

Textile Quota Phase-out: The Final Countdown

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In the early 1980s, the Multi-Fibre Arrangement (MFA) emerged as a major impediment to the full realisation of textiles and clothing exporters' potential in many developing and least-developed countries. Dismantling the MFA consequently became a common demand of a large number of developing countries during the Uruguay Round multilateral trade negotiations, and many of them consider the Agreement on Textiles and Clothing (ATC) - which will phase out quotas by 2005 - the most significant of all the agreements resulting from those negotiations.

Anticipated Impact

Various studies analysing the possible impact of the total phase-out of the MFA were more or less consistent regarding anticipated changes in market shares of the major apparel exporters. While suggesting that the vast majority of developing countries stood to gain from the removal of trade restrictions on textiles and clothing, these studies warned that the distribution of welfare gains would be skewed because of trade diversion and quota level transfer. The mainstream prediction was that the higher-cost exporting countries (i.e. Hong Kong, South Korea and Taiwan), which controlled the largest share of exports to developed country markets under the MFA, were expected to cede ground to lower-cost suppliers such as China and India. There was also an apprehension that relatively new and low-cost sources such as Bangladesh and Sri Lanka would be squeezed out of the market because of their small size, lack of product diversification and low productivity.

Intermediate Results

With the integration experience under the first and second phase of the Agreement on Textiles and Clothing in hand, we now have concrete indications on the emerging effect of the MFA phase-out on the sourcing structure of global textiles and clothing imports.

The ATC stipulated that the MFA-maintaining countries must integrate a minimum of 16 percent of textiles and clothing imports in the first phase of the ATC (January 1995 - December 1997). Furthermore, non-liberalised products either under quota or otherwise restrained were to have their quota rates increased during the first

phase by 16 percent. While the US, the EU, Canada and Norway - the four quota-imposing countries - did integrate the quantity of tariff lines on textiles and clothing required by the ATC during the first phase, in terms of value the rate of integration was much less. For example, the value of the products integrated by the EU in the first phase was a little above the half of the volume level, i.e. 8.7 percent of total textiles and clothing imports, and only 7.8 percent of the imports originating from the developing countries. For the US, in value terms the share was only 6.62 percent.

Interestingly, in order to meet the integration target for the first phase, the EU and the US included in their schedules a number of non-textile and non-clothing products, which contained textiles components, such as umbrellas.

During the second phase of integration (January 1999 - December 2001), another 17 percent of imports of all specified textiles and clothing products based on 1990 volumes were to be derestricted. Quotas for non-liberalised products were to grow by 25 percent. The EU made marginal progress during the second phase of ATC and integrated products accounting for 12.92 percent of the benchmark value, whereas the matching figure for the US was only 10.73 percent. There were, however, substantial changes in Norway's and Canada's patterns of product selection during the second phase as these countries derestricted both clothing and made-up textile products.

By the end of the second phase of the ATC, it became obvious that - thanks to the backloaded schedule followed by the exporting countries - commercially meaningful integration had not in effect taken place. Such a situation is underwritten by Article 2.6 of the ATC which identifies four product groups (i.e. tops and yarns, fabrics, made-up textile products and clothing), but does not specify the proportion of each of the groups at each stage of integration. In other words, while integration targets have been honoured in a technical sense, the spirit - if not letter of the ATC - has not.

Although the ATC established the minima for integration at various points in time, the restraining countries treated these as ceilings. There have even been instances of new restrictions on ATC products in violation of the provisions of the Agreement, including new US curbs on Turkey's underwear exports and Turkey's own restrictions on a number of exporting countries following its customs union with the EU. Thus, 'full and faithful implementation' of the ATC was not in fact carried out during the first two phases as the obligation to sustain the 'progressivity of the phase-out process' was not fulfilled.

However, some countries, including Bangladesh, emerged as beneficiaries of this default situation. As a quota-free regime is fraught with many uncertainties, a backloaded integration schedule allowed these countries to protect their market share in the interim.

Early Signals from the Third Phase

The third phase of integration, which commenced in January 2002, is supposed to derestrict another 18 percent of the 1990 level of textiles and clothing imports. This should couple with a 27 percent quota expansion. The phase three integration plan submitted by the US to the WTO's Textiles Monitoring Body reflects the approach that informed the selection of products during the earlier stages. For instance, the major part of clothing products on which US restrictions are currently at their highest, will be integrated only to the extent of 2.56 percent out of the planned 18.13 percent to be derestricted under the third stage.

However, early signals from the implementation of the third phase show that exporting countries like Bangladesh, for which the global regime of apparel market has so far remained unchanged, have started to feel the impact of competitive pressure. For example, only two textiles and clothing categories of export interest to Bangladesh (gloves and silk trousers) have been derestricted in the US since the beginning of 2002. A comparison of the first nine months of 2002 data with the preceding year shows a 32 percent drop in Bangladesh's glove exports to the US. Concurrently, China's glove exports have gone up by more than 67 percent ; whereas India exports grew by almost 62 percent. Similar trends may be observed for silk trousers.

Containing the Fallout

As the transition from the MFA to a quota-free textiles and clothing global trading regime is coming to a close, some fallout is becoming increasingly evident, thus making it imperative to think about mitigating measures.

Although some countries may wish to further prolong the transition period, an extension of the ATC beyond 2005 does not seem to be a viable proposition. Alternatively, one may consider measures to contain supply surges from a limited number of sources, leading to serious disruption in market shares, particularly those accruing to low-income countries. One way of dealing with the situation would be to protect the quota of the least-developed countries, as well as small suppliers for a certain period. A capping mechanism may also be thought of for large suppliers. A case in point is the capping imposed on China's textile exports to the US (at 7.5 percent annual growth until 2008), which has been included in China's WTO Accession Protocol.

However, the emerging situation may be more effectively addressed by immediately granting fully quota- and duty-free market access to all products originating in any least-developed country, as some WTO Members already do. As we well know, tariff rates for textiles are usually among the highest in the developed countries. Precisely because of this, if France with its US\$24 billion of diversified exports to the US pays US\$331 million as import duties per annum,

Bangladesh with its ready-made garment exports of only US\$2.4 billion ends up paying almost the equal amount. However, the proposed special and differential market access for LDCs, particularly for textile products, should not be made part of the Doha Round and may come as 'early harvest' in Cancun.

One also needs to keep in view that a large part of the global textiles trade currently takes place outside the MFA regime. The recent spate of regional and bilateral free trade agreements has created a serious diversionary effect on textile trade as well. For instance, thanks to its NAFTA membership, between 1996 and 2000 Mexico's share of US imports increased from about 9 percent to 13.7 percent and from 8.3 percent to 10.4 percent for clothing and textiles respectively.

With or without any post-MFA market protection arrangement, apparel exporting LDCs and other small suppliers will definitely have to address their domestic supply-side constraints. In particular, there is a need to link the textiles and clothing sector of these countries to the 'new economy' driven by e-commerce, i.e. the use of web-based supply chain management systems. On the other hand, this group of countries will have to actively pursue a market diversification strategy, particularly targeted to the East and focussing on Japan.

In this context, it will be very interesting to observe to what extent the much-hyped trade-related technical assistance is made available to textiles-exporting LDCs and small suppliers to meet the post-MFA challenges.