan) were felt until December 2004, and the consequences of the quota removal are still being played out in 2006.

While the quota system was being phased out, US T&C firms relocated their most labor-intensive lines (mainly clothing) to regional partners with lower wages.[8] US imports began to reflect the emergence of a vertically integrated T&C industry throughout North America, Central America, and the Caribbean. The US government promoted integration through a number of initiatives, ranging from the North American Free Trade Agreement (NAFTA), which eliminated tariffs and quotas on Mexican exports, to the

8. Table 3.1 shows that value added per worker in the T&C industry has grown significantly since the 1980s. In the United States, production-sharing programs preceded NAFTA by allowing duty-free treatment for the US components of imported products. While many manufactured products benefited from these programs, clothing was prominent. Vertical integration is not exclusive to North America; it is also observed between EU partners and nonmember Mediterranean countries as well as in East Asia (Gereffi 2001).

Caribbean Basin Initiative (CBI), with similar provisions, and subsequently the Central American Free Trade Agreement–Dominican Republic (CAFTA-DR). T&C imports from NAFTA and CAFTA-DR partners showed remarkable growth during the 1996–2000 period (tables 3.3 and 3.4). Partner countries thus benefited from increased exports and new employment in their T&C industries.

At the same time, rules of origin embedded in these agreements were seen as a means to defend US producers and US jobs (USITC 1998). The so-called yarn-forward rules in NAFTA and other FTAs ensured that the US textile industry would supply a large share of yarn and fabrics used to make clothing that would ultimately be sold in the US market.[9] At the same time, US clothing manufacturers focused on high value added segments, such as fashion clothing, product design, and marketing.

In recent years, the gradual elimination of T&C quotas has triggered a reshuffling of supply, allowing Pakistan and other Asian producers to compete more effectively in the US market. Table 3.3 shows that most market gains for US clothing imports have accrued to China and a few East Asian countries (such as Vietnam and Cambodia), with some displacement of NAFTA and North Asian suppliers. Table 3.4 shows a similar picture for textiles. Large gains appear for Chinese and South Asian textile imports, but in this subsector EU and NAFTA imports fared much better than in clothing sector exports.[10]

In keeping with these broad trends, the gradual elimination of MFA quotas has prompted the rapid growth of Pakistan's T&C exports to the United States (table 3.5). As a result, the United States has become a more important trading partner for Pakistan, not only in T&C but also in overall terms (table 3.5).[11]

Thus today textiles lie at the heart of the US-Pakistan trading relationship, at least from Pakistan's point of view.[12] In 2004, the United

9. "Yarn-forward" is a concept that applies to a large number of different rules of origin that mandate that the yarn used in "originating clothing" must be spun or extruded in the territory defined under the agreement. In practice, since most partners lack competitive ginning and spinning sectors, they are constrained to rely on US inputs. In the third section of this chapter we present a deeper discussion of rules of origin in US FTAs.

10. Many elements besides labor costs are involved in purchasing decisions. According to an official submission of the United States Association of Importers of Textiles and Apparel, "factors such as cost, logistics, infrastructure, supply chain management, social and government stability, human rights, plant efficiency, reliability and relationships, and vertical integration capabilities will influence sourcing decisions after 2005" (USITC 2004a, 4–13).

11. The relative strengthening of textiles in Pakistan's trade with the United States coincided with a period of solid performance in Pakistan's nontextile exports (table 3.5).

12. Pakistan is increasingly specializing in specific cotton textiles (towels and bed linen). According to a review of the Pakistani T&C sector (USITC 2004a), the firms producing these textile items are large and equipped with new technology (which is not always the case in other areas of the textile industry).

Table 3.3 US imports of textiles, 1996–2004
(millions of US dollars or percent)

				Percent growth	
Country/region	1996	2000	2004	1996–2000	2000–2004
NAFTA[a] partners	2,158	3,461	3,687	60	7
Share of US imports	0.21	0.23	0.19		
Other FTA partners[b]	259	388	562	50	45
Share of US imports	0.03	0.03	0.03		
EU-25[c]	2,338	2,710	3,000	16	11
Share of US imports	0.23	0.18	0.15		
China	1,047	1,823	4,254	74	133
Share of US imports	0.10	0.12	0.22		
East Asia[d]	468	742	790	59	6
Share of US imports	0.05	0.05	0.04		
North Asia[e]	2,075	2,493	2,267	20	–9
Share of US imports	0.20	0.16	0.12		
South Asia[f]	1,205	2,243	3,211	86	43
India	636	1,119	1,659	76	48
Share of US imports	0.06	0.07	0.09		
Pakistan	444	915	1,394	106	52
Share of US imports	0.04	0.06	0.07		
Other countries	679	1,264	1,721	86	36
Share of US imports	0.07	0.08	0.09		
Total	10,248	15,175	19,505	48	29

FTA = free trade agreement
NAFTA = North American Free Trade Agreement

a. Canada and Mexico.
b. Australia, Bahrain, CAFTA partners, Chile, Dominican Republic, Israel, Jordan, Morocco, and Singapore.
c. EU-15, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.
d. Cambodia, Indonesia, Malaysia, Philippines, Thailand, and Vietnam.
e. Hong Kong, Japan, Macao, South Korea, and Taiwan.
f. Bangladesh, India, Pakistan, and Sri Lanka.

Note: Textiles are defined as division 65 of SITC Rev. 3.

Source: USITC (2005a).

Table 3.4 US imports of clothing, 1996–2004
(millions of US dollars or percent)

				Percent growth	
Country/region	1996	2000	2004	1996–2000	2000–2004
NAFTA[a] partners	4,933	10,643	8,637	116	–19
Share of US imports	0.12	0.17	0.12		
CAFTA-DR[b]	5,397	9,138	9,608	69	5
Share of US imports	0.13	0.14	0.13		
Other FTA partners[c]	834	1,320	2,007	58	52
Share of US imports	0.02	0.02	0.03		
China	6,307	8,483	13,607	35	60
Share of US imports	0.15	0.13	0.19		
Other East Asia[d]	5,466	8,412	11,714	54	39
Share of US imports	0.13	0.13	0.16		
North Asia[e]	8,438	10,473	9,264	24	–12
Share of US imports	0.20	0.16	0.13		
South Asia[f]	4,163	6,644	7,169	60	8
India	1,349	2,002	2,378	48	19
Share of US imports	0.03	0.03	0.03		
Pakistan	631	1,016	1,217	61	20
Share of US imports	0.02	0.02	0.02		
Other countries	6,002	8,870	10,628	48	20
Share of US imports	0.14	0.14	0.15		
Total	41,559	64,296	72,311	55	12

a. Canada and Mexico.
b. Costa Rica, Dominican Republic, El Salvador, Honduras, Guatemala, and Nicaragua.
c. Australia, Bahrain, Chile, Israel, Jordan, Morocco, and Singapore.
d. Cambodia, Indonesia, Malaysia, Philippines, and Vietnam.
e. Hong Kong, Japan, Macao, South Korea, and Taiwan.
f. Bangladesh, India, Pakistan, and Sri Lanka.

Note: Clothing is defined as division 84 of SITC Rev. 3.

Source: USITC (2005a).

States purchased 23 percent of total Pakistani textile exports, up from only 9 percent in 1996 (table 3.2). As a result of the gradual elimination of textile quotas, Pakistan's share of the US import market in textiles jumped from 4 percent in 1996 to 7 percent in 2004. Few other countries experienced such a rapid surge in market share over that period (table 3.4).

Table 3.5 Pakistan's exports of textiles and clothing versus all other products (millions of US dollars or percent)

Country/region	1996	2000	2004
To the United States	1,266	2,167	2,874
Textiles and clothing	1,075	1,931	2,611
All other products	191	236	263
Share of textiles and clothing	85	89	91
Share of all other products	15	11	9
All other markets (excluding the United States)	8,056	7,034	10,505
Textiles and clothing	5,716	4,745	6,539
All other products	2,340	2,289	3,966
Share of textiles and clothing	71	67	62
Share of all other products	29	33	38
US share of total Pakistan exports			
Textiles and clothing	16	29	29
All other products	8	9	6

Note: Textiles and clothing are defined as divisions 65 and 84 of SITC Rev. 3. Therefore table excludes fibers (raw cotton, man-made, and synthetic) in division 26 of SITC Rev. 3.

Sources: UN Statistics Division (2005); USITC (2005a).

Pakistan's clothing exports to the United States—for the most part, men's cotton garments—also increased during the phaseout of MFA quotas (table 3.2). Growth not only exceeded the overall growth rate of US clothing imports but also surpassed two regional competitors, India and Bangladesh (table 3.3). However, table 3.3 shows that the high growth in Pakistani clothing exports has not translated into gains in terms of US market share.[13] Moreover, the first few months of 2005 do not show Pakistan among the main beneficiaries of the last phase of MFA quota elimination (which occurred in January 2005). Though US safeguards on Chinese clothing could provide a temporary helping hand to Pakistani clothing exports, a US-Pakistan FTA would provide stronger and more durable incentives for US retailers to consider Pakistan as an alternative supplier for the US market.

While clothing exports have been overshadowed by textile exports, clothing remains an important component of Pakistan's export portfolio. Strengthening the performance of clothing exports will therefore rank among Pakistan's important objectives in FTA talks.

13. While the Pakistani share of US textile imports consistently increased between 1983 and 2000, the country's share of US clothing imports remained stable at about 2 percent.

Many US firms regard Pakistan as a competitive alternative to China, particularly for men's apparel (USITC 2004a). Conditions that make Pakistan an attractive source include low wages, a local supply of raw cotton, established firms, and an improving business environment. But other features weaken Pakistan's competitiveness: the irregular quality of domestic raw cotton (due to leaf curl virus), outdated machinery in critical stages of the supply chain (e.g., ginning), low competitiveness on finer-count yarns, the possibility of corruption, nonexistent or poorly enforced labor standards, personal safety risks for foreign business executives, and missing expertise in the advanced stages of the supply chain (marketing and design).[14]

Probably the most pressing issue at the moment is to improve relations between Pakistani producers and US manufacturers and retailers. Speaking about the challenges faced by Pakistan, Commerce Minister Humayun Akhtar Khan stressed in his 2005–06 trade policy speech the vital need "to improve Pakistan's image as a reliable and efficient supplier."[15] Pakistan may seek to build business relations with US clothing manufacturers in conjunction with Chinese firms.[16] In the *Economic Survey of Pakistan 2004–05,* the Pakistani government welcomed the prospects of joint venture agreements between US (or EU) and Pakistani firms that would bring a transfer of technology and know-how.[17] A US-Pakistan FTA could further this prospect.

