

Shifts in the Network of Fiber and Textile Trade in Response to Policy Changes

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Outline

- Multifiber-Arrangement (MFA) quota removal
- Changes in bilateral trade patterns
 - Trends in exports and imports
 - Markets shares
 - Destination shares
 - Compositional shares
- ATC reforms in the context of other economic and policy forces
- Summary findings

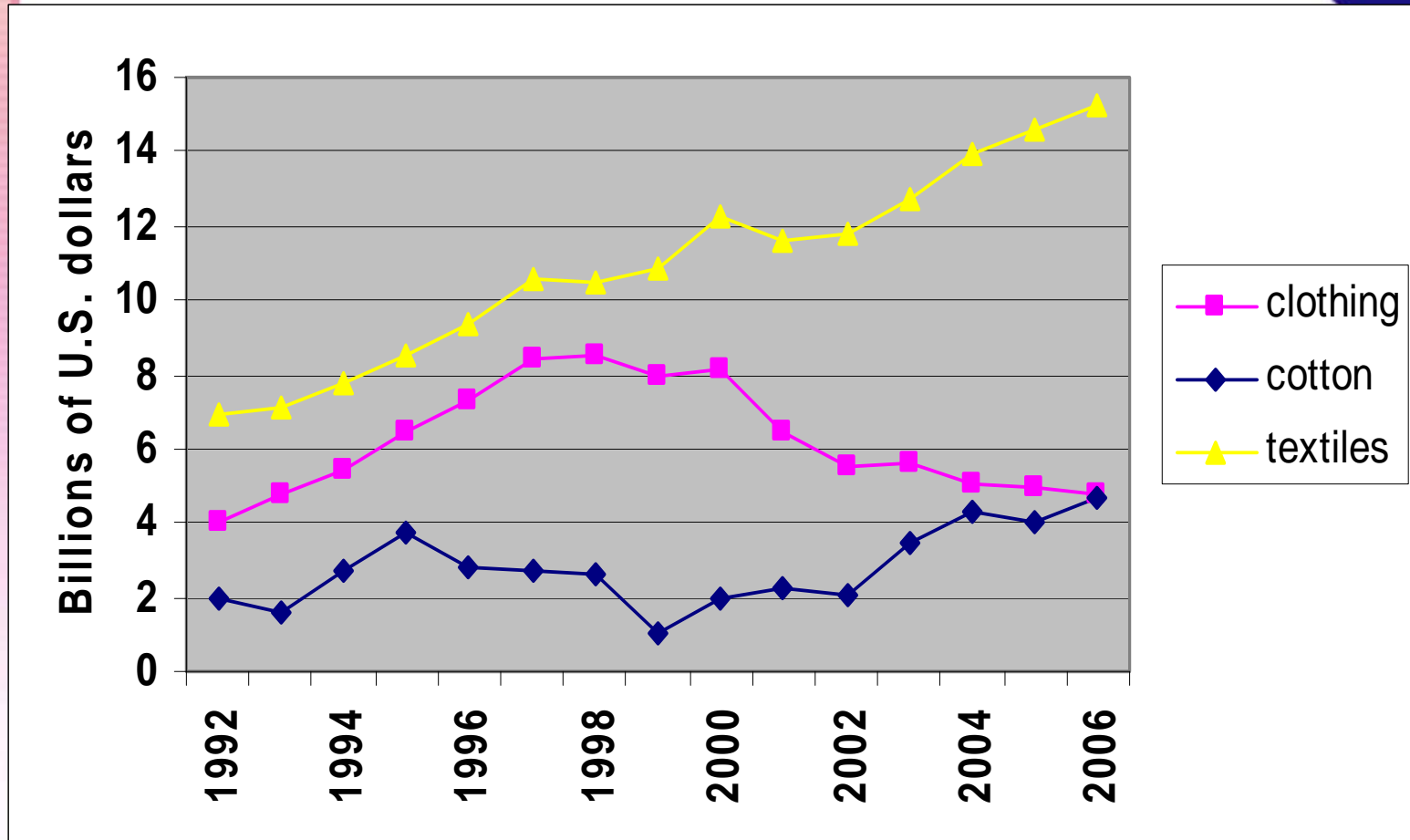


The Bilateral Fiber and Textile Trade (BFTT) database

- Derived from UN Comtrade
- Analytical database
 - 42 country/regional classifications
 - 2 worlds
 - 43 commodity/aggregates
 - Clothing
 - Textiles
 - Fibers
 - Differentiated by fiber type
 - Cotton
 - Silk, wool, and other natural fibers
 - Synthetic
 - Blended



U.S. exports of both cotton and textiles are expanding, but not clothing



Evolution of the MFA quota regime

- Small-scale protection by U.S. and Britain in the 1950s
- Departure from GATT principle of nondiscrimination
 - Quotas were applied on a country-specific basis
 - Contradicts the spirit behind the GATT, namely that all members are to be treated equally when any trade measures are applied

