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## **THE AGREEMENT ON TEXTILES AND CLOTHING UNDER THE URUGUAY ROUND : A MIXED BAG FOR THE DEVELOPING COUNTRIES?**

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### **1. Introduction**

The history of the trade in textiles and clothing, from the inception of the GATT in 1947 to the successful conclusion of the Uruguay Round in 1994, had been characterized by discriminatory use of protectionist positions of the developed world against the developing countries. Although GATT envisaged reciprocal and mutually advantageous arrangements and elimination of discriminatory treatment in international commerce, which is often called most-favored nation (MFN) principle, the textile and clothing sector, dominated by the developed world, received no enthusiastic attention for inclusion in the GATT discipline. Worse still, while each of the GATT Rounds, prior to the Uruguay Round, led to further trade liberalization in products of major exports interest to the developed world, trade in textile and clothing, a sector of increasing export interest to the developing countries, evolved in the opposite direction (Cline 1987, 10). Consequently, especially since early 1970s, global trade in the textiles and

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clothing sector — characterized by multiple forms of restrictive measures<sup>1</sup> — had been governed by bilateral quotas negotiated under Multi-fibre Arrangement (MFA). MFA survived more than two decades in full sweep, until December 1994, when the restrictive and discriminatory regime began to crumble down under the auspices of the successful conclusion of the Uruguay Round. The Agreement on Textiles and Clothing (ATC) of the Uruguay Round calls for gradual, phase-wise and eventual elimination of all MFA restrictions in textiles and clothing, and complete integration of this sector into GATT 1994 by the year 2005.<sup>2</sup>

This paper explains the processes that led to the eventual integration of the textiles and clothing trade into the GATT discipline over the last four decades in Section 2, then examines the major features of ATC in Section 3 and the ramifications of ATC on the textile and clothing trade in the developing countries in Section 4. The paper builds on three interrelated premises: (a) that a large part of the pre-Uruguay Round international trade in textiles and clothing was characterized by overtly restrictive and discriminatory practices against the interests of developing country manufacturers and exporters; (b) that ATC under the Uruguay Round provides for expanded trade, improved market access and strengthened safeguard mechanism for all members of the World Trade Organization (WTO), but the potential benefits may be geared more at the developed industrial world than the developing exporting countries;<sup>3</sup> and (c) that ATC comes as a mixed bag for the

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<sup>1</sup> Such as MFN and non-MFN tariff barriers, special bilateral and multilateral arrangements, quota restrictions, unrestrained safeguard actions, etc.

<sup>2</sup> Restrictions and discriminatory trade practices, imposed under MFA regime, will, however, continue to be valid until 2005 -- until these restrictions are either removed or the products to which they refer to are fully integrated into GATT discipline.

<sup>3</sup> In sharp contrast to MFA that was applicable to only those importing and exporting countries that chose to join it, or the other textiles and clothing trade arrangements that preceded MFA, ATC is applicable to

developing exporting countries themselves as some are poised to gain more than others.

## 2. The Processes of Integration

The pre-Uruguay Round international trade in textiles and clothing was so profoundly restrictive, discriminatory and distortionary in character that the negotiators of the Uruguay Round found it unrealistic to call for elimination of all those restrictions in one go. Instead, as explained below, they proposed for gradual, phase-wise, elimination of discriminatory trade relations first, and then for gradual reduction in tariff barriers.

### The Short-Term Agreement (STA)

The trade in textile and clothing came up as a serious subject matter of GATT negotiations in early 1960s, when the developing countries began to demonstrate their comparative advantage in this sector. The developed countries became concerned that "low-cost supplies" from the developing countries could cause "market disruptions" in their countries, and began to press for special arrangements to allow them to escape certain GATT obligations as outlined in Articles XII and XIX of GATT.<sup>4</sup> By 1961 the developed countries succeeded in obtaining an agreement to treat textiles and clothing as exceptions from the GATT rules. This agreement -- reached at the Dillon Round -- is known as Short-term Arrangement (STA). It allowed the developed countries to negotiate quantitative restraint arrangements on a discriminatory basis

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all members of WTO. The Final Act of the Uruguay Round was based on a single-undertaking approach or all-or-nothing strategy, meaning that all signatories to the WTO Agreement must accept the provisions of ATC in toto.

<sup>4</sup> These GATT Articles required that all safeguard actions should be non-discriminatory in application and temporary in duration, and all affected parties would be entitled for equivalent compensation for the loss of market due to safeguard measures by importing countries.

and impose import restrictions on a selective basis. STA contributed to significant increase in access to markets that were then restricted while maintaining orderly access to markets that were relatively open and securing a measure of restraint on the part of the exporting countries in order to avoid market disruptions. But the primary focus of STA was on carefully avoiding market disruptions for the textile and clothing industries in the developed world. The "special status" was justified by claiming that the challenge presented by 'low cost' imports was, with only minor exceptions, unique to textiles sector only having far-reaching implications for employment and production in the developed world (Dikerson 1991, 303).

### **The Long-Term Agreement (LTA)**

The restrictive and discriminatory trade regime in textiles received further impetus in February 1962 when STA paved the way for Long-term Arrangement (LTA) regarding international trade in this sector.<sup>5</sup> In general, LTA emphasized liberalization of trade in the textile and clothing sector but allowed imposition of new restrictions on specific grounds, especially in cases when the importing country faced, or was threatened with, possibilities of market disruptions for products or sources hitherto unrestricted. But LTA did not allow lowering of quota from the amount of the actual imports during the previous period and called for 5 percent annual increase in ordinary cases. LTA contained some notable provisions permitting bilateral trade arrangements on the basis of "terms not-inconsistent" with LTA objectives. Article 4 of LTA allowed developed countries to impose restrictive measures even when they were not actually threatened with situations of market disruptions

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<sup>5</sup> Initially LTA came into force for a period of five years. It was extended twice, in 1967 and 1970, in each case for a three year period.

-- that is, in normal situations.<sup>6</sup> This article played remarkable role in the trade and commerce of the textile and clothing sector as it allowed the developed world in regulating and controlling this trade through bilateral agreements with their principal suppliers. By allowing this, LTA helped in maintaining a restrictive international trade regime which had been extremely discriminatory to the interests and concerns of the manufacturers of textiles and clothing in the developing world.

### **The Multi-Fibre Arrangement (MFA)**

Aside the problems and concerns of the developing countries, in the late 1960s, the challenge to LTA also stemmed from the increased use of synthetic fibers, especially polyester and acrylic, and from the developments in the knitting industry stimulated by innovations in knitting technology. Attempts to deal with these challenges led to the formation of a Negotiating Group in 1970 for formulating the text of a new agreement encompassing the whole textile and clothing sector. By the end of 1973, the Negotiating Group agreed on the text of an Arrangement Regarding International Trade in Textiles, which, adopted by GATT in 1974, eventually came down as MFA. It made significant departures from the previous agreements on international trade in this sector. Concerns for the developing countries and a substantial increase in their earnings from trade in textile and clothing sector received significant importance under MFA, which spelled out provisions for ensuring orderly development of the trade in textile and clothing, and contained adequate safeguards for avoiding disruptive effects on individual markets and individual lines of production in both importing and exporting countries, while emphasizing progressive liberalization of world trade in this sector. MFA set the terms and

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<sup>6</sup> Under STA the developed countries could impose import restrictions when market disruptions actually took place or a threat to that existed. LTA further widened the latitude of the restrictive ability of the developed world.

conditions for governing the imposition of quantitative restrictions on textile and clothing exports of developing countries either through negotiations or bilateral agreements or on a unilateral basis. Under MFA, the bilateral agreements negotiated between importing and exporting countries contained provisions relating to the products traded (that is, volumes of trade to which annual growth rates are applied), but they differed in detailed terms according to the products covered or countries concerned.

