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Pakistani Textile Exports, Fast Track, and the US War on Terror: A Collision of Foreign and Trade Policy Goals

The September 11, 2001, terrorist attacks on the United States instantly made the relationship between the United States and Pakistan a top foreign policy concern for the administration of President George W. Bush. In the turbulent days following the strikes, it was uncertain how much support Pakistan would provide as the Bush administration began contemplating military action against Pakistani neighbor Afghanistan, whose Taliban government was harboring suspected terrorist Osama bin Laden. There was also concern that if Pakistani President Pervez Musharraf did help the US, the people of Pakistan might rebel, leading to even more instability in the region and the potential overthrow of a critical US ally.

In order to strengthen ties with Pakistan and bolster the Musharraf government, the Bush administration quickly consulted Musharraf and his representatives and began considering different forms of aid. A key proposal that seemed certain to have widespread appeal throughout Pakistan was the granting of trade concessions for Pakistan's textile and apparel exports to the US. But as soon as the administration proposed expanding quotas or eliminating tariffs on such products, the US textile industry and its supporters in Congress denounced the idea, declaring that to demand major sacrifices from one domestic industry in order to achieve a foreign policy goal was unfair. The debate became even more complicated when the question of granting trade relief became entangled with a push in the House of Representatives to pass critical trade legislation giving President Bush greater trade negotiating authority.

Over the next several months, representatives of the US administration, Congress, the Pakistani government, and the textile and apparel industries in both countries all sought to influence the shape and size of the trade package the administration ultimately would offer.

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A Critical Industry and the Trade Rules That Governed It

Just four days after September 11, President Musharraf agreed to cooperate with the US in its efforts to apprehend Osama bin Laden. The US received Musharraf's pledge of cooperation with relief and gratitude, particularly given the strained nature of the relationship between the two countries. In 1990 the US had imposed sanctions on Pakistan because of fears it was developing nuclear weapons. Further sanctions followed in 1998 when Pakistan tested a nuclear weapon, and again in 1999 after Musharraf seized power in a military coup. Now the US administration hastened to rebuild the once friendly relationship and to do what it could to stabilize Musharraf's government; it began lifting economic and military aid sanctions, rescheduled $379 million in debt to the US government, and started pulling together a $600 million economic aid package.

US officials also were examining possible forms of trade relief, an effort that became more pressing as the month progressed. Amidst the fear and uncertainty generated by the September 11 attacks and the growing likelihood that the US was going to attack the Taliban regime in Afghanistan, some US textile and clothing retailers and importers began to shy away from Pakistani goods. There were valid reasons for doing so. Many companies had temporarily banned all employee travel. For those that hadn't, Pakistan—a Muslim country that was known to be home to many Taliban sympathizers—appeared to be a high-risk destination for buyers. There were also fears that Pakistani factories would not be able to deliver on time because of regional unrest, and that the cost of doing business might rise, making Pakistani products non-competitive.

In fact, in response to possible regional instability, shipping and insurance costs both had begun to creep up.[1] And because most US importers didn't actually own companies in Pakistan, there were fewer incentives to stick with Pakistan; it was easy to move contracts to some other market, such as Vietnam. "South Asia was viewed with a lot of nervousness as to whether this was part of a much bigger eruption or not," recalls Julia Hughes, vice president of international trade and government relations for the United States Association of Importers of Textiles and Apparel (USA-ITA). "But then, a lot of things were so uncertain."

Within two weeks of September 11, Pakistan's Ministry of Commerce issued a statement to reassure US importers that no disruption would occur. At the same time, representatives of the Pakistani government immediately asked the US State Department to intervene on behalf of Pakistan's industry. "My first involvement in Pakistani trade issues was responding to the ambassador's and the trade minister's frantic concerns that they weren't going to get any textile orders," says Alan Larson, then under secretary of state for economic, business, and agricultural affairs.

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[1] Most Pakistani apparel destined for the US was sent by ship to Long Beach, California.

For Pakistan, maintaining its textile and clothing exports to the US was crucial. Textile and apparel products were Pakistan's most valuable export, totaling $5.8 billion and employing about 60 percent of Pakistan's industrial workforce; exports to the US alone were worth $1.9 billion. Pakistan ranked number one in US imports in categories including cotton yarn, cotton fabric, and cotton sheets and pillowcases, and the country was the fourth largest supplier to the US of textiles and apparel overall (see Exhibit 1 for a summary of US imports of Pakistani textile goods).

Although these rankings were impressive, Pakistan's exports to the US might have been even greater had it not been for a regimen of tariffs and quotas that restricted access to the US market.[2] In fact, for more than 40 years, the US and other developed nations had vigilantly protected their domestic textile and apparel industries through a series of special trade agreements that defied the general trend toward liberalization in global trade.

The General Agreement on Tariffs and Trade (GATT), the international trade agreement reached in 1947 to define uniform rules of trade among member states, had been negotiated in part to guard against such barriers to free trade. But from the start, industrial nations resisted efforts to liberalize trade in key sectors such as agriculture and textiles and apparel, fearing that their domestic industries would be unable to compete against lower cost imports.[3]

During the 1950s, developed nations began to reach bilateral agreements and, in some cases, to take unilateral actions by setting quotas limiting imports of low-cost textiles and clothing from Japan and other developing countries. Beginning in 1961, these quota regimes fell under the rules of a series of trade agreements outside of the GATT: the Short Term Cotton Arrangement (1961-1962); the Long Term Cotton Arrangement (1962-1973); and the Multifiber Arrangement (1974-1994).[4] As soon as a country became a successful and significant exporter of textiles and apparel, its products were reined in by quotas; these arrangements had the effect of encouraging new suppliers to enter the market and of spreading textile and apparel production globally. In some cases, the quotas also had the unintended consequence of guaranteeing a degree of access to the manufacturers of a country that might otherwise have been shut out by more established producers in other nations.

