MFA Phase out and Global Textile Trade: Estimating Quota Trade Restrictions and Quantifying Post-MFA Trade Patterns

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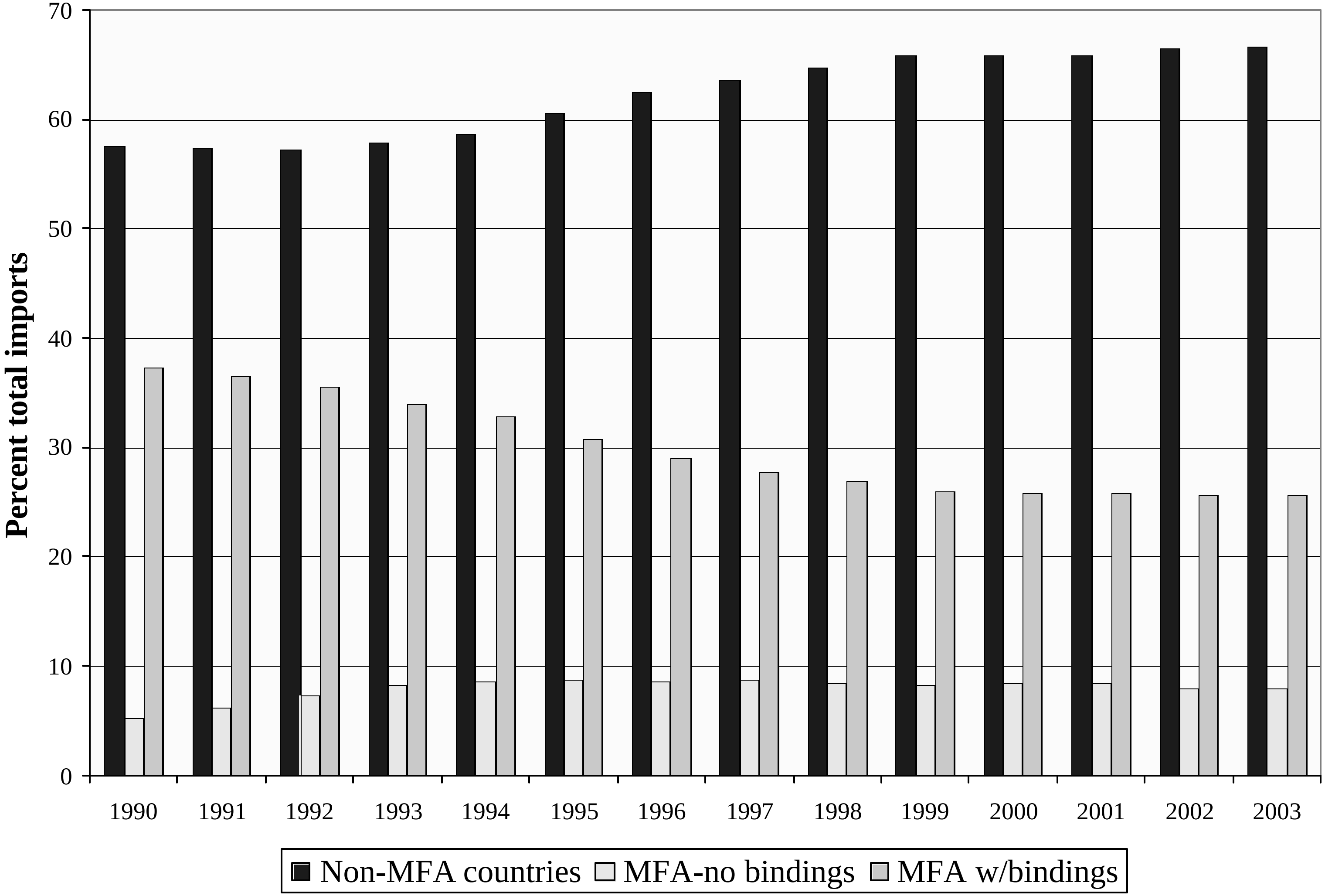
The 7th Annual conference on Global Economic Analysis

June 17-19, 2004, Washington, D.C.