MFA enlarged product coverage to include textiles and clothing made of wool and man-made fibers, as well as cotton and blends thereof, while so far, coverage was limited to cotton textiles only. It, however, excluded handloom fabrics and cottage products as well as traditional ethnic handicraft products from its coverage, but contained provisions for invoking safeguard measures in a situation of market disruptions. MFA was, however, very succinct about application of safeguard measures. Under it, in situations of actual market disruptions, import restrictions could be imposed unilaterally if a mutually agreed solution was not available but in situations involving a real risk of market disruptions, only bilateral - not unilateral-- restraint agreements were possible.<sup>7</sup>

### **Quota Restrictions under MFA**

MFA permitted certain flexibilities in quota restrictions for the exporters so that they could adjust to changing market conditions, export demands and their own capabilities. It stipulated that new quotas should be large enough to accommodate the actual trade

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<sup>7</sup> Diagnosing a situation of market disruption under MFA, however, remained difficult and controversial. The situation of market disruption was directly linked to the existence or threat of serious damage to the domestic industry, which could be assessed by examining factors like sales, market share, profits, employment and production. The damage was clearly linked to a sharp and substantial increase in imports from a particular source, and/or at the prices lower than those prevailing in the market for similar products from domestic as well as other import sources.

level reached during the last 12-month period. In cases of renewing a restraint, the new quota could not be lower than the previous level, and in the case of continuing quotas, the annual growth could not be less than 6 percent. MFA, however, allowed quota level to exceed 7 percent provided there is a corresponding reduction in another quota, that is, in case of swing provision. It allowed carry over of up to 10 percent of the unused portion of the previous year's quota, and up to 5 percent carry forward, that is, advance utilization from the following year's quota. MFA also allowed combined use of carry over and carry forward for up to 10 percent of the quota. In case of exceptional circumstances, when a recurrence or worsening of disruptions is anticipated, quota growth could be reduced below 6 percent and saving could be reduced from 7 to 5 percent.

MFA also provided for higher quotas and liberal growth for developing countries whose exports were already restrained (Table 1). It stipulated that the past performance criterion should not be applied in determining quota levels for segments of trade in which the concerned developing countries were new entrants, and that a higher growth rate should be granted in such cases. MFA asked the participants to refrain from restraining the trade of small suppliers in normal circumstances (Table 2). In general, developed countries, under MFA, chose not to impose restrictions on imports from other developed countries.<sup>8</sup> MFA also created a multilateral supervisory institution, known as the Textiles Surveillance Body (TSB), to ensure compliance of all parties to the obligations of bilateral agreements or unilateral arrangements. It called for notification of all the restrictive measures on textiles and clothing --reached through bilateral agreements or on a unilateral basis. A Textiles

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<sup>8</sup> There are, however, some cases when developed countries did take actions against each other outside MFA. For example, between 1980 and 1983, the EC initiated three anti-dumping actions against exports from the United States -- two resulted in the imposition of a definitive duty and one in a finding of no dumping.

**Table 4. Illustrative Increases in Growth Rates Provided for in The Agreement on Textiles and Clothing (Percentages)**

Increases Envisaged in the Agreement								
Stage of integration	Year	Growth factor per cent <sup>a</sup> (1)	Original growth rate 1 per cent <sup>a</sup> (2)	Increase in quota <sup>b</sup> (3)	original growth rate 3 per cent <sup>a</sup> (4)	Increase in quota <sup>b</sup> (5)	Original growth rate 5 per cent <sup>a</sup> (6)	Increase in quota <sup>b</sup> (7)
<b>A. In accordance with paragraphs 13 and 14 of Article 2</b>								
I	1	16	1.16	101.16	3.48	103.48	5.80	105.80
	2		1.16	102.33	3.48	107.08	5.80	112.99
	3		1.16	103.52	3.48	110.81	5.80	119.54
II	4	25	1.45	105.02	4.35	115.63	7.25	128.21
	5		1.45	106.54	4.35	120.52	7.25	137.50
	6		1.45	108.08	4.35	125.76	7.25	147.47
	7		1.45	109.65	4.35	131.23	7.25	158.16
III	8	27	1.84	111.67	5.52	138.47	9.21	172.70
	9		1.84	113.72	5.52	146.11	9.21	188.61
	10		1.84	115.81	5.52	154.18	9.21	205.98



Table 3. Contd.

Suppliers	Restraining Importers						
	Austria	Canada	European Communities	Finland	Norway	United States	
Pakistan		x	x		x	x	4
Panama						x	1
Peru			x				1
Philippines	x	x			x	x	4
Poland		x	x		x	x	4
Republic of Korea	x	x	x	x	x	x	6
Romania		x	x		x	x	4
Singapore		x	x	x	x	x	5
Sri Lanka		x	x	x	x	x	5
Thailand	x	x	x		x	x	5
Tyrkey		x				x	2
Uruguay		x					1
Total	6	22	19	7	16	28	98

Source : ITCB estimates, and GATT documents COM, TEX/SB/1799 and 1873

a including the slovak Republic, as a result of the conversion of the previous agreement with the former Czech and Slovak Federal Republic into two agreemets.

**Table 3. Bilateral MFA Restraint Agreements in Force on 31 December 1993.**

Suppliers	Restraining Importers						
	Austria	Canada	European Communities	Finland	Norway	United States	
Argentina			x				1
Bangladesh		x				x	2
Brazil		x	x			x	3
China	x	x	x	x	X	x	6
Colombia		x				x	2
Costa rica						x	1
Czech Republic		x <sup>a</sup>	x		x	x	4
Dominican Republic		x				x	2
Egypt						x	1
El Salvador						x	1
Guatemala						x	1
Hong Kong	x	x	x	X	x	x	6
Hungary		x	x		x	x	4
India	x	x	x	x	x	x	6
Indonesia		x		x	x	x	4
Jamaica						x	1
Macau	x	x	x	x	x	x	6
Malaysia		x	x		x	x	4
Mexco						x	1

**Table 2. Small Suppliers of Textiles and Clothing**

Importer	Canada	European Communities	Finland	United States <sup>b</sup>
Supplier	Colombia Macau Uruguay	Peru Sri Lanka	Sri Lanka	Argentina Costa Rica Jamaica Macau Peru Uruguay Yugoslavia

Source : ITCB estimates, based on specific limits in the bilateral agreements under the MFA

- a Supplier whose restrictions represent 1.2 per cent of the total volume of the restrictions applied by an importing member as of 31 December 1991 (see Article 2.18 of the Agreement on Textiles and Clothing)
- b Allows for group limits in the bilateral agreement.

extension protocols of MFA, retention clauses, such as "good will", "exceptional cases," and "anti-surge" and other trade-related factors led the developing countries in 1982 to work together for inclusion of the textile issue in the agenda of 1982 GATT Ministerial Meeting. Pursuant to the GATT Ministerial Declaration of 1982, a Working Party on Textiles and Clothing (WPTC) was established with three broad options: (a) full application of GATT provisions with a movement towards liberalization; (b) full application of GATT provisions as envisaged in Option A, combined with liberalization of trade measures irrespective of their GATT conformity; and (c) liberalization under existing frameworks. However, failure of WPTC to reach a consensus on any particular option in 1982 resulted in rapid proliferation of restrictions and additional measures and further thwarted efforts aimed at constructive modalities for liberalization of trade in the sector (GATT, 1985).<sup>11</sup>

<sup>11</sup> Developed countries contended that progress towards further liberalization was a responsibility of all participants, while the developing countries maintained that the responsibility lay with those countries that maintained restrictions inconsistent with GATT provisions -- it should not be borne by the victims of discriminatory restrictions on their exports.

