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Working Paper

INTERNATIONAL TRADE IN TEXTILES WITH SPECIAL REFERENCE TO SOUTH ASIA

by

Charan Wadhva
Vasant Mote

विद्याविनियोगाद्विकासः
IIM
AHMEDABAD

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD

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ABSTRACT

This study has been primarily concerned with the issues and perspectives on the historical evolution and working of the arrangements governing international trade in "textiles", particularly the last such arrangement, popularly called Multi Fibre Agreement (MFA). While the problems of both the developed and the developing countries in the field of world trade in textiles and their implications for structural changes in the pattern of a more rational international division of labour have been discussed, special attention has been paid to the problems of the developing "textile" exporting countries with special reference to the Southeast Asian countries.

The study is divided into seven main sections. Section I provides an introduction and the approach adopted by this study. As a background to the problems to be studied, Section II highlights some recent trends in the growth of world textiles and clothing industries especially during the period 1970-75. Section III presents the historical evolution of the arrangements governing international trade in "textiles". The main features of design and organisational aspects of the MFA (especially the Textiles Surveillance Body) are discussed in Section IV. Section V provides an appraisal of the working of MFA. Section VI outlines a few suggestions for renegotiating the MFA which expired on December 31, 1977. The question of the desirability of the extension of the MFA approach to some other sectors is examined in Section VII. And Summary & Conclusions of the Study are presented in Section VIII. A Post-script contains some quick comments on the nature of the MFA which has been extended for the next four years.

INTERNATIONAL TRADE IN TEXTILES WITH SPECIAL REFERENCE TO SOUTH ASIA *

By Charan Wadhva and Vasant Mote

I PROBLEM STATEMENT AND APPROACH

Introduction

The role of international trade in the economic growth of nations is well recognised. International trade leads to a better utilization of resources both domestically and internationally through greater specialization in products according to the principle of comparative advantage Since the degree of specialization (or division of labour) which can actually take place in any economy is limited by the size of the market-- considering both the domestic market and foreign markets, the degree of access to the markets of the world becomes a critical element in promoting the growth of the national economies and in turn of the world. By seeking international markets for the commodities they produce, the nations can achieve the economies of scale. This question of the degree of access to the markets of the world acquires special importance in the context of the current drive of the newly industrializing developing countries of the world to promote their exports of manufactured goods mainly to the markets of the developed countries where the potential exists.

The textile industry has played a significant role in the national economies of all the nations and much more so in the economies of the developing countries. Table 1.1 shows the share of the textile and clothing industry in the value added by manufacturing industries.

In later years though this share has declined both in developed and developing countries, yet it continues to be the single industry that makes

Table 1.1

Value added in Textiles and Clothing as compared with total Manufacturing (Year 1963)

Area	Stores in total value added in manufactures		
	Textiles	Clothing	Total
World	6.1	5.0	11.1
Developed Countries	5.8	4.8	10.3
Developing Countries	13.7	6.0	19.7

Source: General Agreement on Tariffs and Trade, Report of the Working Party on Trade in Textiles, Study of Textiles, L/3797, 29 December 1972, p. V-12.

a significant contribution to output of manufactured articles. The details of the share of the textiles and clothing industry in terms of value added is presented in Table A1.1 in the Appendix for some selected countries for 1963 and 1969. We have also tried to estimate the share of value added of textile and wearing apparel industries in the manufacturing sector of selected countries for the year 1972 which is the latest year for which we had access to the required data. These estimates are presented in Table A1.2 in the Appendix to this section. They further support the conclusion regarding the continued importance of these industries to the national economies of a number of developed and (more so) developing countries.

The share of this industry in total trade has remained around 6% during the period 1950 1950 to 1970. In this sphere also this is an industry which accounts for a significant share. Thus the share of exports of textiles and clothing in world exports was around 6 per cent in the years 1960 and 1970. These and other details are provided in Table A1.3 in the Appendix.

In terms of employment it provides, this industry would rank very high both in developed and developing countries. The share of this industry in total industrial employment varies from 8.4% to 17% in developed countries and from 16.3% to 40% in developing countries (See Table A1.1 in Appendix I).

Considering the importance of this industry in national economies and the significance of the international trade to the well being of this industry, the development of the international trade in this industry is of considerable interest to Governments of the nations, to the industrialists in the industry and to the work force employed in this industry. Should the development of trade in this industry be left to economic law of comparative advantage or should other arrangements be designed to develop this trade are some of the questions that are of interest to policy-makers all over the world.[1]

The objectives of this paper, stated briefly, are to critically review the arrangements that have been made so far and to suggest improvements in these arrangements. It is hoped that such a review for the textile and clothing industry would give some insights on the question whether this type of arrangement should be extended to international trade in some other commodities.

A detailed statement concerning the terms of reference set for this study is given in Appendix to Section I.

2. Approach

2.1 Theme of the paper: The central theme of the paper being the review of the adjustment problems under the arrangements that have governed the trade in textiles, the thrust of the paper is to seek answers to three c tions. The questions being:

i) How well have the arrangements worked?,

ii) If they have not worked well what were the reasons that contributed to its ineffectiveness?, and

iii) How should the arrangements be modified?

2.2 Conceptual Framework: To seek answers to the three questions posed in section 2.1 was by no means an easy task. The main difficulty in this effort stemmed from the absence of satisfactory yardsticks to measure the effectiveness of the arrangements. The arrangements that have been made do state clearly the objectives sought to be achieved by these arrangements. Yet the participants in the arrangements have not developed satisfactory criteria to measure the effectiveness of these arrangements.

To illustrate this point, consider the "Long Term Arrangements Regarding International Trade in Cotton Textiles" which came into force on October 1, 1962 and remained valid until September 30, 1973. This arrangement was adhered to by some thirty three countries, representing about three quarters of world trade in cotton textiles.

The basis of this arrangement was to provide for growth in trade in cotton textiles, particularly for the developing countries possessing the necessary resources such as raw materials and technical skills, while avoiding the disruptive effects in this sector of national economies in both developed and developing countries.[2]

The problem arises as to how to measure the effectiveness of this arranc ment given its objectives. One of the yardsticks used to measure its effectiveness is the balance of trade of developing countries in the textile trade. Table 1.2 shows the balance of trade in textile for both developed and developing countries.

Table 1.2

Net Balance of Trade in Textiles (A) and Clothing (B) by Main Areas (Between 1960-1970)

(In Million Dollars F.O.B.)

		1960	1965	1970
Developed Areas	A	1022	793	1107
	B	134	-37	-939
	A+ B	1156	756	168
Developing Areas	A	-1039	-898	-1057
	B	- 158	+ 92	960
	A+ B	-1197	-806	- 97
Eastern Trade Area	A	117	105	- 30
	B	24	-55	9
	A+ B	141	50	- 21

Source: General Agreement on Tariffs and Trade, Study on Textiles: Report of the Working Party on Trade in Textiles, L/3797, 29 December 197? p.II-84

With the help of this data it can be argued that the developing countries have benefited because of this agreement since the balance of trade of these countries has improved during the period of this agreement and hence the objectives of the agreement has been achieved. There are however two problems in drawing these conclusions. First is that this data excludes the trade in commodities closely related to textile trade, namely, textile fibres, textile machinery and colours and chemicals. The picture substantially changes if these were to be included. Second is that an improved balance of trade is not sufficient for the growth of an industry. The growth of the industry will be more governed by the profitability or by the value added by these exports. Let us examine each of these aspects.

The balance of trade in textiles substantially changes if the trade in textile machinery and textile fibres is included. Table 1.3 shows the balanceof trade after inclusion of these items.

Unfortunately comparable data for the year 1970 is not available but this table shows how misleading the exclusion of these items can be. In 1974 if these items were not included, the developed countries would have shown an import surplus of 2.66 billion U.S. dollars as compared to -43 billion dollars which is the import surplus after inclusive of these items. This picture would also change if trade of colours and chemicals were also to be included.

Consider now the problem of value added by textile trade to the respective countries . Data that will permit drawing of definite conclusions in this area is not available but there are pointers to suggest that value added from exports by developing countries is lower than value added by exports of developed countries. There are three pointers in this direction. First is the unit value of main clothing articles imported in EEC. This data is of special significance since the exports of clothing from developing countries to developed countries has shown a sharp increase. Table A1.4 presents the data

Table 1.3

Trade in Fibres, Textiles, Clothing and Textile Machinery between Developed and Developing Countries* in 1960 and 1974

(billion dollars)

Commodity	SITC Rev.1	Exports of Developed to developing countries		Export of developing to developed countries		Export (+) or Import (-) surplus of developed countries	
		1960	1974	1960	1974	1960	1974
Textile fibres	26	0.37	1.68	1.15	1.88	-0.78	-0.20
Textiles	65	1.46	4.85	0.54	3.50	+0.92	+1.38
Clothing	84	0.30	0.82	0.16	4.86	+0.14	-4.04
Textile machinery	717.1	0.28	2.43	-	0.05	+0.28	+2.38
Total of above		2.41	9.81	1.85	10.29	+0.56	-0.48

*Southern European countries are included with developing countries

Sources : UN, Monthly Bulletin of Statistics, May 1966 and Yearbook of International Trade Statistics Vol.I, 1975; OECD, Trade by Commodities Series B, 1974; Japan, Annual Return of the Foreign Trade of Japan, 1960; GATT, Rapport due Groupe de travail du commerce des textiles L/3797, Vol. I, 1972 and GATT, Production and Trade in Textiles and Clothing, 1974 to 1976, COM. TEX/W/35.

It is interesting to observe that the unit value realized by developing countries is substantially lower than that realized by developed countries. The GATT Study on Textiles cited earlier had observed that the "slower rise in clothing price may be due to pressures from imports which generally compete at the cheaper end of the market where choice is determined mainly by the price factor".[3]

A Second pointer is that the export of textile machinery from the developed countries to developing countries has sharply increased (about 10 times from 1960 to 1974). The value added from these exports will be very substantial.

Table 1.4

Import values and unit values of main clothing articles into the EEC

Items	BTN headings	Value (million units of account) Origins EEC	Other developed	Developing countries	(Units of account per kg) EEC	Other Developed	Developing countries
Sweaters, pull-overs, twin-sets, blouses, jackets..knitted or crocheted, in wool for women and girls	6005.22	107.7	5.6	22.4	20.1	20.7	11.5
Sweaters, pull-overs, twin-sets, blouses, jackets.. knitted or crocheted, in synthetic fibres, for women and girls	6005.23	421.1	29.3	105.3	12.3	14.0	7.6
Sweaters, pull-overs, twin-sets, blouses, jackets..knitted or crocheted, in cotton for women girls	6005.25	52.3	20.6	21.1	18.6	13.0	10.0
Sweaters, pull-overs, twin-sets, blouses, jackets..knitted or crocheted, in synthetic fibres, for men and boys	6005.32	104.7	6.2	43.2	11.9	10.2	6.6
Outer garments, for professional uses, in cotton textiles, for men and boys	6101.21	69.0	73.1	89.6	10.5	11.9	5.6
Trousers and knickerbookers, in synthetic fibre textiles, for men and boys	6101.63	56.0	23.6	15.9	11.5	10.8	6.7
Trousers and knickerbokers, in cotton textiles, for men and boys	6101.67	134.6	54.2	89.9	9.7	7.5	5.0
Outer garments for professional uses, in cotton textiles, for women and girls	6102.21	43.2	19.7	68.2	17.1	12.7	7.7
Shirts and blouses, in synthetic fibre textiles, for women and girls	6102.83	53.8	9.3	48.1	22.4	16.5	11.1
Shirts in synthetic fibre textiles, for men and boys	6103.11	43.4	24.4	157.6	13.3	10.7	6.8
Shirts in cotton textiles, for men and boys	6103.15	36.7	16.7	59.9	13.0	10.2	8.5

Source: EEC Eurostat, Analytical Tables of Foreign Trade, Nimexe, 1975

The Third pointer in this direction is that in the developed countries[3] the value added in 1963 is about 3.7 times higher than that in developing countries and that during the decade 1960-1970 the developed areas received by far the main important producing area of textiles and clothing, although value added increased much more rapidly in developing countries.

The foregoing discussion has highlighted difficulties involved in assessing the benefits accrued from the agreements governing international trade in textiles. One of our first tasks therefore was to evolve suitable yardsticks to measure effectiveness of these agreements.

Since major objectives of agreement have been: expansion of trade with minimal disruptions in individual markets, yardsticks that we sought to develop were to measure:

1. Profitability of industry from expansion of trade,
2. Benefits to the consumer through the established trade channels in the importing countries, and
3. Disruptive effects of the expansion of trade in individual market

The details of this conceptual framework will be discussed in Sectior of this paper which deals with the appraisal of The Arrangement Regarding International Trade in Textiles (popularly known as the Multi Fibre Arran ment).

It has not been possible to demonstrate the efficacy of this framewo by using real life data. The reasons are not far to seek. First is th the data required is not readily available in its required form. Secon is that time and resources at our disposal were not adequate to underta such a task. We had therefore to remain content by demonstrating that recommended conceptual framework will give better insights into the working of these agreements, will lead to better understanding of the required modifications in these arrangements and finally will be convincing enough to the policy makers regarding the practicability of applying this conceptual framework.

3. <u>Organisation of the paper</u>

This paper is organised into eight sections. Following this Introductory section (Section I), Section II deals with "Some Recent Trends in the Growth of World Textiles and Clothing Industries"; Section III presents "Historic Background of the Arrangements inviting International Trade in Textiles"; Section IV is entitled "The Multi Fibre Arrangement : Design and Organisational Aspects"; Section V presents "The proposal of the working of the MFA". Section VI deals with the "Suggested Approaches to the renegotiation of the MFA; Section VII deals with "the Question of the extension of the MFA to some other sectors" and VIII provides SUMMARY AND CONCLUSION. A Post-Script has been added to take note of the decision of the Textile Committee of December 14, 1977 providing for the extension of the MFA for the next four years. This opportunity is also utilised to offer some qu[illegible] comments on the text of the press release regarding this decision to extend the life of the MFA. Further comments on this subject must await the release of the relevant documents to the public.

