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Textiles and Clothing in a New Round of Trade Negotiations

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Because developing countries generally have a comparative advantage in the production of labor-intensive textiles and clothing, the liberalization of trade in these products is critical to their prospects for increasing foreign exchange earnings. The new round of trade negotiations is likely to be less important for trade in textiles and clothing, however, than were the recent renegotiations of the fourth Multifibre Arrangement (MFA). As the MFA remains in effect until July 1991, this limits the range of measures which can be altered in the interim. Nonetheless, textile trade will influence the process and outcome of the current negotiations because of the overlap of textile trade disputes with other broader trade issues. These include tariffs, the rollback of tariffs and quotas, voluntary export restraints, and other nontariff barriers, all of which have been applied to textiles trade at various times. Each of these measures has an influence on trade flows and a cost to both the importing and exporting countries. Any proponents of liberalization of trade in textiles and clothing must not only be familiar with these costs but also must be knowledgeable about the economic and political forces which have initiated and sustained the protective measures. The following discussion suggests that there are groups and transitional approaches which may favor some progress in textile trade liberalization in the current round of negotiations.

The Multifibre Arrangement (MFA), the international rules which govern much of the international trade in textiles and clothing, imposes particular costs on the developing countries for it not only restrains trade but is discriminatory in its application. It is designed to restrict low-cost exports of clothing and textiles to developed-country markets. Of the $104 billion (billion is 1,000 million) in 1985 world trade in textiles and clothing, almost all of the $29.5 billion of exports from developing and Eastern Trading Area countries to developed countries is subject to negotiated quota controls, either under the MFA or outside it, or to the uncertainty posed by the imminent imposition of such restraints in almost any area of textile or clothing trade (see table 1). In contrast, most of the $44 billion trade among developed countries is traded freely, albeit subject to tariffs. Only a small amount is quota-controlled—mainly Japanese exports to the United States.

The negotiations which will take place on textiles in the current multilateral

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Table 1. *An Overview of World Textile Trade*

	To developed countries	*To developing countries and the Eastern trading area*
From developed countries	44.5	12.2
From developing countries and the Eastern Trading Area	29.5	18.2

Note: 1985 trade flows in billions of dollars; textiles and clothing combined. The estimated 1985 world textile and clothing trade of $104 billion to $105 billion had broadly three main components:

(a) Of the $44.5 billion trade between developed countries, the majority—$21.6 billion of intra-EEC and $8.7 billion of EEC-EFTA (European Free Trade Association) trade—is almost entirely free of quotas and tariffs bar some transitional quotas on exports from Portugal or Spain. A small part is quota-controlled: the $1.25 billion of Japanese exports to the United States. The rest is restricted only by tariffs.

(b) $29.5 billion is the value of exports from developing countries and the Eastern Trading Area—including China—to developed countries. Almost all is potentially covered by the MFA or other quota systems (for example, non-MFA quotas in Taiwanese exports; industry to industry voluntary export restraints [VERS] rather than MFA quotas on imports by Japan). Excepted, until MFA4, were $3 billion of goods made of non-MFA fibers (such as jute, silk, and linen). Not all potentially controlled trade is actually regulated and not all quotas are fully used; but mechanisms exist to stop rapid import growth.

(c) The residual $30.4 billion is imports into and trade among developing and Eastern Trading Area countries. With the exception of imports by Hong Kong ($4 billion in 1985), very little is freely traded.

Source: GATT data.

trade negotiations are overshadowed in many respects by the multilateral and bilateral negotiations conducted under the fourth phase of the MFA. While this may suggest that little can be done in the Uruguay Round to improve the position of the developing countries in textiles trade, any protracted trade negotiations will eventually overtake textiles arrangements and will have important implications for the MFA as well as being influenced by it. This article examines the subject of textiles and clothing trade in broader terms than is encompassed by the new round alone, including the background to the current MFA, a summary of its economic effects, and how the new round might be the basis for some progress in liberalization of textiles and clothing trade.

I. Origins of the Current Arrangements

Discriminatory protectionism in textiles has been around a long time, which perhaps accounts for some of the fatalism which surrounds discussion of it. In modern times the problem can be traced back fifty years to the proliferation of quotas on textile exports from Japan and from other (then) developing countries.

The institutionalization of restrictions on a multilateral basis dates from 1961 and 1962, when the Short Term and then the Long Term Arrangement regarding International Trade in Cotton Textiles (STA and LTA) were negotiated (see Keesing and Wolf 1980; and Aggarwal 1985). The LTA allowed developed countries

to impose restrictions (either unilaterally or through a negotiated voluntary restraint agreement) on imports from developing countries which were considered to be a source of actual or potential market disruption; in the case of potential market disruption, restrictions could not be imposed unilaterally. Developed countries preferred this to taking safeguard action under the GATT, which would have required them to restrict textile trade among themselves, and allowed retaliation. GATT Article XIX also differed from the LTA in that it required proof of "serious injury" rather than "market disruption." The Arrangement thus represented a fundamental breach with the nondiscriminatory principle of the GATT. For developing countries, the LTA was meant to offer a transparent set of rules concerning market access, including a guaranteed increase in quotas (of 5 percent per year in most cases), which was considered advantageous to them relative to having their exports subjected to a series of ad hoc, restrictive measures. In addition, the LTA required importing countries to undertake adjustment measures with the objective of restructuring their industries and returning international trade in textiles and clothing to GATT rules.

The LTA was extended in 1967 and again in 1970. In 1974 it was replaced by the arrangement governing International Trade in Textiles, known as the Multifibre Arrangement, which was extended in 1977, 1981, and 1986. The MFA has broadly similar objectives to the LTA and represents an extension of restrictions to non-cotton textiles due to cotton textile exporters' diversification into synthetic textiles (see Pelzman 1984). At the same time, the condition of market disruption was more precisely defined, growth in market access was set at 6 percent per year, and various elements were introduced to make the quotas more flexible. These included a "swing" provision which allows an exporting country to shift trade into another unfilled category, and allowance for countries to "carry forward" unfilled quota balances from one period to the next.

Few would now seriously contend that the MFA's proclaimed objectives—of temporary regulation, adjustment, and overall liberalization—have been realized (this is confirmed by exhaustive studies in GATT 1984 and OECD 1983). The bilateral agreements reached under the successive MFAs, instead of liberalizing access, have grown progressively more restrictive. Annual growth rates permitted within quotas have generally been below 6 percent; the number of product categories subject to restrictions has been increased; quota fragmentation coupled with revision of the original "swing" or "carry forward" provisions has reduced quota utilization; requirements of proof of injury to domestic producers have become minimal; and many very small suppliers have been controlled. Despite almost twenty-five years of protection, there is little evidence of developed country textile and clothing industries being prepared to recognize the essentially transitional character of the Arrangements and compete with unrestricted imports from developing countries.

In the Tokyo Round (1973–79) the subject of textiles and clothing was raised but only given peripheral treatment, primarily in regard to tariff liberalization and "safeguards." Textiles were systematically marginalized in the 1960s in the

Kennedy Round and in the Tokyo Round with the "snap back" clause, which made acceptance of the MFA a prior condition for tariff negotiations on textiles. After this assurance cuts in tariffs on textiles and clothing were made, with annual reductions to start in 1982 instead of 1980 when cuts on most other products began, and with an average total reduction of 17.5 percent instead of the 34 percent average for all products. Tariffs remain two to three times higher than the average for manufacturing, and there is tariff escalation on finished items. The discussion on safeguards in the Tokyo Round broke down on the issue of selectivity, which contributed to the continuation of separate arrangements for textile trade.

At the 1982 GATT Ministerial meeting, Contracting Parties called for a study on the textiles and clothing trade and the impact of the MFA.[1] They agreed on the need to examine ways of liberalizing textiles and clothing trade in order to bring it under GATT rules, and subsequently set up a working party for this purpose. Despite several meetings that went beyond its original November 1984 deadline, the working party was unable to fulfill its mandate. Various options for trade liberalization were discussed, but no specific recommendations made, and the 1986 renegotiations did not become a major break with the past.

