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US International Trade and the Global Economic Crisis

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Contents

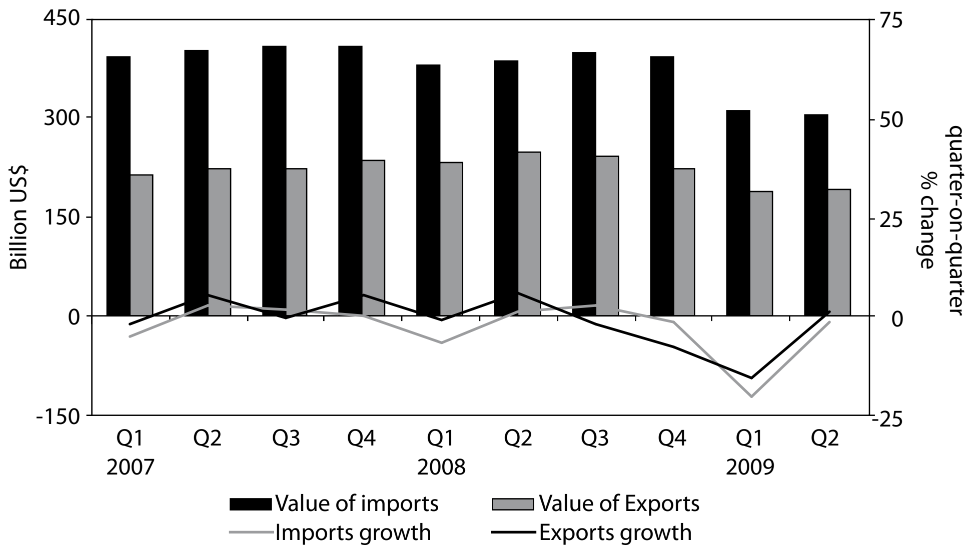
Abstract

World trade volume is in retreat for the first time in more than two decades and the contraction is on a scale not seen since the global recession following the second oil shock of 1979–1980. The United States (US) is at the epicenter of the crisis and is a major source of external demand for developing Asia and Pacific economies. US import and export data are examined to understand the repercussions of the crisis for international trade, particularly for export-oriented economies in East and Southeast Asia. US trade with preferential trade partners is found to be contracting significantly faster than trade with the rest of the world. Moreover, US imports that avail of preferential tariff treatment are also contracting more sharply than imports from non-preferential partners. Developing Asian non-preferential suppliers appear to be performing better in the US market than free trade agreement partners. If preferential trade is faltering and trade disputes are on the rise, the question becomes whether the multilateral trading system can ride to the rescue before protectionist forces begin to strangle world trade. The failure of bilateral free trade agreements to act as a shock absorber suggests that a new global trade deal may be the way forward. The outcome is crucial as the US will need to expand net exports to restore growth and unwind its global debt obligations.

I. Introduction

World merchandise trade volume is widely projected to decline at nearly a double-digit annual rate in 2009.[1] The collapse of trade has reached alarming proportions in the first quarter of 2009, estimated by the World Bank to be –25% in volume terms, measured year-on-year against the same quarter of 2008. International trade of the United States (US) has undergone a wrenching decline with negative growth in constant prices accelerating for exports since the second quarter of 2008 and for imports since the third quarter of the same year (Figure 1). In the second quarter of 2009, both US exports and imports posted modest gains on the previous quarter.

Figure 1: Real Imports and Exports, United States



Note: Constant prices are deflated using Import and Export Price Indices (2000=100).
Sources: Bureau of Labor Statistics, available: www.bls.gov; United States International Trade Commission Interactive Tariff And Trade Dataweb, available: http://dataweb.usitc.gov.

The US current account balance has noticeably lessened in the period since the deficit peaked in 2006 when measured relative to US gross domestic product (GDP), mainly as a result of growth in net exports. However, most of the reduction from the third quarter of 2008 to the second quarter of 2009 appears to be because imports are declining faster than exports.[2] In nominal terms, the decline in imports is largely due to the sharp reduction in crude oil prices between midyear 2008 and the first half of 2009. Measured in constant prices, US domestic exports from the first to the second quarters of 2009 are

1 Projections for a decline in the real volume of world exports of merchandise at the time of writing were 9.0–9.7% (World Bank 2009; World Trade Organization 2009).

2 The current account deficit in the second quarter of 2009 is estimated at –2.8% of GDP (Bureau of Economic Analysis, available: *www.bea gov*).

matching or even exceeding the decline in US imports for consumption (compare the right panels of Tables 1 and 2, first row).[3] The US is certainly not alone as trade-oriented economies across the globe are feeling the effects of the collapse of world demand in the wake of the economic crisis.

Developing Asian countries, particularly the newly-industrialized economies (Republic of Korea [Korea]; Hong Kong, China; Singapore; and Taipei,China), have experienced sharp reversals of fortune and steep contraction in both exports and imports. The contraction is also hitting Japan very hard. The synchronized nature of this crisis among the Group of Three (G3— the European Union [EU], US, and Japan) is at the core of the problem from the standpoint of export-oriented developing Asia. The collapse in demand in the main markets for final goods assembled within "factory Asia" was driving the drastic cutback in manufacturing production in the region, as firms sharply reduced inventories in the first half of 2009. Demand contraction in the G3 is also the cause of the collapse of intra-Asian manufacturing trade as demand for imported intermediate goods (parts and components), particularly for durables, is derived from demand for final goods in the G3.

This paper explores the impact of the crisis on US international merchandise trade, both imports and exports. Trade in services is excluded as detailed statistics on trade in services are not available on a timely enough basis. For example, the World Trade Organization (WTO) has only recently released annual statistics on trade in a limited number of service sectors for 2007 and for other services data are only available for 2006. Hence, one can only speculate on the impact the crisis is having on services trade, although there can be no doubt that trade in financial services and shipping services is contracting.[4]

The effort by the US to establish a network of bilateral free trade agreements in an attempt to secure liberalized market access for US exports (and to reward allies in the "war on terror") in the absence of a new multilateral trade agreement is critically examined for its durability in the face of the crisis. The paper is organized as follows. Section II examines the pattern of US trade with major preferential partners compared with developing Asia and other main non-preferential partners. Section III presents two cases of industries within the North American Free Trade Agreement (NAFTA) that have relatively high rates of protection, feature highly restrictive rules of origin (autos and textiles), and are of interest to developing Asia. It includes an in-depth case study of US trade in textiles and apparel and dissects the effects of the elimination of quotas under the Agreement on Textiles and Clothing, as well as the regime of safeguards that were negotiated with the People's Republic of China (PRC) that further restricted access to the US market from 2006 to 2008. Section IV concludes the paper.

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3 Other components of the US current account, such as income remittances and receipts from services may explain continued improvement in the current account deficit relative to GDP.

4 One needs only to fly over Singapore to see hundreds of cargo vessels lying idle to realize that demand for services closely associated with trade in goods has contracted. However, at present, no one knows the impact in terms of the growth rate of trade in commercial services.

Table 1: US Imports (In Million US$)

Supplier	Current prices					Constant prices (2000=100)				
	2007	2008	YTD 2008	YTD 2009	% Change	2007	2008	YTD 2008	YTD 2009	% Change
World Total	**1,942,863**	**2,090,483**	**1,435,046**	**977,329**	**–31.9**	**1,616,134**	**1,559,480**	**1,037,352**	**838,909**	**–19.1**
Non-Preferential Suppliers										
China, People's Rep. of	323,086	337,504	217,194	184,979	–14.8	268,753	251,775	157,003	158,780	1.1
Japan	144,928	139,112	96,799	59,335	–38.7	120,556	103,776	69,973	50,932	–27.2
Korea, Rep. of	45,368	46,687	31,814	25,494	–19.9	37,739	34,828	22,998	21,883	–4.8
Taipei,China	38,052	36,024	24,488	17,678	–27.8	31,653	26,873	17,702	15,175	–14.3
Hong Kong, China	7,037	6,496	4,367	2,259	–48.3	5,854	4,846	3,157	1,939	–38.6
Malaysia	32,755	30,633	21,626	14,512	–32.9	27,246	22,852	15,633	12,456	–20.3
Viet Nam	10,541	12,611	8,040	8,026	–0.2	8,769	9,408	5,812	6,889	18.5
New Zealand	3,093	3,152	2,201	1,863	–15.4	2,573	2,351	1,591	1,599	0.5
Sub-total Asia-Pacific	**604,860**	**612,220**	**406,529**	**314,146**	**–22.7**	**503,142**	**456,710**	**293,867**	**269,653**	**–8.2**
Asia-Pacific excl. Japan	**459,932**	**473,108**	**309,730**	**254,810**	**–17.7**	**382,586**	**352,934**	**223,894**	**218,721**	**–2.3**
Germany	94,416	95,828	66,939	43,957	–34.3	78,538	71,487	48,388	37,731	–22.0
UK	56,873	58,419	40,168	30,090	–25.1	47,309	43,580	29,036	25,828	–11.0
France	41,237	43,372	29,309	22,344	–23.8	34,302	32,355	21,187	19,179	–9.5
Italy	35,021	36,015	25,391	17,290	–31.9	29,131	26,867	18,354	14,841	–19.1
Netherlands	19,260	21,103	14,314	10,269	–28.3	16,021	15,742	10,347	8,814	–14.8
Spain	10,499	10,972	7,421	5,194	–30.0	8,733	8,185	5,365	4,458	–16.9
Belgium	15,270	17,379	12,386	8,189	–33.9	12,702	12,964	8,953	7,029	–21.5
Denmark	6,109	6,277	4,100	3,782	–7.8	5,081	4,683	2,964	3,246	9.5
Sub-total Europe	**278,683**	**289,364**	**200,028**	**141,113**	**–29.5**	**231,818**	**215,862**	**144,594**	**121,127**	**–16.2**
Saudi Arabia	35,285	52,283	38,725	13,400	–65.4	29,351	39,002	27,993	11,502	–58.9
Preferential Suppliers										
FTA Suppliers:										
Canada	312,505	334,840	234,926	142,026	–39.5	259,951	249,787	169,821	121,911	–28.2
Mexico	210,159	216,328	148,626	108,647	–26.9	174,817	161,379	107,437	93,259	–13.2
Singapore	19,080	15,719	10,914	9,999	–8.4	15,872	11,726	7,890	8,582	8.8
Australia	8,663	10,535	6,999	5,024	–28.2	7,206	7,859	5,059	4,312	–14.8
Israel	20,817	22,264	15,734	11,858	–24.6	17,316	16,609	11,374	10,179	–10.5
Bahrain	626	517	321	293	–8.9	520	386	232	251	8.1
Chile	8,970	8,182	6,011	4,185	–30.4	7,461	6,104	4,345	3,592	–17.3
Morocco	626	880	605	318	–47.5	521	657	437	273	–37.6
Sub-total FTA	**581,445**	**609,265**	**424,136**	**282,348**	**–33.4**	**483,664**	**454,506**	**306,595**	**242,359**	**–21.0**
Imports Utilizing FTA Preferences										
Canada	158,984	166,077	116,497	68,102	–41.5	132,248	123,892	84,212	58,456	–30.6
Mexico	134,073	140,516	96,487	65,190	–32.4	111,526	104,824	69,748	55,957	–19.8
Australia-US	3,155	4,356	2,863	1,847	–35.5	2,624	3,250	2,070	1,586	–23.4
Bahrain-US	199	288	171	186	9.0	166	215	123	160	29.4
Chile-US	5,001	4,454	3,315	2,235	–32.6	4,160	3,323	2,396	1,919	–19.9
Israel–US	2,755	3,209	2,144	1,691	–21.1	2,292	2,394	1,550	1,451	–6.3
Morocco-US	176	161	110	77	–29.5	147	120	79	66	–16.2
Singapore-US	935	1,108	668	585	–12.4	777	827	483	503	4.0
Sub-total FTA	**305,278**	**320,170**	**222,254**	**139,913**	**–37.0**	**253,940**	**238,843**	**160,661**	**120,097**	**–25.2**

Notes: Non-preferential suppliers do not receive GSP and are not members of any bilateral preferential trade agreement with the United States. The value of US imports is for imports for consumption and excludes re-exports.
YTD (year-to-date) refers to data from Jan-Aug.
CAFTA-DR includes countries that had ratified the agreement by 2007 (Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua).

Source: USITC Interactive Tariff and Trade DataWeb, available: http://dataweb.usitc.gov/scripts/REPORT.asp.