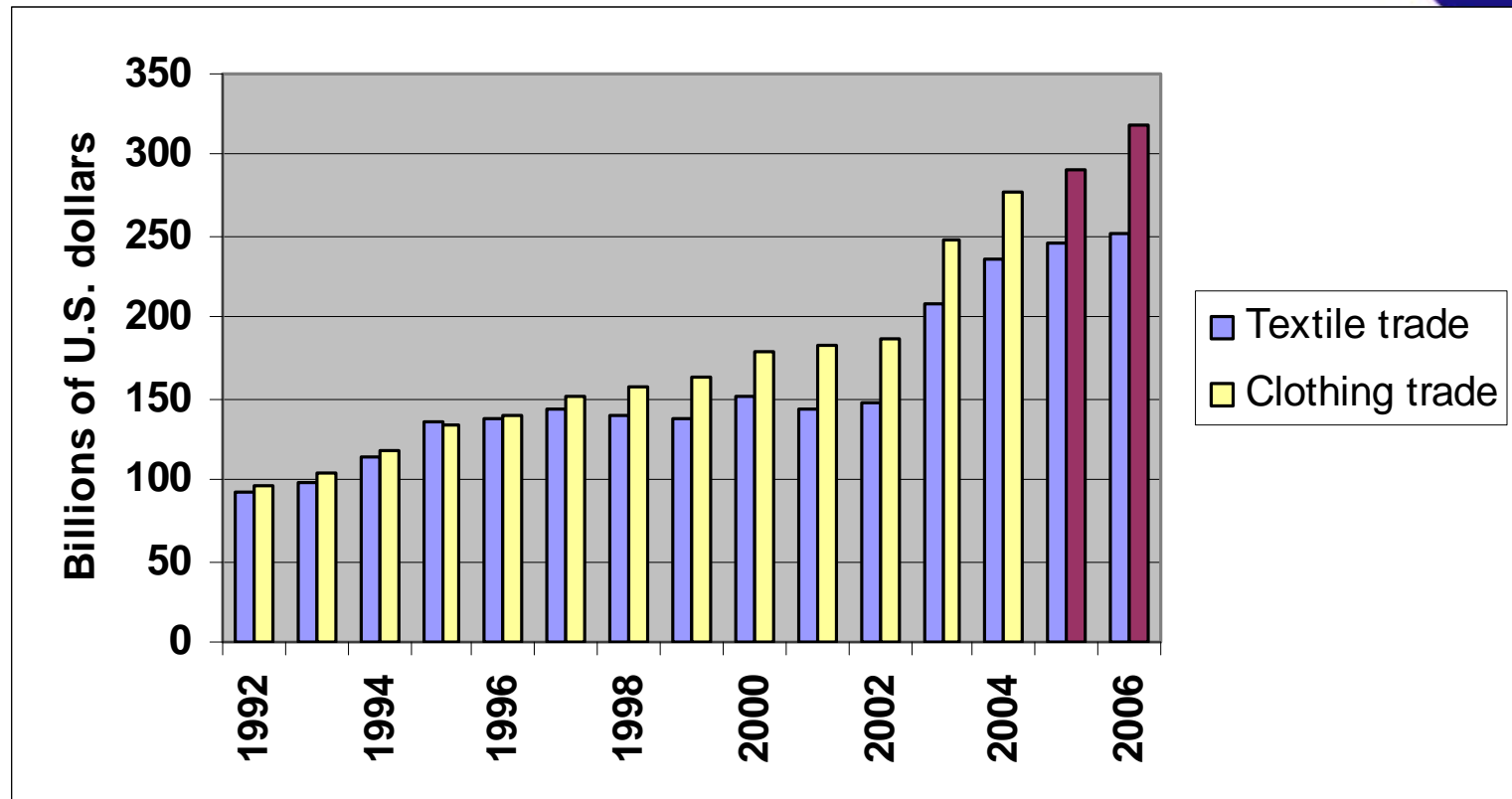


The economic consequences of the MFA quota regime

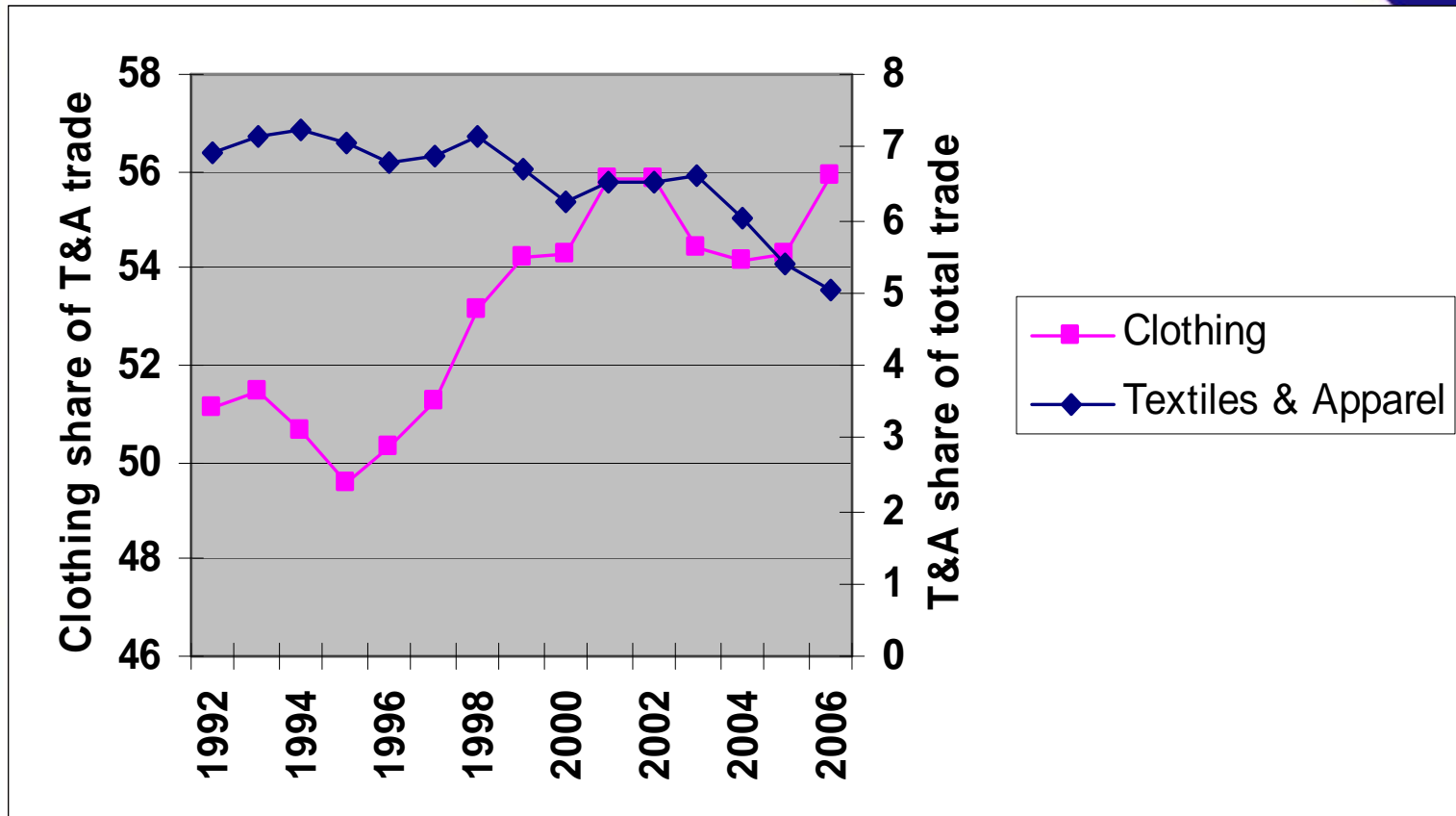
1. Altered the location of production
2. Fragmented the supply chain
3. Increased costs, i.e., quota rents
4. Raised product prices, taxing consumers
5. Created market inefficiencies
6. Discriminated against countries having comparative advantages



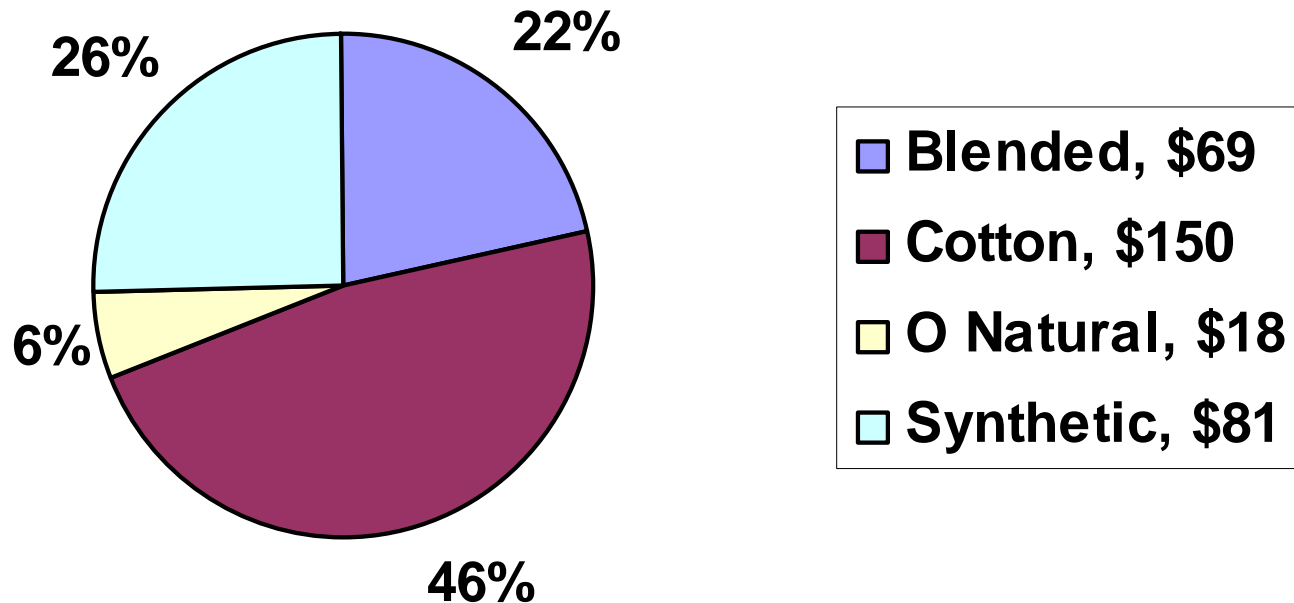
World trade in textiles and clothing continued to increase rapidly after MFA quota removal