At the same time, a US-Pakistan FTA would have to reflect the forces that informed previous US bilateral FTAs. This means that the new FTA would have to respect the concerns of US textile producers and include provisions that preserve their role as major input suppliers for finished T&C sold both in the United States and Pakistan (the yarn-forward con-

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14. Additionally, some US retailers have refused to purchase from private mills not funded by World Bank loans, fearing that the finances of these mills may be tainted by illegal money laundering (USITC 2004a).

15. The speech is available at the Web site of the Export Promotion Bureau of Pakistan, www.epb.gov.pk (accessed November 2005).

16. The possibility of Chinese support in upgrading Pakistan's T&C industry has been explored by the government of Pakistan. In addition to its early harvest agreement with China, which contains bilateral concessions on T&C, Pakistan has purchased textile machinery on credit from China. According to the All Pakistan Textile Mills Association (APTMA), high officials of the Chinese textile producers association conducted a visit during the first semester of 2005 to explore investment opportunities in Pakistan.

17. In his 2005–06 trade policy speech, Commerce Minister Khan announced concrete measures designed to attract firms to Pakistan, including partial payment of relocation costs, the provision of infrastructure, and financial credits for firms established in garment cities. The Export Promotion Bureau of Pakistan (2005a) has also published measures favoring the relocation of T&C industries.

Table 3.6 US exports of textiles and clothing (millions of US dollars)

Category	1996	2000	2004
US textile exports	8,008	10,952	11,989
Selected bilateral FTA partners	4,170	7,523	8,770
Pakistan	6	4	10
US clothing exports	7,511	8,629	5,059
Selected bilateral FTA partners	4,780	6,964	3,771
Pakistan	0	1	2
Total US textiles and clothing exports	15,520	19,581	17,049
Selected bilateral FTA partners	8,950	14,487	12,542
Pakistan	7	5	11
US fiber exports	4,389	3,187	5,660
Selected bilateral FTA partners	780	1,074	1,149
Pakistan	28	34	184

Note: Fibers are defined as division 26 of SITC Rev. 3, textiles as division 65, and clothing as division 84 of SITC Rev. 3. Selected FTA partners include Israel, Jordan, NAFTA, and CAFTA-DR partners. Numbers may not add up due to rounding.

Sources: UN Statistics Division (2005).

cept). The FTA should also include strong provisions for the enforcement of intellectual property in T&C designs and trademarks.

Table 3.6 shows that US T&C exports to Pakistan, excluding raw cotton, are very small ($11 million in 2004); moreover, table 3.7 shows that Pakistan's textile imports from the world are also quite low ($310 million in 2004).[18] Countries with vertically integrated T&C industries, such as Pakistan, China, and India, tend to have a low share of foreign value added embodied in their exports (Nordas 2004).[19] This is changing as Pakistani firms adapt to the model of global input sourcing: Table 3.7 shows that Pakistani textile imports have grown rapidly in recent years, and that China and other Asian neighbors are becoming important sources. A US-Pakistan FTA could help US textile firms gain access to segments of Pakistan's market.

18. Pakistan's total imports of clothing stood at only $13 million in 2004 and so are not detailed in table 3.7.

19. This does not mean that Pakistan's T&C production is fully done at home; in fact, T&C production creates a direct import demand for cotton, chemicals and plastics, and machinery. Many US chemical imports supply the needs of Pakistan's T&C sector.

Table 3.7 Pakistan's textile imports, 1996–2004
(millions of US dollars or percent)

Country/region	1996	2000[a]	2004	Percent growth 1996–2000	Percent growth 2000–2004
China	3	14	64	454	347
Share of Pakistan's imports	0.02	0.11	0.21		
East and South Asia	18	25	88	36	256
Share of Pakistan's imports	0.16	0.19	0.28		
North Asia	48	50	62	4	24
Share of Pakistan's imports	0.43	0.38	0.20		
EU-25	22	16	19	–25	16
Share of Pakistan's imports	0.20	0.12	0.06		
United States	7	5	9	–31	100
Share of Pakistan's imports	0.06	0.04	0.03		
All other countries[b]	14	20	69	47	244
Share of Pakistan's imports	0.12	0.15	0.22		
Total	111	130	310	17	140

Note: Textiles are defined as division 65 of SITC Rev. 3. Values of imports may differ from estimates based on HS classification. We present Pakistan's imports based on alternative classifications in table 3.13. Pakistan's total imports of clothing stood at $13 million in 2004; thus they are not detailed here.

a. Between 2000 and 2002, the government of Pakistan eliminated all import prohibitions on textiles and clothing.
b. Includes countries with exports exceeding $500,000 only.

Source: UN Statistics Division (2005).

Impact of a US-Pakistan FTA: The CGE Model

The computed general equilibrium (CGE) model predicts T&C export gains for producers in both countries.[20] While the projected gains for US textile and clothing producers are large in relative terms (200 and 450 percent, respectively), the gains are less significant in absolute terms, possibly $20 million to $30 million. We believe, however, that the predicted expansion of US exports is understated, as the model does not take into

20. Chapter 8 presents a full discussion of results for simulations of the potential impact of a US-Pakistan FTA using two techniques, the CGE and gravity models. In this chapter we discuss only the latter's results as the former does not disaggregate T&C from the manufacturing category.

account the boost in bilateral trade stemming from the phaseout of restrictive rules of origin. On the other hand, the CGE model predicts that Pakistan's T&C exports will increase between 30 and 50 percent, implying an expansion of roughly $1 billion. This magnitude seems plausible.

Bilateral Barriers to T&C Trade

This section identifies the principal trade policy measures that limit textile and clothing imports in Pakistan and the United States. The analysis centers on tariffs, antidumping (AD) measures, and safeguards. We also examine the elimination of the last stage of MFA quotas and its preliminary effect on Pakistan.

United States

The T&C industry ranks first in the US list of import-sensitive manufactures.[21] This sensitivity can be traced both to the industry's long decline and the concentration of production in areas where alternative jobs for unskilled workers are scarce (Nordas 2004). T&C provides an important source of wages and employment in South Atlantic states such as Georgia and the Carolinas and to a lesser extent in Virginia. In 2003 almost 40 percent of all US T&C jobs were concentrated in those four states, accounting for 17 percent of their aggregate employment in manufacturing. The industry in these states focuses on textiles, and accounts for 55 percent of US textile production and 60 percent of US textile employment. Clothing production is much more dispersed, with clusters in California, New York, and other large states.

The US T&C industry has historically been protected through a variety of trade policy instruments: quotas, high tariffs, and other measures. This section discusses US reliance on each instrument, focusing on its relevance for Pakistan. T&C provisions in other FTAs are addressed in the next section.

Quotas

Following the ATC, quotas on T&C produced in WTO member countries were phased out and finally eliminated in January 2005. However, the

21. Protection of the US T&C industry dates back to the 1950s, when major Asian producers, including Pakistan, agreed to restrain their T&C exports to the United States. During the 1960s, trade in T&C products was regulated by the Long-Term Agreement Regarding International Trade in Cotton Textiles (LTA). The LTA was replaced in 1974 by the MFA, which was renegotiated several times and expired in 1994. The ATC established a 10-year transition period for the full integration of textiles into the principles of the multilateral system.

United States still applies quantitative restrictions on imports of T&C from non-WTO members: Belarus, Russia, Ukraine, and Vietnam. Moreover, in November 2005 the United States negotiated a new set of quantitative limits on imports from China. Also, as discussed in chapter 2 on agriculture, the United States applies WTO and preferential tariff-rate quotas (TRQs) on imports of raw cotton.[22]

The United States delayed the elimination of quotas on its most sensitive products to the last stage of the ATC transition period (USITC 2004b). As late as 2002, the United States still applied quotas to 45 countries, including Pakistan. Thus about 48 percent of US clothing imports and 24 percent of US textile imports were subject to quantitative restraints in 2002 (WTO 2004a). Table 3.8 lists the Pakistani T&C export lines that filled at least 90 percent of their import quota in 2004. It is worth noting that some Pakistani T&C exports, not listed in table 3.9, filled less than 10 percent of their quota limits. Excluding quotas on raw cotton, all US quotas on T&C imports from Pakistan have now been eliminated.

Table 3.9 shows recent trends in US T&C imports, based on monthly data for 2005. While the growth of imports from Pakistan of certain finished textile products (e.g., rugs and carpets, bed and bath linens) is remarkable, the performance of Pakistan's clothing exports is well below the experience of leading competitors.

The full impact of MFA quota elimination will not be apparent for several years, as suppliers find their niches of comparative advantage and as market shares shift in response to competitive pressure, especially from Chinese exports. For the moment, US safeguards on Chinese T&C exports are slowing the adjustment process. But while the end of the MFA era eliminates the most obvious instrument of protection, other barriers remain in place.

Tariffs

The United States applies high most favored nation (MFN) tariffs on T&C imports. The simple average MFN tariff on T&C (HS section 11) for 2002 was 9.6 percent, one of the highest averages in the US schedule outside agriculture (WTO 2004a).[23] The trade weighted average, based only on

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22. Pakistan's allocated import limit is aggregated with imports from India. The quantities allowed are 32,000 kilograms for cotton card strips with staple length under 30 millimeters, and 909,000 kilograms for cotton not carded or combed with staple length under 28.5 millimeters.

23. Apart from agricultural products, only tariffs on footwear and headwear (at 13.5 percent average, HS section 12) are higher than simple average tariffs on T&C.

Table 3.8 Selected US textile and clothing quotas for Pakistan, 2004

Quota no.	Product	Unit	2004 limit (thousands)	Percent growth 2005[a]
334/634	Men's coats, other	Dozen	791	33[b]
338	Men's shirts, not knit	Dozen	9,801	23
347/348	Men's trousers, breeches, and shorts	Dozen	1,976	68[c]
351/651	Nightwear and pajamas	Dozen	930	34[c]
352/652	Underwear	Dozen	2,022	n.a.
360	Pillow cases	Number of	10,504	471
361	Sheets	Number of	11,557	481
363	Terry and other pile towels	Number of	74,329	131
369-S	Shop towels[d]	Kilograms	1,427	6
666	Other synthetic fiber furnishings	Kilograms	8,487	–26

n.a. = not available

a. Change is measured by quantities based on a comparison of imports, January–October 2004 versus January–October 2005.
b. Category 334 only.
c. Simple average growth of both categories.
d. A US countervailing order affecting imports of cotton shop towels from Pakistan was revoked in February 2005.