Table 2: US Exports (In Million US$)

Destination	Current prices					Constant prices (2000=100)				
	2007	2008	YTD 2008	YTD 2009	% Change	2007	2008	YTD 2008	YTD 2009	% Change
World Total	**1,046,358**	**1,169,821**	**807,350**	**596,296**	**–26.1**	**901,385**	**950,495**	**648,799**	**510,473**	**–21.3**
Non-Preferential:										
China, People's Rep. of	61,013	67,166	46,695	38,553	–17.4	52,560	54,573	37,524	33,004	–12.0
Japan	58,096	61,435	42,576	30,319	–28.8	50,047	49,917	34,214	25,955	–24.1
Korea, Rep. of	33,012	33,074	23,525	16,736	–28.9	28,438	26,873	18,905	14,327	–24.2
Taipei,China	24,541	23,628	17,821	9,910	–44.4	21,141	19,198	14,321	8,484	–40.8
India	16,309	17,340	11,925	9,749	–18.2	14,049	14,089	9,583	8,346	–12.9
Hong Kong, China	14,882	15,881	10,774	9,426	–12.5	12,820	12,903	8,658	8,069	–6.8
Malaysia	10,215	11,495	8,115	5,472	–32.6	8,800	9,340	6,521	4,685	–28.2
Thailand	7,837	8,400	5,708	3,811	–33.2	6,751	6,825	4,587	3,263	–28.9
Indonesia	4,133	5,719	4,026	2,959	–26.5	3,560	4,647	3,235	2,533	–21.7
Philippines	7,336	7,975	5,555	3,335	–40.0	6,319	6,479	4,464	2,855	–36.0
Viet Nam	1,823	2,673	1,955	1,858	–5.0	1,571	2,172	1,571	1,590	1.2
Pakistan	2,013	1,968	1,511	1,101	–27.1	1,734	1,599	1,214	943	–22.4
New Zealand	2,681	2,444	1,681	1,303	–22.5	2,310	1,985	1,351	1,116	–17.4
Sub-total Asia-Pacific	**243,890**	**259,197**	**181,865**	**134,533**	**–26.0**	**210,099**	**210,601**	**146,150**	**115,170**	**–21.2**
Asia-Pacific excl. Japan	**185,794**	**197,762**	**139,289**	**104,214**	**–25.2**	**160,053**	**160,684**	**111,935**	**89,215**	**–20.3**
Germany	44,294	50,150	34,071	25,974	–23.8	38,157	40,748	27,380	22,236	–18.8
United Kingdom	45,436	49,061	34,991	27,776	–20.6	39,140	39,863	28,119	23,778	–15.4
France	25,784	26,748	18,391	16,171	–12.1	22,212	21,733	14,779	13,844	–6.3
Italy	12,358	13,897	9,650	7,290	–24.5	10,645	11,291	7,755	6,241	–19.5
Switzerland	15,056	20,245	14,307	10,325	–27.8	12,970	16,449	11,498	8,839	–23.1
Netherlands	30,536	37,076	25,513	19,498	–23.6	26,305	30,125	20,503	16,692	–18.6
Spain	9,651	11,897	8,217	5,439	–33.8	8,314	9,666	6,603	4,657	–29.5
Belgium	22,977	25,769	18,142	12,771	–29.6	19,794	20,937	14,579	10,933	–25.0
Denmark	2,653	2,461	1,690	1,262	–25.3	2,285	2,000	1,358	1,080	–20.4
Sweden	4,084	4,657	3,182	2,680	–15.8	3,518	3,784	2,557	2,295	–10.3
Norway	2,920	3,294	2,297	1,749	–23.9	2,515	2,676	1,846	1,497	–18.9
Finland	2,731	3,171	2,181	1,004	–54.0	2,353	2,576	1,753	860	–50.9
Ireland	8,427	8,080	5,731	4,735	–17.4	7,259	6,565	4,605	4,054	–12.0
Poland	3,011	3,981	2,628	1,372	–47.8	2,594	3,235	2,112	1,174	–44.4
Greece	2,058	1,828	1,181	1,324	12.1	1,772	1,485	949	1,134	19.4
Austria	2,958	2,401	1,627	1,172	–28.0	2,548	1,951	1,307	1,003	–23.3
Sub-total Europe	**234,932**	**264,715**	**183,799**	**140,543**	**–23.5**	**202,383**	**215,085**	**147,703**	**120,315**	**–18.5**
Saudi Arabia (KSA)	9,847	11,846	6,846	6,625	–3.2	8,483	9,625	5,502	5,671	3.1
Sub-total Non-Preferential	**488,670**	**535,759**	**372,510**	**281,700**	**–24.4**	**420,964**	**435,311**	**299,355**	**241,156**	**–19.4**

Continued.

Table 2: *Continued.*

Destination	Current prices					Constant prices (2000=100)				
	2007	2008	YTD 2008	YTD 2009	% Change	2007	2008	YTD 2008	YTD 2009	% Change
FTA Suppliers:										
CAFTA-DR	17,050	18,875	13,156	9,417	−28.4	14,688	15,336	10,572	8,061	−23.7
Canada	213,119	222,424	154,587	109,484	−29.2	183,591	180,723	124,229	93,726	−24.6
Mexico	119,381	131,507	89,148	66,399	−25.5	102,841	106,851	71,641	56,843	−20.7
Singapore	23,577	25,655	18,426	12,489	−32.2	20,310	20,845	14,807	10,692	−27.8
Australia	17,917	20,948	14,439	11,381	−21.2	15,434	17,021	11,603	9,743	−16.0
Jordan	832	904	557	763	37.0	716	735	447	653	45.9
Israel	9,940	10,238	7,398	4,179	−43.5	8,563	8,319	5,945	3,577	−39.8
Bahrain	565	779	473	419	−11.4	487	633	380	359	−5.7
Chile	7,610	11,367	8,280	5,420	−34.5	6,556	9,235	6,654	4,640	−30.3
Morocco	1,334	1,506	1,070	1,009	−5.7	1,149	1,224	860	864	0.5
Sub-total FTA	**411,325**	**444,205**	**307,532**	**220,960**	**−28.2**	**354,336**	**360,922**	**247,138**	**189,157**	**−23.5**

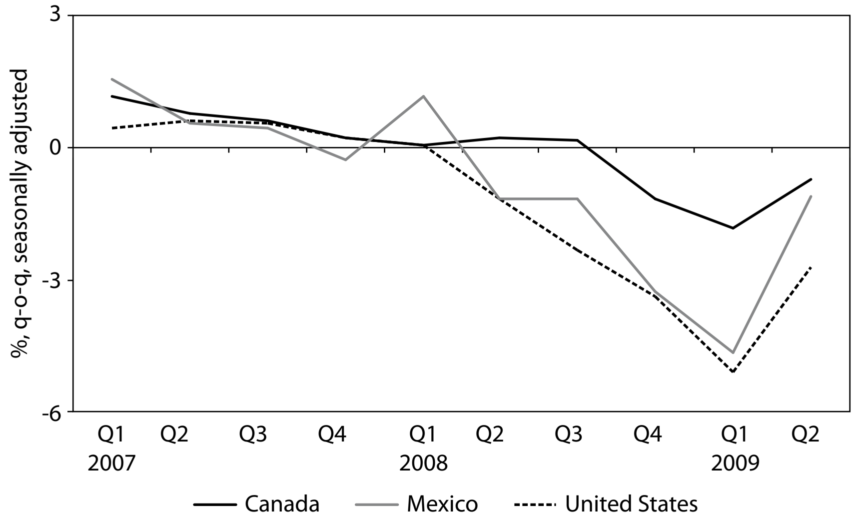
Notes: Non-preferential destinations do not provide any preference to US domestic exports. Data on the value of US exports to FTA partners utilizing preferences are not available. Exports in this table are US domestic exports. A cut-off value of $1billion was used for non-preferential suppliers in Europe and Asia.
YTD refers to data from Jan-Aug.

Source: USITC Interactive Tariff and Trade DataWeb, available: http://dataweb.usitc.gov/scripts/REPORT.asp

II. Direction of US Trade: Preferential and Non-Preferential Trade

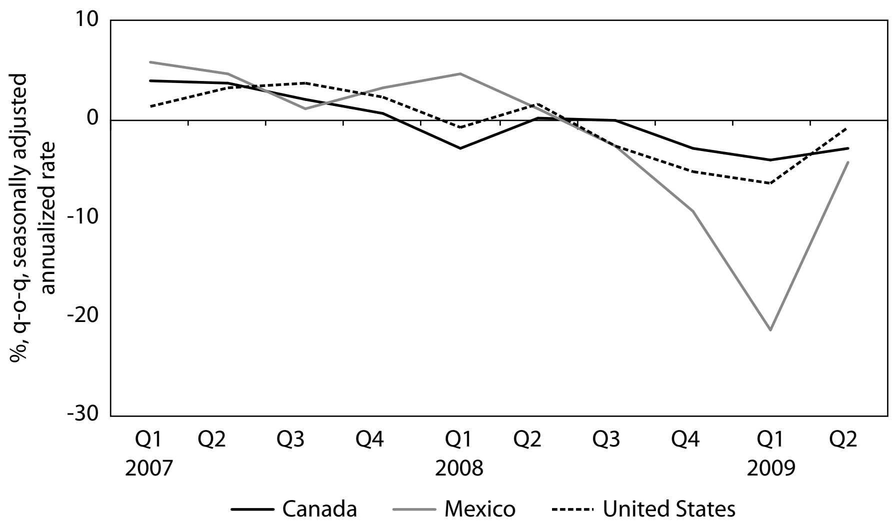
The National Bureau for Economic Research (NBER) has identified December 2007 as the beginning of the current recession (NBER 2008). The collapse in US industrial production and GDP growth that began in the fourth quarter of 2007 (Figures 2 and 3) were soon mirrored by declines in the same indicators in the other two major North American economies, Canada and Mexico. Mexico, in particular, was hit hard by the US plunge into recession. The transmission of the US economic deterioration to its two large trading partners in North America was principally through international trade since Canada and Mexico had very limited direct exposure to US toxic securities. International trade was initially propping up US growth during 2008 as exports continued to rise in both current and constant prices (Table 2) even as imports slowed. In constant prices, imports in 2008 contracted by 3.5% even as exports grew by 5.4% (year-on-year), thus boosting net real exports. The growth of trade however began to slow sharply in the third quarter of 2008, and the contractions in the fourth quarter of 2008 and first quarter of 2009 were very sharp indeed (see first row of Tables 1 and 2, also Figure 1). In quarter-on-quarter terms, growth in imports contracted at an accelerating rate in the fourth quarter of 2008 compared with that in the third quarter of the same year, and in the first quarter of 2009 compared with the fourth quarter of 2008. Exports also deteriorated starting in the third quarter of 2008 with a quarter-on-quarter decline that accelerated in the fourth quarter of the same year and in the first quarter of 2009.

Figure 2: Industrial Production Growth, NAFTA



Source: CEIC Data Company Ltd.

Figure 3: GDP Growth, NAFTA



Source: CEIC Data Company Ltd.

US imports under preferential free trade agreements started to contract earlier than imports as a whole when examined quarter-on-quarter and, measured year-on-year, contracted more rapidly than US imports from the world. Quarter-on-quarter imports from partners in NAFTA began to slide in the third quarter of 2008, even as overall imports from the world continued to expand. For the first 8 months of 2009, all US imports from NAFTA partners declined more rapidly than imports from all suppliers (–22.4% vs. –19.1% constant prices).

The United States International Trade Commission (USITC) publishes import data by special import program, including "free trade" (preferential) agreements such as NAFTA. Growth of US imports, measured in constant prices, from Canada and Mexico under NAFTA preferences was –1.63% in the third quarter of 2008 compared with the previous quarter and the rate of decline then accelerated to –4.2% in the fourth quarter of 2008 and a startling –25.3% in the first quarter of 2009 (this compares with a global drop of –1.5 percent in the fourth quarter of 2008 and –20.5 percent in the first quarter of 2009). Cumulatively, US imports under NAFTA preferential tariffs contracted by 25.7% compared with a global contraction of 19.1% (in constant prices).

Quarter-on-quarter imports in constant prices from all US bilateral free trade agreements that were in force as of the third quarter of 2008 show a similar pattern to NAFTA of accelerating contraction from –3.6% in the fourth quarter versus the third quarter of 2008, and further declining to –16.9% in the first quarter of 2009 over the fourth quarter of 2008. Cumulatively, US imports from free trade agreement (FTA) partners fell at a rate of –21.0% in the first 8 months of 2009 compared with that in the same period in 2008, slightly higher than US imports from the world (Table 1). However, US imports under FTA preferences fell by more: 25.2% in the first 8 months of 2009 compared with that in the same period in 2008. Imports from non-preferential suppliers in developing Asia contracted by just 2.3% in the first 8 months of 2009, in stark contrast to the collapse in imports from all suppliers and from FTA suppliers in particular.