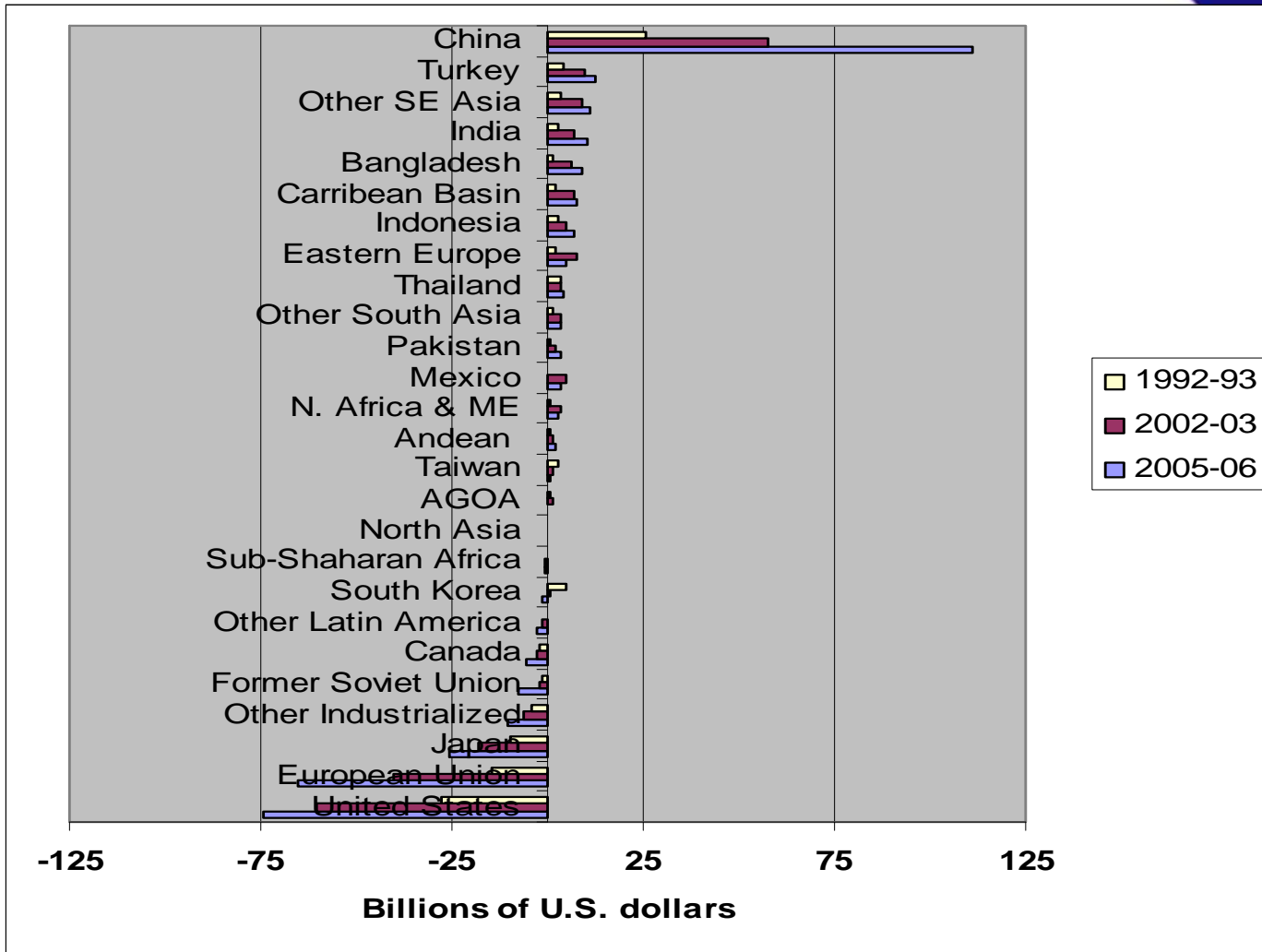
Clothing's share of textile and apparel trade increased markedly post MFA



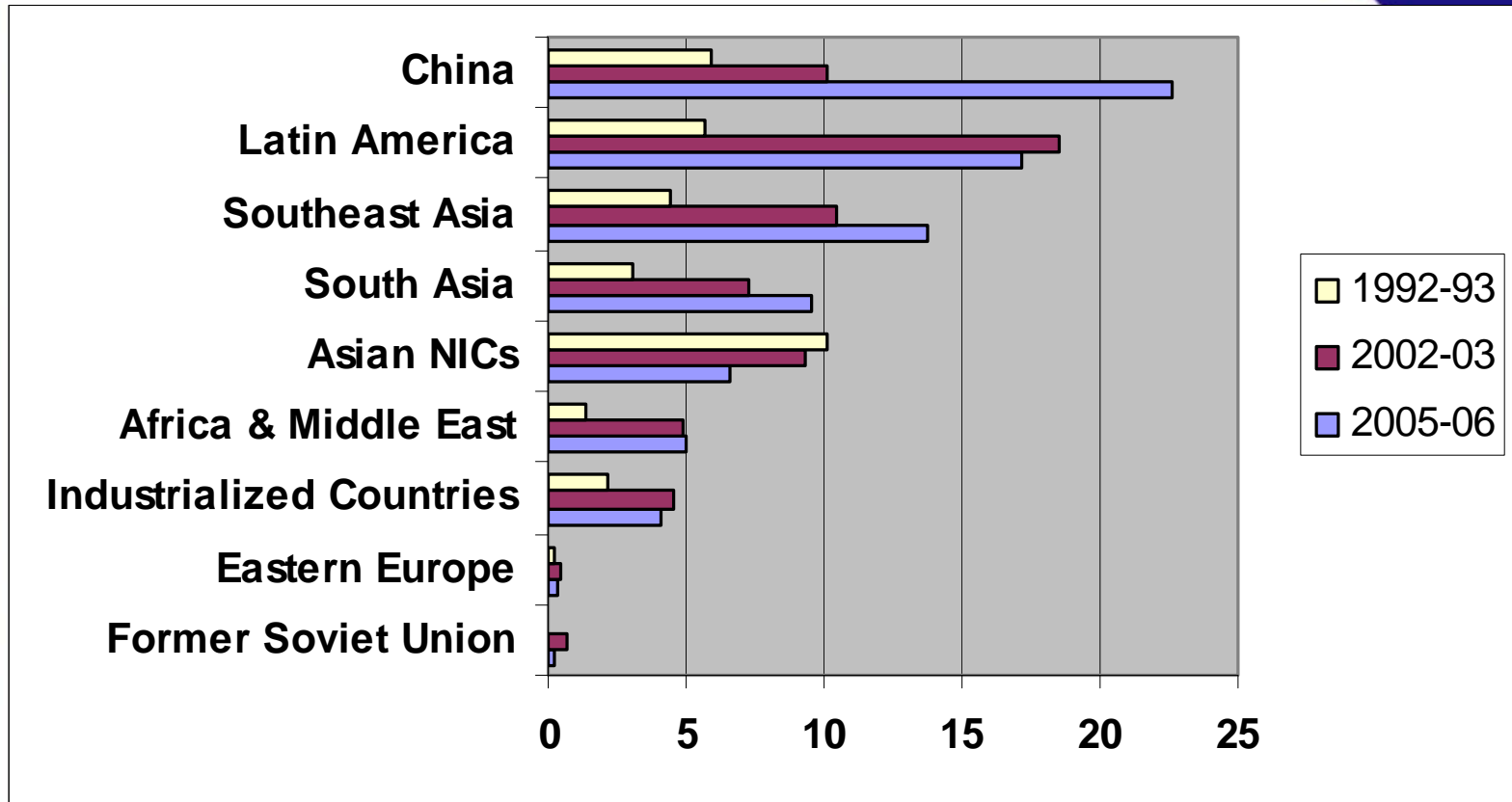
Fiber composition of traded clothing in 2006