Note: US quotas with more than 90 percent fill rate by Pakistan's imports.

Source: US Customs and Border Protection (2004a).

dutiable imports (i.e., excluding duty-free imports under preferential arrangements such as NAFTA) was 15.8 percent for clothing, 9.3 for textile mill articles (e.g., yarn, thread), and 13.0 percent for textiles (USITC 2004b). The US tariff profile for T&C reflects a high incidence of tariff escalation; table 3.10 confirms that most US peaks apply to clothing imports (HS chapters 61 and 62). However, in general, cotton-based textile and clothing products face lower duties than similar products based on synthetic fibers.

Pakistan's T&C exports to the United States face, on a trade-weighted basis, slightly lower duties than the averages reported by the US International Trade Commission (USITC). Because most Pakistani clothing exports are cotton-based, they do not face the highest tariffs applied to

Table 3.9 US textile and clothing imports, 2005 (millions of US dollars)

	Pakistan		India		China		Total US imports	
NAICS category	**Value**	**Percent growth**	**Value**	**Percent growth**	**Value**	**Percent growth**	**Value**	**Percent growth**
Textile mill goods[a]	417	–23	299	10	962	40	7,625	0
Other textile products[b]	1,200	33	1,640	16	5,513	29	13,298	16
Clothing[c]	1,271	8	3,224	32	20,142	63	74,246	8
Total	2,888	10	5,162	25	26,616	53	95,168	9

NAICS = North American Industry Classification System

a. Corresponds to NAICS code 313 and includes yarn, thread, and fabric mill goods.
b. Corresponds to NAICS code 314 and includes carpets and rugs, bed and bath linens, canvas products, and other textile products.
c. Corresponds to NAICS code 315.

Note: Annualized figures based on January–August data. Percent growth is measured by import quantity, January–August 2005 versus January–August 2004.

Source: USITC (2005a).

Table 3.10 US tariff schedule 2005: Textile and clothing chapters

HS chapter	Product description	Total number of tariff lines	Specific tariff lines[a]	Peak tariff lines[b]	Average tariff rate (percent)[c]
50	Silk	13	0	0	0.9
51	Wool, animal hair; horsehair yarn and woven fabric	101	19	12	6.7
52	Cotton	233	8	15	9.2
53	Other vegetable textile fibers; paper yarn	41	1	3	2.0
54	Synthetic filaments	120	21	35	11.6
55	Synthetic staple fibers	131	7	40	11.8
56	Wadding; nonwovens; special yarns, cordage, and other	60	4	0	5.4
57	Carpets and other textile floor coverings	42	1	0	3.4
58	Woven and tufted fabrics; tapestries; trimmings; and other	67	0	10	7.8
59	Impregnated, coated, covered or laminated fabrics	59	0	0	3.7
60	Knitted or crocheted fabrics	77	0	4	10.5
61	Articles of apparel and clothing accessories, knitted or crocheted	230	14	92	12.4
62	Articles of apparel and clothing accessories, knitted or crocheted	301	28	96	11.3
63	Other textile articles; worn clothing and rags	100	3	5	7.3
	Textiles and clothing[d]	1,575	106	312	9.4
	All manufacturing[e]	8,755	368	369	3.9

a. Includes specific tariffs and tariffs with other special rates.
b. Tariff peaks are defined as tariffs above 15 percent on an ad valorem basis. For the purposes of calculating tariff peaks, specific tariffs are evaluated based on their 2002 ad valorem equivalents.
c. The average tariff rate includes ad valorem equivalents of specific tariffs. When specific tariffs are present, the average tariff rate corresponds to 2002.
d. Comprises all HS chapters 50 through 63.
e. Comprises all HS chapters 25 through 97.

Source: USITC (2005a).

synthetic apparel products. Still, the average on Pakistan's clothing exports is similar to the simple average for the corresponding chapters. As shown in table 3.11, US tariffs on imports of Pakistani clothing are high, as are tariffs on imports of certain Pakistani textile-mill products (yarns and fabrics). On the other hand, Pakistan's best-performing textile

Table 3.11 US tariffs on selected textile and clothing imports from Pakistan

HS 8-digit category	Product description	Imports, 2005[a] (millions of US dollars)	Tariff, 2005 (percent)	GSP?
Textile mill goods		165	8[b]	No
5208.19.20	Satin or twill weave fabrics of cotton	40	8	No
5210.19.80	Woven fabrics of cotton, nesoi, below 85 percent cotton by weight	34	10	No
5205.22.00	Single cotton yarn, above 85 percent cotton by weight	28	7	No
5210.19.60	Woven fabrics of cotton, nesoi, above 85 percent cotton by weight	25	9	No
5205.12.10	Single cotton yarn, above 85 percent cotton	22	5	No
5208.19.80	Woven fabrics of cotton, nesoi, above 85 percent cotton by weight	16	11	No
Other textile products		1,057	7[b]	No
6302.60.00	Toilet linen and kitchen linen of cotton, of terry toweling	256	9	No
6302.31.90	Bed linen of cotton, not kn./cr, not printed or embroided	164	7	No
5701.10.40	Textile floor coverings, of wool or fine animal hair	108	Free	No
6307.10.10	Dustcloths, mop cloths, and polishing cloths of cotton	100	4	No
6302.21.90	Bed linen of cotton, not kn./cr., printed, not embroided	99	7	No
6302.10.00	Bed linen, kn./cr.	74	6	No
6303.91.00	Curtains and valances of cotton, not kn./cr.	41	10	No
6304.92.00	Furnishing articles of cotton, not kn./cr.	35	6	No
6302.22.20	Bed linen of synthetic fibers, not kn./cr., printed, nesoi	31	11	No
6302.31.50	Bed linen of cotton, not kn./cr. with embroidery	28	21	No
6302.21.70	Bed linen of cotton, not kn./cr., printed	23	3	No
6301.30.00	Blankets and traveling rugs of cotton	21	8	No
6307.90.98	National flags and other textile materials, nesoi	21	7	Yes
6302.31.70	Bed linen of cotton, not kn./cr.	20	4	No
6307.10.20	Floor cloths, dishcloths, and similar cleaning cloths	20	5	No
6302.91.00	Toilet and kitchen linen of cotton, not terry toweling	16	9	No

Clothing, cotton		986	16[b]	
6110.20.20	Sweaters, pullovers, and similar articles, kn./cr.	296	17	No
6105.10.00	Men's shirts, kn./cr.	190	20	No
6203.42.40	Men's trousers and shorts, not kn./cr.	102	17	No
6109.10.00	T-shirts, tank tops, and similar garments, kn./cr.	82	17	No
6115.92.90	Stockings and socks nesoi, kn./cr.	76	14	No
6204.62.40	Women's trousers and shorts, not kn./cr.	60	17	No
6101.20.00	Men's overcoats, anoraks, and similar articles, kn./cr.	40	16	No
6211.42.00	Women's track suits or other garments nesoi, not kn./cr.	26	8	No
6107.11.00	Men's underpants and briefs, kni./cr.	21	7	No
6205.20.20	Men's shirts nesoi, not kn./cr.	21	20	No
6106.10.00	Women's blouses and shirts, kn./cr.	19	20	No
6108.31.00	Women's nightdresses and pajamas, kn./cr.	17	9	No
6103.42.10	Men's trousers and shorts, kn./cr.	17	16	No
6102.20.00	Women's overcoats, anoraks, and similar articles, kn./cr.	17	16	No
	Subtotal	2,207	11[b]	
	Total US textile and clothing imports from Pakistan	2,888	10[c]	

GSP = generalized system of preferences
kn./cr.= knitted or crocheted
nesoi = not elsewhere specified or included

a. Annualized figures based on January–August data.
b. Trade-weighted average based on obsevations in this table.
c. Average based on calculated duties over total US imports from Pakistan.

Sources: USITC (2005a, 2005b).

exports (e.g., bed and bath linens, carpets, and rugs) face comparatively low US tariffs.[24]

Very few Pakistani T&C exports benefit from generalized system of preferences (GSP) duty-free access to the US market. The GSP coverage in 2004 for T&C imports was only $24 million (about 1 percent of US imports of T&C products from Pakistan).[25]

Antidumping Measures and Countervailing Duties

During the MFA era, the United States was an infrequent user of AD and countervailing duty (CVD) measures against T&C imports. Between 1995 and 2005, the United States notified to the WTO only five AD measures targeting T&C imports. In contrast, other WTO members—principally India, the European Union, Turkey, South Africa, and Argentina—imposed 120 AD measures against T&C imports over the same period.[26] Of these 120, only seven investigations and five final measures were targeted against Pakistani T&C exporters, and targeted cotton yarn (Japan), cotton bed linen (the European Union and South Africa), and various cotton fabrics (the European Union) (WTO 2005c, 2005d).[27]

No Pakistani T&C export to the United States is currently the subject of AD measures. US CVDs, however, have limited Pakistani exports of cotton shop towels. The Department of Commerce issued the countervailing order in 1984, and a first sunset review in 2000 extended the measure.[28] A second sunset review finally revoked the order in February 2005, along with AD measures targeting similar products originating in China and Bangladesh.[29]

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24. The average trade-weighted tariff for Pakistani exports of textile products was 6.8 percent, whereas the US trade-weighted average for all textile dutiable imports was 13 percent.

25. Five textile products were disqualified from GSP benefits after 1996, because of US objections to labor practices in Pakistan. GSP benefits were restored in December 2004.

26. Over that period, the United States initiated eight AD investigations on T&C imports, while all other WTO members combined reported the initiation of 180 AD investigations, some of which were terminated without the imposition of measures.

27. Countries more frequently targeted include Korea, China, Taiwan, Thailand, and India (in that order).

28. During the first review in 2000, one commissioner dissented from the decision to renew the measures. This commissioner argued that Pakistani and Bangladeshi exports were not likely to lead to the recurrence of material injury, and she also noted that an asymmetry of information favored domestic producers (USITC 2000).

