The Issue and Its Rural Context

Globalization and Restructuring in Rural America

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Conference on
Globalization and Restructuring in Rural America
June 6, 2005

Rural America and the World Market

- Competition in primary products
- Competition in manufacturing & services new reality
- Technology and trade agreements drive globalization

- Multifiber Arrangement (MFA) signed in 1974
  - 10 percent U.S. clothing is imported
  - Services out-sourcing is science fiction
- MFA ended December 2004
  - 80 percent U.S. clothing is imported
  - Call centers, back-office functions, and R&D globally mobile

The Return of the Open Global Economy

- Restoration of the pre-1914 trading system
- Mid-20th Century saw beginning of this restoration
  - Bretton Woods Accord
  - General Agreement on Tariffs and Trade (GATT)
  - “Containment” and the Cold War

- The 20th Century’s end: “The Washington Consensus”
  - Exchange rates market driven
  - global average tariffs were 40 percent, now 4 percent
  - Property rights globally acknowledged

Textiles Liberalizes Slowly

- 1974-2004: Multifiber Arrangement quotas were inevitable for almost any developing country
  - Comparable to a 20-30 percent tariff
  - U.S. and EU apply to prevent “market disruption”

- U.S. & EU manufacturers began “outward processing”
- Caribbean Basin Initiative (1983), NAFTA (1994): regional trade agreements facilitates process
- MFA’s end sealed with Uruguay Round Agreement
  - Phased quota removal complete by 2005

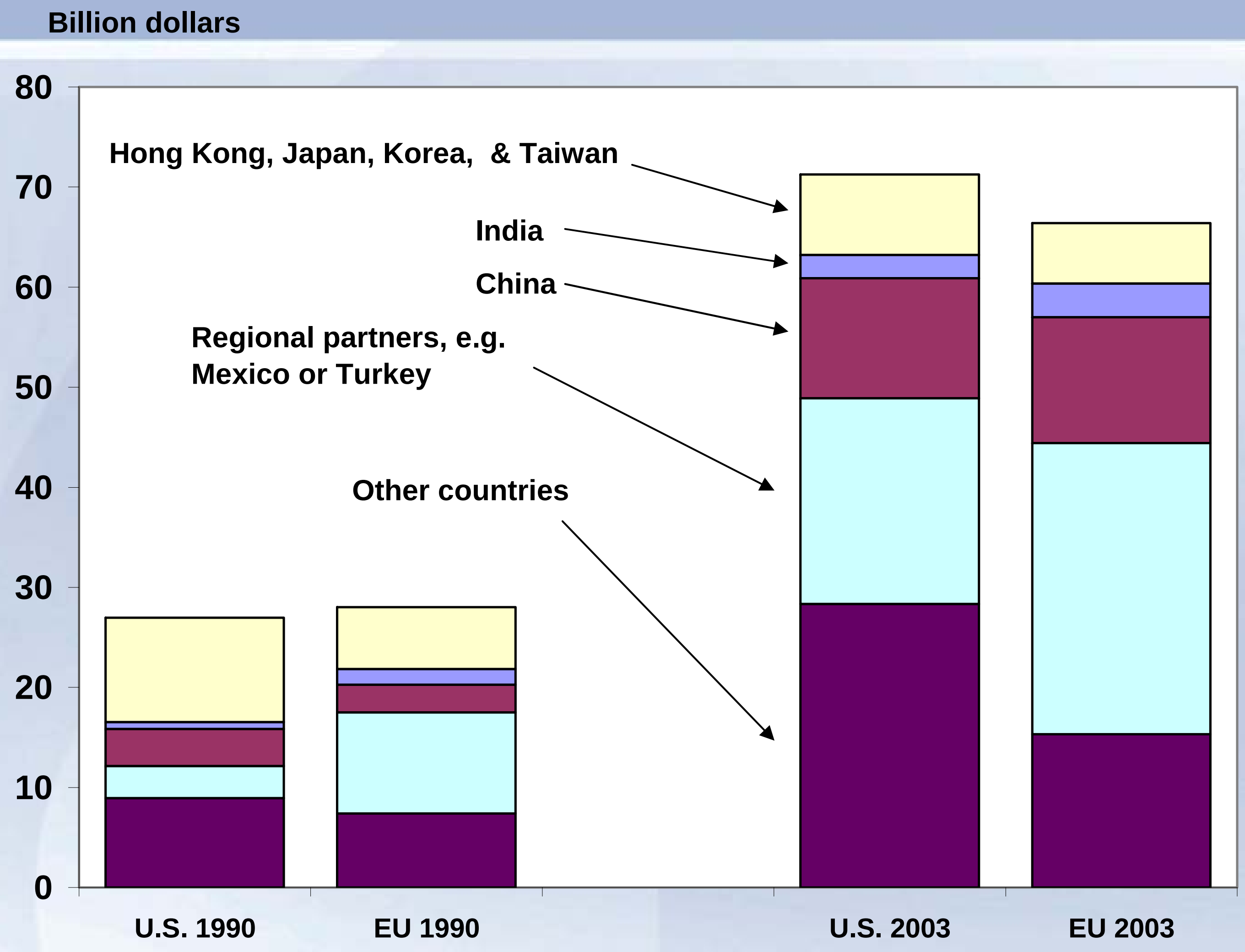
Incremental Liberalization: 1995-2004

- U.S. and EU reduce barriers to regional trading partners (e.g. Mexico, Turkey, Romania) and low-income countries (e.g. Kenya, Lesotho)
- Size of quotas granted elsewhere allowed to grow
- 2002: first significant quota elimination