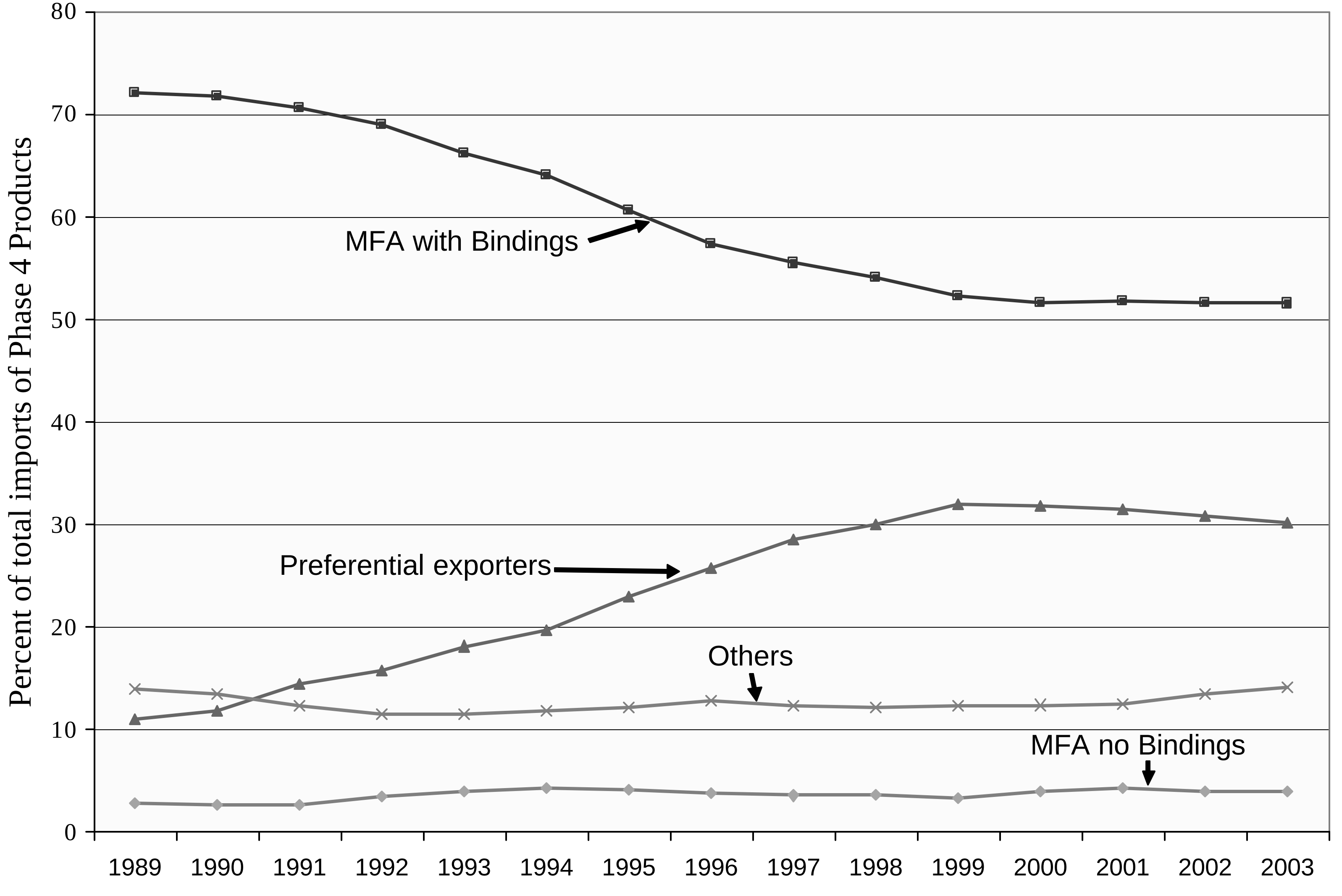
Background

- MFA textile and apparel quotas are country/product specific
  - United States has agreements with 46 countries; European Union with 21
- Agreement on Textile and Clothing of WTO:
  - 4 stages of phase out; back-loading of quota removal
- Several preferential agreements with the U.S.:
  - NAFTA, CBI, AGOA, Andean
- New players in global textile trade (China, India)

