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U.S., China Reach Agreement to Limit Textile Trade (Update3)

Nov. 8 (Bloomberg) -- The U.S. and China agreed to limit exports of Chinese clothing through 2008, eliminating one of the most contentious issues between the nations before President George W. Bush travels to China in two weeks.

The accord concludes five months of negotiations and caps Chinese export growth to the U.S. over the next three years. **Only 19 of the 34 Chinese products covered are already included in U.S. safeguards that restrict imports.**

“This textile agreement is an example of how the U.S. and China have the ability to resolve tough trade disputes that benefit both countries,” U.S. Trade Representative Rob Portman told journalists in London today. The deal goes into force Jan. 1, 2006 “This provides for a three-year predictable environment that will result in more employment in the United States.”

Textiles have been an irritant in the \$231 billion trading relationship between the U.S. and China, whose apparel exports to the U.S. are on course to climb more than 60 percent this year from \$15 billion in 2004. U.S. lawmakers, manufacturers and unions are pressing the Bush administration to crack down on what they say are China's unfair trade practices, such as undervaluing its currency, providing cheap loans to companies and cutting taxes for domestic producers.

China pegs the yuan at 8.11 to the dollar, a value that critics say radically understates its true value. The yuan is a denomination of China's currency, the renminbi.

U.S. lawmakers including Democratic Senator Charles Schumer of New York have threatened to reintroduce legislation that would place a 27.5 percent tariff on all Chinese products to counter the effects of China's currency policies. China must continue to move toward a “flexible currency,” U.S. Treasury Secretary John Snow said today at a press conference in Mumbai.

“This textile issue between China and the United States has been the most difficult over the past few years,” he said at the news conference with Portman. “We do not expect this single achievement can help solve all the conflicts or problems between us.”

In response to surging Chinese apparel imports and complaints from U.S. textiles producers, the Bush administration in May imposed quotas on clothing including knit shirts, cotton pants and brassieres. Those caps, on \$3.4 billion worth of imports, helped prompt the Chinese to negotiate the accord.

Quota System

“We've been looking for some kind of resolution to this issue,” said Zhou Yongjie, trading manager at fabric producer Wuhan Yudahua Group Co., which exports about 30 percent of its production, including to the U.S. “It's hard to comment on how significant this is without seeing the details.”

Sales climbed after a four-decade-old system of global textile quotas expired at the end of last year. Under World Trade Organization rules, countries can impose “safeguard” measures that limit growth to 7.5 percent annually until the end of 2008.

The U.S.'s previous restrictions over China's textile imports ``seriously affected the healthy development of the countries' bilateral trade," the Chinese commerce ministry said today in a statement on its Web site.

The agreement also will allow goods that piled up at U.S. ports to be sold and will enable Chinese manufacturers to deal with over-shipments in one year by borrowing from the next year's quota, Portman said.

Trade Surplus

China's textile exports jumped 22 percent to \$55 billion in the first nine months of 2005 from a year earlier, according to the customs bureau in Beijing. The Asian country had a record \$162 billion trade surplus with the U.S. last year that is likely to exceed \$200 billion this year, government data show.

With today's accord, U.S. importers and Chinese exporters have certainty to guide their business decisions without the risk that new quotas will be imposed. Portman rejected suggestions that the deal was too generous to China and would allow more textile imports to the U.S.

``This is fair to our retailers, our consumers," he said. ``These are not easy agreements. What this will do will enable us to have the predictability."

U.K. Prime Minister Tony Blair plans to discuss trade and security with President Hu Jintao, who is beginning a three- nation European visit today. Hu, on the first state visit by a Chinese leader since 1999, also will travel to Germany and Spain later this week, then meet with Bush in Beijing on Nov. 19.

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