APPENDIX

Table A1.1

Value added and Employment Provided by Textiles and Clothing Industry in Selected Countries

Country	Value added to textiles and clothing as proportion of value added to total domestic manufactures		Employmentiin textiles and clothing as proportion of total industrial employment	
	1963(%)	1969(%)	1960(%)	1970(%)
Austria (1970)		12.5	17.0	16.6
Canada	8.1	7.4	13.3	11.7
E E C (for 1970)	N.A	9	10.5	8.8
Japan	9.9	7.9	N.A	8.9
Switzerland	N.A	N.A.	8.4	11.1
U.S.A.	7.3	6.9	12.9	12.1
Hong Kong	N.A	N.A.	44.7	40.3
India	26.6	22.7	37.1	N.A.
Pakistan	39.7	32.8	N.A	N.A.
Republic of Korea	19.5	18.2	16.3	23.4

Source: Tables 53 and 54 in Addendum 1. Published by GATT Secretariat. Ref. No. L/3797/Add.1 of 29 December 1972

Table A1.2

Share of Value added of textile and wearing apparel industries in the manufacturing sector, 1972

(1)	(2)	(3)	(4)=(2)+(3)
Country	Textile	Wearing apparel	Textile and Wearing Apparel
U.S.A	3.89	3.17	7.06
Canada	4.58	3.25	7.83
Belgium	8.02	3.25	11.26
Denmark	4.50	2.79	7.29
France	5.42	2.58	8.00
F.R.G.	3.15	2.97[1]	6.13[1]
Italy	7.57[2]	3.57[2]	11.14[2]
Luxmb	0.11	0.59	0.70
Netherlands	6.97[3]	..	6.97[3]
Irelands	9.01	4.3	13.31
U.K.	5.41	2.36	7.77
EEC[4]	4.88[5]	2.71[5]	7.59[5]
Austria	6.94	3.71	10.65
Norway	2.99	2.23	5.22
Sweden	2.68	1.87	4.55
Switzerland			
Japan	6.48[2]	1.34[2]	7.82[2]
Korea, Rep. of	16.49	3.66	20.15
Pakistan	32.38	0.04	32.43
Phillippines	4.75	0.61	5.36

Table A1.2 (contd..)

(1)	(2)	(3)	(4)
Austria	4.58	3.25	7.83
Singapore	3.60	3.27	6.87
Malaysia West	2.86[3]	1.11[3]	3.98[3]
Poland	9.81[8]	3.52[8]	12.53[8]
Hungary	6.44	2.78	9.22

Source: United Nations, Statistical Yearbook, various issues

Notes:

1 Wearing apparels, Leather and products and Footwear

2 1971

3 Textiles, wearing apparels, leather and products and Footwear

4 Expanded EEC (Nine countries)

5 While calculating the shares, first the value added of the member countries are converted into dollars. For Italy and Netherlands, the value added of 1971 are taken. For Netherlands, the "sector" includes textiles, wearing apparels, leather and products and footwear.

6 1969

7 1970

8 Value added of manufacturing sector is derived by subtracting the value added of coal mining and electricity from the value added of industrial sector.

TABLE A1.3

Trade of Textiles and Clothing and of manufactures as compared to total trade

(Figures in Percentage)

	1960			1970		
	Trade of textiles & Clothing as proportion of trade in manufactured articles	Trade of manufactured articles as proportion of total trade	Exports of textiles & clothing as proportion of total trade	Trade of textiles & Clothing as proportion of trade in manufactured articles	Trade of manufactured articles as proportion to total trade	Exports of textiles & clothing as proportion of total trade
World	11.3	54.7	6.2	9.2	64.8	5.9
Developed Areas	11.5	49.7	5.8	7.9	75.8	6.0
Developing Areas	27.5	15.4	4.2	23.2	27.3	6.3
Eastern Trading Area	11.0	56.4	6.2	8.3	60.5	5.0

Source: GATT Secretariat. Ref.No. L/3797 of 29 December 1972 page V-6/7.

Apart from analysing trends and developments in production and international trade in textiles (mainly cotton and manmade fibres), and the problems in the textile industry in both developed and developing countries, the study would review the course of international negotiations in this field, beginning with the Long-term Cotton Textile Agreement of 1962 and covering "voluntary" export-restraint agreements.

In this way the Arrangement Regarding International Trade in Textiles, which came into force in 1974, would be put in a global and historical perspective. Particular attention would be focussed on the work of Textile Surveillance Board (TSB) established under the Agreement. Thus the study would mainly be concerned with adjustment problems. Indeed in a broader context, the TSB is a test case on how the multilateral "safeguard" provision of GATT (Article 19) might be reformed.

The authors would be expected to prepare proposal on how 1973 arrangements might be improved when it comes for renegotiation in 1977.

* * * * * *

II SOME RECENT TRENDS IN THE GROWTH OF WORLD TEXTILES AND CLOTHING INDUSTRIES

This section briefly reviews the background of some recent trends in growth of world textiles under five subsections dealing with (i) Comsumer expenditure on (ii) production; (iii) employment, (iv) machinery-in-use; and (v) World trade.

i) Trends in Consumer expenditure on clothing in selected countries

Table 2.1 gives data on Consumer Expenditure (total and for clothing) on clothing for a few selected countries for the period 1972-75.

Total Consumer expenditure on clothing showed an upward trend for these selected developed countries. For the year 1972, the highest rate of increase was shown by Japan (9%), followed by USA (7%). The rate of increase declined for all developed countries after 1972. Most other developing countries listed in Table 2.1 also showed an increase in their total consumption expenditure on clothing. Available evidence, as reported in the latest annual report by GATT, shows that consumer expenditure on clothing in industrially developed countries rose more rapidly in 1976 compared to the previous year.[4]

The increase in consumption expenditure on clothing lagged behind the increase in total consumption expenditure for most of the developed countries exceptions being Austria (1972) and Sweden (1973-74). Expenditure on clothing actually declined in Norway (1972-74), EEC (1974-75) United States (1974) and Japan (1974). Rate of increase in consumption expenditure on clothing generally showed a decline for most of the developed countries during this period.

The developing countries (shown in the Table 2.1) present a slightly different picture. For all of them (excepting Singapore) the increase in consumption expenditure on clothing was higher than that on total expenditure (for 1972-1974). The rate of increase of consumption expenditure on clothing declined after 1972 substantially.

ii) Trends in Production

Table 2.2 shows the trends in production of textile and clothing for a few selected countries from 1971 to 1975. Most of the developed countries show an upward trend upto year 1973 (excepting Norway and Sweden). After 1973, production of both textiles and clothing declined for all the developed countries. The rate of decline was higher in 1975 than in 1974. For EEC, production of textiles and clothing declined by 3.74 per cent in 1974 and 5.83 per cent in 1975. Textile production showed a decrease of 4.17 per cent in 1974 and 10.43 per cent in 1975 in USA. For clothing the decline was 6.90 per cent for 1974 and 10.19 per cent for 1975. Japan, Austria, Sweden and Switzerland were other badly affected countries though Japan's rate of decline slowed down in 1975. The latest picture presented in the GATT's Report on International Trade 1976/77 shows that for 1976 as a whole industrial countries' production of textiles and clothing showed a "substantial recovery" from its low level in the previous year. This holds for USA, EEC and Japan specifically.

Developing countries present a mixed picture as far as production of textiles and clothing is concerned. Upto 1973, the indices of production

CONSUMER EXPENDITURE ON CLOTHING IN SELECTED COUNTRIES

(At constant 1970 prices)

		Index numbers, 1970=100				Percentage change over previous year			
		1972	1973	1974	1975	1972	1973	1974	19
EEC[1]	Total	109	114	116	118	5	$4\frac{1}{2}$	2	
	Clothing	109	111	110	109	5	2	-1	
Norway	Total	108	111	115	120	3	3	$3\frac{1}{2}$	
	Clothing[2]	102	99	98	104	-1	-3	-1	
Sweden	Total	102	103	108	111	3	1	5	
	Clothing	95	99	110	113	1	4	11	
Austria[3]	Total	113	119	123	126	$6\frac{1}{2}$	5	4	
	Clothing	114	116	1[illegible]0	123	$7\frac{1}{2}$	2	3	
United States[4]	Total	110	115	114	115	7	$4\frac{1}{2}$	-1	
	Clothing[2]	112	121	120	124	$6\frac{1}{2}$	8	-1	
Japan	Total	117	127	129	136	9	$8\frac{1}{2}$	$1\frac{1}{2}$	
	Clothing	114	116	114	..	$7\frac{1}{2}$	2	-2	
Greece	Total	112	120	122	128	$5\frac{1}{2}$	7	2	
	Clothing	118	124	129	..	5	5	4	
Spain	Total	114	122	129	..	$8\frac{1}{2}$	7	6	
	Clothing	112	117	115	..	11	$4\frac{1}{2}$	$-1\frac{1}{2}$	
Israel	Total	116	125	135	134	$8\frac{1}{2}$	$9\frac{1}{2}$	8	
	Clothing[5]	121	139	152	157	21	15	9	
Korea (Rep. of)	Total	118	128	135	142	7	$8\frac{1}{2}$	5	
	Clothing[5]	136	156	161	167	12	15	3	
Singapore[6]	Total	124	135	143	..	9	$8\frac{1}{2}$	-2	
	Clothing[2]	116	126	124	..	9	$8\frac{1}{2}$	-2	

[1] Weighted by 1970 expenditure (converted into units of account at official 1970 exchange rates). Excluding Ireland and Luxembourg.

[2] Including footwear

[3] At constant 1964 prices

[4] At constant 1972 prices

[5] Including footwear and other personal effects

[6] At constant 1968 prices

Source: OECD, Quarterly National Accounts Bulletin; EUROSTAT, National Accounts; national statistics; Reproduced in General Agreement on Tariffs and Trade Textiles Committee, Production and Trade in Textiles and Clothing, 1974 to 1976, Report by the Secretariat, COM.TEX/W/35, 29 Oct.1976, p.5.

for all the countries (except Indian Clothing Industry) show an upward trend-increase being highest for Korea and Singapore. Production of textiles increased by 33.06 per cent in 1972 and 24.84 per cent in 1973 for Korea. For Singapore the comparable percentages were 36.51 per cent. For clothing the increase was even higher being 47.89 per cent (1972) and, 8 .24 per cent (1973) and 52.75 per cent (1972) and 17.49 per cent (1973) for Singapore. After 1973 however the trend reversed for Singapore and rate of increase declined substantially for Korea for the year 1974 for both textiles and clothing. India, Malaysia and Phillippines also showed a decline in production of both textiles and clothing for the year 1974. The latest figures available with the GATT Secretariat have led it to conclude in its report on <u>International Trade 1976-77</u> that in the developing countries <u>as a whole</u>, production of textiles as well as clothing increased in 1976 at a rate higher than that achieved in 1974 and 1975.

iii) <u>Trends in Employment</u>

Indices of employment in textile and clothing for the period 1971 to 1975 are shown for a few countries in Table 2.3. Employment indices (with base 1970) for EEC, Sweden and Switzerland declined for the period for both textiles and clothing. For EEC the percentage rate of decline was two per cent in 1973 and 4.09 per cent in 1974 for textiles and 1 per cent in 1973 and 6.07 per cent in 1974 for clothing. Canada and USA showed a mixed trend. Employment in Textile and clothing industries for both the countries increa till 1973 and declined thereafter. Thus for example, the rate of decline in employment was 0.89 per cent in 1974 and as much as 11.81 per cent in 1975 for the Canadian textile industry. The comparable figures for USA

TABLE 2.2

Indices of Production of Textiles and Clothing for a few selected countries
1970=100

Countries		1971	1972	1973	1974	1975	% change over the previous year 1972	1973	1974	1975
EEC	Textiles	103	106	107	103	97	2.93	.94	-3.74	-5.8
	Clothing									
Norway	Textiles	97	95	95	93	87	-2.07	0	2.11	-6.4
	Clothing	96	90	85	81	79	-6.25	-5.56	-4.71	-2.4
Sweden	Textiles	97	99	106	104	89	+2.06	7.07	-1.89	-14.4
	Clothing	89	87	91	90	83	-2.25	4.60	-1.10	- 7.7
Austria		108	114	121	116	98	5.56	6.14	-4.13	-15.5
		105	115	119	122	111	9.52	3.48	+2.52	-9.0
Switzer-		101	110	112	109	91	8.91	1.82	-2.68	-16.5
land		101	101	98	92	87	0	-2.97	-6.12	- 5.4
Canada		115	124	135	132	124	7.83	8.97	2.23	-6.0
		108	112	116	116	114	3.70	3.57	0	-1.7
USA		102	110	120	115	103	7.84	9.09	-4.17	-10.4
		100	108	116	108	97	8.00	7.41	-6.90	-10.1
Japan	Textiles and Clothing	101	105	111	97	93	3.96	5.71	-12.62	-4.12
Hong Kong										
India		96	103	104	99	-	7.29	.97	-4.81	-
		104	94	93	90	-	-9.62	-1.06	-3.23	-
Korea (Rep. of)		121	161	201	208	263	33.06	24.84	[illegible]	+26.44
		142	210	389	510	654	47.89	85.24	+31.11	28.24
Malaysia		107	136	172	123	-	27.10	26.47	-28.49	-
Pakistan	Cotton Cloth	109	104	97	98	92	-4.59	-6.73	+1.03	-6.13
	Cotton Yarn	111	123	138	139	129	10.81	12.20	+ .72	-7.19
Philippines		125	118	120	108	-	5.6	1.69	-10.00	-
Singapore		134	183	212	183	162	36.57	15.85	-13.68	-11.48
		146	223	262	246	213	52.74	17.49	-6.11	-13.41

Source: General Agreement on Tariffs and Trade, Production and Trade in Textiles and Clothing, COM/TEX/W/35/Add 1, Statistical Appendix I were 3.74 per cent and 7.77 per cent. Similar trends were noticeable for clothing industries.