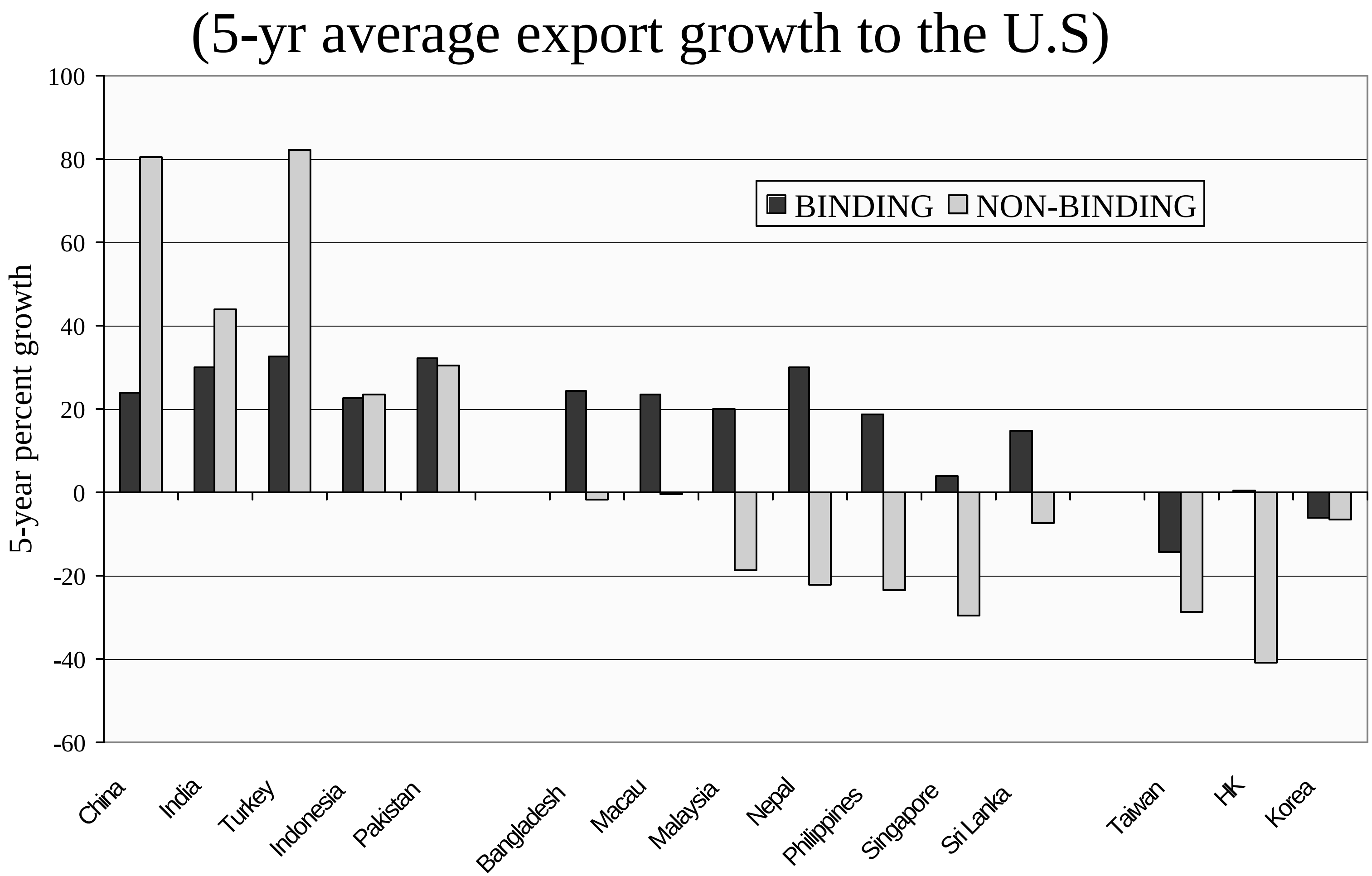
U.S. textile/clothing imports from MFA: Still significant despite declining shares



Textile/clothing import trends to the U.S. [MFA products-- phase 4 integration]



Diverse group of MFA exporters countries
[uneven export growth]



Assessing the impact of MFA Phase-out on global and regional trade

THREE OBJECTIVES:

1. Examine the impact on global trade in textile/apparel and likely shifts in trade patterns among suppliers in post-MFA

2. Assess the direction and magnitude of changes in U.S. production, trade levels in apparel and textile production in post-MFA

3. Quantify the impact on U.S. cotton demand, production and trade

MFA Quota removal: Sources and expected direction of change for the U.S. sectors

Apparel/ Textiles

Demand for Imports to rise ↑

Lower domestic demand ↓

Trade shift From Preferential to MFA suppliers ↓

Boost from global apparel trade growth ↑

MFA Quota removal: Sources and expected direction of change for the U.S. sectors

Apparel/ Textiles	Demand for Imports to rise ↑	Lower domestic demand ↓	Trade shift From Preferential to MFA suppliers ↓	Boost from global apparel trade growth ↑
Fiber/cotton	Lower domestic demand for cotton ↓	Higher foreign demand for U.S. cotton ↑	Foreign demand boost from MFA-fiber bias ↑	Inter-fiber (cotton-MMF) substitution ↓

Quantifying the impact of MFA phase out: A Multi-region CGE approach

GTAP model adaptations:

✓Estimate quota trade restrictiveness:

- New Export tax equivalent by major exporters to U.S. market
- Implicit tax on cotton for MFA-restricted exporters

✓ Model adjustments:

- Account for inter-fiber substitution

Estimating Export Tax Equivalent

Country Level:

Arab Emirates	Colombia	Hungary	Macedonia	Russia
Bahrain	Costa Rica	India	Mexico	Singapore
Bengladesh	Czeck Rep	Indonesia	Nepal	Slovak Rep
Brazil	Dom. Rep	Jamaica	Oman	Sri Lanka
Burma	El Salvador	South Korea	Pakistan	Taiwan
Bulgaria	Egypt	Kuwait	Philippines	Thailand
Belarus	Fiji	Laos	Poland	Turkey
Cambodia	Guatemala	Macau	Qatar	Ukraine
China	Hong Kong	Malaysia	Romania	Uruguay

Product Level [Ex: India - imports to U.S. (2002)]

218	219	313	314	315	317	326
341	345	363	334/634	335/635	336/636	338/339
340/640	342	642	347/348	351/651	369	647/648

Calculating Export Tax Equivalent: from MFA product level to CGE aggregate

Example: Bangladesh (apparels)

Step 1

MFA Products category

237	347	369	642
334	348	635	648
335	351	638	651
338	352	639	652
339	336	640	634
340	363	641	647
342			

239	433	447	653	759	899
331	434	448	654	834	200
332	435	459	659	835	218
333	436	631	666	836	220
341	438	633	669	838	222
345	439	636	670	839	227
349	440	643	733	840	229
350	442	644	736	842	313
359	443	645	741	845	314
360	444	646	742	847	315
361	445	649	748	859	317
362	446	650	758	870	604

Non-MFA categories

Step 2

Aggregate binding category ETE

47.8%

Step 3

Scaled by ratio of binding quota imports over total imports

Final ETE:

29.1%

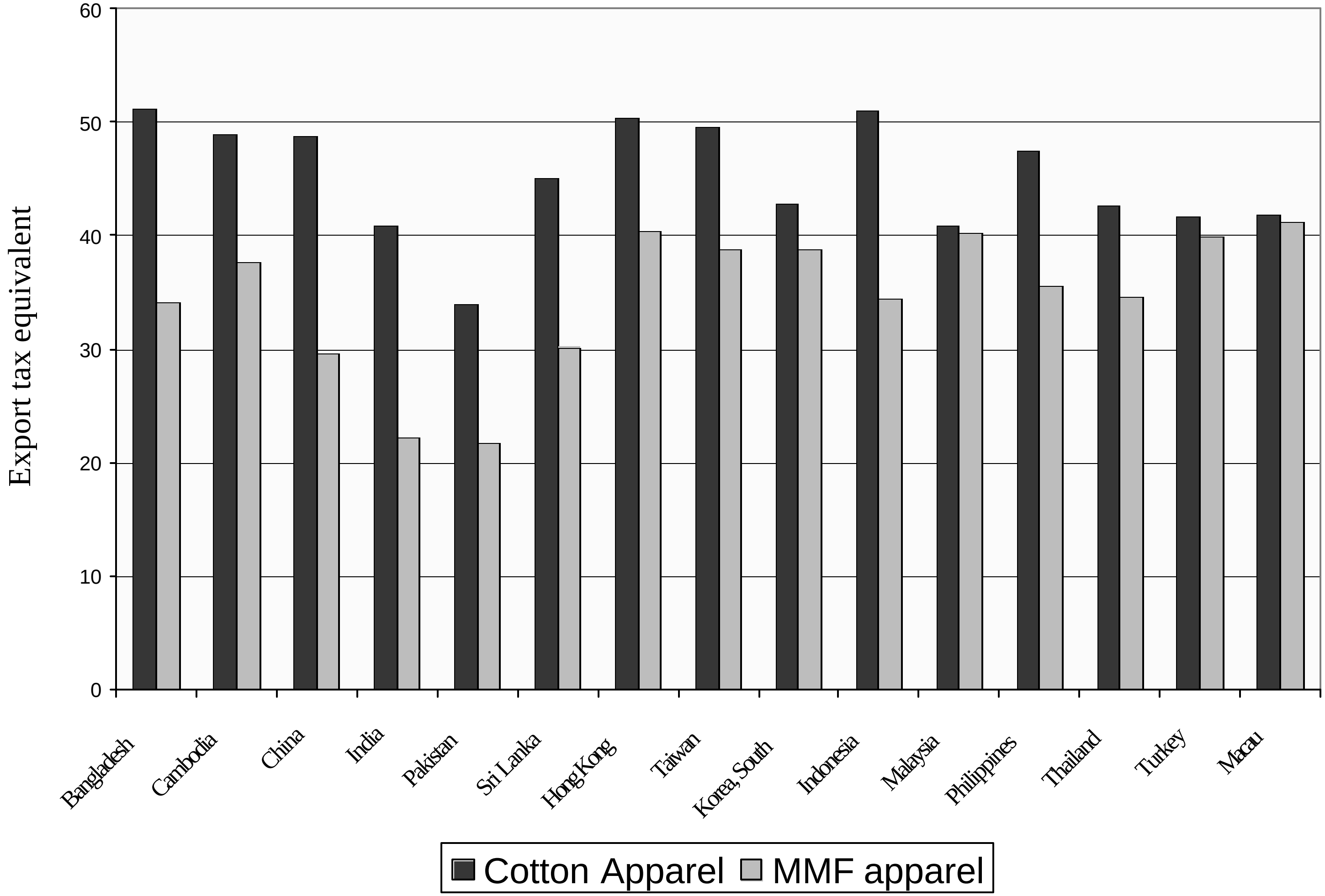
Step 4

Updated GTAP database to include the estimated ETEs for T/C by country

Calculated Export tax equivalent by country for U.S. bound imports (2002 data)

