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US Emergency Safeguards on Chinese Apparel and Textiles

Quota Reinstatement and VERs

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This paper examines the current international trade issues facing the textile and apparel industries. China's ascension to the WTO and completion of the transitional Agreement on Textiles and Clothing (ATC) has caused global concerns in international trade. Safeguards were enacted and a Voluntary Export Restraint was implemented to protect apparel and textile industry in the US, EU and other countries on a perceived threat to industry.

Executive Summary

This paper examines the current international trade issues facing the textile and apparel industries. China's ascension to the WTO and completion of the transitional Agreement on Textiles and Clothing (ATC) has caused global concerns in international trade. Safeguards were enacted and a Voluntary Export Restraint was implemented to protect apparel and textile industry in the US, EU and other countries on a perceived threat to industry.

In order to understand the current events, a basic introduction to General Agreement on Tariffs and Trade (GATT), GATT's Multifibre Agreement (MFA), China's entry into the WTO are provided. Specific trade issues examined include MFA's quotas, emergency safeguards employing Voluntary export restraint (VERs—quotas and tariffs)—the use of export tariffs by exporters, country factor intensities (labour, wage rates), and US protectionist arguments including dying industry and currency (China's fixed rate regime as an unfair trade practice).

This paper concludes by examining a Chinese exporter and supplier to various global MNC retailers located in the US (Nike and the Gap), and identifying the 'winners' and 'losers' of trade before and after the emergency reinstement of quotas and VERs.

Setting the Context

GATT's Multi-Fibre Arrangement (MFA) and the WTO's Agreement on Textiles and Clothing (ATC).

The United States imported more than $77 billion worth of textile and clothing products in 2003. Of that total, more than $61 billion of those imports were in categories where quotas are scheduled to expire in 2005.[1] U.S. imports of apparel increased in 2004, reflecting a continued trend by retailers and apparel companies increasingly to source from lower-cost offshore providers and the growth in the U.S. economy, which boosted consumer confidence and disposable income. China is the largest foreign supplier of textiles, apparel, and footwear, accounting for 20 percent of U.S. textile and apparel imports and 69 percent of U.S. footwear imports in 2004 by value. U.S. imports of textiles and apparel from China rose significantly in 2004, particularly in articles for which it became eligible for quota elimination in 2002.[2]

Historically, from 1948 to 1994, the General Agreement on Tariffs and Trade (GATT) provided the rules to govern world trade and saw some of the highest growth rates in international commerce. Up until the end of the Uruguay Round of GATT of September 1986 (in Punta del Este, Uruguay), textiles quotas were negotiated bilaterally and governed by the Multifibre Arrangement (MFA). The MFA contained rules for the imposition of selective quantitative restraints when surges in imports caused, or threatened to cause market disruption. Quotas incorporated annual growth rates, on average of about 6%, although actual rates varied considerably. The MFA was a major departure from the basic GATT rules, and particularly from the principle of non-discrimination. Specifically, it placed restrictions on quantities of

[1] http://www.amtacdc.org/media/041012.pdf
[2] US International Trade Commissioin, http://www.usitc.gov/tradeshifts/tradeshifts_textiles.htm

imports and targeting restrictions at specific countries. Furthermore, it nullified the Most Favored Nation (MFN) status of low-wage nations by denying them market entry.[3]

The MFA was the offspring of a decade-and-a-half of earlier, short-term agreements on the export of textiles and apparel among developed and developing countries. The MFA codified these agreements into a more comprehensive system covering nearly “1000 different allotments [and] encompassing scores of categories” from 47 countries. Under its guidelines “individual quotas were negotiated which set precise limits on the quantity of textiles and apparel which could be exported from one country to another. For every single product a quota was specified”.[4]

As part of the Uruguay Round of negotiations in 1994, the World Trade Organization[5] (WTO) took responsibility for administering the MFA. Negotiators agreed that the MFA would be eliminated and full liberalization would be implemented on January 1, 2005. This was accomplished when the WTO replaced GATT; and the MFA with the WTO’s Agreement on Textiles and Clothing (ATC) with a ten year liberalization program. Stepped quota phase-outs were scheduled for 1995, 1998, 2002, and 2005, when all quotas were to be eliminated. In addition, the United States agreed to reduce its tariff barriers, from a “trade weighted average of 17.2 percent ad valorem in 1994 to a trade weighted average of 15.2 percent ad valorem in 2004,” phased in during the ten years.[6] (**Appendix A**)

A brief discussion of the US classification of apparel and textiles industry will provide background context on the history, nature, scale and direction of apparel trade since the 1970s.

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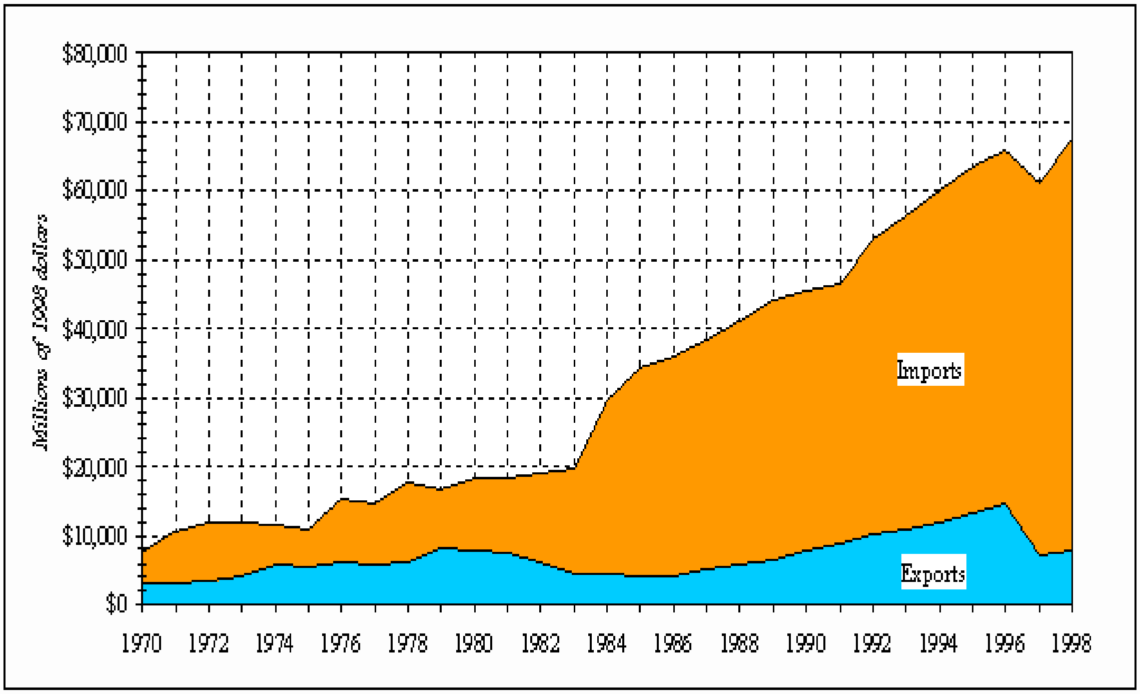
[3] http://www.wto.org/english/thewto_e/minist_e/min96_e/textiles.htm
[4] Collins, Jane Lou. 2003. Threads: Gender, Labor, and Power in the Global Apparel Industry. Chicago: University of Chicago Press.
[5] Headquartered in Geneva, Switzerland and created through the Uruguay Round negotiations, the WTO represents 148 country members, employs 630 secretariat staff and manages a budget of 169 million Swiss francs for 2005. The General Agreement still exists as the WTO’s umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations. Trade lawyers distinguish between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994.
[6] Carolyn L. Evans & James Harrigan, 2004. "Tight Clothing: How the MFA Affects Asian Apparel Exports"

