A Stitch in Time

Overview

The global textile and clothing industry will see a major shift in money and jobs after Jan. 1, 2005, when a decades-old quota system that controls access to the huge U.S. apparel sector will come to an end. China, whose soaring economy has transformed it into a manufacturing juggernaut, stands to be the main beneficiary.

The system, known as the Multi-Fiber Agreement, has restricted access to the $77 billion U.S. apparel market since the early 1960s in an effort to protect the U.S. garment industry from foreign competition. But in 1994, the U.S. agreed in a global trade pact to gradually lift the quotas, with complete elimination set for the end of this year in major categories such as dresses, T-shirts, underwear and jeans.

Some U.S. companies also stand to gain after the quota expiration. Increased competition by Chinese manufacturers could drive the price of material and apparel lower, creating savings that U.S. clothing buyers may pass on to consumers. The U.S. Association of Importers of Textiles and Apparel, which represents retailers such as J.C. Penney, The Gap, and Liz Claiborne, estimates that prices will fall between 5% and 20% as a result of the quota expiration. But some sectors, such as sock manufacturers, say the price declines threaten to drive U.S. companies out of business.

Ten years ago, China hardly registered as a threat, and developing countries thought a quota-free environment would help them gain access to the coveted U.S. market. But China has grown into a formidable competitor. In addition to hurting the remaining U.S. manufacturers, the removal now of trade restrictions could devastate countries heavily dependent on textile exports, such as Honduras and Bangladesh.

U.S. manufacturers and lawmakers argue that China’s currency is pegged at an artificially low rate against the dollar, giving Chinese exporters an unfair advantage. They also say that the use of government subsidies and tax incentives benefits Chinese manufacturers. Grant Aldonas, an undersecretary for trade at the Commerce Department, said many of the apparel products are made in state-owned factories, which are in turn heavily subsidized, largely through loans that are never repaid.

Research: Barbara Chai, WSJ reports; Illustration: Jon Keegan
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Under the current system, Chinese-made textile and apparel goods compete against products made not necessarily in the U.S., but also in factories in Central America and other regions. These factories rely on material made by workers in the U.S., particularly in the Southeast.

The U.S. began lifting quotas in a small number of apparel categories in January 2002, shortly after China joined the World Trade Organization in late 2001. China’s share in the U.S. market in those categories rose to 65% as of March 2004 from 9% in 2001, when the quotas were still in place.

Late last year, the Bush administration imposed one-year quotas on three of the categories -- Chinese-made bras, bathrobes and knit fabrics (used to make such items as sportswear). The special garment and textile safeguards are permitted under a provision of the agreement under which China entered the WTO. The controls allow Chinese exporters to increase shipments by no more than 7.5% over the previous year's sales. The U.S. industry must request the cap to be extended on a yearly basis. The WTO safeguard provision expires in 2008.

In quota-free areas, China has surged past its biggest competitor. In millions of USD.

Some safeguards were put in place to help stem China’s rise. In millions of USD.

Source: U.S. Dept. of Commerce, Office of Textiles and Apparel
U.S. sock manufacturers last month asked the Commerce Department to impose a safeguard on Chinese imports that they say threatens to gut the last substantial manufacturing sector of the U.S. garment industry. Although most retailers and wholesalers in the U.S. welcome the lifting of quotas, the Bush administration anticipates a spate of similar safeguard requests in coming months from manufacturers in other sectors.

Last year, China shipped 276 million pairs of socks to the U.S., a 22-fold increase from 2001. During that period, the average price per dozen pairs from China fell by more than half, to around $4.15. China's share of the U.S. import market for man-made fiber socks jumped to nearly 40% last year, compared with less than 2% in 2001.

Domestic sock producers, clustered mainly in North Carolina and Alabama, make about 40% of the socks purchased in the U.S., the largest remaining market share of any domestic apparel producers. But domestic companies have seen that share drop from 76% in 1999, according to industry figures.

A government committee that oversees the garment industry has opened the sock makers' petition to the public for comment. At issue: whether imports from China create what the industry calls "market disruption." By late October, the group will decide whether to request consultations with China on the issue.

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Case Study

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