Economic Geography of US Textile and Apparel: The Role of Vertical Linkages and Economies of Scale

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Abstract

'New' trade theory and "new economic geography" models, predict that increasing returns to scale and the presence of trade costs encourage industries to locate in countries with "large home markets" (Krugman, 1980). Additionally, the level of geographical concentration is higher in industries with strong backward and forward linkages (Venables, 1996). However, the presence of '*import quotas'* and preferential trade arrangements can significantly distort location choices. The ending of textile and apparel quotas, in December 2004, heralded a watershed moment in the global textile and apparel trade. The textile and apparel quotas, in place since 1974 (under the Multifiber Arrangement), effectively dictated the pattern of world production and sourcing until now. The MFA caused the production to become more dispersed - as a developing country, large or small, hit its quota limitations, production shifted to other locations unconstrained by quotas. The removal of quotas is expected to significantly affect sourcing decisions of U.S. textile and apparel firms.

The objective of this paper is to provide evidence on the change in the pattern of bilateral trade flows in textile and apparel for the US vis-à-vis the rest of the world (ROW). The study aims to (1) conduct an *ex post* analysis of the effects of *quota* removal on the sourcing decisions of U.S. textile and apparel firms; we wish to test if the change in bilateral trade patterns can be explained by the 'home market' and 'vertical linkage' arguments in the absence of market distortions caused by the presence of import quotas; (2) study the role of regional trade agreements on trade flows; and (3) measure the effects of "barriers-to-trade" which include, tariffs, distance, and transportation costs.