Employment in textiles for Hong Kong showed a continuous decline till 1974 increasing again in 1975 by 15.71 per cent though still remaining lower than the 1970 level. Clothing industry, on the other hand, showed a continuous upward trend in terms of employment excepting for the year 1974. The rate of increase of employment for clothing industry was 9.32 per cent in 1972, 17.05 per cent in 1973 and 26.95 per cent in 1975.

Employment indices for Singapore show a decline of 15.92 per cent for textiles and 11.22 per cent for clothing for 1974. 1972 and 1973 however recorded impressive rates of increase for both the industries. Phillippines showed a decline for 1972. India presented the picture of a slow increase in employment in textiles over the period 1971-1975.

Thus, on the whole the employment picture of developing countries in textiles and clothing industries improved during this period.

iv) Trends in Machinery-in-use

Tables 2.4, 2.5 and 2.6 give the details of machinery in use in cotton spinning, cotton weaving and knitting for the peiod 1960-70 for a few selected countries.

Between 1960 and 1970, the number of active cotton spinning machines declined for all the developed countries excepting Australia (for whom the increase was a meagre figure of 5.74 per cent over the ten years). In some cases the decline was very sharp e.g. in U.K. the number of active machinery declined from 10,703 to 3,355. During the same period most

TABLE 2.3

Indices of Employment, Textiles and Clothing for a few selected countries

Countries		1971	1972	1973	1974	1975	% changes over the previous year 1972	1973	1974	1975
EEC	Textiles		100	98	94			-2.0	-4.09	-
	Clothing		100	99	93			-1.0	-6.07	
Norway	Textiles			100	83	142			-17.00	71.08
	Clothing			100	115	85			+15.00	-26.09
Sweden		91	85	86	86	83	-6.59	+1.18	0	-3.49
		86	81	79	78	78	-5.71	-2.47	-1.27	0
Austria		101	101	100	93	81	0	-1.00	-7.00	12.90
		104	109	108	104	99	4.81	-0.92	-3.70	-4.81
Switzerland		96	91	85	81	69	-5.21	-6.59	-4.71	-14.81
		97	94	88	80	69	-3.09	-6.38	-9.10	-13.75
Canada		101	108	112	111	99	+6.93	+3.70	-0.89	-11.81
		100	101	105	104	101	1.00	3.96	-0.95	-2.88
USA		100	104	107	103	95	4.00	2.88	-3.74	-7.77
		98	98	100	96	88	0	2.04	-4.00	-8.34
Japan			100	95	88	83		-5.00	-7.37	-5.68
			100	100	102	107		0	2.00	+4.90
Hong Kong		99	95	79	79	81	-4.05	-16.84	-11.39	15.71
		118	129	151	141	179	9.32	17.05	-6.62	26.95
India		102	104	108	110	111	1.96	3.85	1.85	.90
Korea			100	110	125			10.00	13.64	
			100	114	130			14.00	14.04	
Malaysia										
Pakistan										
Phillippines		116	98	137			-15.52	39.80		
		111	110	176			-0.91	60.00		
Singapore		128	177	201	169		+38.28	13.56	-15.92	
		133	182	205	182		+36.84	21.64	-11.22	

2.4

Machinery Active : Cotton Spinning 1960-1970
(3 and 4 cylinder only)

Unit 000's spindles

	1960	1970	% Active/In Place 1960	% Active/In Place 1970
Australia	210	221	89	99
Canada	1,228	1,123	100	100
United States	19,365	18,699	97	95
European Economic Community	17,356	13,189	94	99
Belgium-Luxembourg	1,248	934	82	95
France	5,154	3,396	100	100
Germany, F.R.	5,948	4,349	100	100
Italy	3,974	3,952	82	96
Netherlands	1,032	558	100	100
Denmark	93	36	97	92
United Kingdom	10,703	3,355	100	96
Austria	552	412	95	99
Finland	268	174	98	99
Norway	100	83	99	92
Sweden	383	132	93	94
Japan	11,755	11,632	89	99
Industrialised countries	62,013	48,956	98	97
Rep. of Korea	409	816	86	90
Taiwan	350	1,300	100	93
Hong Kong	490	882	98	99
Malaysia/Singapore	-	[illegible]8	-	100
India	11,831	14,02[illegible]	87	78
Pakistan	1,844	2,825	95	90
Macao	n.a/n.c	n.a/n.c	n.a/n.c	n.a/n.c
Arab Rep. of Egypt	1,116	1,730	94	100
Israel	150	290	90	94
Yugoslavia	404	1,100	88	100
Turkey	772	1,300	97	100
Greece	325	415	79	86
Portugal	839	1,101	76	81
Spain	2,417	2,208	93	100
Brazil	3,840	3,224	100	90
Mexico	1,242	2,628	92	97
Colombia	470	636	97	98

[1] Data covers the cotton and manmade fibre spinning sector/

[a] Refers to the maximum active in each calendar year

Source: General Agreement on Tariffs and Trade Study L/3797/Add.1, p.12

TABLE 2.5

Machinery active - Cotton weaving 1960-1970

			% Active/In place	
	1960	1970	1960	1970
Australia	3,400	4,429	93	95
Canada	17,935	15,911	100	100
United States	308,317	324,750 (e)	96	92
European Economic Community	367,339	211,457	94	99
Belgium-Luxembourg	23,756	17,800	76	93
France	102,889	53,383	100	100
Germany, F.R.	120,260	60,812	100	100
Italy	87,591	66,965	85	93
Netherlands	32,833	12,497	94	86
Denmark	1,931	1,150	93	94
United Kingdom	171,400	71,200	100	95
Austria	11,153	6,280	94	97
Finland	6,353	3,695	99	98
Norway	1,783	1,073	100	91
Sweden	7,328	2,503	97	97
Japan/Japon	340,290	356,956	91	98
Industr. countries	1,237,229	999,404		
Rep. of Korea	11,221	20,728	63	96
Taiwan	12,900	32,000	100	89
Hong Kong	16,000	22,776	94	97
Malaysia/Singapore	1,558	1,558		78
India	182,203	171,524	89	82
Pakistan	29,000	35,000	97	94
Macao	n.a/n.c	n.a/n.c	n.a/n.c.	n.a/n.c
Arab Rep. of Egypt	21,218	28,000	98	100
Israel	3,789	4,330	100	100
Yugoslavia	15,600	23,000	100	98
Turkey	15,172	23,000	96	100
Greece	4,700	5,930	77	83
Portugal	24,200	27,424	75	72
Spain	63,956	54,795	96	98
Brazil	92,500	72,000	90	90
Mexico	36,000	48,400	90	99
Colombia	9,900	12,505	94	98
Argentina	19,483	18,200	97	93
Jamaica	n.a/n.c	n.a/n.c	n.a/n.c	n.a/n.c
El Salvador	n.a/n.c	2,650	n.a/n.c	96
Developing countries	557,842	60[illegible],820		
USSR	225,000*	278,000*	99	97
Romania	16,600	17,200	100	99
Poland	40,134	39,400	97	100
Germany, D.R.	39,000	37,600	100	99
E. European countries	320,734	372,200	94	94
Total above	2,115,805	1,975,424	94	94
World Total	2,415,384	2,470,603	95	93

TABLE 2.6

Machinery in place 1960-1970[a]

Knitting machines (warp, weft and hosiery)

	1960	1970
Australia	10,000 (e)	12,569
Canada	16,949	19,445
Austria	11,937 (1955)	11,260
Finland (b)	n.a/n.d	(3,798)
Sweden (b)	7,785	7,238
Japan/Japon	91,024	183,569
Republic of Korea (c)	13,700	40,136
Taiwan		8,368
Hong Kong (c)	9,000	1,200
India	11,938	2[illegible],000 (e)
Arab Rep. of Egypt	1,400	1,700
Israel	2,693	5,732
Portugal	(5,421)	n.a/n.d
Mexico	200 (e)	4,164

a) In place on 31st December
b) Active not in place
c) Machinery active

	1960	1970
Australia	n.a/n.d	10,667
Japan	58,563	140.934
Rep. of Korea	13,968	36,421
Israel	2,700	5,800
Portugal	4,211	n.a/n.d
Hong Kong	7,200	8,960
Mexico	n.a	4,164

e) estimated

N.B. Data for other countries not available of these developed countries showed an increase in the ratio of the active machinery to machinery in place. The only exceptions were those of UK and Norway where this ratio declined from 100 (1960) to 96 (1970)for UK and 99 (1960) to 92 (1970) for Norway. For most of the countries the ratio of active machinery to machinery in place was above 90 per cent (for Italy and Belgium it was 82 per cent in 1960 but it improved to 96 per cent and 95 per cent respectively for the two countries in 1970).

For the developing countries the data shows an increase in the number of active machines between 1960 and 1970. Spain and Brazil however show a decline in this respect during this period. As to the ratio of active machines in place, the picture is mixed. Some countries improved this ratio (e.g. Korea, Egypt, Israel etc), whereas it worsened for other (India, Pakistan, Taiwan and Brazil). The ratio was as low as 78 (for India in 1970) and 81 (for Portugal in 1970) and as high as 100 per cent for others.

Active Machinery in cotton weaving repeats the same story. The number of such machines for almost all the developed countries (excepting Australia and Japan) declined--UK again showing a very sharp decline from 171,400 active machines in 1960 to 71,200 machines in 1970. During the same period most of the countries increased the ratio of 'active' to 'in place' machinery. The ratio however showed a decline for U.S. (from 96 to 92), Netherlands (from 94 to 8 UK (from 100 to 95) and Finland (from 99 to 98) and Norway (from 100 to 91). Most countries show the ratio of 'active' to in place machinery being above 90 per cent for both 1960 and 1970 (Belgium shows a low of 76 in 196 and improved it to 93 in 1970).

The developing countries show an increase in the number of 'active' machinery in cotto weaving. The ratio of 'active' to 'inplace' machinery shows a mixed trend--India showing a decline (from 89 to 82) and Republic of Korea showing a substantial increase (63 to 96) for the period 19 0 70. This ratio in 1970 ranged from 72 (Portugal) to 100 (Egypt, Israel and Turkey).

East European countries taken as a whole show an increase in the number of machines and their ratio of active to in place machinery remains high (abov 94 per cent) for all this period.

The data for knitting machines is more scanty than for others. For the countries for which the data is given in Table 2.6 the number of knitting machines shows an increase except for Austria and Finland.

v) <u>World Trade in Textiles and Clothing</u>

The trends in World Trade in Textiles and Clothing for the period 1970-75 may be seen from Table 2.7. World Trade in Textiles and Clothing increased by nearly 18 per cent per annum over the six years 1970-76. The increase in trade in clothing was sharper (22.00 per cent per annum) than that in textiles (15.5 per cent per annum).

Intra-trade among developed countries in textiles and clothing increased from $4.91 billion in 1970 to $ 7.66 billion in 1973 and to $ 9.50 billion in 1976 - an increase of 11.60% per annum over the six years. During the same period intra-trade among developing countries increased by about 19.00=18.90

TABLE 2.7
WORLD TRADE OF TEXTILES AND CLOTHING BY MAIN AREAS

(Billion dollars f.o.b)

	Developed Areas			Developing Areas			World (including Eastern Trading Area)		
	1970		1976	1970	1973	1976	1970	1973	1976
DEVELOPED AREAS									
Textiles	3.35	5.41	6.36	2.24	3.79	5.33	5.96	9.93	12.76
Clothing	1.56	2.25	3.14	0.41	0.61	1.09	2.11	3.01	4.44
Textiles and Clothing	4.91	7.66	9.50	2.65	4.40	6.42	8.07	12.94	17.20
DEVELOPING AREAS									
Textiles	1.20	3.10	3.65	0.91	1.66	2.39	2.35	5.14	6.69
Clothing	1.35	3.86	7.01	0.22	0.51	0.80	1.74	4.68	8.26
Textiles and Clothing	2.55	6.96	10.66	1.13	2.17	3.19	4.09	9.82	14.95
WORLD (including Eastern Trading Area									
Textiles	4.75	9.14	10.71	3.50	6.07	8.44	9.11	16.80	21.57
Clothing	3.05	6.48	10.64	0.68	1.22	2.09	4.59	9.18	14.84
Textiles & Clothing	7.80	15.62	21.35	4.18	7.29	10.53	13.70	25.98	36.41

Source: Prepared by the Textile Committee from the U.N. Monthly Bulletin of Statistics, various issues and national trade returns.

Note: This table differs from Table 7 in GATT's International Trade 1976/77 due to the new area definitions adopted here and due to the exclusion of EEC intra -trade.

It is worth noting that the rate of growth of intra-trade amongst developing countries is higher than that for developed countries a fact which is not much publicised in the literature on the analisis of trends in world trade, in textiles and clothing. However, in absolute terms the intra-trade among developing countries which was of the order of $3.19 billion in 1976 was far below that of intra-trade amongst developed countries ($10.66 billion) for the same year.

Exports of developed areas to the world increased from $8.07 billion in 1970 to $12.94 billion in 1973 and to $17.20 billion in 1976--an increase of 16.40 per cent per annum for the period 1960-76. Out of this increase, exports to developed areas increased by 11.60 per cent per annum and to developing areas increased by 14.50 per cent.