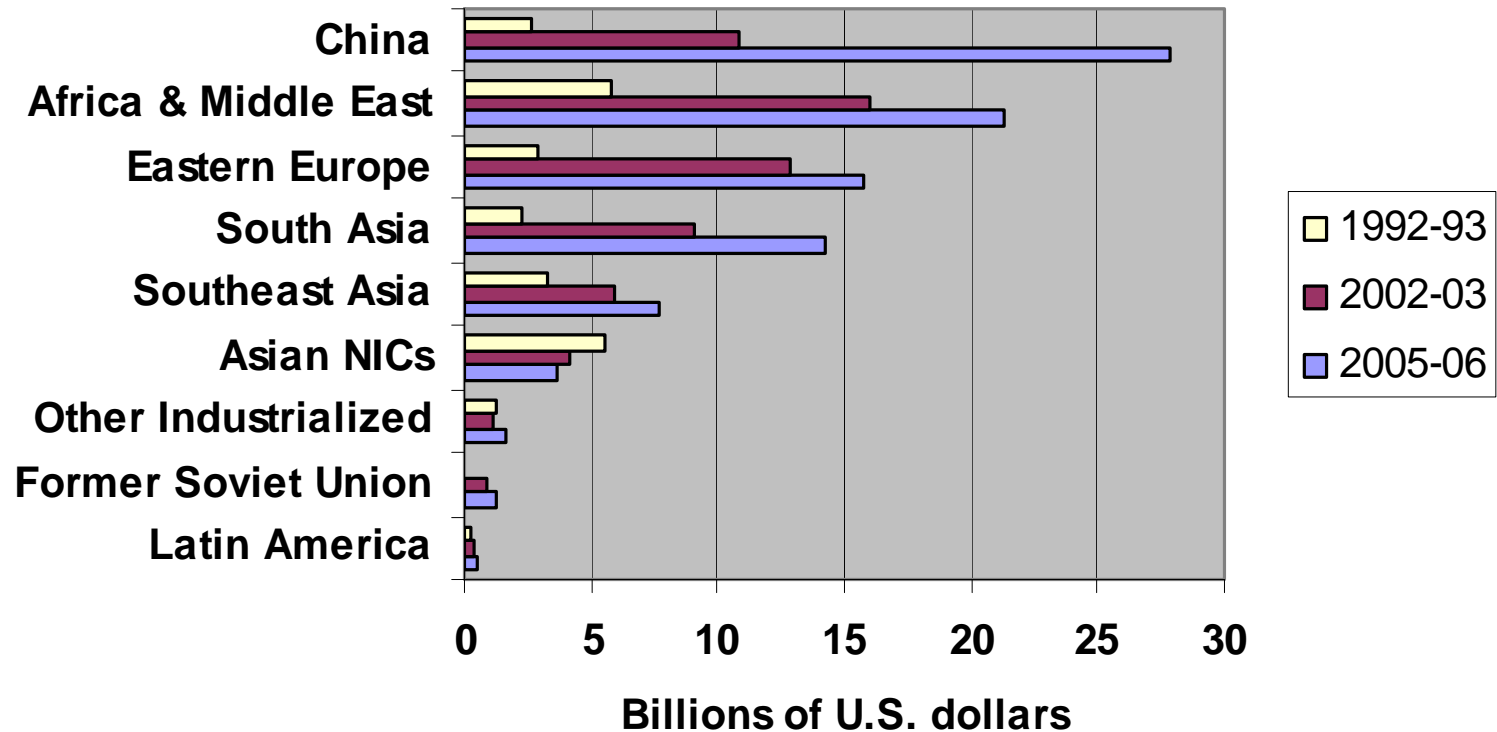
Net clothing exports



Source of U.S. clothing imports



Suppliers of clothing to the EU market

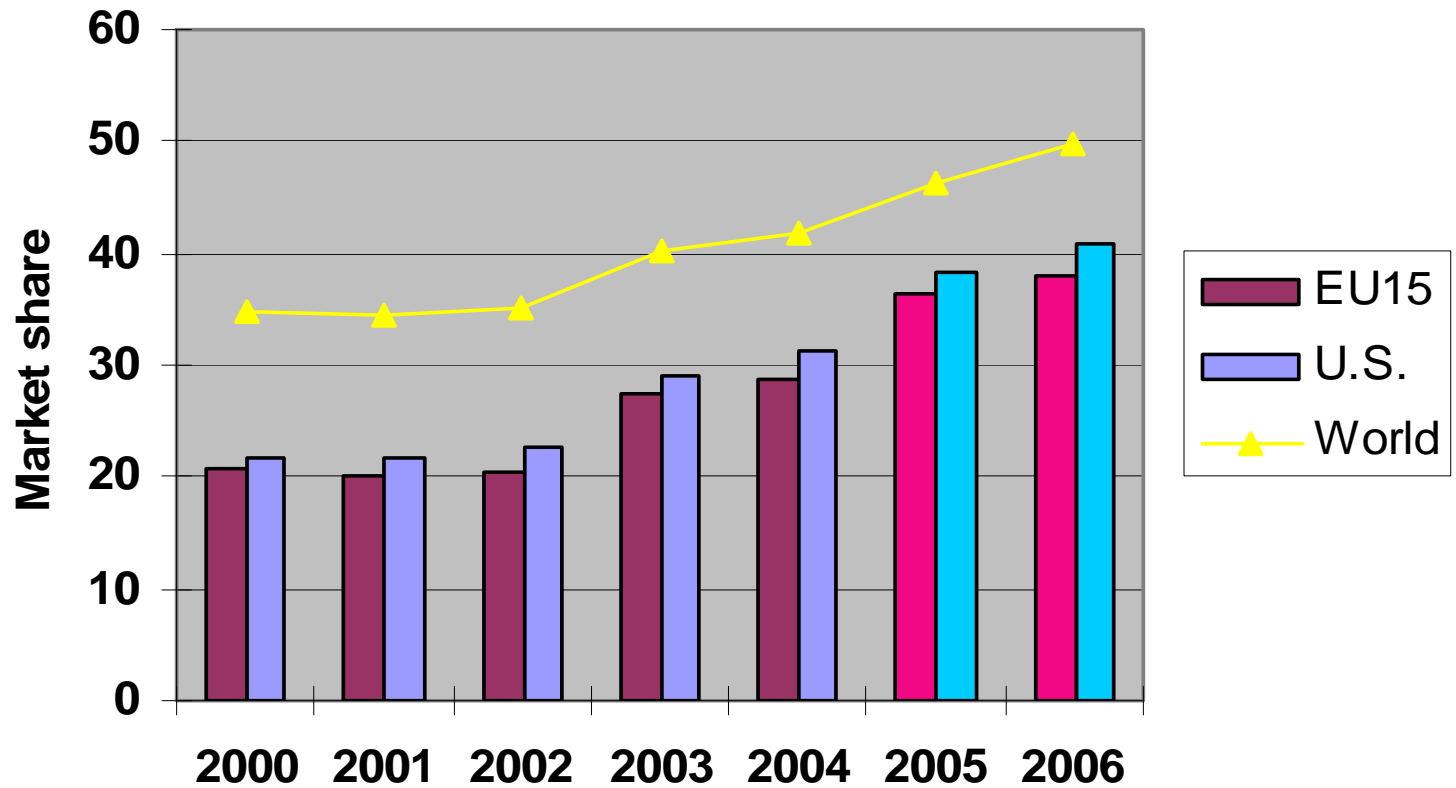


Supplier export-growth rates to the U.S. and EU15 markets

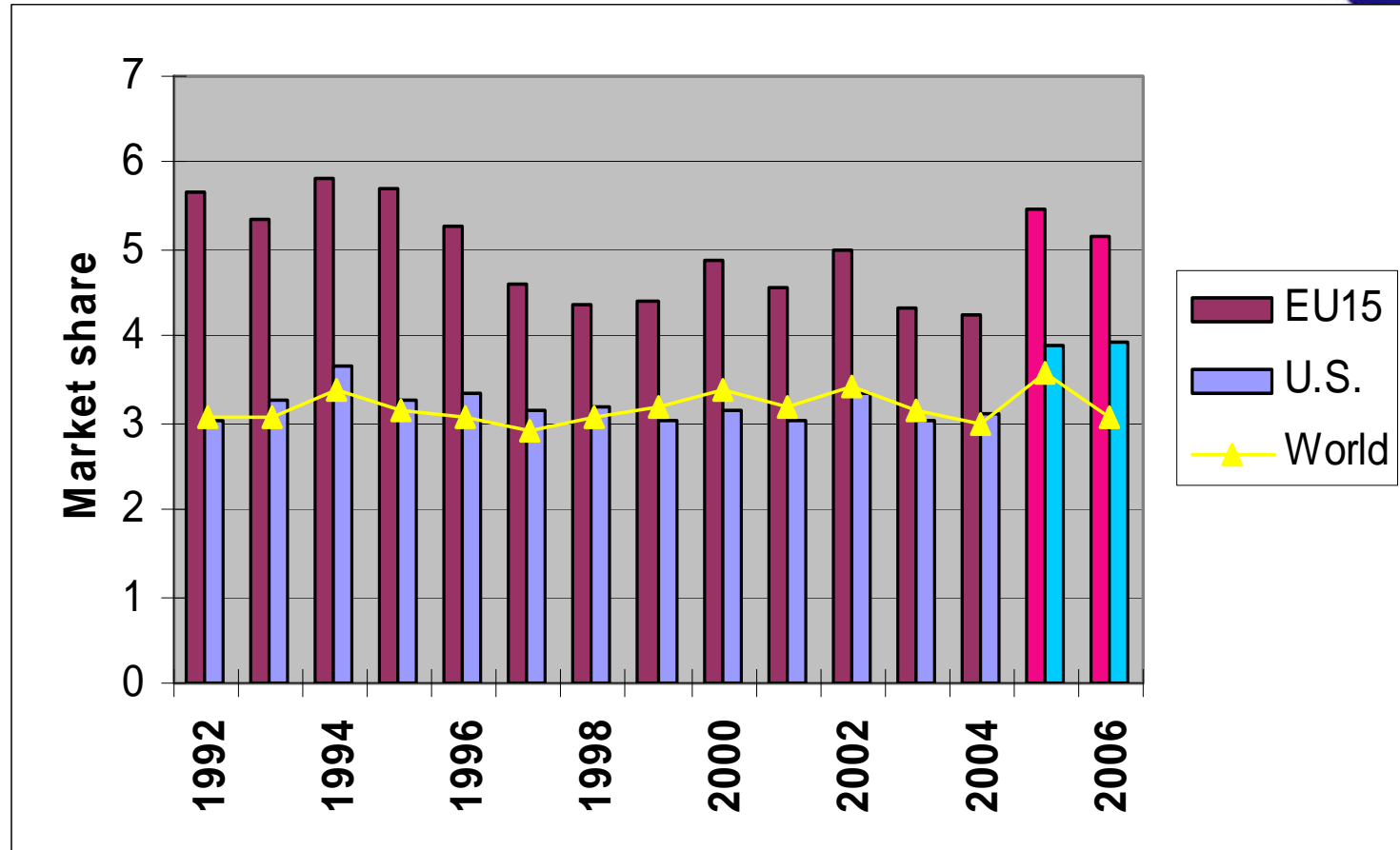
| Exporter \ Importer | U.S. | EU15 |
|---------------------------------|-------------|-------------|
| China | 123 | 156 |
| Southeast Asia | 32 | 29 |
| South Asia | 32 | 57 |
| Africa & Middle East | 1 | 33 |
| Latin America | -7 | 42 |
| Eastern Europe | -24 | 22 |
| Asian NICs | -28 | -13 |