U.S. Textile and Apparel Trade, 1970-1998 (Millions of 1998 dollars)



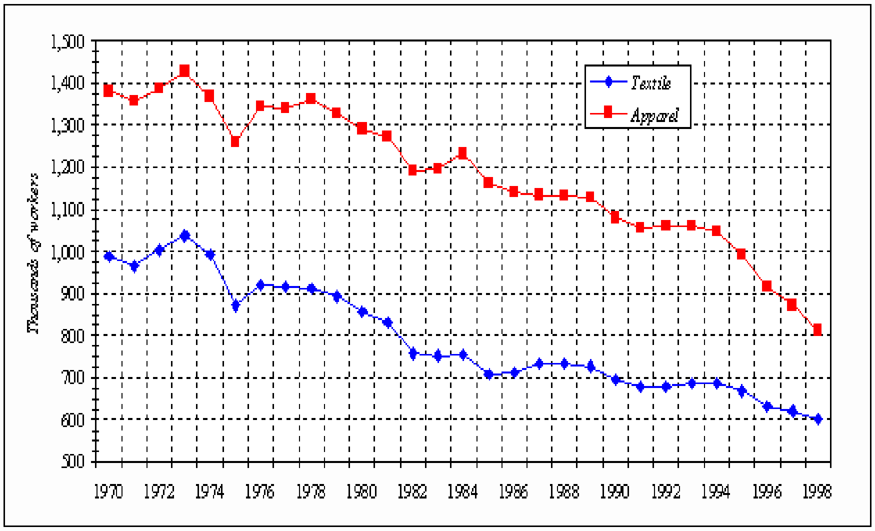
Source: U.S. Department of Commerce, International Trade Administration

This graph shows that the US produces and exports nearly as much as it has since the 1970s before China impacted global apparel manufacturing. It is apparent that perhaps the US has shifted into high-end apparel manufacture, while Chinese imports have flooded mass-market apparel and to some degree, mid- to high-end apparel through production subcontracts.

In the US's SIC system, both textiles (SIC 22) and apparel (SIC 23) are major industries, two of twenty such industries that form the manufacturing sector. Both industries are relatively fragmented, but textile manufacturers have generally been larger and more capital-intensive than small, labor-intensive apparel firms. In addition, there are non-manufacturing sectors totally dependent on textile and apparel manufacturing—most notably wholesalers and retailers.

Meanwhile, labor has consistently decreased over the past 3 decades in the US apparel manufacturing industry.

Employment in U.S. Textiles and Apparel Industries, 1969-1997[8]



According to the Standard Industrial Classification, textile has nine separate textile mill products sub-sectors (three-digit) and 23 market segments (four-digit) defined by broad product categories. (**See Appendix B**). These graph combined suggests that the US has shifted its production factor use from labor to capital but maintained its industry capability for exports—US apparel exports have tripled in total revenues since the 1970s.

Apparel Industry Structure and China's Competitiveness

Apparel is a mature industry in terms of Vernon's international product lifecycle theory, which posits changing comparative advantage amongst countries predicts a shift from countries of invention to low wage countries, and a dominant shift from differentiation to cost leadership. As a mature industry, we expect to see production located in multiple countries, growth in developing countries, and some decrease in industrialized nations. Market competition is

[8] Source: U.S. Bureau of Economic Analysis

stabilized, a shake-out has occurred, price becomes increasingly important—especially in developing nations. Production technology is characterized by long production runs, high capital intensity, low labor skills and standardized techniques.[9] However, government intervention and strategic trade policy has also likely provided China with its advantages in apparel and textile trades.

And today, indeed, we see that machinery and production are offshored to Asian countries to capitalize on low-cost wage structures. High-value design and to a lesser extent, pattern-making are often managed in western creative centers such as the US, UK, Germany, Canada, Italy and France. Design leadership and trendsetting is an art that is not easily imitable, but design production and copying is standard industry practice even in developed nations. China's strength lies in mass production of textiles and quality apparel for global markets.

China now owns more than one-third of world's textile capacity with over 20 million tons of fiber production, and over 60 million spindles producing 10 million tons of yarn annually. Chinese factories not only enjoy economies of scale, but also benefit from the large domestic market. The textile industry is labor intensive. China's competitive advantage lies in its primary production factor—labor. It uses labor factor intensely and because of its success, wages are rising. Recently, labor shortages have even appeared in some regions as economic growth as the government sponsored hinterland agricultural production competes for labor. Clothing industry wage rates (and overall labor costs) are now significantly higher in China than in Vietnam, Cambodia, Bangladesh, India, Sri Lanka, and Indonesia[10], but still remain very competitive against US and developed nations. Chinese workers are highly productive in manual labor terms; they are generally well-educated and in good health. China also enjoys abundant local

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[9] Source: Daniels, Radebaugh & Sullian, *International Business*, 10th Edition
[10] http://yaleglobal.yale.edu/display.article?id=5310

supply of raw materials, low transportation costs and short lead times. China is upgrading its technology and its proximity to Japan and Korea conveniently enable equipment and technology imports.