US exports to NAFTA partners (in constant prices) have also contracted more sharply than US exports to all trading partners in the world (Table 2, bottom section, rows 1 and 2), whether measured in nominal or real terms. For all FTA partners, the collapse in US exports is –23.5% in the 8 eight months of 2009 (constant prices) compared with –21.3% for all destinations and –19.4% for all major non-preferential destinations.[5] US exports to non-preferential partners in developing Asia also contracted less than those to FTA partners in 2009 (–20.3% vs. –23.5%).

Year-on-year detail of the direction of trade for imports and exports underscores the point that US preferential trade appears to be collapsing more rapidly than trade with partners ineligible for preferential treatment, thus raising the question of whether preferences

5 Gordon (2009) finds that US exports to FTA partners through 2008 had grown more slowly than exports from other non-FTA member suppliers, particularly those in Asia and Europe.

have encouraged trade diversion in the past during the boom. The possibility that NAFTA diverted large amounts of trade from nonmember countries in relatively highly protected and high-cost sectors in Canada, Mexico, and the US is a cause for concern (Romalis 2005). This diverted trade appears to be unwinding rapidly in the face of the severe economic downturn.[6]

III. What is the Matter with Trade within NAFTA? Case Studies of Autos and Textiles

The reasons underlying the more rapid contraction of trade under US bilateral free trade agreements than trade under the auspices of most-favored nation (MFN) tariffs are not difficult to identify.[7] In manufacturing trade (which represents the overwhelming share of merchandise trade receiving preferential treatment), two sectors come immediately to mind and will be the focus of the bulk of this paper. They are the two manufacturing sectors that had the strongest lobbies during the negotiation of NAFTA and most other US bilateral talks—autos and textiles. Together, these sectors accounted for 28% of US merchandise imports that entered the US market under NAFTA preferences in 2007, and although this share dropped to 25% in 2008, preferential trade was still heavily weighted toward these sectors even during the severe recession.[8]

The so-called “Big 3” auto giants (General Motors, Ford, and Chrysler) were very active in the NAFTA negotiations (Cameron and Tomlin 2000). The rules that determine if a good is eligible or not for preferential tariff treatment under the NAFTA were a key focus of lobbyist activity on behalf of the US automakers and textile producers—the rules of origin.[9]

6 A long-festering trade dispute between the US and Mexico over the access of Mexican trucks to the US market led to Mexico imposing penalty tariffs on 90 US industrial and agricultural export products in March 2009. These tariffs may have had an additional negative impact on US exports to Mexico in subsequent months, but would not explain the sharp deterioration overall.

7 Tighter border security measures along the northern (Canada) and southern (Mexico) borders may have had some impact on trade flows in 2009 but efforts to ensure that cross-border trade flows are not adversely affected make it unlikely that these measures could explain even a small fraction of the decline in intra-NAFTA trade in recent quarters of 2008 and 2009.

8 The share of imports under the NAFTA preferential tariffs in these sectors can readily be calculated from Tables 4– 6. Note that calculations using US general imports (Talbe 4–6) will differ from using US imports from consumption (Table 1).

9 Rules of origin under the US–Canada Auto Pact (1965) and under the Canada–US Free Trade Agreement (1989) were already highly restrictive (Baldwin 2008). With restrictive rules of origin and the fact that either one complies with the rules and gets preferential treatment or does not (“all or nothing”) means that even with an external tariff of 5% on a built-up vehicle, the effective rate of protection on parts and components is substantial (Baldwin’s example is of a car selling for $20,000 and a rule of origin requiring a component to be sourced within NAFTA. The component could therefore be priced as much as $1,000 more than a like component imported from outside the NAFTA).

The rules of origin for autos within NAFTA are highly restrictive and subject to a graduated increase in regional content requirements that ended up at 62.5% of the value of the physical components that are used to assemble a finished vehicle.[10] It is not just the rules themselves, however, that is the sticking point—it is also how the rules are administered. In the case of autos, the Big 3 wanted not only to restrict imports from non-NAFTA members but also to inhibit the movement of vehicles produced by rival transplants already operating within the borders of NAFTA members—such as Honda Motors.[11] Hence, there are complex tracing requirements that are designed to make it difficult for Honda to take advantage of NAFTA preferential trade even when major components such as engines, drive-trains, and chassis and bodies are assembled or otherwise produced within the US, Canada, or Mexico.

The textile industry in the form of the American Textile Manufacturers Institute (ATMI) was also hugely influential in the negotiation of rules of origin for textiles and apparel (Cameron and Tomlin 2000). The Mexican industry was similarly disposed to favor restrictive rules of origin in return for the US to phase out quotas on imports of apparel from Mexico well in advance of quota elimination under the Agreement on Textiles and Clothing (ATC). Not only that, but unlike in the case of autos, rules of origin in textiles were negotiated directly by the textile committee instead of the rules of origin committee. Consequently, the textiles rules of origin became known as "Neanderthal" (Cameron and Tomlin, 2000). They amount to practically a 100% regional content rule, with exceptions only for some fabrics and yarns not at all produced within NAFTA borders (e.g., silk fabric). The yarn-forward rule means that an article of apparel must undergo a triple-transformation beginning with yarn that must be spun within North America to be woven or knit into fabric (including dyeing and finishing) and then finally be assembled into apparel to be eligible for duty-free tariff treatment.[12] The incentive to operate within such a restrictive rules regime is not hard to discern—US most-favored nation tariffs involving apparel made of synthetic fiber fabrics peak at over 30% and average applied MFN tariffs for apparel from non-preferential sources are over 14% and those on textiles exceed 10% (James 2007).

[10] Mexico had local content requirements in its auto sector that served to protect the interests of its parts and components producers—the largest employer and owned by Mexican nationals (Cameron and Tomlin 2000). The US negotiators won over the Mexicans by agreeing to a gradual, transitional phase out of the local content requirements with a promise that US automakers would source parts and components from Mexico in return.

[11] According to Cameron and Tomilin (2000) the Canadian negotiators wanted to retain the 50% rule that was agreed under the previous FTA and the auto pact between the US and Canada to enable Canada-based Honda plants to continue to compete in the US market and to improve access in Mexico. Destler (2006) provides a similar alternative explanation of how 62.5% was arrived at but also notes the interest of the Canadian and Mexican governments in access for transplants to the US market (as well as for each other's markets). No one disputes the critical role of the "Big 3" in influencing the outcome.

[12] The US textile lobby has also succeeded in imposing highly restrictive rules of origin in other agreements offering preferential access to the US market for apparel including under the various unilateral nonreciprocal agreements such as the Andean Pact, among others. For discussion see Rivoli (2005). In contrast to most US preferential trade deals, Haiti was granted less restrictive rules of origin in 2008 under the Hope II Program legislation and has in 2009 seen garment shipments to the US rise by over 28% through August (Emerging Textiles.com 2009).

US manufacturing trade with Canada and Mexico is strongly influenced overall by autos and textiles. For example, in 2007, automotive components and vehicles from NAFTA partners account for, on average, about 14% of all US NAFTA imports.[13] The large volume of US transactions (including exports and imports) in autos with Canada and Mexico (*Table 3*) reached $118 billion in 2007 or over one-tenth of all US merchandise trade within NAFTA. Romalis (2005) argues that NAFTA led to increased North American output and prices in sectors with high protection (and high preference margins) by driving out imports from nonmember countries. Even though US and Canadian most favored nation (MFN) tariffs on automobiles and automotive parts and components are relatively low on average (2.5–5.4%), some tariffs peak at 25% (WTO 2007). Mexican auto tariffs are a good deal higher—averaging nearly 15% on an MFN basis (WTO 2008). Moreover, parts and components are typically traded intensively across borders, so the effect of even small tariffs becomes magnified—thereby putting non-NAFTA parts and components at a distinct disadvantage in trying to compete with those of NAFTA members.

This type of "imported protection" is a result of highly restricted rules of origin coupled with substantial preference margins and has led to the conclusion that such arrangements will make it more difficult for the US to agree to multilateral liberalization because the effects of MFN tariff liberalization on output and price declines would be magnified (Limao 2006; Romalis 2005). The impact of a severe recession on highly protected and inefficient sectors with substantial trade within NAFTA may also have been magnified by previous large trade diversion.

Automotive Trade Case Study. With the onset of the crisis in the US auto sector, trade in motor vehicles and components is in a state of collapse with cumulative (January–August) 2009 imports and exports within NAFTA being nearly halved from the same period in 2008 (*Table 3).* In the case of 2009 imports of automotive parts and components with Canada, there is virtually no difference with the decline in imports of built-up units (Table 3, left panel rows 2 and 3) in contrast with Mexico where the previous positive growth in vehicle imports in 2008 has now dramatically been reversed. It is noteworthy that in 2007 and 2008 automotive trade with Mexico, US imports are dominated by built-up vehicles rather than parts and this is also true in automotive trade with Canada and for NAFTA partners combined. However, in 2009, this relationship is being upset in the case of imports from Mexico with built-up vehicles collapsing much faster than imports of parts.

Over 93% of US imports of auto parts come under NAFTA preferences in 2007 and the share of built-up vehicle imports is over 99%.[14] Combined together, automotive imports from NAFTA partners that take advantage of NAFTA or auto pact preferences are over 95% of total automotive imports from Canada and Mexico (Table 4). This compares with a ratio of just over 50% for imports from these partners as a whole. The reason for the high

[13] On average, the sectors of textiles (including clothing) and autos and components account for about 16% of all US imports from NAFTA, but the share of US preferential imports from these sectors typically exceeded 25% of all US preferential imports under NAFTA in recent years.

[14] See imports of HTS 8708 and HTS 8703, USITC Interactive Tariff and Trade DataWeb, available: dataweb.usitc.gov.

Table 3: US Trade in Motor Vehicles and Parts (Value in Million US$, Current prices)

Supplier of US Imports	2007	2008	% Change	YTD 2008	YTD 2009	% Change	Destination of US Exports	2007	2008	% Change	YTD 2008	YTD 2009	% Change
Canada	48,506	40,666	−16.16	28,587	14,837	−48.10	Canada	34,250	31,033	−9.39	22,208	11,525	−48.11
HS 8708 Parts	11,396	9,021	−20.84	6,562	3,100	−52.75	HS 8708 Parts	18,449	15,717	−14.81	10,997	6,601	−39.97
HS 8703 Motor Cars	37,109	31,644	−14.73	22,025	11,736	−46.71	HS 8703 Motor Cars	15,801	15,315	−3.07	11,212	4,924	−56.08
Mexico	23,549	23,331	−0.92	15,670	9,617	−38.63	Mexico	11,722	12,360	5.44	8,075	4,802	−40.53
HS 8708 Parts	10,053	9,388	−6.61	6,519	4,372	−32.94	HS 8708 Parts	8,018	8,299	3.50	5,525	3,928	−28.90
HS 8703 Motor Cars	13,496	13,944	3.31	9,150	5,244	−42.69	HS 8703 Motor Cars	3,704	4,061	9.64	2,550	874	−65.73
Sub-Total NAFTA	**72,055**	**63,997**	**−11.18**	**44,257**	**24,453**	**−44.75**	**Sub-Total NAFTA**	**45,973**	**43,393**	**−5.61**	**30,283**	**16,327**	**−46.09**
HS 8708 Parts	**21,449**	**18,409**	**−14.17**	**13,082**	**7,473**	**−42.88**	**HS 8708 Parts**	**26,468**	**24,016**	**−9.26**	**16,522**	**10,529**	**−36.27**
HS 8703 Motor Cars	**50,606**	**45,588**	**−9.92**	**31,175**	**16,981**	**−45.53**	**HS 8703 Motor Cars**	**19,505**	**19,376**	**−0.66**	**13,762**	**5,798**	**−57.87**
Germany	20,936	21,399	2.21	14,827	7,494	−49.46	Germany	8,046	9,375	16.52	6,688	3,435	−48.64
HS 8708 Parts	3,290	3,029	−7.93	2,172	1,340	−38.32	HS 8708 Parts	855	851	−0.54	606	483	−20.21
HS 8703 Motor Cars	17,646	18,370	4.10	12,655	6,154	−51.37	HS 8703 Motor Cars	7,190	8,524	18.55	6,082	2,952	−51.47
Japan	52,078	48,976	−5.96	35,254	16,532	−53.11	Japan	1,518	1,499	−1.25	1,110	579	−47.82
HS 8708 Parts	8,434	7,461	−11.54	5,244	2,957	−43.61	HS 8708 Parts	998	950	−4.79	720	270	−62.45
HS 8703 Motor Cars	43,644	41,514	−4.88	30,010	13,575	−54.77	HS 8703 Motor Cars	520	549	5.52	390	309	−20.80
Korea	10,344	9,489	−8.27	6,795	4,309	−36.59	Korea	759	641	−15.58	456	282	−38.17
HS 8708 Parts	2,126	2,034	−4.31	1,491	725	−51.36	HS 8708 Parts	409	265	−35.32	180	101	−43.74
HS 8703 Motor Cars	8,218	7,455	−9.29	5,303	3,583	−32.44	HS 8703 Motor Cars	350	376	7.49	275	180	−34.52
UK	4,403	4,226	−4.02	3,009	1,369	−54.50	UK	1,789	1,501	−16.12	1,120	198	−82.33
HS 8708 Parts	352	300	−14.73	220	141	−35.75	HS 8708 Parts	360	333	−7.45	248	115	−53.73
HS 8703 Motor Cars	4,051	3,926	−3.09	2,789	1,228	−55.98	HS 8703 Motor Cars	1,429	1,167	−18.31	872	83	−90.48
Sub-Total	**87,762**	**84,090**	**−4.18**	**59,885**	**29,704**	**−50.40**	**Sub-Total**	**12,112**	**13,015**	**7.46**	**9,373**	**4,493**	**−52.06**
HS 8708 Parts	**14,203**	**12,825**	**−9.70**	**9,128**	**5,164**	**−43.43**	**HS 8708 Parts**	**2,622**	**2,399**	**−8.53**	**1,754**	**970**	**−44.71**
HS 8703 Motor Cars	**73,559**	**71,265**	**−3.12**	**50,757**	**24,540**	**−51.65**	**HS 8703 Motor Cars**	**9,489**	**10,617**	**11.88**	**7,619**	**3,524**	**−53.75**
World	**179,669**	**166,778**	**−7.17**	**117,861**	**61,572**	**−47.76**	**World**	**79,371**	**82,456**	**3.89**	**56,195**	**29,965**	**−46.68**
HS 8708 Parts	**45,151**	**40,668**	**−9.93**	**28,853**	**17,106**	**−40.71**	**HS 8708 Parts**	**34,578**	**31,749**	**−8.18**	**21,975**	**13,941**	**−36.56**
HS 8703 Motor Cars	**134,518**	**126,110**	**−6.25**	**89,007**	**44,466**	**−50.04**	**HS 8703 Motor Cars**	**44,793**	**50,707**	**13.20**	**34,220**	**16,024**	**−53.17**