29. In revoking the order, the Department of Commerce observed that "no domestic interested party responded to the sunset review notice of initiation by the applicable deadline" (US Department of Commerce 2005a). For more information, see USITC Investigations 701-TA-202, 731-TA-103, and 731-TA-514 (Second Review). Imports of cotton shop towels from Pakistan and other targeted countries were subject to MFA quotas at the same time that they were targeted by AD and CVD measures (table 3.8).

Now that the MFA has passed into history, it seems likely that AD and CVD measures will be invoked more frequently against T&C imports to the US market. In the MFA era, potential trade injury was generally averted by line item quotas, and so the injury component of AD and CVD petitions could rarely be demonstrated. Now that quotas are eliminated, the possibility of trade injury is quite real, and if "less than fair value" sales—the dumping price standard—or subsidized sales (the CVD standard) can be shown, trade remedy cases are likely to be launched.[30]

Safeguards

Since 1995, the United States has invoked safeguards on T&C imports, both under the ATC and under the transitional mechanism established in Paragraph 242 of the Report of the Working Party on the Accession of China to the WTO.[31]

The US invocation of safeguards under the ATC in March 1999, on combed cotton yarn from Pakistan, led to the establishment of a WTO dispute settlement panel. The panel and the Appellate Body found against the United States, and safeguards were terminated in November 2001 (WTO 2001a). Before this incident, the United States had also invoked safeguards under the ATC on India (WTO 1996).

Since 2001, the United States has also invoked safeguards on T&C imports from China, following the procedures agreed in paragraph 242 of the Report of the Working Party on the Accession of China to the WTO. These safeguards, which are renewed annually, take the form of quantitative restrictions with a mandated growth rate of 7.5 percent annually (WTO 2001b, 46). Products subject to US safeguard quotas as of November 2005 included combed cotton yarn, socks, trousers, shirts, brassieres, underwear, and synthetic fiber (table 3.12a).[32] US safeguards affect one-quarter of US T&C imports from China (IMF 2005, 48). In 2005 the US T&C industry filed several safeguard requests covering additional Chinese cotton-based T&C products; however, the Committee for the Implementation of Textile Agreements (CITA) decided on November 24, 2005,

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30. Additionally, it is possible that Pakistan's tax and duty exemptions on textile exports might be the subject of a CVD investigation. The Pakistani government has recently faced pressure to increase duty exemptions for its textile producers, as several have threatened to expand in Bangladesh. Pakistani textile producers point out that Bangladesh offers better tax collection conditions and that Bangladesh faces no AD measures in the European Union. Moreover, they stress that the European Union has granted Bangladesh better unilateral preferences.

31. Paragraph 242 was originally numbered paragraph 238 in the draft accession agreement and is still often referred to as such.

32. Pakistan is a direct competitor of China in most of these products.

Table 3.12a US textile and clothing quotas on China, as of November 30, 2005 (percent)

Quota no.	Product category	Fill rate
301	Combed cotton yarn	60
332/432/632	Cotton, wool, and man-made fiber socks	96
338/339	Men's cotton shirts and blouses	100
340/640	Men's cotton and synthetic fiber shirts	100
347/348	Men's cotton trousers, breeches, and shorts	100
349/649	Cotton and synthetic fiber brassieres	55
352/652	Cotton and synthetic fiber underwear	100
620	Other synthetic fiber fabric	100
638/639	Synthetic fiber blouses	100
647/648	Synthetic fiber trousers	100

Source: US Customs and Border Protection (2005b).

"to end further consideration of 24 requests for safeguard action on imports from China" (US Department of Commerce 2005b).[33]

The requests were terminated because, on November 8, 2005, the United States and China reached an umbrella agreement on the permitted growth rate for the 2006–08 period for quotas invoked under paragraph 242. The Memorandum of Understanding between the Governments of the United States of America and the People's Republic of China Concerning Trade in Textile and Apparel Products aims to provide the T&C industries in the United States and China with "a stable and predictable trading environment" and to resolve trade concerns through consultations, as provided under paragraph 242 (USTR 2005b).

Annex I of the memorandum of understanding (MoU) between China and the United States lists the products covered by the agreement and establishes the quota limits for 2006–08 (table 3.12b). The US Trade

33. The list of Chinese products that had been considered included many that are typically exported by Pakistan, such as towels, curtains, and items of cotton apparel. The full list of products seeking protection under the China Textile Safeguard Action in 2005 is available at the Office of Textiles and Apparel (OTEXA) Web site, http://otexa.ita.doc.gov. The CITA press release states, "The agreement [US-China MoU on textiles and apparel products] establishes conditions on trade in the vast majority of products covered by these cases and provides a general framework for textile trade between the United States and China. Based on these considerations, CITA has ended further consideration of all pending textile safeguard petitions" (US Department of Commerce 2005b, 1).

Table 3.12b US textile and clothing quotas on China, 2006–08

			Quota limit (millions)[a]		
Quota no.	**Product category**	**Unit**	**2006**	**2007**	**2008**
200/301	Sewing thread or combed cotton yarn	Kilograms	7.5	8.7	10.1
222	Knit fabric	Kilograms	16.0	18.4	21.5
229	Special purpose fabric	Kilograms	33.2	38.5	45.0
332/432/632-T	Cotton, wool, and synthetic fiber socks	Dozen pairs	64.4	74.0	85.1
332/432/632-B	Cotton, wool, and synthetic fiber socks	Dozen pairs	61.1	70.3	80.9
338/339	Cotton knit shirts	Dozen	20.8	23.4	26.9
340/640	Men's and boys' woven shirts	Dozen	6.7	7.6	8.7
345/645/646	Sweaters	Dozen	8.2	9.2	10.7
347/348	Cotton trousers	Dozen	19.7	22.1	25.4
349/649	Brassieres	Dozen	22.8	25.6	29.5
352/652	Underwear	Dozen	18.9	21.3	24.5
359S/659S	Swimwear	Kilograms	4.6	5.2	6.0
363	Pile towels	Number of	103.3	116.2	134.8
666	Window blinds or shades	Kilograms	1.0	1.1	1.3
443	Wool suits, men's and boys'	Number of	1.3	1.5	1.8
447	Wool trousers, men's and boys'	Dozen	0.2	0.2	0.3
619	Polyester filament	M2	55.3	62.2	72.1
620	Other synthetic filaments	M2	80.2	90.2	103.8
622	Glass fabric	M2	32.3	37.1	43.4
638/639	Synthetic fiber knit shirts	Dozen	8.1	9.1	10.4
647/648	Synthetic fiber trousers	Dozen	8.0	9.0	10.3
847	Silk blend and vegetable fiber trousers	Dozen	17.6	19.9	23.0

M2 = squared meter

a. Figures are rounded.

Source: USTR (2005a).

Representative (USTR) analysis of the agreement distinguishes between results for "core" and "other" products (USTR 2005b).[34] Core clothing products include trousers and knit shirts of cotton and synthetic fiber, woven shirts, brassieres, and underwear. China's quota limits for core clothing products will expand to 5.5 percent in 2006, 7.8 percent in 2007, and 10.3 percent in 2008. In 2006 quota growth for "core" products will thus fall below the rate of 7.5 percent established under the WTO accession documents in 2006 but will surpass that benchmark in 2007 and 2008.[35] Many of Pakistan's clothing exports to the United States belong to the core category and thus over the next two years will face a more predictable scenario and less competition from China in the US market. Limits on other categories (i.e., noncore products) will increase 10 to 16 percent annually between 2006 and 2008.

The United States pledged in the MoU not to request consultations for products listed under Annex I, but committed only to "exercise restraint" concerning the application of safeguards on products not subject to the agreement (USTR 2005b).

Textile Procurement Provisions

The "Buy American Act" and the Berry amendment mandate US-origin products for US government and Defense Department procurement.[36] T&C items are considered vital to military readiness and therefore US forces are required to comply with these origin requirements. To the chagrin of foreign producers, previous FTAs have not opened the US defense procurement market.[37]

Pakistan

Pakistan has a vertically integrated textile and clothing industry that is oriented toward cotton-based products (homegrown cotton, cotton yarn and cloth, made-up textiles). Most T&C production in Pakistan relies on domestic inputs, and T&C imports—largely raw materials and fibers—

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34. The distinction between core and other products is not contemplated in the agreement but appears in the USTR press release.

35. China's WTO accession protocol established a maximum 7.5 percent growth of shipments above the amount entered during the first 12 months of the most recent 14 months preceding the month in which the request for consultations had been made.

36. Government procurement practices are covered more extensively in chapter 6. For a recent discussion of the Berry amendment, see the Congressional Research Service report for Congress, *The Berry Amendment: Requiring Defense Procurement to Come from Domestic Sources* (order code RL31236).

37. By contrast, US producers of both T&C specifically commended the USTR for preserving the Berry amendment (USTR 2004a, 4–5).

represent just 5 percent of total imports. For many years the industry's growth has been tied to the local cotton crop and its competitiveness retarded by bottlenecks and inefficiencies in the value chain.

Cotton accounts for 70 percent of the industry's fiber consumption, while synthetic fibers (polyester, acrylic, and viscose) contribute the remainder (USITC 2004a). Pakistan ranks among the largest producers of cotton and cotton yarn in the world. However, the quality of its cotton is irregular and most yarn production consists of coarse and medium counts (70 percent) or polyester/cotton blends (24 percent). Domestic clothing firms have therefore supplemented domestic cotton supplies with finer-count imported yarn, other synthetic fibers (e.g., acrylic, rayon), and blended or high-tenacity yarns (e.g., polyester/viscose, nylon) in an effort to reach the global market for noncotton fabrics in higher value added niches of cotton-based textiles.[38]

The T&C industry has long been the object of special protection in Pakistan, starting in the era of import substitution industrialization. In recent years, the government has charted a new course, eliminating import prohibitions and relaxing protection in an effort to improve export competitiveness. Yet protection is still high and limits trade: In 2004 Pakistan's imports of items in HS chapters 58 through 63 were under $30 million. Tariffs are the principal instrument, but export promotion schemes and AD measures have also been used.

Tariffs

In 2005 Pakistan's domestic T&C industry received average tariff protection of 18.6 percent, exceeding the 14.2 percent average tariff for all manufacturing products. These averages, however, are lower than their 2002 values (26 and 20.2 percent, respectively), marking the continuation of progressive liberalization.[39] Still, the Pakistan Customs Tariff 2005–06 contains a very large number of tariff peaks in the T&C section (Pakistan Central Board of Revenue 2005a). Almost 60 percent of the T&C tariff lines (HS 50-63) list duties of 25 percent (table 3.13).[40] Pakistan has bound nearly all tariff lines in the T&C category (WTO 2002a).