A Regional Perspective of U.S. Textiles and Apparel Imports[11]

2004 Imports into US (in doz)					
Countries	**338/339 (knit shirts)**	**Countries**	**347/348 (trousers)**	**Countries**	**352/652 (underwear)**
World	322,211,798	World	149,313,989	World	268,285,936
Vietnam	16,349,583	Hong Kong	7,161,550	Bangladesh	16,685,469
Pakistan	12,959,618	Vietnam	6,611,247	Thailand	12,721,484
India	6,309,827	Cambodia	4,345,347	Macau	11,684,913
China	**2,816,082 0.9%**	Bangladesh	4,263,884	Hong Kong	11,419,769
		Indonesia	3,336,478	India	6,023,326
		Philippines	3,200,117	**China**	**5,211,785 1.9%**
		China	**2,184,056 1.5%**		

A precise perspective should be maintained: some apparel import categories categories into the US are not dominated by China. Bangladesh, Vietnam, Pakistan and India have significant shares of US market imports of knit shirts, trousers and underwear.

Finally, US statistics show that the trade deficit with Asia widened by $5.2 billion (11 percent) to $52.6 billion with strong growth from China, Vietnam, Indonesia and India in particular. China has 20% of sector imports up from 18% in 2003, totaling 18.9 billion (an increase of 23% or $3.5 billion between 2003 and 2004.[12] (**See Appendix C** for detailed, recent changes to trade figures 2003-2004, and for September-August 2005).

Overview of Trade Issues

Special WTO transitional safeguard provisions were intended for situations where surging imports of specific products cause serious damage (or pose a threat of damage) to the

[11] Source: Esquel Ltd., Hong Kong, China
[12] US International Trade Commission, http://www.usitc.gov/tradeshifts/tradeshifts_textiles.htm

domestic industry of the importing country. In the apparel sector, safeguard actions can be aimed at imports of specific products from specific countries, unlike the regular safeguard provisions of the WTO applied to other goods. In 1995, the first year of the agreement, the United States invoked the safeguard provisions 24 times against 14 exporting developing countries. The developing countries say that this clause should be applied as sparingly as possible and that it had been invoked on questionable grounds. The US argued that they had complied with WTO's rules and procedures.

After quotas were fully removed in the liberalization program, T-shirts shipped to the US increased by over 1300% + between January and April 2005. Cotton trouser exports increased by 1500%; and other apparel by an average of 300% (**See Appendix D**). This export surge created significant reactions from domestic producers, and trade associations in the US and other countries.

From the perspective of the Chinese exporters, US protectionist measures of its domestic market highlights the dichotomy of protectionism and an American evangelism of liberal economic policies and the fundamental concepts of "absolute advantage" in Adam Smith in *Wealth of Nations* and Ricardo's theory of comparative advantage and opportunity cost.[13] The Chinese are waiting patiently for full free trade.

The US has a multi-perspective view of trade and imports. US economists and retailers would argue that importers and consumers benefit from low cost inputs as the country's general utility and welfare increase with low cost imports. The group hurt by low cost imports are US manufacturers and employees of apparel and textiles firms whose primary market is domestic consumers. The US textile and apparel production possibility frontier over time has evolved to a point where a certain level of protection in the form of quotas and voluntary export restraints

[13] Pugel, International Economics, 12th edition, pp. 36-38.

(VERs-export tariffs) are used to restrict trade and optimize the trade-off between maintaining a domestic industry and the consumer utility (consumption) derived from imports. Arguably, off-shoring has caused the possibility production frontier of apparel to decline over the past 3 decades since China's market liberalization. This has released labour factor into the economy and lowered industry wages. Since large apparel manufacturers are located in clusters (like North Carolina)[14] regional markets can become congested as workers are released into the workforce, but must retrain and search for new jobs. This can take time when there is little local opportunity and workforce migration must take place. Despite this shift away from domestic production of textiles and apparel, the US has attempted to support transitioning workers with relocation adjustments, while maintaining minimum tariffs to ease this dying industry. Emergency VERs and reinstated quotas have impacted Chinese/US trade.

Sample Quotas

Category	**Quota Allocated to China (dozen)**					**Quota Allocated to Vietnam (2005)**
	2004 exports	**2005 (pro-rata)**	**% increase**	**2005 (annualized)**	**% increase**	
338/339	2,816,082	4,704,115	67%	7,699,561	173%	15,103,366
347/348	2,184,056	4,340,638	99%	7,104,631	225%	7,666,005
352/652	5,211,785	5,062,892	-3%	8,291,470	59%	2,082,692

Source: Esquel Group, China

[14] Ibid., pg 201

Rationale for protectionism: To promote domestic production and employment.

Historically, protectionist rationales may have included spill-over benefits, skills clustering and innovation, economies of scale, extra costs of employment switching, country pride, income redistribution, social welfare and even national defence. By far, the most vocal proponents (lobbyists) of protectionism argue for trade restrictions to protect domestic textile and apparel employment. The American Manufacturing Trade Action Coalition (AMTAC) (**See Appendix E**), has a mission to "preserve and create American manufacturing jobs through the establishment of trade policy and other measures necessary for the U.S. manufacturing sector to stabilize and grow." On its website, it promotes its agenda which intends to equalize the fairness of trade between developing nations and the US, and also includes addressing the issue of the fixed peg of the Yuan to the US dollar as an unfair trade practice.

The *dying industry argument* and *adjustment assistance* are arguments that may also be considered. A congestion of apparel factory workers would result from further plant shutdowns. Income assistance should be used to address this (rule of specificity) rather than impose trade inefficient barriers. In fact, the rule of specificity suggests that any other form of corrective action directed to the root of the problem (worker efficiency and low wages) is more effective than import protection in providing an optimal world-efficient solution—for example, provide retraining and encourage lower innovation or efficiency measures for apparel manufacturing jobs. Lowering wage rates is a market adjustment that would help keep apparel manufacturing jobs in the US.

Recent Voluntary Export Requirements (VERs)

China has accepted taking on a VER—charging an export tax in an attempt to reduce exports, while raising tax revenues to head off trade-restrictive actions (trade barriers) by the US. An automatic export licenses system was implemented in March 1 in China to provide early surge warning detection, but has not been effective due to accuracy issues. A 0.5 to 4.0 RMB export tariff per item starting June 1, 2005 was applied. VERs are controversial because prima-facie, they are forced upon the exporting country and labelled "voluntary." They also introduce market inefficiencies and lower social welfare (production effect or consumption effect deadweight losses from quotas or export tariffs). From the importing developed nation's perspective, they are gracious in granting the exporting country government the opportunity to form a cartel-like or monopoly power and capture in rents through the export tariff. Unfortunately because the US such a large economy, this has the effect of raising the world price for apparel and causes inefficiencies and decreases consumer surplus globally.[15]

Another important argument and item on AMTAC's agenda concerns the fairness of an undervalued Yuan peg. This paper takes an unusual, neutral perspective, in this argument for 'fairness.'

