

The U.S.-China Bilateral Trade Agreement:  
A Case Study of U.S. Textile Trade Policy

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A CASE STUDY OF U.S. TEXTILE TRADE POLICY

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WILLIAM R. BROWN

Submitted to the Sloan School of Management on May 8, 1981  
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ABSTRACT

The textile industry is the only manufacturing sector in which developing countries are significant and competitive exporters in the world market. Textile production is one of the most labor intensive manufacturing activities in both high and low wage countries, and technical change is unlikely to radically alter the production conditions in the near future. For developing countries, textile production and export are ideal for both employment and as a producer of foreign exchange. As a matter of policy, the U.S. encourages this development by importing large quantities of textile goods. In fact, however, U.S. textile trade policy has been formulated in such a haphazard fashion that developing countries are at a considerable disadvantage when exporting to the U.S.

It is the contention of this thesis that with the recent U.S.-China bilateral trade agreement, U.S. textile trade policy discriminates against imports from China in favor of imports from developed and newly industrialized countries in Asia and Europe. Domestic textile industry fears of Chinese imports flooding the U.S. market are essentially groundless in light of the many weaknesses inherent in the Chinese textile industry. Combined with China's political difficulties arising from its economic competition with other developing countries, China's problems may be too great to realize fully the export potential that it seeks and that the U.S. textile industry fears.

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## CHAPTER 1

## INTRODUCTION - TEXTILE TRADE POLICY

1.1 Textile Trade and U.S. Protectionism

The export of textile manufactures from less-developed countries to markets in developed countries is an important facet of the general trade problem for developing countries. Expanded free world trade would provide a partial substitute for public assistance to less-developed areas. However, in light of the strong protectionist pressures in the U.S., there appears to be little chance of a significant increase in access to the U.S. market for manufactured exports from less-developed countries, particularly exports of textile products.

The textile industry in the U.S. and in most developed nations has, for several decades, been faced with the prospect of a surge in imports from low-wage countries. Textile manufacture is a very old industry. It is one which is easily transferable internationally and is perhaps the classic example of a footloose industry. As the industry has a comparatively low capital intensity, particularly in its clothing segment, countries with a relatively high endowment of labor vis-a-vis capital have been able to achieve considerable success selling clothing, fabrics, and yarn in world markets. In response to this challenge and because employment in textiles is so large (approximately two million U.S. production workers), there has evolved an elaborate assortment of import restraint devices designed to protect local industry and employment. The most prominent of the restraint measures is the set of quantitative restraints (QR's) under the Multifiber Arrangement.

The most recent example of such a restraint is the bilateral trade agreement between the U.S. and the People's Republic of China (PRC). Signed on September 17, 1980, the agreement (for full text, see Appendix A) puts specific import quotas on six apparel categories. In addition, it provides for government to government consultations should imports in other categories from the PRC "impede the orderly development of trade between the two countries." The U.S. textile industry considers this agreement particularly important since, with the granting of Most Favored Nation (MFN) status to the PRC on February 1, 1980, China no longer has to pay very high tariffs that had previously held textile exports to the U.S. to a miniscule amount of cotton greige goods and virtually no man-made fiber fabrics and blends. China's large low-wage labor pool and emphasis on light industry - particularly textiles - to earn foreign currency as a means to modernize the economy is viewed with alarm by much of the U.S. textile industry. Spearheaded by powerful political lobbies such as the American Textile Manufacturers' Institute (ATMI) and the American Apparel Manufacturers' Association (AAMA), the effort to close the market again to foreign imports appears successful.

## 1.2 The China Threat

Close examination of China's textile industry and export strategy indicates that the threat is not nearly so overwhelming as the U.S. textile industry would like the American public to believe. Indeed, the Chinese may be a decade away from seriously challenging the four major exporting countries (Japan, South Korea, Taiwan, and Hong Kong), either in terms of quantity or variety of products.

Moreover, China has adopted a new export strategy that will bring it into conflict with other developing nations that are seeking the same markets. As late as two years ago, the Chinese were counting on exports of raw materials, especially oil, to support their ambitious drive for modernization. But China has recently been shifting its export focus to light industry, with the result that other poor countries will now see China as a competitor for market share in the industrialized world, and thus a threat to their own economic advance.

Chinese oil production grew at an average annual rate of more than 20% from 1966 to 1978.<sup>1</sup> It was logical for China to look for oil exports to pay for modernization. For a variety of reasons, China's oil industry cannot serve its originally intended role of primary foreign currency earner. Oil production is now projected to remain at the 1979 level of 106 million tons through 1981. It will be the middle of the decade at the earliest before China has any hope of large infusions of petrodollars.

So China has switched instead to light industry (e.g., textiles, baskets, bicycles, radio and television assembly). Light industry promises a faster return on investment than do complex extraction projects. It also enables China to draw on the experience of overseas Chinese entrepreneurs from Hong Kong and Southeast Asia. China has devised a variety of plans, such as compensating the foreign investor with factory output or finishing and assembling his components that in some projects have successfully merged overseas Chinese know-how with the cheap labor of China.

But the switch to light industry carries with it grave political dangers. If China became primarily an oil exporter, its trade policy

would pose no threat to other developing countries, except perhaps to some of the OPEC nations. China, moreover, could continue to be regarded as a model of economic development.

Now, however, China is beginning to act more like other developing countries. It is using many of the same methods, such as establishing special trade zones to attract investment from garment manufacturers. It is thus competing for both the new factories of the multinational companies and the markets of their home countries.

The U.S. market is a prime example. China has recently replaced the Philippines as the leading source for the U.S. of cotton handkerchiefs. It has moved past Mexico, India and the Philippines to become a major supplier of women's cotton nonknit trousers. Two years ago, India exported three times as many floor coverings to the U.S. as China, but by 1980 the market shares were roughly equal.

China is competing as well for low cost funds. It has applied for developing country status at the World Bank and is expected to try to draw heavily on this source of inexpensive loans. With limited capitalization, the World Bank may have to reduce the loans it currently is allocating to other countries, such as the \$1.5 billion it annually lends to India.

Countries that produce goods on the simpler end of the spectrum will bear the brunt of China's new approach to funding modernization. Such a prospect will certainly have political consequences. China's continued success at the expense of Philippine and Indian manufacturers might obstruct the improvement of relations between these countries.

To compound the problems for China, it is following its new economic path at a time when protectionism is being advocated with increasing regularity throughout the world. Added to this is the fact that the non-oil producing nations are experiencing greater difficulty in their attempt to recapture petrodollars. Consequently, the level of perceived competition, if not actual competition, between China and other developing countries may become severe, and relations may be strained in a way that was not anticipated a short time ago.

### 1.3 Foreign Trade and Foreign Relations

Foreign trade must be viewed in the context of foreign relations, not only by China's leaders but by America's as well. Textile manufacturing is one in which developing nations seek to expand their exports, often without regard to making profit in the economic sense. As a matter of policy, an industrialized nation such as the U.S. has encouraged and should continue to encourage this development by importing textile goods. Capital-poor areas will not be able to realize their full export potential in manufacturing unless they are allowed to protect their infant industries and are granted preferential access to the markets in industrialized countries. There is always the danger that special preferences would encourage export sectors which are, in the long run, fundamentally not competitive on the world market. Preferences may be justified in the short run, however, while exporters are opening marketing channels in the developed countries.

It is the contention of this thesis that with the recent U.S.-China bilateral trade agreement, U.S. textile trade policy discriminates against imports from China in favor of imports from developed and newly

industrialized countries in Asia and Europe. This is doubly damaging to U.S.-China trade relations since China depends on its textile industry for a large measure of its foreign currency earnings to buy capital equipment from the U.S. and other Western nations. Moreover, a closer scrutiny of the Chinese textile industry reveals inherent weaknesses that will take years to correct before it threatens to overtake the major U.S. textile importers or disrupt a large part of the U.S. textile industry. Combined with China's political difficulties arising from its competition with other developing nations, China's problems may be too great to realize fully the export potential that it seeks and that the U.S. textile industry fears.

#### 1.4 An Outline of the Discussion

In this opening chapter, arguments have been presented that portray a China with an export strategy for economic development that is at odds with much of the developing world. This strategy is targeted at the largest of the textile markets - the U.S. - which is surrounded by a large and powerful set of protectionist measures and a textile trade policy that favors importing from developed and newly industrialized countries rather than developing countries.

Chapter 2 examines the present state of textile protectionism in the U.S., to include both tariff and non-tariff barriers. It is argued that in selling to the U.S., due to both the quantitative restraints and the widely differing tariff rates, the developed and newly industrialized countries have and will have trade advantages in certain textile product categories over developing countries such as China. A study of current

bilateral agreements and the country composition of trade demonstrates how U.S. trade policy continues to actively favor certain developed and newly industrialized countries that no longer require U.S. trade assistance.

The PRC textile industry is the subject of Chapter 3 which takes a close look at the role of the industry in China's planned economic development, its production capabilities and raw materials usage. A study of China's textile industry's current problems and policies aimed at solving those problems should give the reader a better understanding of China's export capacity.

Chapter 4 follows with an examination of the PRC textile export strategy, past and present, for specific product categories. An analysis of China's current export prospects indicates how risky China's strategy might be to China's long-term economic development.

A summary and analysis of China's position in the developed-developing country textile trade is in Chapter 5 along with the potential impact of further U.S.-China textile trade on the U.S. textile industry. Finally, a number of recommendations are presented that would help construct a more equitable U.S. textile trade policy and better balance the interests of the U.S. and those of an exporting nation such as China.

## CHAPTER 2

## THE PRESENT STATE OF TEXTILE PROTECTION IN THE U.S.

2.1 Import Policies for Textiles

The U.S. protects its large textile industry from foreign competition by means of two partially overlapping import restriction policies. First, there are quantitative restrictions (QR's) which are imposed on most of this country's leading foreign suppliers. Owing to the tremendous array of products in the textile spectrum, their widespread production throughout the world, and the maturity of the trade controls, the QR's have become an extensive and highly refined set of trade controls. Second, textile imports from all sources must also surmount high, and in some cases very high, ad valorem tariff rates to gain entry to the U.S. market. In the past, public policy deliberations have typically concentrated on the QR's. Tariffs, however, also play a significant role.

2.2 Quantitative Restraints

The QR's which apply to textile imports may, in a sense, be referred to as Voluntary Export Restraints. This arises from the formality that the QR's are the result of negotiations between the U.S. and several exporter countries.