One goal of the Uruguay Round, the seven-and-a-half year multilateral negotiation begun in 1986 to reform the GATT, was to liberalize the textile and clothing sector and to bring trade in

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2 Tariffs were taxes on imports, while quotas limited to a specified amount the quantity of a product that could be imported from a given country.

3 Many developing nations grew cotton and had low production costs, including low wages, allowing them to produce cheap and highly competitive goods.

4 The trade arrangements failed to comply with basic GATT requirements, such as the principle that all trading partners should be treated equally.

these products under GATT rules.[5] Ultimately, the round—whose agreements took effect January 1995 and whose accomplishments included the creation of the World Trade Organization (WTO)—produced two important provisions affecting textile trade. To replace the Multifiber Arrangement, GATT ministers negotiated a specific WTO Agreement on Textiles and Clothing under which importing countries—such as the US, Canada, and the EU—had to gradually liberalize market access for textile and apparel imports over a period of ten years. Certain products would be removed from quotas altogether in four scheduled stages, while other quotas were automatically increased. By January 1, 2005, the last of the quotas that had dominated trade in the sector for close to half a century would be eliminated.

In addition, the major importers agreed that over a ten-year period they would reduce—but not eliminate—tariffs on imports from other WTO member countries in all product categories, including textiles and clothing. By 2000, tariffs on the sector were already more than halfway through the ten-year liberalization period. Largely as a result, textile and apparel imports to the US from Pakistan had almost tripled since 1994, and imports from all countries had increased by 90 percent, according to Commerce Department figures.

Nevertheless, both quotas and tariffs were still significant barriers to Pakistani exporters, and as one Bush administration official puts it, "Pakistan had a very long wish list." US tariffs on Pakistani textiles, which were paid by the importers, averaged 15 percent, and in categories like cotton yarn and sheets and pillowcases, Pakistan typically filled its quotas half way through the year.

Faced with Pakistan's real concerns in the aftermath of September 11, it didn't take long for the US government to begin to consider changing the barriers to Pakistani textile and clothing imports. By September 24, officials had raised the possibility of reducing tariffs and expanding the quotas placed on many Pakistani goods that competed directly with US-made products. "The circumstance was one that automatically gave Pakistan tremendous access and a tremendous ear," says one close observer of the Pakistani position. "There's no question that Pakistan was a key ally and the linchpin of success in our operations going into Afghanistan in the war on terrorism."

The administration wasn't only interested in the economic benefits to Pakistan of possible trade relief; many officials believed that such concessions could have a valuable political impact. Musharraf's cooperation with the US already was sparking protests from conservative Islamic groups and others in Pakistan who supported Afghanistan's Taliban government, and the US wanted to help Musharraf justify his actions to domestic critics. Pakistan's textile industry leaders had political clout, and their support for Musharraf and his policies would likely strengthen if the US granted trade relief. Such measures could also boost Musharraf's standing with ordinary

[5] Textiles and clothing were so important to developing countries that they were one of only four specific product categories listed among the original 15 agenda items specified for the Uruguay Round, along with natural resource products, agriculture, and tropical products.

citizens. Julia Hughes of (USA-ITA) notes, "If they could say, 'We're looking for bin Laden but the US is helping us by providing more jobs for people who need jobs,' that was going to be a good thing."

Officials also hoped trade concessions would help bolster the image of the US in Pakistan—and in the Muslim world generally—by demonstrating America's desire to directly aid the workers of an Islamic country. "This is a part of the world where we are still fighting a bad legacy with a lot of citizens, and that's true of the broader Middle East: We're too close to the governments and not close enough to the people," reflects the State Department's Larson. "As much as people in Pakistan clamored for and benefited from debt reduction and from increased aid, those are all things that are channeled through government, whereas trade benefits are more immediately felt by people." He adds: "Ultimately, whether Pakistan succeeds or whether we are successful in aiding the transformation of Pakistan is dependent on how well the idea of private initiative and freedom really takes hold, and that's less a government matter than an 'empowering the people' matter."

The US Textile and Apparel Industry Reacts

Once the idea of granting trade concessions arose—with its potential for helping Pakistan, improving foreign relations, and strengthening America's hand in fighting terrorism—President Bush and his Cabinet enthusiastically embraced the concept.[6] "President Bush was in internal meetings saying, 'Give Musharraf anything he wants,'" reports a source with close ties to the administration. "Musharraf was a tremendously needed friend at a critical time."[7]

However, granting trade relief in a sensitive sector like textiles and apparel would not be easy. Unlike under a parliamentary system, the divided executive and legislative branches of the US government imposed distinct limits on what a president could accomplish without legislative action, and presidents often had failed to achieve trade goals because of congressional opposition. In the case of possible trade concessions for Pakistan, President Bush had the authority—however politically unpopular—to expand or drop quotas on textile products under the auspices of the Committee for the Implementation of Textile Agreements (CITA), an interagency committee chaired by Commerce.[8]

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[6] The Cabinet was comprised of the heads of the 14 federal executive departments.

[7] There was a precedent of sorts for such concessions. During the Gulf War of 1991 the administration of George Herbert Walker Bush increased Turkey's textile quotas in exchange for the right of US military aircraft to use Turkish airspace.

[8] CITA set quotas—which were then implemented by US Customs—in response to market disruption or the threat of market disruption. This ability to set quotas, covered by the Agreement on Textiles and Clothing, would end in 2005.

But tariffs were set by Congress, and for Bush to alter tariffs, he would first need Congress to pass legislation granting him the temporary authority to do so. Given that the House was under Republican Party control and that Democrats had only a one-seat advantage in the Senate, the Republican administration had a reasonable chance of advancing the president's agenda. Yet there was still no guarantee that his proposals would succeed, particularly because any action affecting the textile and apparel industry invariably generated strong reactions among domestic constituencies and their representatives on the Hill.

Indeed, as soon as officials articulated the possibility of bolstering Pakistani exports, the US textile industry condemned the proposal. According to representatives of trade groups such as the American Textile Manufacturers Institute (ATMI), The Northern Textile Association, and the American Yarn Spinners Association, it was particularly maddening that a single domestic industry—and an embattled one, at that—should be asked to sacrifice for a foreign policy goal. "To grant textile and apparel concessions to Pakistan, a major exporter, would be placing the burden of supporting the war on terror on the backs of the textile industry and its workers, who were already in trouble," says Robert DuPree, formerly ATMI's assistant director of government relations.

