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## NEW TEXTILE IMPORT RULES : MORE STUDY IS NEEDED

### INTRODUCTION

Pursuant to President Reagan's Executive Order 12475, the U.S. Customs Service on August 3 issued a new interpretation of international rules governing textile imports. The new interpretation officially takes effect on September 7, but will not affect orders placed by August 3 and shipped to the U.S. by October 31. The White House says that this action is needed to prevent circumvention of the present trade rules. The main way that the new rules seek to do this is by redefining what constitutes "country of origin" for textile products bound for the U.S. In the Pacific area especially, origin is difficult to ascertain because textile products often are produced in stages by processors in different countries. The old interpretation takes into account this complex production process; the new rules interpretation does not.

As a result, the new regulations, whatever their intent, complicate the textile trade and probably will restrict further the supply of foreign textiles available to American consumers. Exactly what the restrictions will do, in fact, is uncertain because they raise serious administrative, economic and political questions. For one thing, the regulations themselves are confusing and are understood by neither U.S. importers, foreign exporters, or the U.S. Customs Service itself. For another, the regulations were unilaterally announced by the U.S. and seem to violate international treaties signed by the U.S. It is for this reason that Hong Kong, Colombia, El Salvador, Indonesia, Jamaica, Malaysia, Mexico, Pakistan, the Philippines, South Korea, the People's Republic of China and other countries have lodged diplomatic protests against the U.S.

Because of the questions and controversy raised by these new regulations, the date on which they are to take effect should be

postponed at least six months to allow Congress and those affected by the rules to examine the issues involved.

### THE NEW RESTRICTIONS

It is common textile industry practice, especially in the Pacific basin, for production to be divided between different countries. Fiber might be spun into yarn and yarn woven into garment parts in Mainland China, the parts assembled in Hong Kong, and the assembled garment dyed, printed, packaged and shipped to the U.S. in Malaysia or Indonesia. This division of labor has developed because of economic factors, with each country doing what it does best and cheapest. This allows garments to be sold in the U.S. for the lowest possible price.

U.S. law requires imports to identify the product's country of origin. This normally has meant listing the last country in which substantial transformation of the good took place. The proposed new regulations break with this internationally recognized standard of defining "country of origin." Instead it declares that "substantial transformation" does not include, among other things, the assembly of components, cutting of material previously marked with cutting lines, dyeing, printing, treating, and packaging. The new U.S. interpretation does not clearly define "substantial transformation."

The new regulations also require that the imported product's declaration describe each step of the manufacturing process by country, direct costs of each step, and costs of the materials involved for every country involved in the process. These descriptions must go all the way back to the fiber which is to be spun into yarn.

The Reagan Administration argues that these details are necessary to halt what it claims is the current circumvention of import quotas and restrictions.

### ADMINISTRATIVE PROBLEMS

The new restrictions are unclear on many points and would be difficult to enforce. U.S. importers and foreign exporters have sought clarification from the U.S. Customs Service on the meaning of these new rules. For example, Customs suggests that some assembly of parts might qualify a country as the country of origin, but they cannot say exactly what kind of assembly would do so. No provisions have been made for cases where parts of garments originating in two different countries are sent to a third country for assembly. Further, some U.S. textile manufacturers export parts of garments to Mexico for certain stages of the production process. There is need to clarify how the new restrictions will affect this practice. When the country of origin is not the country from which the good is actually exported, overseas exporters are required to obtain a visa acceptable to U.S. Customs and the U.S. Department of Commerce. The new regulations omit provisions for such visas.

The U.S. Customs Service admits that it does not fully understand the implications of the new regulations. This makes it impossible to train Customs agents to enforce these rules.

Further, the proposed new declarations that would have to accompany imported garments would prove impossible for many exporters to secure. First, it is unclear exactly what is required and by what standards the pricing of a process stage is to be made. Second, it would be difficult or impossible for an exporter to trace back the full production process across many countries and many separate manufacturers. Third, some of the descriptions would require companies to reveal trade secrets. In the end, the new declaration requirements would spur the very fraud and circumvention that the new regulations allegedly seek to prevent.

These administrative problems must be addressed before the regulations take effect.

