Impacts of Multi-Fiber Arrangement Removal on Textile & Cotton Trade

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Multi-Fiber Arrangement (MFA)

- Protect Importing Countries' Textile Sector
- Caused an increase in the textile & apparel prices in importing countries, a decrease in the prices in exporting countries and reduction in trade volume.
- Emerged into WTO's Agreement on Textile Clothing from 1995
- Removal of all MFA Quotas by Jan. 2005
- Impact on Textile/Apparel Trade & Cotton Market

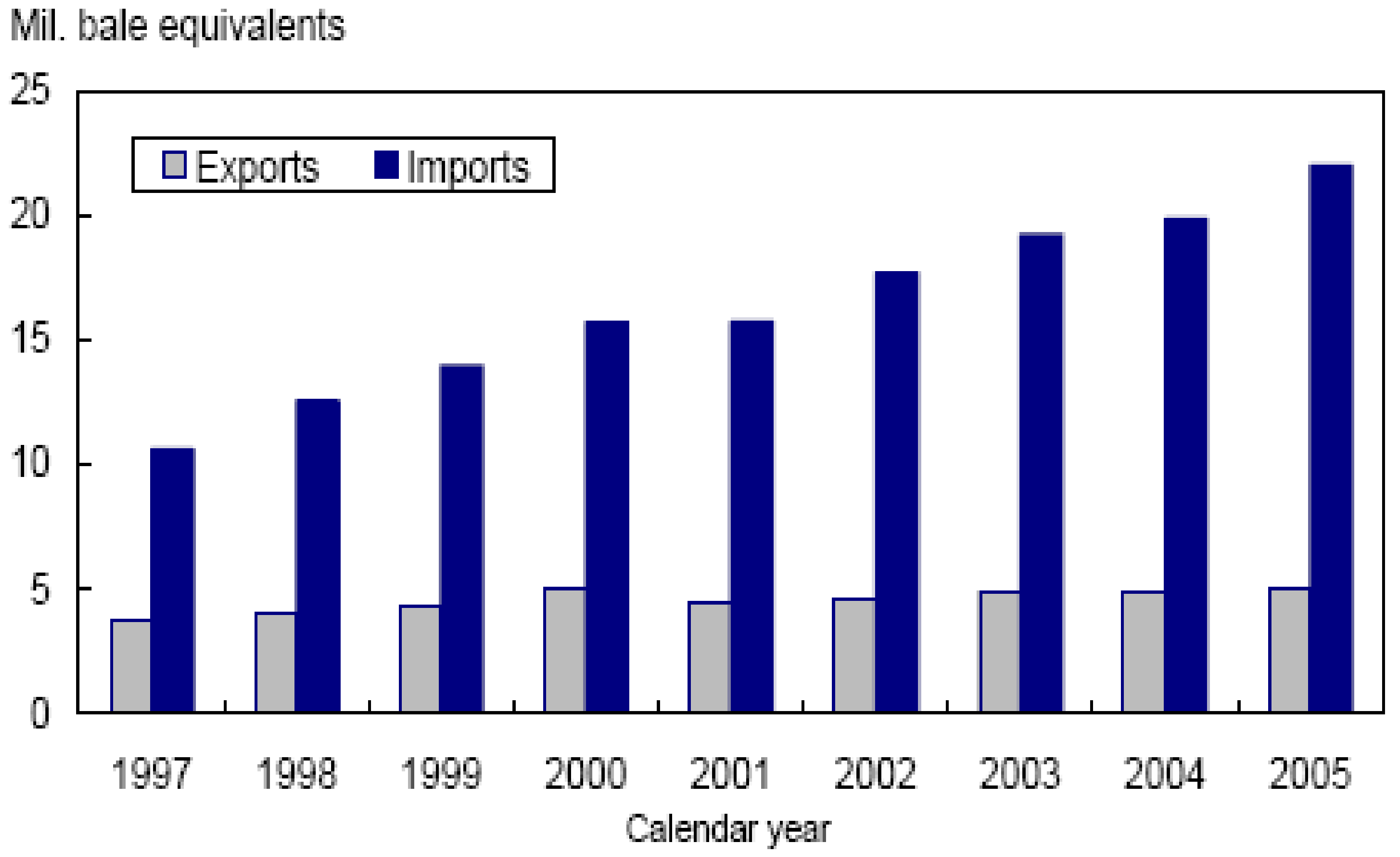
Objective

- *Analyze and Quantify the Impact of Elimination of the Multi-Fiber Arrangement on Textile, Apparel and Cotton Market with Alternative Scenarios by Using Equilibrium Displacement Model (EDM)*

