



THE RACE TO FREE TRADE IS ON!

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When the gavel came down on the ministerial meeting of the World Trade Organization (WTO) on November 14 in Doha, Qatar, the Western world woke up the next morning to the announcement that another round of worldwide trade negotiations had been launched. The previous round, known as the Uruguay Round was started in 1986 and concluded in 1994. It involved the negotiation of tariff reductions on almost all items of trade, including textiles and apparel, as well as the dismantling of the textile and apparel quota system. Most of the tariff cuts negotiated in that round will be in place by 2005, as well as the removal of the quota system. With the end of these phased changes in sight, many people around the world, particularly the U.S. government began the slow, arduous process of getting the next round of trade liberalization talks underway.

And it hasn't been easy. All of us remember the debacle in Seattle. And it wasn't easy in Doha. Several times, nations threatened to walk out of the talks, and argued vehemently over the major areas of

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contention. Agriculture was probably the biggest stumbling block this time, but textiles and apparel were right up there with farm products, and proved to be the usual flash point for a number of countries. While we knew going into the negotiations that the developing countries would ask for Europe and the United States to significantly lower, if not eliminate, tariffs on textiles and apparel, the U.S. wanted the removal of many abnormally high tariffs on specific, individual products called "tariff peaks," many of which other countries maintain in textiles to protect their own developing domestic industry. The developing countries were angry over the growing use of anti-dumping and countervailing duties, particularly by the U.S. (the biggest user of these measures), and were terribly concerned over intellectual property rights and testing requirements, both of which they view as new schemes for protectionism. In the end, a working text was reached.

The objective is to have this new round of negotiations completed by January 1, 2005, just a little more than three years from

now. So, it's clear that the annual tariff cuts we have been phasing in since the Uruguay round will be continued in some form. But how much is the question. There is talk about a "zero for zero" approach. In other words, if a country is willing to give us zero tariffs on imports into their country in a specific category such as textiles, would we be willing to reciprocate by giving that country zero tariffs on textile imports from them into the U.S.?

But focusing on the new round of multilateral trade negotiations is only one small part of the picture. The United States has been engaging itself in free trade agreements (FTAs) at an ever increasing rate. First it was Israel. Then Canada and Mexico joined us for the North American Free Trade Agreement (NAFTA). Last year, we put into place FTAs with the CBI and sub-Saharan African countries; this year it was Jordan.

So, as the industry adjusts to absorbing the last provisions of the Uruguay Round and NAFTA, now we begin the process of phasing in free trade with the 24 countries of the Caribbean and the 48 countries of sub-Saharan Africa. And while most people are focusing on the impact of NAFTA and CBI, the sub-Saharan provisions may be the most liberal of any agreement covering textiles and apparel, ever signed by the United States. And before it's all over with, Jordan may be a "sleeper" in size and scope that nobody expected.

But as the ad on television says, "But wait, there's more!" For a number of years, the United States has given preferential tariff treatment to products from the ANDEAN countries of Colombia, Ecuador, Bolivia, and Peru, but textiles and apparel have not been included. But now, just as the Caribbean nations were negatively impacted by our special preferences to Mexico in NAFTA, the ANDEAN countries are crying foul in regard to our relationships with Mexico and the Caribbean. They want an FTA of their own with us. And you know they will get it, because they have a legitimate argument based on what we have given other neighboring countries. But, Peru

doesn't want to wait. They are pushing the U.S. about a separate FTA with just them.

Negotiations between the United States and Chile have been ongoing since NAFTA passed. At first, Chile wanted to join NAFTA as the fourth member. But now it looks like a separate FTA between them and us is what will happen. Meetings have taken place on almost a monthly basis between the two countries, and the negotiators are closing in on finalizing an agreement before the end of this year.

The FTAA of all of the Americas is also making more progress than most people are willing to admit. Representatives from the 34 Western Hemisphere countries have been meeting on a regular basis and have organized 9 negotiating and 4 non-negotiating groups to work on the text of an agreement. A whole series of harmonized customs procedures have already been adopted by all 34 countries, including the United States. The new customs facilitation and transparency measures went into effect on January 1, 2000 and clearly show the degree of cooperation and commitment that the countries have for establishing a Free Trade Area of the Americas. Negotiators are already opening up various text for public comment and have already adopted a calendar for negotiations well into the Spring of 2002. The original target announced for having an FTAA in place was December 31, 2004. That's only two years away.

Singapore will probably be next. Remember the rush at the end of the Clinton administration to try to get that FTA approved? It was delayed, not over the content of the agreement, but the implementation schedule. Many felt it was too quick. But most observers feel it will be back, approved and in place sometime in 2002.

And while it is not a true free trade agreement, the trade agreement signed by the President on October 16 to give normal trade relation status to Vietnam will prove to be a significant event. It does afford Vietnam regular duties on imports into the

U.S., and gives us some assurance that they will operate under international trading rules. But couple the Vietnamese work force with low price raw materials from that part of Asia, particularly China, and you are looking at a formidable manufacturing base for textiles and apparel. Vietnam alone could eventually rival the amount of goods we see coming in from the sub-Saharan African countries combined, even with duties.

