

Impact of the WTO Agreement on Textiles & Clothing on Brazilian Exports of Textiles and Clothing to the United States

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The third and last stage of the World Trade Organization (WTO) Agreement on Textiles & Clothing (ATC) ends on December 31, 2004. The ATC was designed as an instrument for the gradual dismantling of the Multifiber Arrangement and consequently for the integration of textile and clothing industry products into the General Agreement on Tariffs & Trade (GATT).

According to the timetable established by the ATC, countries must integrate into the GATT all products not yet integrated, which represented up to 49% of their imports by volume in 1990.

This paper sets out to:

- (i) describe recent trends in Brazilian exports of textiles and clothing to the United States, European Union and Mercosur;
- (ii) assess the impact of the ATC on Brazilian exports of textiles and clothing to the U.S.;
- (iii) assess the rivalry between Brazilian exports and Chinese exports in the same sector;
- (iv) analyze how the special terms for China's accession to the WTO influence its role in multilateral trade in textiles and clothing.

1. Recent trends in Brazilian exports of textiles and clothing to the U.S.

There are three main systems of classification of merchandise for the purposes of international trade. They are the Standard International Trade Classification, Revision 2 (SITC, 1976), SITC Revision 3 (1986), and the Harmonized System (HS, 1988). The ATC uses the HS, covering most of chapters 50-60 (Textiles) and 61-63 (Clothing), as well as a few products from other chapters. Figure 1 lists the main HS chapters covered by the ATC.

Figure 1: Harmonized System Chapters for Textiles & Clothing

HS Code	Description
50	Silk
51	Wool, Fine or Coarse Animal Hair; Horsehair Yarn and Woven Fabric
52	Cotton
53	Other Vegetable Textile Fibres; Paper Yarn and Woven Fabrics of Paper Yarn
54	Man-Made Filaments
55	Man-Made Staple Fibres
56	Wadding, Felt and Nonwovens; Special Yarns; Twine; Cordage, Ropes and Cables and Articles Thereof
57	Carpets and Other Textile Floor Coverings
58	Special Woven Fabrics; Tufted Textile Fabrics; Lace; Tapestries; Trimmings; Embroidery
59	Impregnated, Coated, Covered or Laminated Textile Fabrics; Textile Art. of a Kind Suitable For Industrial Use
60	Knitted or Crocheted Fabrics
61	Articles of Apparel and Clothing Accessories, Knitted or Crocheted
62	Articles of Apparel and Clothing Accessories, Not Knitted or Crocheted
63	Other Made Up Textile Articles; Sets; Worn Clothing and Worn Textile Articles; Rags

Source: Brazilian Ministry of Development, Industry & Commerce (MDIC)

Based on data from the Ministry of Development, Industry & Trade (MDIC) "ALICE" System (Sistema de Análise das Informações de Comércio Exterior via Internet), the following figures show the evolution of Brazilian textile and clothing exports to Mercosur, the United States¹ and European Union, as well as total exports. The data for textile exports cover HS chapters 50-60; the clothing data cover chapters 61-63.

Figure 2: Brazilian Exports of Textiles (HS ch. 50-60) and Clothing (HS ch. 61-63) to Mercosur, U.S.¹, EU and Total Exports, in US\$ Million FOB, 1989-2003

¹ Includes Puerto Rico.

	Mercosur				European Union				USA				Total Exports			
	Textiles	Clothing	Total	% Total Exports	Textiles	Clothing	Total	% Total Exports	Textiles	Clothing	Total	% Total Exports	Textiles	Clothing	Total	% Total Exports
1989	39	23	62	4	259	123	382	28	144	210	353	26	929	451	1.380	100
1990	43	30	73	6	291	139	429	34	106	166	272	22	821	427	1.248	100
1991	87	63	150	11	250	211	461	34	141	127	268	20	872	487	1.359	100
1992	132	100	233	16	212	196	408	28	194	174	368	25	892	571	1.463	100
1993	175	134	309	22	113	225	338	24	147	209	356	26	713	670	1.383	100
1994	176	123	298	21	145	178	324	23	173	214	387	28	795	608	1.404	100
1995	202	107	309	21	163	174	336	23	172	150	322	22	915	527	1.441	100
1996	272	135	408	32	111	141	252	19	112	116	228	18	817	475	1.292	100
1997	314	168	482	38	89	97	186	15	137	100	238	19	821	446	1.267	100
1998	292	175	468	42	78	73	151	14	88	85	173	16	702	411	1.113	100
1999	233	167	400	40	65	74	139	14	91	94	185	18	612	398	1.010	100
2000	238	201	439	36	86	81	167	14	94	174	268	22	688	534	1.222	100
2001	201	179	380	29	144	72	215	16	71	212	283	22	770	536	1.306	100
2002	133	37	170	14	130	83	213	18	76	300	377	32	679	507	1.185	100
2003	339	63	402	24	148	111	259	16	104	361	465	28	1.033	623	1.656	100

Source: MDIC (Sistema de Análise das Informações de Comércio Exterior via Internet)

The charts show a fall in Brazilian exports of textiles and clothing to both the U.S. and EU in the 1990s, possibly reflecting the tariff preference agreements entered into by these countries and trading blocs with export platforms (Turkey, Caribbean and Mexico, among others). However, the fall was partially offset by a rise in exports to Mercosur, especially Argentina.

These trends began reversing early in 2000. Brazilian exports to Mercosur were severely affected by the crisis in Argentina, while exports of clothing to the U.S. as well as exports of textiles to Europe showed signs of a recovery. In 2003 exports to Mercosur rebounded, triggering the adoption of protectionist measures by Argentina's textile and clothing sector.²

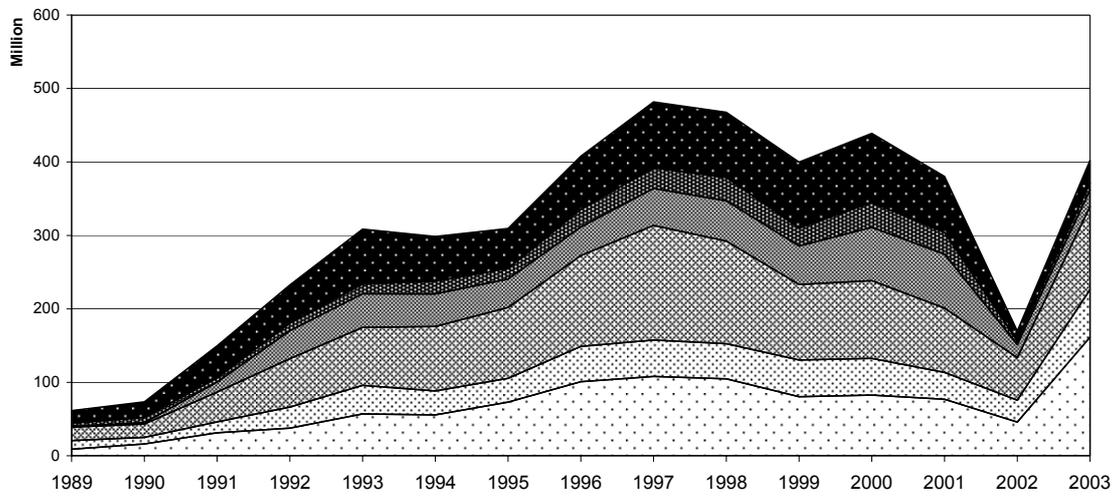
The charts in Figure 3 display disaggregated data referring to the products specified and described in the relevant HS chapters, for Brazilian exports to the main consumer countries or blocs. It is important to note that out of a total of approximately US\$1.6 billion FOB for Brazilian exports of textiles and clothing slightly more than US\$1.0 billion FOB went to the U.S., Mercosur and EU. Thus these three markets accounted for almost two-thirds of Brazilian exports in the sector.

