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IMPLICATIONS OF THE TERMINATION OF THE AGREEMENT ON TEXTILES AND CLOTHING (ATC) FOR LATIN AMERICA AND THE CARIBBEAN

The impacts of quota elimination under the Agreement on Textiles and Clothing (ATC) applicable since 1 January 2005 are already becoming apparent on Latin American and Caribbean countries' exports to the United States ; despite vastly different performances from country to country, the region as a whole experienced a reduction in market share, in contrast to a marked increase by China . In theory, if this rhythm of growth were to be sustained, the market share of United States imports from China in this sector could increase or even surpass the 50% mark in the next three years.

The present issue of this Bulletin is based on the research paper "*Implicancias del término del Acuerdo sobre los Textiles y el Vestuario (ATV) para América Latina y el Caribe"* [Implications of the termination of the Agreement on Textiles and Clothing (ATC) for Latin America and the Caribbean], LC/L.2399-P of the series *Comercio Internacional* [International Trade], No 53, October 2005, available [in Spanish] at: http://www.cepal.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/0/23120/P23120.xml&xsl=/comercio/tpl/p9f.xsl&base=/tpl/top-bottom.xslt

For more information please contact Mikio Kuwayama, Mikio.Kuwayama@cepal.org or Martha Cordero, Martha.Cordero@cepal.org

I. INTRODUCTION

The impacts of quota elimination under the Agreement on Textiles and Clothing (ATC) applicable since 1 January 2005 on the countries of the region are already becoming evident. Since that date, the rate of growth of China 's share in United States textile and clothing imports has continued to increase steadily: market share in the first nine months of the year, compared to the same period the previous year, increased by over 61% in value and about 46% by volume. Consequently, China 's share in the imports in the sector over the same period increased in value from 17% to 26%, and in volume from 25% to 33%.[1] In the light of this massive increase, the United States Government began to apply special safeguard mechanisms to the main categories of textile and clothing products from China from about mid-May 2005. Despite the application of these mechanisms, the upward trend has persisted. If this rhythm of growth were to be sustained, China 's share in the United States market could surpass 50% of total imports of this sector in about three years, at the expense of countries in Africa and Latin America relying on preferential access.

Nevertheless, the overall behaviour of exports to the United States since 1 January 2005 has been extremely heterogeneous between countries and regions (see table 1); the somewhat disappointing overall performance of Latin America and the Caribbean during the first nine months compared to the same period in 2004 has been wrought mainly by the performance of Mexico whose exports have dropped by about 6% both in volume and value. Great disparity has also become evident between the performances of signatory countries to the United States-Dominican Republic-Central America Free Trade Agreement (US-DR-CAFTA): in terms of value, Costa Rica , Dominican Republic and El Salvador have not been able to maintain exports to the United States at the previous period's levels. In contrast, Nicaragua has been able to increase textile and clothing exports considerably. The same upward tendency can be observed in the remaining countries of the US-Caribbean Trade Partnership Act (CBTPA) although with great disparity between countries. Of the four Andean Trade Promotion and Drug Eradication Act (ATPDEA) countries, Ecuador and Bolivia have experienced a decline especially in volume, in contrast with the case of Peru . Despite the relatively small quantity of their exports, countries like Chile and Paraguay have been able to increase their exports significantly. Argentina has demonstrated very erratic behaviour in terms of both value and volume. It is interesting to note that Asia (excluding China and India) has also experienced negative growth during the same period with great variations between countries (not included in table 1).

Table 1

UNITED STATES: RATE OF GROWTH OF TEXTILE AND CLOTHING SECTOR IMPORTS 2003-2004

BY VALUE & VOLUME, COUNTRY OR REGION OF ORIGIN,

JANUARY 2005-SEPTEMBER 2005 AND OCTOBER 2004-SEPTEMBER 2005

(%)

Country /Region of origin	Value			Volume		
	2003/ 2004	January 2005/ September 2005	October 2004/ September 2005	2003/ 2004	January 2005/ September 2005	October 2004/ September 2005
World	7.6	8.5	9.7	11.2	8.5	9.0
China	25.5	61.3	54.1	40.7	46.0	42.1
India	13.1	25.6	26.3	14.9	20.3	20.3
Mexico	-1.9	-6.3	-4.6	4.4	-5.7	-4.1
DR-CAFTA	3.6	-1.5	1.3	3.4	2.0	2.8
Dominican Republic	-2.9	-6.7	-4.3	1.9	-1.7	-0.5