No one could dispute that the US textile and apparel industry had suffered a long, painful decline. Apparel manufacturing had been leaving the US for decades, and employment had dropped by almost half in the ten years since 1990, from 929,000 to 497,000. By 2000, industry experts estimate, 80 to 85 percent of apparel sold in the US was imported.

Although the US textile industry—concentrated in the Carolinas and Georgia—was somewhat more robust, American businesses were struggling to compete against foreign-made goods, and to adjust to increased imports under the Agreement on Textiles and Clothing; manufacturing in that sector had fallen from 701,000 in 1990 to 594,000 a decade later. Further adjustments loomed under the quota-free environment that would begin in 2005.[9] At that time, countries such as Pakistan would be free to export textile products without limit, although the US and other importers could still impose tariffs within WTO-sanctioned levels. In addition, US textile makers often faced extreme trade barriers overseas, such as the hefty 40 percent average tariffs imposed by Pakistan on textile imports from the US. Just during 2001, 124 US textile plants had either closed or laid off a substantial number of workers.

But despite its diminished size, the industry had hung on to a surprising amount of political clout. Although the Congressional Textile Caucus, a group of House legislators representing industry interests, was no longer the cohesive bloc it had once been, it still had the

[9] China would continue to export under a residual quota regime that was negotiated as a condition of its accession to the WTO in December 2001.

ability to influence trade policy decisions, particularly when votes were close.[10] Caucus members included Cass Ballenger (R-NC), Howard Coble (R-NC), Jim DeMint (R-SC), Robin Hayes (R-NC), Sue Myrick (R-NC), and John Spratt (D-SC). And although the Senate did not have a textile caucus, the industry had reliable and outspoken champions, including Senators Jesse Helms (R-NC), Ernest (Fritz) Hollings (D-SC), and Strom Thurmond (R-SC).

Now, facing possible tariff and quota changes that would increase competition for domestic manufacturers, the industry quickly rallied. However, textile manufacturers didn't launch an all-out public campaign against concessions, given the political sensitivity of the topic, and the pervasive feeling that the US had to do whatever was necessary to fight terrorism, says then ATMI Executive Vice President Carlos Moore. "Keep in mind," Moore says, "that some people felt we were trying to subvert the war."

For example, instead of ruling out all concessions, ATMI, in a September 26 letter to Commerce Secretary Donald Evans, tempered its opposition to trade relief by proposing that the US allow hand-knotted and hand-hooked rugs—products not made domestically—to enter the US tariff free, a change the organization said could be worth $100 million a year to Pakistan. ATMI also suggested that for imports from Pakistan and other key allies the government should grant a six-month moratorium on "quota calls," the practice of initiating consultations after an import surge to limit imports of a product not already under quota.[11] "We are prepared to make these sacrifices to assist our government and our nation in this critical time," the letter noted, "despite the ever-deepening economic crisis our industry has been facing for the last several years."

Finally, ATMI and other textile trade groups tried to shift the burden of helping Pakistan away from the domestic industry and on to the importers, who, according to DuPree, were jumping on the idea of trade relief for Pakistan. "We urged those few importers that were threatening to curtail orders from Pakistan to make a public statement that as part of their contribution to the war effort, they would continue to order from Pakistan," DuPree recalls. "We did that knowing that that's direct competition for our industry."

But the Bush administration was not deterred. It was impossible for the US to verify trends in orders for Pakistani goods, since no data was collected on trade orders and the US Census Bureau's import data didn't appear until about three months after goods entered the country. In fact, ATMI and other US textile industry representatives insisted there was no proof that the US was buying less from Pakistan. But according to anecdotal evidence from major US buyers and Pakistani industry reports, there had been a falloff of US orders by the end of September and

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[10] Legislators whose districts formerly were dominated by textile companies now often represented other businesses as well, including those whose interests clashed with those of the textile industry.

[11] Importers dismissed the proposals as virtually meaningless, noting that tariffs on these kinds of rugs were only about two percent anyway, and that the US hadn't made a quota call against Pakistan or any other country in more than two years. *Inside US Trade*, "Commerce Request Leads to Industry Fight Over Pakistan Textiles," October 5, 2001.

Pakistan was beginning to see demonstrations by angry, displaced Pakistani textile workers. As a result, US officials continued to investigate ways to ensure that Pakistan's textile industry would remain at least as strong as it had been before Musharraf's pledge of aid to the United States.

Leading the Administration Charge

Within the Bush administration, the State Department immediately took up the cause of keeping Pakistani textile exports flowing to the US, whether by lowering tariffs or encouraging US importers to buy from Pakistan. Maintaining trade appeared critical to strengthening the relationship between the US and Pakistan and to shoring up Musharraf's position. Secretary of State Colin Powell met frequently with Musharraf on this and other issues, while Under Secretary Larson worked to analyze and coordinate the full range of economic assistance to Pakistan.

By late September, Larson began calling and meeting with Pakistani representatives and US importers. "The State Department contacted us saying that they wanted to talk to the industry about what might be doable and what would actually be helpful," recalls Hughes of USA-ITA, the importers association. Notes Larson: "It was part of an effort to make sure that nobody started dropping orders from Pakistan or shifting them some place else because they somehow thought it was what the US government wanted them to do, or because this was so unstable that it was the prudent thing to do."

But State didn't take the lead on what promised to be a grueling fight to win congressional and domestic textile industry acceptance of trade concessions. Jurisdictionally, the Office of the United States Trade Representative (USTR) could conceivably have been the lead agency, but observers say the US textile industry already believed that USTR was too interested in global markets to adequately protect domestic interests, and that industry representatives would be suspicious of a USTR-led effort. In addition, USTR hadn't appointed a new chief textile negotiator yet, and US Trade Representative Robert Zoellick already had other issues on his plate that were going to require difficult negotiations with Congress. Besides, as Larson notes, "It was a trade issue, but all of the arguments for doing it had nothing to do with trade policy."