Figure 3: Brazilian Exports of Textiles and Clothing to Mercosur, U.S.,³ EU and Total Exports (HS 2-digit level), US\$ Million FOB, 1989-2003

² See on this subject a report published by *Folha de S. Paulo* on March 13, 2004 (Vila-Nova, 2004).

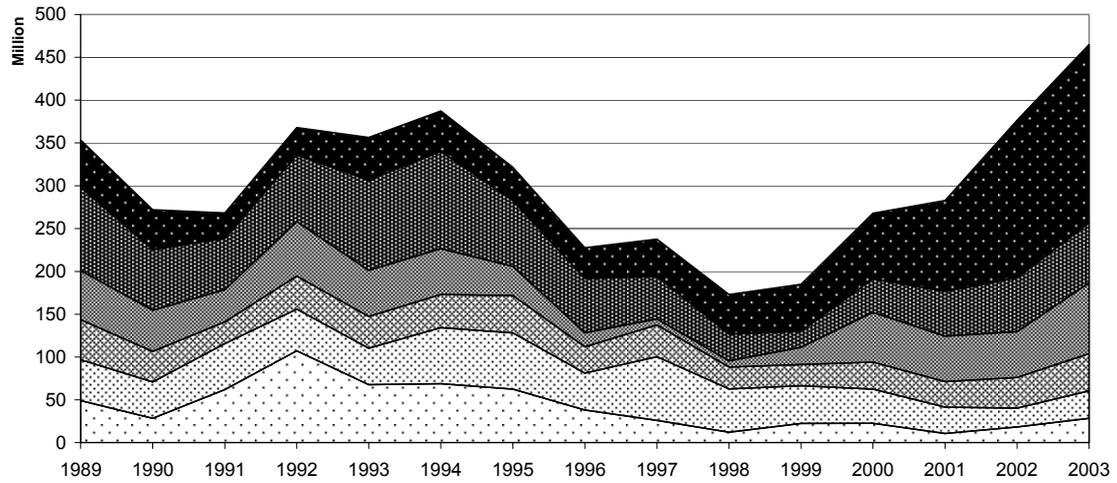
³ Includes Puerto Rico.

Mercosur



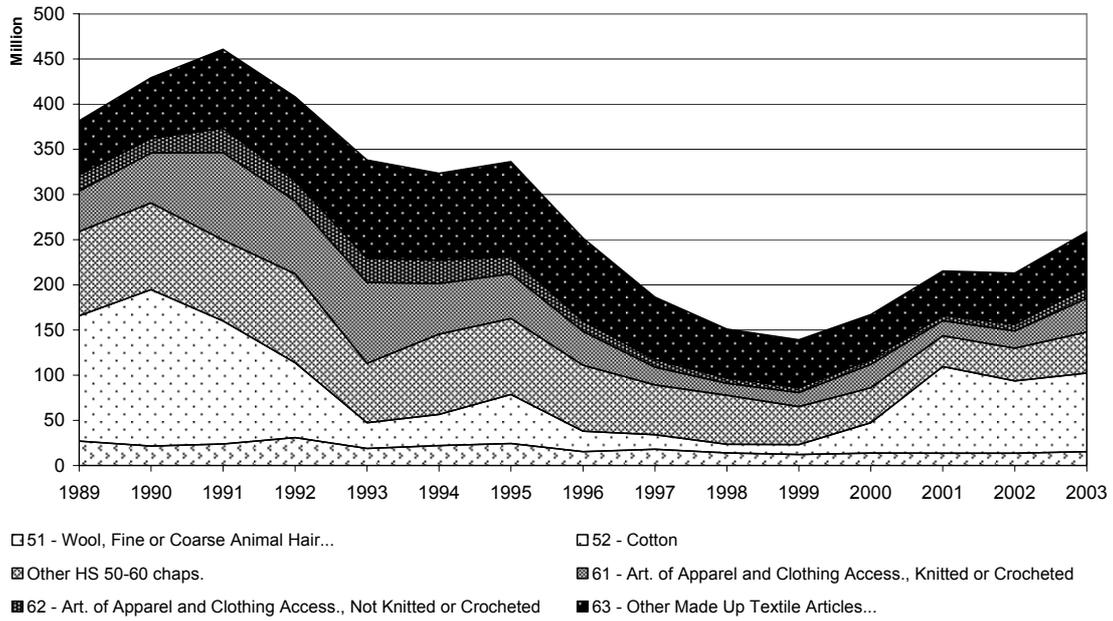
- 52 - Cotton
- ▨ Other HS 50-60 chaps.
- ▩ 62 - Art. of Apparel and Clothing Access., Not Knitted or Crocheted
- ▧ 55 - Man-Made Staple Fibres
- ▦ 61 - Art. of Apparel and Clothing Access., Knitted or Crocheted
- 63 - Other Made Up Textile Articles...