Notes: Data are for US general imports including re-exports as these appear to be significant in the automotive sector.
YTD refers to data from Jan-Aug.

Source: USITC Interactive Tariff and Trade DataWeb, available: http://dataweb.usitc.gov/.

proportion of preferential trade in total is that within automotive production networks, auto parts and components are repeatedly transshipped across borders, magnifying the value of the small margins of preference on single transactions.

Table 4: Preferential Share of US Imports from NAFTA Partners in Value Terms (In Million US$, Current prices)

Partner	2004	2005	2006	2007	2008	YTD 2008	YTD 2009
				Total Imports			
Canada							
NAFTA-CA	131,606.6	146,221.7	159,061.8	157,283.8	159,891.9	112,285.8	65,894.9
Other Preferential Program	142.9	177.5	215.5	240.7	269.4	185.2	169.9
No Program Claimed	124,178.4	141,471.0	144,139.0	155,586.4	175,393.9	122,925.0	76,376.5
Total	**255,927.9**	**287,870.2**	**303,416.3**	**313,110.9**	**335,555.3**	**235,396.0**	**142,441.3**
Preferential Share	51.48%	50.86%	52.49%	50.31%	47.73%	47.78%	46.38%
Mexico							
NAFTA-MX	95,262.3	104,159.3	117,820.0	120,757.4	115,586.6	79,640.8	55,696.2
Other Preferential Program	84.4	49.1	77.2	40.5	60.7	40.9	28.0
No Program Claimed	60,499.0	65,989.5	80,361.5	90,001.2	100,267.5	68,864.1	53,191.5
Total	**155,845.7**	**170,197.9**	**198,258.6**	**210,799.0**	**215,914.9**	**148,545.9**	**108,915.7**
Preferential Share	61.18%	61.23%	59.47%	57.30%	53.56%	53.64%	51.16%
NAFTA							
NAFTA	226,869	250,381	276,882	278,041	275,479	191,927	121,591
Other Preferential Program	227	227	293	281	330	226	198
No Program Claimed	184,677	207,460	224,500	245,588	275,661	191,789	129,568
Total	**411,774**	**458,068**	**501,675**	**523,910**	**551,470**	**383,942**	**251,357**
Preferential Share	55.15%	54.71%	55.25%	53.12%	50.01%	50.05%	48.45%
				Automotive Imports			
Canada							
NAFTA-CA	46,235.3	47,096.9	47,403.5	47,561.7	39,629.8	27,815.4	14,434.0
Other Preferential Program	34.7	16.6	3.3	2.9	1.6	1.1	0.8
No Program Claimed	1,168.1	1,378.5	824.6	940.9	1,034.1	770.6	402.1
Total	**47,438.1**	**48,492.0**	**48,231.4**	**48,505.5**	**40,665.5**	**28,587.1**	**14,836.8**
Preferential Share	97.54%	97.16%	98.29%	98.06%	97.46%	97.30%	97.29%
Mexico							
NAFTA-MX	16,939.2	17,558.9	22,069.2	21,509.9	21,501.8	14,321.4	8,833.6
Other Preferential Program	–	–	–	–	–	–	–
No Program Claimed	853.7	1,046.2	1,313.0	2,039.1	1,829.6	1,348.3	782.9
Total	**17,792.9**	**18,605.1**	**23,382.2**	**23,549.0**	**23,331.4**	**15,669.7**	**9,616.5**
Preferential Share	95.20%	94.38%	94.38%	91.34%	92.16%	91.40%	91.86%
NAFTA							
NAFTA	63,174.6	64,655.8	69,472.7	69,071.6	61,131.6	42,136.9	23,267.6
Other Preferential Program	34.7	16.6	3.3	2.9	1.6	1.1	0.8
No Program Claimed	2,021.8	2,424.7	2,137.6	2,980.0	2,863.7	2,118.9	1,185.0
Total	**65,231.1**	**67,097.1**	**71,613.6**	**72,054.5**	**63,996.9**	**44,256.9**	**24,453.3**
Preferential Share	96.90%	96.39%	97.02%	95.86%	95.53%	95.21%	95.15%
Memo Item: Share of Automotive in Total	**15.84%**	**14.65%**	**14.27%**	**13.75%**	**11.60%**	**11.53%**	**9.73%**

Notes: Automotive imports includes parts and components (HTS 8708) and built-up vehicles (HTS 8703). Imports refer to general imports since automotive components are frequently re-exported within NAFTA.
YTD refers to data from Jan-Aug.

Source: USITC Interactive Tariff and Trade DataWeb, available: http://dataweb.usitc.gov.

Automotive imports also figure prominently in US imports from Japan and help explain the sharp contraction in US imports from Japan as the crisis has deepened. Table 3 shows that automotive imports from Japan declined in 2009 year to date by over –53% compared to –38 percent for all imports (Table 1 left panel row 3) from Japan. Globally, the contraction in US automotive imports is only matched by the collapse in energy-related imports.

US exports of automotive parts and components are substantially greater than of built-up vehicles in trade with NAFTA partners—a reverse of the trend in global US auto exports where vehicles dominate. The explanation for this is that rules of origin enforce purchases of US intermediate inputs in partner countries and serve to divert trade from more efficient suppliers outside the FTA. The margin of preference between most favored nation applied tariffs and NAFTA preferential tariffs in Canada and Mexico provides additional incentive to source inputs from US components suppliers. Rules of origin act as an export subsidy for US parts and components suppliers.[15] This relationship superficially appears to be strengthening in the crisis in the sense that parts and components exports from the US to NAFTA partners are declining much less sharply than are built-up vehicles. However, the preferential trade agreement appears to provide no respite from the collapse of global trade and indeed in the case of auto parts and vehicles, the decline in NAFTA trade is in line with that from all destinations (right hand panel of Table 3). However, the automotive sector's trade occupies a larger share of US intra-NAFTA trade than it does in US global trade. Automotive imports comprised 14% of US intra-NAFTA imports in 2007 but only 9% of US gobal imports. This helps explain why US intra-NAFTA imports are falling faster than US global imports.

Textile Trade Case Study. The most significant change in global trade rules brought about by the Uruguay Round Agreement was the phasing out of industrialized country quotas on textile and apparel imports from developing countries over a 10-year period (1995–2004) under the ATC.[16] The elimination of quotas, coupled with the entry of PRC into the WTO plus the normalization of trade relations between the US and Viet Nam greatly undercut the advantage preferential suppliers had in the US market for textiles and clothing. Without the quantitative restrictions, producers in Canada and Mexico would be forced to compete directly with Asian suppliers with only preferential tariffs even though applied MFN tariffs in the US remained quite high.[17] Globally, it was predicted that the number of competitive suppliers would shrink and that exports would be consolidated into just a few countries led by PRC, India, and perhaps a few others (Nordas 2004). The extension of preferential arrangements by the US to new FTA partners in the

[15] See Cadot, Estevadeordal, and Suwa-Eisenmann (2006) for a detailed explanation and empirical verification of the proposition that rules of origin act as trade-diverting export subsidies. James and Umemoto (2000) and Krueger (1997) and Krishna and Krueger (1995) provide theoretical models of FTA diversion of trade in intermediate goods.

[16] For a discussion of the ATC and its implications for global trade in textiles and apparel, see Nordas (2004). See James (2005) and Whalley (2006) for the implications for developing Asia.

[17] James (2007) estimates that the average tariff margin of preference for NAFTA suppliers compared with non-preferential was about 14% for clothing and 10% for textiles in 2005.

Central American Free Trade Agreement (CAFTA-DR)[18] and to poor sub-Saharan Africa under the African Growth and Opportunity Act (AGOA) can be interpreted as a means of preserving a share of the US market for more developing countries that desperately needed to generate jobs and foreign exchange revenues.[19]

The impact of the full implementation of the ATC on US imports of textiles and apparel from NAFTA partners was negative (Table 5). There was negative growth in US imports overall beginning in 2005 with substantially large impacts on apparel imports, which fell by about 10%. The impact was similar on imports of apparel that used NAFTA preferences that fell by over 7% in 2005 (Table 5). In contrast to apparel, US imports of textile intermediate products and made-up textile products from NAFTA partners continued to expand slowly in 2005 but by 2006 turned broadly negative. The share of imports of textiles and apparel imports from Canada and Mexico that complied with NAFTA rules to avoid high MFN tariffs remained high at about 83–85% (*Table 6*).

Table 5: US Textile and Apparel Imports from NAFTA Partners

Supplier	In Million US$, Current Prices							% Change				
	2004	2005	2006	2007	2008	YTD 2008	YTD 2009	2005	2006	2007	2008	YTD 2009
Canada												
Yarns and Fabrics	1,608	1,628	1,556	1,466	1,195	831	668	1.21	–4.36	–5.82	–18.47	–19.63
Apparel	1,499	1,280	1,174	966	707	505	313	–14.58	–8.31	–17.69	–26.86	–38.02
Made-Up Textile Products	392	398	364	345	296	205	147	1.34	–8.34	–5.25	–14.35	–28.30
Sub-Total	**3,499**	**3,305**	**3,095**	**2,777**	**2,198**	**1,542**	**1,128**	**–5.54**	**–6.37**	**–10.26**	**–20.88**	**–26.81**
Mexico												
Yarns and Fabrics	954	1,009	944	920	803	562	443	5.75	–6.44	–2.47	–12.75	–21.24
Apparel	6,845	6,230	5,448	4,630	4,129	2,801	2,293	–8.98	–12.55	–15.02	–10.83	–18.13
Made-Up Textile Products	733	733	735	760	612	419	405	0.00	0.32	3.37	–19.53	–3.31
Sub-Total	**8,532**	**7,972**	**7,127**	**6,311**	**5,544**	**3,782**	**3,141**	**–6.56**	**–10.60**	**–11.46**	**–12.15**	**–16.95**
NAFTA												
Yarns and Fabrics	2,562	2,636	2,500	2,386	1,998	1,393	1,110	2.90	–5.16	–4.56	–16.26	–20.28
Apparel	8,344	7,511	6,622	5,596	4,835	3,306	2,606	–9.99	–11.83	–15.49	–13.59	–21.17
Made-Up Textile Products	1,125	1,131	1,100	1,105	907	625	553	0.47	–2.72	0.51	–17.91	–11.53
Sub-Total	**12,031**	**11,277**	**10,222**	**9,088**	**7,741**	**5,324**	**4,270**	**–6.27**	**–9.36**	**–11.10**	**–14.82**	**–19.81**

Notes: Yarns and Fabrics include HTS chapters 50, 51, 52, 53, 54, 55, 56, 58, 59 and 60. Apparel includes HTS chapters 61 and 62. Made-Up Textile Products include HTS chapters 57 and 63.
YTD refers to data from Jan-Aug.
Source: USITC Interactive Tariff and Trade DataWeb, available: http://dataweb.usitc.gov.