By contrast, the issue fell naturally into Commerce's domain. After all, the Commerce Department would implement any quota changes requested by Bush in its position as overseer of CITA.[12] In addition, Commerce was sympathetic to domestic industry concerns by design, and by giving Commerce the lead, the administration sent the message that it was solidly behind the effort and that US textile industry supporters could not play one agency off against another.

Within Commerce, a natural leader of the administration initiative quickly surfaced. Grant Aldonas, under secretary for international trade, was the department's top trade official. As head

[12] The deputy assistant secretary for Commerce's Office of Textiles and Apparel was CITA chairman.

of Commerce's International Trade Administration, his responsibilities included advising Secretary Evans on international trade issues, enforcing trade agreements, and expanding overseas opportunities for domestic firms. Moreover, Aldonas had previously served as chief international trade counsel to the chairman of the Senate Finance Committee, giving him a deep understanding of trade issues and of how Congress operated, as well as a broad network of contacts within the House and Senate. Finally, according to those who regularly dealt with him, Aldonas had a winning manner and a knack for diplomacy. "Grant's personality, his knowledge and connections here in Washington, and his political background meant that he had a lot of authority and a lot of power," says Hughes.

With the support of the administration behind him, Aldonas emerged as a real advocate for Pakistan's textile industry. One observer recalls that Aldonas was "tremendously enthusiastic" and was "given a pretty free hand." On October 2, Aldonas met at the Commerce Department with a group of importers and their representatives, including USA-ITA, the International Mass Retail Association, and the American Apparel and Footwear Association, to learn what obstacles might be blocking trade with Pakistan. The meeting stood out because, as one Commerce official notes, "The Department of Commerce is not in the practice of promoting imports."

The recommendations put forward by USA-ITA and the International Mass Retail Association were typical of those Aldonas heard at the meeting. Hughes says they called for the government to drop tariffs for up to two years on exports from Pakistan and other key Central Asian allies; to address rising insurance costs on shipments; to speak out about the importance of preserving business relations with Pakistan; and to eliminate quotas on Pakistani imports. Removing tariffs was most important for short-term relief, importers said; quota changes wouldn't affect the next round of orders because the orders wouldn't be filled until early in the year when none of the quotas were full.

Importer representatives present at the meeting say Aldonas was unexpectedly open to their ideas and concerns, an openness that must have alarmed domestic industry supporters. On October 5, Senators Jesse Helms and Ernest Hollings wrote to administration officials asking them not to forget the tens of thousands of American textile jobs being lost each year. "These Americans must not be made pawns in efforts to build an international coalition," the letter warned. And Robert DuPree of ATMI contends that importer concerns had a lot more to do with filling their wallets than with helping Pakistan. "The importers were pushing for complete elimination of all quotas and/or complete elimination of all duties," he says. "It was utopia for them."

On October 7, the United States bombed Afghanistan. The military action increased the conviction among many Bush administration officials that Pakistan needed US support and that trade concessions could serve an important political function. "Musharraf was catching a lot of flak for helping us," concedes Andrew Duke, chief of staff for Representative Robin Hayes, a member of the Textile Caucus, "and Pakistan needed something to show for why this was a good

thing for them to do." At the same time, Duke says, the US textile industry felt the potential political impact of trade concessions on Pakistan had been overplayed. "We're talking about some extra quota and about the potential for tariffs being relaxed," he says. "I doubt that the masses on the street that are out burning American flags really care about that a whole lot, frankly."

Building a Case for Tariff Legislation

Within the Bush administration, the main interagency discussions regarding possible trade relief for Pakistan were handled by the economic deputies. Gary Edson, National Security Council/National Economic Council deputy assistant for international economic affairs, chaired the meetings attended, among others, by Aldonas, Larson, and Peter Allgeier, deputy United States trade representative. A key concern was whether generous trade concessions to Pakistan would spur requests for similar relief from other countries that legitimately could claim to be helping the US fight terrorism. In particular, if the US provided special trade concessions to Pakistan in advance of the WTO Ministerial launching the Doha Round in mid-November, other WTO members might hold the round hostage and demand comparable concessions.[13]

But the central concern was how to design a trade package that would combine meaningful relief for Pakistan with terms that the US textile industry could, if not embrace, at least endure. "I don't think the administration wanted to just cough up the world and hand it to Musharraf and say, 'Aren't we great,'" remarks one congressional aide. "They want to know what it is going to take, because they don't want to go out and give more than they have to."

Nevertheless, by mid-October the interagency group had concluded that quota changes—which the administration could approve on its own—weren't enough. Aldonas instead began exploring legislation to reduce or drop tariffs on many textile and apparel products from Pakistan. "Commerce, which would normally be the more protectionist of the agencies—certainly for textiles—was very gung ho," recalls one observer. An administration insider recalls more than once hearing Aldonas say, "We ought to be able to put our trade policy on a war footing" by granting trade concessions in the interest of reinforcing the US-Pakistan relationship.

In a flurry of meetings, Aldonas talked with Pakistani representatives about their concerns; asked importers for recommendations regarding specific product categories that already were, or soon were likely to be, affected by regional unrest; and began vetting possible tariff legislation with congressional staff. The exact shape such legislation would take was unclear. For example, it might designate specific products that would no longer be subject to tariffs, or it might give the president the ability to specify categories himself. If Congress could be induced to move quickly, such a measure could be attached to legislation already being considered, such as the

[13] Tariffs remained a key concern of developing nations and were to be a central topic for negotiation at the Doha round.

renewal of the Andean Trade Preferences Act or the Anti-Terrorism Bill, later known as the USA Patriot Act, which was expected to receive swift congressional approval.[14]

By late October, Aldonas had begun meeting with key representatives and senators. It was particularly important to work the issue in the House, since that was where any revenue-related measure had to originate. Also working the House and the Senate were ATMI and other textile industry trade groups. "We contacted members of Congress, both parties, both chambers," says DuPree. "You've got a Republican administration, so Republican contacts are especially helpful." According to DuPree, ATMI didn't focus on the Textile Caucus as a group as much as it targeted individual members known to be sympathetic to the cause, such as Senators Helms and Thurmond and Representatives Coble, DeMint, Hayes, and Myrick. "We needed member to member involvement," DuPree explains. "This was the war on terrorism."