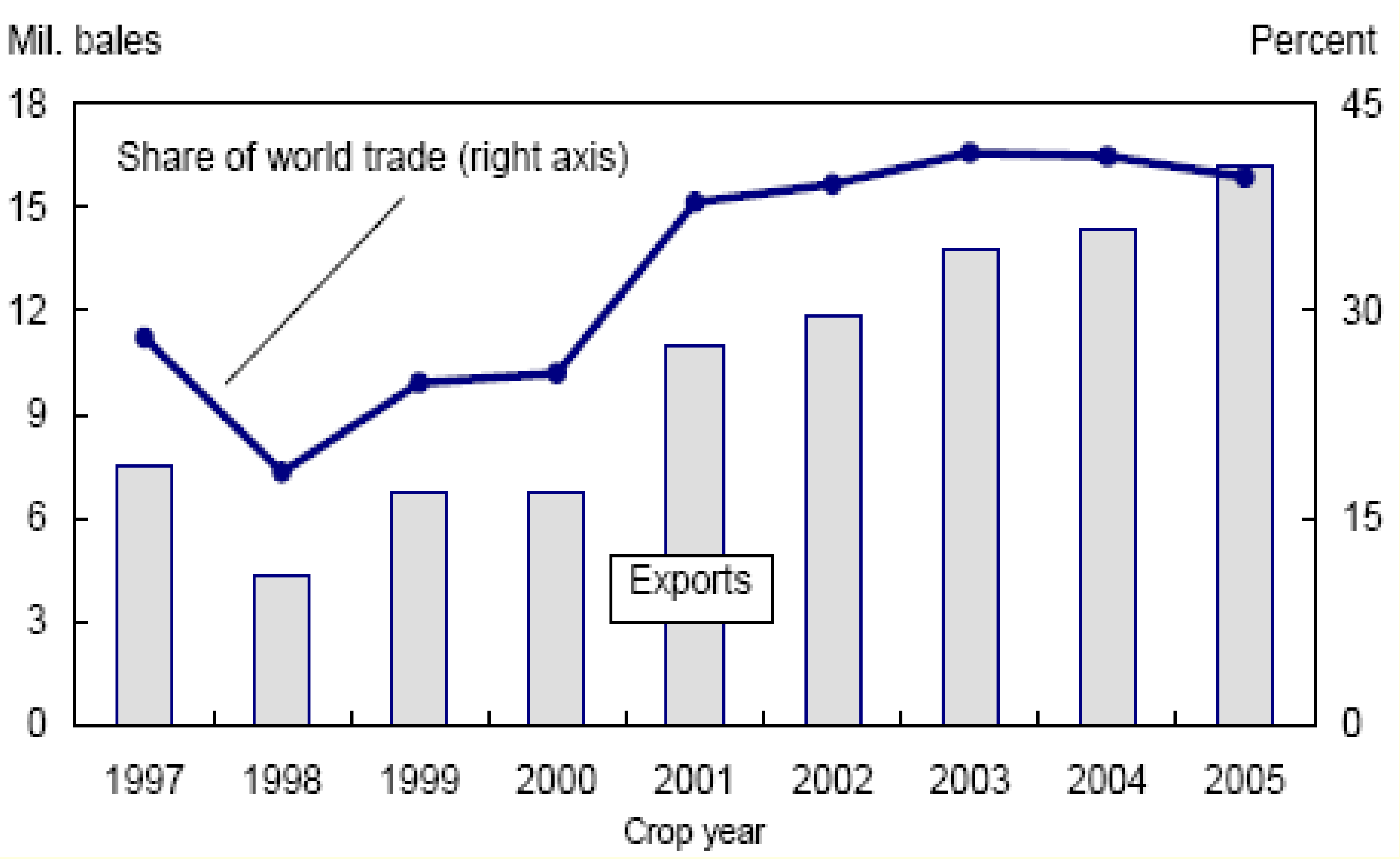
The United States

- Leading Textiles & Apparel Importer
  - 10.6% & 31.7% of world T&A Imports, 2002 (WTO)
  - Decade Trend of Import Expansion
  - Exports Remain Steady (ERS)
- Leading Cotton Exporter
  - 41.82% of world cotton exports, 2003 (NCC)
  - Cotton Exports Increased
  - Domestic Consumption Declined (ERS)