[18] The CAFTA was extended to the Dominican Republic, hence the CAFTA-DR acronym.

[19] The CAFTA-DR includes Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. The entry into force of CAFTA differs according to the date of ratification of the treaty by partner countries. AGOA provided limited duty-free access to the US market for imports from 37 sub-Saharan African countries.

Table 6: Share of US Imports of Textiles and Apparel from NAFTA Partners Utilizing NAFTA Tariff Preferences (% of total)

Supplier	2004	2005	2006	2007	2008	YTD 2008	YTD2009
Canada							
Yarns and Fabrics	85.6	83.4	83.8	82.3	79.9	80.3	78.6
Apparel	96.0	96.1	97.1	97.3	97.4	97.6	96.4
Made-Up Textile Products	78.5	81.6	83.3	82.3	80.2	80.5	76.9
Sub-Total	**89.2**	**88.5**	**88.9**	**87.5**	**86.7**	**86.0**	**83.3**
Mexico							
Yarns and Fabrics	88.9	88.3	85.9	83.9	81.4	80.3	82.7
Apparel	81.4	84.6	83.3	83.8	84.8	85.1	87.6
Made-Up Textile Products	67.9	69.3	67.7	67.8	66.7	66.7	62.6
Sub-Total	**81.1**	**83.7**	**82.0**	**81.9**	**82.3**	**82.4**	**83.7**
NAFTA							
Yarns and Fabrics	86.8	85.3	84.6	83.0	80.5	80.3	80.2
Apparel	84.0	86.6	85.7	86.1	86.6	87.0	88.7
Made-Up Textile Products	71.6	73.6	72.9	72.3	71.1	71.3	66.4
Sub-Total	**83.5**	**85.0**	**84.1**	**83.6**	**83.2**	**83.4**	**83.6**

Notes: Yarns and Fabrics include HTS chapters 50, 51, 52, 53, 54, 55, 56, 58, 59 and 60. Apparel includes HTS chapters 61 and 62. Made-Up Textile Products include HTS chapters 57 and 63.
YTD refers to data from Jan-Aug.
Source: USITC Interactive Tariff and Trade DataWeb, available: http://dataweb.usitc.gov.

In 2006, another major change was introduced in the global trading system for textiles and apparel that would potentially set back the clock on the reforms introduced by the ATC. This was the imposition over 2006–2008 of newly negotiated safeguard quotas on selected fast-growing textile and apparel exports from the PRC by the Government of the US and by the European Community, among others.[20] In the US case, these new quotas restricted imports for items accounting for about 50% of all US imports of textiles and apparel (Table 7). Imports of these restricted items from the PRC (see Appendix for details) were growing at the spectacular rate of 47% in 2005 in volume before the safeguard quotas were imposed.[21] The dramatic impact on US imports for the covered items can be seen in the drastic decline in volume growth to just over 1% in 2006 (Table 7). In value terms, the decline in growth was from just over 50% in 2005 to 16.7% in 2006 (Table 8).[22]

[20] In fact the items with safeguard quotas on the PRC correspond closely to the 50% of tariff lines on which quotas were only eliminated under the fourth and final tranche of the ATC at the end of 2004.

[21] This growth surge followed the lifting of all quotas under the WTO ATC on 1 January 2005. Under the terms of PRC's Accession Agreement to the WTO, importers reserved the right to impose product-specific safeguards to counter any surge in imports for an interim period. The US and PRC reached agreement on the safeguards in November 2005 and these were implemented on 1 January 2006 for a period of 3 years (through December 31 of 2008). See appendix table A2.1 for details on the volume of US imports of the items coming under safeguards from 2004 to June 2009.

[22] The quotas are implemented on the basis of the volume and not the value of shipments. In general, the imposition of quotas may have a more restrictive impact on volume than on value as prices of the restricted items tend to rise under the quota regime (see Figure 5 for an example).

Table 7: US Imports of Textile and Apparel Items Restricted by Safeguard Quotas on People's Republic of China by Major Supplier, Volume and % Change

Supplier	Volume in Million Square Meter Equivalents							% Change			
	2004	2005	2006	2007	2008	YTD 2008	YTD 2009	2006	2007	2008	YTD 2009
Non-Preferential Suppliers:											
Major Asian Suppliers											
China, People's Republic of	5,409	7,984	8,082	8,998	8,559	3,498	4,078	1.2	11.3	−4.9	16.6
Viet Nam	511	512	628	903	1,116	521	667	22.5	43.9	23.5	28.0
Bangladesh	728	834	1,016	1,094	1,196	591	599	21.8	7.7	9.3	1.4
Indonesia	571	613	840	831	845	448	397	37.0	−1.0	1.6	−11.4
India	476	770	999	1,035	1,156	582	541	29.7	3.6	11.7	−7.0
Cambodia	217	299	470	560	578	301	390	57.1	19.0	3.3	29.6
Pakistan	814	859	939	744	816	399	363	9.2	−20.7	9.7	−9.0
Thailand	542	562	602	578	548	268	217	7.1	−3.9	−5.2	−18.8
Sri Lanka	226	280	315	306	286	142	123	12.7	−2.9	−6.6	−13.6
Philippines	346	352	440	327	266	148	107	25.1	−25.7	−18.6	−27.2
Malaysia	172	188	238	203	200	102	53	26.2	−14.4	−1.4	−47.8
Sub-Total Major Asian Suppliers	10,011	13,253	14,567	15,579	15,565	6,999	7,537	9.9	6.9	−0.1	7.7
Asian Newly Industrialized Economies											
Taipei,China	861	732	789	729	651	330	225	7.8	−7.5	−10.8	−32.0
Korea, Republic of	1,755	1,516	1,481	1,177	1,023	536	491	−2.3	−20.5	−13.0	−8.4
Hong Kong, China	532	520	512	351	272	130	30	−1.6	−31.5	−22.3	−76.8
Land-Locked Asian Suppliers											
Lao PDR	–	–	2	5	15	7	6	*	143.9	218.5	−19.0
Mongolia	–	32	25	17	7	4	0	−21.6	−31.2	−61.4	−91.6
Nepal	20	13	10	6	1	1	0	−22.1	−40.4	−75.7	−71.7
Preferential Suppliers											
FTA Partners											
Mexico	2,590	2,385	2,117	1,745	1,455	753	594	−11.2	−17.6	−16.6	−21.0
Canada	1,622	1,537	1,254	926	545	295	210	−18.4	−26.2	−41.1	−28.9
CAFTA-DR	3,420	3,513	3,211	3,154	3,224	1,619	1,202	−8.6	−1.8	2.2	−25.7
Australia	42	31	19	8	8	4	2	−36.4	−59.4	−2.0	-48.6
Bahrain	31	29	17	14	19	10	7	−40.5	−18.2	34.8	−27.3
Chile	3	3	4	8	3	1	1	45.1	97.0	−64.0	−36.8
Israel	228	208	169	191	250	132	112	−18.8	13.2	30.7	−14.7
Jordan	188	223	252	223	200	102	76	12.9	−11.6	−10.1	−25.6
Morocco	11	4	5	3	3	1	1	39.7	−51.0	4.1	−17.6
Singapore	33	25	24	22	16	8	5	−0.7	−11.5	−24.5	−35.2
Sub-Total FTA Partners	8,168	7,956	7,074	6,293	5,723	2,926	2,211	−11.1	−11.0	−9.1	−24.4
Beneficiaries of Unilateral US Preference Programs											
ANDEAN	227	226	207	171	155	83	59	−8.4	−17.5	−9.6	−28.6
AGOA	399	351	312	323	312	147	126	−11.2	3.7	−3.4	−14.7
Egypt	190	178	202	209	207	108	106	13.0	3.5	−0.6	−1.1
World Total	**24,583**	**26,711**	**26,895**	**26,537**	**25,304**	**11,966**	**11,280**	**0.7**	**−1.3**	**−4.6**	**−5.7**
Memo Item:		**2005**	**2006**	**2007**	**2008**	**YTD 2008**	**YTD 2009**				
Share of restricted items in Total US textile and apparel Imports		**52.5%**	**51.6%**	**50.0%**	**50.2%**	**49.2%**	**51.6%**				

Note: YTD refers to data from Jan-Jun.

Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://otexa.ita.doc.gov/.

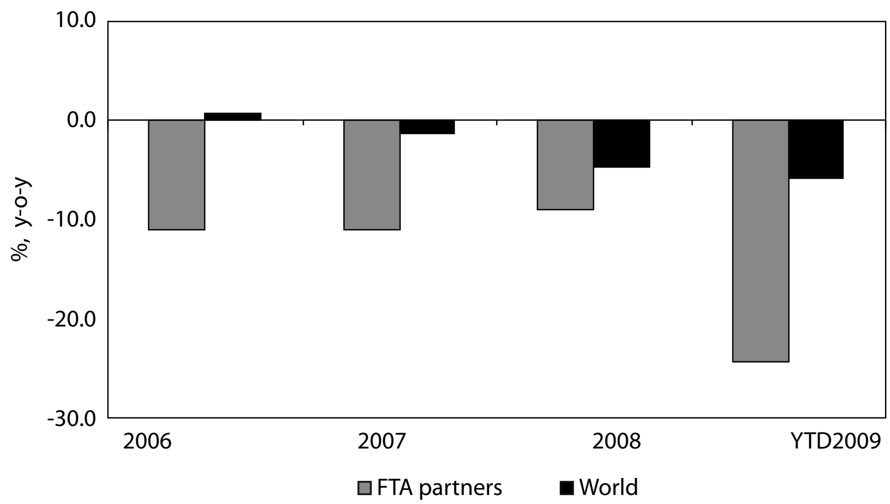
Table 8: US Imports of Textile and Apparel Items Restricted by Safeguard Quotas on People's Republic of China by Major Supplier

Supplier	Value in Million US$, Current Prices							% Change			
	2004	2005	2006	2007	2008	YTD 2008	YTD 2009	2006	2007	2008	YTD 2009
Non-Preferential Suppliers											
Major Asian Suppliers											
China, People's Republic of	6,485	9,751	11,383	14,081	14,458	6,007	6,928	16.74	23.70	2.67	15.33
Viet Nam	1,680	1,819	2,228	3,080	3,805	1,824	1,838	22.48	38.27	23.53	0.75
Bangladesh	1,454	1,789	2,371	2,635	2,955	1,451	1,561	32.48	11.16	12.14	7.65
Indonesia	1,680	2,021	2,768	3,003	3,005	1,536	1,449	36.95	8.52	0.04	−5.66
India	1,557	2,083	2,424	2,659	2,726	1,464	1,285	16.35	9.70	2.52	−12.26
Cambodia	868	1,167	1,661	2,000	1,994	1,006	751	42.24	20.42	−0.29	−25.37
Pakistan	1,226	1,339	1,542	1,600	1,636	786	676	15.20	3.74	2.24	−13.92
Thailand	1,331	1,434	1,557	1,537	1,482	758	554	8.53	−1.26	−3.59	−26.90
Sri Lanka	929	1,139	1,256	1,252	1,190	591	512	10.28	−0.33	−5.00	−13.37
Philippines	1,145	1,297	1,528	1,266	979	534	365	17.76	−17.11	−22.65	−31.78
Malaysia	551	550	585	575	529	262	184	6.28	−1.55	−8.00	−29.73
Asian Newly Industrialized Economies											
Taipei,China	1,482	1,204	1,147	1,033	902	430	304	−4.74	−9.94	−12.66	−29.22
Korea, Republic of	1,846	1,426	1,236	918	761	374	264	−13.37	−25.73	−17.03	−29.41
Hong Kong, China	2,518	2,909	2,567	1,892	1,461	715	147	−11.75	−26.28	−22.79	−79.42
Land-Locked Asian Suppliers											
Lao PDR	–	–	3	6	11	12	10	*	110.10	64.18	−21.29
Mongolia	–	116	92	66	36	20	1	−20.60	−28.78	−46.01	−96.78
Nepal	63	42	33	21	7	4	1	−21.70	−35.34	−67.94	−74.30
Preferential Suppliers											
FTA Partners											
Mexico	6,529	6,038	5,355	4,573	4,032	2,000	1,612	−11.31	−14.60	−11.81	−19.42
Canada	1,730	1,569	1,443	1,171	814	447	282	−8.04	−18.88	−30.49	−36.88
CAFTA-DR	8,743	8,486	7,943	7,462	7,215	3,594	2,769	−6.39	−6.06	−3.30	−22.95
Australia	169	99	37	6	5	3	1	−62.60	−82.58	−18.62	−52.81
Bahrain	147	110	77	63	75	32	33	−30.46	−17.74	18.54	2.41
Chile	9	10	13	9	4	2	1	27.38	−33.00	−53.73	−31.23
Israel	365	333	280	238	256	128	102	−15.80	−15.18	7.54	−19.84
Jordan	862	987	1,119	1,047	881	421	337	13.31	−6.44	−15.87	−20.06
Morocco	40	20	26	19	29	13	11	30.29	−25.76	47.89	−12.22
Singapore	201	145	136	141	110	54	34	−6.00	3.43	−21.69	−37.86
	18,793	17,798	16,429	14,728	13,421	6,694	5,183	−7.69	−10.36	−8.87	−22.58
Beneficiaries of Unilateral US Preference Programs											
ANDEAN	1,208	1,319	1,300	1,133	1,069	570	389	−1.46	−12.84	−5.60	−31.72
AGOA	1,643	1,398	1,246	1,250	1,113	506	430	−10.89	0.32	−10.94	−15.06
Egypt	425	442	615	689	731	357	370	39.08	12.01	6.04	3.49
World Total	**51,207**	**54,183**	**58,645**	**59,822**	**58,087**	**27,914**	**24,469**	**8.24**	**2.01**	**−2.90**	**−12.34**
Memo Item:		**2005**	**2006**	**2007**	**2008**	**YTD 2008**	**YTD 2009**				
Share of restricted items in Total US textile and apparel Imports		**57.4%**	**62.9%**	**62.0%**	**62.3%**	**63.7%**	**65.2%**				

Note: YTD refers to data from Jan-Jun.
Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://www.otexa.ita.doc.gov/.