To strengthen its cause, ATMI again proposed ways to help Pakistan without hurting the US textile industry. It suggested that the US Agency for International Development grant direct loans to Pakistan to help rebuild mills or allow the country to move into other types of light manufacturing. It recommended that the US government waive certain rules requiring the military to buy textile goods from US producers and allow Pakistan to supply blankets and tents for US military use in Afghanistan. ATMI also reiterated its earlier suggestion of dropping tariffs on hand-knotted and hand-hooked rugs. "Nobody said, 'Don't help Pakistan,'" notes ATMI's Carlos Moore. "It wasn't being hypocritical, it was saying, 'You should help them; they're helping us. But don't do it on our backs.'"

The government of Pakistan also was advocating on the Hill, and had hired lobbying and public relations firms to take its message to legislators, the administration, and the American people. But Ashraf Hayat, who later became Pakistan's trade minister to the US, says it was easier for Pakistan to deal with the administration than it was to make inroads with Congress, particularly given that tensions between the two countries had limited political contacts on both sides.[15] Pakistani representatives approached the committees with jurisdiction over trade—Ways and Means in the House and the Finance Committee in the Senate—as well as individual members, but often felt frustrated by a lack of close relationships. "There are just so many voices there," Hayat notes. "It could also well be that the textile lobbies just are too influential."

As the debate about what to do continued, the European Union announced it would grant tariff-free access to its markets for all Pakistani textile and apparel imports beginning in January 2002. For the EU to grant such trade relief was more politically straightforward than in the US,

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[14] *Inside US Trade*, "US Weighs Legislation to Lift Duties on Textiles from Pakistan," October 12, 2001. Congress took fast action on the Anti-Terrorism Bill, which was signed into law as the USA Patriot Act, on October 26, 2001.

[15] Hayat was chosen in March 2002 to succeed Farrukh Qayyum as trade minister based at the Pakistan embassy in Washington, D.C., and assumed the post in September 2002.

because it could be achieved by a simple vote of the EU Commission based in Brussels. Still, many observers interpreted the development as a good harbinger for eventual US concessions.[16] "I always thought that we would look bad in Pakistan, certainly among the business community that is pro-US, not doing our part to help them the way the EU did," says one advocate of Pakistan's interests in the US. "It seemed like that would be a tremendous mistake given the image issues we have in the Middle East."

The conviction that some sort of trade action was necessary deepened as more reports filtered in of a disrupted textile market in Pakistan. Pakistani officials said US orders for some kinds of textiles and apparel had dropped 30 to 40 percent from the previous year, and there were unconfirmed reports of shipment times increasing from four days to as many as 15. An October 31 editorial in *The Washington Post*, which reported that an estimated 10,000 Pakistani textile jobs had been lost due to faltering US orders, declared, "If ever there was a case for immediate trade liberalization, American barriers to Pakistani textile exports are it."

By the end of October, the administration was ready to move. Although Congressional Textile Caucus members had told Secretary Evans and Aldonas they strongly opposed new trade concessions for Pakistan, the administration had drafted a proposal for legislation that would give President Bush carte blanche to cut or eliminate tariffs on textile or apparel imports from Pakistan. The president could invoke the authority, renewable until 2004, provided that Pakistan's aid in fighting terrorism was critical, and that Pakistan was suffering "substantial economic harm" as a result of supplying that aid. "This would have a huge impact," a domestic textile industry source maintained. "There's nothing in the legislation that says [the president] is limited in any way."[17]

In a further act of support, the administration also was preparing to issue an executive order letting Pakistan borrow up to 10 percent from the following year's quotas for particular high demand products. According to a list that Commerce gave the domestic textile industry to review, ten categories of products were slated for quota relief, including men's and boy's cotton knit tops, cotton trousers, cotton nightwear, and cotton sheets.[18] Although the US planned to request that Pakistan reciprocate by lowering its own tariffs on US textile imports, it was generally acknowledged that Pakistan's failure to do so would not scuttle the agreement.

Faced with the administration proposal, opponents to tariff relief redoubled their efforts. ATMI issued a release November 2 declaring that the planned trade package "will put many Americans out of work, some of whom are sending their sons and daughters into harm's way in

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16 EU commissioners were meant to act in the interests of the EU as a whole, as opposed to taking instructions from their home governments, which made them far less accountable to their domestic industries than were House and Senate members in the US.

17 *Inside US Trade*, "Administration to Lay Out New Textile Benefits for Pakistan," November 2, 2001.

18 *Inside US Trade*, "Administration Shelves Effort to Cut Tariffs for Pakistan Apparel," November 15, 2001.

Afghanistan,"[19] and Republican Representative Sue Myrick of North Carolina in a *Washington Post* op ed asked, "Since when is it in our national interest to protect Pakistani jobs, while thousands of Americans lose theirs?"[20]

But the administration appeared firm in its resolve. Musharraf was scheduled to visit Bush in Washington, D.C., on November 10 during his first trip to the US as head of state, and the Bush administration planned to announce the proposed trade relief package immediately before the Pakistan leader's arrival.

Tariff Legislation Bumps up against Fast Track

Even as Aldonas was working to recruit legislators to sponsor the tariff measure, another trade issue arose that had been on the back burner for months. Almost from the moment of Bush's inauguration in January 2001, the administration's top trade priority had been the passage of trade promotion authority, also known as fast track. Fast track was the trade negotiating authority granted by Congress that allowed the president to negotiate international trade agreements and then submit them to Congress for a simple yes or no vote, with no amendments allowed. Fast track made foreign partners more willing to negotiate agreements with the US, because they could then do so with the assurance that Congress would not reconfigure an already negotiated package. The authority had lapsed during the administration of President Bill Clinton, and Bush considered its renewal critical to advancing his trade agenda.