The negotiations produce trade "agreements," each of which establishes annual quantitative limits for specific types of textiles that a particular supplier nation may export to the U.S. In addition to establishing annual quantity limits, each agreement typically contains four major features: (1) It covers a period of several years, usually three to five years; (2) It provides for a ceiling on annual growth rates for

product categories or groupings of categories; (3) It permits flexibility through time by means of either permitting a carry-over to the present year of a portion of the unused entitlement of the past year or a borrowing of a part of next year's entitlement for the current year; and (4) Agreements also provide, for a particular year, switching (or "swinging") a certain percentage of the entitlement for one product category to another category. The U.S.-China agreement is for a three-year period and has all the features listed above (see Sections 5 and 7 of the Agreement).

There are also provisions of a somewhat secondary nature, but perhaps one of the most significant features of interest about the U.S. textile restraints is that they are linked to the international Multifiber Arrangement (MFA), an arrangement which evolved from U.S. proposals nearly two decades ago. The U.S. limitations are sanctioned by the multilateral MFA concluded under the auspices of the General Agreement on Tariffs and Trade (GATT). Virtually all major textile importing and exporting countries are party to the MFA. It superseded earlier multilateral arrangements extending back to 1961 and which were confined to cotton textiles. In addition to cotton textiles, the MFA also takes in manmade fiber and wool textile products and was recently renewed, in December 1977, to run until December 31, 1981. This has particular relevance to China since, as Chapter 3 explains, China is rapidly increasing its manmade fiber capacity. The MFA provides the general framework for textile trade restraints and allows importer countries to negotiate bilateral agreements with relevant exporters. Alternatively, an importer may impose unilateral restrictions when an agreement cannot be reached. For example, the U.S. imposed

unilateral restrictions in 1979 on Chinese textiles on the same categories now under quota after the first attempt at negotiations failed.

### 2.3 Tariffs

Discussions of textile trade policy not uncommonly place the MFA and bilateral agreements in the limelight and pay little attention to tariffs. However, tariffs on textile imports play a significant role for the following reasons. First, not all exporter countries are covered by QR's and in some instances, where there is a bilateral agreement, not all textile products are limited by QR's. Second, when the QR's are not binding restraints on exports or when there are no QR's, then the tariff is the instrument which constrains the import of textiles. For example, prior to granting MFN status to China on February 1, 1980, the U.S. tariff on Chinese manmade fiber products was 70 percent ad valorem plus 45¢ per pound, which effectively prevented that product from ever coming into the U.S. market.<sup>2</sup>

The successes of several tariff negotiating rounds since the late 1940's have lowered average tariff rates in major industrialized countries and lessened the importance of tariffs as a barrier to trade. Table 2.1 gives information about U.S. tariff rates for 1977 by the seven major schedules in the U.S. tariff schedule (TSUS). It demonstrates that the trade weighted average for textiles, schedule 3, is 23 percent and much greater than the rates for the other categories. The table certainly reveals one prominent feature of U.S. trade policy, namely that textiles stand out boldly as receiving very strong tariff protection.

Table 2.1

Trade Weighted Tariff Rates for U.S. Imports  
by Major TSUS Categories, 1977

<u>Category</u>	<u>Trade Weighted Tariff Rate (percent)</u>
Schedule 1: Animal and Vegetable Products	3.79
Schedule 2: Wood and Paper; Printed Matter	1.69
Schedule 3: Textile Fibers and Textile Products	22.85
Schedule 4: Chemicals and Related Products	1.09
Schedule 5: Nonmetallic Minerals and Products	5.14
Schedule 6: Metals and Metal Products	3.55
Schedule 7: Specified Products; Miscellaneous and Nonenumerated Products	7.98

Source: Calculated from "Statistical Bulletin No. 1," March 1978,  
prepared by the International Tariff Commission.

Within the textile schedule there are also substantial variations in tariff rates. These variations are related to type of fiber and to stage of fabrication. Of the three major fiber classes (cotton, wool, and manmade fibers), the tariff rates on cotton are considerably lower (roughly half) than the other two. This tendency is found for all three major product headings, yarn, fabrics, and apparel.

The relationship of tariff rates and major product categories is depicted in Table 2.2 and displays the feature of tariff escalation with the stage of fabrication. At the extremes, the trade-weighted averages show that the tariff rate for apparel is 28 percent or nearly three times the rate for yarn, 10 percent. These figures encompass all textile fibers and products reported in schedule 3 of the TSUS and therefore take in a broader collection of products than those relevant to the three-fiber MFA. In fact, the tariff rates for the three MFA fibers tend to be higher than "non-MFA" fibers which refer chiefly to silk and noncotton vegetable fibers. Therefore, the height of the tariff wall restraint that exporting countries must overcome is somewhat understated by the data of Table 2.2. But as the three MFA fibers are the major ones, the understatement is not very great. For example, the three-fiber tariff rate for yarn is 11.33 percent, while it is 19.30 percent for fabrics.<sup>3</sup>

All this suggests that tariffs play far more than a minor role in textile trade policy. Even if all the QR's were effective under normal conditions, there is the question of what would serve to protect domestic industry when demand enters a cyclical decline. Tariffs stand at the ready, as it were, to guard against a relative increase of imports during such times. Beyond that, tariffs also apply to foreign suppliers outside

Table 2.2

Trade Weighted Tariff Rates for Major  
Textile Product Categories, 1977

<u>Category</u>	<u>Trade Weighted Tariff Rate (percent)</u>
Yarn	10.47
Fabrics	15.83
Apparel	27.68
Textile Madeups and Miscellaneous Textiles	13.07

Source: Derived from data contained in International  
Tariff Commission "Statistical Bulletin No. 1,"  
March 1978.

the scope of the bilaterals. While European countries, for example, do not face QR's, they are expected to respond to the U.S. tariff structure which applies a smaller disincentive to shipping textile mill products as opposed to apparel. As we shall see, the tariff structure in conjunction with the recent bilateral trade agreement put the Chinese textile industry at a severe disadvantage compared to many other exporting nations.

#### 2.4 U.S. Textile Trade Balance

Table 2.3 depicts the expansion of the volume of textile imports over the period 1967 to 1977. During this period the total value of textile imports rose nearly fourfold to reach \$5.4 billion in 1977. Over the period 1972 to 1977, however, the quantity of textiles imported actually declined by two percent. Quantity changes may diverge from value movements, particularly where exporting countries overcome quantitative restrictions by upgrading the quality of their products. Moreover, the reported quantity decline was after 1972 when manmade fiber and wool imports from the four major Asian sources (Hong Kong, Japan, South Korea, and Taiwan) were first brought under restraint.

mill products and apparel. The former refers to yarn, fabrics and madeups. The latter refers to clothing articles. In recent years, the U.S. trade balance in textile mill products has recorded a small deficit, or has even been in surplus, while apparel imports have consistently exceeded exports by a large and widening margin. It is therefore somewhat misleading to take a very broad view of trade conditions and conclude that there is an import problem with "textiles".

Table 2.3  
U.S. Imports, Exports and Trade Balance of Textile Mill Products and Apparel  
(Millions of Dollars)

Year	Imports (Customs Value)			Exports			Trade Balance		
	Textile Mill Products	Apparel	Total Textiles	Textile Mill Products	Apparel	Total Textiles	Textile Mill Products	Apparel	Total Textiles
1967	803.9	595.2	1,399.1	509.4	118.6	628.0	-294.5	-476.6	-771.1
1968	949.1	786.0	1,735.1	501.1	130.8	631.9	-448.0	-655.2	-1,103.2
1969	1,006.9	1,012.8	2,019.7	549.5	163.8	713.3	-457.4	-849.0	-1,306.4
1970	1,121.9	1,152.8	2,274.7	578.2	154.5	732.7	-543.7	-998.3	-1,542.0
1971	1,359.0	1,401.5	2,760.5	607.1	164.1	771.2	-751.9	-1,237.4	-1,989.3
1972	1,496.70	1,718.3	3,215.0	744.6	198.0	942.6	-752.1	-1,520.3	-2,272.4
1973	1,541.1	1,955.5	3,496.6	1,163.5	229.3	1,392.8	-377.6	-1,726.2	-2,103.8
1974	1,597.1	2,095.4	3,692.5	1,703.8	332.7	2,036.5	+106.7	-1,762.7	-1,656.0
1975	1,211.9	2,318.1	3,530.0	1,532.7	340.6	1,873.3	+320.8	-1,977.5	-1,656.7
1976	1,626.3	3,256.5	4,882.8	1,855.2	434.2	2,289.4	+228.9	-2,822.3	-2,539.4
1977	1,764.8	3,649.7	5,495.5	1,857.3	524.1	2,381.4	+92.5	-3,170.6	-3,078.1

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Source: Imports, FT-135; Exports FT-410. Prepared by: Market Analysis Division, OTEX, BDBD, ITA, U.S. Department of Commerce, November 24, 1978.

There is evidence, for example, that the manufacture of textile mill products, particularly the spinning branch of the industry, requires considerably more equipment per employee than the simpler apparel industry.<sup>4</sup> As a consequence of the differing capital intensities, it is possible that the U.S. textile mill products industry is marginally competitive internationally while the apparel industry is not. This point is also supported by data for the country composition of trade and is discussed in Section 2.6. It is critical, since the U.S. apparel industry, through QR's and tariffs, is evidently the most protected (and inefficient) segment of the textile industry while, as Chapter 4 points out, that market is also the prime target of the textile industries of developing nations such as China.

## 2.5 Bilateral Agreements

A list of the eighteen countries which have bilateral agreements with the U.S. is provided in Appendix B. Some of the information is now out of date as new bilateral agreements began in 1978, but a valuable perspective is furnished by data in Appendix B. Three main points emerge: (1) Most of the countries involved are developing countries with the exception of Japan and, arguably, South Korea, Taiwan, and the British Crown Colony of Hong Kong, which should more properly be called "newly industrialized countries;" (2) The majority of the aggregate restraint quantity, approximately 60 percent, is accounted for by three economies—Hong Kong, South Korea, and Taiwan (when Japan is included, the share of the top four East Asian sources is about two-thirds); and (3) The manner in which the restraints have been administered is by means of

export authorizations granted by the supplying country. However, for most suppliers, the limitation is controlled jointly by the U.S. and the supplier. What this refers to is a dual or overlapping control procedure. The supplier exercises initial control, in terms of granting export authorizations to respective producers. The U.S., in some cases such as for sensitive product categories, establishes a second level of control by instructing the Customs Service to tally incoming textiles to ensure compliance with the appropriate individual product QR for the year. This is presumably most relevant for those product categories in which over-shipments have been discovered in the past.