**Table 1 : Specific Limits and Annual Growth Rates Contained in The MFA Bilateral Agreements of Major Importing Countries, 1993.**

Suppliers	Restraining Importers					
	United States		European Communities		Canada	
	Specific limits (Number)	Growth rate (Per cent)	Specific limits (Number)	Growth rate (per cent)	Specific limits (Number)	Growth rate (Per cent)
Argentina			3	43		
Bangladesh	20	7.0			8	7.0
Brazil			10	2.8	4	6.7
China	84	3.3	33	3.7		
Colombia	2	6.0				
Costa Rica		5.9				
Czech Republic			23 <sup>a</sup>	4.4 <sup>a</sup>	4	5.0
Dominican Republic	8				1	6.0
Egypt						
El Salvador	4	6.3				
Guatemala	3	5.9				
Hong Kong	61	1.3	28	1.3	20	2.9
Hungary	8	5.6	17	4.8	1	4.0
India	18	5.9	15	2.8		
Indonesia	34	6.0	8	4.8	11	6.0
Jamaica						
Macau	15	6.2	20	1.7	7	6.0
Malaysia			8	4.1	10	5.3
Mexico	12	5.4				

Table 1 : Contd.

Suppliers	Restraining Importers					
	United States		European Communities		Canada	
	Specific limits (Number)	Growth rate (Per cent)	Specific limits (Number)	Growth rate (per cent)	Specific limits (Number)	Growth rate (Per cent)
Pakistan	26	6.3	13	4.1	12	6.2
Panama	1	6.0				
Peru			2	5.7		
Philippines	39	4.8	12	5.3	11	6.5
Poland	9	5.1	17	4.7	10	5.0
Republic of Korea	66	1.2	44	2.9		
Romania	18	4.6	28	4.6	15	5.1
Singapore	24	3.0	7	3.9	13	5.0
					4	4.3
Sri Lanka			4	7.3		
Thailand	37	5.7	16	4.4	16	4.9
Turkey	17	5.8			4	6.0
Uruguay	7	3.3			1	6.0

Source : Estimates by ITCB. a. Including also the Slovak Republic

Committee — established as a management body consisting of all member countries -- was the final arbiter under MFA that worked as a court of appeal for disputes that could not be resolved under TSB.

### Negotiations under the Uruguay Round

MFA was extended six times.<sup>9</sup>The first three extensions of MFA, instead of liberalizing the trade in textiles and clothing, further intensified restrictions on imports, specifically affecting the developing country exporters of the textile and clothing products. During this period, MFA had diverged from the original spirit and aims, and restraints were intensified and the country and product coverage was enlarged. Especially restrictive were the bilateral agreements concluded under it. The importing countries often resorted to additional restrictive measures despite the quota restrictions in operation under the existing arrangement.<sup>10</sup> Increased usage of several MFA measures tended to further erode the trust which developing countries had originally placed in MFA.

Efforts for liberalization of the textiles and clothing sector began several years before the Uruguay Round was initiated at Punta del Este in 1986. Unsatisfactory experience with several

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<sup>9</sup> MFA II came into force for a period of 4 years from January 1, 1978 under a Protocol of Extension. MFA III took effect in January 1982 and continued till 1986. It was further extended in August 1986 for a period of three years, up to July 1991. MFA V took effect in 1991 and expired by 1993. In December 1993, MFA VI came into force for a year, to expire by December 1994. As of November 1993, MFA had 44 signatories and there were 98 restraining agreements in force (Table 3).

<sup>10</sup> For example, *The UNCTAD Trade and Development Report 1988* maintains that about one half of the imports of textiles and clothing into the developed countries were subject to non trade barriers, both within and outside MFA. In fact, the ratio of imports into major developed countries from the developing countries covered by non trade barriers exceeded 70 percent in this sector.

Table 4. Contd.

Increases Envisaged in the Agreement								
Stage of integration	Year	Growth factor per cent <sup>a</sup> (1)	Original growth rate 1 per cent <sup>a</sup> (2)	Increase in quota <sup>b</sup> (3)	original growth rate 3 per cent <sup>a</sup> (4)	Increase in quota <sup>b</sup> (5)	Original growth rate 5 per cent <sup>a</sup> (6)	Increase in quota <sup>b</sup> (7)
<b>B. In Accordance with paragraph 18 of Article 2</b>								
I	1	25	1.25	101.25	3.75	103.75	6.25	106.25
	2		1.25	102.52	3.75	107.64	6.25	112.89
	3		1.25	103.80	3.75	111.67	6.25	119.95
II	4	27	1.59	105.45	4.69	116.91	7.94	129.47
	5		1.59	107.13	4.69	122.39	7.94	139.75
	6		1.59	108.83	4.69	128.13	7.94	150.85
	7		1.59	110.56	4.69	136.97	7.94	162.83
III	8	27	2.02	112.79	5.96	145.13	10.08	179.24
	9		2.02	115.07	5.96	153.78	10.08	197.31
	10		2.02	117.39	5.96	162.95	10.08	217.20

Source : Calculations by the UNCTAD secretariat based on data in GATT document COM, TEX/SB/1799/Add. 1. and ITCB data base

- a. The rate foreseen in the bilateral agreement under the MFA. b. Obtained by applying to the original bilateral growth rate the additional increase (growth factor) provided for in the Agreement on Textiles and Clothing 9 (see column 1).

The Ministerial Declaration at the Punta del Este in 1987 pushed the liberalization efforts further. It mandated negotiations for formulating modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines. This mandate, for the first time, brought the textiles and clothing sector specifically into the multilateral trade negotiations. As a result, a Negotiating Group on Textiles and Clothing (NGTC) was established in February 1987 to examine techniques and modalities for integration of the sector on the basis of the proposals submitted by the Uruguay Round. NGTC, however, failed to reach a consensus before the Montreal Ministerial Meeting held in December 1988, and as a result, was pushed to the Geneva Conference scheduled for next year.

Negotiations for the integration of the textiles and clothing sector received a definitive boost in April 1989 when the Trade Negotiation Committee (TNC) recognized its key role in the Uruguay Round, and agreed that the modalities for the integration of this sector into GATT should cover the phase-out of MFA and other GATT-inconsistent restrictions.<sup>12</sup> TNC decided that integration of this sector should be progressive in character and the process should commence after the conclusion of the Uruguay Round. It also called for special treatment for the least developed countries. The decision of TNC further cemented the commitment of all parties to achieve integration of the textiles and clothing sector into GATT after the expiry of MFA in 1991. Actual negotiations centered on: (a) product coverage during the transition period; (b) the phase-out of MFA restrictions; (c) the procedures for transitional safeguards; and (d) the application of strengthened GATT rules and discipline.

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<sup>12</sup> Before 1990 mainly three paths were followed for trade liberalization in this sector: liberalization within the framework of MFA; restructuring the arrangement with new instruments such as tariff quotas and quota auctions; and an instantaneous fall back on the GATT with adjusted levels of protection. For details see Wolf (1990, 225).



The negotiations gathered pace at the end of 1990 but little progress could be achieved as differences remained on substantive issues, such as product coverage, share of product coverage to be integrated, stages for the integration, growth rates for products not yet integrated and the duration of the agreement. The stalemate broke in December 1991 when a text of the agreement on textiles and clothing was presented as a part of the so-called "Dunkel Draft" of the Final Act. The Dunkel text on textiles and clothing put forward comprehensive coverage of all these outstanding issues. But a final agreement still remained illusive. One main reason for this was that in many countries—developed as well as developing—domestic protectionist pressures began to mount up.<sup>13</sup>

### 3. Major Features of ATC

The eventual outcome of such a pro-longed negotiation was the ATC. As incorporated in the Final Act of the Uruguay Round, ATC consists of a preamble, nine articles and an Annex. Some key understandings, reached among the participants of the Uruguay Round in respect to trade in this sector and outlined in Article 1 of ATC, stipulates that the provisions of the agreement will serve as the legal framework for the behaviors of WTO members (henceforth members) during the transition period for the integration of the sector into GATT 1994. It maintains that the provisions of ATC should not affect the rights and obligations of the members under WTO Agreement and the Multilateral Trade

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<sup>13</sup> United States, for example, withdrew the mandate in 1988 for its delegation to negotiate on textile and clothing for several years by passing the Omnibus Trade and Competitiveness Act. Even on the eve of the final deadline for the conclusion of the negotiations on 15 December 1993, some developed countries were threatening to break up the deal by demanding significant access offers in textile and clothing from some developing countries. Textiles and clothing continued to remain contentious issue until the final document was adopted at the Marrakesh Ministerial Meeting in April 1994.