The House Ways and Means Committee had been trying to bring fast track legislation to the floor since late summer, but had been delayed first by the flurry of legislation following the attacks of September 11, and then by the anthrax contamination incidents that forced the closure of government buildings, including the Longworth House Office Building that housed the committee.[21] Now Representative William Thomas (R-CA), chair of Ways and Means, believed the time was right to push fast track through the House before the December recess.

But Thomas was alarmed by the likely impact on fast track of the administration's efforts to encourage Pakistani imports. Already it was unclear whether the Republican leadership could marshal enough votes for fast track's passage. During the first week of November, Thomas told Aldonas and other administration officials that they should drop the proposed tariff legislation on behalf of Pakistan, claiming that it was too broad and that it would set a bad precedent encouraging other countries to make similar demands. But most important, Thomas said, the measure would anger representatives from textile states—many of whom were already dragging

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19 Ibid.

20 Sue Myrick, "U.S. Workers Pay the Price," *The Washington Post*, November 4, 2001.

21 A number of House and Senate buildings were closed after the discovery of letters to legislators containing potentially deadly anthrax spores.

their heels on fast track—and could result in the trade negotiating authority's defeat in the House.[22]

The administration was getting an earful from others as well. That same week, Commerce officials met with a number of Textile Caucus staffers who insisted that if the administration granted any special trade relief to Pakistan, it also would have to come up with a way to directly compensate the domestic industry. And when Aldonas in two teleconference calls asked textile and yarn executives for feedback on quota and tariff changes that wouldn't hurt their industries, they responded with fervent arguments as to why almost all forms of relief would be unacceptable.[23] "It quickly got down to very specific discussions about very specific product categories," says an administration official, "trying to find things that were less sensitive and yet helpful to Pakistan."

The apparent threat to fast track, on top of the other appeals, seemed to accomplish what the earlier textile interest complaints had not. On November 7, the Pakistan Textile and Apparel Group, a trade group representing Pakistani clothing and textile manufacturers and US buyers, released a report intended to drive home the need for trade relief. Orders from US companies had dropped by two-thirds at 14 large apparel factories surveyed, the report said, and employment at the factories had fallen by 32 percent. But within the administration, a critical shift already had occurred. The political price of granting a significant trade package to Pakistan appeared too high, at least for the time being, and Bush officials supporting the legislation pulled back.

The administration rushed through a few trade initiatives prior to Musharraf's visit. For example, the US agreed to remove a two-year-old safeguard quota on combed cotton yarn that had blocked imports from Pakistan.[24] But observers noted that wasn't much of a concession, given that Pakistan had challenged the quota in the WTO and that a dispute settlement panel had ruled against the US safeguard in October. The Bush administration also announced it would make a one-time adjustment increasing several quotas in order to resolve a disagreement about how the US had calculated quota fill rates from 1998 to 2000, an adjustment one source valued at about $11 million.[25]

In addition, at the administration's urging, Senators Max Baucus (D-MT) and Charles Grassley (R-IA) filed legislation on November 9 that would let the president drop tariffs on hand-knotted and hand-woven rugs and leather gloves, a measure that basically adopted ATMI's earlier

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22 Legislators who represented struggling US industries tended to be wary of fast track because the trade negotiating authority made it easier for the president to reach free trade agreements that, in some cases, were blamed for increasing the foreign competition faced by domestic firms.

23 *Inside US Trade*, November 15, 2001.

24 A safeguard action was a form of temporary import relief imposed by the president after a recommendation by the International Trade Commission, an independent federal agency.

25 *Inside US Trade*, November 15, 2001.

recommendation for relief that would not harm the US textile industry.[26] Ashraf Hayat recalls being distinctly under whelmed by the trade gestures. Moreover, he was surprised the administration had not even been willing to increase or remove some key quotas. "Congress would have had to be told about it because, of course, it would create ripples everywhere and it had political implications," Hayat says, "but it was something that the administration could have done itself."

After meeting with Bush on November 10, Musharraf returned home with no immediate US commitments for further trade relief. Nevertheless, there was still a sense of optimism that the US would come up with a significant trade package. "My guidance was to keep doing everything we could to deliver the things that would be most valuable to them," recalls Alan Larson of the State Department. Adds one representative of Pakistan's interests: "When Musharraf left, Minister of Commerce [Abdul Razak] Dawood and their industry believed, based on what they had heard from the [Pakistani] president, that this was still a very open issue and they still expected something to happen."

On November 13, Senator Sam Brownback (R-KS) introduced legislation similar to the administration's earlier proposal that would have given the president the authority to eliminate tariffs. Observers say Brownback's hope was to stimulate the debate, encourage the administration to act, and generate some support on the House side. But although the ATMI's Carlos Moore says his organization took the legislation seriously enough to speak out against it, "it never really got anywhere."

The Push for Fast Track

With the effort to introduce legislation to encourage Pakistani exports shelved for the time being, the House Republican leadership finally scheduled a vote on trade promotion authority for December 6 and began looking for ways to win over blocks of support. In the days leading up to the vote, textile industry supporters joined the queue of special interests—including the steel industry and the agriculture community—that were looking for deals and assurances before backing fast track. President Bush personally appealed to House members to support the bill, as did USTR Robert Zoellick, Commerce Secretary Evans, and Secretary of State Powell.

On December 5, Bush and Evans met with Textile Caucus members to discuss textile industry needs and fast track. In the days preceding the meeting, Evans had been circulating a draft letter outlining steps the administration was willing to take to address caucus concerns. Many of the steps simply emphasized existing administration policies, but the final letter dated December 5 included a noteworthy condition. After stressing the importance of Pakistan's assistance to the US in fighting terrorism and underscoring the need to give Pakistan broad

[26] Congress didn't pass a version of the legislation until 2004 and it was finally implemented in 2005.

economic support, Evans wrote, "In developing any proposal for assistance to Pakistan, the Administration is committed to working with the Congress to minimize the impact on the U.S. textile and apparel industry. It is Congress, of course, that holds the authority to lower tariffs or duties on textile and apparel products from Pakistan."