United States

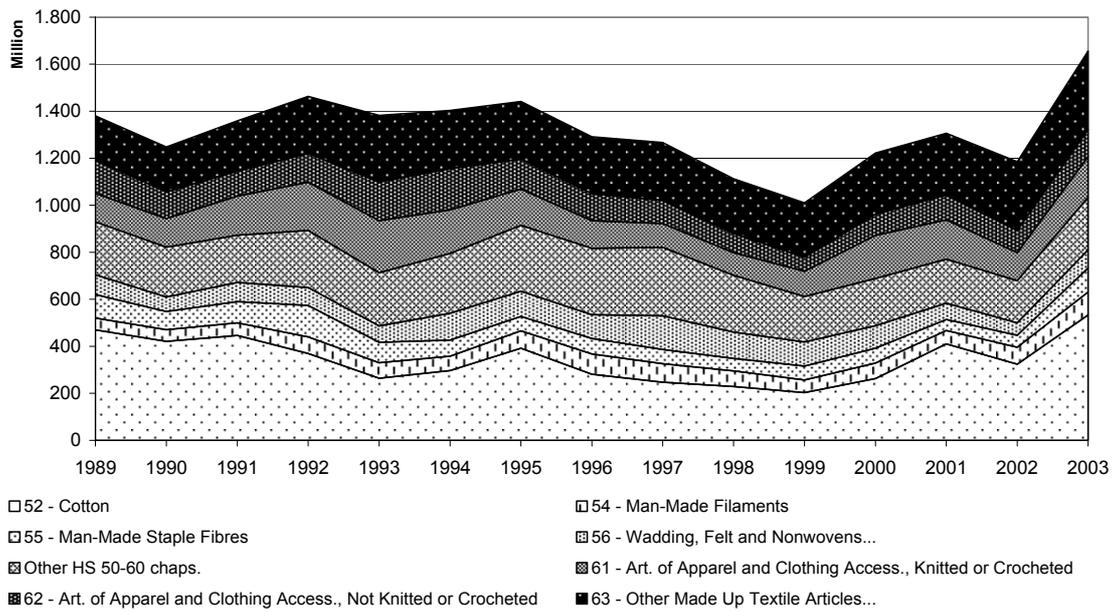


- 52 - Cotton
- ▨ Other HS 50-60 chaps.
- ▩ 62 - Art. of Apparel and Clothing Access., Not Knitted or Crocheted
- ▧ 56 - Wadding, Felt and Nonwovens...
- ▦ 61 - Art. of Apparel and Clothing Access., Knitted or Crocheted
- 63 - Other Made Up Textile Articles...

European Union



Total Exports



Source: MDIC (Sistema de Análise das Informações de Comércio Exterior via Internet)

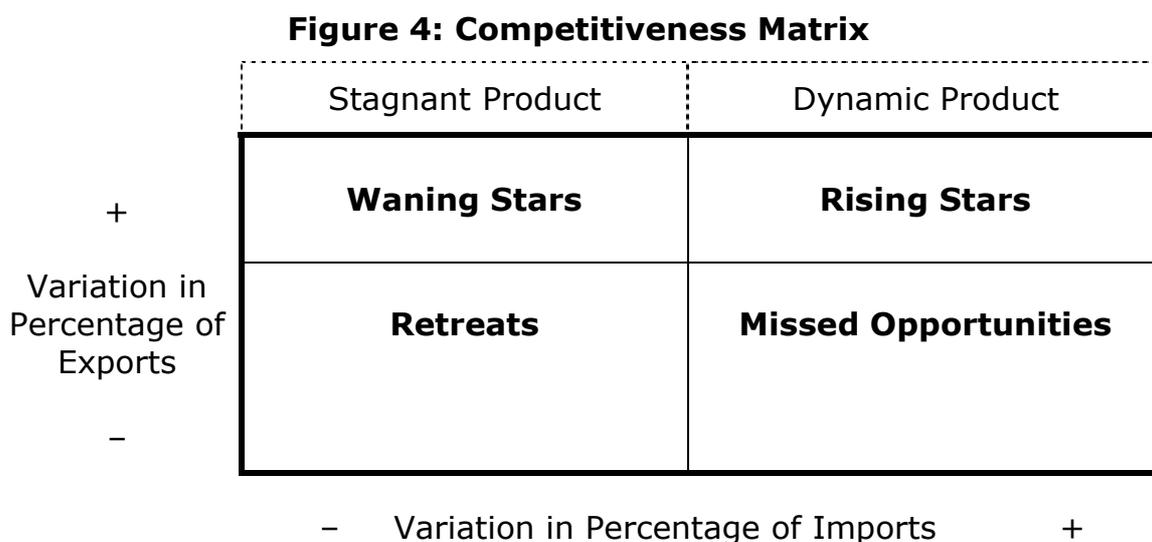
The following can be inferred from the charts with respect to the increase in total Brazilian exports at the start of the 21st century:

- (i) The increase mainly reflected a recovery in exports of cotton to the EU and Mercosur;⁴
- (ii) The recovery in Brazil's exports to the U.S. should be attributed to the three clothing chapters (the top three strips in the charts), especially chapter 63, which includes cotton-derived bed, table, toilet and kitchen linen;
- (iii) Exports of cotton continued to account for a significant proportion of total exports.

2. Impact of ATC expiration on Brazilian exports to U.S.

2.1. Methodology: the competitiveness matrix⁵

A simple methodology was used to measure the impact on Brazilian exports of the transition period defined by the ATC and its expiration, with integration of the sector into the 1994 GATT system. The methodology consists of a matrix in which textile and clothing products disaggregated to the 2-digit and 6-digit levels of the Harmonized System⁶ are classified into four possible types of competitiveness, as shown in Figure 4.



where *Variation in Percentage of Imports* is the change in the value of imports of product *i* to importer market *B* expressed as a percentage of the total value of imports to importer market *B* between periods 0 and 1, i.e.:

⁴ It should be noted that U.S. cotton subsidies severely limit Brazilian cotton exports to the U.S.

⁵ The competitiveness matrix methodology is used in many studies by ECLAC/CEPAL. See for example Fajnzylber, F. (1991).

⁶ HS disaggregation to the 6-digit level covers some 870 categories.

$$(PI)_0^1 = \left(\frac{M_i}{M} \right)_0^1$$

and *Variation in Percentage of Exports* is the change in the value of exports of product *i* from exporter country *A* to importer country *B* expressed as a percentage of the total value of exports from exporter country *A* to importer country *B* between periods 0 and 1, i.e.:

$$(PE_{A,B})_0^1 = \left(\frac{Xi_{A,B}}{X_{A,B}} \right)_0^1$$

If an importer country increases imports of product *i* relative to total imports, that product is termed "dynamic"; conversely, if it imports less, the product is considered "stagnant". If a product increases as a percentage of the total exported by a given country, it is termed a "rising star" if it is dynamic or a "waning star" if it is stagnant. Lastly, a product that decreases as a percentage of total exports is termed a "missed opportunity" if it is dynamic or a "retreat" if it is stagnant.

The analysis looks at the variations in four distinct periods as plotted by three charts:

- (i) variations in the percentages of imports and exports between the three-year period prior to the ATC (1992-1994) and Stage 1 of the ATC (1995-1997);
- (ii) variations in the percentages of imports and exports between Stage 1 of the ATC (1995-1997) and Stage 2 (1998-2001);
- (iii) variations in the percentages of imports and exports between Stage 2 of the ATC (1998-2001) and the years 2002 and 2003, the only year of Stage 3 for which data are available.

Data for total Brazilian exports to the U.S. and for Brazilian exports of textiles and clothing, disaggregated according to the Harmonized System (chapters 50-63), were obtained from the Brazilian Development Ministry's ALICE system.⁷ Data for total U.S. imports were obtained from the Web site of the U.S. Commerce Department's Bureau of Economic Analysis. Data for U.S. imports of textiles and clothing were obtained from the U.S. International Trade Commission's Dataweb.^{8,9}

2.2. Competitiveness Matrix: findings for 2-digit and 6-digit levels of Harmonized System

The findings are presented below. Figure 5 shows that chapter 61 ("Articles of apparel and clothing knitted") and chapter 63 ("Other made up textile articles") moved from "missed opportunities" in the first chart to "rising stars" in the others.