Yuan Pegging and Labour Mobility

If the world consisted of one united free trading market, perhaps organized under common union, would the world as a whole, be better off? If the answer to this question is "yes" then the argument for a fixed rate regime is sound. Similar to the institution of the Euro the EU market consolidation and freedom of capital and labour factors improves regional and arguably

[15] http://www.inquit.com/us-and-eu-quotas-to-force-up-world-clothing-price

global well-being. The major difference is there is currently no labour mobility between US and China, and capital controls exist in China.

Typical arguments for foreign exchange rate regime include ability to control and use of monetary policy to manage country economy. There is a sense of governmental esteem from managing its own currency, perhaps at the expense of countries without expertise in monetary policy management. However, if a country has no requirement for esteem or control over monetary policy (that is, they have little to lose) there is little motivation to have a flexible exchange rate. Arguments against flexible exchange rate regimes for developing economies are logical, but counterbalanced by economic reason: it costs China significantly to peg its US foreign holdings, as the US currency depreciates, in favour of export led growth. The arduous task of managing, monetary policy is left to those who espouse that regime. There appears to be a “free-rider” problem where the expense of fiscal management is borne by developed nations who manage their currencies and economies successfully.

If we are neutral about the Yuan’s pegging, labour mobility may be a determining factor in “fairness” because labourers in the US cannot move to China (to obtain jobs and vice versa). They must retrain and take new jobs and incur switching costs. To the degree that these market frictions impose inefficiencies, the rule of specificity still dictates that these problems be handled by the government without introducing general import restrictions and market inefficiency. Ironically, labour movement has been an argument anti-WTO demonstrators have raised as unfair to developing nations because citizens of developing countries cannot move to developed nations to improve their situation or gain substantially new skills or education unless developed economies intervene. With the exception of a handful of Asian economies, most developing nations and LDCs remain focused as manufacturing, agricultural or natural resource economies.

Foreign Exchange Rate Pass-through

From an exchange rate risk-mitigation perspective, a fixed exchange rate is welcome. The amount of labour and capital resources spent on speculation and hedging in international trade is eliminated. One could argue that similar to a one-global-market economy that global efficiency is optimized by pegging all currencies to one currency. Capital and labour resources would be reallocated to producing other productive products and services (financial services or non-financial services), for example—insurance, entertainment, food production, healthcare and education for underdeveloped nations.

Interestingly, research conducted on exchange rate pass-through in US manufacturing industries indicates that the coefficient for the US apparel industry of .1068 infers that a globally competitive industry will not tolerate price change due to exchange rate fluctuations. Perhaps the low coefficient is due to the pegging of the Yuan, combined with concentration of global apparel competition and the market structure of apparel and textiles.

Likely, differentiation (design, branding, and other non-economically variables) are the advantages that will ultimately enable to the US apparel industry compete against successfully against cost-leadership and commoditization, and this niche-market may not be represented well through this coefficient statistic. Typically, a competitive industry is characterized by a high pass-through coefficient because firms are operating at marginal cost (exchange rate losses cannot be absorbed by the exporter) and so pass-through is necessary (for non-luxury exporters). This poses the question of whether commoditized apparel manufacturing in low-wage Asian countries are even operating at marginal cost, and whether a highly competitive market is a result of quotas and government subsidy. If so, this is another argument for the removal of quotas and government subsidy on both sides of the trade relationship.

Profile of a Chinese Exporter: Esquel

A survey (**See Appendix F**) was sent to Esquel as well as the Gap in San Francisco. Esquel replied with basic corporate information. Founded in 1978, Esquel Group now is one of the world's largest textile & apparel manufacturers with a headquarter in Hong Kong, China, More than 47,000 employees covering 10 countries and an vertical integrated business of cotton-planting, spinning, weaving, dyeing, manufacturing, exporting and retailing.

Leading the China's premium cotton shirts and T-shirts manufacturing and exporting, Esquel Group has an average annual production of 60 million cotton shirts, with the sales of US$ 500 million. Esquel calls some of the world's best-known fashion brands its customers: Hugo Boss, Polo, Nike, Nordstrom, and Tommy Hilfiger. Esquel emphasizes quality control, and owns its research and development center.

Esquel and Hong Kong's Outward Processing Arrangement (OPA) Exemption

The Customs General Administration of China announced in December 2004 to Hong Kong firms that the globalization of textile products would commence starting from January, 1 2005. To "ensure the stable development of textile trading all over the world," China announced it would impose export duty on certain textile products from January 1, 2005—its implementation of the US-recommended VER. At a meeting held in May 2005 with Hong Kong Government officials, the Mainland government has agreed to exempt Hong Kong textile and clothing products imported to the mainland for OPA from the export duty measure. This in essence, gives Hong Kong firms doing business with mainland Chinese firms, specific economic advantage and priority over mainland exporters.

Since its first investments in China in 1988, Esquel's business has focused on export. Esquel's major customers are in US and European Union and the firm relies heavily in working under international export quotas within its corporate strategy. Because of limited quota assignments, Esquel increased its investments outside China, and set up garment manufacturing plants in Vietnam and Malaysia—taking the advantage of lower labor costs and quotas in those countries. The firm weighed cost savings against issues of lower skill levels, language barriers, low infrastructure levels and transportation costs. By vertically integrating operations, Esquel is able to purchase raw materials (cotton) in China, produced textiles in China—leveraging Chinese high productivity labor, and send fabrics to its own finishing manufacturing plants in Vietnam and Malaysia to cut and sew final products. By doing so, Esquel successfully takes advantage of China's competitive advantage in textiles and avoids subcontracting to offshore firms.

The majority of Esquel's production capacity is located in China. Esquel's performance is hampered by the uncertainty of US/China trade policy. The management indicated however that a priority is to maintain full production capacity outside China.

Esquel Management Concerns

The transition to a post-quota era has barely just begun. Uncertainties due to protectionist forces cause management to be concerned—special safeguards and anti-dumping triggers which appear to be vague. Within national borders, China allocates quotas according to export performance of companies, and the allocation policy is unclear. Internal fighting over quota allocation and economic rents also has influenced the company's export performance. The US courts have confirmed that threat-based VERs are legitimate and so VERs up until 2008 will likely remain in force.