Tariff escalation is a feature of the Pakistani customs schedule. Inputs receive lower protection than final T&C items: With the exception of cotton yarn, other yarn and fiber imports pay tariffs that are half the level prevailing on finished T&C products (table 3.13). Moreover, the lower-tariff products were subject to the largest cuts in protection during

38. For in-depth studies, see USITC (2004a) and Government of Pakistan (2005c).

39. The largest cuts in T&C tariffs took place between 1997 and 2000. In 1996 the average tariff on T&C exceeded 50 percent.

40. Twenty-five percent is the highest duty applied in HS section 11 of the 2005–06 Pakistan Customs Tariff.

Table 3.13 Pakistan's tariffs on textile and clothing imports, 2005

HS chapter	Product description	Total tariff lines	Tariff peaks[a]	Average tariff rate (percent)	Percentage point tariff reduction, 2002–05[b]
Textile mill goods and other textile products		662	281	16	–8
50	Silk	10	0	8	–8
51	Wool, animal hair; horsehair yarn and woven fabric	37	0	8	–6
52	Cotton	136	51	15	–7
53	Other vegetable textile fibers, paper yarn	21	7	10	–5
54	Synthetic filaments	69	0	10	–14
55	Synthetic staple fibers	119	0	11	–14
56	Wadding; nonwovens; special yarns, cordage, and other	37	19	19	–8
57	Carpets and other textile floor coverings	32	23	21	–5
58	Woven and tufted fabrics, tapestries, trimmings, and other	45	45	25	–5
59	Impregnated, coated, covered or laminated fabrics	26	16	19	–3
60	Knitted or crocheted fabrics	44	44	25	–5
63	Other made-up textile articles; worn clothing and rags	86	78	24	–6
Clothing		242	240	25	–5
61	Articles of apparel and clothing accessories, kn./cr	119	119	25	–5
62	Articles of apparel and clothing accessories, not kn./cr	125	123	25	–5
	Textiles and clothing (HS 50–63)	906	521	19	–7
	All manufacturing (HS 25–97)	5,516	1,524	14	–6

kn./cr. = knitted or crocheted

a. Tariff peaks are defined as tariffs with rates equal to or above 25 percent. In 2005 the highest tariff rate applied in HS section 11 was 25 percent. All tariff peaks in HS section 11 take that value. Higher peaks apply to manufactured products in other categories.

b. The "average tariff reduction 2002–05" was obtained by comparing simple average tariff rates for the above reported categories in 2005 versus 2002. Averages for 2002 were obtained from the *WTO Trade Policy Review of Pakistan* (2002).

Source: Pakistan Board of Revenue (2005).

2002–05. For example, the average tariffs on synthetic filaments and staple fibers were cut by 14 percentage points, to current averages of 10 to 11 percent (table 3.14). In his 2005–06 trade policy speech, Commerce Minister Khan announced targeted customs tariff and sales tax elimination, aimed at imported raw materials.[41]

The progressive reduction of tariffs is correlated with rising imports. Blended yarns and synthetic fibers now account for the bulk of Pakistan's T&C imports, apart from raw cotton (table 3.14).[42] Conversely, imports of cloth—where tariffs remain very high—are still negligible. In recent years, China and Southeast Asian countries have become principal suppliers to Pakistan's T&C industry (table 3.7).

Antidumping Measures

Pakistan's experience with AD measures is relatively recent. The oldest measure currently in force dates from 2002, and as of June 2005 the country had only seven measures in force. Of these, only one targets textile products, namely AD measures on acrylic towel imports from Uzbekistan (imposed in August 2004). In December 2005 the government of Pakistan announced the imposition of provisional AD duties on imports of polyester filament yarn (PFY). Countries targeted by that measure are Indonesia, Korea, Malaysia, and Thailand (National Tariff Commission of Pakistan 2005).

Import Licensing, Customs Procedures, and Charges

All importers are required to pay, in addition to sales tax (15 percent), a 1 percent charge on the cost, insurance, and freight (c.i.f) value of imported goods and a 1 percent handling charge. Additionally, imports to Pakistan are subject to documentation requirements; for example, used clothing imports require certificates of cleanliness from accredited physicians (US Department of Commerce 2005a).[43]

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41. Tariff elimination programs are applicable only for inputs used in the production of goods for export. The exemptions encompass imports of thread, polyester, woven cotton, synthetic lining, wadding, and interlining materials (US Department of Commerce 2005a).

42. In his 2005–06 trade policy speech, Commerce Minister Khan highlighted the new government policy toward synthetic fiber in the following way: "The government has now solved this long-standing problem and rationalized the tariff structure for man made fibre and synthetic textile chain. This would lead the major growth in this sector." See speech at the Web site of the Export Promotion Bureau of Pakistan, www.epb.gov.pk (accessed November 2005).

43. Pakistan used to apply quantitative restrictions on the import of textiles; however, all such restrictions were phased out by December 2001, in advance of the time frame stipulated under the agreement with the WTO Balance-of-Payments Committee. We address standards and labeling requirements more generally in chapter 5. For more information on documentation requirements, see the International Trade Association's Web pages on Pakistan: Import Procedures and Documentation at http://otexa.ita.doc.gov.

Table 3.14 Pakistan's textile and clothing tariff rates and imports from the world and the United States

HS 6-digit category	Product description	Imports, 2004 (millions of US dollars): World	Imports, 2004 (millions of US dollars): United States	Tariff, 2005[a] (percent)
Selected raw materials		628	195	5[b]
5101.19	Wool, not carded/combed, greasy	7	0	5
5201.00	Cotton, not carded/combed	591	195[c]	5
5303.10	Jute and other textile bast fibers, raw/retted	30	0	5
Synthetic fibers and yarns		232	8	6[b]
5402.33	Textured yarn of polyesters	34	0	7
5402.43	Yarn other than high-B14 tenacity/ textured yarn	27	0	7
5402.49	Synthetic filament yarn other than sewing thread	21	2	6
5403.31	Artificial filament yarn other than sewing thread	13	0	7
5501.30	Synthetic filament tow, acrylic/modacrylic	15	2	7
5502.00	Artificial filament tow	20	2	6
5503.20	Synthetic staple fibers for spinning, of polyester	15	1	7
5503.30	Synthetic staple fibers for spinning, of acrylic	9	1	7
5504.10	Artificial staple fibers for spinning, of viscose rayon	71	0	5

(table continues next page)

Textiles and Clothing in Other Bilateral FTAs

In this section we present a brief discussion of the treatment of T&C in other FTA negotiations that could serve as important references for a US-Pakistan FTA: US-Morocco, US-Australia, US-Singapore, and CAFTA-DR. We examine a selection of key provisions, but our focus is on tariff phaseout schedules and rules of origin.

United States

As mentioned earlier, the United States maintains high MFN tariffs on T&C imports. Parties to US bilateral agreements, however, enjoy impor-

Table 3.14 *(continued)*

HS 6-digit category	Product description	Imports, 2004 (millions of US dollars) World	United States	Tariff, 2005[a] (percent)
Woven fabrics		59	0	18[b]
5208.12	Woven fabrics, 85 percent or more by weight of cotton	17	0	25
5210.19	Woven fabrics, less than 85 percent by weight of cotton	6	0	14
5407.42	Woven fabrics, 85 percent or more by weight of filament	11	0	14
5407.94	Woven fabrics of synthetic filament yarn	5	0	14
5703.20	Textile floor coverings, tufted	5	0	8
5902.10	Tire cord fabric of high-tenacity yarn of nylon	8	0	5
5903.90	Other textile fabrics with plastics	7	0	25
Worn clothing		37	11	10[b]
6309.00	Worn clothing and other worn articles	37	11	10
	Subtotal	948	214	6[b]
	All other textile and clothing imports	178	6[d]	n.a.
	Total imports of textiles and clothing	1,126	220	18.6

n.a. = not applicable

a. Tariffs correspond to the duty rate listed in the Pakistan Customs Tariff 2005–06. Exclusions and special duty programs (e.g., export processing zones) are not considered. Figures are rounded up to the nearest unit. When several tariff lines apply to 6-digit category trade flow, we report the simple averages of those lines.
b. Trade-weighted average based on observations in this table.
c. This value is significantly larger than the value reported by the US International Trade Commission.
d. All other US exports include products with annual flows below $1 million.

Sources: UN Statistics Division (2005); Pakistan Board of Revenue (2005).

tant preference margins (table 3.15). Imports under preferential programs are quite significant and constitute a rising share of US imports of T&C goods. In 2004, 25 percent of US clothing imports and 18 percent of US textile imports, by value, enjoyed preferential access to the US market.[44]

44. There was a rapid increase in imports under preferential programs between 2000 and 2004. This might seem at odds with the low growth recorded by T&C exports from a number of countries that enjoy preferences (tables 3.3 and 3.4), but the surge reflects the inclusion of T&C items under the Africa Growth and Opportunity Act (AGOA), Caribbean Basin Trade Partnership Act of 2000 (CBTPA), and Andean Trade Promotion and Drug Eradication Act (ATPDEA) in the early 2000s.