Background to the 1986 Negotiations

The MFA is nominally concerned with regulating the pace of long-term structural adjustment in textile trade. In practice the terms of each successive MFA and of the bilaterals agreements have been governed more by current circumstance than by any historic progression.

Much of the impetus behind tightening the MFA's controls in the late 1970s came from the EEC, as a result of political pressures originating in a fall in textiles and clothing output after 1973 and from the crisis of overcapacity in synthetic fibers. But prior to the negotiation of MFA4, there had been some recovery from recession in the EEC economies. Textiles production at the end of 1985 was 10 percent higher than two years earlier; clothing output had increased by 13 percent. Profits were up, investment increased roughly 25 percent between 1983 and 1985, and business forecasts in 1986 were generally favorable. The Community then signaled its willingness to consider some degree of relaxation in the MFA.

By contrast, a boom in U.S. production was over by the time of the negotiations. Between the last quarter of 1982 and the first quarter of 1984, output of textiles and clothing rose over 20 percent, followed by a 24 percent increase in investment in 1984. The boom was fed by rapid growth in domestic consumption. But under the combined influence of sharply rising home demand and an appreciating dollar, exports declined steadily after 1981 and import volume

1. The form "contracting parties" refers to GATT members acting individually. "Contracting Parties" is used in this article in place of the official GATT usage, "CONTRACTING PARTIES," to refer to actions by signatory countries as a group.

almost doubled between the beginning of 1982 and mid-1984. Even though external influences on the U.S. textile industry are not as large as it claims, the deteriorating trade balance triggered a fall in textiles output of 10 percent in 1984 and a much smaller decline in clothing. Both largely recovered in 1985.

Although developed countries were a major source of U.S. import growth in 1984–85, MFA suppliers bore the brunt of increased U.S. protectionist actions. Additional criteria were introduced for the "presumption of market disruption," so that by July 1984, after being in operation for only six months, over 100 calls had been made for restraint against more than 20 developing countries. In December 1984 and January 1985, ten and out of thirteen countries were found to have used subsidies on their exports to the United States and were thus subject to countervailing duties. In 1985 monthly limits were added to the prior annual limits on imports which were considered capable of causing "market disruption if permitted uncontrolled entry." More restrictive "rules of origin" were adopted which counted an import against the quota of the country where the item last underwent a substantial transformation. Finally, more stringent bilateral agreements with Hong Kong, the Republic of Korea, and Taiwan were negotiated, even though existing agreements were not due to expire for another two years. By superimposing tight group ceilings on collections of specific product categories, the agreements effectively stifle the flexibility which previously existed.

Perhaps the most restrictive trade legislation posed in the U.S. Congress was the so-called Jenkins Bill, which sought to roll back imports of textiles from developing countries to their 1980 level. According to the United States Department of Commerce, it would have led to a 27 percent reduction in total U.S. textile imports, with larger cuts for countries which recorded above average growth in their exports to the United States in recent years. For example, India's exports would have been cut by two-thirds and Hong Kong's by 14 percent (its MFA exports by 12 percent and its non-MFA exports by 70 percent). In the aftermath of the MFA renegotiation, the bill just failed to achieve the two-thirds majority needed to override a presidential veto. The U.S. administration had been able to deliver an MFA which satisfied at least some of the industry's demands.

The Terms of the 1986 Renegotiations

The MFA renegotiations under GATT auspices produced a framework within which bilateral agreements are determined. It is in the bilaterals that the real substance is negotiated which determines the ease of market access.

The GATT *Conference.* Compared with the first three MFAS, the new MFA maintains one important line of continuity: the basic stated objectives are retained and reproduced, word for word. The more restrictive changes expanded the type of textiles covered, added rules against false declarations, and strengthened the hand of importers using nonbilateral quotas.

At the insistence of the United States, fiber coverage was extended from cotton, wool, and synthetic fibers to all vegetable fibers and silk blends (not pure

silk) except for some goods "traded in commercially significant quantities before 1982 such as bags, sacks, carpet backing, cordage, luggage mats, mattings, and carpets typically made from fibers such as jute, coir, sisal, abaca, maguey, and henequen." The target of this extension is primarily the ramie-based goods (sweaters especially) exported from China. But the extension is a flat contradiction of the preamble and Article I of the original MFA, and creates legal and practical ambiguity which threatens to envelop a range of product areas hitherto immune from MFA controls. What is a "blend"? India is developing a jute-based garment fabric: will jute used in new forms be restricted? These changes further diminish the limited degree of flexibility allowed to reflect demand and technological changes. Only some hair fibers (such as cashmere and angora) and mineral fibers (such as glass and asbestos) are now outside MFA coverage.

MFA4 also tightens restrictions against "false declaration" of country of origin. False declaration commonly involves a country's attempt to avoid its quota limit by having some superficial processing or finishing done by a country which is not near its limit. Under the restrictions, exporting countries may collaborate, but importing countries have the discretion to take "appropriate action" in response.

Article 3 (which governs quotas other than those forming part of bilateral agreements) has been tightened. This strengthens the capacity for holding down imports and for fixing a low base for subsequent bilateral agreements with small and new suppliers. This was demonstrated in the recent use of Article 3 powers by the United States against Nepal.

There are some features which have possibilities for increasing both liberalization and restrictions. The "reasonable departures" clause which legitimized the strengthening of restrictive provisions under MFA2 is resurrected but in a much diluted form. In particular, it proscribes "negative growth" of imports and any tightening of flexibility provisions which had been applied to major suppliers. The United States insisted on maintaining the "antisurge" formula introduced by the EEC into the MFA3 (although it had not been used). This formula was justified by the claim that "real difficulties may be caused in importing countries by sharp and substantial increases in imports as a result of sufficient differences between larger restraint levels and actual imports." The formula now provides for consultation with exporters, however, and appears to strengthen the basis of "equitable and quantifiable compensation."

And in other respects there are modest improvements from an exporter's standpoint. A commitment has been made to exclude "least developed countries" from control, subject to the proviso that if controls are found necessary, treatment "should be significantly more favourable." (Bangladesh should be the main potential beneficiary, but it is far from clear how it would be treated if its exports were to rise rapidly beyond the levels at which it attracted quota action in the EEC [1984] and the United States [1986].) Consistently underutilized quotas "will be removed on request." The EEC has agreed to scrap 25 percent (about 600) of its quotas, but there has been concern by exporters as to the level

at which scrapped quotas might be reintroduced later. There is an explicit commitment, albeit heavily qualified, to the "final objective" of an "application of GATT rules to trade in textiles," but no timetable or end-date is admitted. And the next MFA was scheduled five years hence, not four, as were its predecessors.

Assessment. Industrial country lobbies have expressed outrage at the failure of their negotiators to secure a tightening of restrictions. Developing-country reactions have emphasized that it could have been worse and that the damage was limited. There is a broad concensus that the results of the renegotiation were roughly neutral in the sense that concessions between developed and developing countries balanced out. While developing countries have won some improved wording, however, the industrial countries gained more concretely, with wider coverage of restrictions on textile imports.

Developing-country negotiators were pushed onto the defensive, trying to argue against the introduction of a "social clause" to protect wages and social conditions in exporting countries, the "protection of intellectual property rights," more bilateral reciprocity and a new U.S. invention: a wider ranging clause permitting import curbs where trade "destabilises domestic industry." Moreover, the view of the "neutrality" of the outcome is very static; the mere preservation of the MFA in its preservation of the MFA in its present form is a major setback for developing countries in terms of their original demands and the powerful intellectual case mounted for liberalization, not least by the Organization for Economic Co-operation and Development (OECD) and the GATT.

