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## ASIAN BUSINESS NEWS

# Latin Trade Deal Has Chinese Flavor

## Debate Over Central American Pact Focuses On Countering Asian Textile Juggernaut

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WASHINGTON -- In trade talks between the U.S. and its Latin American neighbors, the most influential player may be Beijing.

In a sign of China's heft in the politics of global commerce, the debate over the Central American Free Trade Agreement, or Cafta, is going beyond a fight about open markets and turning into an argument about how to counter the Chinese textile juggernaut.

Most U.S. textile makers are worried because they think the treaty, as negotiated, "gives a backdoor entry to China into our market," says Jim Chesnutt, a North Carolina textile executive who is a member of the National Council of Textile Organizations, an influential trade group. That is because it allows Central American garment manufacturers in certain cases to use foreign-made fabric, but still send the finished clothing on to the U.S. duty-free.

The Bush administration, launching a push to get the treaty through Congress, says the deal helps defend U.S. textile makers from Chinese competition. The government's argument: By creating a free-flowing market for clothes in the Americas, it gives garment manufacturers an incentive to stay in this hemisphere, rather than move to Asia where labor, materials and land are cheaper. As long as clothing plants are in this hemisphere, the government argues, they are more likely to use American textiles.

"You have to look at this in the context of global competition," says Chris Padilla, a top U.S. Trade Representative official working to build support for the pact. Rules controlling global trade in textiles expired at the end of last year, permitting China to further ramp up textile production -- and adding significance to Cafta. "China is the 800-pound gorilla in this industry," Mr. Padilla says.

Cafta is designed to bind together six economies -- Costa Rica, Guatemala, Honduras, El Salvador, Nicaragua and the Dominican Republic -- to form the second-largest U.S. export market in Latin America, behind Mexico. The U.S. annually exports \$15 billion of goods to Cafta countries and the Bush administration says demand for U.S.-made products, such as pharmaceuticals and construction equipment, will grow as trade barriers fall in the region. Farm exports alone will expand by nearly \$1 billion a year, backers say.

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Like any attempt these days to expand free trade, Cafta faces major obstacles on Capitol Hill, where fights over parochial issues will complicate efforts to build a majority. For example, American sugar makers are upset with provisions of the agreement that give the Dominican Republic access to the U.S. market. And concerns about workers rights in Central America have the U.S. labor movement girding for a fight.

But overshadowing those issues in public debate on Cafta is the broader question of China. That the country figures at all in consideration of a trade pact between the U.S. and a handful of neighbors in the Western Hemisphere underscores the changing dynamic in world-wide commerce.

The largest U.S. trade deficit with any single country is with China. For November, the deficit stood at \$16.6 billion, more than 50% greater than the U.S. trade deficit with the 25-nation European Union. President Bush, while running for re-election as a free trader, vowed to press Beijing on a range of issues including currency manipulation and intellectual-property piracy.

At the height of the 2004 campaign, Mr. Bush's administration signaled a readiness to protect U.S. textile makers from China, by agreeing to consider petitions to curb imports of Chinese products. Since then, though, a U.S. district court judge has temporarily barred the administration from moving forward on the petitions and the international system controlling trade in textiles has expired. Under the 1973 Multifiber Agreement, developed markets, hoping to protect domestic industries, set quotas that limited apparel imports from less-developed markets. But with the elimination of the system, China soon will account for 50% of the world's textiles, more than twice current levels, the World Trade Organization estimates.

To counter that, the Bush administration is trying to sell Cafta as a way to help politically symbolic textile makers affected by an exodus of business to cheap labor markets overseas. Textile lobbyists and executives, joined by industry groups from Turkey, France, Indonesia and elsewhere, are mounting a campaign this week to raise concern in Congress and the administration about China, and to revive the court-stalled safeguard petitions. Regardless of what happens with the petitions, the USTR says the tariff benefits in Cafta give garment makers in Central America an incentive to stay put, just as the end of the quotas may step up Asia's appeal. If the companies moved their operations to China, they wouldn't enjoy the duty-free entry into the U.S. offered by Cafta.

Cafta-country garment companies import \$2.3 billion a year in U.S.-made yarn and fabric, compared with \$250 million by Chinese makers. "If those sewers move to China...they're not going to buy a whole lot of our yarn and cloth," Mr. Padilla says. That is his sales pitch for Cafta. "The basic argument is: Keep your customers."

Yet many domestic makers of yarn and fabric still mistrust Cafta, in large part because the treaty includes provisions that would allow apparel makers in Central America to incorporate foreign-made material into products destined for duty-free entry into the U.S. Nicaragua, for example, would benefit from a provision allowing local manufacturers to use as much as 100 million square meters of foreign-made cotton and man-made fabric in apparel shipped to the U.S. Critics contend this exception is a loophole that China would use.

Another Cafta provision would allow material produced in Mexico and Canada to be incorporated into duty-free apparel. Skeptics warn that would allow smuggled fabric from China into the production pipeline. They contend customs inspections in those countries, especially Mexico, aren't tough enough.

Administration officials discount the idea that smuggled fabric poses a real problem. They say they don't expect a big influx of foreign-made material from Cafta countries into the U.S, noting that foreign-made fabric accounted for less than 9% of the apparel products shipped to the U.S. duty-free from Cafta countries in the 12 months that ended in November.

USTR officials hope some textile executives will step forward to lobby for Cafta as it is. For now, they show no willingness to change the agreement to address broader industry complaints, setting the stage for a showdown on Capitol Hill. "It is critical to us that Cafta -- or any other agreement -- does not take away existing business from domestic manufacturing," says Augustine Tantillo, top lobbyist for the American Manufacturing Trade Action Coalition, a group fighting Cafta. "We have enormous concerns about loopholes."

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