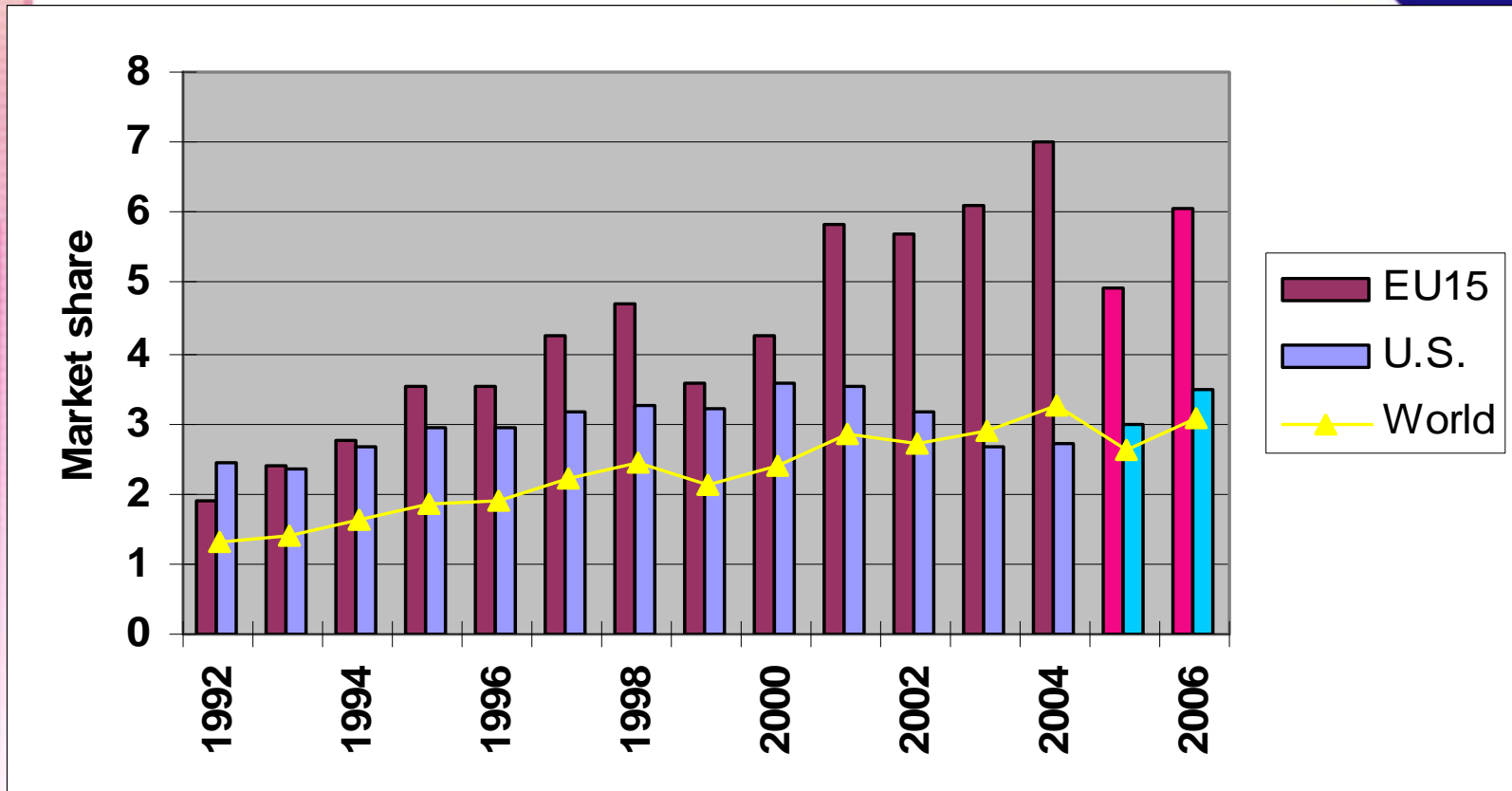
Rising competitiveness of the Chinese clothing sector



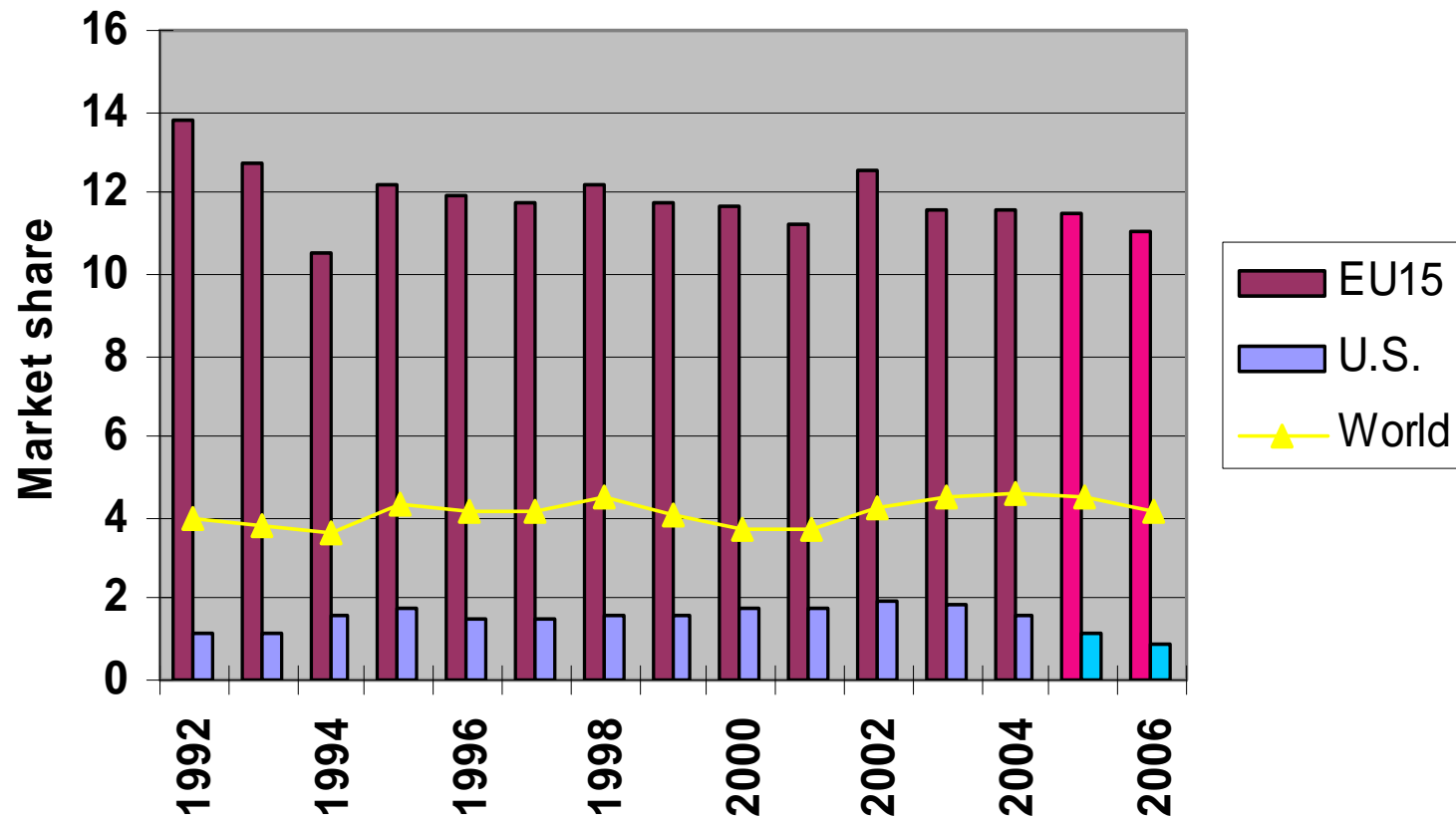
India captured a larger share of the EU and U.S. market, post-MFA