Conclusions & Future Direction

Clearly, the US was not ready for the competitive force of China's accession to the WTO. The developing nation's multi-decade 9% average growth testifies to the momentum and capacity of labor and capital use. The winners of free trade however are consumers worldwide through the lowering of world prices for apparel and textiles, and countries engaged in trade because of comparative advantage. Global retailers like Nike **(See Appendix G for a brief description of Nike's offshore capabilities)** and the Gap win. Chinese suppliers to MNC retailers, like Esquel, win. The losers are domestic textile and apparel producers in the US, and elsewhere in the world where Chinese firms have market access. Developing markets which enjoyed quotas also may suffer by importers shifting purchases to Chinese quota-free firms.

After the emergency VER was implemented, a temporary adjustment will protect domestic US apparel and textile manufacturers (domestic producers and exporters). Because the US tends to set world prices, this protects not only US producers but producers worldwide. And, clearly Chinese export producers will be held back, in their hunt for volume and profits.

The recent revaluation of the Yuan only just slightly alleviated the trade forces to decrease export demand. If the Yuan were to be revaluated and appreciate again, Chinese exports would reduce further. Should the Yuan become fully flexible, then market forces would take over and price adjustments, labor wage rates in China would increase, driving apparel export prices up and decrease global demand for Chinese apparel and textiles. This might provide opportunities for US and other domestic national or local manufacturers to increase supply within their home countries because of the higher prices, but most likely, consumers—now used to lower prices—will require globally branded suppliers (like Nike and the Gap) to relocate to other developing countries and LDCs because of competition. Suppliers in lower wage rate countries like Vietnam, India, and Bangladesh would benefit. In the long run, China may feel the pressure to move up the apparel value chain by securing apparel design expertise, branding and global distribution (retail chains). China will likely expand its offshoring to these LDCs and developing nations. In the end, China's ascension in the WTO benefits the world through increased trade, comparative advantage and value creation and lower prices. The emergency safeguards buy time for global domestic industry to make labor and capital adjustments.

APPENDICES

Appendix A: Multi-Fibre Arrangement Time Table

- 1962: LONG TERM ARRANGEMENT (LTA) SIGNED – 5 YEARS.
- 1967: LTA EXTENDED FOR 3 YEARS.
- 1970: LTA EXTENDED FOR 3 YEARS.
- 1974: MFA COMMENCES AS OF 01/01 for 4 YEARS.
- 1977: MFA EXTENDED FOR 4 YEARS.
- 1981 & 1986: MFA EXTENDED FOR 5 YEARS.
- 1991: MFA EXTENDED TILL END OF URUGUAY ROUND (UR)
- 1994: UR SIGNED AND ATC BEGINS.
- 1995: FIRST STEP 16% OF IMPORT VOLUME.
- 1998: SECOND STEP 17% OF IMPORT VOLUME.
- 2002: THIRD STEP 18% OF IMPORT VOLUMN.
- 2005: FOURTH STEP 49% OF IMPORT VOLUME.

Step	% of products to be integrated at start of stage (based on 1990 trade)	Expansion of growth rate for remaining quotas
Step 1: 1 Jan 1995 (to 31 Dec 1997)	16%	Existing growth rate x 16%
Step 2: 1 Jan 1998 (to 31 Dec 2000)	17%	Resulting growth rate of step 1 x 25%
Step 3: 1 Jan 2002 (to 31 Dec 2004)	18%	Resulting growth rate of step 2 x 27%
Step 4: (1 Jan 2005) Full integration into GATT (and final elimination of quotas)	49%	Remaining quotas are eliminated

Appendix B: US SIC Codes for Apparel and Textiles

Each of the 6,134 textile establishments operating in the United States was placed in one of these nine industry subsectors (See appendix C)

- Broadwoven fabric mills, cotton (SIC 221);
- Broadwoven fabric mills, manmade fiber and silk (SIC 222);
- Broadwoven fabric mills, wool, including dying and finishing (SIC 223);
- Narrow fabric and other smallwares mills: cotton, wool, silk, and manmade fiber (SIC 224);
- Knitting mills (SIC 225)—including knit women's full-length and knee-length hosiery, socks, outerwear, underwear and nightwear, weft (circular) fabrics, lace and warp (flat) knit fabrics, and knitting gloves and other ;
- Dyeing and finishing textiles, except wool fabrics and knit goods (SIC 226)—including finishers of cotton broadwoven fabrics and finishers of broadwoven fabrics of manmade fiber and silk;
- Carpets and rugs (SIC 227);
- Yarn and thread mills (SIC 228); and
- Miscellaneous textile mills (SIC 229)—including non-rubberized coated fabrics, tire cord and fabrics, nonwoven fabrics, cordage and twine, and other textile goods such as linen, jute, gelt, padding and upholstery filling and processed waste and recovered fibers.

According to the Standard Industrial Classification, apparel has nine separate apparel and other finished products subsectors and 31 market segments defined by broad product categories. Each of the 23,345 apparel establishments operating in the United States in 1997 was placed in one of these nine industry subsectors:

- Men's and boys' suits, coats, and overcoats (SIC 231);
- Men's and boys' furnishings, work clothing, and allied garments (SIC 232)—including shirts, underwear and nightwear, neckwear, trousers and pants, and work clothing;
- Women's, misses' and juniors' outerwear (SIC 233)—including blouses and shires, dresses, suits, skirts, and coats;
- Women's, misses', children's, and infants' undergarments (SIC 234)—including underwear and nightwear, brassieres, girdles and allied garments;
- Hats, caps, and millinery (SIC 235);
- Women's, misses' children's, and infants' outerwear (SIC 236)—including dresses, blouses, and shirts;
- Fur goods (SIC 237);
- Miscellaneous apparel and accessories (SIC 238)—including dress and work gloves, robes and dressing gowns, waterproof outerwear, leather and sheep clothing, apparel belts, suspenders, garters, handkerchiefs, and other apparel; and

Miscellaneous fabricated textile products (SIC 239)—including curtains and draperies, house furnishings, textile bags, canvas and related products, pleating and decorative stitching, automotive trimmings, Schiffli machine embroideries, and other fabricated textile products.

Appendix C: September – August 2005

U.S. Imports of Textiles, Textile Products and Apparel, from China

Data consists of NAICS Codes 313, 314, 315. Values in thousands of dollars.