Seventeen countries collectively amount for almost three-fourths of total U.S. imports in terms of quantity.<sup>5</sup> Significantly, with the exception of Japan, textiles from the Organization for Economic Cooperation and Development (OECD) countries do not face QR's. Among these countries, West Germany and Italy were the leading sources, and in 1977, were the fifth and sixth largest suppliers to the U.S. market. In 1979 China took over the sixth spot from Italy, yet still accounted for only four percent of total imports on a quantity basis.<sup>6</sup>

Appendix B also indicates that for several of the seventeen countries the QR's do not apply to all textile products. For example, only cotton textiles are restrained from Egypt, Brazil, India, Pakistan, and Poland. The question of what serves as the import restraint for the noncotton textile exports of these countries is not clear. Each country doubtless realizes that if it were to move into wool or manmade fiber products the scope of the bilateral could easily be broadened to include these products as well.

The most striking feature is the aggregate quantity set on import limits for South Korea, Taiwan, and Hong Kong which ranges between 716.5 to 1,178.8 million square yard equivalents for 1977. Since each new agreement typically provides for annual growth, those figures can only rise. Compared to China's quota of 80.8 million square yard equivalents for 1981 (for product categories that accounted for 75 percent of the previous year's textile trade between the U.S. and China), it becomes clear that U.S. textile trade policy favors developed and the newly industrialized countries at the expense of developing countries.

#### 2.6 Country Composition of Trade

A comparison of U.S. trade balances for textile mill and apparel products reveals that U.S. trade in textile mill products is primarily with the developed countries of the European Economic Community (EEC), Japan and Australia. As Table 2.4 shows, nearly half of U.S. imports are made in the EEC and Japan while a similar share of U.S. exports is purchased by the EEC and Canada. This pattern of trade in textile mill products is a reflection of the general feature about such trade for all developed countries; that is, the bulk of trade in textile yarn, fabrics and other mill products is between developed countries. In fact, a U.N. study showed that in 1975, 55 percent of total world trade in textile mill products by value were from one developed country to another.<sup>7</sup> Moreover, developed countries recorded a net surplus on their textile trade with developing countries.

Another feature is that the making of textile mill products has witnessed fundamental technological changes in recent years which have

Table 2.4

U.S. Trade in Textile Mill Products and Apparel with Selected  
Developed and Newly Industrialized Countries in 1977.  
(millions of dollars)

<u>Country</u>	Textile Mill Products		Apparel	
	Exports from U.S.	Imports to U.S.	Exports from U.S.	Imports to U.S.
<b>Developed countries</b>				
Australia	61.3	0.3	3.9	1.0
Canada	421.9	46.1	52.5	23.9
EEC Countries	429.6	453.9	109.3	334.1
Japan	<u>40.2</u>	<u>375.3</u>	<u>17.8</u>	<u>230.0</u>
Subtotal	953.0	875.6	183.5	589.0
(percent of total)	(51.3)	(49.6)	(35.0)	(16.1)
<b>Newly Industrialized Countries</b>				
Hong Kong	23.1	129.2	7.0	1,053.4
South Korea	3.0	43.6	1.6	553.3
Taiwan	<u>3.0</u>	<u>70.9</u>	<u>0.5</u>	<u>652.9</u>
Subtotal	29.1	243.7	9.1	2,259.6
(percent of total)	(1.6)	(13.8)	(1.7)	(61.9)
<b>Total</b>	<b>1,857.3</b>	<b>1,764.8</b>	<b>524.1</b>	<b>3,649.7</b>

Source: Based on data compiled by the U.S. Department of Commerce.

accounted for some of the increasing popularity of manmade fiber and mixed fiber (manmade and natural) apparel. Such changes tend to favor developed countries where they were first introduced and where the dominant equipment manufacturers are still found. However, these innovations have spread quickly to some of the newly industrialized countries. Don Keesing of the World Bank writes:

The leading East Asian exporters (Korea, Taiwan Hong Kong) are in a class apart - they possess up-to-date equipment, of more recent vintage on average than in richer countries, and they have mastered its use so that their plants are often outstandingly efficient by world standards.<sup>8</sup>

The combination of (1) OR's arising from bilateral agreements, (2) the structure of tariffs as shown in Table 2.2, and (3) the possible cost advantages for developed versus developing countries in textile mill products, help explain the relatively large role played by developed countries in supplying the U.S. with textile mill products. As Chapter 3 indicates, the combination of QR's, the tariff structure, and China's pursuit of its natural advantages in the clothing segment of the textile industry demonstrates why China finds itself on the wrong end of U.S. textile trade policy.

## CHAPTER 3

## THE PRC TEXTILE INDUSTRY

3.1 PRC Economic Development Plans

A revised outline of a 1975 plan to provide the basis for the Four Modernizations Program for the PRC—a program to modernize agriculture, industry, national defense, and science and technology—was announced by Premier Hua Kuo-feng and approved by the Fifth National People's Congress in March 1978 to achieve the objective of putting China into the front ranks of the world's industrialized nations by the year 2000. After an extensive reassessment of the country's economic situation, the Central Committee of the Chinese Communist Party in December, 1978 called for a re-ordering of planning priorities to reduce imbalances among economic sectors and a scaling down of the over-extended capital construction program to concentrate on certain priority projects.

The new program places renewed emphasis on the order of priorities—agriculture, light industry, heavy industry—which has been the official policy since the early 1970's, but not always followed. The new policy calls for reducing the share of state investment in heavy industry and increases for both light industry and agriculture.

3.2 Role of the PRC Textile Industry

The textile industry is expected to play an important role in the readjustment of the Chinese economy over the next several years, in the early stages of the drive for economic modernization. The state will give the textile industry priority in the allocation of raw materials and electric power, and has begun to introduce a number of reforms.

Textiles are expected to find a huge market, both domestically, because of rising consumer incomes, and internationally should protectionism not shut out lucrative markets. The industry is expected to provide employment opportunities for the rapidly growing labor force. The Chinese also hope that increased textile output will generate large profits and government revenues, and will do so both rapidly and at a relatively low investment cost.

Compared to other sectors of the Chinese economy, the textile industry is an excellent producer of revenue and foreign exchange for the government. In domestic trade, textile products account for one-fifth of China's retail sales of commodities and one-tenth of the state's financial revenues. The textile industry also provides one-fifth of China's total foreign exchange.<sup>9</sup>

The textile industry in Shanghai, which accounts for one-fourth of national textile production, turns out six yuan (one yuan is approximately \$1.50) of production value for every yuan of fixed assets. On the average in China, one yuan of investment in fixed assets in the industrial sector as a whole produces one yuan of production value. In the past 30 years, the textile industry in Shanghai has delivered a total of 43 billion yuan of profit and taxes to the state, a figure which is equivalent to over 80 times the state investment in transforming the municipality's old textile mills and building new textile mills. In 1978 alone, the textile industry in Shanghai contributed 3 billion yuan in profits and taxes, equivalent to nearly two times the value of the industry's fixed assets.<sup>10</sup>

Textiles were among the first of China's major modern manufacturing industries early in this century. When the People's Republic of China came into power in 1949, the Ministry of Textile Industry was established almost immediately, and it set forth two principles in the development of the industry. First, the task of the textile industry was to satisfy the basic clothing needs of the people at the lowest social cost. Second, a more far-reaching principle was for the industry to develop and nurture an export trade in textile products, which would serve as the main earner for foreign exchange. This would, in turn, finance the industrialization of other branches of light industry in China. Above all, textile production and distribution would be carried out in a socialistic framework.

Textiles made up nearly one-half of the gross value of industrial consumer goods produced in 1952, and over 40 percent in 1957.<sup>11</sup> The Chinese are well aware that textiles led the way at the beginning of England's industrial revolution, and that they were also a leading sector during Japan's early industrialization. Chinese exports of textiles increased very rapidly during the 1950's, and textiles became a leading export. During the economic crisis years of 1961-63, when foreign exchange was urgently needed to finance food imports and debt repayments, they made up 40 percent of China's total exports.<sup>12</sup>

Expansion of textile production is in a sense a "fail-safe" proposition for the Chinese. This is because all of the production that can be exported will earn badly-needed foreign exchange, while any part that cannot be exported will certainly find a market at home, helping soak up purchasing power and earning revenue for the state. Domestic demand for

consumer goods in general is already beginning to outstrip the available supply by a widening margin. The combination of fairly large increases in consumers' incomes during the last few years (both for workers and peasants) and pent-up demand for such products as textiles is producing inflationary pressures. A July 26, 1979 People's Daily editorial stated, "A relatively big gap exists between the social purchasing power and available quantity of commodities this year. Special measures must be taken to boost the production of marketable products, including light industrial and textile items, or the contradiction between supply and demand during the second half of the year will become more and more pronounced."<sup>13</sup> Inflation, virtually unknown in Communist China until the past few years, is running at an estimated 7% annual rate. In China's crowded urban areas, inflation is possibly closer to 10-12%.<sup>14</sup>

### 3.3 Production

Textiles continue to play an important role in the domestic economy. The 1978 production value of the textile industry was 45 billion yuan, or 10.6 percent of the nation's total industrial production, and a total of 10.65 billion yuan of profits and taxes was created by the industry. These national figures were derived from data on Shanghai's textile industry. The People's Daily reported that the total production value of the textile industry in Shanghai in 1978 was 10.8 billion yuan, an increase of 2.4 times over 1952. A total of 3.3 billion yuan of tax was delivered to the state by the industry, and increase of 13 times over 1952. The number of workers and staff in the Shanghai textile industry

was 14 percent of the number of workers and staff of the entire textile industry as of 1978; however, the production value and the amount of tax delivered to the state by the Shanghai textile industry accounted for 24 and 31 percent, respectively, of the total for the national textile industry.<sup>15</sup>

In 1978 there were 4,000 textile enterprises in China, with a total labor force of 2,800,000. The total number of spindles is estimated at 13 million.<sup>16</sup> With the exception of the chemical fiber plants, most of the frames of the spinning, weaving and printing machines in the textile industry are of late 19th century and early 20th century design but with updated machine parts.

China's textile industry is based mainly on cotton. As Table 3.1 indicates, cotton cloth is by far the most important product in terms of quantity produced, with 11.029 billion linear meters (10.286 billion square meters) produced in 1978. Silk and wool cloth, which generally have higher unit values, are produced in much smaller quantities. They are not rationed, but annual per-capita production of them is only a few inches. A large proportion of silk and wool output is exported. In 1971, 401.28 million linear meters of silk cloth were produced (the last year for which data are available), and 65.22 million linear meters of woolen cloth were produced in 1974. Production of chemical fibers in 1978 stood at 284,600 tons, compared to 2.167 million tons of cotton alone. Production of cotton cloth has grown at about 3.5 percent per year since 1957. Production of wool and silk textiles have also grown rapidly during the 1970's.