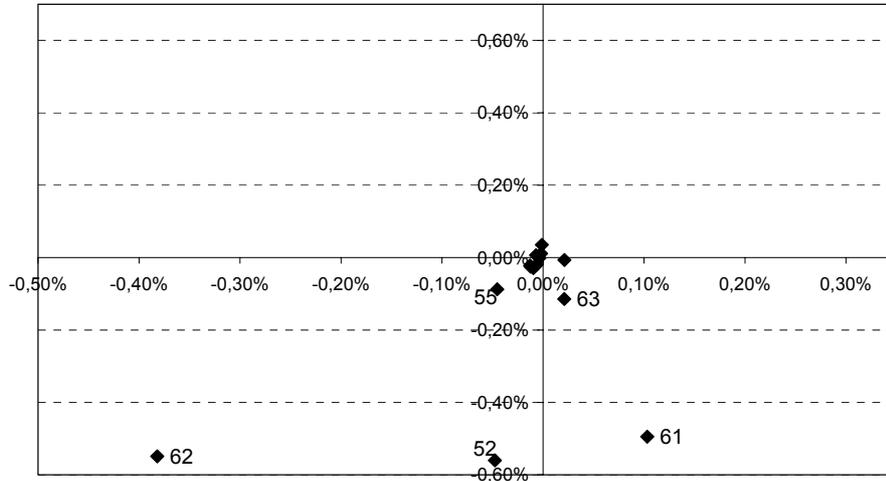
⁷ <http://aliceweb.desenvolvimento.gov.br>

⁸ <http://dataweb.usitc.gov>

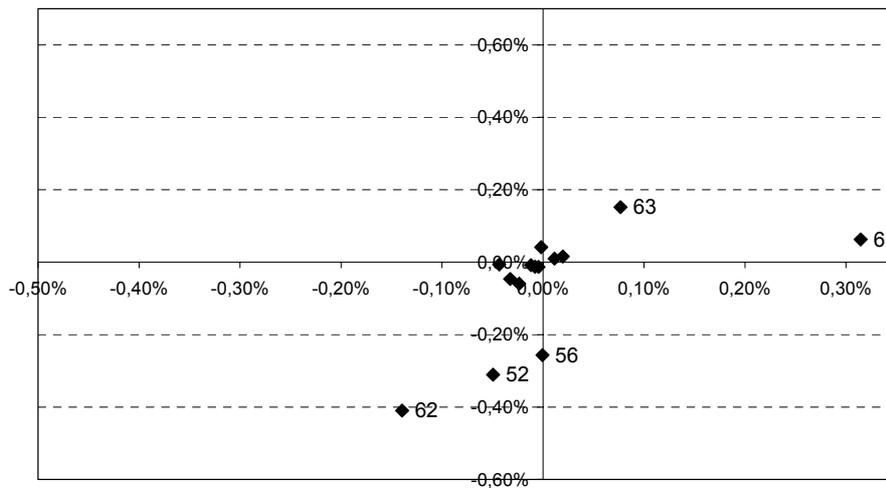
⁹ <http://www.bea.doc.gov>

Figure 5: Competitiveness Matrices – HS 2-digit level

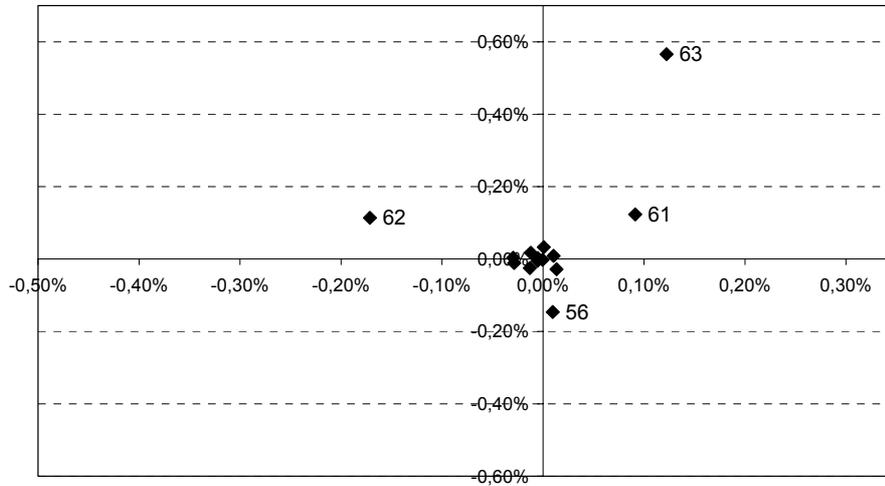
MATRIX 0 - 1



MATRIX 1 - 2



MATRIX 2 - 3



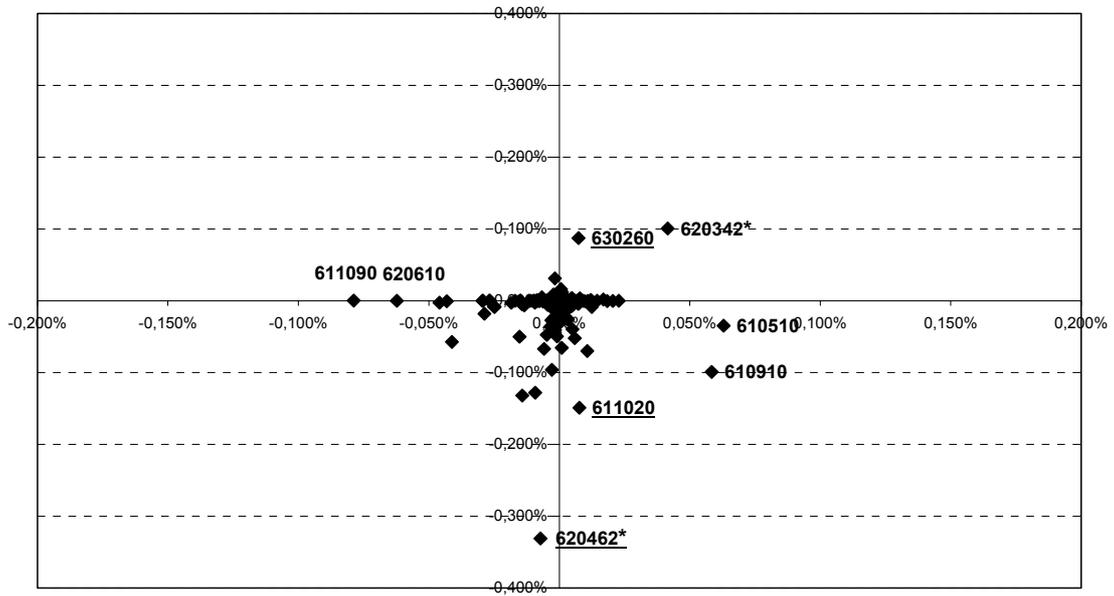
Source: Authors, based on data from MDIC Brazil, U.S. Department of Commerce, and U.S. International Trade Commission.