The fact that the developing countries (and the cause of freer trade) suffered a setback can be attributed to two principal factors. The first was the highly protectionist stance of the U.S. administration, and congressional insistence on tighter textiles restriction. The EEC found itself in the unaccustomed position of being relatively (but not very) liberal on textiles, though it was guided throughout by a determination to ensure that the United States was able to achieve its main negotiating objectives.

The common developing-country position broke along familiar lines. Many of the minor exporters, especially the less competitive Latin American and East European exporters, lack militancy since they see the MFA as providing a guaranteed market share in a field they would otherwise find difficult to enter. Some major producers, notably Hong Kong, are able to take maximum advantage of current quota flexibility, and are sufficiently well-organized to maximize unit values, including quota rent, from existing opportunities. Hong Kong had already reached a key bilateral agreement with the United States before the MFA was signed, in order to protect its position in the U.S. market. This left at greatest disadvantage the populous low-income Asian countries, notably India and China, and even they signed at the end.

Bilaterals. The Geneva MFA essentially provides a legal basis for bilateral agreements the terms of which are rather more important than the MFA itself. The United States had already negotiated a major (six-year) bilateral agreement with two of its three leading suppliers—Hong Kong and Taiwan—a month

before the Geneva negotiations were completed incorporating the main features of the subsequent MFA, notably fiber extension. Agreement with the Republic of Korea was reached later. Of the three, Hong Kong got better terms—higher growth rates and the security of a longer, six-year, agreement—reflecting, it is said, a wish to reward Hong Kong for its absence of domestic protection. But the U.S. agreements incorporate less flexibility and much lower growth rates than were achieved under MFA3—around 1 percent a year on average. A similarly restrictive approach has been taken by Canada.

The European Community had already renegotiated the basic terms of half its bilateral agreements before MFA4 was finalized and was primarily concerned to ensure that the MFA provided a legal basis for validating what had already been decided in principle. Most of the EEC's bilateral agreements fall into three broad categories: major suppliers (Hong Kong, Korea, Macao, and Taiwan) which are to be allowed only 1 percent growth on the eight "sensitive" product categories and existing growth rates on others; most other countries which are allowed annual growth in the 4 to 6 percent range depending on product or country; and "specially favoured" countries, allowed up to 7 percent growth. The Community has tried to observe a generally more liberal approach by scrapping a quarter of its quotas (those which were not in use) and dispensing with quotas for minor and "least developed" suppliers.

II. The Economic Consequences of Current Textile Arrangements

There is a substantial measure of agreement, at least among economists, about the damaging economic effects of the quota regimes which operate under the MFA. Evidence has been produced on the price-raising effect of quotas and their costs to importing countries as a whole, to their consumers, and to developing country exporters. The arguments are summarized here but the emphasis is less on historical analysis of the economic effects, than on those economic factors that have an impact on current policy and that are likely to have relevance over the period of the new round.

What is the Extent of Protection?

There are two basic approaches to refining the answer to the above question. One is to look at *quota coverage.* About a quarter of world trade is directly controlled by quotas, though another quarter is potentially subject to MFA restraints. The amount and proportion of trade from controlled sources would be much higher, however, if restrictions had not diverted trade into other channels. Not all commodities potentially restricted are subject to binding quota limitations since quotas may be underused. A study by Koekkoek and Mennes (1986) focuses on groups I and II, which are the most sensitive items and account for 50 percent of the EEC's MFA textile imports and over 90 percent of MFA clothing imports. Of the Group I and II quota categories, imports reached more than 70 percent of the quota limit in only 42 percent of the categories in 1978, and that

share had dropped to 38 percent in 1983. But this relatively small share of the *number* of categories accounted for 80 percent of the actual import value registered under Groups I and II during this period. Underutilization does not mean that quotas do not constrain imports; it may occur, for example, because the system does not allow for the necessary degree of flexibility in meeting changing fashion needs. The impact of quotas is not one of blanket protectionism but a subtler deterrent to trade which is very different in its incidence among suppliers and products.

Another approach is to try to calculate the tariff equivalent of quotas. Data on quota premiums have been used for this purpose, but these are only available for a small number of major suppliers and fluctuate enormously over short periods of time between products and between importing and exporting countries. Crude approximations based on trends suggest that the protective effects of MFA quotas are at least as important on average as tariff protection—and, of course are superimposed upon it (see Hamilton 1984; Jenkins 1980; and Cable 1983b).

The Effect on Trade Flows

The declared objective of the MFA is to secure "a substantial increase in the export earnings of developing countries from textiles and a greater share in world trade." This provides two general criteria for evaluating its effects, though neither of these would reflect the major process of trade diversion which has occurred among developing countries, usually from more to less efficient sources.

The MFA originally specified 6 percent annual import growth as representing a reasonable minimum expansion (for those items subject to quota control). While it is difficult to come up with overall figures in real terms for textile and clothing import growth, it would appear that at least in the main markets, the EEC and the United States, import growth has been kept to within 6 percent for most of the MFA period for those suppliers covered by controls. In Martin Wolf's (1986) analysis of some important changes in real growth trends, he notes that perceptions about the MFA have been colored by two separate sequences of events. The first was the very sharp cutback in MFA imports, especially in the EEC, in the late 1970s, (see table 2) with the implementation of the first set of bilateral agreements under MFA1 and the negotiation of increased protectionism under MFA2. It

Table 2. *Real Growth of Textile and Clothing Imports in Developed Countries from Developing-Country Exporters*
(percent per year)

Category	*1963–76*	*1976–78*	*1978–84*
Textiles	7.2	4.6	3.7
Clothing	20.9	4.8	10.9
Total	14.1	4.8	9.0

Source: Wolf (1986).

Table 3. *Import Penetration Ratios in Selected Developed Countries*
(percent)

Group, year, and ISIC *code*	*Canada*	*United States*	*Japan*	*Australia*	*Belgium and Luxembourg*	*Finland*	*France*	*Fed. Rep. of Germany*	*Italy*	*Netherlands*	*Norway*	*Sweden*	*United Kingdom*
World													
1975													
3	29.75	7.01	4.94	22.78	64.56	29.40	17.91	24.25	21.92	55.37	43.84	35.12	21.95
321	27.72	3.67	6.10	34.02	78.23	39.05	19.04	28.06	17.85	100.20	54.21	54.98	22.45
322	14.83	9.80	8.32	21.67	80.44	31.96	16.57	44.91	17.61	86.82	66.24	62.00	27.48
1981													
3	32.02	9.51	5.35	27.69	87.07	28.90	24.29	32.75	30.61	65.51	42.53	40.92	19.12
321	25.20	5.54	7.54	43.30	104.60	45.68	93.04	39.43	22.97	107.70	54.18	67.38	37.03
322	21.08	18.41	15.27	27.44	91.47	67.68	30.67	67.93	47.83	89.11	81.83	85.96	44.93
1983													
3	28.17	10.28	5.26	23.45	100.3	30.12	26.21	35.11	31.19	67.10	44.23	44.92	29.32
321	24.74	5.30	6.92	39.35	102.90	48.52	98.51	41.52	25.05	111.70	58.17	75.67	38.77
322	19.92	20.27	13.04	23.66	90.16	55.25	33.10	73.17	67.58	90.86	86.49	90.93	39.97
Non-OECD total													
1975													
3	1.78	2.16	2.02	3.55	5.00	4.93	2.04	3.64	3.22	5.71	3.40	4.21	3.54
321	3.85	1.62	3.74	10.76	6.61	3.86	2.20	5.07	4.14	8.81	4.35	8.58	4.67
322	8.84	7.89	6.25	15.52	8.08	7.70	4.64	18.63	5.61	22.52	11.57	18.65	15.53
1981													
3	2.35	3.21	2.26	5.67	7.51	5.5	3.46	5.38	5.51	9.98	3.48	5.05	2.69
321	5.06	2.90	4.56	17.40	10.76	5.93	13.42	8.96	5.50	12.35	5.96	11.75	6.18
322	15.89	16.47	11.61	22.27	12.75	24.87	10.65	32.83	20.92	30.03	12.83	28.11	25.86
1983													
3	2.25	3.63	2.11	4.68	9.72	5.73	3.66	5.74	6.25	10.84	4.34	6.04	3.99
321	5.67	2.71	4.32	16.62	11.43	7.19	13.76	9.37	6.29	13.15	5.81	12.49	6.35
322	15.56	18.05	10.10	18.92	10.74	17.93	10.88	34.83	26.49	27.41	12.73	29.33	20.73