During this period exports of developing countries to the world increased from $4.09 billion to $14.95 billion--an increase of 24 per cent per annum. Out of the total increase in exports of developing countries, the rate of growth was higher (at 27 per cent per annum) for exports to the developed countries compared to the rate of growth of exports to other areas (which was 18.9 per cent)[5]

Imports of developed areas of textiles and clothing from all sources increased from $7.80 billion in 1970 to $21.35 billion in 1976 from an annual rate of growth of 18.3 per cent. Their imports of textiles increased at a rate of 14.5 per cent per annum and these of clothing at a rate of 23% per annum. Their imports from developing areas of textiles and clothing increased at the rate of about 27.00 per cent per annum and from developed areas at 14.10 per cent per annum. The increase in imports by developed areas from developing countries was much higher for clothing 31.00 per cent per annum than it was for textiles 21.00 per cent per annum for this period.

Between 1970-75 imports of textiles and clothing by developing countries increased from $4.18 billion in 1970 to $7.29 in 1973 to $10.53 billion in 1976 -- registering an annual rate of growth of 16.70 percent. During 1970-76 imports of textiles by developing areas increased from $3.50 billion to $8.44 billion (a rate of growth of 15.80 per cent per annum) and those of clothing correspodingly increased from $0.[illegible]8 billion to $2.09 billion (i.e. at the rate of about 21 per cent per annum).

Exports of ETA of textiles and clothing increased from $1.54 billion in 1970 to $4.26 billion in 1976 i.e. at a rate of 20 per cent per annum. Its imports during the same period increased from $1.72 billion to $4.53 billion (or at an annual rate of 17.5 per cent per annum). Correspondingly, these exports of ETA to developed areas increased from $0.34 billion to $1.19 billion (or at a rate of about 23.5 per cent per annum and to developing areas from $0.40 billion to $0.92 billion (or by about 14.9 per cent per annum). Intra-ETA trade in textiles and clothing during the same period increased from $0.80 billion to $2.15 billion (or at an annual rate of about 17.9 per cent).

As can be seen from Table 2.8 the developed countries continued to dominate the export and import trade. The share of developed countries in world exports declined from 59 per cent in 1970 to 50 per cent in 1973 but increased slightly in 1974 to 51 per cent before going down to 49 per cent in 1975. The share of developed countries in textile exports continued to be higher than that for clothing. The decline in the share in clothing was much sharper (46 per cent to 32 percent) for these countries than that for textiles (65 per cent to 61 per cent) during the period 1970-75.

During the same period, the devoloping countries improved their position and increased their share in world exports from 30 per cent in 1970 to 39 per cent in 1975. The increase was sharper between 1970-73. The share remained almost the same (38-39 per cent) from 1973 onwards. Their share in exports of textiles increased at a slower rate (from 26 per cent to 29 per cent during 1970-75 and actually declined during the period 1973-75) than that for clothing. For clothing the share of developing countries in world exports increased sharply from 38 per cent in 1970 to 51 per cent in 1973 to 53 per cent in 1975. As may be seen from table 2.8 the increase in the share of clothing exports of developing countries was mcuh slower after 1973.

Eastern Trading Area maintained its share between 11-12 per cent throughout this period. Its position remained the same for both textiles and clothing -- share of clothing remaining constant at 16 per cent (1970-75) after increasing to 17 per cent in 1972. Share of textile increased slightly from 9 per cent to 10 per cent during this period.

On imports side the relative shares of the three types of areas (develo developing and Eastern Trading Area) remained nearly constant between 1970

TABLE 2.8

PATTERN OF WORLD TRADE IN TEXTILES AND CLOTHING BY MAIN AREAS

	Percentage share in world exports					Percentage share in world imports				
	1970	1972	1973	1974	1975	1970	1972	1973	1974	1975
DEVELOPED AREAS										
Textiles	65	61	59	61	61	52	55	54		49
Clothing	46	37	33	32	31	66	69	71		71
Textiles and clothing	59	53	50	51	49	57	60	60		58
DEVELOPING AREAS										
Textiles	26	29	31	30	29	38	34	36		39
Clothing	38	46	51	52	53	15	13	13		19
Textiles and clothing	30	35	38	38	39	30	27	28		29
EASTERN TRADING AREA										
Textiles	9	10	10		10	10	11	10		12
Clothing	16	17	16	15	16	19	18	16		15
Textiles and clothing	11	12	12	11	12	13	13	12		13

Source: UN, Monthly Bulletin of Statistics, various issues, national trade returns.

and 1975 -- the share of developing countries increased by 1 per cent (from 57 per cent to 58 per cent); that of developing countries declined by 1 per cent (3' per cent to 29 per cent) and for ETA remained constant (at 13 per cent). The share of developed countries increased to 60 per cent in 1973 and declined again to 58 per cent in 1975. The share of developing areas increased slightly after 1972.

The share of developed countries decreased for textiles (from 52 per cent in 1970 to 49 per cent in 1975) and increased for clothing (from 66 per cent in 1970 to 71 per cent in 1975). Developing countries show an increase in their share of imports by 1 per cent for textiles and by 4 per cent for clothing during this period. Share of ETA textile imports increased from 10 per cent to 15 per cent for 1970-75. Its share in clothing imports however declined from 19 per cent to 15 per cent for the same period.

III HISTORICAL BACKGROUND OF THE ARRANGEMENTS GOVERNING INTERNATIONAL TRADE IN "TEXTILES"

Regulation in international trade in textiles often through bilaterally negotiated arrangements has a long history. Bilateral quotas cov.ring a number of textile products had been negotiated in the 1930s between France, Germany, Belgium and Britain.

The opposition from the domestic producers to a sharp increase in the "low-cost" imports of textiles from the "low-wage" countries having disruptive effects in the domestic market was strongly expressed to the national government in the U.S. against the Japanese textile goods in the 1930s, especially after the Yen began to depreciate towards the end of 1931.[6] Imports of cotton cloth from Japan into the U.S. increased from 1.6 million square yards in 1932 to 124 million square yards in 1937. The president of the Cotton textiles Institute in the U.S. pointed out around that time that the Japanese wage-rate was about one-sixth of that in the U.S. and cost of production for cloth in Japan was 30 to 40 per cent lower than that in the U.S. The issue of disruptive effects of imports of Japanese cotton goods into the U.S. was expressed in the U.S. Senate in March 1935. The U.S. government was sympathetic to the pressure of the demands of domestic producers regarding the need to limit imports from Japan to avoid injury to domestic interests. Anticipating the likelihood of the imposition of controls on imports of the Japanese goods by the U.S. government, the Japanese voluntarily agreed to limit their exports of some of the cotton goods to the U.S. market. The Japanese Ambassador to the U.S. formally announced in December 1935 that the Japanese manufacturers and exporters had decided to restrict their shipments of some cotton goods to the U.S. This was a unitlateral decision. Thus began the era of "voluntary" restraints "in the form of voluntary quotas on the exports of textiles from the so-called "low-wage" and "low-cost" countries.

This unilateral decision of Japan for voluntary restraint on its exports of some cotton goods into the U.S. market could not sufficiently check the flow of the Japanese cloth into the U.S. to silence the protectionist lobby which was becoming stronger. Simultaneously, efforts were on to negotiate a "gentlemen's agreement" by which Japan would restrict its exports of these goods to the U.S. market to "moderate" amounts -- suggested at around 1935 levels of these exports. Even though the Japanese government was agreeable in principle to conclude such a "gentlemen's agreement" with the U.S., difficulties were experienced in negotiating the details such as the classification of products, and control of trans-shipment through third countries acceptable to both sides so that such an agreement could not be concluded. Around this time (1936), following the report of the Tariff Commission, the U.S. government increased the tariff rates on bleached, printed, dyed, or coloured cotton cloths of certain yarn counts (31 to 50).

Even the increased tariff rates were not sufficient to reduce the flow of imports of cotton goods from Japan into the U.S. market and the protectionist pressure within the U.S. grew further. Through private negotiations among the industry representatives in the two countries, an agreement was reached in 1937 regarding quota level (with some flexibility provisions) for exports of all cotton fabrics and separate quotas were agreed for two sub-categories of cotton cloth (velveteen and corduroy). In 1938, this "gentlemen's agreement" was extended for a further period. In return for such voluntary restraint agreement operated informally, it was understood that the Japanese received the assurance from the representatives of the American cotton manufacturers that they would not seek further government restrictions on Japanese cotton textile imports into the U.S.

The trade between the U.S. and Japan continued to be governed through such voluntary export restraint programmes until the protectionists pressure through domestic producers as well as labour unions grew substantially in the U.S. in 1950s. With the prosperity of 1950s, the Japanese imports of cotton textiles again began to show sharp increases. This time the governments of the two countries had discussions on limiting the disruptive imports from Japan into the U.S. government through voluntary restraints by Japan. The first such "voluntary" restraint programme was announced by the Japanese Government in 1956 followed by similar arrangements for 1957 and for later years until 1960.

The second major case for the negotiation of the voluntary export restraints programme for cotton textiles was that of the Hong Kong with the U.K. In 1958, the Lancashire cotton industry sought and got an undertaking from the Hong Kong's textile industry to restrict exports of cotton piece goods for three years from February 1959. Even though the agreement was based on industry to industry negotiations, it was enforced through a system of export control operated by the Hong Kong government.[7]

The need for multilaterally agreed international rules governing trade in cotton textiles as a special sector was recognised by the U.S. and other developed countries when they found that the safeguard provisions in the General Agreement on Tariffs and Trade (GATT) were not adequate to meet their needs for regulating the disruptive effects of increasing imports of cheap textile goods from a few low-wage developing countries. The U.S. was convinced that a multilateral approach (rather than unilateral action under the bilateral approach currently being practiced) outside the GATT rules but under the auspices of the GATT would be a better approach for negotiating such an arrangement.

With the U.S. initiative, the first such multilateral agreement known as the "Short Term" Agreement on Cotton Textiles (or STA) was negotiated in 1960-61. The STA covered the period from October 1, 1961 to September 30, 1962.

In 1962, the United States and several other countries concluded, under the GATT, a "Long Term Arrangement Regarding International Trade in Cotton Textiles" (or the Cotton Textiles Arrangement or simply the LTA). The first such LTA covered the period October 1, 1962, to September 30, 1967.

It was extended further and expired on December 31, 1973.

The participating countries in the LTA were: 1. Australia 2. Austria 3. Belgium 4. Canada 5. Colombia 6. Denmark 7. Finland 8. France 9. Federal Republic of Germany 10. Greece 11. India 12. Italy 13. Jamaica 14. Japan 15. Luxembourg 16. Mexico 17. Netherlands (also on behalf of Surinam) 18. Norway 19. Pakistan 20. Poland 21. Portugal (also on behalf of Macao), 22. the Republic of China (Taiwan) 23. the Republic of Korea 24. Spain 25. Sweden 16. Turkey 27. The Arab Republic of Egypt 28. U.K. (also on behalf of Hong Kong) and 29. USA. The European Economic Community as such has also accepted the LTA.

The major objectives of the LTA were to achieve in a spirit of international cooperation the development of world trade and to facilitate economic expansion with special emphasis on the promotion of the less developed countries possessing necessary resources such as raw materials and technical skills, by providing larger access to the markets of the world for the products which can be efficiently manufactured by them without disrupting the markets of the developed countries. Over 70 per cent of the world trade in cotton textiles was covered by the LTA.

In order to achieve the objectives, the LTA provided for the operationalisation of a quota system, bilateral agreements between participating countries desiring restraints and the country and products for which restraints were sought and a mechanism for dealing with the situation (including possibilities of unilateral action) for dealing with situations where market disruption is feared in the markets of developed countries. The overall rate of growth permitted for the imports of cotton textiles from the developing countries was 5 per cent per annum.

The LTA was a major step in promoting a regulated international trade in textiles. The character of world trade in textiles changed dramatically in favour of trade in other types of textiles such as wool and manmade fibres. The problem of increasing competition from imports of manmade fibres and products was felt most acutely in the U.S., though several other developed countries experienced similar trends in their imports of textiles. Thus, while in 1962 the U.S. and other developed countries imported a small quantity of manmade fibre textiles or clothing items made with manmade fibres or blends, their imports of these items in physical terms went upto over 1.1 billion metric tons. Manmade fibre textile imports in the U.S. alone increased from 328 million square yards to 4.3 billion square yards, or by 1200 per cent between 1964 and 1971[8].

Noticing the sharp increases in imports of textiles and clothing of non-cotton materials (chiefly manmade fibres and wool), the U.S. took the lead and succeeded in negotiating bilateral wool and manmade fibre and clothing (apparel) agreements with Japan, Hong Kong, Taiwan and Korea who were the leading exporting countries of the South-east Asia.

Even though these bilateral agreements had a "beneficial impact on the immediate wool and manmade fibre textile import problem", the US go-

government was convinced that these agreements are not a complete nor long-term solution and a "more general international framework" was needed. Accordingly the US led in the moves towards negotiating an international arrangement to cover manmade fibres and wool textile trade.[9] The US sought such an arrangement under the auspices of the GATT.

The GATT Council established a Working Party of international experts to study the problems of world trade in textiles. This Working Party recommended the negotiation of an international arrangement to cover world trade in cotton, wool, and manmade fibre textiles and clothing. The GATT Council accepted this recommendation. Under the GATT's auspices, the representatives of 50 nations negotiated and reached agreement on the Arrangement Regarding International Trade in Textiles on December 20, 1973 just a few days before the expiry of the extended LTA. The Arrangement Regarding International Trade (more popularly known as the Multi Fibre Arrangement or the MFA denoting its coverage of multi fibre textiles and clothing) was put in force from January 1, 1974 for a period of 4 years and is, therefore, now due for renegotiation. The next section in this paper highlights the major provisions of the MFA.