Table 3.1

## Textile Production. (Million Linear Meters)

<u>Year</u>	<u>Cotton Cloth</u>	<u>Wool Cloth</u>	<u>Silk Cloth</u>
1957	5,050	18.17	144.56
1965	5,727	NA*	NA
1970	8,500	NA	NA
1971	NA	NA	401.28
1974	NA	65.22	NA
1975	9,565	NA	NA
1976	8,888	NA	NA
1977	10,151	NA	NA
1978	11,029	NA	NA

\*NA: Not available

Source: U.S. Department of State, "Prospects for Chinese Textile Production and Trade," September 11, 1979, p. 5.

On a per-capita basis, production of textiles is still low. Cotton cloth is rationed, suggesting that demand for it exceeds the available supply at current prices. Annual production of cotton cloth has averaged about 10 meters per person during the 1970's, compared to an average of about eight meters during the 1950's; however, consumption per capita did not increase between 1957 and 1977.<sup>17</sup>

#### 3.4 Raw Materials

The industry depends for most of its raw materials on domestic cotton production. The Chinese have also made some purchases of cotton on world markets, and in recent years have been producing and importing more and more synthetics.

Production of cotton fiber by the agricultural sector has been more or less stagnant during the 1970's. Output peaked in 1972 at

2.6 million tons, but has since declined (see Table 3.2). The main reasons for this stagnation are the state's strong emphasis on grain production and procurement to the detriment of other crops, and the low and declining price ratio between cotton and grain crops.<sup>18</sup>

Table 3.2

Cotton Fiber Production and Imports. (million tons)

<u>Year</u>	<u>Cotton Production</u>	<u>Cotton Imports</u>
1957	1.6	.022
1960	0.9	.087
1965	1.6	.177
1970	2.0	.078
1973	2.6	.410
1974	2.5	.380
1975	2.4	.164
1976	2.3	.130
1977	2.049	.200
1978	2.167	.570

Source: U.S. Department of State, "Prospects for Chinese Textile Production and Trade," September 11, 1979, p. 7.

The acreage planted to cotton has declined by about one million hectares in the last twenty-five years. The price of cotton has reportedly been increased, but the prices of grains and other crops have also been increased—perhaps by even more than that of cotton. Therefore cotton must still compete for inputs, acreage and labor with other potentially more profitable agricultural activities.

Although China is the world's leading importer of cotton, scant supplies and high interest rates are cutting into the traditional flow of U.S. cotton to China. Global supplies are declining. Recent hot, dry weather has cut the U.S. crop in 1980 by 23% from that of 1979, and the U.S. Department of Commerce forecasts similarly bad numbers for 1981.<sup>19</sup> The outlook may brighten with improved weather but it still demonstrates China's vulnerability to world cotton markets. Current high interest rates are also dampening Chinese cotton consumption, both by making it expensive for textile mills to finance inventories and by curbing demand for finished goods.

China is likely to remain the world's leading cotton importer, with its needs estimated at 3.4 million bales in 1980-81 (a bale is 480 pounds of cotton). In 1979-80, it bought two-thirds of its three million bales of imports from the U.S. and is continuing to buy heavily from its principal supplier.<sup>20</sup> Vice Premier Yao Yilin estimated domestic cotton production in 1981 at 2.6 million metric tons, a national record. Even so, by adding domestic supplies to cotton imported from the U.S. and elsewhere, China may raise its cotton consumption in 1981-82 to 13.8 million bales, a mere 300,000 bales more than 1979-80, when it boosted consumption by 900,000 bales from the previous year with the help of large imports from the U.S. The implications of reduced cotton consumption are clearly less cotton clothing for export and increased emphasis on production of synthetic fibers.

Production and imports of synthetics have been increasing rapidly. Domestic production totalled 300,000 tons in 1979, compared to the 1976 level of 146,000 tons. Half of these synthetic fibers were viscose rayon

and the rest short staple polyester, acrylics and nylon. Imports of synthetic fibers were valued at \$150 million in 1977, up from \$15 million in 1970; imports are reportedly about equal to domestic production.<sup>21</sup>

The Chinese had hoped to raise the proportion of chemical fibers in textile production from the current 10 percent to 40 percent by 1985, or at least a 50 to 60 percent increase from the present annual production of 300,000 tons.<sup>22</sup> A number of large-scale chemical fiber plants are already under construction, and some even larger ones are being planned. The synthetic fiber industry is blessed with the large domestic supply of raw materials such as crude oil and natural gas. The development tempo, however, is slowed somewhat due to the long lead times and capital necessary for the exploration of crude oil. Thus China must import man-made fibers (yarn, staple, and fabrics) for sometime.

A number of large-scale chemical fiber plants are already under construction, and some even larger ones are being planned. Some of the chemical fiber plants recently completed or under construction are:

(1) the Hubei Baoding Chemical Fiber Plant, the largest silk manufacturer in China, with an output accounting for 40 percent of China's total silk production; (2) the Shanghai General Petrochemical Plant with production equipment from West Germany and Japan and initial annual production capacities of 22,000 tons of polyester staple, 33,000 tons of vinylon staple and 47,000 tons of acrylic staple. (The phase two construction work will raise the annual production capacity of polyester to over 200,000 tons); (3) the Yinshan Petrochemical Plant, a new name for the Beijing Petrochemical Plant, which imported its production equipment from Japan and

which installed the first ethylene unit, with an annual production capacity of 100,000 tons of synthetic fibers a year; (4) the Jiangsu Yicheng Chemical Fiber Plant with an annual production capacity of 600,000 tons a year. At least a dozen other plants are under construction, half with equipment and construction assistance from France, West Germany, and Japan.<sup>23</sup>

In 1979, China produced a record number of cocoons, which in turn resulted in the production of the largest amount of raw silk in history. In the international trade of China, raw silk and silk wovens have become the most profitable export items second only to crude oil.<sup>24</sup>

### 3.5 Current Problems

Shortcomings in the quality and variety of products plague the textile industry. The Minister of the Textile Industry, Qian Zhiguang, in an interview in March of 1979, identified improvement in the quality and variety of products as "the primary task of the textile industry at present."<sup>25</sup> He identified specifically the problem of shrinkage of cotton textiles, as well as the need for more marketable trademarked products and for better and more varied chemical textiles.

Poor planning has also created some problems. At the newly opened Shanghai General Petrochemical Factory—the nation's largest synthetic textile factory—bales of acrylic wool are reportedly piled up "like hills."<sup>26</sup> The factory's annual production capacity of 47,000 tons of synthetic wool has roughly doubled the country's total production capacity of synthetic wool. In addition, about 100,000 tons of natural wool are produced every year, making a total of 200,000 wool-type fibers to be

processed each year. Unfortunately, China now only has the capacity to manufacture about 100,000 tons of woolen textiles each year. The new fiber production capacity, therefore, was redundant before it was even opened. Six of the 22 acrylic wool production lines have now been converted to production of cotton-type fibers, but the rest of the redundant capacity (part of it imported from Japan and West Germany) is presumably still producing wool-type fibers.

Planning problems are also reflected in the lack of sufficient raw materials, electricity and other inputs needed to keep China's textile mills operating. Some striking examples include:<sup>27</sup>

- (1) Shanghai - The municipality lost 16,000 bales of cotton yarn and 7.6 million meters of cotton cloth in January to May [of 1979] because of the inadequate supply of electric power. (People's Daily, August 6, 1979).
- (2) Jiangsu - Inadequate supply of electricity allowed the Taizhou Textile Mill to operate only 18 days in May and textile mills in Suzhou and Zhenjiang to work two shifts a day only. In the second quarter of this year the Suzhou Municipal Textile Bureau lacked 14 percent of coal and 25 percent of diesel oil requirements. Only half of the demand for electricity could be met in the Suzhou Textile Machinery Factory, the Wuxi Textile Machinery Factory, the Yicheng Textile Machinery Factory and the Changshu Bearing Factory. (People's Daily, July 12, 1979). More than 100 textile machines have stopped running to wait for raw material in the Zhengya Silk Knitting Mill. (People's Daily, June 1, 1979).

- (3) Heilongjiang - Textile production in January to May [of 1979] was suspended for 4,000 hours due to a cut in the supply of electricity. The situation was even worse in June. The Wuchang Cotton Mill and the Acheng Cotton Mill have stopped all production since June 4. Currently, the supply of electric power has stopped for 2.5 hours a day in the Mudanjiang Cotton Mill. The Quiqihar Cotton Mill and the Hulan Erqi Cotton Mill have reduced one shift of work. (People's Daily, July 12, 1979).
- (4) Guangdong - Textile mills in Guangzhou lacked 100,000 kwh of electric power a day, which accounted for one-fourth of the total demand. (People's Daily, July 2, 1979).
- (5) Zhejiang - The supply of electric power for textile mills in Ningbo and Hangzhou stopped 1.5 hours a day. (People's Daily, July 21, 1979).
- (6) Shaanxi - The Weiman Textile Machinery Factory and the Xianyang Textile Machinery Factory have suspended production because of a power shortage. (People's Daily, July 12, 1979).
- (7) Jilin - Only a portion of the production equipment in the Jilin Chemical Fiber Plant could operate due to inadequate supply of petroleum. (People's Daily, July 12, 1979).
- (8) Liaoning - Production of chemical fibers was reduced by 4,000 tons in the Dandong Chemical Fiber Plant because only half of the demand for diesel oil was fulfilled. (People's Daily, July 12, 1979).
- (9) Hunan and Henan - Shortages in electric power were also very serious in these two provinces. Some textile mills have their own power generators. However, these generators could not work because no diesel oil had been allocated to them. (People's Daily, July 12, 1979).

Labor productivity is also low in the Chinese textile industry. The amount of labor used in producing a bale of cotton yarn in China is from double to four or five times that of developed countries.<sup>28</sup> This is partly due to the age of most of China's textile technology and equipment. The Chinese are in the process of shutting down "inefficient" enterprises. Inefficiency, however, is stated in their terms, as the whole economic system is subject to deliberate overmanning because of the huge population. Leonard Woodcock, the former U.S. ambassador to China, said:

You can walk into any factory and see it. Anyone who is at all familiar with Western industry would look around and say, "I could cut 30% to 40% of these people without affecting production." But the alternative is mass unemployment which would lead to social disaster.<sup>29</sup>

Marketing skills and techniques are also in need of development. Production and marketing are still generally separated, and direct links between factories and sales or purchasing organizations are few. The Chinese generally simply produce items and offer them for sale, rather than soliciting orders for production of textiles or garments to customers' specifications. Orders from abroad must often be processed through several Chinese bureaucracies, both local and national, including those dealing with both foreign trade and textiles, before any business can be done. This is usually a time consuming process, which means that designs submitted by potential foreign buyers risk being out-of-date before they are produced.