Table 3.15 US tariff schedule: Average MFN and preferential tariff rates on textiles and clothing, 2005 (percent)

HS chapter	Product description	MFN[a]	Mexico[b]	Jordan[c]	Singapore[d]	Australia[e]	GSP[f]
50	Silk	0.9	0.0	0.0	0.0	0.0	0.3
51	Wool, animal hair; horsehair yarn and woven fabric	5.9	0.0	1.8	0.1	3.0	5.8
52	Cotton	8.2	0.0	0.4[g]	0.0[g]	5.4[g]	8.0
53	Other vegetable textile fibers, paper yarn	1.6	0.0	0.0	0.0	0.0	1.5
54	Synthetic filaments	10.4	0.0	1.0	0.0	5.1	10.3
55	Synthetic staple fibers	11.0	0.0	0.8	0.0	5.0	11.0
56	Wadding; nonwovens; special yarns, cordage, and other	4.5	0.0	0.0	0.0	2.0	1.7
57	Carpets and other textile floor coverings	3.3	0.0	0.0	0.0	1.9	2.5
58	Woven and tufted fabrics; tapestries; trimmings; and other	7.0	0.0	0.5	0.0	3.2	7.0
59	Impregnated, coated, covered or laminated fabrics	3.1	0.0	0.0	0.0	1.7	2.8
60	Knitted or crocheted fabrics	10.1	0.0	0.0	0.0	6.9	10.1
61	Articles of apparel and clothing accessories, kn./cr.	11.7	0.0	2.1	0.0	7.1	11.5
62	Articles of apparel and clothing accessories, not kn./cr.	10.7	0.0	1.9	0.0	7.4	10.6
63	Other made-up textile articles, worn clothing and rags	6.6	0.0	0.2	0.0	4.4	6.1
HS section 11 (chapters 50–63)		8.7	0.0	1.0	0.0	5.2	8.4

a. MFN: most favored nation. Base treatment granted to all WTO members.
b. Entered into force in January 1994, NAFTA eliminated all tariffs on textiles and clothing within 10 years.
c. Entered into force in January 2002, the US-Jordan FTA will eliminate all tariffs on textiles and clothing within 10 years.
d. Entered into force in January 2004, the US-Singapore immediately eliminated virtually all tariffs on textiles and clothing.
e. Entered into force in January 2005, the US-Australia FTA includes phaseouts of as long as 18 years in certain textiles tarrif lines (e.g., raw cotton). However, most tariffs not subject to immediate eliminations will be completely eliminated within 10 to 15 years.
f. We present the maximum generalized system of preferences (GSP) margin; however, not all GSP participating countries may qualify for all of these preferential tariffs.
g. A few tariff lines, corresponding to raw cotton and not considered in these averages, are subject to quotas.

Note: Table excludes specific and other tariffs but includes the ad valorem component of composed tariffs.

Source: USITC (2005a).

Table 3.16 US imports of textiles and clothing under selected preferential programs (millions of US dollars)

Program	1996	2000	2004
Subject to MFN tariffs	46,530	67,832	70,251
Under preferential programs	6,337	11,994	21,478
NAFTA	5,410	10,462	10,339
CBTPA[a]	n.a.	159	6,489
AGOA	n.a.	355[b]	1,614
Andean Act (ATPA/ATPDEA)	4	6	1,161
West Bank and Gaza	n.a.	23	926
US-Israel	425	611	527
GSP	403	274	378
CBI	95	105	31
US-Jordan	n.a.	n.a.	13
Total US textile and clothing imports	52,867	79,471	91,729

AGOA = Africa Growth and Opportunity Act
ATPA/ATPDEA = Andean Trade Preference Act/Andean Trade Promotion and Drug Eradication Act
CBERA = Caribbean Basin Economic Recovery Act
CBI = Caribbean Basin Initiative
CBTPA = Caribbean Basin Trade Partnership Act of 2000
GSP = generalized system of preferences
n.a. = not available
NAFTA = North American Free Trade Agreement

a. Total imports entering under MFN tariff treatment. Values correspond to "No Program Claimed" in USITC Dataweb.
b. Value corresponds to 2001.

Source: USITC (2005a).

Table 3.16 shows that US FTA partners, rather than countries enjoying unilateral preferences, provide the bulk of imports, some 85 percent (including imports from CAFTA partners under the US-Caribbean Trade Partnership Act, CBTPA).[45]

US FTAs are the most stable and comprehensive preferential programs, but other preference programs have served as stepping-stones for FTA pacts. For example, the production sharing agreements (CBTPA) and the Andean Trade Promotion and Drug Eradication Act (ATPDEA) succeeded in stimulating imports from qualifying partners and paved the way for full-blown FTA negotiations. But most of these earlier programs

45. This figure would surpass 90 percent if one included imports under preference programs for the Andean countries (which are currently negotiating an FTA with the United States). Tariff elimination under CAFTA-DR is retroactive to 2004.

granted unilateral duty concessions subject to various conditions that limited the potential benefits to partner countries.

NAFTA and the US-Israel FTA represented the first permanent and fully reciprocal US preference agreements. NAFTA charted the basic model that was later applied in other negotiations. After the ratification of NAFTA in 1993, T&C trade volumes between Mexico and the United States grew rapidly, with Mexico importing US textile inputs, and the United States importing Mexican finished clothing and textiles.[46] In part, NAFTA rules of origin explain the resulting trade patterns, as the rules denied duty-free entry to T&C products with significant inputs from outside North America. However, NAFTA also allowed Mexico to move beyond mere assembly of imported fabrics to "full-package" production (Nordas 2004).[47]

After NAFTA, the United States concluded CAFTA-DR as well as bilateral FTAs with Jordan, Singapore, Chile, Morocco, Australia, and, most recently, Bahrain. None of these partners has the capacity to pose a serious competitive challenge to the US T&C industries, however. In this respect, a US-Pakistan FTA would be different. In the other agreements, rules of origin played a key role in answering the demands of the US T&C industries. It is unclear whether the standard yarn-forward rules would be equally satisfactory—from the standpoint of US firms—with a country that has a vertically integrated and highly competitive domestic T&C industry. On the other hand, Pakistan's vertical integration reflects very high protective barriers; as Pakistan's tariffs are reduced, rules of origin will play a more important role in shaping sources of supply.

During the negotiations, it seems likely that the US T&C industry will insist on longer transition periods (especially on certain cotton-based products) than those agreed in prior FTAs. But other elements of prior FTAs will be relevant in a US-Pakistan FTA. Reviewing past negotiations can therefore provide useful insights.

Tariff Elimination

The previous US bilateral FTAs considered in this section contemplate the eventual elimination, on a reciprocal basis, of all tariffs and quotas for T&C items that qualify under the rules of origin.[48] US FTAs eliminate the

46. Nordas (2004) also records important gains in employment in the Mexican T&C industry between 1995 and 2000, and other specialists have observed gains in investment.

47. Undoubtedly, the comprehensive and permanent nature of NAFTA gave Mexico an advantage over other T&C suppliers and contributed to an upgrade in Mexico's role.

48. The discussion on tariff elimination is based on the actual phaseout schedules in the agreements. The texts consulted are listed in the references as follows: US-Jordan FTA (USTR 2000), US-Singapore FTA (USTR 2003b), US-Chile FTA (USTR 2003c), CAFTA-DR (USTR 2004c), US-Morocco FTA (USTR 2004d), US-Australia FTA (USTR 2004e), and US-Bahrain FTA (USTR 2004f).

majority of tariffs on both sides within the first 6 years after implementation, and nearly all tariffs within 10 years.

Previous agreements contain tailored provisions for sensitive items; consequently, some reach full duty-free status sooner than others. The US-Singapore FTA, like the near contemporary US-Chile and US-Bahrain FTAs, granted immediate duty-free access for virtually all products on both sides.[49] CAFTA-DR even established retroactive reciprocal tariff elimination, one year before implementation, for nearly all textile tariffs.[50]

Other bilateral FTAs contain transition periods of up to 10 years after implementation. While NAFTA eliminated duties on 80 percent of bilateral T&C trade between Mexico and the United States within 6 years, it established 10-year phaseouts for sensitive T&C products (US Department of Commerce 2005d). The US-Jordan FTA also included phaseout periods of up to 10 years, but most tariff cuts took place within the first three years after implementation in 2002.

Tariff elimination in US bilateral FTAs is typically based on the principle of reciprocity. For example, tariff elimination in the US-Jordan FTA was geared to obtain reciprocal tariff treatment for items in similar tariff ranges: Tariffs above 20 percent will be eliminated in 10 years in both countries, while tariffs below 5 percent were eliminated immediately. With this approach, Jordan, which applied higher initial tariffs, retained somewhat longer protection than the United States.

Reciprocity was also the guiding principle to T&C market access in the US-Australia and US-Morocco FTAs. However, phaseouts under those FTAs were determined on an item-by-item basis, with longer US phaseouts closely correlated to the partner's sensitivities rather than US sensitivities.[51]

Under the US-Australia FTA, most Australian tariff peaks—tariffs above 15 percent—will be phased out in 10 years. Consequently, the US schedule likewise contemplates 10-year phaseout periods for the items subject to tariff peaks in the Australian schedule.[52] For example, about 70

49. Tariffs and quotas on a few tariff lines corresponding to wool and animal hair and cotton will be phased out over 10 to 12 years.

50. However, some duties in the US schedule were removed immediately, but not retroactively, in accordance with existing WTO duty elimination commitments (WTO Schedule XX for the United States). A similar situation applies to traditional handcrafted goods.

51. This is a rough characterization and there are exceptions. For example, the United States requested longer phaseouts or quotas for wool and cotton and, interestingly, these were not "reciprocated" by the partner. There are also instances where the United States and the partner country both decided to eliminate all barriers. But overall US phaseout periods seem closely correlated to peaks in the partner's tariff schedule.

52. There are two important exceptions: The United States did not retaliate against Australian protection on products that already enjoy MFN duty-free entry in the US market, and the United States eliminated "nuisance tariffs" (tariffs of less than 3 percent) immediately, regardless of the Australian tariff or phaseout period.

percent of US and Australian tariff lines on clothing (HS chapters 61 and 62) will be subject to 10-year backloaded phaseout schedules, even though the incidence of tariff peaks on clothing in the US tariff schedule is just 35 percent of tariff lines. US insistence on playing by its own rules of origin may have heightened Australian sensitivities.[53]

In any case, the resulting tariff elimination schedules did not please producers in either country. The Textile, Clothing and Footwear Union of Australia complained that tariff reductions would benefit only US producers.[54] Most industry representatives to the US Advisory Committee on Textiles and Apparel characterized the phaseout periods as "exceptionally" or "extremely" long and complained that long phaseouts would curtail their benefits from the agreement (USTR 2004a).[55] US clothing producers resented the lack of immediate duty-free access, as they noted that Australia already grants duty preferences to other partners (USTR 2004a).[56]

Tariff elimination for T&C items under the US-Morocco FTA follows the same principles as the US-Australia FTA, although in this negotiation the United States mirrored Morocco's requests for longer phaseouts even on items where the United States applies only nuisance tariffs.[57] Moreover, the US-Morocco FTA contains a distinctive feature: It is the only US agreement that established reciprocal TRQs for clothing products and certain made-up textiles (42 tariff lines defined at the 6-digit level in HS chapters 61–63, listed in Annex 4-B of the agreement). The selection of TRQ items appears to reflect Moroccan sensitivities. Morocco applied 50 percent tariffs on all TRQ items, while the United States applied much lower tariffs, ranging from 0.5 to 32.3 percent (USTR 2004d).[58] Total US

53. The Australian T&C industry has repeatedly claimed difficulties in meeting origin requirements established under US agreements, in part related to its increasing reliance on Chinese and East Asian textile imports. In 2002, Australian T&C exports represented around 0.3 percent of US T&C imports. In that same year, US T&C exports represented 7.0 percent of textile imports and 1.6 percent of Australian clothing imports. For more information see the next subsection on rules of origin.