The safeguard quotas led to substantial gains for some suppliers but not others. For example, major Asian suppliers such as Cambodia and Indonesia saw their shipments of the items restricted by safeguard quotas on the PRC soar in 2006 in both volume and value terms (Tables 7 & 8). In contrast, less competitive suppliers did less well and preferential suppliers fared worst of all in volume of shipments, except for landlocked suppliers like Mongolia and Nepal. The performance of US partners in FTAs (*Figure 4*) was far worse than that of all suppliers. Thus, when the PRC was held back by quotas, it was the more competitive Asian suppliers that filled the gap, rather than those that had sought better preferential access to the US market through bilateral agreements—reflecting the disadvantage preferential partners endure of having to use higher cost intermediate textile products in complying with strict US rules of origin.

Figure 4: Growth in Volume of US Imports of Textile and Apparel Items Restricted by Safeguard Quotas on PRC



Note: YTD is for Jan-Jun 2008 vs. Jan-Jun 2009.
Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://otexa.ita.dom.gov.

In terms of value, noncompetitive suppliers almost across the board (including preferential suppliers and Asian newly industrialized economies) experienced negative growth and lost market share. The safeguard quotas allowed for growth in the volume of shipments from the PRC in 2007 and 2008 and also had the effect of raising unit values of PRC's shipments in the restricted categories. This led to a recovery of growth in PRC's exports in 2007, before the onset of the recession led to a fall in US consumer demand. In 2008, as the PRC began to experience higher costs and began to reflect the previous modest appreciation of the yuan relative to the US dollar and the US recession began to hurt trade in the latter part of the year, growth in the volume of shipments turned negative with value growth falling very sharply to low single-digits compared with over 20% in 2007.

The volume of shipments from preferential suppliers continued to underperform in 2007 and 2008 and shipments from some other Asian suppliers also began to crumble (especially in the case of the Philippines). Bangladesh, Cambodia, Lao People's Democratic Republic, and Viet Nam continued to experience high growth in shipments of the restricted items throughout 2007 and 2008. The fact that many suppliers were experiencing difficulties while only a few were able to grow rapidly may indicate the consolidation of the world textile and apparel industry is gaining traction. The global recession and the collapse of the US consumer market that began in earnest late in 2008 and that accelerated in early 2009 may further advance the prospects for consolidation.

The US market for imported apparel is vast and is rivaled only by the combined market of the 27 member countries of the EU. In 2007, the US imported $74 billion in apparel and a further $22 billion in textiles for a total of $96 billion. Moreover, the US apparel market had been growing relative to textile imports over the period since the ATC eliminated quotas (2004–2007). And thus far in the recession, clothing imports have contracted less than textiles.

The rather mild decline in US clothing imports that characterized 2008, with volume and value falling at slightly different rates (Tables 9 & 10) became a much steeper contraction in year-to-date 2009 and only two countries (aside from the PRC) emerged as clear winners— Bangladesh and Viet Nam. Indonesia treaded water in 2008 and 2009 but is still gaining market share. India was able to maintain volume but had to discount prices and thereby lost value while the PRC did the opposite.

Nonetheless, it is clear that downward pressure on prices, (unit values as proxies for prices), evident since 2006 (Table 11) is likely to worsen as 2009 unfolds. As an example, the US market for cotton-knit blouses may be considered as representative of how changes in the trade policy regime influence trade patterns and prices. First is the observation that elimination of the quota system under the ATC did lead to cheaper prices and especially in a huge fall in prices of cotton blouses from the PRC (compare unit values in Table 11 top row between 2004 and 2005). However, the implementation of safeguard quotas on the PRC reversed some of the decline in prices that had taken place and drove prices steadily higher until the quotas were once again done away with at the end of 2008 (Figure 5). The overall trend, since the global crisis had begun to sharply affect trade in late 2008 and early 2009, is for downward pressure on prices and a smaller volume of trade as demand by US consumers' contracts. There is also evidence of a renewed drive toward consolidation of exports of clothing toward fewer suppliers with the PRC in the lead. The ending of the safeguard quotas led to a massive surge in shipments of cotton-knit blouses from the PRC but Bangladesh and Indonesia were also able to raise the volume at double-digit rates even into a market that is down. Shipments from the Asian newly industrialized economies NIEs, the EU, and all preferential suppliers are falling much more rapidly than the global average (see the last column of Table 11).

Table 9: US Imports of Clothing from All Major Suppliers in the Post-Quota Era, Volume and % Change

Supplier:	Volume in Million Square Meter Eqivalents						% Change			
	2005	2006	2007	2008	YTD 2008	YTD 2009	2006	2007	2008	YTD 2009
Non-Preferential Suppliers:										
Major Asian Suppliers										
China, People's Republic of	5,883	6,506	8,034	7,789	3,146	3,335	10.6	23.5	-3.0	6.0
Viet Nam	801	947	1,274	1,528	706	752	18.2	34.4	20.0	6.5
Bangladesh	1,125	1,307	1,352	1,436	679	699	16.2	3.4	6.2	3.0
Indonesia	823	1,013	1,064	1,099	563	535	23.0	5.0	3.3	–5.0
India	790	840	868	883	486	509	6.3	3.3	1.7	4.7
Cambodia	710	843	867	889	416	488	18.7	2.8	2.5	17.1
Pakistan	578	673	696	693	328	307	16.4	3.4	–0.4	–6.5
Thailand	537	566	523	491	241	195	5.5	–7.7	–6.2	–18.9
Philippines	519	589	458	387	201	169	13.5	–22.3	–15.6	–15.9
Sri Lanka	454	451	409	379	190	163	–0.7	–9.2	–7.2	–14.6
Malaysia	211	243	236	239	117	69	15.0	–2.9	1.2	–40.6
Asian Newly Industrialized Economies										
Taipei,China	391	359	303	244	118	81	–8.2	–15.7	–19.3	–31.0
Korea, Republic of	359	309	205	175	78	43	–13.9	–33.7	–14.8	–44.7
Hong Kong, China	597	523	358	258	118	26	–12.3	–31.6	–27.9	–77.8
Land-Locked Asian Suppliers										
Lao PDR	0	4	6	17	8	6	771.7	66.9	182.7	–23.1
Nepal	19	16	9	5	3	2	–18.6	–43.0	–45.8	–37.8
Mongolia	40	29	19	9	5	0	–26.5	–33.7	–52.2	–89.7
Other Non-Preferential Suppliers										
EU-15	117	93	88	78	38	25	–20.3	–5.7	–11.3	–33.3
Preferential Suppliers										
Major FTA Partners										
Mexico	1,703	1,477	1,210	1,035	530	431	–13.3	–18.1	–14.5	–18.7
Canada	190	159	117	75	41	25	–16.3	–26.4	–35.7	–38.4
CAFTA-DR	3,787	3,407	3,342	3,379	1,690	1,261	–10.0	–1.9	1.1	–25.4
Other FTA Suppliers	419	424	354	351	157	114	1.2	–16.6	–0.9	–27.1
Beneficiaries of Unilateral US Preference Programs										
ANDEAN	238	218	187	158	85	56	–8.3	–14.3	–15.8	–33.9
AGOA	377	326	332	306	142	129	–13.5	1.9	–7.9	–8.8
Egypt	165	202	208	215	105	110	22.7	3.2	3.2	4.9
World Total	**22,090**	**22,539**	**23,332**	**22,694**	**10,495**	**9,736**	**2.0**	**3.5**	**–2.7**	**–7.2**

Notes: Other FTA suppliers include: Australia, Bahrain, Chile, Israel, Jordan, Morocco and Singapore.
YTD refers to data from Jan-Jun.

Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://otexa.ita.doc.gov/.

Table 10: US Imports of Clothing from All Major Suppliers in the Post-Quota Era, Value and % Change

Supplier	Value in millions of US$, Current prices						% Change			
	2005	2006	2007	2008	YTD 2008	YTD 2009	2006	2007	2008	2009
Non-Preferential Suppliers:										
Major Asian Suppliers										
China, People's Republic of	15,143	18,518	22,745	22,923	9,069	9,421	22.3	22.8	0.8	3.9
Viet Nam	2,725	3,222	4,359	5,223	2,350	2,348	18.3	35.3	19.8	−0.1
Bangladesh	2,372	2,914	3,103	3,442	1,623	1,741	22.9	6.5	10.9	7.2
Indonesia	2,875	3,670	3,981	4,028	2,021	1,947	27.6	8.5	1.2	−3.6
India	2,976	3,187	3,170	3,073	1,744	1,594	7.1	-0.5	−3.0	−8.6
Cambodia	1,713	2,136	2,425	2,376	1,155	890	24.7	13.5	−2.0	−23.0
Pakistan	1,259	1,412	1,499	1,490	688	598	12.2	6.1	−0.6	−13.2
Thailand	1,808	1,840	1,766	1,668	836	615	1.8	−4.0	−5.6	−26.4
Sri Lanka	1,650	1,682	1,573	1,467	727	634	2.0	−6.5	−6.8	−12.8
Philippines	1,830	2,002	1,722	1,362	703	521	9.4	−14.0	−20.9	−25.8
Malaysia	678	686	683	639	306	220	1.2	−0.5	−6.5	−28.1
Asian Newly Industrialized Economies										
Taipei,China	1,134	1,005	861	721	341	245	−11.4	−14.3	−16.3	−28.1
Korea, Republic of	1,155	913	627	505	238	133	−20.9	−31.3	−19.4	−44.0
Hong Kong, China	3,511	2,811	2,035	1,553	743	165	−19.9	−27.6	−23.7	−77.8
Land-Locked Asian Suppliers										
Lao PDR	3	8	11	30	15	11	184.1	38.2	177.0	−24.6
Nepal	61	51	32	19	9	6	−16.7	-37.1	-41.3	−37.5
Mongolia	134	104	72	40	22	1	−22.8	-31.1	-44.6	−96.0
Other Non-Preferential Suppliers										
EU-15	1,926	1,831	1,965	1,793	866	574	−4.9	7.3	−8.7	−33.7
Preferential Suppliers										
Major FTA Partners										
Mexico	6,078	5,297	4,523	4,015	1,991	1,613	−12.9	−14.6	−11.2	−19.0
Canada	1,273	1,167	960	699	374	228	−8.4	−17.7	−27.2	−39.1
CAFTA-DR	9,104	8,406	7,895	7,603	3,768	2,910	−7.7	−6.1	−3.7	−22.8
Other FTA Suppliers	1,874	1,922	1,666	1,443	688	525	2.6	−13.3	−13.4	−23.6
Beneficiaries of Unilateral US Preference Programs										
ANDEAN	1,429	1,395	1,232	1,162	615	414	−2.4	−11.7	−5.7	−32.6
AGOA	1,464	1,292	1,293	1,151	517	445	−11.8	0.1	−11.0	−13.9
Egypt	444	625	697	742	350	374	40.6	11.6	6.4	7.1
World Total	**68,713**	**71,630**	**73,923**	**71,569**	**32,996**	**28,907**	**4.2**	**3.2**	**−3.2**	**−12.4**

Notes: Other FTA suppliers include: Australia, Bahrain, Chile, Israel, Jordan, Morocco and Singapore.
YTD refers to data from Jan-Jun.