### 3.6 New Policies

The new policies now being implemented in the textile industry are aimed at alleviating the problems previously discussed and boosting the industry's sales at home and abroad. Some deal with the supply side and are designed to remove specific constraints to production, such as the shortage of electricity and raw materials. Other policies are aimed more at the demand side and are intended to improve the marketability of China's textile products.

The overall goals of the new policies are to: (1) improve the quality, variety and design of textile goods; (2) raise the foreign exchange earning capacity of textile exports; (3) transform the existing textile enterprises into a base for textile modernization; and (4) modernize textile science, technology and management, and improve the training of textile technicians.

Specifically, the new policies include the following:

- (1) Better access to infrastructure services is being provided to smooth production and distribution of textiles. Higher priority is being given textile plants in the provision of fuel, electricity, and transport, which are economy-wide bottlenecks. The pay-off to greater provision of these services is intended to be higher output value, and presumably higher net revenue, than if they were used elsewhere. Acute power shortages are common among textile enterprises even though a kilowatt hour of electricity used in the textile industry yields an output value of seven to eight yuan, compared to two yuan of output if the same electricity were used in the metallurgical or chemical industries.<sup>30</sup>

The processing capacity of the textile industry is also to be expanded by transforming old factories and importing foreign technology and equipment with the use of foreign loans. In addition, the textile industry is to be given priority in obtaining raw and semi-finished materials.

- (2) Quality problems are being addressed directly. The first step is the reduction of the amount of shrinkage of cotton textiles, including gabardine, and poplin. These fabrics as they are now produced in China tend to shrink when washed, and the Chinese report that "bad shrinkage in cotton goods has been an annoyance to consumers for many years."<sup>31</sup> The Chinese now intend to pre-shrink all khaki drill, twill and poplin to keep shrinkage under two percent. For the first time since 1949, the Textile Ministry at a meeting held in August 1979 officially selected 113 textile products with brand names as top quality goods.

Commerce departments are being told to pay higher prices for textile goods of better quality and lower prices for textile goods of poor quality. Textile enterprises are also being encouraged to create and maintain more famous brand products and restore the use of trademarks for all textile products for domestic trade and foreign trade. Competition among textile factories through advertisements is permissible and textile products are often advertised in newspapers like the People's Daily. Since July 1, 1979, Shanghai has restored the use of trademarks in textile products, and textile products without trademarks are not allowed to leave Shanghai factories.<sup>32</sup>

- (3) Textile enterprises are to aim at raising profit and labor productivity and reducing the consumption of raw material and energy. All factories are to organize their production according to domestic and foreign market demand. Exhibition sales of woolen and synthetic fabrics and knitwear have been held the past two years in Beijing, Hebei, Fujian, Guangdong, Heubei and Sichuan to test consumer tastes in order to improve quality and add new varieties.<sup>33</sup> Enterprises are not permitted to retain profit if their products do not meet quality standards.

In July of 1979, the Ministry of Textiles began holding training courses for directors and party secretaries of all large and medium-sized enterprises on a three month rotation basis. The studies cover fundamental principles of enterprise management, technology and management experiences of advanced textile units in China and abroad, and the application of computer technology in the textile industries of Japan and the U.S.

- (4) Finally, China is active in developing textile production centers specifically for export and organizing trade departments to promote textile trade. (This policy will be covered in greater depth in the following chapter as part of China's international textile marketing strategy.)

### 3.7 Summary

The Chinese view the textile industry as a major source of foreign currency earnings that will help finance their ambitious modernization program. Extensive government assistance and a very competitive international pricing program are therefore to be expected. Combined

with an ongoing influx of Western textile technology and a vast manpower pool, China's textile industry would seem to be quite competitive in the U.S. market. Indeed, the recent discovery of several large oil fields in China favorably altered the long-term outlook of its textile industry. The richness of these oil fields almost guarantees an inexhaustible supply of raw materials for the petrochemical industry, which supplies the building blocks for the manmade fiber industry. Thus, when all the manmade fiber plants are in full operation (with modern Japanese and Western equipment), they should be comparable to and competitive with the best in the developed world.

However, it is also evident that the Chinese are experiencing some difficulty in allocating resources within the economy. Inefficiency due to lack of power or an overlarge work force is commonplace. In fact, the economic and political need to employ large numbers of people works against the desire to buy more Western textile technology - particularly in the manmade fiber segment - for the increasingly capital intensive textile industry. In addition, the Chinese have many of the problems associated with centrally planned economies (e.g., poor quality, low productivity, poor planning). This would indicate that the Chinese are some years away from the sophistication of the major Asian exporters in terms of quality control, Western styles and tastes, and the rigors of production and delivery schedules.

## CHAPTER 4

## PRC TEXTILE EXPORT STRATEGY

4.1 Textile Export History

The export of textile products began in China almost immediately after the establishment of the present government in 1949. In the early 1950's the export of silk goods was by far the most important because of the readily available world market. For ten to twelve years, until the mid-1960's, cotton goods were sold primarily to the Soviet Union, as the latter had to take these goods as partial payment for China's purchase of Soviet capital goods. In fact, up to the early 1960's, the Soviet Union was the major buyer of China's cotton textile products, and in 1962 these exports came close to 25 percent of the country's textile output.<sup>34</sup> The Soviet market was finally closed to Chinese textile goods after 1965, as a result of the deepened rift between the two countries.

In the late 1950's to the early 1960's, China attempted to divert her cotton textile exports to the Asian market with Hong Kong and Southeast Asia as the major targets. In order to enter these markets, the Chinese trading companies had engaged in aggressive selling and promotional techniques, taking advantage of the large population of overseas Chinese in those regions. Occasionally long-term credits with unusually low interest rates were extended to the firms which purchased the Chinese textile products. However, the most important strategy in China's export drive to the Southeast Asia region was the use of low prices, averaging about 10 percent cheaper than the prices of comparable goods from other sources.<sup>35</sup>

It should be remembered that selling prices in China bear no relationship to the cost of production. In the 1970's the comparative costs compelled many industrially advanced countries, including Japan, to shift away from cotton textile production, and to import increasing quantities of foreign cotton price goods. The chief beneficiaries were the cotton mills in Hong Kong and, to a lesser extent, China.

Textile export from China to the U.S. is of fairly recent vintage, and certainly not anywhere comparable to the four major exporting countries - Japan, South Korea, Taiwan, and Hong Kong - either in terms of quantity or variety of products. Prior to the granting of MFN status by the U.S., the bulk of China's textile exports to the U.S. was in cotton greige goods (carded cotton print cloth shirting and carded cotton sheeting) and very little man-made fiber fabrics and blends. Moreover, from 1975 through 1977, textile trade with China averaged only between nine and 16 percent of U.S. textile trade with any of the four major exporting countries.<sup>36</sup> Quotas were imposed unilaterally by the U.S. in 1979 to check the growth of certain categories of Chinese exports to the U.S. after the U.S. and China failed to agree to voluntary limitations on Chinese exports. The categories finally agreed to in the bilateral trade agreement accounted for over 75 percent of U.S. imports of Chinese textiles since 1976.

#### 4.2 Current Textile Export Strategy

The Chinese are engaged in a number of activities designed to export textile products more efficiently and to make the best use of their natural advantages.

Specifically, the construction of export bases in major textiles centers (Shanghai, Beijing, Tiajin, Jiangsu, Zhejiang, Shangdong, Liaoning, and Guangdong) is being stepped up. Shanghai has set up 48 factories specializing in the production of textile exports including 22 mills producing traditional silk and satin products, eight mills producing high quality woolen goods and knitwear, and 18 cotton mills and bleaching, printing and dyeing shops.<sup>37</sup> These factories can sign contracts with foreign firms directly, thus simplifying trade procedures and shortening delivery times. Some factories in Hong Kong, Macao and Japan have already developed compensation trade (the exchange of capital equipment for finished goods) and "Lailiaojiangong" (processing of imported materials) with China in the garment industry. Joint ventures have also been established with foreign firms in spinning, dyeing and finishing of cotton, wool, jute and silk. Two U.S. apparel manufacturers, Prestige Sportswear, Inc. and Oxford Industries, Inc., have buyback arrangements with China in exchange for fusing machines and other apparel-finishing equipment.

Industrial and trade departments have been instructed to cooperate with each other in formulating export principles, negotiating and signing contracts with foreign businessmen, investigating international markets and supporting textile export bases and factories specializing in textile exports.

The Chinese also hope to export more final goods and less raw materials and semi-manufactured goods, and to increase the exports of textile goods with high unit prices. Since 1966 the sales of textile yarn and fabrics have been two to three times the sales of clothing;<sup>38</sup>

in other words, the Chinese have sold more of the less processed, lower value-added category of goods, resulting in lower foreign exchange earnings than would have otherwise been possible with more processed goods.

Chinese success in exporting textiles up to now has been built mainly on products that take advantage of abundant labor, that do not require high technology, and that are not especially subject to changes in fashion. Many of them are marketed in developing countries and communist countries. The most important items have been cotton cloth, fabricated linens, and silk fabrics. Sales of these relatively simple and standard products can certainly be expanded, but prospects for a very rapid increase in profits are not as good as in higher quality apparel.

Rapid expansion of textile export revenues will depend on moving into higher-priced goods. These will be more processed (for example, more garments instead of yard goods) and their marketing will generally depend more on quality, design and fashion. A number of the new export enterprises the Chinese are setting up are aimed at this market for higher-quality, higher profit goods. This is especially true of joint ventures, which are designed to reduce the risk of these projects to the Chinese and compensate for China's own lack of experience with high-quality production. The management goals the Chinese are setting in the textile industry for achievement of higher quality, more variety and more use of trademarks are also aimed in part at getting entry into this market.

In a move intended to further boost exports and conserve precious foreign currency, China will begin in 1981 to institute

a separate foreign-exchange rate for trade purposes that would be used in internal accounting.<sup>39</sup> All importing and exporting organizations in China will have to use the rate of 2.8 yuan to one U.S. dollar, almost double the official exchange rate of about 1.5 yuan to the dollar. This means that exporting organizations, at both the central and provincial levels (or even individual enterprises) will be given a much more favorable exchange rate by the Bank of China for each dollar they earn. Many Chinese textile organizations up to now have been reluctant to export because inefficiency and China's irrational price structure often combine to make Chinese products prohibitively expensive. Thus, the higher exchange rate for the dollar will make exporting more attractive to Chinese organizations. It may also make Chinese exports more competitive in the world market because, in effect, the nation's currency will have been devalued, although only through an internal bookkeeping act.