Agreements.<sup>14</sup> ATC also maintains that the members should allow for continuous autonomous industrial adjustment and increased competition in their markets in order to facilitate the integration of the textiles and clothing sector into GATT 1994.

### Measures Covered

ATC called for progressive phasing out of all MFA restrictions and other discriminatory measures in a period of ten years. As mentioned before, MFA had been in force for 20 years as a derogation from the basic discipline of non-discrimination of GATT. During this period, MFA quotas were applied almost exclusively to exports of developing countries. ATC called for phased elimination of these restrictions, so that at the end of the transitional period, the era of discriminatory, bilateral quota measures will have ceased, and only normal GATT rules and discipline, as strengthened in the Uruguay Round, will apply.<sup>15</sup> ATC, among others, covers: (a) all MFA restrictions maintained between GATT 1947 contracting parties and in place on the day before the entry into force of WTO Agreement will be governed by the provisions of ATC;<sup>16</sup> (b) all non-MFA restrictions on textiles

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<sup>14</sup> The WTO came into force, as scheduled, on 1 January 1995. The WTO Agreement—that consists of a preamble, 16 Articles and four Annexes — is based on the proposals submitted in 1990 by the European Communities and Canada, which envisaged a new organization—one endowed with a permanent and solid institutional status — to play a greater role in global economic policy making in cooperation with the International Monetary Fund and the World Bank.

<sup>15</sup> According to the Textiles Surveillance Body (TSB), as of October 1994, there had been a total of 102 bilateral restraint agreements in force under MFA. Developing countries/transition economies had 32 restraint agreements with the United States, 25 with Canada, 15 with the European Union, 17 with Norway, 7 with Finland and 6 with Austria (GATT 1994, 16).

<sup>16</sup> Article 2:1 of ATC provides that all quantitative restrictions within bilateral agreements maintained under Article 4 or notified under Article 7 or 8 of MFA in force on the day before the entry into force of the WTO Agreement shall be notified in detail, including the restraint levels, growth rates and flexibility provisions, by the members maintaining such restrictions, to TMB, within 60

and clothing products — be that consistent with GATT or not. Such restrictions encompass all unilateral quantitative restrictions, bilateral arrangements and other measures having similar effect. The agreement emphasizes transparency and requires the members to provide information to TMB with respect to any GATT 1994 justifications for the restrictions, including GATT 1994 provisions on which they are based;<sup>17</sup> and (c) all actions taken by the members under the provisions of the transitional safeguard mechanism (outlined in Article 6) to products covered by the Annex.<sup>18</sup> Products already integrated into GATT 1994 in accordance with the integration scheme under Article 2 are exempted from transitional safeguard mechanisms.<sup>19</sup>

### Special Treatments

Article 1 of ATC distinguishes three categories of members which should receive treatment better than the norms otherwise prescribed in the agreement. These are: (a) small suppliers and new entrants in the textiles and clothing sector should be permitted meaningful increases in access possibilities and must be allowed to

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days of the entry of a member into WTO. It also states that all such restrictions maintained between GATT 1947 contracting parties shall be governed by the provisions of this agreement.

<sup>17</sup> For details of the provisions on the non-MFA restrictions, see Article 3 of ATC, which requires that the members have to bring such restrictions into conformity with GATT 1994 within one year following the entry into force of the WTO Agreement. More on this below.

<sup>18</sup> The Annex consists of: (1) products within Section XI of the HS Code (textiles and textile articles except the lines of raw silk, raw wool and raw cotton); and (2) other products from certain other chapters of the HS Code which are currently included in the category system of some of MFA-restraining countries.

<sup>19</sup> Article 6 of ATC calls upon the members — who do not maintain restrictions falling under Article 2 — to notify TMB — within 60 days following the coming into force of the WTO Agreement — as to whether or not they wish to retain the right to use the transitional safeguard provisions of the Article.

develop commercially significant trading opportunities. Exports from least-developed members may, to the extent possible, also benefit from such provisions;<sup>20</sup> (b) those members who have not accepted the Protocols of MFA since 1986, that is MFA IV, must be given due regards, and to the extent possible, shall be granted special treatment in applying the provisions of the agreement. Such special treatments should be reflected in specific terms in the time periods allocated for making notifications to WTO or Textile Monitoring Body (TMB);<sup>21</sup> and (c) cotton-producing exporting countries will receive special treatment — the members are urged to pay attention to the particular interests of the cotton-producing exporting countries in the implementation of the provisions of this agreement.<sup>22</sup>

### Country Coverage

In sharp contrast to MFA that was applicable to only those importing and exporting countries that chose to join it, or the other textiles and clothing trade arrangements that preceded MFA, ATC is applicable to all members of the WTO Agreement.<sup>23</sup> The agree-

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<sup>20</sup> In this regard, see Article 1:2, Article 2:18 and Article 6:6(b) and footnote #1 of ATC. Article 2:18 provides that small exporters who are subject to MFA quotas and whose restrictions in volume terms are 1.2 percent, or less, of total restrictions in an importing country as of 31 December 1991 move ahead one stage in the growth process (or an equivalent benefit by mutual agreement). Details on growth rates have been elaborated below. Article 6:6b provides for favorable treatment to the small suppliers in the application of quota base levels, growth rates and flexibility.

<sup>21</sup> Article 8 of the agreement provides for establishment of a Textile Monitoring Body (TMB), among others, for supervision of the implementation of ATC. More on TMB below.

<sup>22</sup> It is believed that during the discriminatory and restrictive MFA regime, the cotton producing-exporting countries as well had been subject to discriminatory and restrictive measures from the importing countries.

<sup>23</sup> It is, however, notable that although in total 125 formal participants signed the Final Act Embodying the Results of the Uruguay Round of the Multilateral Trade Negotiations at the Marrakesh Ministerial Meeting in April 1994, only

ment comes as an integral part of the Final Act of the Uruguay Round—as the Round was based on “single-undertaking approach,” that is, all-or-nothing strategy—the Agreement has to be accepted or rejected in toto.<sup>24</sup> The agreement is applicable to all WTO members and all their trade in textiles and clothing are subject to its provisions. With the gradual integration of the textiles and clothing sector into the strengthened GATT rules and discipline, the sector will be fully integrated into GATT 1994 by the year 2005. But the agreement does not cover those MFA restrictions — applied by the GATT contracting parties to GATT non-contracting parties.

### **Phasing Out of MFA**

The textiles and clothing sector is scheduled to be fully integrated into GATT by the end of the transition period by 2005 and Article 9 of the agreement rules out any possibility of extension of ATC. The agreement calls for integration of products covered in the Annex of the agreement, including those subject to MFA restrictions, into GATT 1994 in four stages. For integrational purposes 1990 has been considered as the reference year—as the extent of integration into GATT 1994 at each stage has to be expressed as a percentage of the total volume of imports in 1990 of the products covered by the Annex. At each of the stages, products should be chosen from each of the following categories: tops and yarns, fabrics, made-up textile products, and clothing. The members

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104 participants/countries signed the WTO Agreement. Seven countries -- Australia, Botswana, Burundi, India, Japan, Republic of Korea, and the United States -- did not sign the WTO Agreement in Marrakesh because of their respective national legislative procedures.