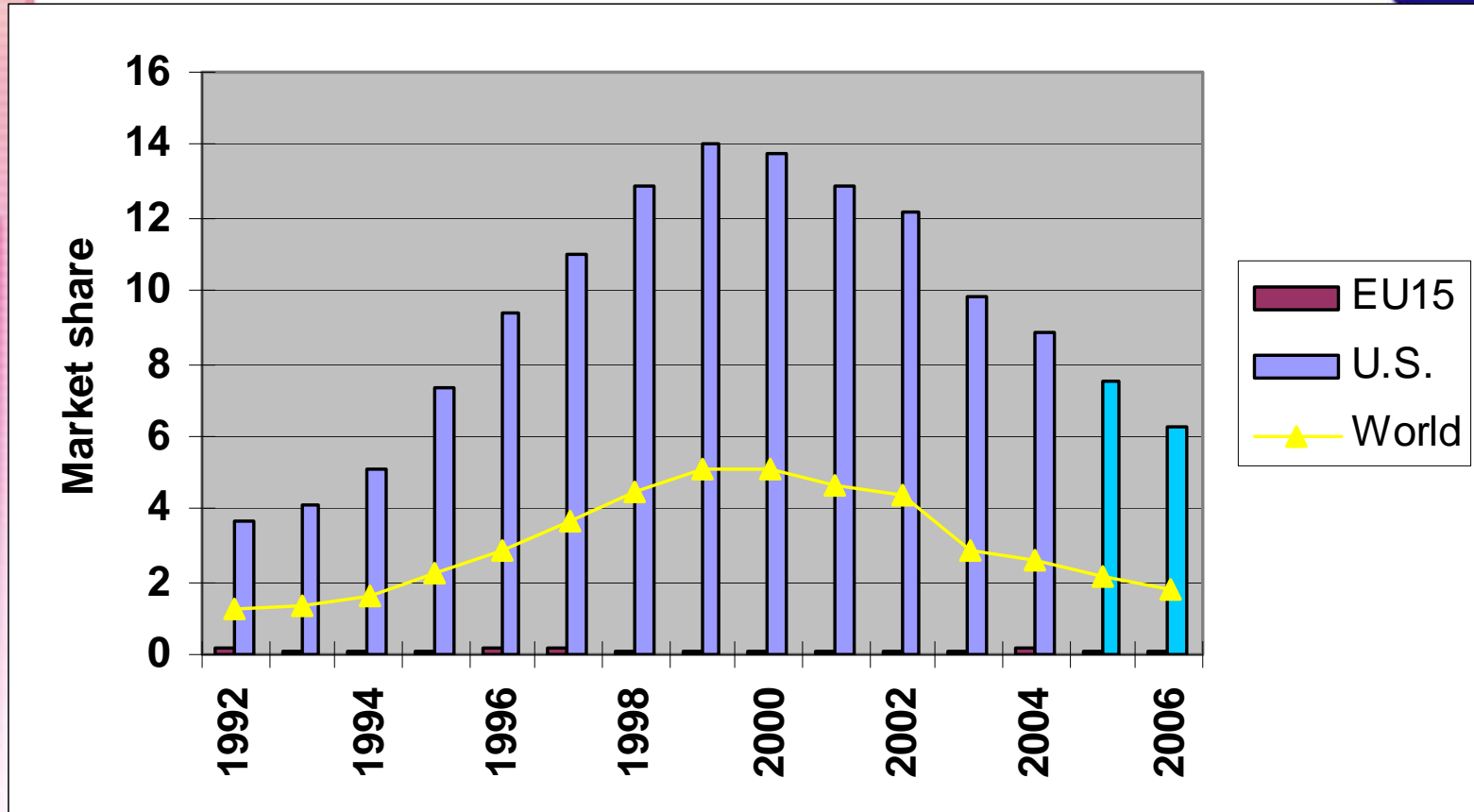
The competitiveness of Bangladesh's clothing sector is back on the rise after the initial shock of quota removal



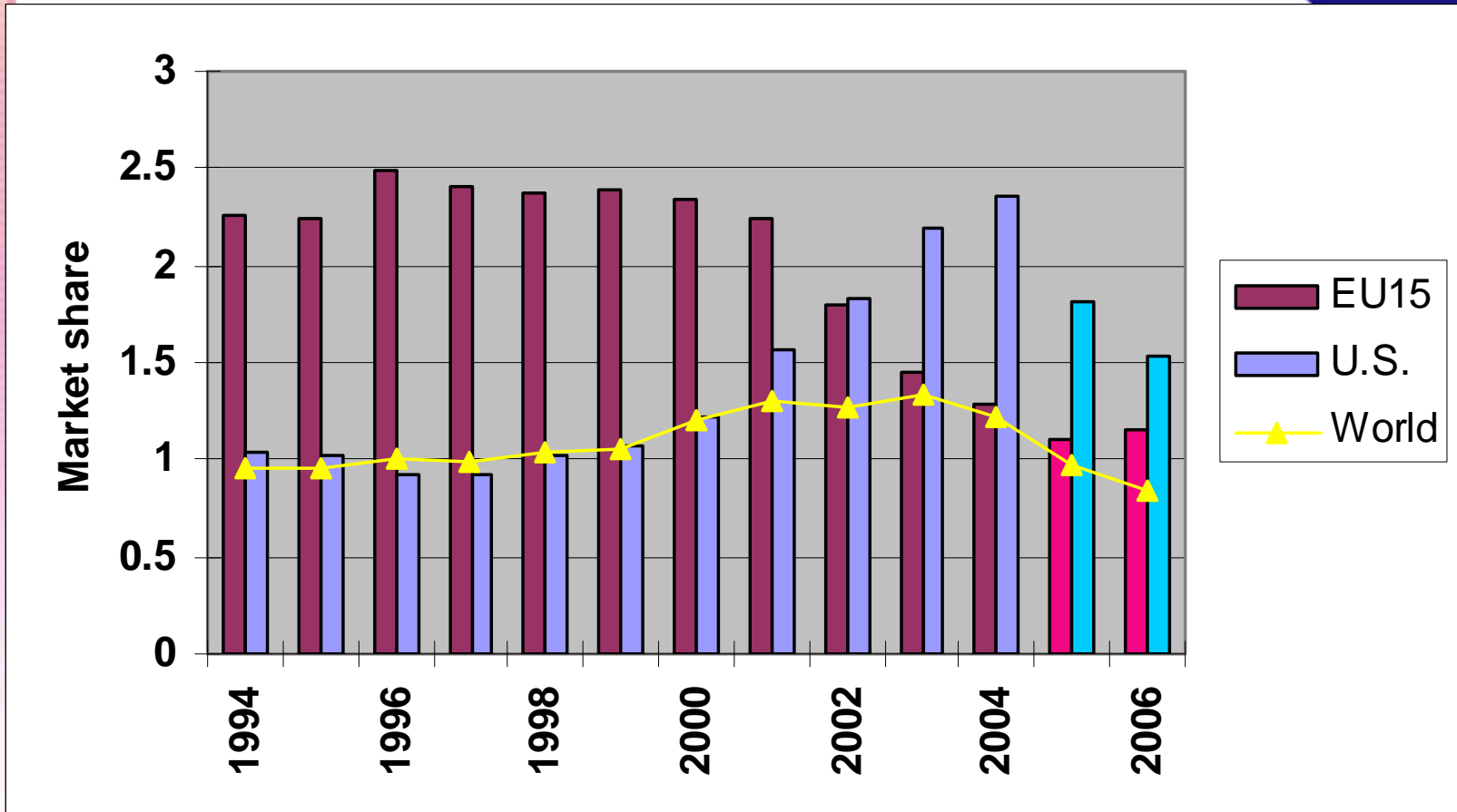
Turkey's market share declined post ATC reform



The payoffs to NAFTA membership has waned for Mexican exporters of clothing



AGOA enhanced member competitiveness in the U.S., but ATC did not



Trade policy instruments may affect future markets

- Product safeguards
- Regional trade agreements
- Preferential trade arrangements
- Antidumping
- Countervailing duties
- Other non-tariff barriers
- Tariffs



China-specific safeguards

- **Provisional safeguards through 2008**
 - One-year safeguards: “.....due to market disruption, threatening to impede the orderly development of trade in T&A”
 - “....can be renewed after increasing the restricted level of trade by 7.5 percent”
- **Transitional safeguards through 2013**
 - can be applied only after an investigation that China’s exports are “the cause” of market disruptions.
 - Protection can be maintained for 3 years with the possibility of a 2-year extension.