#### 4.3 Export Prospects

Any attempt by the Chinese to rely on textiles as the main engine of rapid export growth would be risky. The major world markets for textiles and garments are not likely to be expanding at the rates the Chinese would require, and even if the markets were growing rapidly, exports to many countries (such as the European Economic Community and now the U.S.) are restrained by quotas. Finally, if they move into higher value, more processed items, they will have to displace some experienced, efficient entrepreneurs from a number of other Asian countries. Even if they solve their quality and management problems, the Chinese will have to test their marketing skills against proven competitors.

If price were the only consideration, the Chinese would presumably be well able to compete in international markets. This is because the industry is labor intensive, and the Chinese have labor in abundance. Thus one of the major variable costs of production would be low in China, and prices could be kept down. Since the demand for imports of textiles and garments is generally considered to be price elastic, the Chinese would have a considerable advantage over other exporters. Other problems such as planning and marketing would have to be kept under control, but in principle the Chinese would be competitive in open markets.

Unfortunately for the Chinese, the major world markets for textiles and garments are not free and open. Most industrialized countries, which constitute a major source of effective demand (willingness to buy and money to pay) have quotas designed to protect their own industries. Any rearrangement of these quotas in favor of China means some reduction either in a third country's quota or in domestic employment in the textile industry, or both. Both of these may involve some political hazards or costs for the governments of the various importing countries involved.

The world market for textiles and garments also tends to be more competitive the more one gets into higher value items (as the Chinese would like to do), and in recent years it has become increasingly difficult to enter new markets or expand existing ones. The main Chinese advantage in textile production, cheap labor, is abundant in most of the countries which are successful in textile exporting.

The key ingredient of success in exporting, however, is not so much low labor costs as flexibility and speed in adapting to changing fashion and market conditions in the major importing countries. Most of the already-established exporting countries have entrepreneurs and traders who are very adept at reacting to changes in tastes and in foreign demand. This is the case in Hong Kong, for example, which is the leading exporter of textiles to the U.S. The Asian Wall Street Journal noted that Hong Kong's competitiveness depends on its flexibility and responsiveness to foreign demand: "It's that ability that has enabled the textile industry here to thrive. Management skill and worker's adaptability count more than basic production costs."<sup>40</sup> On the basis of their present management and marketing skills the Chinese would not threaten to become a major force in world exports of higher priced fashionable garments. The Chinese over the next several years may be able to develop the management and production skills needed to compete in these markets. How well they succeed will depend in part on how effective their new incentive schemes are, how successful their new types of production organization become, and in general, how well they overcome bureaucracy and rigidity in their foreign trade behavior.

## CHAPTER 5

## SUMMARY AND RECOMMENDATIONS

5.1 Developed versus Developing

There is a great deal written about the necessity of developing countries to promote exports of manufactured goods, particularly labor intensive products, so as to achieve rapid and steady growth in foreign exchange earnings. Developing countries, however, face certain conditions that make such a strategy difficult, such as the imperfect transfer of resources in the economy and import restrictions, which hamper investment in modern equipment. Even if certain producers overcome these difficulties, their exports are likely to receive a hostile reception in high wage, industrialized countries. In general, those products which low wage countries can efficiently produce for export are likely to be directly competitive in high wage countries with the older, slower-growing industries, the sectors of the industrialized economy which are most likely to seek protection from foreign competition. This is certainly true of the U.S. where the textile industry by any measurement is one of the most protected industries.

Because textile production is one the most labor intensive sectors of manufacturing in both high and low wage countries, low wage countries enjoy a distinctive comparative advantage in the production of most textile products. As in many industries, the U.S. enjoys an edge in textile labor productivity over developing countries. Whether this productivity advantage is sufficient to offset the great difference in wages depends to some extent on what segment of the textile industry is examined. The textile mill products segment in the U.S. may well be

internationally competitive without a protective government and trade figures indicate that U.S. textile mill products trade is largely between the U.S. and other developed countries (countries that do not face QR's and, for textile mill products, need overcome a relatively small tariff barrier). This leaves the most protected segment of the textile industry - apparel - as the target market for developing countries such as China.

## 5.2 Impact on the U.S. Textile Industry

Even though the low wage Chinese textile industry will continue to have a comparative advantage in the textile industry due to its disregard of cost when setting price, particularly in the clothing segment, it is not likely to pose a serious challenge to the aggregate textile industry of the U.S., for several reasons: the binding restrictions imposed by the bilateral agreement on current Chinese exports, China's inability to compete in the highly processed segment of the textile market, limits imposed by the bilateral agreement on the growth of export capacity, excessive market penetration allowed by bilateral agreements to the four major Asian exporters, and the powerful domestic textile lobbies that forecast massive domestic unemployment in the event of a more liberal U.S.-China textile trade agreement.

Chinese exports prior to the bilateral agreement totaled four percent of total U.S. textile imports and the six apparel categories with quotas accounted for seventy-five percent by volume of the total Chinese textile imports. The following six months have seen a call for consultations for categories 334, 335, 337 and 338 (see Appendix A). While no agreement has been reached as of this writing, it is important to note that all of the categories are relatively low-cost apparel products. The Chinese clearly

have an advantage in this segment of the textile industry, since apparel products are considered price elastic and the Chinese sell without regard to cost. Yet the Chinese evidently have not planned to or are not yet capable of inundating the U.S. market with quality textile goods. Much of the Chinese manmade fiber industry is not yet fully operational and must still face stiff competition from established importers as well as from U.S. textile companies.

The highly processed segment of the textile market may be the most difficult market niche for the Chinese to enter. Beyond the traditional quality Chinese silk goods, the Chinese do not yet have the reputation in the U.S. as producers of quality goods or high fashion apparel. The series of trade exhibitions held in San Francisco, Chicago and New York in September, October and December of 1980 displayed few high quality textile goods other than silk. Competition here is fierce because of the larger profit margins available in this segment of the textile industry. However, it is also a more demanding market for the producer who must be flexible and react quickly to changing fashions and market conditions. The Chinese manufacturer still has much to learn from his Asian and Western competitors in this very crucial area.

The limits imposed by the U.S.-China bilateral agreement on the growth of export capacity restrict total expansion of the six categories to an aggregate three percent annually. Since the annual growth of U.S. apparel consumption is forecast to be one percent throughout the 1980's this growth rate for Chinese exports might seem favorable to China. However, annual import levels have been climbing at eight percent annually

throughout the 1970's.<sup>41</sup> Hence, China may well lose market share to other importers should this trend continue.

Even if China had unlimited access to the U.S. market there is some question whether China would have the capacity to threaten the majority of domestic textile manufacturers. The size of the American market is quite large relative to the present capacity of China (and other low wage countries). Research indicates that exporters in developing countries would experience sharply increasing costs before their share of the market in developed countries reached a level dangerous to the import-competing industry.<sup>42</sup> There is also some indication that in a market for a fairly homogeneous good, American consumers are biased in favor of the domestic product, even if the imported product sells at a slightly lower price.<sup>43</sup> Considering the size and diversity of the American textile market and the still immature export capacity of China, there would be no drastic deterioration of the total U.S. industry in the first five to ten years. There is no denying that many specialized textile mills and lower priced apparel manufacturers would be seriously hurt by the increasing volume of imports. Textile capital and labor, displaced by foreign production, might be absorbed by the larger diversified textile firms or even transferred to other industries. The likelihood of an open U.S. textile market is, of course, remote but there is certainly an argument that supports a more liberal attitude toward a higher ceiling on Chinese textile imports.

The current export restraints on the four major Asian exporters were all negotiated country-by-country (instead of by region or as part of an overall trade plan) with the evident bias that all except Japan

were in need of U.S. export assistance for further economic development. Those bilateral agreements also have upward growth limits that perpetuate their relatively large share of U.S. textile imports. Although Hong Kong, Korea and Taiwan have moved into a newly industrialized country status, the U.S. has found it politically difficult to renegotiate a more balanced agreement that would favor a developing country at their expense.

But all the blame does not rest with the unimaginative trade policy of the U.S. government. Powerful lobbies emphasize that the industry is one of the largest employers in the U.S. and that substantial domestic production is vital to the national defense. They exaggerate the threat to the industry of textile imports, and they are determined to commit future capital to the textile industry even though higher returns might be earned in other industries. The argument that increased imports would lead to massive unemployment is not convincing. William R. Cline, a Senior Fellow at the Brookings Institution, testified before Congress that

Textile imports would rise by large amounts if textile quotas and tariffs were liberalized. We do not expect that to happen, even though it would be a major boon to the American consumer and could be accomplished with only minor job losses (less than two percent of the textile labor force).<sup>44</sup>

In addition, an economic analysis by the Federal Trade Commission in 1980 forecast that, in the event of the free import of the more import-sensitive apparel category, net gains (elimination of consumption deadweight losses minus the cost of unemployment) would actually be positive.<sup>45</sup>

Despite the present restrictions on Chinese trade and the evident inability of the Chinese to displace the majority of the U.S. textile industry, there still exists a competitive challenge to segments of the domestic industry. What alternatives are open to these segments? For the foreseeable future, the U.S. government will probably maintain quantitative restrictions on imports. If the share of textile imports in the U.S. market remains relatively fixed there is likely to be little incentive for the basic structural changes which might make the domestic industry more competitive. If the U.S. market share of imports is allowed to grow at a slow rate, as is the case with the present bilateral agreements, then some domestic firms will be induced to reorganize and modernize their capacity. It is conceivable that costly labor saving innovations might not be immediately feasible in a world of free textile competition but, in the long run, these innovations might give American textile firms a competitive advantage, if they are introduced while the industry is protected from low wage foreign competition. However, it is certainly overextending the "infant industry" argument for trade protection to suggest that protection should be applied to mature industries in industrialized countries.

Unfortunately, the U.S. textile industry and the government have not proposed fundamental structural changes to the U.S. industry or to U.S. trade policy. There has been no suggestion that restrictions on textile trade will eventually be terminated. President Reagan's campaign rhetoric regarding close ties with Taiwan and his ambivalent attitude toward the PRC do not demonstrate great concern for the economic development of the PRC through trade with the U.S. Therefore, China must walk

its political tightrope by competing with other developing countries without substantial opportunity in the lucrative U.S. textile market, dominated today by developed and newly industrialized countries.

Production of textiles and apparel represent one of the most attractive export prospects for a densely populated, low wage country like China. Free access for these textiles to the U.S. market would do much to promote economic development through selfhelp. However, at this date, there appears to be little chance for free access to the vast American market. Constructive promotion of Chinese economic development through trade is not at present a primary concern of the U.S. government, nor a primary concern of the U.S. textile industry.