Observers interpreted the statement in different ways. One official claims it was a sign that Commerce had lost its enthusiasm for textile trade relief for Pakistan, at least at the top. "I think Don Evans dug in his heels," he says. "He took very personally the fact that certain types of commitments had been made and that he wasn't going to cut corners on them." But a supporter of Pakistan's interests says he was buoyed by the letter, claiming it was evidence that the administration still planned to help Pakistan, but would find ways to compensate the domestic industry, for example, by reducing textile imports from a non-WTO country, such as Vietnam, or committing to additional safeguards on imports from China. "I thought it was a good message," he recalls. "I thought it indicated they were going to move forward with something."

On December 6, when the House finally voted on fast track, it appeared at first that the administration's and the House leadership's efforts to rally support had not been enough. With the official time for voting already expired, fast track was four votes short of the majority needed for passage. But Speaker of the House Dennis Hastert (R-IL), House Majority Leader Richard Armey (R-TX), and Majority Whip Tom DeLay (R-TX), knew that Textile Caucus member Jim DeMint, who had voted against fast track, had prepared a letter on their behalf agreeing to certain conditions for the textile industry; if they signed it, DeMint and a few others would likely change their votes. The letter's key provision was to obligate the leadership not to consider new trade legislation until an earlier trade act—as well as some pending trade legislation—was revised to require that Caribbean and Andean knit or woven apparel made from US fabric be dyed, printed, or finished in the US in order to qualify for preferential access to the US.

Ways and Means Chairman Thomas tried to kill the vote, reportedly believing that the revision was not only anti-free trade but bad for the US textile industry. But House leaders, faced with no other way to pass fast track, signed the letter. Jim DeMint, Robin Hayes, and Cass Ballenger, as well as two other legislators, changed their votes, and trade promotion authority passed with a final vote of 215-214. [27] "As time went on with that vote and they needed help, you had a chance to actually get something for the benefit of the industry for once," says Andrew Duke, chief of staff for Hayes. "That's not a scenario that presents itself very often."

Although many Democrats and free trade advocates attacked the last-minute concessions, USTR Zoellick called the deal "necessary to achieve a large good."[28] The night of the vote,

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[27] After further work in the Senate and the House, the Trade Act of 2002, which gave President Bush trade promotion authority, became law on August 6, 2002.

[28] Joseph Kahn, "Wheeling, Dealing, and Making Side Deals; Vow to Scrap Latin Textile Deals Wins Vote on Bush Trade Powers," *The New York Times*, December 8, 2001.

President Bush announced that the administration would give special attention to the textile industry, including the creation of a new inter-agency textile committee. "If trade promotion authority had passed with 25 votes," says Duke, "and if textiles had not become such a focus of TPA, the situation with Pakistan probably would have been different."

Those still lobbying for Pakistani export relief were understandably frustrated by the process leading up to and concluding with the fast track vote. Although Pakistani exports weren't addressed in the last-minute deal making, and although Evans's December 5 letter could be interpreted as encouraging, the overall absence of progress appeared ominous. "The important thing to remember is that the discussions started almost immediately after September 11," Hayat reflects. "For it to linger through December…I'm not quite sure why it had to go as far down the road as that. And once it did, people started to wonder if this ever was going to happen."

One More Drive for Trade Relief

Through December, accounts out of Pakistan still indicated that reduced and dropped textile and apparel orders from balking US buyers had led to plant closings and large layoffs. For example, *The Washington Post* on December 26 reported Pakistani government estimates of 68,500 lost jobs since September 11, with 70 percent of them in textiles and textile-related businesses.[29]

But by early 2002, it was becoming apparent that Pakistan's textile and apparel industries hadn't been as seriously affected by regional instability or by changing US buying patterns as many observers had feared and expected, perhaps in part because of the US government's efforts to encourage importers. Prices had fallen due to a variety of factors, including the slowing of the US economy and a currency devaluation in Pakistan. But shipping and insurance prices were back to normal and new Commerce figures showed that in 2001, Pakistani textile and apparel exports to the US actually had risen by 9.8 percent over the previous year, and were up 7.2 percent for the final quarter. "Pakistan to some degree succeeded in representing itself as a small, vulnerable developing country when, in fact, they're a huge textile powerhouse," says one administration official. "They were one of the leading beneficiaries of the Agreement on Textiles and Clothing regime, so they already had a very large amount of market access here, and they were growing very quickly."

But the Pakistani government and US importers continued to press for relief. According to Julia Hughes of USA-ITA, the administration had made verbal commitments to help Pakistan's textile and apparel industry, and it "needed to live up to them." Musharraf was coming to the US for a second visit with Bush on February 13, and some observers still believed that Bush was about to grant a substantial package of trade relief. Clearly, Pakistan's textile industry hadn't given up.

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[29] Paul Blustein, "A Pakistani Setback; Drop in U.S. Imports Hurts Textile Industry," *The Washington Post*, December 26, 2001.

The State Department's Alan Larson recalls taking a flight from Karachi, Pakistan, to the capital of Islamabad for a meeting on trade during which he was "trapped in the business section with the entire CEO contingent of the Pakistani textile industry," whose members took turns sitting next to Larson and lobbying him. "I was always saying, 'We're going to do everything we can, but don't kid yourself that this is easy.'"

In anticipation of Musharraf's visit, Pakistan had put forth a formal request, asking the US to suspend tariffs on all textiles and apparel and leather garments and products through 2004 as well as to institute a number of substantial quota increases, a package estimated to be worth $1.4 billion. But a group of nine senators appealed to Secretary Evans in a February 1 letter not to grant any such concessions. In addition to highlighting recent figures documenting the growth of Pakistan's textile and apparel industry, the letter described additional relief as "directly contrary to the Administration's stated policy to minimize the impact of any relief package for Pakistan on the domestic textile and apparel industry."