Developing countries (African and American, and Asian newly industrializing)													
1975													
3	1.32	2.01	1.68	3.21	3.29	1.33	1.34	2.42	2.09	4.04	2.19	1.97	2.57
321	3.16	1.56	3.65	9.90	5.44	1.84	1.71	4.28	3.40	7.13	2.37	6.68	3.98
322	8.23	7.73	6.20	15.19	6.24	6.60	3.33	14.68	3.20	16.66	9.37	16.20	13.70
1981													
3	1.97	2.98	2.03	5.24	4.90	1.46	2.47	3.69	4.7	6.44	2.46	3.08	2.13
321	4.41	2.81	4.43	16.31	9.92	2.83	11.20	7.58	4.61	10.58	4.43	9.50	5.17
322	15.23	17.82	11.57	21.92	10.11	18.08	9.13	26.95	15.26	24.39	10.83	25.05	22.40
1983													
3	2.08	3.44	1.89	4.33	6.01	1.71	2.74	4.02	4.73	6.47	2.77	3.22	3.12
321	5.10	2.63	4.14	15.80	10.13	4.66	11.43	7.97	5.20	11.19	4.38	10.23	5.25
322	15.06	17.82	10.08	18.65	8.69	14.03	9.30	28.70	20.24	22.34	11.37	26.81	17.41
Newly industrializing countries													
1975													
3	0.79	0.88	0.68	1.27	0.79	0.39	0.30	1.16	0.66	1.47	0.87	0.84	0.84
321	1.63	0.72	1.92	4.62	2.74	1.01	0.43	1.37	1.56	3.59	0.87	2.63	1.89
322	6.94	6.32	5.13	9.23	4.19	5.21	0.78	13.06	1.36	13.87	8.13	13.23	2.67
1981													
3	1.33	1.63	0.91	2.97	1.43	0.64	0.83	1.70	1.27	2.43	1.09	1.55	0.99
321	2.30	1.24	2.38	9.24	2.33	1.61	3.04	1.90	1.22	3.90	1.78	3.54	2.25
322	12.22	12.10	9.12	13.87	4.99	10.29	2.79	18.56	4.48	16.54	7.03	18.27	18.04
1983													
3	1.48	2.06	0.86	2.55	1.50	0.74	0.87	1.87	1.44	2.61	1.60	1.78	1.44
321	3.03	1.36	1.64	9.81	2.49	2.80	2.84	2.21	1.45	4.15	1.64	3.97	2.13
322	11.94	12.79	7.46	12.38	4.07	7.31	2.41	20.00	4.60	15.28	8.25	19.10	13.60

Note: ISIC categories: 3 = manufacturing; 321 = textiles; 322 = clothing.
Source: OECD (1986).

was this which gave rise to some of the most severe criticism of the protectionist character of the MFA, especially by developing countries. The second critical trend was the period of more rapid import growth in the 1980s, especially in the United States, despite the existence of quotas. It is this which has impinged rather more in the current policy context.

The real growth rate of clothing and textile imports into industrial countries had declined sharply by the early phase of MFA2, 1976–78. Under the Long Term Arrangement (1963–73), clothing and textiles imports had grown at 21 and 7 percent per year, respectively. Under MFA1 these rates fell to 14 and −0.4 percent per year for clothing and textiles, and by 1976–78 the rates were 4.6 and 2.5 percent. This change was most striking in the EEC, and for developing country exporters to it. There was a less abrupt change in the United States, where imports from MFA suppliers grew less than 6 percent in the late 1970s but took a rapidly expanding share of imports.

In the MFA3 period (the early 1980s), however, imports from the developing countries once again grew rapidly. This was most striking in the case of the United States, where imports from MFA suppliers in 1983 and 1984 grew by more than 20 percent per year (though imports from the rest of the world grew even more rapidly). Much of this growth could be attributed to sufficient flexibility within the United States system of bilaterals to permit growth of imports, mainly in the form of products outside the MFA such as ramie and silk blends. Exporters were able to take advantage of the overvalued dollar and high growth in consumer spending in the United States. But there was also a sharp rise in import growth in the EEC, especially from developing countries. This suggests that even such a complex and formidable system of controls as the MFA still retained enough flexibility to permit some response to market forces.

Information on the aggregate growth of imports does not allow differentiation between the element of import growth due to an increase in domestic demand as compared with the extent of market penetration. By analyzing the level and growth of imports in relation to domestic absorption, it appears that rather rapid growth in market penetration of industrial countries by developing country textile and clothing exporters occurred over the 1975–83 period, particularly in relation to developing country exports of manufactures as a whole (table 3). The relatively higher growth of textiles imports was true for nine out of thirteen importing countries, and for nine out of fourteen countries in clothing imports. The rate of growth of market penetration in clothing by developing countries is one of the largest of all manufacturing industries, despite the MFA.

While striking, these conclusions need to be treated with caution. The fact that market penetration is estimated on the basis of values rather than quantities means that it incorporates changes in relative unit values as well as volumes. In the case of the MFA, increased "market penetration" is partly accounted for by the influence of quota premia and higher unit values within quotas. There is a general conclusion which can be drawn, however: the MFA has not so far been successful in preventing significant growth in market penetration by developing-

country textile and clothing exporters, although the growth would doubtless have been higher without these controls.

As for the MFA commitment to allow developing countries an increasing share of world trade, the evidence is generally positive, albeit with qualifications. Except in the case of the United Kingdom, Belgium, and Norway (for garments) all developed countries experienced more rapid market penetration by developing countries than by imports in general (table 3). In the EEC, developing-country MFA suppliers slightly increased their share of textiles and clothing imports during MFA3, (1982–85) reversing a downward trend in MFA2 (see table 4). In the United States over the same period, however, the most rapidly growing source among generally rapidly growing imports was Western Europe, and MFA suppliers lost some of the import market share they gained in the 1970s.

Another measure of the success of the MFA in meeting its declared objectives is the overall sector trade balance (table 5). This is a crude and possibly misleading indicator, however, which has to be used with some care as the sector boundaries are arbitrarily drawn, and the overemphasis on sector balances can lead to unjustified normative implications. While this measure indicates that developing countries are still able to enlarge their trade surplus in textile and clothing products, it also brings out the fact that while developed-country imports may be growing quite rapidly, exports are also growing. It is also apparent that the large and growing surplus of developing-country trade in clothing is mainly due to U.S. imports; nominal balances have fallen in the EEC and Japan. Developing countries run a deficit with the developed in textiles principally because of Italian and Japanese export surpluses, and the decline in the deficit in the 1980s was also due to U.S. imports.

If the sectoral balance is more broadly defined to include textile machinery, synthetic fibers, and dyes, the surplus enjoyed by developing countries is reduced. At a time when Western Europe and the United States are cutting synthetic fiber capacity and Japan is not expanding its capacity, however, there has been a major expansion of capacity in China, Taiwan, and Korea. This continues a shift over the last decade of production of synthetic fibers away from the developed world to developing Asia.

An additional consequence of the MFA is trade diversion from more to less restricted sources among developing-country exporters. The OECD notes that "trade diversion effects have been widespread in the past" (OECD 1985, p. 110). In the EEC, substantial trade diversion occurred to some low cost non-MFA suppliers in the Mediterranean basin whose exports to the EEC have consistently grown faster than those from countries with MFA agreements. And within the MFA agreements themselves, there has been considerable differentiation in treatment with trade diverting effects.