It can also be seen that the percentage of Brazilian exports of chapter 62 goods (“Articles of apparel not knitted”) increased after the start of ATC Stage 3. As noted in the introduction to this paper, chapters 61, 62 and 63 are the most relevant for Brazilian exports of textiles and clothing to the U.S.

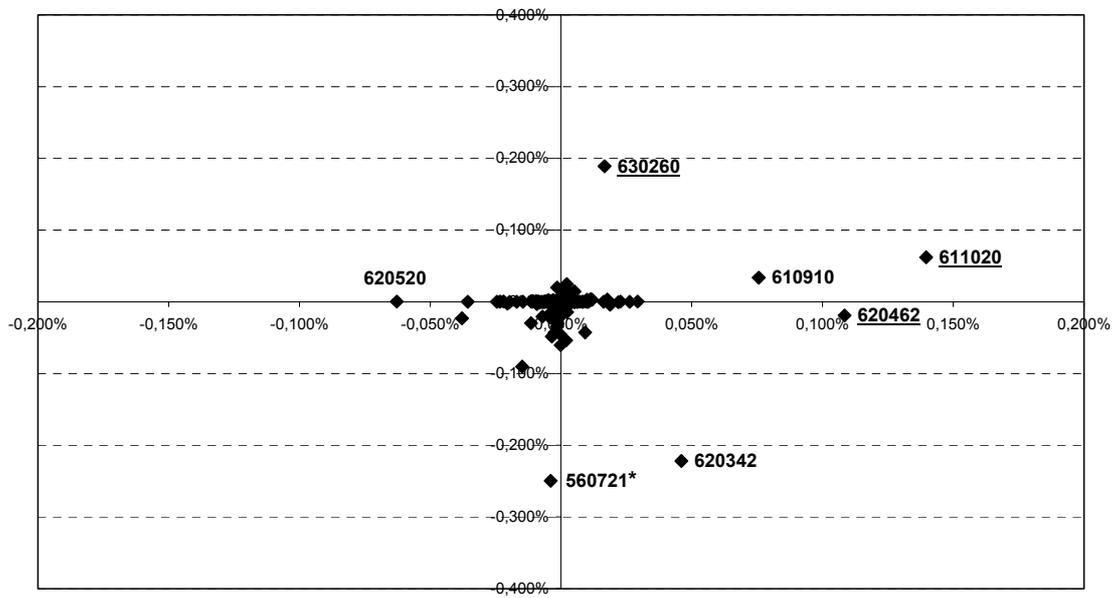
The analysis of the ATC’s impact on Brazilian exports of textiles and clothing to the U.S. becomes more precise when the data are disaggregated to 6 digits of the HS. The charts in Figure 6 display the results.

Figure 6: Competitiveness Matrices – HS 6-digit level

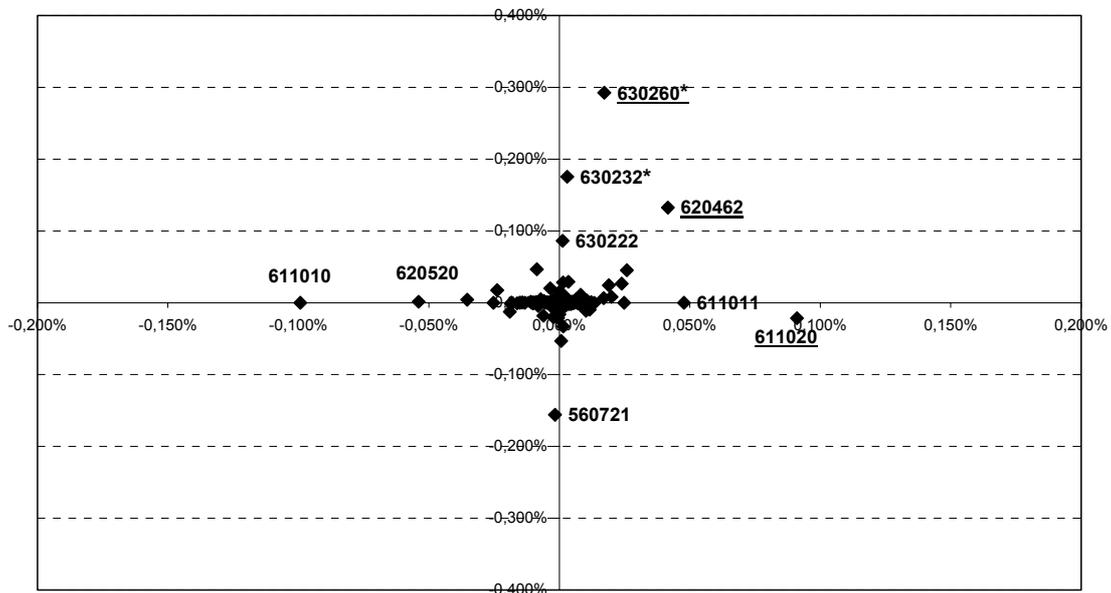
Matrix 06 0 - 1



Matrix 06 1 - 2



Matrix 06 2 - 3



Source: Authors, based on data from MDIC Brazil, U.S. Department of Commerce, and U.S. International Trade Commission.

In all three charts the vast majority of observations (as shown by individual dots) are close to the point of origin, which means the competitiveness of the products they represent did not vary significantly. The products with significant variations in competitiveness are identified by its HS numbers. Three (underlined>) can be seen in all three charts: 630260, 611020, and 620462. The others appear only in one or at most two charts.

Additionally, products identified here and also listed among imports liberalized by the U.S. in each stage of the ATC are marked with an asterisk. The following can be noted with respect to these products:

- (i) Product 630260, which includes cotton toilet and kitchen linen, showed a positive variation in the percentages of both exports and imports. In 2003 it accounted for 28.85% of Brazil's sales of textiles and clothing to the U.S. and was the largest single category in Brazilian exports to the U.S. Imports of the product were liberalized only in Stage 3 of the ATC, however. The improvement in its competitiveness must therefore be due to favorable conditions of supply (such as the recovery in cotton production) rather than the reduction in quotas promoted by the ATC.
- (ii) The increased competitiveness of product 620462, which includes cotton trousers and breeches, occurred only in stages subsequent to the liberalization of U.S. imports in accordance with ATC provisions. As noted in the preceding item, in this case too the phenomenon seems to have been due to more favorable terms of supply rather than liberalization under the ATC. Exports of the product to the

U.S. accounted for 8.52% of all Brazilian exports of textiles and clothing in 2003 and were the second-largest single item.