Guatemala	10.5	-1.5	3.8	12.9	-0.5	3.4
Honduras	6.8	0.1	2.8	3.8	5.9	6.8
El Salvador	0.0-	-3.7	-2.5	0.0	2.7	0.3
Nicaragua	22.9	21.0	25.5	17.9	16.5	20.7
Costa Rica	-11.8	-7.5	-6.4	-5.6	-8.4	-6.9
ATPDEA	25.3	10.1	13.8	18.8	-3.9	1.0
Colombia	18.1	0.8	5.2	11.5	-4.6	-0.3
Peru	34.0	20.4	23.5	33.1	8.6	13.2
Ecuador	10.3	-6.0	-5.1	19.6	-29.2	-16.7
Bolivia	15.3	-10.2	-3.9	28.6	-56.3	-48.4
Brazil	0.6	6.0	1.1	14.8	-13.8	-11.9
B. Rep. of Venezuela	-23.6	-33.9	-26.9	119.0	1.4	49.0
Chile	125.7	15.9	45.2	149.6	58.2	83.4
Argentina	40.9	15.0	27.2	5.1	-60.2	-55.2
Uruguay	18.5	1.9	13.5	17.9	10.9	11.9
Paraguay	-67.2	3.3	-40.4	-67.6	307.3	112.7
TOTAL						
Latin America & Caribbean	2.6	-2.1	0.1	4.9	-2.6	-1.1
Total Asia *	3.9	-4.1	-0.5	4.3	-3.9	-1.8

Source: Author's compilation based on data from the Office of Textiles and Apparel (OTEXA), United States Department of Commerce.

* Excluding China and India

II. BACKGROUND TO THE AGREEMENT ON TEXTILES AND CLOTHING (ATC)

The bilateral agreements between importing and exporting countries to impose quantitative restrictions on the imports of these products – outside the norms and disciplines of the General Agreement on Tariffs and Trade, GATT) – originated in the second half of the twentieth century. In 1960 GATT, recognising the problems occasioned by these bilateral agreements and in an attempt to avoid market disruption, authorized Members to negotiate or impose bilateral import quotas outside the rules and regime of GATT itself. This policy led to the signing of other agreements on the application of quantitative restrictions and eventually to the Multifibre Arrangement (MFA) in 1973, whose objective was to protect the domestic industries of textile and clothing importing countries for four years by means of import quotas, after which the restricted products would be integrated into the norms and disciplines of GATT. However, the Arrangement was extended on four occasions until 1994 due to protectionist positions of Members.

The MFA was the target of criticisms from detractors who indicated that it violated the principles of multilateralism and free trade represented by GATT: the MFA departed from the principle of most-favoured nation (MFN); it applied quantitative restrictions instead of tariffs; it was discriminatory towards developing countries and had no clear rules. In view of this, the Uruguay Round of GATT began to incorporate the sector into GATT rules. In December 1993, the ATC was signed whose goal was to integrate textiles and clothing products into the norms and disciplines of the World Trade Organization (WTO) over a period of 10 years between 1995 and 2005.

A. The ATC "integration process"

The first stage of the ATC began on 1 January 1995 when each signatory to the Agreement had to select and integrate products from the list in the Annex of the ATC which had represented not less than 16% of the total volume of that Member's 1990 imports in that sector. In January 1998 the second stage began, during which products had to be integrated that had had represented no less than a further 17% of the Member's imports during 1990. In January 2002 the third stage began, in which products had to stand integrated that had represented no less than a further 18% and finally on 1 January 2005, the remaining 49% of all products had to stand integrated.

The only WTO Members to apply the quota growth rate commitments (the United States , the European Union, Canada and Norway) left the products that were most sensitive to their domestic producers for the final stage of the integration process.[2] In other words, the products integrated during the first three stages turned out to represent a smaller percentage in value than in volume (on which the "integration process" had been based).

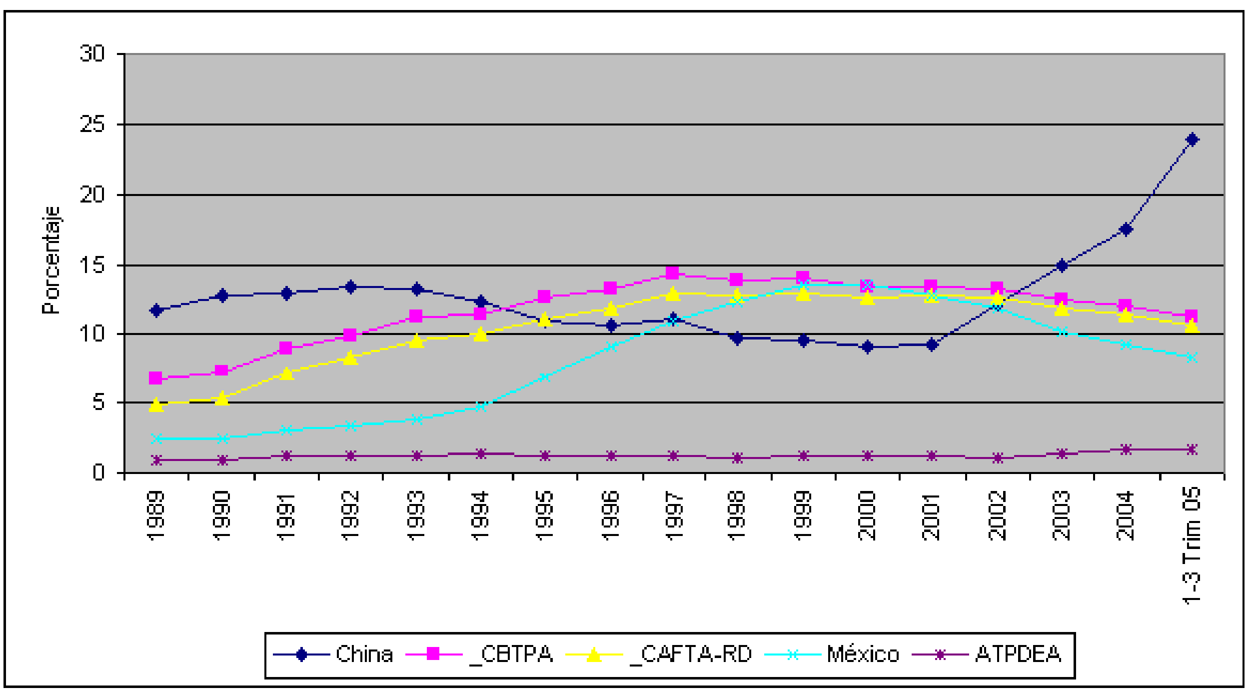
This also implied that the liberalization of products with higher trade potential had not occurred. Neither had the three stages of the integration process guaranteed a smooth transition for importing and exporting countries towards the termination of the ATC.