NAICS Code & Description	Sep. 2005	Aug. 2005	Aug. 2005 - Sep. 2005		YTD 2005	YTD 2004	YTD 2003	YTD 2004 - YTD 2005		2004	2003	2002	2003 - 2004	
			$ Change	% Change				$ Change	% Change				$ Change	% Change
Total, All Textiles and Apparel	**2,607,798**	**2,750,399**	**-142,601**	**-5.2%**	**20,352,589**	**13,533,943**	**11,153,896**	**6,818,645**	**50.4%**	**18,240,398**	**14,925,007**	**12,187,362**	**3,315,391**	**22.2%**
313111 YARNS	1,357	728	629	86.3%	11,515	10,149	6,149	1,366	13.5%	12,326	7,608	5,179	4,718	62.0%
313113 THREADS	1,006	898	108	12.1%	6,948	3,297	2,423	3,652	110.8%	3,926	3,681	4,204	245	6.7%
313210 BROADWOVEN FABRICS	46,910	48,847	-1,937	-4.0%	424,337	330,124	280,565	94,213	28.5%	423,524	378,633	356,119	44,891	11.9%
313221 NARROW FABRICS	11,987	14,239	-2,252	-15.8%	81,626	63,903	45,095	17,724	27.7%	90,163	61,151	37,346	29,012	47.4%
313230 NONWOVEN FABRICS	3,024	3,709	-685	-18.5%	25,938	8,911	4,263	17,027	191.1%	15,571	5,616	2,264	9,955	177.3%
313249 KNIT FABRICS AND LACE	14,324	15,165	-841	-5.5%	98,881	47,839	39,319	51,042	106.7%	60,014	52,943	41,234	7,071	13.4%
313312 TEXTILE AND FABRIC FINISHING MILL PRODUCTS	143	376	-232	-61.9%	1,431	493	568	938	190.5%	1,088	670	383	418	62.3%
313320 COATED FABRICS	7,526	8,159	-633	-7.8%	76,981	44,790	23,530	32,191	71.9%	68,658	33,404	19,094	35,253	105.5%
314110 CARPETS AND RUGS	24,771	27,373	-2,603	-9.5%	227,605	217,986	209,806	9,619	4.4%	287,252	280,591	255,918	6,661	2.4%
314121 CURTAINS AND DRAPERIES	55,632	63,550	-7,917	-12.5%	490,623	381,139	261,327	109,484	28.7%	496,753	353,098	197,535	143,656	40.7%
314129 OTHER HOUSEHOLD TEXTILE PRODUCTS	335,241	325,245	9,996	3.1%	2,101,466	1,465,099	1,107,324	636,367	43.4%	2,105,965	1,540,159	1,109,068	565,806	36.7%
314911 TEXTILE SACKS AND BAGS	7,380	7,088	292	4.1%	57,464	34,874	16,592	22,590	64.8%	49,534	24,559	11,050	24,974	101.7%
314912 CANVAS AND RELATED PRODUCTS	12,668	19,323	-6,654	-34.4%	283,484	266,178	145,234	17,306	6.5%	300,073	175,790	102,737	124,283	70.7%
314991 ROPES, CORDAGE, AND TWINE	9,951	10,307	-356	-3.5%	83,448	61,128	49,521	22,321	36.5%	82,070	64,638	49,593	17,431	27.0%
314992 TIRE CORDS AND TIRE FABRICS	2,235	1,920	315	16.4%	20,193	4,705	428	15,487	329.2%	8,771	415	288	8,356	2013.9%
314999 ALL OTHER MISCELLANEOUS TEXTILE PRODUCTS	115,343	120,052	-4,709	-3.9%	973,224	811,267	674,316	161,957	20.0%	1,089,847	901,914	720,367	187,934	20.8%
31511X HOSIERY AND SOCKS	4,415	6,145	-1,730	-28.2%	166,839	173,057	71,382	-6,218	-3.6%	253,532	104,476	33,991	149,056	142.7%
315221 MEN'S AND BOYS' UNDERWEAR AND NIGHTWEAR	30,145	25,571	4,574	17.9%	184,458	57,935	58,792	126,524	218.4%	77,999	82,070	81,689	-4,071	-5.0%
315222 MEN'S AND BOYS' SUITS, COATS, AND OVERCOATS	40,624	39,296	1,328	3.4%	216,180	72,729	78,631	143,450	197.2%	102,467	99,866	78,613	2,600	2.6%
315223 MEN'S AND BOYS' SHIRTS (EXCEPT WORK SHIRT)	40,027	45,707	-5,680	-12.4%	851,049	490,242	444,053	360,808	73.6%	645,618	573,719	514,222	71,899	12.5%
315224 MEN'S AND BOYS' TROUSERS, SLACKS, AND JEANS	17,879	25,692	-7,813	-30.4%	587,868	349,867	274,900	238,001	68.0%	462,163	340,229	273,564	121,934	35.8%
315228 MEN'S AND BOYS' OTHER OUTERWEAR	180,027	201,510	-21,482	-10.7%	1,074,084	447,248	425,161	626,836	140.2%	615,307	561,345	519,369	53,962	9.6%
315231 WOMEN'S AND GIRLS' LINGERIE, LOUNGEWEAR, AND NIGHTWEAR	155,004	129,544	25,460	19.7%	1,082,932	688,659	609,430	394,274	57.3%	923,129	821,434	618,997	101,695	12.4%
315232 WOMEN'S AND GIRLS' BLOUSES AND SHIRTS	213,727	229,188	-15,461	-6.7%	2,111,384	1,310,186	1,118,041	801,199	61.2%	1,750,708	1,462,492	1,335,712	288,216	19.7%
315233 WOMEN'S AND GIRLS' DRESSES	42,160	51,234	-9,074	-17.7%	521,343	409,614	372,374	111,729	27.3%	522,214	471,315	422,718	50,899	10.8%
315234 WOMEN'S AND GIRLS' SUITS, COATS, TAILORED JACKETS, AND SKIRTS	226,984	253,849	-26,865	-10.6%	1,643,648	717,157	511,900	926,491	129.2%	918,157	647,715	558,643	270,442	41.8%
315239 WOMEN'S AND GIRLS' OTHER OUTERWEAR	393,922	425,541	-31,618	-7.4%	3,313,320	1,770,986	1,426,614	1,542,334	87.1%	2,320,856	1,903,596	1,595,729	417,260	21.9%
315291 INFANTS' APPAREL	125,060	148,466	-23,406	-15.8%	926,845	807,629	636,603	119,216	14.8%	1,099,807	862,778	474,227	237,029	27.5%
315292 FUR AND LEATHER APPAREL	162,872	163,217	-345	-0.2%	693,646	760,063	855,016	-66,418	-8.7%	1,091,615	1,193,595	1,177,611	-101,980	-8.5%
315991 HATS AND CAP	73,870	83,868	-9,998	-11.9%	504,415	428,155	371,053	76,261	17.8%	557,754	486,741	369,630	71,013	14.6%
315992 GLOVES & MITTENS	65,902	68,262	-2,360	-3.5%	362,407	319,555	270,278	42,852	13.4%	446,797	370,294	302,399	76,503	20.7%
315993 MEN S & BOYS NECKWEAR	15,032	12,536	2,496	19.9%	91,129	63,427	35,975	27,701	43.7%	86,206	54,970	37,715	31,237	56.8%
315999 OTHER APPAREL ACCESSORIES	170,646	173,792	-3,146	-1.8%	1,055,875	915,555	727,234	140,320	15.3%	1,270,534	1,003,503	880,158	267,031	26.6%