IV THE MULTI FIBRE AGREEMENT: DESIGN AND ORGANISATIONAL ASPECTS

The Arrangement Regarding International Trade in Textiles (popularly known as the Multi Fibre Agreement or the MFA or simply the Arrangement) was concluded as a multilateral legal contract under the auspices of the General Agreement on Tariffs and Trade (GATT) to govern international trade in "textiles" covering textiles and clothing based on cotton, wool, manmade fibres or blends thereof for a period of four years from Jaunary 1, 1974 to December 31,1977. As discussed in section III, the MFA succeeded the Long Term "Arrangement Regarding International Trade in Cotton Textiles" which expired on Deember 31, 1973 after its existence for a decade.

The text of the Arrangement consists of a Preamble, seventeen articles and two annexures.[10]

Nearly 50 countries of the world (including the individual member countries of the EEC as independent members) are participating members of this Arrangement and their trade covers nearly 80 per cent of world trade in textiles as defined in MFA. The list of the participating member countries of the Arrangement is given in the Appendix 1 to this section.

Objectives

By its very nature, the MFA tries to reconcile the interests of the exporting and the importing countries and is designed to strike a delicate balance between the rights and obligations of these two sets of countries in the interests of promoting "orderly expansion" of the world trade in the products covered by it. In practice, this amounts to striking a balance between the well recognised needs and interests of the developing countries for more liberal access to the markets of the developed countries and the interests of the developed countries for avoiding actual or potential market disruption to their domestic economies as a result of sharp and substantial increases in imports in the case of "excessive" import liberalisation.

The basic objectives of the MFA are spelt out in Article 1. According to Article 1:2, "the basic objectives shall be to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalisation of world trade in textile products, while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptiv effects in individual markets and on individual lines of production in both importing and exporting countries.

Special attention is paid in the objectives of the MFA to promote the interests of the developing countries. Thus Article 1:3 states that "A principal aim in the implementation of this Arrangemtnt shall be to further the economic and social development of developing countries and secure a substantial increase in their export earnings from textile products and to provide scope for a greater share for them in world trade in these products".

Article 6 also recognises the obligation of the participating countries to pay special attention to the needs of the developing countries and exhorts them to "provide more favourable terms with regard to such restrictions, including elements such as base level and growth rates, than for other countries. These special considerations are to be subjected to the condition that "there should be no undue prejudice to the interests of established suppliers or serious distortion in existing patterns of trade".

Among the other objectives, the MFA in Articles 1:3 and 1:4 clearly spells out the temporary nature of the restrictions which may be imposed conditionally under the specifically approved procedure and subject to the process of multilateral surveillance. Article 1:3 further urges that such actions should be accompanied by measures which would promote structural chances in the "pattern of trade in textiles and in the comparative advantage of participating countries, which policies would encourage businesses which are less competitive internationally to move progressively into more viable lines of production or into other sectors of the economy and provide increased access to their markets for textile products from developed countries".

<u>Coverage of the Products:</u> The Arrangement defines "textiles" in Article 12 as "limited to tops, yarns, piece-goods, made-up articles, garments and other textile manufactured products (being products which derive their chief characteristics from their textile components) of cotton, wool,

manmade fibres or blends thereof in which any or all of these fibres in combination represent either the chief value of the fibres or 50 per cent or more by weigh or 17% or more by weight of wool) of the product". However in the event of unforese conditions of market disruption occuring in the world trade in artificial and synthetic staple fibre, tow, waste, simple mono- and multi-filaments which are otherwise not covered under this Arrangement, the safeguard provisions of this Arrangement can be invoked.

The Arrangement specifically excludes under Article 12:3 the "developing country exports of handloom fabrics of the cottage industry, or hand-made cottage industry products made of such handloom fabrics, or to traditional folklore handicraft textiles products" subject to the proviso that "such products are properly certified under arrangements established between the importing and exporting participating countries concerned."

Consideration of Minimum Viable Production in Small Markets

A special mention is made in Article 1 of the group of importing developed countries with small markets. While discussing the objectives of reconciling the interests of the exporting and the importing countries. The agreement recognises in Article 1:2 that in the case of "those countries having small markets, an exceptionally high level of imports and a correspondingly low level of domestic production, account should be taken of the avoidance of damage to those countries' minimum viable production of textiles".

<u>Major Operational Provisions</u>

The operational aspect of the design of the MFA contains at least the following four major provisions:

i) <u>Phase-Out Programme:</u> Under Article 2, the participating countries are required to notify to the Textiles Surveillance Body (a standing body created under the Arrangement) the details of all existing unilateral quantitative restrictions, bilateral agreements and any other restrictive quantitative measures within sixty days or else will have to be terminated forthwith. These notified restrictions are then either to be phased out justified under the provisions of the Arrangements and to be terminated within a recommended time period of one year and in exceptional cases within two years. The justification procedure also includes bringing such restraints under the mutually agreed bilateral agreements under Article 4 of the Arrangement.

ii) <u>Standstill provisions</u>: The arrangement provides under Article 3:1 that no new restrictions shall be placed in trade in textile products (as defined in the Arrangement) except under the safeguard procedure laid down in this article or under the justified provisions of the GATT (including its Annexe and Protocols).

iii) <u>Safeguard Procedures:</u> The Arrangement permits the imposition of restraints on imports of textiles when these imports are cuasing market disru tion as defined in Annex A (reporduced as Appendix 2 to this section) sub ject to a number of strict procedures and also subject to the process of multilateral surveillance. Article 3.2 also emphasizes that "Participating countries shall take into account imports from all countries and shall seek to preserve a proper measure of equity. They shall endeavour to avoid discriminatory measures where market disruption is caused by imports from more than one participating country and when resort to the application of this Article is unavoidable, bearing in mind the provisions of Article 6".

Specifically, Article 3:3 states that:

> "If, in the opinion of any participating importing country, its market in terms of the definition of market disruption in Annex A is being disrupted by imports of a certain textile product not already subject to restraint, it shall seek consultations with the participating exporting country or countries concerned with a view to removing such disruption. In its request the importing country may indicate the specific level at which it considers that exports of such products should be restrained, a level which shall not be lower than the general level indicated in Annex B. The exporting country or countries concerned shall respond promptly to such request for consultations. The importing country's request for consultations shall be accompanied by a detailed factual statement of the reasons and justification of or the request including the latest data concerning elements of market disruption, this information being communicated at the same time by the requesting country to the Chairman of the Textiles Surveillance Body".

Article 3:4 to 3:9 lay down extensive conditions for the imposition of restraints on the grounds of market disruption within specified time frame and validity period in case the mutual consultation process between the importing country seeking to impose restraints and the affected exporting country does not yield results which would satisfy the country seeking to impose restraints. Throughout these procedural steps, it is emphasized that resort will be taken to such restraints only sparingly and such restraints will be limited to the precise products and to countries whose exports of such products are causing market disruption.

The Article emphasizes that in case such restraints are applied to imports from the developing countries, special and more liberal procedures would be applied and provisions would be made for the establishment, administration and <u>regular</u> growth by a minimum of 6 per cent per annum on the base level for restrictions. Throughout the procedures laid down, the greatest stress is laid on the imposition of restraints only after a due process of mutual consultation or at least a notice of one week to the affected country in case unilateral restrictions are to be imposed and subjecting all restraining actions taken to the opinion of the Textiles Surveillance Body regarding their consistency with the provisions of the Arrangement.

iv) <u>Negotiated Restraints under Bilateral Agreements subject to Periodic Reviews by the Parties Involved and Multilateral Surveillance Procedures</u>

Article 4 of the Arrangement empowers the participating countries to conclude bilateral agreements within the framework of a multilateral approach on mutually acceptable terms setting product-specific quotas which may eliminate the risks of market disruption (as defined in Annex A) in importing countries and also the risks of disruption to the textile trade of the exporting countries and which are in conformity with the objectives of the Arrangement.

Article 4:3 specifically maintains that such bilateral agreements will have to be more liberal, both "on overall terms, including base levels and growth rates" than measures provided for in Article 3 of this Arrangement. Such agreements should also include enough provisions for flexibility relating to "areas of base levels, growth, recognition of the increasing interchangeability of natural, artificial and synthetic fibres, carry forward, carryover, transfers from one product grouping to another and such other arrangements as may be mutually satisfactory to the parties to such bilateral agreement.

All such bilateral agreements and modifications therein concluded under Article 4:4 are to be communicated by the participating countries to the Textiles Surveillance Body within 30 days of the data they become effective. This Body will check the consistency of these agreements with the provisions of the Arrangement and make recommendations to the parties concerned whenever necessary.

<u>Organisational aspects of Implementating the MFA</u>

The Arrangemtnt establishes, within the framework of the GATT (the GATT Council), a Textiles Committee which will meet at least once a year to review the operation of the Arrangement based on the TSB's annual review. At the end of the Third year of the Arrangement, the Textiles Committee aided by the TSB and other GATT agencies is required to undertake a a major review of the working of the Arrangement with a view to ascertain the views of the participants on the future of the MFA and to prepare ground for required actions in this respect.

For the regular work on the supervision and the implementation of the MFA, the Textiles Committee has been empowered to establish a standing body, namely the Textiles Surveillance Body (TSB). The functions of the TSB are mostly listed in Article 11 of the Arrangement. These can broadly be divided into two major categories. The first category relates to its surveillance functions including the collection, review and dissemination of information on all the actions taken by the governments under the Arrangement and to check their consistency with the provisions of the Arrangement and to transmit the information and its observations to the Textiles Committee and to the concerned participants. The second category of the TSB's functions relates to the consideration of the matters referred to it by any of the concerned participants, including cases of dispute, to lend its good offices wherever necessary to facilitate the process of conciliation between the concerned governments and finally to make its recommendations whenever necessary in the hope of resolving the issue(s) in question.

It is understood that the opinion of the TSB is recommendatory in nature and its acceptance or non-acceptance is left entirely to the decis of the party in question. However, Article 11.8 of the Arrangement does make a general recommendation that the participating countries "shall endeavour to accept in full the recommendations of the Textiles Surveillance Body" and in case of non-acceptance by a participant country to inform the TSB of the factual position and to provide reasons for the same. In case the problems continue to exist between the concerned parties even after the TSB's recommendations, these may be brought before the GATT Council through the normal GATT procedures. These can be looked at by the Contracting Parties to the GATT, "particularly under the procedures of Article XXIII of the GATT.

Appendix to Section IV

APPENDIX IV.1

Membership of the Arrangement

The Arrangement has been accepted or acceded to by:

1. Argentina
2. Australia
3. Austria
4. Bangladesh
5. Brazil
6. Canada
7. Colombia[@]
8. Egypt
9. El Salvador
10. EEC
11. Finland
12. Ghana
13. Guatemala
14. Haiti
15. Hungary
16. India
17. Israel
18. Jamaica
19. Japan
20. Korea
21. Malaysia
22. Mexico
23. Nicaragua
24. Norway
25. Pakistan
26. Paraguay[*]
27. Phillippines
28. Poland
29. Portugal (on behalf of Macao)
30. Romania
31. Singapore
32. Spain
33. Sri Lanka
34. Sweden
35. Switzerland
36. Thailand
37. Trinidad and Tobago
38. Turkey
39. United Kingdom (on behalf of Hong Kong)
40. Uruguay
41. United States
42. Yugoslavia
43. EEC (including all member countries)

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[*] Countries which have not accepted or acceded to the Arrangement definitively

[@] Colombia formally accepted the MFA (or officially the 'Arrangement') on Feb.7, 1977. (done provisionally from March 27, 1974)

APPENDIX IV.2

ANNEX A

I. The determination of a situation of "market disruption", as referred to in this Arrangement, shall be based on the existence of serious damage to domestic producers or actual threat thereof. Such damage must demonstrably be caused by the factors set out in paragraph II below and not by factors such as technological changes or changes in consumer preference which are instrumental in switches to like and/or directly competitive products made by the same industry, or similar factors. The existence of damage shall be determined on the basis of an examination of the appropriate factors having a bearing on the evolution of the state of the industry in question such as: turnover, market share, profits, export performance, employment, volume of disruptive and other imports, production, utilization of capacity, productivity and investments. No one or several of these factors can necessarily give decisive guidance.

II. The factors causing market disruption referred to in paragraph I above and which generally appear in combination are as follows:

(i) A sharp and substantial increase or imminent increase of imports of particular products from particular sources. Such an important increase shall be a measurable one and shall not be determined to exist on the basis of allegation, conjecture or mere possibility arising, for example, from the existence of production capacity in the exporting countries;

(ii) these products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country. Such prices shall be compared both with the price for the domestic product at comparable stage of commercial transaction, and with the prices which normally prevail for such products sold in the ordinary course of trade and under open market conditions by other exporting countries in the importing country.

III. In considering questions of "market disruption" account shall be taken of the interests of the exporting country, especially in regard to its stage of development, the importance of the textile sector to the economy, the employment situation, overall balance of trade in textiles, trade balances with the importing country concerned and overall balance of payments.

V APPRAISAL OF THE WORKING OF THE MFA

The Multi Fibre Arrangement (MFA) represented improvements over its predecessor in at least three distinct ways. Firstly, its coverage was more comprehensive covering both cotton and certain non-cotton textiles and clothing products thereof, mainly, wool, man-made fibres and blends. Secondly, the MFA provided a set of guidelines defining the phenomenon of market disruption. Thirdly, it explicitly provided for the process of multilateral surveillance through the institution of the Textiles Surveillance Body.