<sup>24</sup> In fact, one main reason for so much talks, negotiations and delays in finalizing the Agreement in Textiles and Clothing under the Uruguay Round was that it was extremely difficult job for the negotiators to finalize a document which will be acceptable to all participants. Moreover, the developed and the developing countries, in blocs, stood for sharply opposed interests, and reaching a compromise formula required arduous negotiations.

would have the freedom to select the products to be integrated. The four stages—the 16%+17%+18%+49% formula based on four time periods of three years + four years + three years + one-day — are explained below:

(a) stage one (on the date of entry into force of the WTO Agreement, that is, by 1 January 1995): members had to integrate into GATT 1994 products which accounted for not less than 16 percent of their total volume of 1990 imports of the products in Annex, in terms of HS lines or categories;

(b) stage two (on the first day of the 37th month — that is, by 1 January 1998): members had to integrate into GATT 1994 products which accounted no less than a further 17 percent of the total volume of their 1990 imports of the products in the Annex;

(c) stage three (on the first day of the 85th month — that is, by 1 January 2002): members shall have to integrate into GATT 1994 products which account for not less than a further 18 percent of the total volume of their 1990 imports of the products in the Annex,

(d) stage four (on 1 January 2005): the entire textile and clothing sector shall stand integrated into GATT 1994, as the remaining 49 percent of the total volume of 1990 imports will be integrated, and thus, all restrictions will be eliminated.

The agreement, however, makes clear that integration ratios outlined above are neither the maximum limits nor mandatory for members. The members are free to integrate their imports in to GATT 1994 to the extent they like — provided that the minimum percentages are integrated. There is no maximum limit for integration — a member can fully integrate its textiles and clothing sector into GATT 1994 at any time it prefers.<sup>25</sup> At the same time, Article 2.9 maintains that those members that have notified their

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<sup>25</sup> Article 2:10 maintains that nothing in ATC shall prevent a member — which has submitted an integration program to TMB pursuant to Article 2:6 or 2:8 — from integrating products into GATT 1994 earlier than provided for in the agreement.

intention not to retain the right to use the provisions of Article 6, that is, transitional safeguard measures — can be deemed to have already integrated their textiles and clothing products into GATT 1994.<sup>26</sup>

### **Growth Rates and Other Flexibilities**

Unlike MFA, ATC provides for increases in the annual growth rates for restrictions under the bilateral agreements (Table 4). Such increases will lead to significant quota increases for countries that currently enjoy relatively higher growth rates. At each of the first three stages of the integration program, an annual increase of the established growth rate for the remaining restrictions is provided for as follows: (a) stage one (1 January 1995 to 31 December 1997, inclusive) — the level of each restriction under MFA bilateral agreement in force for the 12-month period prior to the date of entry into force of WTO Agreement should be increased annually by not less than the growth rate established for the respective restrictions, increased by 16 percent; (b) stage two (1 January 1998 to 31 December 2001, inclusive)—the growth rate for the respective restrictions during stage One, increased by 25 percent; and (c) stage three (1 January 2002 to 31 December 2004, inclusive)—the growth rates for respective restrictions during stage Two, increased by 27 percent.

Article 2.5 of ATC, however, maintains that nothing in the agreement should prevent a member from eliminating any restriction maintained pursuant to Article 2, provided the exporting

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<sup>26</sup> In cases of such members of WTO — that did not retain the transitional safeguards — Articles 2:6, 2:7, 2:8 and 2:11 will not apply. There are, however, not many members who have not opted for such transitional safeguards. According to Article 6 of the agreement, members opting for transitional safeguards had to notify TMB to this effect within 60 days of the coming into force of the WTO Agreement. The time limit was, however, up to six months from the date of coming into force of WTO, for those members that did not accept the Protocols extending MFA since 1986.

member concerned and TMB are notified at least three months prior to the elimination coming into effect. In considering the elimination of restrictions, the members concerned, however, should take into account the treatment of similar exports from other members. As regards the flexibility measures, such as swing, carry over and carry forward, ATC retains the provisions of MFA bilateral agreements for the 12-month period prior to the entry into force of WTO Agreement. ATC, however, prohibits any quantitative limits on the combined use of swing, carry over and carry forward.

### **Phasing Out of Non-MFA Restrictions**

The agreement also deals with other non-MFA quantitative restrictions on textiles and clothing products, including all unilateral restrictions, bilateral arrangements and other measures having a similar effect. In general, non-MFA restrictions could be grouped into three categories: (a) non-MFA restrictions imposed by some developed countries, such as Japan and Switzerland, which are also signatories of MFA;<sup>27</sup> (b) restrictions imposed by MFA signatories against non-MFA signatories;<sup>28</sup> and (c) restrictive measures maintained by other countries, including developing countries, both MFA and non-MFA signatories, except those justified under the provisions of GATT 1994. ATC provides that all GATT-inconsistent, non-MFA restrictions had to be either: (a) brought into conformity with GATT 1994 within one year following the entry into force of the WTO Agreement, that is, by 31 December 1995; or (b) phased out progressively according to a program, to be presented to TMB

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<sup>27</sup>. For example, Japan imposed import restrictions on silk yarn against China and the Republic of Korea, and on cotton yarn against Pakistan. Switzerland instituted price surveillance system on imports of textiles and clothing products.

<sup>28</sup>. For example, the EC has applied restrictive measures against Morocco, Tunisia, Turkey, Malta, Japan, some Latin American countries and some Eastern European countries in transition. The United States has applied restrictive measures against Bahrain, Mauritius, Haiti, Lesotho, etc.



within a period not exceeding the duration of this agreement. These provisions indicate that the agreement is quite liberal about the phasing out of non-MFA restrictions. Failure or unwillingness to bring the restrictions into conformity with GATT 1994 by 31 December 1995 would allow the concerned members the whole transition period — 10 years, up to 2005 — provided they submitted a self-made phasing out plan to TMB in this respect.

### **Transitional Safeguard Measures**

ATC calls for progressive phasing out of all restrictions that are non-consistent with GATT 1994 — no matter whether they are imposed under MFA or not. But Article 6 of the agreement allows the application of MFA-type selective safeguard actions during the transition period. During this period, the agreement provides for setting quotas on uncontrolled trade and to protect the market against damaging surges in imports. Such transitional safeguard measures can be applied to products covered by the Annex, except those integrated into GATT 1994 under the integration program and those already under restraint. Such safeguard measures are available to all members of WTO. The agreement, however, calls upon MFA signatories — who do not maintain MFA restrictions — to notify TMB within 60 days of the coming into force of WTO Agreement to the effect that they intend to retain the right to use the transitional safeguards. For those who were not signatories to MFA since 1986, the time period for making notification to TMB was six months — from the date of entry into force of WTO Agreement. Article 6 of ATC, however, cautions that the transitional safeguards should be applied: (a) as sparingly as possible; (b) as consistently as possible with the provisions of the Article; and (c) for facilitating effective implementation of the integration process under this agreement.

With respect to duration of the transitional safeguard actions, Article 6:12 of ATC provides that a member may maintain such measures up to three years without extension or until the product is

integrated into GATT 1994, whichever comes first. Article 6:13 of ATC maintains that whenever a transitional safeguard action remains in force for a period exceeding one year, growth rates and other flexibilities (swing, carry over, carry forward) to be established along the same lines contained in Annex B of MFA. No quantitative limits, however, can be placed on the combined use of carry over, carry forward and the provisions of Article 6:14.

### **Circumvention**

Article 5 of ATC identifies circumvention by transshipment, re-routing, false declaration concerning country of origin, and falsification of official documents as a major concern for integration of the textiles and clothing sector into GATT 1994. The agreement, therefore, requires the members to establish necessary legal provisions and administrative procedures to address and take action against acts of circumvention. When allegations of circumvention are made, the members concerned are required to consult immediately. They should cooperate fully in the investigation of the alleged practice in order to establish the facts, by the exchange of documents and information, and by plant visits and contacts. Members should endeavor to clarify the circumstances of any such instances of circumvention or alleged circumvention, including the respective roles of the exporters and importers involved. When the fact of circumvention has been established after proper investigation, members can take appropriate action, to the extent necessary to address the problem. Among others, the entry of the circumvented goods into the importing country may be denied. If the goods have already entered, they may be debited to the quota of the true country of origin. If the circumvention has occurred through a country of transit, action may also be taken against such a country by applying restriction on it.

