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Apparel Apocalypse?

The Americas' Textile Industries Won't Die When Quotas Do

By Fred Abernathy and David Weil

Fears that Chinese apparel and textile exports will swamp the U.S. retail market when international quotas on those products are eliminated at the start of next year have caused a growing chorus of industry leaders, members of Congress and now officials of the Bush administration to call for limits on Chinese imports. Although the end of quotas will alter global competition, this isn't the way to respond. The fate of these industries is not sealed; it depends very much on trade legislation pending in Congress, which could create a new foundation for American manufacturers to compete.

The conventional wisdom on the future of the apparel and textile industries after quotas are lifted worldwide is simple: Exports from low-wage countries in general and China in particular will flood the United States, virtually wiping out those sectors. Our research, conducted over the past decade, paints a very different picture. Two seldom-recognized factors link the fate of the U.S. apparel and textile industries over the long term to those of our neighbors and to our trade relations with them.

First, a large proportion of American apparel imports already originate in countries that are geographically close, rather than in China and other low-wage Asian nations. While the United States imported a little less than $8 billion of apparel from China last year, it imported more than $16 billion from Mexico, Central America and Caribbean countries. And while quota limits facing China and other countries explain some of this disparity, they do not explain it all.

The United States imports so much from nearby countries primarily because their products arrive quickly. The Wal-Mart model that now dominates retailing requires apparel suppliers to replenish products on a weekly basis. As that model took over in the 1990s, so too did the advantage of sourcing certain apparel items closer to the U.S. market so that products could be manufactured and delivered more rapidly. This also explains how some segments of the U.S. apparel industry have survived even with cheaper labor elsewhere in the world. Costs remain a driving factor, but the proximity advantage will grow even greater in a post-quota world as retailers raise the bar ever higher on the responsiveness and flexibility required of their suppliers.

Second, although quotas end in less than two months under terms of the General Agreement on Tariffs and Trade, the ornate system of apparel and textile tariffs between countries will remain for a long time. Tariffs continue to add substantial costs to the value of goods imported from different parts of the world, such as China. Most apparel products from Mexico and the Caribbean arrive in the United States tariff-free, as will most imports from Central America if Congress ratifies the proposed Central American Free Trade Agreement (CAFTA). Tariffs range widely, reaching more than 30 percent of the value of some imported products. Given the sensitivity of retailers to even small cost differentials, this will give an advantage to countries covered by regional trade agreements that eliminate tariffs — as NAFTA does for Mexico and Canada.

Both factors affect the fate of domestic producers for a profound reason: Much of the textiles used in garments made in Mexico and the Caribbean — and potentially Central America — come from the United States. U.S. textile exports to Mexico in 2003 equaled more than 30 percent of the value of imports from Mexico. In contrast, exports of U.S. textile products to China that year equaled less than 0.8 percent of the value of imported apparel products from China. Apparel imports from Mexico and the Caribbean therefore benefit U.S. textile production and employment.

Textile manufacturers that supply regional and domestic apparel producers have survived by investing in technology, allowing them to achieve some of the highest productivity in the world. In addition, many producers have developed significant brand recognition, creating distinctive products such as Polartec. With the coming elimination of quotas, survival will depend on possessing those characteristics and using them to respond to increasingly volatile market demand. Similarly, the apparel industries in Mexico, Central America and the Caribbean will only maintain their position — even with tariff advantages — by continually improving their responsiveness to U.S. retailers and consumers.

The Central American Free Trade Agreement, signed earlier this year and up for debate in Congress, provides a means to take advantage of proximity. Congress should include appropriate labor and environmental safeguards as it debates CAFTA. But it must also make sure that the agreement and related trade policies reduce the barriers to hemispheric trade flows arising not only from tariffs but also from administrative and logistics barriers that will otherwise undermine CAFTA's intended effects. If not, Congress will miss the opportunity to enhance one of the remaining advantages for U.S. manufacturing industries and their workforces.

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