Appendix D: Surge in Chinese Exports

Category	Short Description	Chinese Exports in dozen		Surge %
		Jan-Apr/05	Jan-Apr/04	
338/339	Cotton Knit shirts and blouses	9,795,714	675,213	1351%
340/640	Men's & boys' woven shirts	2,568,252	652,407	294%
347/348	Cotton trousers	9,285,658	573,211	1520%
349/649	Brassieres	7,318,027	5,296,124	38%
350/650	Dressing gowns and robes	1,474,479	1,187,181	24%
352/652	Underwear	7,596,520	1,631,606	366%
638/639	Man-made fiber knit shirts and blouses	3,886,390	857,807	353%
647/648	Man-made fiber trousers	3,165,092	807,734	292%

Appendix E: AMTAC

AMTAC
American Manufacturing Trade Action Coalition

October 5, 2005
.pdf version

Tuesday, November 8, 2005

U.S. Government Accepts 13 Textile
China Safeguard Petitions for Consideration

WASHINGTON, DC – The U.S. government announced today that it had accepted for review thirteen (13) textile and apparel safeguard petitions covering twenty-one (21) categories. Nine (9) of those petitions covering sixteen (16) product categories are reapplications for safeguards that previously have been implemented by the U.S. government but are scheduled to expire at the end of the year. The other four (4) petitions covering five (5) categories are new cases.

“We are pleased that the U.S. government accepted these petitions for review,” said American Manufacturing Trade Action Coalition (AMTAC) Executive Director Auggie Tantillo.

“If China is unwilling to agree to a reasonable comprehensive textile deal that covers all of these products, we urge the U.S. government to approve these cases and implement safeguards in a timely and effective manner,” Tantillo continued.

Facts on Safeguard Petitions Accepted for Review on October 5

The combined value of total U.S. imports for the 16 categories covered by the October 5 announcement for year-to-date 2005 is $26 billion, with imports from China accounting for $3.9 billion of that total.

The value of the Chinese imports covered by the petitions amounts to 30 percent of the $13.1 billion in textile and apparel imports from China and 8 percent of the $50.6 billion in imports from the world (including China) in 2005.

In terms of the $130 billion in total U.S. imports of all goods from China in 2005, these petitions affect only 3 percent of that trade.

Quick Facts on Imports, Jobs

Press conference participants noted that data on which the safeguard filings are based simply confirms long established trends such as:

• In the first seven months of the year, all U.S. textile and apparel imports from China increased by 46 percent by volume.
• Year to date (January to July) in 2005, China has 32.5 percent U.S. import market share by volume, the highest share held by a single country in modern U.S. history. China’s share of the U.S. import market by volume for the same time period in 2004 was 24.1 percent.
• Since January 2001, U.S. textile and apparel employment has fallen from 1,047,200 to 651,900 as of August 2005. The loss of 395,300 jobs represents 37.7 percent of the January 2001 workforce.

Quick Facts on the Safeguard Process

Textile safeguard petitions are filed with the Committee for the Implementation of Textile Agreements

(CITA). CITA is a five-member interagency group comprising of representatives from the U.S. Departments of Commerce, State, Labor and Treasury as well as the Office of the U.S. Trade Representative. At least three agencies must vote to approve any safeguard petition.

Once a safeguard petition is filed, CITA has up to 15 working days to accept or reject the petition on its technical merits. If the petition is accepted, once a notice is published in the Federal Register, a 30-day public comment then commences, followed by a 60-day CITA decision-making window.

If CITA approves a safeguard petition, by terms of its WTO accession agreement with the United States, a consultation period then begins. If no agreement is reached between the parties, the United States can limit Chinese exports in the safeguard categories to 7.5 percent growth.

Safeguards imposed between January 1 and September 30 last through the end of the calendar, while safeguards imposed between October 1 and December 31 last for twelve months from the date of their imposition. The U.S. government's authority to impose safeguards on China is contained in Paragraph 242 of the Report of the Working Party on the Accession of China to the World Trade Organization.

The petitions cover the following products:

Safeguard Category/Description	**2005 China Increase Year-to-Date (YTD) January to July**	**% Change**	**YTD China Share of U.S. Import Market 7/2004**	**7/2005**
Apparel Products – Reapplications				
338/339 – cotton knit shirts	+ 227 million shirts	+ 1287 %	1 %	9 %
340/640 – woven shirts	+ 55 million shirts	+ 348 %	6 %	20 %
347/348 – cotton trousers	+ 205 million trousers	+ 1427 %	1 %	17 %
347/348 – cotton trousers	+ 26 million brassieres	+ 26 %	34 %	43 %
352/652 – underwear	+ 178 million pieces	+ 486 %	2 %	11 %
638/639 – mmf* knit shirts	+ 90 million shirts	+ 442 %	4 %	18 %
647/648 – mmf* trousers	+ 69 million trousers	+ 370 %	4 %	19 %
Apparel Products – New Cases				
443 – wool suits	+ 680,075 suits	+ 890 %	2 %	16 %
634/635 – mmf* coats	+ 44 million coats	+ 563 %	7 %	36 %
Textile Products – Reapplications				
301 – combed cotton yarn	+ 370,292 kilograms	+ 27 %	3 %	4 %
620 – synthetic filament fabric	+ 44,280,312 sq. meters	+ 1145 %	2 %	16 %
Textile Products – New Cases				
226 – cheesecloth	+ 14 million square meters	+ 263 %	16 %	47 %
619 – polyester filament fabric	+ 31 million square meters	+ 1034 %	2 %	17 %

Appendix E continued

Organizations from 31 countries have endorsed the "Istanbul Declaration" seeking an emergency meeting of the WTO to postpone the elimination of quotas on Chinese apparel and textiles. They include:

- Austria - Fachverband der Textilindustrie Osterreichs
- Austria - Eurocoton
- Belgium - Febeltex
- Belgium -- Eurocoton
- Bolivia -- Asociacion Nacional de Textileros de
- Bolivia
- Bolivia -- Federacion Textil Andina
- Botswana -- Botswana Export Development and Investment Authority
- Colombia -- Asociacion Colombiana de Productores Textiles
- Colombia -- Federacion Textil Andina
- Czech Republic -- Eurocoton
- Ecuador -- Asociacion Textil del Ecuador
- Ecuador -- Federacion Textil Andina
- France -- Eurocoton
- Germany -- Eurocoton
- Ghana -- Gold Coast of Ghana
- Greece -- Eurocoton
- Italy -- Associazione Italiana Industrie della Filliera Tessile Abbigliamento
- Italy -- Associazione Tessile Italiana
- Italy -- Eurocoton
- Ivory Coast -- Agency for the Promotion of Exports
- Kenya -- Kenya Association of Manufacturers)
- Lesotho -- Lesotho Textile Exporters Association
- Madagascar -- Madagascar Export Promotion Association
- Mauritius -- Mauritius Export Processing Zone Association
- Mexico -- Camera Nacional de la Industria Textil
- Namibia -- Namibian Investment Authority
- Peru -- Comite Textil de la Sociedad Nacional de Industries del Peru
- Peru -- Federacion Textil Andina
- Poland -- The Gdynia Cotton Association
- Poland -- Polish Textile and Clothing Chamber
- Poland -- Polish Chamber of Textile Industry
- Poland -- Union of Employers of Textile Industry
- Poland -- Eurocoton
- Senegal -- Agency for the Promotion of Investments & Exports
- Slovenia -- Eurocoton
- South Africa -- South African Clothing Industry Export Council
- South Africa -- South African Textile Industry Export Council
- South Africa -- Textile Federation of South Africa
- Spain -- Eurocoton
- Swaziland -- Swaziland Investment Promotion Authority
- Tanzania -- Tanzania Investment Center
- Turkey -- Turkish Textile and Raw Materials Exporters Assn.
- Turkey -- Turkish Ready Wear and Garments Exporters Assn.
- Turkey -- Turkish Clothing Manufacturers Association Turkey -- Turkish Textile Employers Association
- Turkey -- Eurocoton
- United States -- American Mfg. Trade Action Coalition
- United States -- National Council of Textile Organizations
- United States -- National Textile Association
- Venezuela -- Asociacion Textil Venezolana
- Venezuela -- Federacion Textil Andina
- Zambia -- Textile Producers Association of Zambia

Appendix F

INTERNATIONAL ECONOMICS SURVEY, UNIVERSITY OF TORONTO
ROTMAN SCHOOL OF MANAGEMENT

Thank you for your participation. All information will be kept strictly confidential. The subject is about tariffs, quotas, and the impact of trade barriers and the effects on various parties in China, the US and Canada. **Please answer as many questions as you can** (just type in answers in this word document) **by Friday November 4, 2005** Thank you.

1. How does ESQUEL operate multinationally?….. joint ventures, licensing, or foreign direct investment (owned factories)?

2. What is the ESQUEL's manufacturing/offshoring strategy?

3. Where does ESQUEL operate or outsource apparel manufacture currently? Was there any major shift of production from one country to another in recent 2 years? When and why?

COUNTRY	CURRENT RANK IN IMPORTANCE (1-7)	CURRENT % OF COMPANY'S SOURCE (ESTIMATE) - adds to 100%	RANK BEFORE THE MOST RECENT SHIFT	% BEFORE THE MOST RECENT SHIFT
a. Bangladesh				
b. Cambodia				
c. China				
d. India				
e. Indonesia				
f. Malaysia				
g. Nepal				
h. Pakistan				
i. Philippines				
j. Sri Lanka				

k. Vietnam				

4. Where are your major customers?

REGION	CURRENT RANK IN IMPORTANCE (1-4)	CURRENT % OF COMPANY'S SOURCE (ESTIMATE) - adds to 100%	RANK BEFORE THE MOST RECENT SHIFT	% BEFORE THE MOST RECENT SHIFT
NORTH AMERICA				
EUROPE				
SOUTH AMERICA				
ASIA				

5. What year did the ESQUEL start importing / offshoring apparel manufacture?
6. Is ESQUEL for or against quotas?
7. How does currency (Chinese Yuan peg/ affect importing/trade?)
8. Does the ESQUEL hedge against foreign exchange risk?
9. What is your vision of long term relations of Sino-US trade relations?
10. Can, or how does ESQUEL impact/affect this relationship?
11. What is the impact of the new WTO emergency quotas imposed by the US on ESQUEL?
    a. Production
    b. Sales
    c. Imports

Appendix G: Nike

Nike currently enjoys a 47% market share of the domestic footwear industry, with sales of $3.77 billion. Nike has been manufacturing throughout the Asian region for over twenty-five years, and there are over 500,000 people today directly engaged in the production of their products. They utilize an outsourcing strategy, using only subcontractors throughout the globe. Their majority of their output today is produced in factories in China, Indonesia, and Vietnam, but they also have factories in Italy, the Philippines, Taiwan, and South Korea. These factories are 100% owned by subcontractors, with the majority of their output consisting solely of Nike products. However, Nike does employ teams of four expatriates per each of the big three countries (China, Indonesia, Vietnam), that focus on both quality of product and quality of working conditions, visiting the factories weekly. They also developed their code of conduct in 1992 and have implemented it across the globe, as its goal is to set the standard for subcontractors to follow if they wish to do business with Nike. However, due to a manufacturing network of this magnitude, they have faced numerous violations involving factory conditions and human rights issues, which have been widely publicized. They have responded to these issues through the Andrew Young report, the Dartmouth Study, and Ernst & Young's continual monitoring, but are still approximately two years away from completely addressing these problems throughout the globe.

http://www.blonnet.com/iw/2005/04/03/stories/2005040300321100.htm

There is a commodity end to our business. That commodity end is not necessarily restricted to large, international retailers such as Wal-Mart and JC Penney. It is also with brands such as Nike and Adidas, which are not cheap.

They (Nike and Adidas) were locked into countries outside China, because of the quota. They now have the option to come to China. Whereas others like Wal-Mart and JC Penney now want to reduce their exposures to China. So the whole scenario is evolving. And, therefore, there is business not only from the likes of retailers, but brands as well, but with pressure on margins. People are able to see a 30-40 per cent growth (in revenues) with a constant or marginally better bottom-line.