### 5.3 Recommendations

To handle the difficult balance of the interests of an importing nation such as the U.S. and those of exporting nations there must be modifications made to the GATT Multifiber Arrangement, which in turn dictates how bilateral agreements are reached. Specifically,

- (1) There must be an orderly sharing of textile market growth within the U.S. by dividing that growth proportionally between imports and domestic production. To accomplish this, the U.S. must follow the example of the EEC and adopt a global approach toward textile imports. This would allow the PRC the same opportunity as a developed country to export into the U.S. market before an aggregate quota for a region or product is reached.

- (2) Within the framework of a global analysis, special attention should be devoted to truly developing countries. In order to direct assistance and increase quotas where they are needed most, fair and careful distinctions should be drawn between developing countries and the newly industrialized countries which now account for the bulk of textile imports into the U.S. Substantial growth potential can and should be allowed for truly developing countries, if the newly industrialized countries are restricted to import growth rates somewhat below the rate of U.S. market growth.
- (3) The global U.S. import limitations should be tied directly to the projected growth rate in the U.S. textile industry. Such projected growth rates should take into account the sensitivity of the different product categories to further import penetration based on a sound statistical and economic analysis of conditions that affect different product categories.

These measures - or equivalent steps - can help prevent major disruption and economic hardship in the U.S. textile industry while allowing the U.S. to formulate a textile trade policy that favors emerging nations such as China.

## ENDNOTES

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42. James B. Thornblade, "Cotton Textile Exports From the Less-Developed Countries: The Competitive Challenge" (unpublished Doctoral Thesis, Massachusetts Institute of Technology, 1968), p. 249.
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## APPENDIX A

UNITED STATES AND CHINA  
SIGN BILATERAL TEXTILE AGREEMENT

On September 17, 1980 the United States and China signed a bilateral agreement relating to trade in cotton, wool, and man-made fiber textiles and textile products. The English language text of the Agreement follows:

AGREEMENT RELATING TO TRADE  
IN COTTON, WOOL, AND MAN-MADE FIBER TEXTILES AND TEXTILE PRODUCTS  
BETWEEN  
THE GOVERNMENT OF THE UNITED STATES OF AMERICA  
AND  
THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA

The Government of the United States of America and the Government of the People's Republic of China, as a result of discussions concerning exports to the United States of America of cotton, wool, and man-made fiber textiles and textile products manufactured in the People's Republic of China, agree to enter into the following Agreement relating to trade in cotton, wool, and man-made fiber textiles and textile products between the Government of the United States of America and the Government of the People's Republic of China (hereinafter referred to as "the Agreement"):

1. The two Governments reaffirm their commitments under the Agreement on Trade Relations between the United States of America and the People's Republic of China as the basis of their trade and economic relations.
2. The term of the Agreement shall be the three-year period from January 1, 1980 through December 31, 1982. Each "Agreement Year" shall be a calendar year.

3. (a) The system of categories and the rates of conversion into square yards equivalent listed in Annex A shall apply in implementing the Agreement.

(b) For purposes of the Agreement, categories 347, 348, and 645, 646 are merged and treated as single categories 347/348 and 645/646 respectively.

4. (a) Commencing with the first Agreement Year, and during the subsequent term of the Agreement, the Government of the People's Republic of China shall limit annual exports from China to the United States of America of cotton, wool, and man-made fiber textiles and textile products to the specific limits set out in Annex B, as such limits may be adjusted in accordance with paragraphs 5 and 7. The limits in Annex B include growth. Exports shall be charged to limits for the year in which exported. The limits set out in Annex B do not include any of the adjustments permitted under paragraphs 5 and 7.

(b) With respect to Category 340, 200,000 dozens of the quantity exported in 1979 shall be charged against the Specific Limit for that category for the first Agreement Year.

(c) With respect to Category 645/646, 48,000 dozens of the quantity exported in 1980 will be entered without charge.

5. (a) Any specific limit may be exceeded in any Agreement Year by not more than the following percentage of its square yards equivalent total listed in Annex B, provided that the amount of the increase is compensated for by an equivalent size decrease in one or more other specific limits for that Agreement Year.

<u>Category</u>	<u>Percentage</u>
331	6
339	5
340	5
341	5
347/348	5
645/646	6

(b) No limit may be decreased pursuant to sub-paragraph 5 (a) to a level which is below the level of exports charged against that category limit for that Agreement Year.

(c) When informing the United States of adjustments under the provisions of this paragraph, the Government of the People's Republic of China shall indicate the category or categories to be increased and the category or categories to be decreased by commensurate quantities in square yards equivalent.

6. The Government of the People's Republic of China shall use its best efforts to space exports from China to the United States within each category evenly throughout each Agreement Year, taking into consideration normal seasonal factors. Exports from China in excess of authorized levels for each Agreement Year will, if allowed entry into the United States, be charged to the applicable level for the succeeding Agreement Year.

7. (a) In any Agreement Year, exports may exceed by a maximum of 11 percent any limit set out in Annex B by allocating to such limit for that Agreement Year an unused portion of the corresponding limit for the previous Agreement Year ("carryover") or a portion of the

corresponding limit for the succeeding Agreement Year ("carryforward") subject to the following conditions:

(1) Carryover may be utilized as available up to 11 percent of the receiving Agreement Year's limits provided, however, that no carryover shall be available for application during the first Agreement Year;

(2) Carryforward may be utilized up to seven percent of the receiving Agreement Year's applicable limits and shall be charged against the immediately following Agreement Year's corresponding limits;

(3) The combination of carryover and carryforward shall not exceed 11 percent of the receiving Agreement Year's applicable limit in any Agreement Year;

(4) Carryover of shortfall (as defined in sub-paragraph 7 (b)) shall not be applied to any limits until the Governments of the United States of America and the People's Republic of China have agreed upon the amounts of shortfall involved.

(b) For purposes of the Agreement, a shortfall occurs when exports of textiles or textile products from China to the United States of America during an Agreement Year are below any specific limit as set out in Annex B, (or, in the case of any limit decreased pursuant to paragraph 5, when such exports are below the limit as so decreased). In the Agreement Year following the shortfall, such exports from China to the United States of America may be permitted to exceed the applicable limits, subject to conditions of sub-paragraph 7 (a), by carryover of shortfalls in the following manner:

(1) The carryover shall not exceed the amount of shortfall in any applicable limit;

(2) The shortfall shall be used in the category in which the shortfall occurred.

(c) The total adjustment permissible under paragraph 7 for the first Agreement Year shall be seven percent consisting solely of carry-forward.

8. (a) In the event that the Government of the United States believes that imports from the People's Republic of China classified in any category or categories not covered by Specific Limits are, due to market disruption, threatening to impede the orderly development of trade between the two countries, the Government of the United States may request consultations with the Government of the People's Republic of China with a view to avoiding such market disruption. The Government of the United States of America shall provide the Government of the People's Republic of China at the time of the request with a detailed factual statement of the reasons and justification for its request for consultation, with current data, which in the view of the Government of the United States of America shows

- 1) the existence or threat of market disruption, and
- 2) the contribution of exports from the People's Republic of China to that disruption.

(b) The Government of the People's Republic of China agrees to consult with the Government of the United States within 30 days of receipt of a request for consultations. Both sides agree to make every effort to reach agreement on a mutually satisfactory resolution of the

issue within 90 days of the receipt of the request, unless this period is extended by mutual agreement.

(c) During the 90 day period, the Government of the People's Republic of China agrees to hold its exports to the United States of America in the category or categories subject to this consultation to a level no greater than 35 percent of the amount entered in the latest twelve month period for which data are available.

(d) If no mutually satisfactory solution is reached during these consultations, the People's Republic of China will limit its exports in the category or categories under this consultation for the succeeding twelve months to a level of 20 percent for man-made fiber and cotton product categories (and of 6 percent for wool product categories) above the level of imports entered during the first twelve of the most recent fourteen months preceding the date of the request for consultations.

9. To prevent inadvertent or fraudulent circumvention of the Agreement, to ensure accurate record keeping, and to facilitate proper entry into the United States of the products covered by the Agreement, a Visa System shall be established as soon as practicable as an administrative arrangement under the Agreement.

10. The Government of the United States of America shall promptly supply the Government of the People's Republic of China with monthly data on imports of textiles from China, and the Government of the People's Republic of China shall promptly supply the Government of the United States of America with quarterly data on exports of China's textiles to the United States in categories for which levels have been

established. Each Government agrees to supply promptly any other pertinent and readily available statistical data requested by the other Government.

11. (a) Tops, yarns, piece goods, made-up articles, garments, and other textile manufactured products (being products which derive their chief characteristics from their textile components) of cotton, wool, man-made fibers, or blends thereof, in which any or all of these fibers in combination represent either the chief value of the fibers or 50 percent or more by weight (or 17 percent or more by weight of wool) of the product, are subject to the Agreement.

(b) For purposes of the Agreement, textiles and textile products shall be classified as cotton, wool or man-made fiber textiles if wholly or in chief value of either of these fibers.

(c) Any product covered by sub-paragraph 11(a) but not in chief value of cotton, wool, or man-made fiber shall be classified as: (I) Cotton textiles if containing 50 percent or more by weight of cotton or if the cotton component exceeds by weight the wool and the man-made fiber components; (II) Wool textiles if not cotton and the wool equals or exceeds 17 percent by weight of all component fibers; (III) Man-made fiber textiles if neither of the foregoing applies.

12. The Government of the United States of America and the Government of the People's Republic of China agree to consult on any question arising in the implementation of the Agreement.

13. Mutually satisfactory administrative arrangements or adjustments may be made to resolve minor problems arising in the implementation

of this agreement, including differences in points of procedure or operation.

14. If the Government of the People's Republic of China considers that, as a result of a limitation specified in this Agreement, China is being placed in an inequitable position vis-a-vis a third country or party, the Government of the People's Republic of China may request consultations with the Government of the United States of America with a view to taking appropriate remedial action such as reasonable modification of this Agreement and the Government of the United States of America shall agree to hold such consultations.

15. At the request of either Government, the two Governments will undertake a major review of the Agreement at the end of the second Agreement Year.

16. Each Government will take such measures as may be necessary to ensure that the Specific Limits established for any categories under this Agreement are not exceeded. Calculations will be based on the date of export from the People's Republic of China. Neither Government shall act to restrain the trade in textile products covered by the Agreement except in accordance with the terms of the Agreement.

17. Either Government may terminate the Agreement effective at the end of any Agreement Year by written notice to the other Government to be given at least 90 days prior to the end of such Agreement Year. Either Government may at any time propose revisions in the terms of the Agreement.