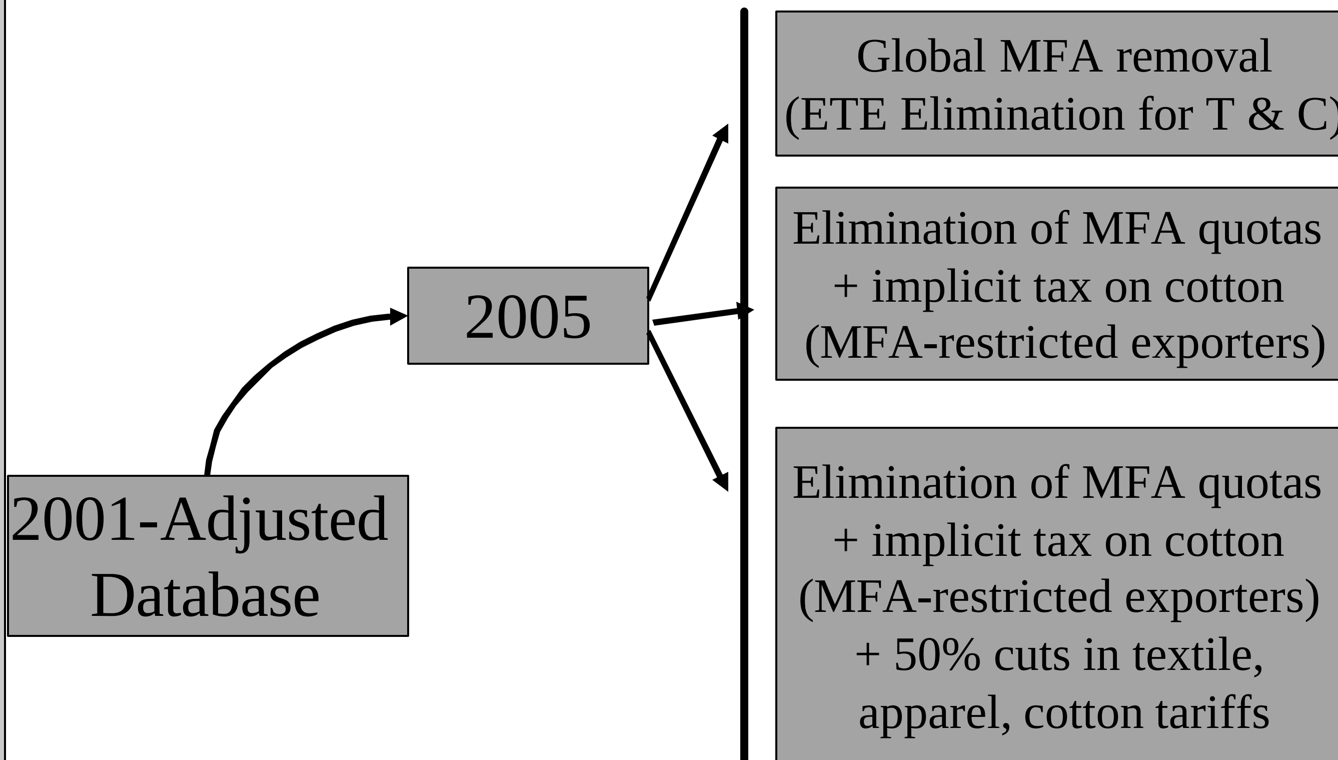
	Textiles	Apparel
China	24.16	17.21
HK-Korea-	7.01	31.59
Asean-5	7.62	21.95
India	0.00	19.81
Bengladesh	0.00	29.11
SriLanka	0.00	21.95
Pakistan	13.80	24.03
Turkey	6.36	23.65

MFA fiber bias: Export tax equivalents higher for cotton-based versus synthetic-based products



Model regions and MFA Scenarios

	Regional Aggregation
1	USA
2	Mexico
3	Canada
4	CBI
5	Andean
6	Mercosur
7	Rest of Americas
8	Japan
9	China
10	HK-Korea-Taiwan
11	Asean5
12	India
13	Bengladesh
14	Sri Lanka
15	RestSoAsia
16	EU25
17	Turkey
18	North Africa
19	AGOA
20	Oceania
21	ROW



Global and bilateral trade impact

- Global Trade:
  - MFA has greater impact for apparel (11.2%; $B 30.9) than textiles (1.1%; $2.5B)
- Bilateral Trade:
  - MFA trade shift from preferential to restricted countries of Asia plus Turkey
  - US show rise in apparel imports and domestic consumption
  - US textile exports are negatively affected by lower domestic demand and imports from preferential producers
  - MFA exporters also raise textiles imports to meet apparel production boost

Implications for fiber market Welfare

- Impact on Fiber/cotton market:
  - Global cotton trade rise by 6% ($ 443 M)
  - US: Larger boost in exports under full MFA impact (+9.7%) compared to quota removal only (6.7%)
- Global and regional welfare:
  - Global welfare under MFA quota removal rise by $10.1 B
  - U.S. shows the largest welfare gain (not surprisingly)
  - MFA exporters do not necessarily translate higher trade with welfare gains (terms of trade larger than efficiency gains)
  - MFA exporters only show welfare gain under combined quota removal and further tariff reductions

Conclusions

- This analysis offers a preliminary CGE assessment of MFA removal on global and U.S. textiles and clothing sectors based on new estimations of quota trade distortions
- Significant shifts in apparel exports from preferential exporters to MFA suppliers of Asia plus Turkey
- MFA removal is welfare enhancing for MFA-importers but not necessarily for all MFA-exporters
- Still need to account for productivity effects and determinants of changes in competitiveness in post-MFA