As Musharraf's visit approached, Aldonas and a small group of officials from Commerce, State, and USTR, went back and forth, meeting with Pakistani representatives and then with members of Congress to try to formulate a package that both sides could tolerate. By the time the final concessions were negotiated, there were no surprises on either side; the end result was a package with no tariff relief at all and an estimated value far lower than what Pakistan had requested.

"During the meetings, [the Pakistani representatives] seemed content," says one Commerce official who was present at some of the negotiations. "We were giving them something; it was better than zero. We also gently reminded them that they were the only country that we gave any kind of concession to in this area." But one close observer says that privately, some Pakistani officials accused Aldonas of breaking promises. "Grant told me that the president had signed off on this. Grant told me that they were going to do this, and he was not the only one in the administration who told me that," he says. "So there was a decision at one point made to do it, and that decision got changed."

On February 13, Bush presented Musharraf with the package of textile trade concessions that industry estimates valued at $476 million over three years.[30] Most of the increased access to the US market was achieved through so-called quota swings, which would allow Pakistan to borrow unused quotas from certain product categories and transfer them to products where demand was greater. For example, in seven categories, including women's and girls' coats and woven gloves, the base quota was increased by 15 percent; in addition, that quota could be expanded by shifting over 25 percent of an unused textile quota from a different category. The

[30] Bush also announced $220 million in direct aid for Pakistan, on top of $600 million already allocated that fiscal year, and said the administration would soon send Congress another special funding request. Most of the money was earmarked for education.

quota swing was just eight percent for the highly competitive categories of men's and boys' cotton knit shirts, women's and girls' cotton knit blouses, and cotton trousers. To Pakistan's disappointment, the US did not include some products whose quotas Pakistan consistently filled early, such as sheets and pillowcases.

US textile industry representatives immediately put out statements criticizing the trade relief, but in private, most admitted that it was a deal they could stomach. "We viewed it as an acceptable outcome," says Carlos Moore. "In Washington when you're handling a controversial issue you never get everything, and the people who try to get everything often wind up with nothing." Adds DuPree: "We did, with our supporters in Congress, reduce the potential damage." But Hughes of the importers association describes the package as deeply disappointing. "The US did the minimum so that we could say we provided economic benefits and increased access in the textile and apparel sector," she says. "Compared to what could have been done to cement those relationships and to prove the role of the US as an ally on the economic side as well as the military side, it's just a lost opportunity."

According to Hayat, a few of the swing quotas were beneficial, such as the one allowing more cotton trouser exports, but most of the changes were almost meaningless. "Many of the quota increases were in categories we never filled," he explains. "If the fill rate was only 15 percent, and you gave us another 10 to 20 percent increase, it wasn't going to help us."[31] Although the trade package didn't create ill will towards the US in Pakistan, Hayat adds, there was disquiet. "The lesson for Pakistan would be that this requires a lot of effort, a broad based effort with a variety of decision makers in many departments of the government, as well as on the Hill," he concludes. "The administration has its own constraints and may not be able to deliver everything it says, much as it means to do so."

The Aftermath

In the following months, Pakistan continued to advocate for more significant trade relief, but both supporters and opponents of the effort seemed to realize the opportunity for action had passed. "When the Pakistanis would raise this ongoing concern with us," says Larson, "we'd say, 'It's an important issue, but don't forget we did what was your number one priority, which was to prevent the market from being destroyed.'" Other countries—including Bangladesh, Indonesia, Sri Lanka, and Malaysia—cited the quota shifts given Pakistan in asking for their own trade deals, but the US rejected all other requests.

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[31] A later analysis by Commerce showed that the value of the quota shifts over three years only amounted to $195 million. According to a Commerce official, the lower figure resulted from a combination of lower prices and of Pakistan not fully utilizing the quotas, either because the demand for the products or the ability to fill orders didn't exist.

In January 2002 the Bush administration had formed the interagency Textile Working Group, fulfilling a promise that Bush made the night of the fast track vote. The group's first report, produced in September, stressed the administration's resolve not to phase out textile quotas more rapidly than already required under the Agreement on Textiles and Clothing.[32] But US textile industry advocates, while appreciative that their issues were receiving attention, seemed unimpressed by the group's work. "They put out a report, but it's impossible to say what their impact was generally," Moore of ATMI says. "Like many of these interagency working groups, it sort of just faded away."

For Hughes, the experience of advocating for concessions served as a harsh lesson about American politics. "This administration, and others before it both Democrat and Republican, are so much in the pocket of the domestic textile industry interests that even when there was a major national security reason to do something that was in the textile arena, they would not do it," she declares. "No matter how good the argument, no matter how positive the impact overseas, in textile policy you can't rely on this or any other administration." Hayat largely agrees: "In a strategic sense, deepening trade relations between the two countries is vital and will sustain long-term bilateral relations between Pakistan and the US. Textiles should be considered a constraint that we have to work around to be able to deepen the relationship, and not something that should hijack the agenda."

But Stephen Lamar, senior vice president for legislative and public affairs for the American Apparel and Footwear Association, though disappointed by the outcome, had a more charitable assessment. "The administration has to manage a lot of competing priorities," he says. "Their first priority was to make sure that we had a stable ally on the southern border of Afghanistan. Another priority was getting fast track through. And, you know, they were able to get both."

[32] The interagency group produced a second report one year later.

Exhibit 1
US Imports of Pakistani Textiles and Apparel
For Year Ending July 2001[33]

Product	In Sq. Meters	Ranking	In US Dollars
Total textiles & apparel	2.1 billion	4th	$1.9 billion
Apparel, all fibers	343 million	17th	$950 million
Cotton apparel	282 million	8th	$848 million
Non-apparel, all fibers	1.8 billion	3rd	$963 million
Cotton yarns	302 million	1st	$78 million
Cotton fabrics	246 million	1st	$146 million
Cotton made-ups	810 million	1st	$438 million

[33] Source: United States Department of Commerce.