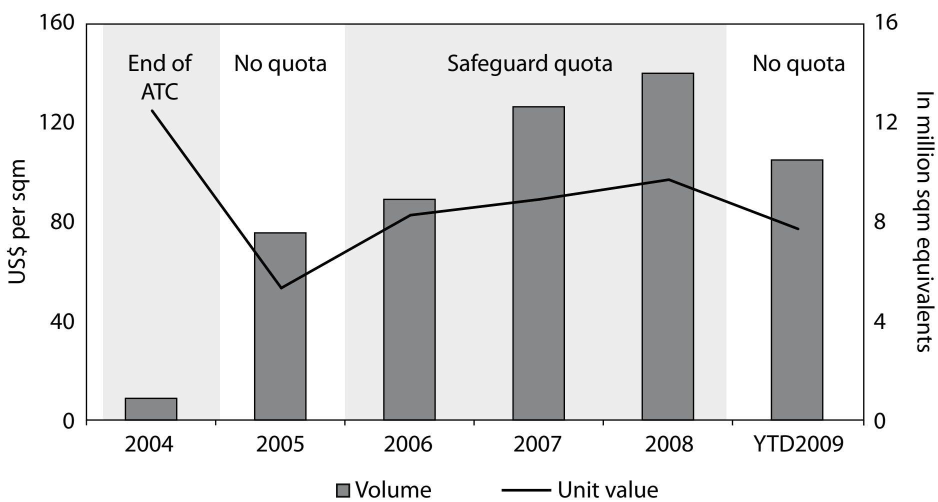
Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://otexa.ita.doc.gov/.

Table 11: Unit Values of China Restricted Clothing: Knit Blouses of Cotton (US$ per sqm)

Supplier	2004	2005	2006	2007	2008	YTD 2009	% Change in Volume 2009 (Mil. Sq. Meter Equivalents)
Non-Preferential Suppliers:							
MAJOR ASIAN SUPPLIERS							
China, People's Republic of	12.5	5.3	8.3	8.9	9.7	7.7	98.3
Viet Nam	6.2	6.6	6.7	6.3	6.1	5.7	–2.9
Bangladesh	6.4	4.2	3.6	4.0	3.7	3.9	18.4
Indonesia	9.4	6.8	6.3	6.3	5.9	5.6	15.3
India	9.4	6.7	6.2	6.0	6.3	5.9	7.0
Cambodia	7.5	6.2	5.8	5.9	5.5	4.8	–18.8
Pakistan	5.2	4.7	4.1	4.1	3.8	3.2	4.9
Thailand	9.7	8.0	6.7	5.9	5.1	4.9	–32.9
Sri Lanka	8.6	7.1	6.8	6.8	7.3	7.3	–29.6
Philippines	8.7	6.8	6.4	7.0	6.5	6.5	–45.8
Malaysia	9.1	6.9	5.8	5.7	6.1	5.7	–31.5
Asian Newly Industrialized Economies							
Taipei,China	11.9	9.3	9.0	8.8	10.5	9.4	–45.3
Korea, Republic of	9.6	6.8	6.0	5.9	6.3	8.2	–66.2
Hong Kong, China	12.8	12.6	11.5	11.8	13.1	14.6	–85.2
Other Non-Preferential Suppliers							
EU-15	17.6	17.0	20.3	24.7	25.5	33.0	–51.5
Preferential Suppliers							
Major FTA Partners							
Mexico	4.0	3.7	3.7	3.6	3.4	3.3	–20.9
Canada	5.3	5.4	5.9	6.5	11.0	12.6	–58.9
CAFTA-DR	4.6	4.3	4.5	4.4	4.1	4.1	–28.9
Beneficiaries of Unilateral US Preference Programs							
ANDEAN	7.3	7.9	8.6	8.8	10.0	10.0	–34.9
AGOA	5.4	5.1	5.1	5.1	5.1	4.8	–39.1
World Total	**6.1**	**5.8**	**5.9**	**6.0**	**5.9**	**5.5**	**–11.9**

Note: YTD refers to data from Jan-Jun.
Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://otexa.ita.doc.gov/.

Figure 5: Imports of PRC-restricted Clothing: Knit Blouses of Cotton



Note: YTD is for Jan-Jun 2009.
Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://www.otexa.ita.doc.gov/.

It appears that market shares are also consolidating (Table 12) with few clear winners (Bangladesh, Indonesia, Viet Nam, and PRC) and many losers—especially preferential suppliers but also landlocked suppliers—the EU, Asian NIEs, and most other Asian suppliers including those that had benefited from the quotas on the PRC. Large South Asian economies such as Sri Lanka and Pakistan are breaking even but are now facing severe negative effects from the collapse in external demand for their apparel exports.

Table 12: Market Share of Major Clothing Suppliers in US Imports (% of Value)

Supplier	2005	2006	2007	2008	YTD 2009
Non-Preferential Suppliers:					
Major Asian Suppliers					
China, People's Republic of	22.0	25.9	30.8	32.0	32.6
Viet Nam	4.0	4.5	5.9	7.3	8.1
Bangladesh	3.5	4.1	4.2	4.8	6.0
Indonesia	4.2	5.1	5.4	5.6	6.7
India	4.3	4.4	4.3	4.3	5.5
Cambodia	2.5	3.0	3.3	3.3	3.1
Pakistan	1.8	2.0	2.0	2.1	2.1
Thailand	2.6	2.6	2.4	2.3	2.1
Sri Lanka	2.4	2.3	2.1	2.0	2.2
Philippines	2.7	2.8	2.3	1.9	1.8
Malaysia	1.0	1.0	0.9	0.9	0.8
Sub-Total	**51.0**	**57.6**	**63.6**	**66.6**	**71.0**
Asian Newly Industrialized Economies					
Taipei,China	1.7	1.4	1.2	1.0	0.8
Korea, Republic of	1.7	1.3	0.8	0.7	0.5
Hong Kong, China	5.1	3.9	2.8	2.2	0.6
Sub-Total	**8.4**	**6.6**	**4.8**	**3.9**	**1.9**
Land-Locked Asian Suppliers					
Lao PDR	0.0	0.0	0.0	0.0	0.0
Nepal	0.1	0.1	0.0	0.0	0.0
Mongolia	0.2	0.1	0.1	0.1	0.0
Sub-Total	**0.3**	**0.2**	**0.2**	**0.1**	**0.1**
Other Non-Preferential Suppliers					
EU-15	2.8	2.6	2.7	2.5	2.0
Sub-Total Major Non-Preferential Suppliers	**62.5**	**67.0**	**71.2**	**73.1**	**75.0**
Preferential Suppliers:					
Major FTA Partners					
Mexico	8.8	7.4	6.1	5.6	5.6
Canada	1.9	1.6	1.3	1.0	0.8
CAFTA-DR	13.2	11.7	10.7	10.6	10.1
Other FTA Suppliers	2.7	2.7	2.3	2.0	1.8
Sub-Total	**26.6**	**23.5**	**20.4**	**19.2**	**18.3**
Beneficiaries of Unilateral US Preference Programs:					
ANDEAN	2.1	1.9	1.7	1.6	1.4
AGOA	2.1	1.8	1.7	1.6	1.5
Egypt	0.6	0.9	0.9	1.0	1.8
Sub-Total	**4.2**	**3.8**	**3.4**	**3.2**	**4.7**
Sub-Total Major Preferential Suppliers	**30.9**	**27.2**	**23.8**	**22.4**	**23.0**
World Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Notes: YTD refers to data from Jan-Jun. Other FTA suppliers include: Australia, Bahrain, Chile, Israel, Jordan, Morocco and Singapore.

Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://otexa.ita.doc.gov/.

US exports of textiles comprise close to three-quarters of total US exports of textiles and apparel (Table 13) and growth in the value of US textile exports was sustained through the post-quota years, 2005–2008. US apparel exports have been shrinking even before the global crisis. The picture that is emerging in 2009, however, is different. US exports of intermediate textile products are collapsing more rapidly than are final textile and apparel products (Table 13). Moreover, US exports are falling just as rapidly across major destinations whether they enjoy preferential treatment or not (Table 14) with a rate of decline of over 25% in the first 8 months of 2009 compared with that in the same period in 2008. Thus, even though preferential rules of origin may act as export subsidies, they are no insurance policy against a global economic downturn.

Table 13: Composition of US Exports of Textiles and Apparel

Group	Value in Million US$, Current prices						% Change			
	2005	2006	2007	2008	YTD 2008	YTD 2009	2006	2007	2008	YTD 2009
Yarn	1,554	1,825	1,987	2,205	1,542	1,143	17.44	8.88	10.95	–25.86
Fabric	8,124	7,907	7,475	7,242	5,011	3,662	–2.67	–5.47	–3.12	–26.92
Sub-Total Textile Intermediates	9,678	9,733	9,462	9,447	6,553	4,805	0.56	–2.78	–0.16	–26.67
Apparel	4,471	4,317	3,665	3,762	2,506	2,335	–3.45	–15.10	2.64	–6.84
Made-Up Textile Products	2,467	2,653	2,829	2,978	1,982	1,690	7.53	6.64	5.26	–14.76
Total Textiles and Apparel	16,616	16,702	15,956	16,186	11,041	8,830	0.52	–4.47	1.44	–20.03

Note: YTD refers to data from Jan-Jun.
Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://otexa.ita.doc.gov/exports/e0.htm

Table 14: Destination of Export of US Intermediate Textile Products, Value (US$ millions, current prices)

Destination	Value in Million US$, Current prices						% Change			
	2005	2006	2007	2008	YTD 2008	YTD 2009	2006	2007	2008	YTD 2009
Preferential Trade Partners:										
FTA Partners:										
Canada	1,606.9	1,583.3	1,480.9	1,391.2	977.0	727.7	–1.47	–6.47	–6.06	–25.52
Mexico	3,275.2	3,087.5	2,831.6	2,649.2	1,806.9	1,394.4	–5.73	–8.29	–6.44	–22.83
CAFTA-DR	2,397.7	2,382.1	2,499.9	2,594.8	1,824.9	1,284.4	–0.65	4.94	3.79	–29.62
Australia	69.6	72.2	87.4	100.8	72.1	53.7	3.73	20.93	15.37	–25.53
Bahrain	0.3	0.9	1.1	1.0	1.1	1.1	167.06	25.56	–7.26	2.38
Chile	17.6	17.3	14.3	27.0	12.2	15.7	–1.56	–17.34	88.52	27.97
Israel	29.4	21.5	30.4	31.8	25.0	22.2	–27.06	41.77	4.40	–11.33
Jordan	1.0	2.2	2.7	1.6	1.5	1.0	109.00	25.73	–41.48	–34.40
Morocco	1.5	1.7	1.7	1.4	1.0	2.6	17.66	–3.59	–17.25	154.88
Singapore	27.2	37.7	37.0	37.0	25.5	15.2	38.52	–1.80	–0.06	–40.47
Sub-Total FTA Partners*	**7,426.6**	**7,206.4**	**6,987.1**	**6,835.7**	**4,747.1**	**3,517.7**	**–2.96**	**–3.04**	**–2.17**	**–25.90**

Continued.