There has been a good deal of trade diversion in the form of "quota hopping." For example, the large-scale overseas investment by the Hong Kong clothing industry has been partly motivated by the pursuit of lower costs but also by a wish to evade quotas (for example, in Macao in the mid-1960s, Mauritius in the

Table 4. *Textile and Clothing Imports of the Developed Countries: Share by Exporters*
(percent)

	Clothing exporters				*Textile exporters*			
Period	*Developing countries*	*Southern Europe*	*Centrally planned economies*	*Developed countries*	*Developing countries*	*Southern Europe*	*Centrally planned economies*	*Developed countries*
1963	19	3	1	77	15	3	2	80
1973	31	8	5	56	13	5	3	79
1976	40	8	5	47	15	5	4	76
1978	38	8	5	49	14	5	3	78
1980	39	5	6	50	15	4	4	77
1981	44	5	6	45	15	4	5	76
1982	45	6	7	43	15	5	4	76
1983	46	6	7	42	16	5	4	75
1984	47	7	7	38	17	6	5	73

Note: Based on imports of the developed countries of Western Europe and North America. Centrally planned economies include China.
Source: OECD (1986), based on GATT data.

Table 5. *Net Trade Balances with Developing Countries*
(billions of dollars)

Economies and sector	*1975*	*1977*	*1979*	*1981*	*1983*	*1984*
All developed (total)	−2.14	−5.00	−9.82	−9.17	−11.44	−16.38
Textiles	1.14	2.05	1.23	3.42	2.22	1.27
Clothing	−3.28	−7.05	−11.05	−12.55	−13.66	−17.65
EEC (total)	−1.06	−3.05	−5.39	−3.92	−3.74	−3.97
Textiles	0.23	0.02	−0.72	0.35	0.01	−0.12
Clothing	−1.29	−3.07	−4.67	−4.27	−3.75	−4.09
United States (total)	1.31	−2.69	−3.68	−5.95	−8.30	−11.78
Textile	−0.05	—	0.23	0.06	−0.47	−0.90
Clothing	−1.26	−2.69	−3.91	−6.01	−7.83	−10.88
Japan (total)	1.14	2.69	1.17	2.03	2.10	1.47
Textiles	1.34	3.02	2.38	3.00	2.81	2.55
Clothing	−0.20	−0.33	−1.21	−0.97	−0.71	−1.08
All developed in constant 1985 prices (total)[a]	−2.4	−4.38	−6.88	−6.00	−8.00	−11.85
Textiles	1.14	1.92	0.85	2.45	1.69	1.01
Clothing	−3.28	−6.30	−7.73	−8.45	−9.69	−12.84

Note: Developing countries do not include those in Eastern Trading Area.
a. Price deflation using index of developed-country manufactured exports.
Source: Compiled from GATT *International Trade Yearbooks.*

early 1970s, Sri Lanka and Indonesia in the late 1970s, and more recently in the Maldives and, on a much larger scale, China; Young and Hood 1985).

But the increasingly all-embracing character of MFA controls (at least among developing countries) has now so narrowed the scope for further trade diversion among developing countries that its restrictive effects are more likely to be reflected in future in the growth of total developing country exports.

The Effect on Developed Country Economies

Basic principles and a good deal of empirical work both show that sectoral protection creates higher prices for the protected good and an increase in output and employment in the protected industry in the short term. There is little consensus on the magnitudes of price increases. The price effect depends in part on the tariff equivalent of quota protection (which is subject to serious estimating problems), on the extent to which a "law of one price" operates that transmits higher border prices to protected domestic producers' prices, and on the extent to which retail and distribution margins reflect movements in relative producer costs. Silbertson (1984) suggested that average U.K. retail prices of imported and domestically produced textiles and clothing would be 5 to 10 percent lower relative to prices of other goods, were the MFA abolished. And the price effects are larger for lower quality items.

In evaluating the effects of sectoral protection on output and employment, problems of methodology and interpretation center on the extent to which trends in output-labor ratios can be expected to remain stable with a higher level

of protection (or whether further capital deepening will occur); and the costs of adjustment avoided by protection which are a function of the character of the labor force and the state of national or regional labor markets affected. The Silbertson study (1984) estimated that, depending on the assumptions used, over the period of the forthcoming MFA4, complete liberalization of quotas would displace 10,000 to 50,000 jobs altogether in the U.K. textile and clothing industries (from levels of around 500,000) but that 20,000 a year would be lost anyway through productivity losses, even if the MFA was preserved. Moreover, the cost to the U.K. economy of saving a job is considerably more than the average wage. The same conclusion is reached by other studies, particularly in the United States, which suggest that the annual cost per job protected ranges from two to eight times the annual wage in the industry (see Hufbauer, Berliner, and Elliot 1986; and Tarr and Morkre 1984).

These sector-specific considerations have to be considered in an economywide framework. Restrictions on imports raise the equilibrium exchange rate, offsetting the inflationary impact of protection but reducing prices and thus output and employment in other traded good sectors. Conversely, quota premiums accruing to exporters raise the cost of imports in the import-restricting country with the opposite effect on the exchange rate. If wage bargaining and levels of employment are linked, price increases will either reduce real wages or, if wages are raised, reduce employment. Clearly, the magnitude and direction of the secondary effects depend heavily on the macroeconomic assumptions used in any particular model, and no claims to precison can be made in this area (Cable and Weale 1985).

Some of the most serious consequences of MFA protection relate to the dynamic effects, and the impact on the process of adjustment. "Adjustment" to changes in trade patterns and increases in imports in an MFA context was clearly intended to mean exiting from production, diversification or closure by firms, and switching to other activities by workers. To a significant extent, adjustment of this kind has been taking place in industrial countries. The number of textile and clothing producing firms has dropped substantially; employment in the sector has fallen (from 4.5 million in the EEC when the MFA was introduced to under 3 million a decade later); and output has declined even where there has been some demand growth (end-1985 textiles output in the EEC was over 10 percent down on 1980 levels, and clothing output was 18 percent down). At the level of individual firms, it is possible to see evidence of major efforts to restructure from textiles and fiber production (as Courtaulds has done in the United Kingdom—moving toward other chemicals and chemical end uses); the development of new fibers such as Tyvek and Kevlar with a whole range of new nonwoven applications (Dupont, Enka, and the U.K. fiber groups); of successes in those segments of the industry where low wage competition is less plausible (for example, Vantona and household fabrics); of successful specialization in high-quality fabrics and garments less vulnerable to price competition (common among German, Italian, and Swiss firms); and of a switch from production to

distribution or overseas offshore production (as Japanese firms have done on a large scale) (Cable 1983b, chap. 6; Shepherd 1981; de la Torre 1984).

There are, however, forms of adjustment occurring which do not entail exiting from lines of production in competition with MFA exporters; indeed, they are designed to overcome it. Protection, by raising profits for producers, creates an incentive to keep resources in and to make new investment in the industry which may not be competitive at world prices. One form of investment being encouraged is the use of faster and more flexible machines to cut labor costs. This has been occurring for decades in the textiles industry where such innovations as the introduction of shuttleless looms (from the 1960s) and open-ended spinning (from the early 1970s) have radically transformed the cost structure of production.

The textile industry of industrial countries appears now to be more capital-intensive than manufacturing as a whole in terms of capital per worker. Heavy investment of a capital-deepening form has taken place, especially in the textile industries of France, the United Kingdom, and the United States, and costs have been further reduced by relocation to low-wage areas (in the United States) and vertical integration (in the United Kingdom and, to a lesser extent, in France). The rapid advance of microelectronic innovations has given textile producers a new self-confidence; the first wholly integrated spinning and weaving mill since World War II has just been installed in the depressed textile town of Rochdale, England. Skill and capital intensive techniques have become common for finishing both synthetic and blended fiber fabrics. In practice, and as the theory of the product cycle might have suggested, however, automated mass production of standardized goods using widely available technology is not a secure form of adjustment for developed country producers. The dependence of these firms on high break-even points in highly price-competitive markets has left them exposed to severe loss of market share when relative price factors—notably exchange rates—have been adverse.