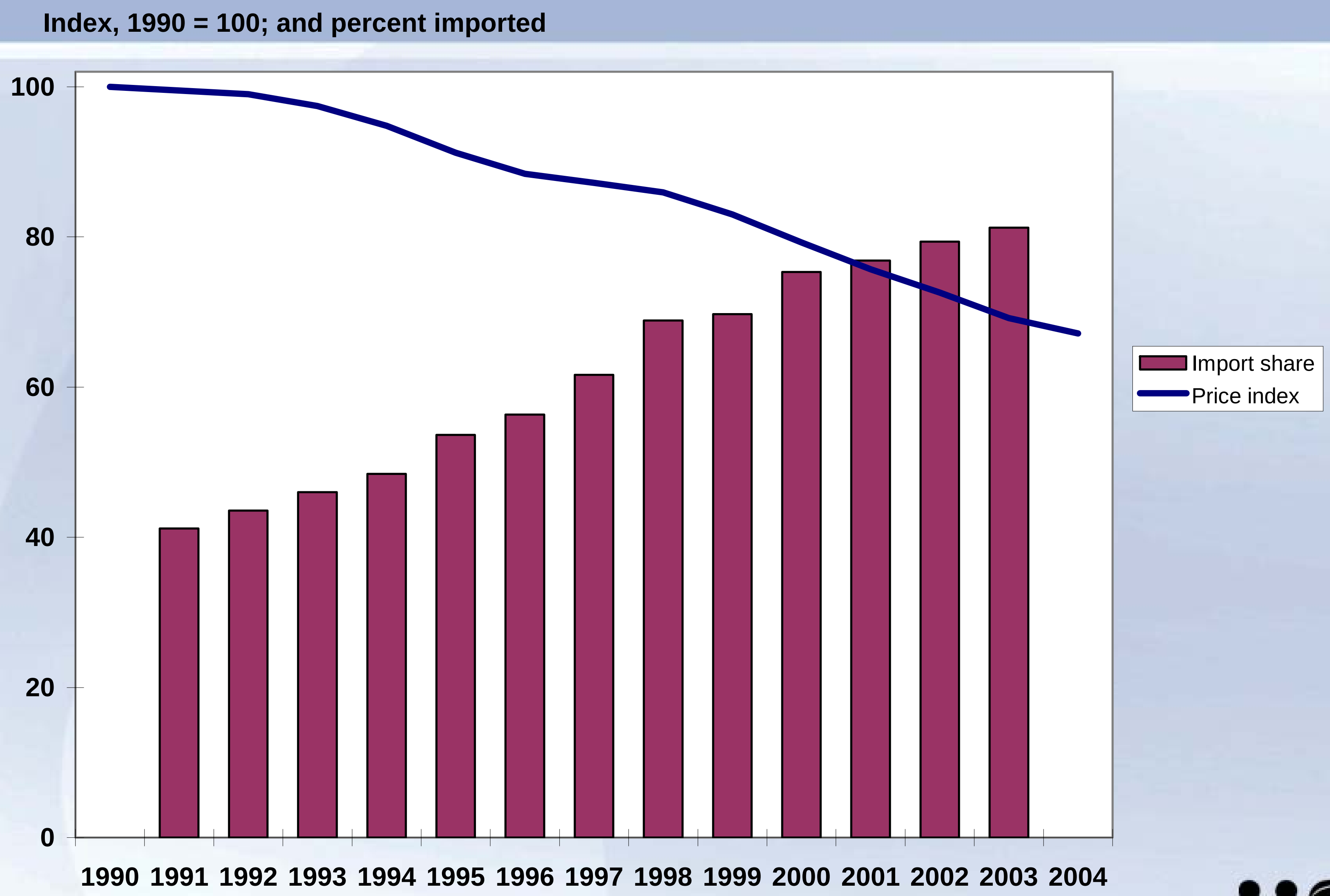
  China's first year of WTO membership

- But 80 percent of MFA quotas left until 2005
- Textile "safeguards" for China through 2008
  - In 2003 U.S. safeguards limit some products to 7.5 percent growth

Clothing Imports, U.S. and EU: 1990 and 2003



Clothing Prices and Imports, U.S.



Developments since January 2005

- China’s exports to U. S. grow as much as 1,000 percent
- India’s apparel production 29 percent higher
- U.S. textile and apparel job losses accelerate
- Apparel production falls in Italy, Spain, France, and Taiwan, (Italy and Taiwan, 20 percent)
- Japan’s clothing imports fall slightly

- Nepal’s exports down 48 percent; Morocco’s 33 percent
- Factory closures reported in Czech Republic, Malawi, Kenya, Lesotho, Swaziland, El Salvador, and Cambodia

Policy Developments

- Turkey and Argentina apply safeguards to China
- U.S. applies additional safeguards to China
- EU moving towards safeguards

- China announces industry price monitoring boards
- China announces export taxes; increases export taxes; removes export taxes when safeguards announced

- WTO Council on Trade in Goods meeting cancelled over textile quota study proposal

Reality: Economics & Technology

- China’s wages are one-tenth U.S. wages; India’s and Bangladesh’s are one-half China’s
- Transportation costs far less a barrier than before
- Communications costs falling even more
- Tremendous expansion of international telecommunications bandwidth has opened a new frontier
- Services no longer necessarily sourced domestically

Conclusion

- Restructuring is far from an exclusively U.S. concern; Removal of barriers like MFA will improve efficiency and raise real incomes around the world

- This morning's speakers to address:

  the benefits and costs of globalization,

  the rural context of globalization,

  import penetration,

  textile worker displacement,

  the new economy and rural America,

  the vulnerability of jobs to offshoring