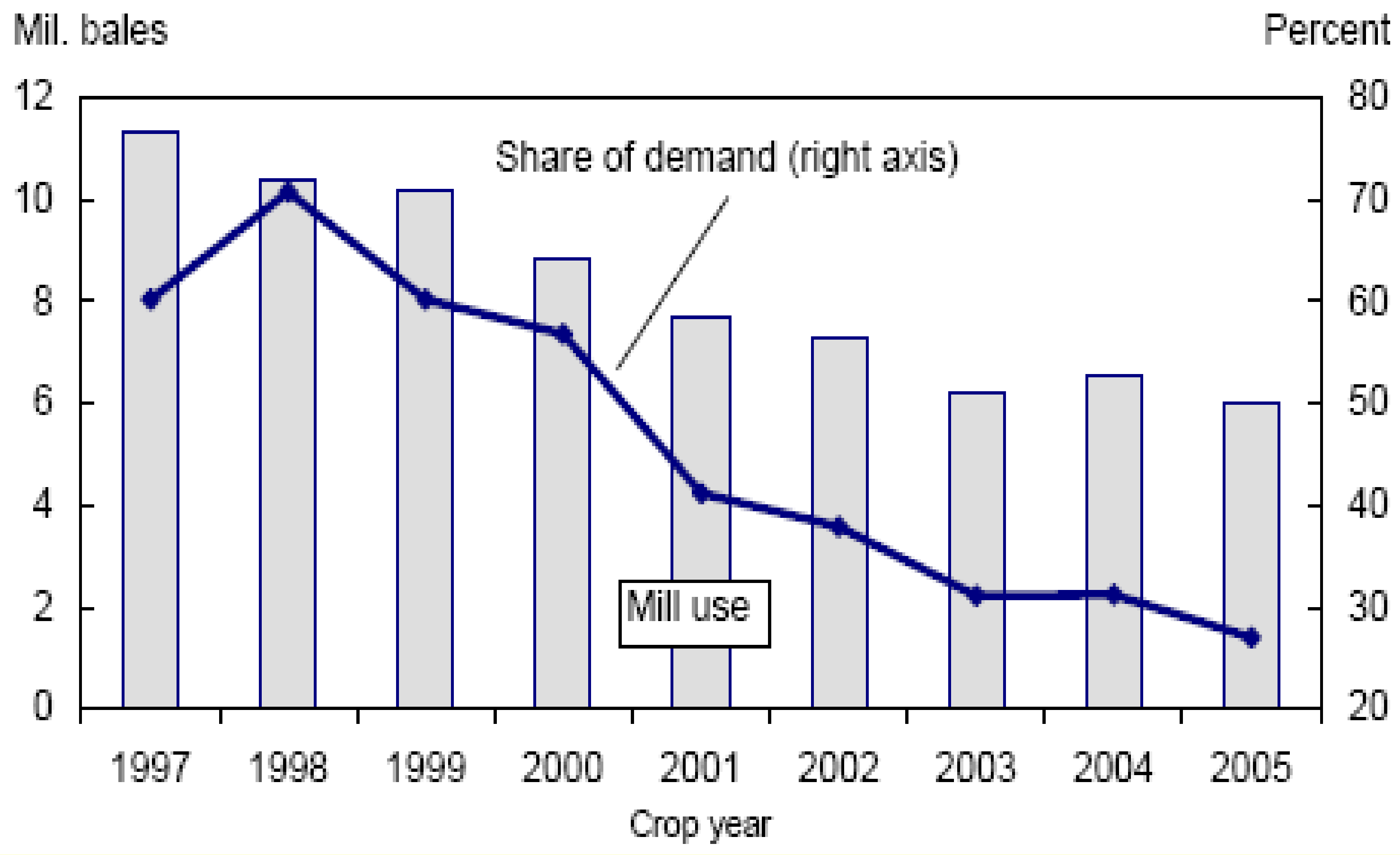
U.S. Cotton Textile Trade



U.S. Cotton Exports & Share of World Trade



U.S. Cotton Mill Use



People's Republic of China

- Largest textile exporter to the U.S. under MFA
  - 19.62% of U.S. textile/apparel imports, 2003 (AMTAC)
- Third largest importer of U.S. cotton
  - 28% of U.S. cotton, 2003 (FAS)
- Accession into the WTO
  - Textile: Quota-free access to the U.S. and EU market, but still with tariff
  - Cotton: Agree to reduce TRQ on cotton imports

U.S. Farm Program

- Direct Payment
  - Fixed
  - Decoupled from current production (ERS)
- Counter-Cyclical Payment