54. See the Submission from the Textile, Clothing and Footwear Union of Australia to the Senate Select Committee on the Free Trade Agreement between Australia and the United States of America, available at www.aph.gov.au.

55. The Advisory Committee recommended that "US negotiators should continue to strive to level the playing field and achieve reciprocal tariff reductions on the part of negotiating partners" (USTR 2004a, 3).

56. They also resented the introduction (at the instigation of the US textile industry) of restrictive rules of origin.

57. See, for example, phaseouts for products under HS 5409–5411 in the schedule of each party.

58. The USTR fact sheet on the agreement states that TRQs "enabled the United States to obtain reciprocal access to Morocco's market" (USTR 2004g, 1).

T&C exports to Morocco on TRQ items were small in 2004 (less than $5 million), possibly reflecting the high tariffs applied by Morocco. Perhaps in a gesture of trade-restricting reciprocity, the selection of TRQ items under the agreement covered 85 percent of Morocco's total T&C exports to the United States in 2004.[59] Unlike long-lasting TRQs for sensitive agricultural products in US agreements, the T&C TRQs in the US-Morocco FTA will expire after six years. With a few exceptions, in-quota volumes for all textile TRQs will double between year one and year five.

Rules of Origin

Rules of origin in US bilateral FTAs have often reflected the pursuit of protectionist objectives. Nowhere is this more evident than in the T&C sector. In this section we offer a stylized account of the US approach to T&C rules of origin, explaining how those rules are designed to protect US domestic producers.[60]

Leaving aside products that are "wholly obtained" or "fully made" from material originating in the partner countries, the rules of origin for T&C items in US bilateral FTAs can be characterized in four different groups: fiber-forward, yarn-forward, fabric-forward, and cut and sewn (US CBP 2005a). Rules in each group require that origin be established at a common stage in the productive process for a given T&C item. For example, fiber-forward rules require that the fiber must be formed (and all subsequent actions performed) in the territory covered by the agreement, while fabric-forward rules require that the fabric must be knitted or woven in the territory of the parties. US agreements that follow the NAFTA pattern often use fiber-forward rules for yarns and yarn-forward rules from that point on (e.g., for fabrics and apparel). Of course there are numerous exceptions to these characterizations.[61]

The adoption of yarn-forward rules in US FTAs is associated with a conscious decision by the US government to ensure a supplying role for the US textile industry. US textile producers argue that the requirements are necessary to ensure that the bulk of value-added processes take place in the partner countries rather than in third countries (USTR 2004a).

59. According to data from USITC Dataweb, in 2004 the United States imported $76 million of T&C goods from Morocco, of which $65 million were in items that will be subject to a TRQ under the agreement. By contrast, in that same year, Morocco imported only $4.5 million of T&C goods from the United States, and very little in tariff lines subject to TRQs.

60. However, the complex nature of interest in the US T&C industry should be noted. Important domestic producers, mainly apparel producers, often disapprove of the US stance on textile rules of origin and find certain provisions "too restrictive."

61. For a general but quite informative presentation of rules of origin in US bilateral agreements, see the CBP publication *NAFTA (the North American Free Trade Agreement) for Textiles and Textile Articles—An Informed Compliance Publication*, available at www.cbp.gov.

Yarn-forward rules are often denounced by both US clothing firms and by partner-country producers. Foreign producers argue that such rules often force second-best sourcing options and favor the party with the relatively more competitive textile sector. Because the United States has, to date, negotiated with countries that had relatively less competitive textile sectors, the yarn-forward rules have often promoted US exports of textile products (fibers, yarns, and fabrics) to the partner country. For example, as a result of CAFTA-DR, more than 90 percent of all clothing made in CAFTA countries will utilize US yarns and fabrics (USTR 2005d). Tony Woolgar, national secretary of the Textile, Clothing and Footwear Union of Australia, complained to the Australian Senate Committee on the US-Australia FTA, "Given the failure to change the rules of origin this will be a one-way free trade agreement" (Woolgar 2004). His position was acknowledged by the Australian negotiators and also in the Australian Senate investigation (Parliament of Australia Senate 2004).[62]

US clothing producers have also publicly opposed yarn-forward rules. For example, representatives of the clothing sector, commenting on the US-Australia FTA, expressed extreme disappointment "that the principal rule of origin is overly restrictive and complicated and it continues a disturbing pattern in which a specific industry sector [apparel and textiles] is subject to minute restrictions that can only serve to assure that this sector will not participate in [the Australian] market" (USTR 2004a). The experience of the US-Australia FTA shows that rigid yarn-forward rules can be viewed adversely by many US firms, both for their direct impact and because they inspire counterclaims by firms in the partner country for longer phaseouts of high tariffs on clothing imports.

US agreements do contain exceptions to the standard rules of origin. One exception is the de minimis rule, which allows goods to claim origin even when their components fail to meet the required change of tariff heading, so long as the failure is less than a given percentage of the weight of the component that determines the classification (e.g., 7 percent under NAFTA and the US-Morocco and US-Australia FTAs, but 10 percent under CAFTA-DR and the US-Singapore FTA). Other exceptions are introduced through tariff preference levels (TPLs), which allow a set quantity of products to qualify for preferential duty rates under the agreement even if the goods are nonoriginating. TPLs were established in recent US FTAs, except for the US-Australia FTA and CAFTA-DR.[63] Unlike TPLs in

62. Stephen Deady, Australian chief negotiator, stated to the Australian Senate Commission on the US-Australia FTA: "With the support of Australian industry, the Government also sought to have the latter approach applied to the T&C sector rather than the special 'yarn-forward' rule proposed by the United States side, but was unable to persuade the US to move from this position" (Parliament of Australia Senate 2004).

63. Only Nicaragua obtained a TPL that phases out over 10 years.

earlier agreements such as NAFTA, the TPLs in recent FTAs, such as the US-Bahrain FTA, are valid during the transition period only (usually 10 years).[64]

Textile Safeguards

Recourse to special textile safeguards is a standard feature of US FTAs.[65] The provisions establishing special safeguards share similarities across US agreements, but there are also important differences among them.

Similarities include notification requirements, the strength and length of measures (e.g., restoration of MFN duties for two to three years), the requirement of compensation and the ultimate option of recourse to retaliation, standards for determining serious damage, the transitional nature of the safeguard mechanism, and a prohibition against targeting a particular product twice.

However, there are important differences. First and foremost, agreements have different provisions as to the duration of special safeguards. Some agreements (e.g., the US-Australia, US-Bahrain, and US-Morocco FTAs) allow the invocation of special T&C safeguards for as long as 10 years after a tariff has been eliminated under the agreement. Others, such as CAFTA-DR and the US-Singapore FTA, limit the invocation of special safeguards to the transition period while tariffs are being eliminated (e.g., five years in the CAFTA-DR pact).[66] Second, not all agreements contemplate the renewal of a special safeguard measure. The US-Australia, US-Morocco, and US-Singapore FTAs allow the renewal of a measure under certain conditions, but CAFTA-DR and the US-Bahrain FTA do not expressly contemplate renewal. Another important difference lies in the requirement of an investigation before applying special safeguards. CAFTA-DR and the US-Bahrain and US-Morocco FTAs require a prior investigation; the US-Australia FTA permits safeguards without an investigation, under special conditions; and the US-Singapore FTA has no text on the issue.

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64. The TPL under the US-Morocco FTA allowed for the largest quantities in relation to the partner's initial T&C exports to the United States (150 percent). TPLs under the US-Jordan, US-Israel, US-Chile, and US-Bahrain FTAs amount to 100 percent of the US partner country's T&C exports to the United States. Lower values were granted under the US-Singapore FTA (35 percent), NAFTA (16 percent), and CAFTA-DR (10 percent) (USTR 2005d).

65. US and foreign textile producers have noted that compensation mechanisms reduce the usefulness of the special safeguard mechanism. US apparel producers questioned the need for special textile safeguards in light of the establishment of strong origin requirements.

66. Large numbers of tariff lines will be phased out in 10 years under the US-Australia FTA, and consequently the special safeguards will be applicable for 20 years after implementation. The transition period in the US-Singapore FTA is defined as 10 years.

All agreements establish rules preventing the concurrent invocation of safeguards under the special textile mechanism and other mechanisms, such as the safeguard provisions of the WTO ATC, and Article XIX of GATT 1994.

Customs Enforcement of T&C Provisions

T&C customs procedures are largely designed to combat illegal transshipment of nonoriginating products, and enforcement is gaining greater prominence in T&C chapters. Evidence of smuggled products of Chinese origin, entering the United States under the NAFTA umbrella led US producers to insist on strict enforcement of T&C rules of origin.

CAFTA-DR and the US-Singapore FTA include the most extensive treatment of T&C customs procedures, and these agreements now serve as the models for other FTAs. The US-Singapore FTA requires that all Singaporean T&C companies register to claim benefits under the agreement (USTR 2003b). CAFTA-DR includes special verification procedures, such as unannounced factory visits, publication of the names of violators, and strong penalties such as jail time. CAFTA-DR also prohibits subsequent transformation outside the territory covered under the agreement.[67] None of these enforcement elements are present in NAFTA. The MoU between the United States and China concerning T&C trade, agreed in November 2005, mandates cooperation in preventing circumvention by transshipment, rerouting, and other means.[68]

T&C customs cooperation in bilateral FTAs has additional purposes beyond the prevention of illegal transshipment. CAFTA-DR and the US-Morocco FTA expressly note that parties will cooperate in enforcing their respective laws, regulations, and procedures (e.g., intellectual property protection and fire-retardant standards). A US-Pakistan FTA will likely cover these topics as well.