Now that the life of the four year MFA is going to end on December 31, 1977, it would be worthwhile to provide an appraisal of the major issues in the working of this Arrangement. This section is devoted to this task. In this connection, two major studies on the review of the working of the first three years have been completed, one by the GATT's Textiles Committee as was required of it under the provisions of the MFA and the other by the United Nations Conference on Trade and Development.[11] Divergent perspectives of the participating countries on the deficiencies in the working of the MFA and need for amendments are also coming to the fore in several discussio at various fora since December 1976 when the Textiles Committee of the GATT formally initiated discussions on the question of the renegotiation of the MFA and now when the formal negotiations among participating countries on the future of the MFA are currently in progress in Geneva and Brussels.

The validity of the objectives of the MFA as stated in Article 1 (and discussed in Section IV in this paper) remains unquestioned by all the developing as well as developed countries. It may be recalled that the MFA represented a reconciliation of the rights and obligations of the exporting and importing countries in the field of international trade in "textiles" as a somewhat unique sector with special problems requiring a framework different than the Safeguard provisions regulating imports provided under the GATT. In this sense, it attempted to represent a delicate balance of interests of the developing countries as exporters of textiles and the developed countries as importing countries of textiles. The real question is whether in the implementation of the MFA, this balance has been maintained as set forth particularly in Article 1:2 towards an orderly ex- expansion of the world trade. It is here that the perspectives of some of the developed as well as developing countries widely differ.

Before going to the discussion of some of the major points of deficiencies in the working of the MFA during the last four years of its existence from the points of view of the developing as well as developed countries, let us review the statistical picture relating to changes in the situation on the front of production and trade in textiles for both the groups of developing and the developed participating countries under the MFA with special reference to the exports of developing countries of Southeast Asia to the developed member countries of the Arrangement. In this connection, it must be pointed out that the data available to us relate to the period upto 1975 and in some cases for part of 1976. One should also keep in mind the difficulties in drawing firm conclusions from such data which may reflect the effect of several other factors (like changes in tastes or technology or product mix) than the pure impact of the operation of the MFA. The most important complicating factor in drawing inferences about the likely impact of the MFA is the economic recession which has generally prevailed in a number of developed countries in the years of the operation of the MFA.

In Section II, we had reviewed some of the trends in the growth of textiles and clothing industries in the world during the period 1970-75. Against this back drop, we provide additional Tables V.1 to V.5 for highlighting developments in the trade of the participating countries of the MFA with special reference to some of the important countries of the Southeast Asia.

During the period covered for the operation of the MFA, as shown in Section II, production of both textiles and clothing in the developed countries declined in 1974-75 before recovering in late 1975 and 1976. In the case of developing countries, the production of textiles levelled off in 1974 and increased only slightly in 1975 whereas the production of clothing continued to increase in 1974 and 1975.

World trade in textiles and clothing, as may be seen from the data presented in Section II, increased substantially during the period of the MFA, with some fluctuations. It increased by about 20 per cent in 1974 decreased slightly in 1975 and then revived sharply in the first half of 1976. Trade in clothing expanded both in 1974 and 1975 whereas trade in textiles decreased between 1973 and 1975.

Table V. 1 shows the substantial growth of a number of developing member countries of the Arrangement through the period 1970-75 which includes part of the period of the operation of the MFA. The newcomers among these developing countries have experienced a very rapid growth of their exports of textiles and clothing during the period 1970-75. Thus, compared to India and Pakistan among the older Asian suppliers who recorded increases of only 100 per cent and 26 per cent respectively in these exports, the comparable rates of growth for the period in question were: Hong Kong: 170 per cent, Singapore: 191 per cent, South Korea: 501 per cent, Thailand 1,290 per cent, Phillippines: 780 per cent Brazil: 966 per cent,Mexico: 450 per cent, Colombia: 914 per cent. Romania from the Eastern Trading Area also recorded a high growth rate of 914 per cent for the period under discussion. Value-wise, the three largest exporting countries of Southeast Asia were Japan, Hong Kong and South Korea.

Table V.2 presents the picture relating to the Developed MFA countries' imports from selected developing countries during the period 1973-75. Hong Kong and South Korea emerge as the two largest countries supplying textiles and clothing from the group of developing countries to the developed MFA countries. This may be seen more clearly from Table V.3 which gives the percentage share of selected developing countries in the developed member countries' imports of textiles and clothing for

TABLE V.1

orts from Southeast Asian Countries and Other Developing Countries under the MFA

Clothing					Textile plus clothing						
70	1972	1973	1974	1975	1970	1972	1973	1974	1975	%change 1970-75	
	429	369	328	332	2,207	2,616	2,819	3,403	3,255	+	47%
	79	1,424	1,689	2,033	974	1,463	2,091	2,411	2,626	+	170%
	[illegible]	749	957	1,143	299	619	1,184	1,449	1,797	+	501%
		101	163	n.a	497	688	791	986	n.a.	+	98%
		17	30	31	325	280	456	406	409	+	26%
		130	127	117	85	1[illegible]	273	265	247	+	191[illegible]
		35	45	n.a	10	46	123	139	n.a	+	1,290%
		70	84	n.a	25	54	74	89	n.a.	+	256%
		21	29	n.a	16	25	45	62	n.a.	+	287%
		11	24	n.a	5	11	35	44	n.a.	+	780%
		198	246	219	241	363	527	647	531	+	120%
		145	149	204	165	240	283	3[illegible]1	382	+	132%
		89	123	102	35	141	318	431	373	+	966%
		250	265	291	148	230	310	320	353	+	189%
		54	88	120	47	100	187	273	290	+	517%
		29	46	n.a	146	173	196	284	n.a	+	95%
		67	n.a	n.a	36	79	198	n.a	n.a	+	450%
		86	97	101	91	117	138	150	148	+	63%
		19	52	n.a	14	38	73	142	n.a	+	914%

Textiles and Clothing, Table 27 (GATT Com.
er, 1976)

V.2

Developed MFA Countries' imports from developing countries

(US$ million)	Textiles & Clothing	Absolute Change	Textile	Absolute change		Clothing Absolute change
From	1975	1973-75	1975	1973-75	1975	1973-75
All developing countries in MFA	6,812	+1,540	1976	-34	4,842	+1,574
of which						
Hong Kong	2,290	+ 597	284	-18	2,006	+ 615
South Korea	1,399	+ 452	359	+56	1,040	+ 396
India	497	- 1	309	-109	188	+ 108
Yugoslavia	411	+ 63	32	-40	379	+ 103
Spain	313	+ 90	150	+44	163	+ 46
Mexico	283	+ 78	109	+10	174	+ 68
Brazil	236	+ 51	187	+46	49	+ 5
Pakistan	195	- 20	168	-29	27	+ 9
Romania	194	+ 44	41	- 5	153	+ 49
Turkey	176	+ 52	94	+19	82	+ 33
Israel	120	+ 11	28	- 4	92	+ 15
Philippines	114	+ 36	17	-	97	+ 36
Singapore	114	- 28	19	- 8	95	- 20
Macao	114	+ 36	4	- 1	110	+ 37
Thailand	92	+ 15	45	- 1	47	+ 16
Colombia	90	+ 35	52	+14	38	+ 21
Malaysia	62	+ 39	25	+12	37	+ 27
Haiti	33	+ 15	10	+ 4	23	+ 11
Egypt	21	- 19	21	-19	-	-
El Salvador	21	+ 10	6	+ 1	15	+ 9
Argentina	19	- 10	2	- 8	16	- 2
Jamaica	7	- 1	-	- 1	7	-
Guatemala	5	+ 2	2		3	+ 2
Nicaragua	5	+ 4	3	+3	2	+ 1
Sri Lanka	3	+ 1	1	-	2	+ 1

the years 1973 and 1975.

Table V.4 deals with the imports of textiles and clothing by developed countries from the three major areas for the period 1970-75 and the first half of 1976. The imports from developing countries grew at a very fast rate during this period surpassing the value of imports from other developed countries in 1974. Imports from the Eastern Trading Area also registered a substantial increase during this period.

Prima facie, it does appear that the MFA did not stand in the way of expansion of the exports of textiles and clothing from the developing countries, especially the countries of the Southeast Asia, to the developed member countries of the world. As a case in point, Hong Kong was able to pursue the model of labour-intensive export-oriented industrialization in which the development of clothing industry played a significant part. The textile industry in Hong Kong in 1975 accounted for about 44 per cent of Hong Kong's exports and a significant proportion of labour force was employed in it.

The Development Research Institute at Tilburg (Netherlands) in a research study[12] has concluded that the "model of labour-intensive export-oriented industrialization", of which exports of clothing was a very significant part, "has undoubtedly, from an economic point of view, yielded a number of substantial successes". It lists that the growth rate of Hong Kong's GNP in the period 1959-70 averaged more than 9 per cent per annum or almost double

Share of Individual Countries in Developed Member Countries' Imports of Textiles & Clothing from Developing member countries

Origin	Textiles & Clothing 1973	Textiles & Clothing 1975	Textiles 1973	Textiles 1975	Clothing 1973	Clothing 1975
All Developing countries ($ mill c.i.f.)	5272	6812	2004	1970*	3268	4842
of which:						
1. Hong Kong	32.1	33.6	15.1	14.4	42.6	41.4
2. Korea	18.0	20.5	15.1	18.2	19.7	21.5
3. India	9.4	7.2	20.9	15.7	2.4	3.9
4. Yugoslavia	6.6	6.0	3.6	1.6	8.5	7.8
5. Spain	4.2	4.6	5.3	7.6	3.6	3.4
6. Mexico	3.9	4.2	5.0	5.6	3.2	3.6
7. Brazil	3.5	3.5	7.0	9.5	1.3	1.0
8. Pakistan	4.1	2.9	9.8	8.5	0.8	0.6
9. Pakistan	4.1	1.7	0.9	0.9	1.9	2.0
10. Singapore	2.7	1.7	1.3	1.0	3.5	2.0
11. Thailand	1.5	1.3	2.3	2.3	1.0	1.0
12. Egypt	0.7	0.3	1.9	1.1	-	-

Source:

*In 1974 value was 2407 mill $

V.4
Imports of textiles and clothing by
developed countries in MFA

(US $ million)	1970	1972	1973	1974	1975	1976 1st half	% rise in annual rate 1970-76
From other developed countries	4,623	5,939	7,326	8,458	8,106	3,677	+59%
From developing countries	2,750	4,933	7,551	9,399	9,585	6,040	+339%
From Eastern trading area	325	638	1,010	1,247	1,225	588	+262%
Total	7,700	11,510	15,887	19,109	18,918	10,305	+168%

V.5

Net trade in textiles and clothing of
developed countries in MFA

US $ million)	1970	1972	1973	1974	1975	1976(1st half)
EEC	+1,586	+1,044	+956	+699	-402	-815
Finland	- 56	- 21	- 41	45	+ 24	+ 15
Norway	- 223	- 257	-346	-427	-502	-264
Sweden	- 427	516	-505	-774	-871	-453
Austria	- 3	- 9	- 66	- 70	-147	n.a
Switzerland	- 70	- 150	-238	-267	-184	- 68
Canada	- 475	- 747	-840	-1,097	-1,104	-738
US	- 1,574	-2,382	-2.236	-1,739	-1,739	-1,218
Japan	+ 1,892	+2,068	+1,112	+1,578	+1,942	+1,003
Australia	- 328	- 427	- 680	-1,046	- 719	n.a.

Source: Production and Trade in Textiles and Clothing, 1974, to 1976 (GATT Com. Tex/W/35 of 29 October 1976, p.28)

Notes

1 Exports (f.o.b) minus imports (cif), unless otherwise stated

2 Exports (f.o.b.) minus imports (f.o.b.)

the comparable rate of growth achieved on an average in the OECD countries. It also lists the rapid growth of employment especially in the 1950's high population growth and large scale immigration as a second success.

The study by the Development Research Institute at Tilburg cited earlier acknowledges that the rapid growth of the clothing sector in Hong Kong has contributed to "some fairly important mutations in the world market, which in turn were conducive to drastic readjustment processes in the clothing industry of several industrialized countries". The study asserts that the Hong Kong clothing industry benefitted from the quota system on imports of textiles and clothing imposed by the developed importing country more so because similar restraints were maintained by these importing countries on imports from Hong Kong's competitors among the developing countries thus preserving the competitive position of Hong Kong with a sort of guaranteed access to the markets of the developed countries. This factor was especially relevant before the Hong Kong's textiles and clothing industry started feeling the impact of competitition from still cheaper sources of supply of these products using similar modern technology like South Korea due to advantages of still lower wage rates. An official review prepared by the Department of Commerce and Industry on the history of quota controls also accepts that the "development of Hong Kong's domestic exports of cotton textiles in the decade beginning 1950 was facilitated to a very considerable degree by the access rights available in the markets of the main importing countries...which were not enjoyed to the same extent by Hong Kong's competitors".[13] Hong Kong's industry also took advantage of the non-inclusion of manmade fibres in LTA to record rapid growth in its exports of clothing based on imported manmade fibres and cotton. Under the prevailing market conditions, Hong Kong emerged as a sub-contractor for western trading houses and capitalists of the industrial and commercial capitals of the developed countries.

The study cited above prepared by the Development Research Institute at Tilburg poses some serious questions on some of the economic and social implications of the Hong Kong's experience of the development of the clothing industry. These include, among others, significant concentration of exports in a single sector, the extreme dependence of Hong Kong's industry on the Western trading houses and industrialists (especially the Japanese multinationals who invested in this industry in Hong Kong) for designs as well as orders for keeping its industry going, possibilities of exploitation of local cheap labour in terms of not letting the wage rate as well as social security benefits to increase sufficiently especially after the crisis situation of 1973-74, and setting up production abroad by several Hong Kong manufacturers.[14] This study therefore urges further study of Hong Kong's experience to throw more light on the case for restructuring of the world economy based on "new international division of labour".