- (iii) Product 630232, which includes bed linen of man-made fibers, seems to have benefited from the liberalization of imports in Stage 3 of the ATC. In 2003 it accounted for 7.12% of the sector's exports to the U.S. and ranked third in the total.
- (iv) Product 611020, which includes knitted cotton jerseys, pullovers etc., showed improved competitiveness without liberalization of imports under the ATC. Exports accounted for 3.17% of the total exports of textiles and clothing to the U.S. (7th place).
- (v) Product 620342, which includes cotton dresses, was favorably affected by liberalization in ATC Stage 1 but exports fell back again in the subsequent period. In 2003 it accounted for only 1.90% of the sector's exports (11th place).

The analysis suggests that from the standpoint of market access the increase in Brazilian exports of textiles and clothing to the U.S. should be attributed not just to the ATC but above all to improving domestic conditions for production and supply of the products involved, particularly the investment in machinery and technology¹⁰ as well as the recovery in domestic production of cotton.

2.3. Brazil-China Rivalry in the U.S. market

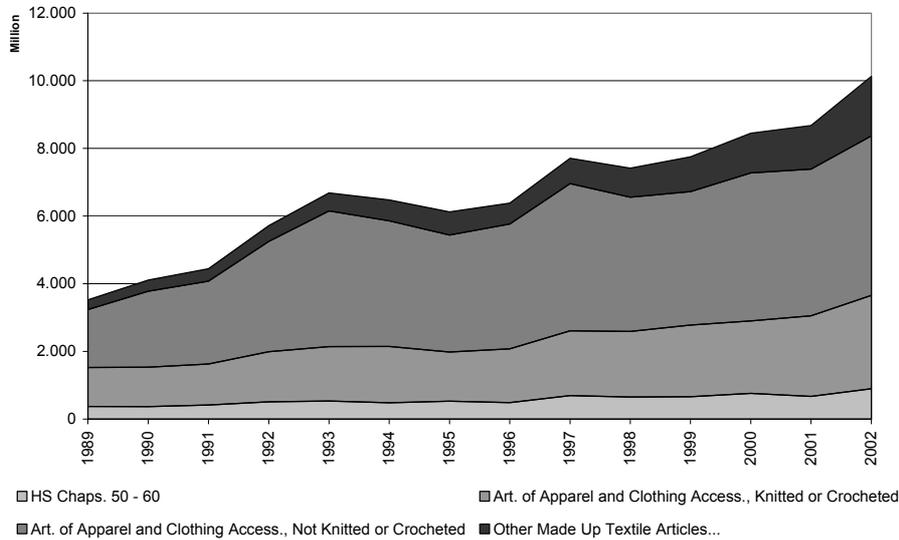
China is potentially the main beneficiary of the liberalization of markets for textiles and clothing by the WTO's multilateral trade system. The U.S. industry is concerned about this and is lobbying hard for protection of its market against the alleged "Chinese threat".¹¹

As shown in the next figure, Chinese exports to the U.S. did indeed increase significantly in the 1990s, especially in clothing segments. Altogether, Chinese goods accounted in 2002 for some 13% of U.S. textile and clothing imports. In comparison, Brazilian exports accounted for 0.51% in the same year.

¹⁰ According to IEMI (2003), the average annual investments in textile machinery between 1997 and 2002 was of US\$ 630 million. The participation of imported machinery was 67% of the total amount invested in the period.

¹¹ See, for example, the release and report by the American Textiles Manufacturers Institute at <http://www.atmi.org/Newsroom/crisis0801.pdf>.

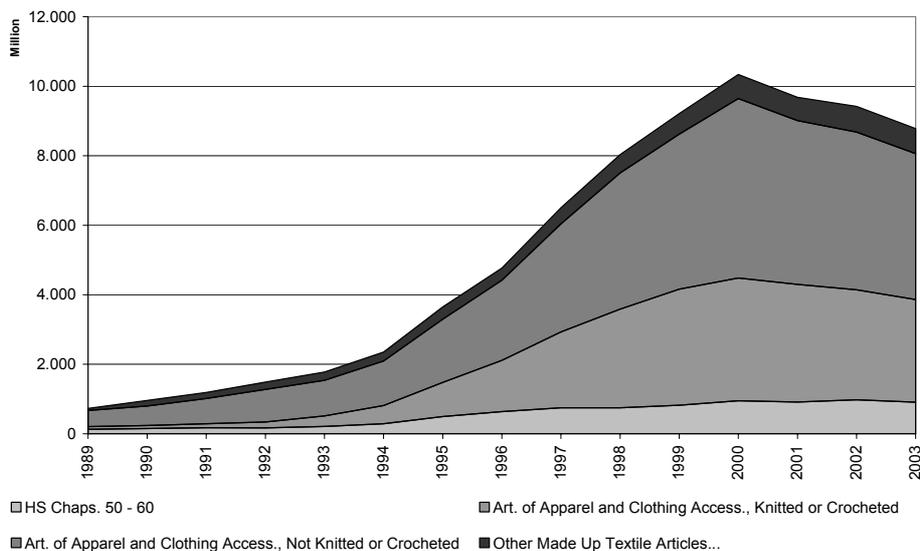
Figure 7: Evolution of Chinese Exports of Textiles and Clothing to the U.S., 1989-2002



Source: Authors, based on data from U.S. International Trade Commission.

To study the impact of increasing Chinese exports of textiles and clothing on the U.S. market, it is relevant to analyze the specific situation of Mexico, which has a significant share of world exports of textiles and clothing and enjoys tariff preferences in the U.S. market under the North American Free Trade Agreement (NAFTA). Figure 8 illustrates this point, showing the evolution of Mexico's textile and clothing exports to the U.S. in the period 1989-2003.

Figure 8: Evolution of Mexican Exports of Textiles and Clothing to the U.S., HS 2-digit level, 1989-2003



Source: Authors, based on data from U.S. International Trade Commission.

The period covered by Figure 8 includes Mexico's entry into the NAFTA (1992) and China's into the WTO (2001). The former coincided with the onset of a period of vigorous growth in Mexican exports to the U.S., particularly with respect to HS chapters 61 and 62. The latter coincided with the start of an apparent contraction in the volume of those exports.

This section presents a simple indicator of the rivalry between Chinese and Brazilian imports in the U.S. The proposed indicator compares the market share of Brazilian exports of textiles and clothing in the U.S. with the market share of Chinese exports of textiles and clothing in the U.S. as a percentage of total imports of textiles and clothing by the U.S.

Algebraically:

$$SP = \left(\frac{X_i^{BRA-US}}{M_{T\&C}^{US}} \right) \bigg/ \left(\frac{X_i^{CHI-US}}{M_{T\&C}^{US}} \right)$$

The indicator measures specialization: the higher the number, the more specialized Brazilian exports to the U.S. will be compared with Chinese exports, and the closer the number is to zero, the more specialized Chinese exports will be compared with Brazilian exports. In both cases there will be no significant rivalry. However, a ratio close to 1, say between 0.5 and 1.5, will indicate significant rivalry.