Pakistan

Obtaining better market access for its T&C exports has been a major Pakistani objective in previous trade agreements, but Pakistan has not always offered reciprocal access to the other party's T&C exports. Clothing items, synthetic filaments, and staple fibers are the most sensitive products for Pakistan, and therefore the products that retain long-lasting protection. In this section we discuss the Pakistan–Sri Lanka FTA, the early

67. For more information, see USTR publication *CAFTA Gets Tough on Illegal Transshipment*, available at www.ustr.gov.

68. The MoU also allows the subtraction from quota limits of an amount equal to any quantities that entered the United States in circumvention transactions.

harvest agreement between Pakistan and China, and the Economic Cooperation Organization Trade Agreement.[69]

Pakistan–Sri Lanka FTA

Implemented in June 2005, the Pakistan–Sri Lanka pact is the first bilateral FTA signed by Pakistan.[70] The agreement does not eliminate all tariffs: negative lists of items permanently excluded from tariff cuts cover 1,210 tariff lines at the six-digit level on both sides; in addition, partial concessions through TRQs cover another 30 tariff lines at the six-digit level; and 6 tariff lines at the six-digit level have preferential duty margins.[71] T&C account for a significant share of these exclusions and partial concessions. Excluded T&C products include nearly 205 tariff lines at the six-digit level, representing about 17 percent of all excluded tariff lines in the negative lists of both countries.

Aggregate numbers, however, mask the fact that Pakistan adopted a more defensive stance on clothing products than did Sri Lanka. The tariff structure of Sri Lanka reflected a liberal trade regime for T&C imports, both because the country is a competitive clothing supplier and because it relies heavily on imported raw materials.[72] However, Pakistan excluded about 170 tariff lines for clothing, almost 90 percent of its negative list for T&C items. The exclusion is quite important, as Pakistan has only 242 tariff lines for its clothing imports (HS chapters 61 and 62). Pakistani clothing producers are also protected through TRQs; in fact, the vast majority of Pakistan's TRQs under the agreement will apply to clothing trade (21 of 26 tariff lines). While Pakistan excluded most clothing items from the agreement, Sri Lanka did not include clothing products in its negative list, nor will it apply TRQs on these products.

Pakistan's textile exclusions also target mainly synthetic filaments and staple fibers (HS chapters 54 and 55), particularly items based on

69. Pakistan has also signed an early harvest agreement with Malaysia.

70. For this section we consulted the text of the Pakistan–Sri Lanka FTA, available at www.boi.lk.

71. Items in the TRQ list were also included in the negative lists.

72. According to data from the *WTO Trade Policy Review for Sri Lanka,* the average tariffs for Sri Lanka in 2003 were 4 percent for textiles and 11 percent for clothing. Pakistan's average tariffs currently stand at about 16 percent for textiles and almost 25 percent for clothing. Exports of T&C account for about 50 percent of Sri Lanka's total export earnings, and represent nearly 5 percent of GDP. A few large-scale manufacturers with strong marketing links to foreign buyers conduct clothing production and export in Sri Lanka. Almost 94 percent of exports are destined for the markets of the United States or European Union. While Sri Lanka imported textiles in the amount of $1.3 billion in 2002, the country's imports from Pakistan amounted to only $26 million (or 2 percent). Exports from Sri Lanka to Pakistan were less than half a million dollars in 2002 (WTO 2004b).

polyester.[73] Sri Lanka excluded several netting items, twines, certain vegetable fibers, and gauze. No TRQs were applied to textile products.

A few T&C items were included in the lists for immediate duty elimination, and tariffs on nearly all covered T&C products will be eliminated over three years in the case of Pakistan and over five years for Sri Lanka. Within three years of implementation, more than 95 percent of Pakistani textile tariffs will be eliminated, but less than 30 percent of Pakistani clothing tariffs will be eliminated, owing to multiple exclusions.

The agreement does not contemplate product-specific safeguards or special rules of origin. It does, however, incorporate general safeguards as well as a joint committee to oversee the application of the agreement. While the agreement allows the negotiation of "lower value added norms" for specific manufactured products, Annex C on rules of origin enumerates only general rules. The agreement also establishes consultation procedures in the event that rules of origin are circumvented.

Early Harvest Agreement Between China and Pakistan

Both China and Pakistan are net T&C exporters on a large scale, but T&C trade between the two countries is small, with T&C flows barely reaching 3 percent of total bilateral imports.[74] Nevertheless, T&C barriers were a prominent topic of negotiation in the early harvest agreement, which now grants full duty-free access for many textile products. Additionally, both countries will grant margins of duty preferences (by comparison with MFN rates) on several T&C tariff lines.

China granted full duty-free access to almost 470 textile tariff lines (HS 50–60 and 63), roughly 72 percent of all duty-free tariff lines granted to Pakistan under the agreement. Pakistan received duty-free treatment for yarns, fabrics, and fibers, and—importantly—for key exports of final textile products such as bath, bed, and table linens, tents and tarpaulins, curtains, and mattresses. Jerseys, pullovers, and ties are the only clothing items that qualify for duty-free treatment. The longest phaseout period for covered tariffs is two years. Furthermore, Pakistani exports will qualify for preferential tariff margins (versus MFN tariff rates) on about 400 Chinese T&C tariff lines. About half of these preferential margins will apply just to clothing exports (HS 61 and 62). The average tariff preference margin on T&C items (HS 50–63) is 24 percent of the MFN tariff rate.[75]

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73. Targeted products also include bed linens and carpets.

74. For this section we consulted the text of the early harvest agreement between China and Pakistan, which was provided by the Embassy of Pakistan in Washington. The tariff schedules were obtained from the Chinese Ministry of Commerce, at http://english.mofcom.gov.cn.

75. In other words, if China's MFN tariff is 10 percent, Pakistan's exports would receive a preference of 2.4 percentage points, and pay a tariff of 7.6 percent. The highest preference margin on T&C products is 50 percent.

With the exception of a few wool-based products, Pakistan did not extend duty-free treatment to Chinese T&C exports, nor grant concessions on clothing products. Moreover, Pakistan will provide a lower preferential margin (with an average value of 15 percent) for a limited number of textile tariff lines (32 in total).[76] Pakistan did, however, grant duty-free treatment on imports of Chinese textile machinery. Additionally, Pakistan agreed in a separate MoU not to apply either Article 15 (third-country price comparability in determining subsidies and dumping) or Article 16 (the transitional product-specific safeguard mechanism) under China's Protocol of Accession to the WTO. Pakistan also renounced recourse to special transitional textile safeguards under paragraph 242 of the *Report of the Working Party on the Accession of China to the WTO.*

The early harvest agreement did not specify rules of origin for covered products. China and Pakistan agreed to negotiate a single set of rules of origin during their subsequent FTA talks, and not later than September 2005, three months before full implementation. During the first round of FTA negotiations between Pakistan and China, held August 16, 2005, the delegations agreed *ad referendum* on draft text on rules of origin (Commerce Division of the Embassy of Pakistan 2005).

Economic Cooperation Organization

Pakistan has negotiated trade preferences with Middle Eastern and Central Asian partners of the Economic Cooperation Organization (ECO).[77] The ECO Trade Agreement, signed in July 2003, establishes tariff preferences of 10 to 15 percent. The scope of coverage includes a positive list of all products actually traded among the parties as of the date of entry into force, as well as a negative list of exceptions that is limited to 1 percent of tariff lines at the six-digit level. Textile products (mainly raw cotton, cotton yarn, and fabrics) account for the vast majority of Pakistan's exports to the region, especially to Iran and Turkey. Pakistan expects that preference margins will convey a significant advantage vis-à-vis third countries—for example, in the Iranian market, as Iran is not a WTO member and applies high tariffs.[78] The maximum transition period contemplated by the agreement is eight years from implementation. The ECO agreement includes a pledge by parties to prepare a common set of rules that will guide the application of AD

76. The maximum tariff preference margin on textile and clothing products, excluding wool and fine animal hair, is 15 percent.

77. The ECO members are Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, and Uzbekistan.

78. However, Iran has yet to ratify the agreement.

measures.[79] However, according to the Pakistan Ministry of Foreign Affairs, "For a variety of reasons ECO has not been able to make worthwhile progress on the crucial issue of economic integration of the region."[80]

Recommendations

In a sense, results from the CGE model state the obvious: Market access for T&C will be Pakistan's primary interest, while US commercial interests will focus on agriculture and durable manufactures. Hence, an opportunity exists for cross-sectoral concessions. However, the CGE model conveys a more subtle point: Without substantial US opening on T&C, a US-Pakistan FTA would be a lopsided bargain.

The prospect of a US-Pakistan FTA could create formidable opposition in Pakistan, among anti-Americans, industrialists in threatened sectors, antiglobalization NGOs, and farmers. Moreover, a US-Pakistan FTA might be perceived as a battleground for Pakistan's foreign policy. Reform leaders in Pakistan will need to advertise market access benefits and related employment creation in order to enlist support from a majority of domestic stakeholders. With these considerations in mind, we offer several recommendations for the negotiations affecting the T&C sector.

- Bilateral clothing trade should be liberalized more quickly than textile trade because relative trade volumes are much smaller in the US market. The United States should immediately liberalize at least 95 percent of Pakistan's current clothing exports.[81] The remaining tariffs on clothing should be phased out over six years.
- Likewise, Pakistan should provide immediate duty-free access for selected US clothing exports and streamline administrative rules on the importation of used clothing. Pakistan's tariffs on remaining clothing imports should be phased out in equal annual stages over six years.
- As a general rule, Pakistan and the United States should eliminate tariffs on yarns immediately, while tariffs on fabrics and finished textiles (e.g., bed, bathroom, and kitchen linens, curtains, blankets)

79. Turkey is also a frequent user of antidumping measures on T&C items, and it has a record of targeting products that compete with Pakistani textile exports. However, Pakistan has not been affected by measures imposed by Turkey.

80. In fact, Turkey imposed quantitative restrictions on Pakistani textile and clothing exports (Pakistan Ministry of Foreign Affairs 2004).

81. Table 3.11 shows that the United States could achieve that target by eliminating tariffs on the top 10 clothing items at the 8-digit level.

should be phased out within six years. A few exceptions for truly sensitive items should be allowed (e.g., synthetic filaments and fibers).

- Pakistan should accept the US yarn-forward rules of origin. However, the United States should allow for a large de minimis exception (e.g., 10 percent). Other exceptions should be evaluated through consultations in the joint committee under the agreement.
- The agreement should contain strong provisions of customs cooperation, including language and penalties on illegal transshipments and intellectual property violations. Recourse to special textile safeguards should be available, but only during the transition period before all tariffs are eliminated.