CCP rate = Target price – (DP rate + max{loan rate, price})

  - Reduce revenue variability and risk
- Loan Deficiency Payment
  - Fixed
  - Directly coupled to current production
  - Incorporated in the simulation

Scenario 1:Removal of MFA quota

U.S. import demand for textiles	(.2396, .2416)
U.S. import demand for apparel	(.3513, .3524)
U.S. domestic demand for textiles	(-.0382, -.0374)
U.S. domestic demand for apparel	(-.2593, -.2591)
U.S. import price of textiles	(-.1863, -.1855)
U.S. import price of apparel	(-.2213, -.2194)
China textiles export supply	(.3455, .3454)
China apparel export supply	(.30, .3165)
U.S. cotton price	(-.0169, .0028)
World adjusted cotton price	(.0043, .0201)
U.S. cotton supply	(-.0079, .0013)
U.S. demand for domestic cotton	(-.1281, -.1217)
China's demand for U.S. cotton	(.1037, .1737)
AO's demand for US cotton	(.0942, .1014)

Scenario 2:Removal of MFA, and 3% decrease in LDP

U.S. import demand for textiles	(.244, .2604)
U.S. import demand for apparel	(.3419, .3503)
U.S. domestic demand for textiles	(-.046, -.039)
U.S. domestic demand for apparel	(-.2607, -.2595)
U.S. import price of textiles	(-.1847, -.1786)
U.S. import price of apparel	(-.2175, -.2030)
China textiles export supply	(.344, .360)
China apparel export supply	(.332, .458)
U.S. cotton price	(.0243, .1794)
World adjusted cotton price	(.035, .156)
U.S. cotton supply	(-.019, .054)
U.S. demand for domestic cotton	(-.179, -.132)
China's demand for U.S. cotton	(.112, .651)
AO's demand for US cotton	(.057, .104)

Scenarios 3: Removal of MFA, 5% increase in foreign cotton supply

U.S. import demand for textiles	(.234, .2405)
U.S. import demand for apparel	(.3538, .354)
U.S. domestic demand for textiles	(-.0376, -.0374)
U.S. domestic demand for apparel	(-.2602, -.26)
U.S. import price of textiles	(-.1868, -.1866)
U.S. import price of apparel	(-.2223, -.2219)
China textiles export supply	(.3682, .3704)
China apparel export supply	(.2807, .2831)
U.S. cotton price	(-.0186, -.014)
World adjusted cotton price	(-.0143, -.012)
U.S. cotton supply	(-.044, -.0332)
U.S. demand for domestic cotton	(-.1311, -.1248)
China’s demand for U.S. cotton	(.0003, .0597)
AO’s demand for US cotton	(.0461, .0493)

Scenario 4: Removal of MFA, 3 % decrease in LDP & 5% increase in foreign cotton supply

U.S. import demand for textiles	(.2413, .2416)
U.S. import demand for apparel	(.3535, .3537)
U.S. domestic demand for textiles	(-.038, -.0379)
U.S. domestic demand for apparel	(-.2605, -.2604)
U.S. import price of textiles	(-.1865, -.1863)
U.S. import price of apparel	(-.2215, -.2212)
China textiles export supply	(.3736, .3748)
China apparel export supply	(.286, .2874)
U.S. cotton price	(-.0073, -.0048)
World adjusted cotton price	(-.0092, -.0078)
U.S. cotton supply	(-.0473, -.0413)
U.S. demand for domestic cotton	(-.133, -.1305)
China's demand for U.S. cotton	(.0099, .0442)
AO's demand for US cotton	(.0315, .0361)

Conclusions – Textile & Apparel Market

- The United States
  - Increase in import demand
  - Decrease in domestic demand
  - Decrease in import price
- China
  - Significant increase in export supply with different export mix of textile and apparel
  - Take a larger market share

Conclusions – Cotton Market

- Decrease in LDP rate affected future U.S. cotton price and adjusted world price
- Demand for cotton
  - U.S. Domestic demand continue falling
  - Increase in China and AO with different import mix depending on the presence of increase in foreign cotton supply
- U.S. cotton supply decreased slightly

More Conclusions

- U.S. cotton sector evolves from a primary supplier to its textile industry to a stronger exporting competitor in the global market
- Policy shock in textile market, MFA quota elimination, have significant impact on cotton (input) market
- Policy shock in cotton market, decrease in LDP rate, doesn’t have explicit effect on textile market

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