Majority of the developing countries exporting textiles and clothing (unlike Hong Kong, South Korea and Taiwan) concentrate on exports of rela tively low-value added items (such as grey cloth, cotton yarn) for further processing in the developed countries. And this pattern repeats itself year-after-year under the quota system established under the various arrangements governing the international trade in textiles. The experience of countries like India and Pakistan in the mill-made textile products may be cited as examples of this phenomenon. Under this system there is very little incentive for the industrial units in the developing countries operating under sheltered market conditions in their domestic economies for innovation, quality improvement and diversification of production and exports in items of higher value added items even when the potential for such exports may exist. This illustrates a type of "monopoly effects" of the prevailing system of country-specific and product-specific quotas.

The developing countries of the MFA, through the UNCTAD forum, have often voiced their concern that the balance of interests sought to be achieved through the objectives of the Agreement has in practice been heavily tilted in favour of the developed importing countries and against the developing countries.

The MFA (like its predecessor, LTA) is regarded by most of the developing countries as "derogation" from the principles of the GATT. Despite the fact that all restrictions on imports from the developing countries under the MFA (and its predecessor, LTA) are supposed to be temporary in nature to be removed as early as possible with the help of adequate measures towards structural adjustment in the importing developed countries in line with the principle of comparative advantage, in reality, the system of such discriminatory restrictions has been institutionalised more or less permanently on roll over basis for increasing number of products and countries. According to a recent study by the UNCTAD's Secretariat:

> "The developing countries accepted this derogation from the GATT principles to avoid unilateral restrictions by importing countries on their exports of textiles-which might have been imposed in certain circumstances in the absence of a multilateral discipline -and as a trade-off in the hope of certain advantages from the MFA. The advantages related to adherence of the international community to certain basic trade and development objectives of the developing countries in so far as the textile sector was concerned in an operative clause of the Arrangement and the understanding that appropriate economic and social policies would be pursued as required by "changes in the pattern of trade in textiles and in the comparative advantage of participating countries, which policies would encourage businesses which are less competitive internationally to move progressively into more viable lines of production or into other sectors of the economy and provide increased access to their markets for textile products from developing countries." Also among the advantages for the developing countries were certain features of the MFA relating to determination of market disruption, the minimum level of quotas, growth rates, flexibility provisions and a new machinery for multilateral surveillance of international trade in textiles and implementation of the provisions of the Arrangement"[15]

The above cited UNCTAD's study cites several difficulties faced by the developing countries in the course of the implementation of the MFA which lead to the conclusion that some of the basic objectives of the Arrangement from the point of view of the developing countries were far from being achieved.

A few of the major difficulties faced by the developing countries in the implementation of the MFA will be highlighted in the following paragraphs.

The developed importing countries took meticulous care to resort to the provisions of the MFA as well as restrictions inside and outside the framework of the GATT to ensure the avoidance of perceived market disruption whenever they desired. Being in a superior bargaining position, under the procedures for consultations and negotiations for bilateral agreements under threat of unilateral actions authorised for imposing import restrictions under the various articles of the arrangement, a number of developed importing countries resorted to invoking these "rights" and in the process violated several provisions of the articles of the Arrangement and in a number of cases have gotten away with such violations even when the Textiles Surveillance Body observed some of these actions of the concerned developed importing countries as "not being in conformity" with the provisions of the Agreement. The history of the virtual proliferation of restraints imposed by the developed importing countries on several textile products of the developing exporting countries under various articles of the Arrangement during the period April 1974 to September 1976 and the observations of the TSB on the consistency or otherwise of most of the actions notified to this Body is fully recorded in a recent document by the TSB.[16] Looking at the unequal strength of the negotiating parties, it is necessary to point out here that there are hidden pressures which reduce the willingness of the affected developing countries to even refer the cases of "injustice" suffered by them to the stage of seeking opinion of the TSB. Even so, this Report makes an instructive reading on the number and nature of new restrictions faced by many of the developing countries from a large number of participating developed member countries during the first $2\frac{3}{4}$ years of the working of the MFA. It appears from the reading of this Report that in operation, the MFA, has turned out to be on balance more restrictive than liberal in providing additional access to the markets of the developed importing countries to the extent originally designed in the bilateral agreements. From the recent newspaper accounts of the unilateral restrictions imposed by some developed importing countries (such as Australia, Canada, U.S.A., France and the EEC) in a number of cases confirms that the rise of protectionist lobby in the face of economic recession during the period of the MFA, especially in the latter half of its period, has succeeded in reducing the access of the developing exporting countries of textiles and clothing to the markets of the developed importing countries.

The chief difficulty faced by the developing exporting countries in the implementation of the MFA has related to the non-quantification and lack of systematic demonstration of "market disruption" whenever restraints were sought by the developed importing countries under Article 3 of the

Arrangement. Restrictions on the grounds of "market disruption" (or imminent threat thereof) have been invoked by a number of developed importing countries in the case of "non-comparable" products where the direct substitution effect with import-competing domestic product would appear to be negligible.

Several points of logic need to be reasserted here lest their relevance is forgotton under the political pressure of protection lobby within the developed importing countries. It needs to be emphasized at the outset that rising imports need not hurt the interests of the domestic producers and what would be most relevant comparison for measuring alleged "market disruption" would be a comparison of the imported products with directly import-competing domestic products "end-use" wise. A marketing approach is required for clarifying "directly competing products" taking into the consumer behaviour towards comparable imported and domestic products according to the end-use of consumption.

The relevance of the marketing approach based on consumer behaviour in the textiles and clothing market was recognised. in the GATT's Study on Textiles of 1972. This study pointed out that the "main development in marketing techniques was the establishment of the consumer identity, in the sense that the textile and the clothing industries are becoming more market oriented".[17] This study went on to clarify that the "consuming market is no longer one large homogeneous unit, except for some essentials, e.g., hosiery, underwear, but instead a series of distinct segmental markets".

The point of using segmentation analysis for comparing products for measuring the market disruption effect may be illustrated with reference to the latest market data made available to us on the average prices of woven synthetic fibre and cotton shirts imported into Austria from various countries. This data is presented in Table V.6. It needs to be emphasized from this data that even for a product of a given fibre, say Cotton shirt, at any point of time, say 1973, the shirt costing 51.20 Austrian schillings imported from Korea or say the shirt costing 55.87 Austrian schillings imported from India would be a poor substitute for the consumer for the shirt costing 156.40 Austrian schillings imported from Italy. The same thing is likely to apply to a domestically produced shirt in the higher end of price and quality spectrum. It is highly unlikely that the customer for the imported good in the higher price range with different expected standards would directly be competing with the shirt in the much lower end of the price and quality spectrum. Thus, the point we wish to make is that it would be misleading to believe that "a shirt is a shirt" and lump together all imported shirts and compare them with the sale of a domestically produced shirt or to compute an average ratio of imports of shirts from all developing countries to the total consumption of shirts in the domestic economy seeking to justify restrictions on imports of cheap shirts from the developing countries. What is required for this purpose is a segment by segment analysis. We shall return to this point in Section VI dealing with suggested approaches for the renegotiation of the MFA.

Yet another point reinforcing the above conclusion of misleading i

Average Prices of woven synthetic fibre and cotton shirts imported into Austria

	1972 A.S.	1973 A.S.	1974 A.S.	1975 A.S.	April 1976 A.S.	1972 A.S.	1973 A.S.	1974 A.S.	1975 A.S.	Mar. 1976 A.S.
German Federal & Republic	81.71	92.32	81.10	86.08	94.74	75.95	98.0	123.9	121.6	136.4
Italy	72.89	103.71	98.20	99.59	53.29	114.10	156.40	129.35	177.32	87.08
Switzer-land	110.04	136.29	109.40	129.62	158.12	86.95	137.80	121.62	150.60	176.73
Portugal	35.72	43.31	42.31	60.01	69.33	35.50	36.80	45.45	41.90	47.73
Yugosla-via	34.02	44.81	23.74	34.30	45.75	82.30	108.90	111.75	93.30	54.81
Romania	30.36	31.24	40.75	32.70	28.49	32.1	50.0	-	-	-
Hong Kong	32.57	43.59	50.70	41.33	39.78	36.75	52.30	63.70	56.75	58.85
Singapore	37	64.07	33.70	37.60	39.46	-	-	-	41.50	38.14
Israel	42.17	30.80	-	-	-	-	-	-	-	-
Timor/ Macao	-	-	47.34	35.10	33.83	-	-	63.15	53.40	42.36
India	-	-	-	-	-	59.90	55.87	63.60	57.10	56.88
Malaysia	37.0	53.70	43.50	39.20	35.03	-	-	-	49.10	54.11
Korea Rep. of	30.50	31.66	40.50	30.80	31.48	-	51.20	-	-	83.33
Sri Lanka	-	-	-	-	42.69	-	-	-	-	46.93

of using the increase in the ratio of import to apparent consumption for measuring market disruption relates to genuine changes in consumers' preferences. This point was also stressed in the GATT's Study on Textiles in the following words:

> "The expansion of the younger age group of population has reversed the traditional flow of fashion, and this has, to some extent, influenced the more older, more affluent, age levels. Moreover the rising purchasing power of the young people has been reflected in a more pronounced fashion consciousness which has been instrumental in the emergence of leading designer of clothing to satisfy the growing needs of the mass market"[19]

In addition, several developing countries have felt that the re has not been adequate adherence to the concept of "a proper measure of equity" (Article 3:2) in cases where market disruption is supposedly caused by imports from more than one participating country.

Similarly, the concept of "cumulative market disruption" has created serious musunderstandings in the implementation of the MFA. The recent Report by the UNCTAD Secreyariat cited earlier has the following to say on this subject:

> "The concept of "cumulative market disruption" is extraneous to MFA and is being used by the importing countries to overcome the rigorous criterion laid down by paragraph 2 of article 3 which restricts action" to the precise products and to countries whose exports of such products are causing market disruption as defined in Annex A." [20]

The major expectation under the provisions of the MFA towards appropriate steps to be taken by the developed importing countries seeking to impose temporary restrictions so as to remove them over time through appropriate long term measures for adjustment assistance under Article 1:4 has been belied. Several studies on the problems of adjustment assistance in the developed countries such as by Caroline Miles, UNCTAD, Marvin Fooks Gerhard Pels, (Institut fur Welwirtschaft (Kiel) and the Development Research Institute at Tilburg are agreed that the adjustment assistance programmes have generally not been undertaken in most developed countries specifically to meet the response to increased imports from the LDCs[21]. The main exceptions to this statement are: the U.S. Scheme under PL 93-618 or the earlier United Kingdom Cotton Industry Scheme and the more recent scheme for assistance to the textile and ship building industries in the United Kingdom. Most of those expert studies are agreed that wherever such adjustment schemes have been put into action, they have achieved a result which is opposite to the desired restructuring of industries in favour of industries or products within the same industry where the concerned developed country has clear longer lasting comparative cost advantage over developing countries for similar activities. The following excerpt from the Kiel study referred to earlier for the case of Federal Republic of Germany (FRG) is cited to illustrate this point: "The structural policy instruments used in the FRG retard structural changes more than they support it. This applied also for those adjustment requirements which are caused by increased imports from LDCs. So far, the available structural policy instruments have served mainly to conserve existing structures; without exception, it has been neglected to initiate anticipatory measures in time so as to induce the factors of production to transfer to these sectors in which the FRG will enjoy locational advantages in the long run[22].

The TSB has been a unique experiment in multilateral surveillance and international economic cooperation in the field of supervising the MFA governing international trade of participating countries in "textiles". There is in fact "no precedent or parallel in international trade relations for a Body of this kind".[23] In the absence of the MFA, the developed countries with surpluses in their balance of payments in their capacity as CONTRACTING PARTIES to the GATT could take emergency action on imports of emergency action on sharp and substantial imports of particular products only under the safeguard procedure laid down in the Article XIX of the General Agreement on Tariffs and Trade in a non-discriminatory manner. The text of this Article is given in Appendix V.1. to this section. Jan Tumlir has commented on the procedural requirements of this Article as "too exacting" in that the country invoking it risks retaliation subject to the approval of the CONTRACTING PARTIES risks paying too much in the form of compensation which is regarded as equivalent concessions which satisfy the affected participating countries and at the same time "too lenient" which would allow emergency protection to become more or less permanent.[24] The specific provisions of imposition of discriminatory restrictions on the specific sector of "textiles" in case of the fear of market disruption due to sharp and substantial increases in imports subject to justification procedures under multilateral surveillance through a standing body like the Textiles Surveillance Body without giving up the GATT rights were designed to meet the problems with the safeguard procedures laid down in Article XIX of GATT. In fact, this was the principal reason why the developed countries were keen to negotiate such international agreements as the MFA (and its predecessors LTA and the STA) at least for one of the most sensitive sectors of world trade ("textiles"). Thus, viewed in a broader context, the TSB was to be a Test Case for experimenting with the modifications of Article XIX of the GATT which would allow discriminatory treatment of disruptive imports source-wise and product-wise subject to multilateral surveillance which would not give unlimited powers to the country invoking such restraints to make them permanent. Viewed in this light, the TSB has not been able to function as effectively in its surveillance and refereeing roles as would be desirable from the point of view of the effective implementation of the MFA in letter and spirit. The main reason for this has been the lack of effective power with the TSB to enforce the implementation of its decision or impose any penalties for non-compliance with the recommendations of the TSB in case of disputes referred to it by any participating country. In several cases, as has been pointed out in the Report of the TSB to the Textiles Committee cited earlier, participating countires have not even provided full information on the issues falling within the provisions of the TSB.