False declaration concerning fibre content, quantities, description or classification of merchandise, etc. are considered to

be offenses having effects as acts of circumvention. In cases of such actions, members can take appropriate actions consistent with domestic laws and procedures. The procedures under Article 5 of ATC require that the members concerned should promptly consult with one another with a view to seeking a mutually satisfactory solution. If such a solution is not reached, the matter may be referred by any member involved to TMB for its recommendation.

### **Quota Administration**

As in MFA, all restrictions maintained under ATC, including those applied in accordance with the transitional safeguard provisions, are required by Article 4 of ATC to be administered by the exporting members. Importing members shall not be obliged to accept shipments in excess of the restrictions notified under Article 2, or of restrictions applied pursuant to Article 6. Any changes in practices, rules, procedures and categorization of textiles and clothing products, including those changes in HS, in the implementation or administration of the restrictions under the agreement should not upset the balance of rights and obligations between the members concerned under this agreement, adversely affect the access available to a member and impede the full utilization of such access or disrupt trade under this agreement.

However, when any changes in the restrictions are deemed necessary, the member initiating them shall inform and initiate consultations with the affected member(s) prior to the implementation of such changes with a view to reaching a mutually acceptable solution regarding appropriate and equitable adjustment. If such prior-to-implementation-consultation is not feasible, the member initiating the said changes will, at the request of the affected member(s), consult, within 60 days if possible, with the member(s) concerned with a view to reaching a mutually satisfactory solution regarding appropriate and equitable adjustments. If a mutually satisfactory solution is not reached, any member involved may refer the matter to TMB for its recommendations.

**Table 5. Pre-and Post-Uruguay Round Tariffs for Textiles and Clothing in Selected Countries**

(Percentage)

	Pre-UR tariff	Post-UR tariff	Reduction	Pre-UR <sup>a</sup> bound	Post-UR <sup>a</sup> bound
United States	19.6	17.5	10.9	98.9	98.9
EC	9.9	8.3	16.5	100.0	100.0
Japan	10.4	6.8	34.3	100.0	100.0
Republic of Korea	28.1	19.9	29.0	1.4	87.1
Brazil	78.5	36.7	53.2	0.3	100.0

Source : Information supplied by the Office of the United States Trade Representative, Washington, D. C.

Note : These data reflect a preliminary analysis of information received from the GATT Secretariat as of 1 May.

a Proportion of trade in textiles and clothing for which tariff are bound

### Commitments for Integration

ATC calls upon the members to fulfill certain commitments to facilitate the integration process so that the entire textiles and clothing sector can be integrated into GATT 1994 rules and disciplines in accordance with the provisions of the transition plan. It asks the members, among others, to: (a) achieve improved access to markets for textiles and clothing products through such measures as tariff reductions and bindings<sup>29</sup>, reduction or elimination of non-tariff barriers, and facilitation of customs, administrative and licensing formalities; (b) ensure the application of policies relating to fair and equitable trading conditions as regards textiles and clothing in such areas as dumping and anti-dumping rules and procedures, subsidies and countervailing measures, and protection of intellectual property rights; and (c) avoid discrimination against imports in the textiles and clothing sector when taking measures for general trade policy reasons. The agreement contains provisions for

<sup>29</sup> Table 5 shows a comparison of the pre and post Uruguay Round tariffs for textiles and clothing sector in selected countries.

remedies against violations of market access commitments. First, tariff concessions on textile and clothing products may be withdrawn on items of specific interest to a given country. Second, the agreement provides a process to deny quota growth rate increases to countries that have not fulfilled their commitments on market access. ATC, however, acknowledges special circumstances of the least-developed countries. It clearly spells out that the least developed countries will only be required to undertake commitments and concessions to the extent consistent with their individual development, financial and trade needs, or their administrative and institutional capabilities.

Also, TMB has been established under the agreement to supervise and monitor the implementation of its provisions. As a standing body within the framework of WTO, TMB reports directly to the Council for Trade in Goods. TMB is similar to TSB in many respects, but differs from TSB in respect to functions and memberships. TMB, consisted of 10 members chosen from among the WTO members on an *ad personam* basis, deals with resolving disputes deriving from the implementation of the agreement and reviewing product-specific restrictions imposed under the transitional safeguards. Major functions of TMB include: (a) to ensure that members shall afford each other adequate opportunity for consultation with respect to any matters affecting the operation of ATC and to make recommendations to the members concerned, in the absence of a mutually agreed solution, in the bilateral consultations provided for in this agreement; (b) to review promptly any particular matter which that member considers to be detrimental to its interests under this Agreement, on which consultations between TMB and the member(s) concerned have failed to produce a mutually satisfactory solution. On such matters, TMB may make such observations as it deems appropriate to the member(s) concerned and for the purposes of the major review; (c) to make recommendations of findings, whenever called upon to do so, preferably

within a period of 30 days unless a different time-period specified in ATC. All such recommendations or findings shall be communicated to the members directly concerned and to the Council for Trade in Goods for its communication; and (d) to exercise proper surveillance of the implementation of its recommendations while members shall endeavor to accept them in full, and to assist the Council for Trade in Goods to conduct a major review before the end of each stage of the integration process. The comprehensive report of the TMB may include any recommendation it deems appropriate to the Council for Trade in Goods.

#### **4. The ATC and the Developing Countries**

The agreement accomplishes two far-reaching goals simultaneously. On the one hand, it sends deathknell to the discriminatory and restrictive regime of MFA and on the other hand, it integrates the whole textile and clothing sector into the GATT discipline for the first time. The agreement removed many features of international trade in textiles and clothing that the developing countries had long been opposing. It has, for example: (a) eliminated the provision of "exceptional circumstances," which enabled developed importing countries to escape from the obligations of Annex B of MFA; (b) abolished the concept of "minimum viable production," which allowed the small importing countries to evade their obligations and to transfer the burden of import adjustment from dominant to less significant suppliers; (c) deleted the so-called "mutually acceptable terms," which served as a vehicle for developed importing countries to deviate from their obligations under MFA in negotiating bilateral agreements with developing exporting countries; (d) abolished the system of bilateral agreements based on the concept of avoiding "real risk" of market disruptions; and (e) provided special treatment for small suppliers in respect to base levels, growth and flexibility provisions and includes special provisions for least developed countries, non-MFA

members, cotton producers, wool producers and the outward processing trade.

Apart from discarding some notorious characteristics of MFA, the agreement comes with an enticing economic package for the developed as well as developing countries. It promises that freer trade under the strengthened GATT rules and disciplines will increase annual world income by more than US\$500 billion by the year 2005 (Table 6). It has also been postulated that the revenues of developing countries as a group from exports of textiles and clothing are likely to rise when MFA is phased out, despite the loss of the "quota rents" that accrue to exporting countries under MFA. Several studies indicate that effects of removing MFA quotas and reducing tariffs on textiles and clothing products increase in the value of imports of textiles and clothing by 244 percent in the United States, 214 percent in Canada, and 264 percent in the European Community (USITC 1989). A UN study (1986), for example, found that complete nondiscriminatory liberalization — involving both tariffs and MFA quotas — could increase the developing country exports of clothing by 135 percent and textiles by 78 percent. An earlier study, by Kirmani, Molajani and Mayer (1984), found that developing country exports to the major OECD countries could increase by 82 percent for textiles and 93 percent for clothing if tariffs and MFA quota restrictions were removed. Some recent studies suggest that with the elimination of both MFA quota and tariff restrictions, developing country exports of textile and clothing will increase substantially. According to Yang (1993), exports from MFA exporters (developing countries) to MFA importers (industrialized world) would increase by 26 percent for clothing and 10 percent for textiles. Trela and Whalley (1990) estimated that individual developing countries could increase their exports by 190 percent to 305 percent if both quota and tariff restrictions were removed.