The latest stage of technical innovation in labor-saving equipment has important implications for clothing as well as textiles. Clothing has so far remained a relatively highly labor-intensive industry (except in one or two segments such as hosiery) though important changes are now taking place. Lasers have been introduced into cutting and, together with computer aided design and automated handling of materials, many operations are now being automated, at least for long production line items and in larger firms where heavy capital investment is economic (Disher 1986). The main operation in garment making is sewing and despite a steady increase in machine speeds this has remained a labor-intensive operation except for a few standardized garments such as jeans. That may, however, be changing. Efforts are now being made in the United States, the EEC, and Japan to automate the sewing operation, with substantial government backing in the EEC and Japan. Although there are many technical problems in such automation, mainly in terms of material handling to ensure a steady flow of faultfree cloth, these are being overcome. Sewing is also being replaced by

machine welding of seams. There is evidence, too, that other labor-intensive operations, such as embroidery, are now being brought within the range of mechanization, thanks to computer-controlled devices. An electronic sock machine has been introduced. Widespread diffusion of commercially viable applications is still some way off, and there are many barriers to diffusion, however, including the financial weakness of many small firms, the lack of trained personnel, and the remaining technical problems.

The early phase of textile automation represented a cost cutting approach for standardized output which was relatively insensitive to demand considerations, and in particular to the opportunities for new products and high quality lines. But the new technologies permit these concerns to be incorporated. Many companies in industrial countries are now developing what is called a "quick response" approach to take advantage of geographical proximity to retailers and to keep ahead of more far-flung producers in meeting fashion demand. Machine flexibility is an important element in this approach. For example, the use of advanced computer technology, allied to low-cost outworking, has been the hallmark of the most successful of the Italian knitwear goods producers, such as Benetton. They make extensive use of computer aided design, robotic cutting, and computer systems to monitor stock and sales, and they can use their computer system to produce individual items for order. Were the new technologies to be widely diffused, there is the potential of a quite fundamental shift in comparative advantage. Hoffman and Rush (1983) suggest that even if protection were given to the industry, however, it could be twenty years or more before the new technologies were widely used in the clothing industry. And it is far from clear that the heavy costs to the community of protection would ever be repaid.

Effects on Developing Countries

We have already noted that in aggregate terms, MFA controls have not prevented developing countries from increasing their market penetration of industrial countries at a rate comparable with manufactures generally. And there is a fair degree of underutilization of quotas, other than among the dominant suppliers. Nonetheless the magnitude of quota premiums clearly indicates that exports are considerably less than their potential. Various attempts have been made to estimate the magnitudes involved by simulating the effects of complete tariff and nontariff liberalization on developing country exports. In one estimate by International Monetary Fund (IMF) researchers, imports into the main OECD markets would rise by 82 percent for textiles and 93 percent for clothing given the assumption of infinitely elastic supply (a reasonably plausible assumption in all except the very short term) (Kirmani, Molajoni, and Mayer 1984). UNCTAD (1986) estimated that complete nondiscriminatory liberalization could raise developing country exports of clothing by 135 percent and of textiles by 78 percent. It should be stressed that these are rather crude estimates which ignore the fact of a significant degree of quota underutilization by many suppliers. Exporters may not be willing to invest to produce up to the limit given uncertainty

about future quota levels, and because small incremental investment may not be possible, making it unprofitable to invest to fill the 10 or 20 percent of a quota level remaining. There could be significant time lags, therefore, before exports could respond to liberalization.

The growth of quota premiums have also had unintended consequences. It has led to political "rent-seeking" behavior, which can have major distributional effects where quota rents account for a significant share of an exporting country's gross domestic product (GDP) (as in Hong Kong, where they are estimated by Wolf [1986] at about 5 percent of GDP). Premiums also have also led to distortions in resource use by providing artificially high profits, and to market rigidities, as historic market shares determine which firms will obtain the premiums. A more positive indirect result of the premiums has been financing for diversification. This diversification, however, can be in the direction of future comparative advantage, or it can be used in inappropriate, highly capital-intensive ventures. There is the unquantifiable but undoubtedly important effect of premiums on expectations, influencing the willingness of decisionmakers in developing countries to face the adjustment costs of adapting to a more export-oriented trade policy. The impact of MFA restrictions on the orientation of currently small but potentially large suppliers such as Bangladesh, India, Pakistan, and Sri Lanka is of particular importance.

If textile and garment quotas were to be removed, there would be major distributive implications as between developing-country exporters. Such is the degree of regulation at present that it is difficult to say which countries would benefit most from the increased opportunities, and which would experience a loss of market share. The main implications are for garment trade, which is larger than that for textiles and more tightly restrained. It would seem that the main casualties would be the middle-income countries which do not have well-developed textile export industries, have relatively high wages, and have expanded or maintained exports mainly through taking advantage of gaps in the quota regime such as many of the Latin American exporters, Malaysia, and Singapore. What is less clear is whether, under the influence of market forces alone, the center of garment production would shift to the countries with low labor cost production (especially South Asia); to countries with proximity to EEC and U.S. markets; or to those countries where high technology can be best integrated with low labor cost outworking and fashion sophistication, as currently occurs in Hong Kong. On the few occasions when it has been possible to simulate market conditions (for example, the adoption of global quotas by Norway), there was a strong shift, in the short run, to Hong Kong.

III. Toward Liberalization

The Political Economy of Protectionism

In making an assessment of the likelihood or form of any liberalization, it is necessary to take into account the forces which have contributed to the current

arrangements. A great deal of analytical work has been carried out over the last five years which has contributed to an understanding of the politics as well as the economics of protectionism. (A good summary in relation to the U.S. literature is found in Magee 1986.) While much of the policy-oriented literature and the rhetoric of policymakers centers on problems of "adjustment"—how to manage redundancies and factory closures—this is probably less important than the political pressures created by intramarginal producers in protected industries that enjoy higher profits and wages, together with exporters that gain quota rents under the voluntary export restraints (VERs). These protectionist interests will not be weakened by adjustment policies designed, for example, to facilitate absorption of displaced workers into the labor force. The most intense pressure for protectionism in the United States has come at a time when overall economic activity has been rising rapidly and unemployment falling, a context in which adjustment should be relatively easy.

It is often the interests of capital and management, rather than labor, which are predominant. Experience suggests that pressures for protection sharply decline where manufacturers—especially in the more capital-intensive, upstream operations—can adjust through diversification, or by switching into profitable importing and retailing activities, or by offshore processing of domestic fabrics and fibers. By contrast, reinvestment in lines which directly compete with imports creates an enduring interest in protection even if the labor force is considerably reduced (see, for example, Cable 1983a). The current move toward investment in automated garment manufacture is ominous in that respect.

Experience of other industries (shoes, consumer electronics, cutlery, toys, leather goods) suggests that there is nothing inevitable about protectionism. In most industrial countries, pressures for MFA-type quota systems have been resisted and firms and workers have adjusted to import competition. The textiles and clothing industry is significantly larger, and effective coalitions have been formed between fiber, textile, and clothing interests. Moreover, current arrangements could not have been sustainable without active support or passive acquiescence of many of the developing-country participants in the MFA. To these interests and the wider question of MFA renewal and renegotiation we now turn.

The Prospects

The powerful forces maintaining the status quo should not be underestimated. Producers in developed countries fear uncertainty and competition, and producers in both developed and developing countries derive economic rent from protection. Many have entered production and expanded capacity in response to profitable opportunities provided by regional protection, especially Southern European exporters within the EEC. Some in developing countries value the predictability of quotas above the opportunities of open markets. A substantial number of bureaucrats are employed to operate the systems. And there are negotiators who see no better way of reconciling diverging interests. Substantial numbers of developing country governments have never pushed their criticism of

the MFA to the extent of mounting a serious assault on it, which suggests some degree of implicit endorsement.