Chart 1

UNITED STATES: SHARE IN CLOTHING IMPORTS BY COUNTRY/REGION

1989-THIRD QUARTER 2005

(%)



1st-3rd Quarter 2005

Percentage

Source: Author's elaboration based on data from the Office of Textiles and Apparel (OTEXA), United States Department of Commerce.

Estimates of the impact, expressed in Export Tax Equivalents (ETEs) taking 1997 as base year, show that in general, quotas associated with clothing have been much higher than those corresponding to textiles, in both the United States and the European Union. The United States and Canada have had the most restrictive quotas, reason why the impact of reductions on their imports in that sector has tended to be more dramatic. The manifestly high ETEs of China and India would imply a greater openness of the market to products from these countries during stage 4, and intensified competition with other Asian countries and with Latin America on the eve of the termination of the ATC. Indeed, the ETEs for some Members are much higher than the average tariffs for manufactured products imported by the United States and the European Union.

B. The level of quota utilization

From an economic standpoint, there are clear benefits to be had from quota elimination: in theory quotas, like tariffs, raise the domestic price of that product in the importing country and diminish domestic demand for that product. However, as this concerns quotas and not tariffs, increases in price benefit domestic both producers and exporters. Quota elimination would damage not only local producers in import markets but importers as well. Many domestic producers protected from external competition by the quota system would have to compete through cost effectiveness. Consumers in importing countries would be the ones to benefit.

Various studies confirm that quota fill-rates during the first two stages were relatively low. In the United States market during the nineties, only about 40% of United States imports in the textile and clothing industry entered that market under "binding" quotas and this percentage remained relatively stable throughout the decade. Later, during 2001-2002, the quota fill-rates by China in the 90 categories of quotas applied by the United States reached 76% on average. However, in the category of sensitive products, by implication having higher quantitative restrictions, the quota fill-rate for the United States was almost 100%.

Under the quota regime, the majority of clothing exports from China have been arranged through middlemen located in Hong Kong (China), the Separate Customs Territory of Taiwan, and Macao , and accredited as exports from those economies and not from China . The significant reduction in the unit cost of exports from China registered in recent years probably reflects the elimination of previously incurred intermediary charges.

In practice, quotas probably have not been that “binding”. The constraints to trade contributed to the fragmentation of the international supply chain through internationally integrated production systems. The dismantling of the production chain in this sector began when the production of one Member like China filled its quota to the maximum. The process of clothing assembly was sub-contracted to low-wage developing countries like Bangladesh . Thus when a country had filled its quota, the companies that had been in production there redirected their operations to other countries that had not yet filled the export quotas set by the importing country. At the same time, developed countries guaranteed preferential market access to a number of low-wage countries for the assembling of pieces of clothing that would later be re-imported under preferential conditions.

III. APPLICATION OF SAFEGUARD MECHANISMS BY THE UNITED STATES AND THE EUROPEAN UNION TO CHECK IMPORTS FROM CHINA

A. UNITED STATES

As a result of the surge in imports, manufacturers of textile products and clothing apparel pressed the United States Government to re-apply import quotas to goods from China based on the argument that since the elimination of global quotas on 1 January 2005, products from China had flooded the United States market. From the moment this petition was received on 27 May 2005, China has had to restrict its exports in seven groups of products to a level 7.5% higher than the previous year, in compliance with the stipulations of the Agreement for the Accession of China to the WTO. As no mutually satisfying solution was agreed within the 90-day consultation process, the United States added two further products to the restricted categories of imports from China . Strictly speaking, the new import quotas applied by the United States do not violate WTO rules since China accepted the application of safeguards until 2008 as part of its conditions of accession to WTO in 2001. Subsequently, on 7 November 2005, the United States and China agreed that exports from China could increase by 10% in 2006, by 12.5 % in 2007, and between 15% and 16% in 2008, integrating over 30 items of clothing.