Reciprocal bilateral trade agreements

- Preferential Trade Agreements
 - Generalized System of Preferences
 - EU's Cotonou Agreement (Lome Convention)
 - U.S.'s AGOA
- Production Sharing Arrangements
 - U.S. and NAFTA
 - U.S. and CBI
 - EU arrangements with Sri Lanka, Pakistan, Ukraine, and Bosnia-Herzegovina



Trade-remedy loopholes

1. Antidumping

- EU
- India, South Africa, Argentina, Turkey

2. Countervailing duties

3. Non-tariff barriers

- Lengthy customs procedures and clearance delays
- Burdensome rules of certification
- Bribery and corruption



Headline: “The quota fight is over. The next fight is over tariffs”

- Tariffs levied in HIC and LIC countries
 - Exceedingly high tariffs on clothing imposed by developing countries
 - 12% = average EU tariff (Applebaum)
 - 33% = average U.S. tariff (Applebaum)
- Skewed distribution of U.S. tariff levies
 - Higher tariffs on cheap than luxury products
 - Imports of shoes and clothing (Gressner)
 - 6.7% of U.S. imports
 - 50% of U.S. tariff revenue of \$18.6 billion



Border-protection elasticities

| | |
|---------------------------|---------------------|
| Merchandise trade | 0.0 |
| Agricultural trade | 0.0 |
| Clothing trade | -1.2 to -1.5 |
| wheat | 0.0 |
| beer trade | -0.0 to -0.6 |
| rice trade | -0.4 to -0.5 |
| red-meat trade | -1.0 to -1.3 |

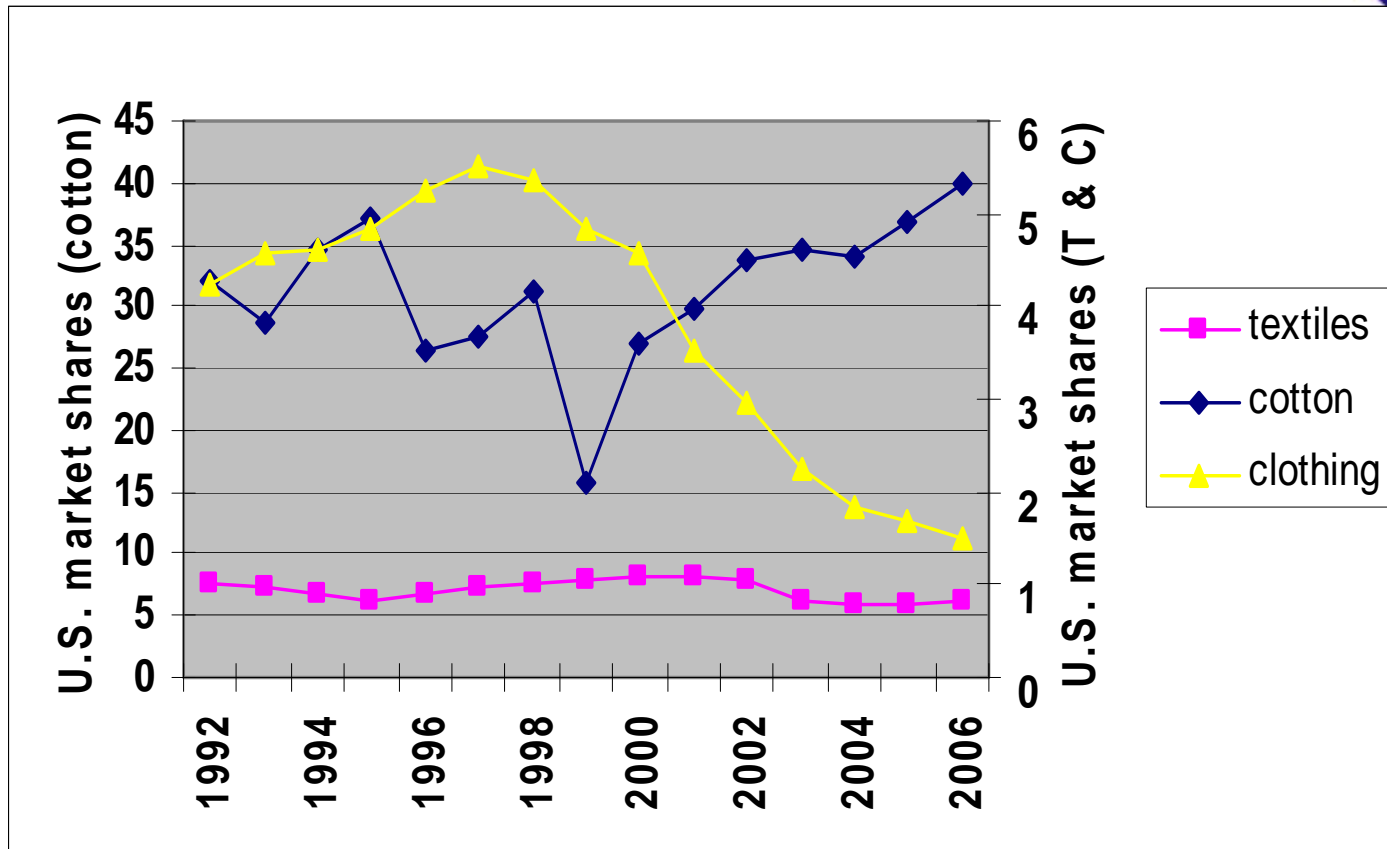


Support for the factor-proportions explanation of trade

| Market | 1986 | 1996 | 2000 | 2004 |
|-------------|-------|-------|-------|-------|
| Agriculture | 0.20 | 0.13 | 0.17 | 0.16 |
| Clothing | -0.07 | -0.07 | -0.13 | -0.07 |
| wheat | 0.65 | 0.23 | 0.22 | 0.44 |
| rice | 0.30 | 0.30 | 0.14 | 0.16 |
| red meat | 0.36 | 0.38 | 0.44 | 0.44 |
| beer | 0.18 | 0.14 | 0.09 | 0.01 |



U.S. is losing competitiveness in some markets but gaining in other markets



Findings and conclusions

- The structure of trade in the labor-intensive clothing industry has changed since full implementation of ATC
- Increased market openness induced efficiencies in the supply chain
 - vertical integration
 - less fragmentation
- China has substantially increased its market share
- Policies remain that continue to distort fiber, textile, and clothing markets