Nonetheless, there are some long-term forces making for liberalization. There is recognition in industrial countries that protectionism does impose considerable costs on importing economies by worsening the inflation-employment tradeoff. Developing countries will need to be able to expand export volumes more rapidly to maintain interest payments if the current approach to debt is to be sustained. And pressures for liberalization are mounting as a result of IMF and World Bank adjustment programs in developing countries which have led to the adoption of more export-oriented policies. The interest of a growing number of developing country exporters in enlarging their export volume growth, especially among low-income developing countries, is one factor making for a much more assertive approach by developing countries to the MFA.

Some developed countries, notably those that belong to the EEC, seemed in MFA4 negotiations to have come to terms with the need for liberalization of the MFA and the eventual application of GATT rules to textiles and clothing. Other developed countries, such as Australia, have been pressing for trade in textiles and clothing to be returned to GATT rules and liberalized forthwith.

In the short run, the main scope for liberalization lies in measures which create greater flexibility within the framework of bilateral agreements, or at least those still open to continuing negotiation. These measures may include:

- Improvement and gradual widening of carryover and swing provisions to allow exporters to carry forward unused quota allowances and move between quota categories
- Gradual elimination of controls on very small exporters
- Widening quota categories ("broad banding") to eliminate unnecessary proliferation (for example, women's/girls', men's/boys', knitted/woven distinctions could be discarded)
- Elimination of underused quotas and those in industries where import penetration is close to 100 percent
- Removal of quotas on textiles which have been made largely redundant by technology change and represent an unnecessary cost to the garment industry. Outward processing quotas allow sewing or other labor-intensive aspects of the production process of a domestic country firm to be undertaken abroad and permit reimport of the product under a specific or expanded quota limit. This is one way of restoring the balance of interests between clothing and textiles producers.

Textile Issues in the New Round

If more far-reaching changes are to be accomplished in the new round, a protocol amending the MFA will be needed which clearly signals the end of the current arrangements.

The Punta del Este Declaration refers to textiles in the following terms: "Ne-

gotiations in the area of textile and clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby contributing to the objective of further liberalization of trade." But textiles and clothing are relevant to or are subsumed by other issues, such as tariffs, safeguards, differential treatment and reciprocity, "standstill," "rollback" of trade barriers, and nontariff measures.

Tariffs and nontariff barriers. On tariffs, there are two points to consider: first, whether tariff reductions would help to promote trade in textiles and clothing, and second, whether quotas under the MFA could be converted to tariffs which are then gradually reduced, as part of a return to GATT rules.

Weighted average "most favored nation" (mfn) tariff levels for textiles and clothing remain high in the developed countries, even after the Tokyo Round cuts, at 11.5 percent in Japan and the EEC, 19.0 percent in the United States, and 21.5 per cent in Canada. In contrast, weighted average mfn tariffs for manufactures (excluding petroleum) in these markets are now 5.5, 6. 5, and 8.5 percent, respectively. Most favored nation tariffs on textiles and clothing generally are now between two and three times higher than tariffs on manufactures as a whole. Levels of effective protection are even higher, as a result of tariff escalation. As such, tariffs remain an important barrier to trade between most developed countries. The major exceptions are intra-EEC and EEC-EFTA (European Free Trade Association) trade, which are duty-free.

Tariffs are of relatively little consequence for developing countries, however, as voluntary export restraints under the MFA are the main constraint on their textile and clothing exports. There is already some tariff liberalization under regional preferential arrangements, such as the EEC-ACP (African, Carribbean, and Pacific) Lome Convention, the EEC's agreement with Mediterranean countries, and some schemes under the Generalized System of Preferences (GSP), although the GSP provides the smallest proportion of coverage to textiles and clothing of any industrial sector. Only 71 percent of tariff lines on textiles and clothing are covered by the GSP; the average is 90 percent. Some regional preferential agreements also have limited provisions for textiles and clothing. The EEC and Japan have introduced unlimited duty-free treatment, however, for the least developed countries.

Nontariff barriers (NTBS) are the major obstacle to developing country textile and clothing trade. UNCTAD (1986) has estimated that if the EEC, Japan, and the United States removed all such NTBS, this would generate additional developing countries' exports of $11.8 billion, or 75 percent of their 1983 levels. If quotas were lifted, the subsequent removal of all tariffs on a preferential basis would generate an additional $5.8 billion in export earnings, while on a mfn basis, the increase would be $5.3 billion. Earlier, Craig McPhee estimated a $10.7 billion gain to developing countries in these three markets from tariff elimination on a preferential basis (based on 1980 trade flows, and assuming removal of the MFA), while on a mfn basis, the gains were estimated at $6.8 billion (UNCTAD 1985, p. 78). For developing countries in general, quotas, not tariffs, are the key issue.

An exception to the rule that tariffs are of secondary importance is Australia which, following its departure from the MFA in 1977, replaced its VERs with high tariffs. In addition, Australian imports of most clothing and a third of textiles items above a certain volume (that is, tariff quota) are subject to a duty ("penalty"). This, in ad valorem terms, effectively discriminates against lower unit value imports from developing countries. The high tariffs involved appear to have had the same protective effect as quantity restrictions in other countries. But developing countries have increased their share of Australia's clothing imports because of the annual increase in the tariff quota—about 2 percent plus the rate of market growth, which gave a weighted average increase of 15 percent in 1985 over 1984. New Zealand maintains similar high tariffs (96 percent on clothing, 15.5 percent on fabrics) though it also operates quantitative restrictions (QRs), with global quotas on a third of textile imports and 90 percent of clothing. But its use of QRs is falling as the government has sought to implement its commitment to replace import licensing with tariffs.

One way of phasing out the MFA could be for other countries to follow the Australian example, to convert VERs or QRs to equivalent tariffs which could be gradually reduced. This would also help to make the costs of protection more transparent and their reduction, therefore, more politically feasible. It could also serve as a model for the liberalization of trade by developing countries themselves, since there are similar problems of dismantling complex quota regimes in the face of political resistance. The technical difficulties of agreeing on a set of tariff equivalents to existing quotas and then binding them in a GATT context should not, however, be underestimated.

Safeguards. The GATT's Article XIX allows countries to adopt tariffs as safeguards against injury to domestic producers, under conditions which developed countries consider to be overly restrictive (see Hindley, this issue). Developed countries see a reformed safeguard clause as a prerequisite to the removal of the MFA. Essentially the issue is whether quota action in the case of demonstrated market disruption should be allowed on a selective basis or whether (as developing countries insist) the nondiscriminatory character of Article XIX should be preserved. This issue is discussed more fully below.

Differential treatment. The issue of differential treatment is central to returning textiles and clothing trade to GATT rules. The MFA has led to differentiation at three levels—between developed and developing countries; between developing countries who are not MFA signatories and those which are; and between different groups of MFA signatories. Under this system, non-MFA member countries frequently receive preferential treatment. For example, the EEC confers liberal terms on imports from Cyprus, Malta, and other Mediterranean basin countries. As part of its Caribbean Basin Initiative, the United States has introduced a new regime for imports made from cloth woven and cut in the United States, imported from sixteen Caribbean countries. This will still limit the amount any single beneficiary can export to the United States. Differential treatment *among* MFA members has involved giving the most established suppliers the lowest quota growth rates, with the stated objective of redistributing some of

their market share to other countries. Under MFA4 the EEC has proposed annual growth rates of 0–1 percent for the four "dominant" suppliers, 6–7 percent for the least developed, and 4–6 percent for others.

While the developing countries have called for an end to any discrimination in favor of developed countries, they have endorsed the need for special treatment of the least developed countries. They have also called for differential treatment of other groups of MFA developing countries in the phase-out period in recognition of their differing interests. Thus, the future of the textiles regime is inextricably bound up with the related issues of graduation, differentiation, and reciprocal obligations.