#### ECONOMIC IMPACT

The new restrictions could impose painful costs on the U.S. economy. U.S. retailers, who import foreign garments, are very confused by the new rules. As a result, they already have cut back on placing orders overseas. They fear that shipments could be turned back by U.S. Customs agents. More important, the new rules probably will restrict the supply of foreign textiles in the U.S. To be sure, this is not the stated aim of the rules, but it almost certainly will be the consequence. As it is, quotas and tariffs already limit textile imports. Further limitations could mean shortages in the U.S. market. It is questionable whether the U.S. textile industry, in the short run, could make up for the lost imports. Indeed, U.S. textile manufacturers themselves rely on imports. It probably is for this reason that the American Apparel Manufacturing Association, which represents many U.S. manufacturers, opposes the new restrictions.

American consumers, particularly those purchasing the least costly clothing, will pay a price for new limits on textile imports. Even without the new regulations, Americans will pay \$23 billion this year in added costs for garments and apparel due to tariffs and other trade barriers.<sup>1</sup> Imposing still higher costs will mean lower sales of garments and probably higher unemployment in the U.S. retail industry.

The new labelling regulations on textile imports thus should be delayed until their possible adverse economic impact can be studied.

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<sup>1</sup> Michael C. Munger, "The Costs of Protectionism," Center for the Study of American Business, Working Paper #80 (updated 1984 figures), Washington University, St. Louis.



## POLITICAL PROBLEMS

The proposed restrictions seem to violate international treaties and agreements, could harm Pacific countries friendly to the U.S., and could cause trade retaliation against the U.S.

The restrictions appear to violate the Multi-Fiber Arrangement (MFA) of 1973, which governs international textile trade and which the U.S. has signed. The MFA, for example, requires consultation between members on policy changes, yet the U.S. has acted unilaterally. The MFA also requires that signatories not take actions which disrupt trade and that they consider the effects policy changes may have on other signatories. The U.S. ignored both of these provisions. The U.S. also ignored MFA procedures for dealing with questions or differences among member nations.

A fundamental aim of the MFA is to provide assurance and certainty for signatories concerning the rules of trade. Businesses invest enormous sums, years ahead of when products will be marketed. Without assurances that the rules of trade will not be changed arbitrarily and on short notice, such investment becomes far more risky and probably will shrink. This would damage world trade very seriously. The U.S. has ignored this purpose of the MFA.

The U.S. in addition seems to have violated the principles of the Hong Kong-U.S. Bilateral Textile Agreement of 1982. Like the MFA, a primary purpose of this agreement is to provide certainty concerning the rules of trade. Hong Kong diligently has adhered to the agreement. In the agreement, the U.S. seems to recognize the internationally accepted definitions of "country of origin" and "substantial transformation." The textile industry in Hong Kong and in Pacific basin countries have structured their production process on this understanding. In Hong Kong, 41 percent of industrial workers are in the textile industry. U.S. changes in international rules, without the consultations required by the Hong Kong-U.S. Bilateral Textile Agreement threaten severe harm to the economy of Hong Kong.

Such damage is particularly serious at this time. In 1997, British-ruled Hong Kong will revert to China. Delicate negotiations are underway over Hong Kong's future. Hong Kong is currently a free and prosperous city on the Chinese mainland, friendly to America. The U.S. trade action thus not only will harm Hong Kong's economy but threatens its political future as well.

Washington's unilateral action on textiles has prompted Hong Kong, Colombia, El Salvador, Indonesia, Jamaica, Malaysia, Mexico, Pakistan, the Philippines, South Korea, the People's Republic of China and other countries to protest. The matter has been raised in a meeting of the Organization of American States and at an August 27 meeting of the European Community. A special meeting of the Textile Committee of the General Agreement on Tariffs and Trade (GATT) is scheduled for September 4 to consider possible U.S. violations of that agreement.

The U.S. action could trigger trade retaliation by other countries. From January to August of 1983, for example, Beijing cut off imports of U.S. wheat in a trade dispute with the U.S. over textiles. The threat of another cutoff of U.S. wheat purchases, could seriously harm American farmers. There is talk in Hong Kong of cutting off purchases of U.S. tobacco products.

The new U.S. restrictions of textile imports threaten serious international political and economic problems. The possibility of this must be examined carefully before the new regulations are put into effect.

#### CONCLUSION

The rush to implement the new interpretation of international textile trade regulations has already proved imprudent. Disruption of trade has already occurred and matters promise to get worse. If there are legitimate reasons for U.S. policy change, they should be discussed openly and carefully. So far, the weight of the arguments seems to be against the new restrictions. In any case, it is not possible to address the administrative, economic and political problems caused by the U.S. action quickly. If all sides are to be heard and all aspects of the issue addressed, more time is required. The prudent course of action would be to postpone implementation of the new restriction until next year to allow for a full debate on this matter.

Edward Hudgins, Ph.D.  
Policy Analyst