Table 14: *Continued.*

Other Preference-Receiving Partners:										
ANDEAN	128.1	159.9	128.3	121.7	85.0	54.0	24.86	−19.76	−5.12	−36.51
AGOA**	30.5	29.6	33.4	39.2	24.6	20.7	−2.72	12.75	17.33	−15.60
Egypt	5.2	10.4	10.5	27.9	22.7	3.0	102.38	0.17	166.91	−86.63
Sub-Total Other Preference-Receiving Parnters	**163.7**	**200.0**	**172.2**	**188.9**	**132.3**	**77.8**	**22.17**	**−13.90**	**9.69**	**-41.22**
Sub-Total Preferential Trade Partners	**7,590.3**	**7,406.4**	**7,159.3**	**7,024.6**	**4,879.4**	**3,595.5**	**−2.42**	**−3.34**	**−1.88**	**−26.31**
Non-Preferential Trade Partners:										
Developing Asia:										
China, PRC	299.7	394.0	418.1	451.7	321.3	219.2	31.44	6.14	8.03	−31.79
Cambodia	0.7	3.6	1.4	1.7	0.6	1.3	387.24	−61.40	22.17	132.69
Taipei,China	28.1	30.0	24.2	31.6	21.2	14.9	6.81	−19.17	30.50	−29.65
Hong Kong, China	209.3	219.7	184.0	179.5	116.7	84.1	4.96	−16.27	−2.43	−27.89
India	24.2	34.5	29.0	33.8	22.3	21.6	42.12	−15.81	16.52	−3.18
Indonesia	22.7	23.2	22.1	25.2	25.2	16.2	1.99	−4.49	13.77	−35.80
Malaysia	22.2	13.5	14.9	22.9	13.3	12.0	−39.39	10.75	53.81	−10.00
Korea, Rep. of	65.8	69.3	67.7	69.9	48.1	44.1	5.30	−2.31	3.25	−8.31
Pakistan	9.2	12.2	11.0	8.8	5.2	4.6	32.06	−9.88	−20.06	−11.52
Philippines	20.0	14.9	13.4	11.9	8.6	4.9	−25.43	−10.23	−10.98	−42.95
Sri Lanka	22.0	21.4	17.4	18.7	12.4	7.6	−2.72	−18.85	7.34	−38.74
Thailand	55.1	62.0	91.4	91.8	64.4	44.8	12.43	47.51	0.42	−30.53
Viet Nam	8.2	10.2	15.8	12.6	8.7	9.4	24.40	55.61	−20.53	8.81
Sub-Total Developing Asia	**787.3**	**908.2**	**910.4**	**960.0**	**668.0**	**484.7**	**15.35**	**0.24**	**5.45**	**−27.44**
Japan	167.6	211.4	170.0	178.7	121.4	77.3	26.15	-19.59	5.14	-36.31
EU-15	746.2	796.4	811.9	854.7	601.9	423.1	6.72	1.95	5.27	-29.72
Sub-Total Non-Preferential Partners	**1,701.1**	**1,916.0**	**1,892.3**	**1,993.4**	**1,391.3**	**985.1**	**12.63**	**-1.24**	**5.34**	**-29.20**
World Total	**9,678.2**	**9,732.5**	**9,462.0**	**9,446.5**	**6,552.7**	**4,805.0**	**0.56**	**-2.78**	**-0.16**	**-26.67**

Memo item: share of US exports of intermediate textile products (% of world total)

	2005	**2006**	**2007**	**2008**	**YTD 2008**	**YTD 2009**
FTA Partners	76.74	74.05	73.84	72.36	72.44	73.21
All Preferential Partners	78.43	76.10	75.66	74.36	74.46	74.83
Developing Asia (Non-Preferential)	8.14	9.33	9.62	10.16	10.19	10.09
All Non-Preferential Partners	21.57	23.90	24.34	25.64	25.54	25.17

Notes: Intermediate textile products consist of yarn and fabric.
*Excludes FTA partner Oman which receives less than $1mil. In US textile intermediate exports.
**AGOA members are allowed to use non-originating fabric and yarn in production of garments for export to the United States under the agreement up to certain limits.
YTD refers to data from Jan-Aug.

Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://otexa.ita.doc.gov/exports/e0.htm.

The relatively small number of textile workers in the US compared with the vastly larger number of workers engaged in retail trade dependent on imported clothing would seem to militate against continued protectionism. And looked at from the entire value chain in the global clothing and textile industry, greater profit seems to lie in fashion design, advertisement, and other related services rather than in manufacturing. This perspective helps explain the seeming contradiction between protectionism (aimed at keeping textile workers employed) and the extending of unilateral preferences to less developed countries in sub-Saharan Africa, the Middle East, and the Western Hemisphere. The unilateral preference programs themselves include complex rules that may vitiate the purpose of aiding the development of poorer countries by offering them limited market access on a duty-free basis (Matoo, Roy and Subramanian 2002). The reform of rules of origin is likely to be an important step in reviving the manufacture of clothing for export from poorer countries and ensuring that such trade is not distorted to serve US textile interests. The steps taken by Canada and the European Community to revamp their rules governing preferential access through the Generalized System of Preferences for least developed countries are in the right direction.[23] The simplification of the rules to allow duty free access for clothing items assembled in developing countries with no requirements regarding intermediate inputs is easing market access for poor countries that have difficulty reaching high value added thresholds and that lack textile capacities of their own.

IV. Conclusions

The trend towards bilateralism has claimed too much and delivered too little. The current economic crisis reveals that preferential trade is even less robust than MFN trade and is likely to have fueled animosities rather than greater cooperation on critical issues facing the global community.[24] It is high time that strategy be refocused to emphasize the global trading system and the necessity of urgently moving forward with the multilateral negotiations. The world can hardly hope to cope with the crises besetting it unless it can at least agree to move forward with the agenda of development. Reducing wasteful subsidies and other harmful practices that punish peasant farmers and garment workers in developing countries and providing improved market access to manufacturing and agricultural products of developing countries in exchange for more liberalization of services trade and investment makes sense for most WTO members.

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[23] The EU allows regional cumulation within recognized regional integration agreements such as the South Asian Association for Regional Cooperation (SAARC) and the Association of South East Asian Nations (ASEAN) in complying with its rules of origin. For detailed discussion see *Textiles Intelligence* (September–October 2008: 148–153).

[24] Witness the recent disputes between the US and Mexico over the implementation of NAFTA rules on land transport and the endless dispute between Canada and the US over softwood lumber. In the case of transport, the US refuses to permit trucks from Mexico to engage in providing transport services within the US, sparking Mexico to retaliate by imposing penalty tariffs on US exports. When Canada won the NAFTA panel decision on softwood lumber on an antidumping case, the Office of the U.S. Trade Representative (USTR) simply filed the case at the WTO.

The economic crisis is also likely to shift the balance in US trade policy formulation away from protectionist domestic interests in favor of more outward-looking interests including export-oriented producers of both goods and internationally traded services. Renewal of the traditional US emphasis on the multilateral trading system rather than bilateralism may also take place as the restoration of American growth and employment will have to generate growth in net exports at the global level. US global export interests can no longer be held hostage to bilateral arrangements to protect sunset industries.

It is far from certain whether recovery will begin anytime soon and, as unemployment mounts, there will be demand for more, not less, protectionism. If the US can successfully resist such sentiments, it may be possible to move forward with a multilateral trade agreement. Research on the implications for global trade of the elimination of all quantitative restrictions on textiles and garments, the rising incidence of contingent forms of protection on various key tradable goods, and the future of US automotive trade are likely to provide more insights and support the agenda for a renewed emphasis on multilateralism.

Appendix Table A2.1: People's Republic of China's Shipments to the United States in Categories Restricted by Safeguard Quotas (Volume in Million Square Meter Equivalents)

Item	2004	2005	2006	% Change	2007	% Change	2008	% Change	YTD 2008	YTD 2009	% Change
CLOTHING:											
239 baby garments	482.420	545.791	605.464	10.93	638.274	5.42	520.115	–18.51	225.965	196.736	–12.94
332 hosiery, cotton	2.525	19.388	33.780	74.23	81.121	140.15	87.518	7.89	45.016	47.270	5.01
432 hosiery, wool	0.482	0.116	0.179	54.31	0.272	51.96	0.384	41.18	0.057	0.077	35.09
632 hosiery, mmf	224.297	221.126	152.583	–31.00	200.201	31.21	193.116	–3.54	84.042	128.666	53.10
338 mb knit shirts, cot.	8.392	47.883	40.298	–15.84	55.391	37.45	52.842	–4.60	20.986	34.842	66.02
339 wg knit blouse, cot.	8.505	75.885	88.903	17.15	126.897	42.74	140.424	10.66	52.918	104.918	98.27
340 non-knit shirts, cot.	19.202	68.142	58.960	–13.47	113.431	92.39	127.742	12.62	51.000	60.386	18.40
640 non-knit shirts, mmf	30.473	55.912	31.185	–44.22	38.465	23.34	33.094	–13.96	18.750	16.039	–14.46
345 sweater, cotton	4.442	69.536	72.311	3.99	171.073	136.58	159.818	–6.58	21.330	33.182	55.56
645 mb sweater, mmf	2.963	14.264	6.626	–53.55	7.329	10.61	2.973	–59.44	0.685	0.640	–6.57
646 wg sweater, mmf	25.647	157.982	79.474	–49.69	96.014	20.81	67.355	–29.85	6.742	7.739	14.79
347 mb trousers, cotton	14.136	100.042	77.626	–22.41	93.636	20.62	98.604	5.31	44.125	85.824	94.50
348 wg slacks, cotton	18.406	173.673	175.159	0.86	235.793	34.62	258.676	9.70	120.272	234.093	94.64
349 brassiers, cotton	11.675	15.297	12.535	–18.06	16.618	32.57	16.307	–1.87	9.541	7.838	–17.85
649 brassiers, mmf	59.265	67.532	62.850	–6.93	74.120	17.93	80.563	8.69	40.721	41.566	2.08
352 underwear, cotton	17.632	85.242	61.811	–27.49	111.846	80.95	96.869	–13.39	41.200	69.875	69.60
652 underwear, mmf	44.159	119.252	93.360	–21.71	146.709	57.14	160.162	9.17	64.710	104.058	60.81
359 other cotton app.	247.224	334.688	381.876	14.10	362.817	–4.99	316.040	–12.89	147.724	131.021	–11.31
659 other mmf app.	245.107	692.287	792.621	14.49	915.190	15.46	973.902	6.42	322.243	375.479	16.52
443 mb wool suits	0.573	6.066	4.973	–18.02	4.905	–1.37	5.613	14.43	2.751	2.323	–15.56
447 mb wool trousers	0.998	3.05	2.220	–27.21	2.649	19.32	2.198	–17.03	0.952	1.048	10.08
638 mb knit shirts, mmf	7.167	29.587	25.910	–12.43	39.474	52.35	35.771	–9.38	17.399	23.351	34.21
639 wg knit blouse, mmf	30.591	92.303	140.297	52.00	173.077	23.36	149.859	–13.41	50.206	92.629	84.50
647 mb trousers, mmf	24.519	65.842	49.650	–24.59	67.048	35.04	69.284	3.33	32.591	45.109	38.41
648 wg slacks,mmf	17.965	46.63	48.497	4.00	74.365	53.34	64.456	–13.32	21.878	28.195	28.87
847 mb silk trousers	262.574	234.242	220.521	–5.86	189.668	–13.99	180.141	–5.02	105.500	66.260	–37.19
Sub-Total Clothing	**1811.339**	**3341.758**	**3319.669**	**–0.66**	**4036.383**	**21.59**	**3893.826**	**–3.53**	**1549.304**	**1939.164**	**25.16**

Continued.

Appendix Table A2.1: *Continued.*

TEXTILE INTERMEDIATES:											
200 yarn & sewing thrd.	6.928	29.111	20.981	−27.93	16.875	−19.57	18.658	10.57	7.782	8.218	5.60
301 combed cot. yarn	17.133	21.581	5.390	−75.02	1.232	−77.14	6.565	432.87	2.743	0.555	−79.77
222 knit fabric	130.633	222.999	135.931	−39.04	135.170	-0.56	137.283	1.56	71.131	269.989	279.57
229 special fabric	260.444	394.352	171.022	−56.63	147.644	−13.67	202.643	37.25	85.361	117.603	37.77
619 poly filament fabric	3.882	60.347	28.511	−52.75	40.753	42.94	60.185	47.68	29.955	30.659	2.35
620 other syn. filament	5.895	81.658	15.090	−81.52	26.452	75.29	39.304	48.59	18.637	26.826	43.94
622 glass fabric	16.016	30.3	15.855	−47.67	15.227	−3.96	18.054	18.57	7.576	5.611	−25.94
Sub-Total Tex. Int. Products	**440.931**	**840.348**	**392.780**	**−53.26**	**383.353**	**−2.40**	**482.692**	**25.91**	**223.185**	**459.461**	**105.87**
TEXTILE MADE-UPS											
363 pile towels	8.591	35.138	32.620	−7.17	40.103	22.94	43.629	8.79	24.493	23.156	−5.46
666 oth furnishings mmf	3148.145	3766.725	4337.112	15.14	4537.902	4.63	4138.957	−8.79	1700.568	1656.706	−2.58
Sub-Total Tex. Made Ups	**3156.736**	**3801.863**	**4369.732**	**14.94**	**4578.005**	**4.77**	**4182.586**	**−8.64**	**1725.061**	**1679.862**	**−2.62**
Grand Total Restricted:	**5409.006**	**7983.969**	**8082.181**	**1.23**	**8997.741**	**11.33**	**8559.104**	**−4.87**	**3497.550**	**4078.487**	**16.61**

Note: YTD refers to data from Jan-Jun.
Source: United States Department of Commerce, Office of Textiles and Apparel. Available: http://www.otexa.ita.doc.gov/

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About the Paper

The impact of the collapse of the United States's (US) international trade on US trade partners around the globe during the current severe crisis is examined for aggregate imports and exports and for two case studies: automobiles and textiles. Among the most interesting findings is that US imports and exports with "Free Trade Agreement" partners such as those in the North American Free Trade Agreement (Canada and Mexico) are collapsing significantly faster than with non-preferential partners, especially those in developing Asia. The large share of automotive and textile-based trade in US preferential trade and recent changes in US and global trade polcies help explain this finding.

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