**Table 6. Estimates of the Annual Benefits of Uruguay Round Trade Liberalization**

(in billions of US dollars at 1992 prices)

Model/variant	Year	World	Industrial	Developing
WTO (Francois, McDonald, Nordstrom)				
A. Static, perfect competition	1992	40 (0.17)	27 (0.16)	13 (0.30)
B. Static, imperfect competition	1992	99 (0.44)	40 (0.23)	59 (1.23)
C. Induced Investment, imperfect competition	1992	214 (0.94)	90 (0.5)	125 (2.6)
World Bank (Harrison, Rutherford, Tarr)				
A. Static, perfect competition	1992	93 (0.40)	75 (0.41)	18 (0.38)
B. Static, imperfect competition	1992	96 (0.42)	77 (0.42)	19 (0.42)
C. Induced Investment, imperfect competition	1992	171 (0.74)	115 (0.61)	55 (1.20)
GTAP (Hertel, Martin, Yanaishima and Dinaranan) Liberalization in projection to 2005, Perfect competition	2005	258 (0.89)	172 (0.72)	86 (1.56)

Notes: a: Percentages of GDP in parentheses.

b. Definitions of developing countries differ slightly between models.

Source: Reproduced from Martin and Winters (1996, 10).



But nothing is over until it is over. ATC allows a 10-year transition period during which most of these restrictive and discriminatory measures will remain in force. During the transition period these restrictive and discriminatory measures will continue to influence trade in this sector. The interrogation process allows the restraining countries to select their own products and it keeps 49 percent of the trade in this sector for integration on the very last day of the transition period. Moreover, the provisions of the transitional safeguards bear a strong resemblance in criteria and procedures to MFA, and it left some of the vital concerns of the developing countries unaddressed. For example: (a) it allows importing countries to select unilaterally the products to be integrated into GATT in different stages. Since the selection is done unilaterally, which MFA restrictions the importing country likes to phase out in the early stages or a later stage remains uncertain. It is, however, widely believed that the most sensitive products, in which growth rates are the lowest and quota levels are consistently filled, will be left to the final stage for integration; (b) as the Annex to the agreement incorporates a number of tariff lines which are not at present specifically restricted under MFA, the importing countries can use this inflated volume to avoid integrating currently restricted product areas at the earlier stages. Many developing countries, therefore, cannot expect to benefit from meaningful trade liberalization in this sector in the immediate future; (c) as existing MFA restrictions are being phased out, under the so-called "specific transitional safeguard" provisions of ATC, new quantitative restrictions can be imposed by the importing countries during the transitional period to products covered by the Annex to the agreement; (d) measures applicable under the transitional safeguard provisions of the agreement, continue to be selective — on a "member-by-member basis" — like those under MFA. Also, the criteria and procedures for such actions have retained most of the elements of the so-called "market disruptions" provisions of Annex A and Article 3 of MFA; (e) MFA-type quantitative restrictions can

**Table 7. Comparison of Labour Costs in the Garment Sector in Selected**

Item	United States	Italy	Turkey	Egypt	Brazil	China	Hong Kong	India
<b>Average cost per operator hour</b>								
Direct wages-local currency	8.7	12,042.0	20,322.0	13	19,765.0	1.6	25.8	12.8
Other Costs paid to operator local currency	0.8	3,592.0	4,737.0	0.2	3,155.0	0.1	2.2	2.3
Other costs paid by company local currency	2.1	8,299.0	9,980.0	0.4	10,675.0	0.4	1.8	2.6
Total cost per hour local currency	11.6	23,933.0	35,539.0	1.9	33,595.0	2.1	29.8	17.7
Rate of Exchange as of 14 June 1993 : US\$1 =	1.0	1,477.0	10,265.0	3.3	23,047.0	5.7	7.7	31.3
Total Cost in US\$	11.6	16.2	3.5	0.6	1.5	0.4	3.9	0.6
Ratio To US cost %	100.0	140.0	30.0	5.0	13.0	3.0	33.0	5.0
Indirect charges as a percentage of gross wages	33.0	99.0	71.0	43.0	70.0	33.0	16.0	38.0
<b>Operator hours</b>								
Normal hours/operator/day	8.0	7.0	8.0	8.0	8.0	8.0	8.0	8.0
Normal hours/operator/week	40.0	37.0	45.0	49.0	43.0	45.0	48.0	47.0
Normal hours/operator/year	1,949.0	1,738.0	2,252.0	2,350.0	2,158.0	2,295.0	2,352.0	2,269.0
Normal equivalent days/operator/year	241.0	240.0	300.0	288.0	274.0	306.0	294.0	289.0
<b>Overtime, %</b>								
Over normal pay weekdays	50.0	36.0	100.0	38.0	61.0	25.0	83.0	29.0
Over normal pay: national and religious holidays	100.0	46.0	200.0	63.0	75.0	150.0	50.0	7.0
<b>Shirt premium, %</b>								
Second shift	1.0	1.0	0.0	13.0	3.0	14.0	5.0	0.0
Night shift	1.0	39.0	0.0	38.0	21.0	20.0	6.0	6.0
<b>Mill operation</b>								
Mill operating days/year	309.0	296.0	300.0	300.0	305.0	306.0	338.0	331.0
Mill operating hours/year	7,416.0	7,087.0	6,749.0	7,200.0	7,308.0	6,885.0	8,104.0	7,794.0

Source : Werner International Inc., Spinning and Weaving Cost comparisons, Summer 1993.

## Countries Areas, Summer 1993

Indonesia	Japan	Republic of Korea	Malaysia	Pakistan	Philippines	Singapore	Sri Lanka	Taiwan	Tailand	Viet Nam
										0
704.0	1,483.0	2,026.0	2.1	7.8	16.1	4.7	15.7	112.9	23.4	3,089.0
										0
86.0	563.0	703.0	0.6	1.8	3.5	0.9	1.4	18.8	1.7	483.0
										0
96.0	439.0	191.0	0.3	2.0	1.2	0.1	1.7	19.5	1.0	357.0
										0
886.0	2,485.0	2,920.0	3.0	11.6	20.8	5.7	18.8	151.2	26.1	3,929.0
										0
2,081.0	105.1	798.0	2.6	26.6	26.6	1.6	47.8	26.2	25.2	10,572.0
										0
0.4	23.7	3.7	1.2	0.4	0.8	3.6	0.4	5.8	1.0	0.4
4.0	204.0	32.0	10.0	4.0	7.0	31.0	3.0	50.0	9.0	3.0
26.0	44.0	46.0	49.0	29.0	22.0	20.0	20.0	34.0	11.0	27.0
										0
7.0	7.0	8.0	10.0	8.0	8.0	7.0	8.0	8.0	8.0	8.0
41.0	37.0	48.0	48.0	48.0	48.0	44.0	45.0	48.0	51.0	48.0
										0
2,044.0	1,921.0	2,426.0	2,504.0	2,344.0	2,300.0	2,080.0	2,344.0	2,328.0	2,728.0	2,296.0
297.0	261.0	312.0	261.0	310.0	288.0	284.0	298.0	291.0	341.0	287.0
										0
108.0	25.0	80.0	150.0	0.0	25.0	50.0	25.0	67.0	50.0	50.0
133.0	28.0	110.0	200.0	0.0	40.0	100.0	50.0	25.0	133.0	100.0
										0
2.0	4.0	11.0	25.0	0.0	9.0	4.0	1.0	9.0	0.0	0.0
7.0	37.0	89.0	50.0	0.0	18.0	24.0	29.0	23.0	0.0	50.0
326.0	272.0	350.0	349.0	333.0	324.0	354.0	329.0	348.0	347.0	325.0
7,824.0	6,228.0	8,390.0	8,376.0	7,992.0	7,776.0	8,496.0	7,884.0	8,352.0	8,336.0	7,800.0

now be applied to non-MFA signatories as well under the transitional safeguard provisions of the agreement; and (f) more importantly, there have been significant departures in terms of product coverage — the agreement covers the whole universe of textile and clothing products in Section XI of the HS code, including many products that have never been specifically restricted under MFA — and hardly were there any significant imports from the restricted sources. Moreover the Annex to ATC includes items from certain other sections of the HS Code — these products — such as soft luggage, umbrellas, seat belts, etc. — are not strictly textile products, but have some textile components. By including these products, the developed importing countries will be able to avoid liberalizing the existing MFA restrictions during the earlier stage of the integration.<sup>30</sup>