The analysis is based on data for U.S. imports of textiles and clothing from China and Brazil, disaggregated to the 4-digit level, from the U.S. International Trade Commission's Dataweb. Figure 9 shows the specialization ratios for products with the largest shares of total U.S. imports in 2003.

Figure 9: Specialization ratios for the main Brazilian and Chinese exports of textiles and clothing to the U.S., HS 4-digit level, 2003

HS	Description	Market share Brazil/Market share China	% Brazilian exports of T&C to U.S.
6302	Bed, table, toilet and kitchen linen	0.52	41.64%
6204	Women's or girl's suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear)	0.02	9.39%
6109	T-shirts, singlets and other vests, knitted or crocheted	0.62	7.91%
5607	Twine, cordage, ropes and cables, whether or not plaited or braided and whether or not impregnated, coated covered or sheathed with rubber or plastics	10.61	7.12%

52 05	Cotton yarn (not sewing thread) 85% or more cotton, not retail	3.80	3.95%
61 10	Jerseys, pullovers, cardigans, etc, knitted or crocheted	0.01	3.32%
61 04	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swim wear), knitted or crocheted	0.22	2.97%
59 11	Textile products and articles, for technical uses, specified in Note 7 to this chapter	0.73	2.54%
62 03	Men's or boy's suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear)	0.02	2.06%

Source: Authors, based on data from U.S. International Trade Commission.

An analysis of Figure 9 suggests that Chinese-Brazilian rivalry in exports of textiles and clothing to the U.S. is both intense and significant: of the three main product categories exported to the U.S., two (6302 and 6109) reflect substantial rivalry. Category 6302 (bed, table, toilet and kitchen linen) is particularly striking, since individually it accounts for almost half of Brazil's textile and clothing exports to the U.S. At the same time, Brazil's exports in this category to the U.S. correspond to half of China's, indicating a high level of rivalry.

A more detailed breakdown of category 6302 shows the opposite, however. As can be seen from Figure 10, Brazilian exports of product group 6302600020, which alone accounts for almost 60% of Brazilian exports in position 6302, are almost twice those of China to the U.S., indicating specialization.

Figure 10: Specialization ratios for the main Brazilian and Chinese exports of textiles and clothing to the U.S. in position 6302, HS 10-digit level, 2003

HS	Description	Market share Brazil/Market share China	% Brazilian exports of 6302 to U.S.
63026000 20	Toilet linen and kitchen linen, of terry toweling or similar terry fabrics, of cotton: other than dishtowels	1,97	58,05%
63023220 40	Bed linen: other than printed, not knit man-made fiber sheets, not napped, not embroidered, lace, braid, edging, trimming, piping or applique work	5,87	13,99%
63022220 20	Bed linen: printed, not knit man-made fiber sheets, not embroidered, lace, braid, edging, trimming, piping or applique work	7,86	7,83%

63026000 30	Toilet linen and kitchen linen, of terry toweling or similar terry fabrics, of cotton: other than towels	0,77	6,35%
63029100 35	Other towels, of cotton, jacquard figured, not of pile or tufted construction	9,45	3,65%
63023220 20	Bed linen: other than printed, not knit man- made fiber pillowcases, not napped, not embroidered, lace, braid, edging, trimming, piping or applique	6,42	3,10%
63022220 10	Bed linen: printed, not knit man-made fiber pillowcases, not embroidered, lace, braid, edging, trimming, piping or applique work	10,26	1,56%
63022190 20	Other bed linen: printed, not knit, cotton sheets, not napped, not containing embroidery, lace, braiding, edging, trimming, piping or applique work	0,49	1,53%

Source: Authors, based on data from U.S. International Trade Commission.

With the exception of products 6302600030 and 6302219020, the rest all have very high specialization ratios, suggesting that not rivalry but specialization prevails (and hence complementarity) in Brazilian and Chinese exports of textiles and clothing to the U.S.

3. Chinese accession and special terms

China's accession to the WTO and its adaptation to the rules for international trade have had a significant impact on world trade in textiles and clothing. China-U.S. relations, in which the former exports textiles and clothing to the latter, account for a significant proportion of this trade. It is important to note that the largest consumer of Chinese exports in the sector coincides with the largest consumer of Brazilian exports in the same specific sector.

China was not a contracting party to the GATT throughout the period 1947-1994. Owing to its closed, command-and-control economy with almost universal state ownership China's participation in international trade took on unique characteristics, mostly in the form of bilateral agreements with some plurilateral agreements. China has always played a very significant role in world trade in textiles despite its closed economy. Data for 2001 show China accounting for 10.2% of world trade in textiles (US\$16.14 billion) and 18.1% of world trade in clothing (US\$36.07 billion).¹² Altogether, textiles and clothing accounted for 20% of China's total exports in 2001.¹³

The process of economic opening begun as the "Open Door Policy" by Deng Xiaoping in 1978 included permission for foreign investment in textile manufacturing

¹² Cf. WTO (2001).

¹³ Cf. Williams, Yuk-Choi & Yan (2002:577).

through joint ventures with Chinese state-owned enterprises. Even today the state has a significant share in the equity of a large proportion of China's manufacturers and exporters of textiles and clothing.¹⁴

China's accession to the WTO was concluded in 2001 on special terms that took into account the specific features of its economic organization and its significance to world trade in terms of both volume and value. In textiles and clothing, the principal concern among developed countries, which are all major consumers of these goods, is with the sharp increase in Chinese imports and the threat to their own domestic manufacturers, while developing countries are concerned that in the short to medium term their exports will lose competitiveness in comparison with Chinese exports.¹⁵

The special rules negotiated for China's accession include those designed to allow the other members of the WTO to adapt while China gradually began competing in the global marketplace on the same terms.¹⁶ This included the textile and clothing sector. Just as the ATC stipulates for members of the WTO, China has to phase out quotas for textiles and clothing by 2005.¹⁷ However, a special safeguard mechanism for textiles and clothing has been created with respect to China, lasting until 2008 ("China textile safeguard").

Under the special textile safeguard, once China's textile and clothing products are included in the ATC, if a WTO member believes (and can show) that imports of certain Chinese textile and clothing products are "threatening to impede orderly development of trade in these products" due to "market disruption," the WTO member can request bilateral consultations with China "with a view to easing or avoiding such market disruption".¹⁸ The definition of these conditions and identification of the "role" of such products in market disruption are the only specific terms for invoking the China textile safeguard.

Upon receipt of a request for bilateral consultations, the special safeguard mechanism calls on China to limit the number of textile and clothing shipments to the WTO member in question. It should be noted that this provision is similar to the concept of voluntary export restraints (VER) in force under the GATT exception regime.

The China textile safeguard mechanism returns to old concepts for restricting world trade in textiles and clothing because the process of negotiating China's accession to the WTO entailed an attempt to reconcile the specific provisions of the

¹⁴ V. WTO, WT/L/432, Annex 2.A.2.