Reciprocity. Following the trend in discussion on trade liberalization in other sectors, a number of developed countries have raised in an MFA context the issue of reciprocity from developing countries in return for more favorable treatment for their textiles and clothing exports. The United States has stated that it would seek reciprocal commitments from exporting countries on measures to open their markets for both textiles and clothing, as well as commitments to reduce subsidies or other trade-distorting measures on their exports. The EEC has adopted a similar position, restricting its demand for reciprocity to the more advanced exporting countries for whom annual quota growth rates will be determined according to the "openness" of their markets. Hong Kong (in the United States) and Singapore (in the EEC) have been accorded special status on these grounds in recent bilaterals.

Such demands are likely to be pursued in any further discussions on the liberalization of textiles and clothing in the context of a new round. In addition, reciprocity may be sought in the sense of a tradeoff with other areas. EEC sources have suggested that developed countries might try to secure advance in the treatment of services in return for textile liberalization. The developing countries' formal position has been to reject this approach outright. Not only are they opposed to the general principle of reciprocity, but in particular they have rejected the concept of any concessions in return for the liberalization of restrictions which they see as a fundamental departure from GATT principles. In practice, however, some form of linkage, even if only implicit, may very well be sought as a way of liberalizing textiles.

Integrating Textiles into the New Round

On both a formal and a practical level, the textiles issue is in abeyance for the next few years. It will not figure prominently, if at all, in the first stages of multilateral negotiations. Nonetheless, it is of considerable importance politically and in decisions about negotiating modalities.

Politically, a commitment to further liberalization, leading to a phasing out of textiles restrictions would have a large weight in making the round ultimately acceptable to most developing countries. It is the only product area outside primary commodities where developing countries' revealed comparative advantage has manifested itself in a trade surplus, and it accounts for no less than 25

percent of developing countries' (nonoil) manufactured exports, and for over 20 percent of total exports for some (Bangladesh, Cyprus, Hong Kong, India, Korea, Malta, Mauritius, Pakistan, Sri Lanka, and Turkey). As the OECD (1985) acknowledges, "The expansion of textiles and clothing exports had become for the developing countries an increasingly important determinant of their economic development." If the new round is to satisfy the large majority of its participants, some forward momentum on textiles would seem to be essential.

In negotiations, the textiles issue will influence discussions because of the implications for a return of textiles trade to normal GATT rules in the 1990s. There is also considerable overlap between the textiles question and the discussion on safeguards and tariffs, and on more general themes such as reciprocity and differentiation. Developed countries will not be able so easily to make further extension of the MFA a prior condition for agreement in these areas as they were able to do with tariffs in earlier rounds.

In the light of these factors, a few general suggestions are offered as to how the round might deal with textiles. The underlying assumptions are, first, that developing country preoccupations have to be given considerably more attention than in earlier rounds reflecting their greater weight in the trading system and in the GATT. The second is that the format of negotiations will have to change significantly from earlier rounds. Experience has shown the difficulty of attempting to achieve a single package from one major set of negotiations. This ungainly and unbalanced approach was barely workable in the Tokyo Round and is even less likely to produce results in the current, more difficult, environment and with a larger number of countries seeking effective participation. A round cannot make progress if each issue is to be indefinitely deferred until agreement on some final single package in which all the issues are resolved. But despite its extreme difficulties, the latter approach is not without its supporters, particularly in the EEC, and there will need to be specific proposals to counter it if the negotiations are not to be effectively stalled for a considerable time. One has only to consider, for example, how long it might take to achieve some directly linked progress on textiles, services, and agriculture, to foresee the scope of this problem.

A new approach to negotiations which seems to offer a path forward is phased discussions. This would envisage a series of negotiations which would be drawn up based on the prospects for achieving useful results. It implies that eventually all issues should be incorporated into rolling negotiations but that this could be done in such a way as to provide for different approaches and timing.

Implementing a Phased Approach

One design for a phased approach could be the following, presented in a much simplified form and highlighting those elements which relate to textiles.

The process must begin with a "*standstill*" agreement, with substantive language to halt further imposition of protective measures (to the extent that they are not covered in the Punta del Este communique). This would reinforce pressures on MFA signatories not to increase the restrictiveness of quotas under MFA4.

Phase I would then be designed to restore confidence in the GATT system, through quick resolution (say within twelve months) of issues on which the debate is relatively advanced, which are not technically difficult, or where the outline of common positions is already discernable. It is possible to envisage such agreements in the following areas: disputes settlement, surveillance and transparency of all barriers and procedures, tropical products, treatment of least developed countries, and natural resource products. Negotiations would also start on two other issues—tariffs and rollback of trade barriers not consistent with the GATT—but these could continue through subsequent phases. Preparatory work could also start on such issues as agriculture.

But the key to this first phase would be *safeguards,* agreement on which could unlock other problems, including textiles. There has been, over the last few years, a convergence of views on several aspects of safeguards including the desirability of adequate transparency of measures, consultation between trading partners before adoption of these measures, and multilateral surveillance of agreements; compensation for and retaliation against new protection; limiting the duration of safeguard action; and the progressive liberalization of application. The sticking point is the insistence of the EEC that the importing country be allowed to apply Article XIX actions selectively against specific country exporters with other parties—developing and developed—favoring nondiscriminatory mfn treatment in applications of the Article. The contracting parties have been through the arguments on all the issues so often that progress is now a matter of political will. In the main, progress will require movement by the EEC away from selectivity; this would provide the impetus to resolving most of the other issues relatively quickly and certainly within the period suggested for phase I. As the great majority of GATT members now recognize the need for urgent action on safeguards, both as a crucial issue in its own right and as a major element in restoring the GATT's credibility, its resolution should not prove impossibly difficult.

In *phase II,* negotiation would involve some of the more difficult issues, focusing on reintegration of textiles trade into the GATT, but including liberalization of the highest tariff items; infringement of intellectual property rights; barriers to agricultural trade (rather than the more difficult problem of domestic distortions); and antidumping, countervailing duties, and government procurement. A principal objective over the approximately two-year period, would be to develop a regime to allow the expiration of MFA4 without its extension. In each case, however, developing-country negotiators would have to decide how far to press for further liberalization if the price to be paid was a greater reluctance by industrial countries to negotiate a timetable for phaseout of the MFA. It may be worthwhile, therefore, to create some linkage between the textile trade regime and the "new" issues in which developed countries have initiated demands, such as the liberalization of services trade.

The main purpose of *phase III* would be to finalize (or at least make substantial progress in) treatment of the most difficult issues, such as trade-related

aspects of investment, intellectual property rights and especially services, and to complete negotiations on those items which have been programmed to cover more than one phase—notably agricultural trade and rollback of barriers. Agreement would also be sought on the treatment of countertrade in the GATT, the process of integrating developing countries into the multilateral trading system would be continued, and any issues unresolved from earlier phases would be concluded. A three-year process might be envisaged, ending in December 1992. Within this phase the new textiles regime would come into effect and the spirit and content of that regime could have an important influence on perceptions, especially those of developing countries, in this concluding phase.

At this stage it is extremely difficult to anticipate the shape of any post-MFA arrangement. The most plausible mechanism for liberalization would be one which incorporated rising quota increases and the sweeping away of controls on the smaller and low-income suppliers. The difficulty facing those wanting an end to the MFA will be to find a transitional arrangement which does not merely become another MFA; that is, a slightly more liberal version of present arrangements.

Past experience might suggest to the cynical that little real progress will be made on textiles in the foreseeable future given the accretion of vested interests in both developed and developing countries. More positively, a slow process of intellectual osmosis concerning the merits of economic liberalization in general and trade liberalization in particular seems to have had some impact in stemming the tide of protectionist thinking. There is no better place to exploit any changes for the better than in relation to the MFA.

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