There are considerable differences of views among the textile experts and economists about the impact of elimination of MFA on

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<sup>30</sup> Indeed, possibilities are very strong that a large bulk of the restrained products will be left in abeyance for integration until the very last moments. In the United States, for example, the textile and apparel industries receive higher levels of protection than any other manufacturing sector. The estimated tariff-rate equivalent of all US protection of textiles (tariffs and quotas combined) is 23.4 percent, and 48 percent for apparel. It is likely that such a level of protection will be continued, even after the full implementation of the Uruguay Round agreements. Schott (1994, 58-59) identifies two important reasons for that. First, with the implementation of the Uruguay Round reforms, the US tariff cuts will average about 24 percent. However, more than 50 items will be left with tariffs above 15 percent, particularly wood and wool-blended fabrics. In comparison, textile tariffs will be cut by an average of 31 percent by the European Union and 39 percent by Japan. For the apparel products, the US tariffs will be cut by only 9.2 percent and will average about 18 percent after the Uruguay Round cuts are fully implemented. In comparison, apparel tariffs will be cut by 12 percent in European Union and 34 percent by Japan. Second, during the transition period many US quotas may become more restrictive, until they are finally eliminated. These restrictions will hard hit quota growth of the East Asian suppliers.

the developing countries themselves. Trela and Whalley (1990b, 1190-1205)) suggest that the vast majority of the developing countries gain from the removal of trade restrictions on textile and clothing, with some gaining proportionately more than others. These effects reflect improvements on both counts: each country's market share in the developed-country markets as well as the rent transfer effect of the bilateral quotas.<sup>31</sup> Some estimates, however, suggest that welfare gains from trade liberalization in textiles and clothing and from abolition of the arrangement will be concentrated in a few developing countries, aside from the developed world. According to these estimates, China, Indonesia and South Asian countries are well placed to gain substantially, while countries in Latin America and Sub-Saharan Africa are likely to lose out of the liberalization (Hertel et al. 1995). Overall, experts seem to agree that the higher cost developing countries, such as Hong Kong, Korea and Taiwan, who controlled the largest share of exports to the developed-country markets under MFA, are to lose out to the lower cost suppliers, such as India and China. Elimination of MFA opens up wider opportunities for them because they, with lower per capita income of their population and low wage rates, should be able to drive out higher cost developing country exporters, as the latter would be unable to sustain in the market with a population with higher per capita income and higher wage rates.<sup>32</sup> But the case may not be the same for relatively new and smaller suppliers, like Sri Lanka, Bangladesh and others, who might be squeezed out of international markets because of the size and greater productivity of

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<sup>31</sup> These studies, however, do not take into account the domination of a few large multinational retail chains in the clothing market. These chains do exert considerable market power on the side of the buyers, therefore, do exert away some of the rent shares from the exporters. Therefore, developing country exporters do not receive the full share of their quota rent. See Erzan and Homes (1990) for details.

<sup>32</sup> Table 7 shows comparison of labor costs in the garments sector in selected countries/areas.

established exporters. It is also believed that some developing exporting countries, especially those in Central and Eastern Europe, might acquire considerable market share in textiles and clothing by opting for higher-value apparel products rather than increasing volumes (UNCTAD/GATT 1994, 69).

Also, elimination of MFA may encourage foreign direct investment from quota restricted to non-restricted or less restricted countries. Thus, when new restrictions were imposed on Hong Kong, investment moved to, say, Sri Lanka, when restrictions were subsequently imposed on Sri Lanka, the investment moved to, say, Bangladesh. With the elimination of MFA, the new exporters of the textile and clothing products will be faring badly with more efficient exporters. Therefore, elimination of MFA may even cause a reverse flow of investment as trade in textiles and clothing products may tend to gravitate back to the larger and more efficient exporters, such as Hong Kong, Korea and Taiwan.<sup>33</sup> Many of these countries would not have enjoyed a share of a market in the United States or the European Union had they been forced to compete under no import controls with countries like Korea, Hong Kong and Taiwan. In aggregate, however, the developing countries are poised to gain from improved access in the textile and clothing sector with the elimination of MFA.<sup>34</sup> But they have to remember that the post-Uruguay Round international trade in textiles and clothing will be governed by a buyers' market — where cognizance will be given to quality, quality control, consistency of supply and repeatability.

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<sup>33</sup> For example, in Canada in 1977 and Norway in 1978, import trade became more concentrated on the big three Asian suppliers and moved away from the smaller suppliers under a temporary move to global import quotas.

<sup>34</sup> These research findings, however, need to be understood with caution. There are too many unknowns and too many limitations in methodologies. They have not captured many of the variables, such as degree to which quotas are binding, effects of inter-developing country investment flows, quality upgrading, product and market diversification, the effects on economic growth and development, impact of buyer power (retail chains), etc. However, these reports and estimates can offer important guideposts to what can be expected.

## 5. Concluding Remarks

International trade in textiles and clothing sector has long been characterized by a very high level of protection, almost systematically orchestrated by the developed world against the interests of the developing exporting countries. While such a protective regime did protect employment in the developed world, the cost of protectionism had been exorbitant for the consumers in the developed world and bitter for the developing exporting countries as restricted access and discriminatory trade practices under MFA gravely hindered their industrial progress. The biggest achievement of the Uruguay Round Agreement on Textiles and Clothing would be complete elimination of the MFA regime and full integration of the textiles and clothing sector into GATT 1994. While estimates differ about the gains and losses of the liberalization of trade in this sector and the potential beneficiaries and losers of such liberalization, it can be argued that in general the effect of liberalization as well as trade expansion under a freer regime would be far greater than the continuation of a restrictive and discriminatory regime that is being dismantled now under ATC.<sup>35</sup> Although during the transition period, the benefits to developed countries would outweigh the gains in the developing countries, in the end, the complete removal of MFA quotas will be favorable to developing exporting countries and will add to the benefit of tariff cuts on textile and clothing in the developed world. Much of the benefits of the developing exporting countries would, however, depend on their ability to expand markets in the developed

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<sup>35</sup> Martin and Winters (1996, 9) put it more succinctly. According to them, replacement of MFA by ATC frees the developed world -- that originally imposed the peculiar and perverse form of protection -- from three sets of costs associated with: inefficiencies into production and consumption patterns; distorting the pattern of import sourcing; and creating quota rents that importers must pay in order to obtain supplies from developing exporting countries. The exporting developing countries as a whole gains from the abolition of MFA, as they increase their exports into the developed world, benefit from increased prices in other markets, and eliminate the distortions associated with quota allocation and administration.

world under a freer regime, in their skill and strength for meeting quality and supply requirements and standards, and finally, in putting their own houses in order by carrying out necessary structural reforms. The developing countries must understand in most certain terms that the degree of status quo that they enjoyed under the MFA — in respect to access to the markets of the developed world — will be completely eliminated with full intergration of the textiles and clothing sector into GATT 1994.

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