¹⁵ For a discussion of the impact of China's accession to the multilateral trade system on developing countries, see Adhikari & Yang (2002). Their analysis focuses on China's competition with other developing countries in Asia, particularly in labor-intensive products, which of course include textiles and clothing. On the regional impact, see also Suthiwart-Narueput (2002).

¹⁶ The main WTO documents that summarize the terms for China's accession are WT/L/432 and WT/MIN(01)/3. For more information and full details of the accession process, see WT/ACC/CHN.

¹⁷ A number of specific waivers or exceptions to tariff removal were requested by some WTO members, such as Argentina and Mexico, which notified the Organization of their intention to maintain restrictions on Chinese imports for a longer period. See WT/L/432, Annex 7.

¹⁸ Cf. WT/MIN(01)/3, paragraph 242.

ATC with other existing agreements, especially the U.S.-China bilateral accord on textiles and clothing. This meant returning to many of the vague concepts that favored distortions in world trade in textiles and clothing and had been discarded during the Uruguay Round thanks to strenuous efforts involving tough negotiations and political concessions. The following differences can be identified between the conditions for applying ATC safeguards (article 6 of the ATC) and the conditions for application of the WTO's China textile safeguard:

Figure 11: Differences between ATC and WTO China textile safeguards

Criteria/Provisions	ATC safeguards	China textile safeguard (WTO)
Condition	Increase in imports causes serious damage or actual threat thereof	Market disruption or threat to orderly development of trade
Causal Relationship	Damage or threat must be demonstrably caused by increase in imports	Vague terms for justifying complaint: need to show "role" of Chinese products
Restrictions	Restrictive measures, with definition of parameters for quantitative restrictions	Based on VER parameters for quantitative restrictions
Selectivity	Selective application	Selective application
Duration of Measure	Limited period (max. 3 years or to end of ATC)	Limited period (max. 12 months, renewable by consensus only)
Monitoring	Multilateral control (notification of TMB and TMB oversight of measures taken)	No oversight: bilateral agreement
Validity	From Jan. 1, 1995 to Dec. 31, 2004	From Nov. 11, 2001 to Dec. 31, 2008

Source: Authors.

The textile safeguards written into the ATC are generally considered fragile compared with the WTO Safeguards Agreement, insofar as they permit selectivity and require a smaller number of procedures to define a safeguard measure and monitor its application. However, it should be stressed that the China textile safeguard is even more fragile than the ATC regime, given that the China textile safeguard reverts to the vague and arbitrary concepts of the pre-ATC period and omits multilateral enforcement. Thus in principle in the period 2001-2008 China will be submitted to more difficult conditions than other WTO members as regards its position in the international market for textile and clothing products.

It is also relevant to note the risk of contamination of the WTO multilateral system by the China textile safeguard, given the introduction into the WTO system by recognition in the China accession documents of vague and arbitrary concepts such as

market disruption. These findings should be taken by WTO members as a warning of exceptions to the system that could potentially be advocated in future.

In addition to the China textile safeguard mechanism, the China accession process also defined safeguards for specific products known as the China transitional safeguards.¹⁹ In principle these safeguards are applied to products other than textiles and clothing, which are covered by specific safeguard provisions (China textile safeguard regulations). According to paragraph 242, item (g), of the Report on the Accession of China,²⁰ China textile safeguard measures cannot be applied to the same product at the same time as the China transitional safeguards.

However, there is an ongoing debate about whether the China transitional safeguards (which expire in 2013) will continue to apply to textile and clothing products after the special extension of the ATC China textile safeguard expires in 2008. U.S. experts tend to argue that the transitional safeguard mechanism should be applied to all products covered by the general regime for trade with China until 2013, including textiles and clothing.²¹ Figure 13 presents a brief comparison of the China transitional safeguards and the general provisions of the WTO Safeguards Agreement:

Figure 12: China transitional safeguards

Criteria/Provisions	Safeguards Agreement	China Transitional Safeguards
Condition	Serious damage	Market disruption (presents definition and requires objective criteria for justification)
Causal Relationship	Causal link must be demonstrated for restraint to be allowed. Parameters for quantitative restriction	Causal link must be demonstrated for restraint to be allowed. No parameters for quantitative restriction
Restriction	No provision for VER	China must take steps to avoid market disruption (VER suggested)
Selectivity	Non-selectivity	Selectivity
Duration of Measure	Limited period (max. 4 years, renewable once for 4 more years)	No limitation ("only for time necessary to prevent or remedy market disruption")
Monitoring	Multilateral control (notification of WTO Committee on Safeguards, which oversees application of any measures taken)	Bilateral consultation and only notification of Safeguards Committee

¹⁹ See WT/MIN(01)/3, item 13 (paragraphs 245-250) and WT/L/432, item 16 (paragraphs 1-9).

²⁰ WT/MIN(01)/3

²¹ According to information available on the Web site of China Textile Network Co. Ltd, <http://www.cntextile.com/english>.

Validity	From Jan. 1, 1995	From Nov. 11, 2001 to Dec. 31, 2013
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Source: Authors.

The transitional safeguards also left China in an unfavorable position compared with the other WTO members covered by the Safeguards Agreement. The China transitional safeguards, like the China textile safeguard mechanism, revert to the market disruption concept. Although the former do so in greater detail, they still do not offer more objective criteria for a definition of "market disruption". An important point is that the China transitional safeguards also define as market disruption cases in which an increase in imports from China may limit market diversification in the importer country.

From the above, it is possible to infer that China is more vulnerable than other WTO members to the application of measures to restrict its exports of textiles and clothing. It can be inferred from this that the China textile safeguard mechanism will remain in force until 2008 and that the China transitional safeguards are likely to be applied to textile and clothing products between 2008 and 2013.

4. Conclusions

In light of recent trends in Brazilian exports of textiles and clothing, especially to the United States, the following conclusions can be drawn:

- (i) Brazilian exports of clothing and other made-up articles to the U.S. have increased significantly since the late 1990s;
- (ii) The increase could be due either to the impact of liberalization under the ATC or to improving domestic conditions for production and supply of the products involved investment. The analysis described in this paper suggests that in the Brazilian case more importance should not be attributed to the liberalization under the ATC;
- (iii) Although one of the expectations for the ATC implementation period was that market access would increase, this has not happened so far. The main importer countries that are WTO members have delayed liberalization of the products of greatest relevance to the exporter countries until the last stage of the Agreement (starting January 2005);
- (iv) On the other hand, the ATC represents an important step forward in the definition of rules for world trade in textiles and clothing compared with the rules in place before the Uruguay Round;
- (v) China's accession to the WTO is a cause of concern for exporter and importer countries alike. However, the special terms agreed for China's accession allow for a greater degree of arbitrariness in the application of exceptions to Chinese exports to other WTO member countries;

(vi) In the case of Brazil, it is demonstrated that the main exports of textiles and clothing to the United States do not seem to compete directly with Chinese exports of the same product category to that important consumer market.

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