In witness whereof, the authorized representatives of the Contracting Parties have signed this Agreement.

Done at Washington, in duplicate, in the English and Chinese languages, both texts being equally authentic, this seventeenth day of September, 1980.

FOR THE UNITED STATES  
OF AMERICA

FOR THE PEOPLE'S REPUBLIC  
OF CHINA

## ANNEX A

Category	Description	Conversion Factor	Unit of Measure
<u>YARN</u>			
--Cotton			
300	Carded	4.6	Lb.
301	Combed	4.6	Lb.
--Wool			
400	Tops and Yarns	2.0	Lb.
--Man-made Fiber			
600	Textured	3.5	Lb.
601	Cont. cellulosic	5.2	Lb.
602	Cont. noncellulosic	11.6	Lb.
603	Spun cellulosic	3.4	Lb.
604	Spun noncellulosic	4.1	Lb.
605	Other yarns	3.5	Lb.
<u>FABRIC</u>			
--Cotton			
310	Ginghams	1.0	SYD
311	Velveteens	1.0	SYD
312	Corduroy	1.0	SYD
313	Sheeting	1.0	SYD
314	Broadcloth	1.0	SYD
315	Printcloths	1.0	SYD
316	Shirtings	1.0	SYD
317	Twills and Sateens	1.0	SYD
318	Yarn-dyed	1.0	SYD
319	Duck	1.0	SYD
320	Other Fabrics, n.k.	1.0	SYD

M and B = Men's and Boys;

W, G, and I = Women's, Girls', and Infants

n.k = not Knit

## ANNEX A

Category	Description	Conversion Factor	Unit of Measure
--Wool			
410	Woolen and worsted	1.0	SYD
411	Tapestries and upholstery	1.0	SYD
425	Knit	2.0	Lb.
429	Other Fabrics	1.0	SYD
--Man-Made fiber			
610	Cont. cellulosic, n.k.	1.0	SYD
611	Spun cellulosic, n.k.	1.0	SYD
612	Cont. noncellulosic, n.k.	1.0	SYD
613	Spun Noncellulosic, n.k.	1.0	SYD
614	Other fabrics, n.k.	1.0	SYD
625	Knit	7.8	Lb.
626	Pile and tufted	1.0	SYD
627	Specialty	7.8	Lb.
<u>APPAREL</u>			
--Cotton			
330	Handkerchiefs	1.7	Dz.
331	Gloves	3.5	DPR
332	Hosiery	4.6	DPR
333	Suit-type coats, M and B	36.2	Dz.
334	Other coats, M and B	41.3	Dz.
335	Coats, W, G and I	41.3	Dz.
336	Dresses (incl. uniforms)	45.3	Dz.

## ANNEX A

Category	Description	Conversion Factor	Unit of Measure
337	Playsuits, Sun suits Washsuits, Creepers	25.0	Dz.
338	Knit shirts, (inc. T-shirts, other and sweatshirts) M and B	7.2	Dz.
339	Knit shirts and blouses incl. T-Shirts, other sweatshirts) W, G and I	7.2	Dz.
340	Shirts, n.k.	24.0	Dz.
341	Blouses, n.k.	14.5	Dz.
342	Skirts	17.8	Dz.
345	Sweaters	36.8	Dz.
347	Trousers, slacks and shorts (outer) M and B	17.8	Dz.
348	Trousers, slacks and shorts (outer) W, G and I.	17.8	Dz.
349	Brassieres, etc.	4.8	Dz.
350	Dressing gowns, incl. bathrobes, and beach house coats, and dusters	51.0	Dz.
351	Pajamas and other nightwear	52.0	Dz.
352	Underwear (incl. union suits)	11.0	Dz.
359	Other apparel	4.6	Lbs.
--Wool			
431	Gloves	2.1	DPR
432	Hosiery	2.8	DPR

## ANNEX A

Category	Description	Conversion Factor	Unit of Measure
-Man-made Fiber (Cont.)			
633	Suit-type Coats, M and B	36.2	Dz.
634	Other Coats, M and B	41.3	Dz.
635	Coats, W, G and I	41.3	Dz.
636	Dresses	45.3	Dz.
637	Playsuits, Sunsuits, Washsuits, etc.	21.3	Dz.
638	Knit Shirts, (Incl. T-shirts), M and B	18.0	Dz.
639	Knit Shirts and blouses (Incl. T-shirts), W, G and I	15.0	Dz.
640	Shirts, n.k.	24.0	Dz.
641	Blouses, n.k.	14.5	Dz.
642	Skirts	17.8	Dz.
643	Suits, M and B	54.0	Dz.
644	Suits, W, G and I	54.0	Dz.
645	Sweaters, M and B	36.8	Dz.
646	Sweaters, W, G and I	36.8	Dz.
647	Trousers, slacks and shorts (outer), M and B	17.8	Dz.
648	Trousers, slacks and shorts (outer), W, G and I	17.8	Dz.
649	Brassieres, etc.	4.8	Dz.

## ANNEX A

Category	Description	Conversion Factor	Unit of Measure
--Man-made Fiber (Cont.)			
650	Dressing gowns, incl. bath and beach robes	51.0	Dz.
651	Pajamas and other night- wear	52.0	Dz.
652	Underwear	16.0	Dz.
659	Other Apparel	7.8	Lb.
<u>MADE-UPS AND MISC.</u>			
--Cotton			
360	Pillowcases	1.1	No.
361	Sheets	6.2	No.
362	Bedspreads and Quilts	6.2	No.
363	Terry and other pile towels	0.5	No.
369	Other Cotton manufactures	4.6	Lb.
--Wool			
464	Blankets and auto robes	1.3	Lb.
465	Floor Covering	0.1	SFT.
469	Other Wool manufactures	2.0	Lb.
--Man-made Fiber			
665	Floor Coverings	0.1	SFT.
666	Other Furnishings	7.8	Lb.
669	Other man-made manufactures	7.8	Lb.

ANNEX B  
SPECIFIC LIMITS

<u>Category</u>	<u>Brief Description</u>	<u>First Agreement Year</u>	<u>Second Agreement Year</u>	<u>Third Agreement Year</u>
311	Cotton Gloves	3,213,600 dozen pair 11,247,600 SYE	3,310,008 dozen 11,585,028 SYE	3,409,308 dozen 11,932,578 SYE
339	Knit Shirts & Blouses W, G, & I.	720,000 dozen 5,184,000 SYE	912,000 dozen 6,566,400 SYE	865,280 dozen 6,230,016 SYE
340	Shirts, M & B, not knit	540,000 dozen 12,960,000 SYE	561,600 dozen 13,478,400 SYE	584,064 dozen 14,017,536 SYE
341	Blouses, W, G, & I, not knit	381,300 dozen 5,528,850 SYE	455,100 dozen 6,598,950 SYE	443,456 dozen 6,430,112 SYE
347/348	Trousers	1,440,000 dozen 25,632,000 SYE	1,824,000 dozen 32,467,200 SYE	1,730,560 dozen 30,803,968 SYE
645/646	Sweaters	550,000 dozen 20,240,000 SYE	566,500 dozen 20,847,200 SYE	583,495 dozen 21,472,616 SYE

APPENDIX B

ARRANGEMENT REGARDING INTERNATIONAL  
TRADE IN TEXTILES (MFA)

Arrangement Regarding International Trade in Textiles (MFA)<sup>1</sup>: Status of Quantitative  
Limitations on U.S. Imports of Textiles, as of October 1, 1977.

Current limitations on import trade					
Source	Type of Limitation <sup>2</sup>	Categories Involved	For 12-month period beginning <sup>3</sup>	Aggregate Quantity	Limitation Controlled by
				<u>Million equivalent square yards</u>	
Egypt	Art. 3	Part <sup>4</sup>	Jan. 1, 1977	105.0	Joint
Brazil	Arts. 2,4	do	Apr. 1, 1977	122.0	Do
Colombia	Art. 4	All	July 1, 1977	105.0	Do
Haiti	do	Part <sup>5</sup>	Jan. 1, 1977	65.3	Do
Hong Kong	do	All	Oct. 1, 1976	1,178.8	Hong Kong
India	do	Part <sup>4</sup>	do	160.2	India
Japan	do	All	do <sup>6</sup>	0	-
Korea	do	do	do	716.5	Joint
Macao	do	do	Jan. 1, 1977	35.9	Do
Malaysia	do	do	do	37.8	Do
Mexico	do	do	May 1, 1977	355.0	Do
Pakistan	do	Part <sup>4</sup>	Jan. 1, 1977	139.5	Do
Philippines	do	All	Oct. 1, 1976	252.8	Do
Poland	Arts. 2,4	Part <sup>4</sup>	Jan. 1, 1977	17.2	Do
Singapore	do	All	do	232.0	Singapore
Taiwan	do	do	do	758.9	Joint
Thailand	Arts. 2,4	do	do	70.0	Do

Source: Compiled from official records of the U.S. Department of Commerce.

<sup>1</sup>Beginning in 1962, the Long-term Arrangement Regarding International Trade in Cotton Textiles encompassed 64 categories of textile imports of cotton. In the 1970's, 32 categories of textiles of manmade fibers were added under U.S. bilateral agreements. In 1972, the MFA became effective under the auspices of the General Agreement on Tariffs and Trade.

<sup>2</sup>Article 4 of the MFA provides for bilateral agreements between participating countries to restrict textile imports in order to prevent market disruption. Article 3 of the MFA provides for the establishment of specific quota levels on separate categories of textile imports whenever market disruption exists.

<sup>3</sup>Due to an extension of their agreements, Hong Kong, Korea, and the Philippines were in a 15 month period which expired December 31, 1977. India had an extension of one month on their agreement for a 13 month period ending October 31, 1977.

<sup>4</sup>Only categories 1-64 (textiles of cotton) are subject to limitations. Handloom fabrics of the cottage industry, or hand-made cottage industry products made of such handloom fabrics, or traditional folklore handicraft textile products, that are properly certified are exempt if exports are from a developing country. In the case of India, although certain hand-loomed fabrics and hand-made products of such handloomed fabrics are exempted, certain other machine sewn products of hand-loomed fabrics are subject to limitation. For the period shown in the table for India, this additional limitation was equal to 3.0 million dozen which

could amount to 40 to 50 million additional equivalent square yards above the aggregate amount of 160.2 million shown for India.

<sup>5</sup>Only categories 1-64 (textiles of cotton) and categories 200-243 (textiles of manmade fiber) are subject to limitations.

<sup>6</sup>The bilateral textile agreement between Japan and the U.S. extended for three years and three months, beginning October 1, 1974 through December 31, 1977. There were no category limitations or aggregate levels.

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