The other major accomplishment in Doha was approval of China's membership in the WTO effective December 11 this year. While China has had normal trade relations with the U.S. on an annual basis for a number of years, this makes those provisions permanent. And just like Vietnam, while they will move towards the adoption of international trading laws, just the sheer size of China as a low cost manufacturing country sends shivers down the spines of all types of established industries throughout North America and Europe.

This will give China about three years to get ready for January 1, 2005 when the textile and apparel quota system is eliminated, as agreed to in the Uruguay Round. We have been telling everyone since 1994 this was coming, but few companies have really focused on what that means up until now, with the date staring them in the face. We have all seen what low priced textile and apparel items have done to the domestic textile industry with quotas; what will it be like without quotas?

When first established, the quota system was to give us time to adjust by limiting the growth of textile and apparel imports into the developed countries. Even with quotas, imported textile and apparel items, have grown significantly over the years. Now the quota system will be removed and "ready or not," here we come!

Even though imports have grown, the quota system did provide a degree of protection to those items and categories covered. But they also provided protection to a number of other items not covered by

quotas, particularly smaller ticket items like accessories. If a major exporting country had a basket quota on textiles and apparel, they had no interest in filling that valuable quota with lower priced items, but preferred to fill their basket with bigger ticket items. In 2005, that "protection by default" will be gone, and one has to wonder if the major textile and apparel exporting countries will now start paying attention to products and categories they have historically ignored because of the quota system?

"But wait! There's even more!" Now, in the middle of the phase-in of all of these free trade agreements (and with more coming), we find ourselves in the middle of a war on terrorism. The Administration desperately needs Pakistan, and a few other countries, to stand fast with us in this fight. With many of these governments tenuous at best, if their economies slip, like the one in Pakistan, we could lose a critical partner in the military intervention against terrorism.

In order to keep these countries, particularly Pakistan in the fold, and to prop up their economies and stifle internal dissent, a proposed relief package is being debated, which will undoubtedly include textiles and apparel. It is possible that all textile and apparel tariffs could be eliminated on goods not currently under quota. And that list is a long one. Furthermore, the elimination of quotas has been discussed. The European Union has already announced duty free access to its markets for textiles and apparel from Pakistan, simply increasing the pressure on the American government to match the offer.

And now that China and Taiwan have both been granted membership in the WTO, the United States is being pressed politically to somehow show its continued support for Nationalist China (Taiwan). What better way to show that favoritism than a free trade agreement with Taiwan. Have no fear, legislation calling for such negotiations has already been introduced in the Senate.

But if you think this is just a United States phenomenon, this rush to free trade, it

is not. It is a worldwide stampede. The European Union (EU) really got the ball rolling when the 12 member nations finally agreed to finish their work on becoming a European free trade area. But then the EU began to expand to include neighboring, low cost countries like Spain, Portugal and former Eastern bloc countries. Now they've announced that they expect membership negotiations to be completed by the end of 2002 with Cyprus, Malta, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. Talks continue with Bulgaria, Romania and Turkey, though they are not as close to meeting membership criteria. And, the EU even signed a free trade agreement with Mexico, the provisions of which will be implemented in lightning speed (3 to 5 years). They do not want to lose competitive advantage against the United States.

And Mexico has come out of its isolationist shell in a decade or less, finally understanding that trade is what builds an economy and raises the standard of living for a country's citizens. Mexico now has trade agreements with more than 30 countries.

Canada has an FTA with Costa Rica and has just announced the launch of negotiations for a free trade agreement with El Salvador, Guatemala, Honduras and Nicaragua. Australia and Thailand have announced the beginnings of negotiations. Lebanon has proposed a free trade agreement with Japan, and is close to finalizing an agreement with the EU. Likewise, Japan and Thailand have met to talk about opening free trade talks on some less sensitive products. And at the close of the Asian leaders regional summit in November, China and the 10 members of the Association of Southeast Asian Nations (ASEAN) announced their desire and intention to create an FTA within 10 years. And the list goes on.

No, this "race to free trade" is not just a U.S. phenomenon, but a worldwide one and

the U.S. is simply trying to keep up. If two countries, or a group of countries, reach a duty free, quota free trade agreement between themselves, everybody outside that group has lost competitive advantage in that market and against products made in that market.

The race to zero tariffs and no quota limitations is going faster than any of us ever expected. Most of us in textiles and apparel figured it would not be in our business lifetime. But just like technology, the rate of change is getting faster every year in this arena. The question is whether you are in or out? And it really doesn't matter, because you are in whether you want to be or not. Textiles and apparel are on the table in every one of these negotiations. And while competitive access to our market is given up on one hand, our ability to gain market access and sourcing options increase on the other side. Textile and apparel management teams are going to be challenged on how to optimize the opportunities (and deal with the challenges) they have in this unfolding environment. The one thing you cannot do is ignore it, regardless of whether you are an investor, owner, manager, employee, friend, neighbor, media, politician, student or casual observer.

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