The work of the TSB has also been affected to some extent by the composition of the TSB. The TSB adopted the guiding principles of "impartiality and the pursuit of conciliation" for its work and laid down that even though the members of this Body will be representatives of countries nominated by their respective governments, they will also be expected to act independently in their personal capacity and may not vote on a case in which the members own government is directly involved. As can be seen, it has not always been easy to achieve such a balance in the judgement exercised by the members.

The country-wise representation of the members of the TSB for the years 1974 to 1977 is listed in Appendix V.2 to this section. Over time, the general procedure involved in constituting the membership of the Committee has been such so as to give permanent seats to three countries, namely, EEC, Japan and USA, one seat to other Western European countries (especially the Nordic countries), one seat to be shared between Hong Kong and South Korea, 1 seat to be shared among Egypt, India and Pakistan, 1 seat to be given to a Latin American country and 1 seat to be shared by 3 to 4 countries by rotation over a year. The Chairman has been a permanent member since the inception of the TSB. The choice of the Textiles Committee of the GATT for the Chairmanship has been a former Ambassador of Switzerland, Mr. D. Wurth. The allotting of three permanent seats to the EEC, Japan and USA has led to some criticism about the biases imparted to some of the decisions. The absence of representation of Australasia on the membership of the TSB in any of the four years is strikingly noticeable when one considers the pattern of geographical representation of the major textiles producing and trading countries.

Developed Countries' Position on the Working of the MFA

When the developed countries negotiated MFA towards the end of 1973, they did not forecast that a recession in the economies of most of the developed economies which was to last for much of the period of the life of the MFA was round the corner. The continuation of stagflation with rising unemployment and declining output in the textiles and clothing industries and increased inflow of imports in the textiles and clothing products as permitted in the various bilateral agreements concluded under the provisions of the MFA into the markets of the participating developed countries led to the emergence of a strong protectionist lobby, especially in the EEC which is the largest single market in textiles and clothing. Under the market conditions prevailing in an otherwise old and "sick" domestic industry facing economic difficulties in a number of countries, the political pressure of protectionist lobby has led the governments of a number of developed countries towards the view that the working of the MFA has not been able to be sufficiently effective in preserving the interests of these countries for avoiding sharp and substantial increases in imports from the low-wage and low cost countries from the developing countries as well as Eastern Trading Area.

The case for increased restrictions on "cheap imports" of textiles and clothing in some of the EEC countries is being argued by the domestic industry (or the associations of employers to the European Textile and Clothing Industries), the trade unions (and the associations related to the European Trade Union Committee) on the grounds of serious disruptive effects of increased imports from the developing countries (as also some of the countries of the Eastern Trading Area) mainly on the grounds of their harmful effects on employment, market penetration and the share of the market left for domestic industries, disproportionate burden sharing of imports from developing countries into the developed countries and benefits reaped by a few developing countries and balance of trade in this sector. We will briefly summarise the position on each of these issues and offer some critical comments on the validity of the positions.

1. Effect on Unemployment: According to the Coordinating Committee of the Textile Industries of the EEC (COMITEXTIL), between 1971 and 1975, the number of workers employed in the textile industry in the EEC countries was reduced from 2 million to about 1.7 million (or by about 17 per cent) and in the clothing industry from about 1.3 million to about 1.1 million (or nearly 13 per cent). The picture of unemployment in these industries of course varies from country to country with U.K. and France

facing the greatest difficulties in this respect. The European Trade Union Committee in a recent position paper (dated October 20, 1976) on the renewal of the Multi Fibre Agreement categorically stated that "There is no doubt that this recession is mainly due to the evolution of foreign trade and, more specifically, to the pressure of cheap imports." Both the Trade Unions and the manufacturers are agreed on the harmful effects of continuation of the policy of cheap imports from the developing and other countries.

In addition to the problem of numbers, there are a few other aspects of the unemployment problem in the textiles and the clothing industries. These relate to the work force constituted to a large extent by female workers or minority workers or immigrants and workers with relatively low qualifications. These industries are also concentrated in certain regions of the countries where they are the major source of employment of the local work force. These characteristics make it very difficult to move labour force to other activities. There is the additional problem of the political force of the workers thrown out of their jobs which no democratically elected government can afford to ignore.

While the qualitatively different nature of the unemployment problem can well be appreciated, it is our contention that the inflow of imports from the developing countries are not the major cause of the increasing unemployment problem in these industries which have been experiencing economic difficulties for quite some time now. Analytically speaking, the rate of growth of unemployment can largely be explained by the operation of economic recession, increases in the productivity of labour brought about largely by the use of labour saving technology and changes in the pattern of consumer expenditure due to changes in tastes at a time when increasing unemployment and inflation plague the domestic economy.

Several research studies carried out by the economists of the developed countries support the hypothesis that increased imports of textiles and clothing from the low cost developing countries (not just low wage countries) are not mainly responsible for the woes of these industries in the developed countries in recent years and in fact such a competition helps in the process of long term readjustment of these industries in the developed countries towards the product-mix with comparative advantage. The following excerpts from a study of the European Clothing Industry by the Development Research Institute at Tilburg would throw light on some aspects of the problem under discussion:[25]

> "Compared to the industry as a whole the growth of productivity in the European clothing industry has lagged behind alarmingly.. The discrepancy between the growth of productivity and costs of wages is undoubtedly one of the elements that has affected the cost price unfavourably and has been detrimental to competitiveness on an international level... A great deal of imports are coming from subsidiaries or sub-contractors abroad, especially in Germany and in the Netherlands...
>
> Concerning imports from low wage countries, it "appears incorrect

to earmark these as primary problem raisers in the clothing industry; rather they served as the proverbial straw which - because of the structurally unhealthy condition of the clothing industry - breaks the camel's back. In one sense the accelerated growth of imports could even be seen as consequential to the problems, so far as the international orientation of the clothing trade has created a snowball effect. All this does not alter the fact that these imports have a definite significance at the moment. Larger and financially more substantial companies use the imports from low wage countries to safeguard their positions within the sector at the expense of enterprises which are smaller and less secure financially. Because of this the tendency to concentrate and centralise will be fortified and the breakdown process will accelerate".

Research studies of the effect of import growth in the U.S. and West Germany confirm that on balance, unskilled workers do tend to suffer in some sectors like the textiles and clothing industries but the economy-wide effects of such a move are small. If one takes into account additional exports generated as a result of increased imports permitted, the net effect on jobs lost is negligible. Frank Walter's study for West Germany indicates that in all manufacturing industries combined, the direct displacement of labour between 1962 and 1975, by causes, was as follows:[26]

	Cause	Direct Displacement of labour (in thousands)
(i)	Changes in labour productivity	6,531.1
(ii)	Growth of imports from all sources	1,684.4
(iii)	Growth of imports from LDCs	132.8

In one set of projections in the study being cited, the displacement of labour from sustained rapid growth of increasing imports of LDCs between 1973 and 1985 was estimated at 846,200 offset partly by 400,200 additional jobs directly due to increased exports to LDCs. The net loss of 446,000 jobs in a period of 13 years was likely to be much less than the average displacement in this period as a result of technical progress.

Yet another study of selected characteristics of ten West German industries exposed to the competitive pressure of imports by Gerhard Fels throws light on some of the related issues in the case of textile industry as well as clothing industries. We have presented these aspects for these two industries and comparative picture for the manufacturing sector as a whole in Table V.1. A few surprising results can be seen from this Table.

TABLE V.1

Selected Characteristics of West German Textiles and Clothing Industries Exposed to Competitive pressure of Imports

	Period	Textile	Clothing	Manufacturing Total
1. Share of total increase of imports from LDCs@	1962-70	13.70	8.30	100.00
2. Regional Concentration[b]	1970	0.53	0.43	0.71[d]
3. Share of Female employees in total	1968	54.70	82.20	29.80
4. Effective rate of tariff protection	1970	21.20	21.50	11.90[e]
5. Value added per employee	1970	84.20	58.40	100.00
6. Wages and salaries per employee@	1970	78.10	62.50	100.00
7. Rate of Return on physical capital@	1970	103.80	162.90	100.00
8. Labour saving effect of gross fixed capital formation[c]	1964-70	0.95	0.77	0.57

TABLE V.1 (Contd...)

[@] Manufacturing total 100

[b] Coefficient of Variation for industry shares in manufacturing employment by region.

[c] Relation between the rate of increase in physical capital per employee from 1964 to 1970 and the rate of gross fixed capital formation as given by the ratio between the accumulated capital formation vintages, 1964-70, and gross fixed capital stock in the base year 1964.

[d] Weighted mean

[e] Does not include food, beverages, and tobacco.

Source: Abridged from Table 2 in Gerhard Fels, "Adjustment Assistance to Import Competition," in Hugh Corbet and Robert Jackson (eds.), <u>In Search of a New World Economic Order</u>, <u>Op. Cit.</u>, p.252

The data provided in Table V.1 shows that both the textile industry and more so the clothing industry are regionally more evenly distributed than total manufacturing. The shrinking of these industries may, therefore, lead to a more unequal regional distribution of industry. The share of female workers quite expectedly is higher in both these industries compared to the manufacturing sector as a whole. It should be noted that the effective rate of tariff protection is much higher for both these industries compared to the manufacturing sector as a whole. The wages and salaries per employee in both clothing and (more so far) textile industries is below the average for the manufacturing sector. However, for both textile and (more so far) clothing industries, the rate of return on physical capital is above the average for the manufacturing sector. It is also clear that the pattern of investment in both the textile and clothing industries was more concerned with labour-saving than is normal.[27]

Even though comparable data is not available on all the related aspects of the impact of increased imports of textiles and clothing, the pieces of information presented above lead us to hypothesize that the harmful effects of increased imports of textiles and clothing from the developing countries on the employment situation in these countries are being exaggerated, particularly when the impact of likely increase in exports from the developed countries to the developing countries is also to be taken into account.

In fact, a relevant question in connection with shutting off imports of textiles and clothing from the developing countries is whether the industry in the developed countries will find it worthwhile to produce such low-contribution items as were being imported earlier. Reducing such imports may not improve employment.

In fact, if one thinks of the harmful effects of curtailment of the exports of textiles and clothing, especially handloom based exports, from the developing countries on the employment situation, one will easily rationalise that there must be some truth in the statement that one job saved in the developed countries through restraints on the imports from developing countries would mean 100 jobs in the developing countries.[28] There is moreover a further consideration. Recession spread to a few developed countries hurts developing countries, perhaps more severaly, and they are not as well equipped to cure the impact of such a recession.

The domestic sales difficulties of textiles and clothing appear to have been primarily of a cyclical nature. A relevant question in this respect relates to how trade and structural adjustment towards long run comparative advantage lines will be conducted in future when cyclical upturn gains momentum. In this respect, the Kid study cited earlier gives the following advice:

"It would probably be of little sense if during the course of a cyclical upturn new jobs were created in these branches which in the long run will be jeopardized again for structural reasons." This study in fact goes further in terms of advice on policy relating to this issue to say that there is "much to be said for then seizing the opportunity of the moment and satisfying cyclically rising demand as far as possible through additional imports by eliminating still existing barriers to trade". (italics ours)[29]

2. Rate of Growth of Imports from the Developing Countries and Import and Import Penetration Ratios

The provisions relating to the growth of imports from the countries with which bilateral agreements on restraints were to be concluded under the MFA, the importing country was normally obliged to continue to allow imports of "textiles" at the level of such products during the 12 month period prior to the beginning of consultations on the agreement. It was further stipulated that should the period of the agreement go beyond a year, the exporting country was entitled to increase its exports of its products to the importing country by not less than 6 per cent annually.

These growth provisions under the bilateral agreements clearly bring out the importance of the "base line" from the point of view of the receiving countries. To illustrate, a 6 per cent growth rate calculated by reference to a 50 per cent import penetration represents growth in the first year of 3 per cent in the domestic market whereas a 6 per cent growth rate calculated by reference to a 5 per cent level of import penetration represents growth in the domestic market of the importing country of merely 0.3 per cent in the first year. Citing this example, a recent Background Report of the European Communities Commission dated March 30, 1977, declares that "Even the first situation can be handled in an expanding market. The trouble in the Community has been a stagnating market because of economic recession, while foreign goods have continued to follow in" (p.2).

The U.S., realizing the importance of controlling the base line, had quickly negotiated bilateral agreements. The EEC could not do so due to the need for harmonization of the policies of all the member countires. Accordingly, some of the developing countries (such as Thailand) concentrated their efforts of increasing exports of textiles and clothing to the EEC markets before bilateral agreements could be negotiated with them.

Britain and France strongly feel that the EEC has absorbed a disproportionately larger proportion of increased imports from the developing countries (notably Hong Kong, South Korea and Taiwan) to the developed MFA countries. Thus, between 1972 and 1975, the Community absorbed nearly 72 per cent of the total growth in textile imports of all industrial countries.

Similarly, the U.S. has managed well to keep the ratio of imports for consumption to apparent domestic market for textile and apparel (clothing) products in the range of 14 to 15 per cent for cotton based products, in the range of 26 to 20 (actually declining) for wool-based products and 7 to 6 per cent (again slightly declining) during the period 1973 to 1975.[30] However, the import penetration ratios for selected groups of products were much higher. The European Communities Commission Background Report dated March 30, 1977 cites the following figures for the share of the Community Market accounted for by imports from third countries in 1975 for selected products:

(i)	Cotton fibre	20 per cent
(ii)	Discontinuous man-made fibre	24 per cent
(iii)	Ladies' tops and blouses	40 per cent
(iv)	Sweaters and pull-overs	25 per cent
(v)	Cotton Cloth	40 per cent
(vi)	Men's shirts	54 per cent
(vii)	Trousers	30 per cent

We have already pointed out in this section that the import penetration ratios of the type listed above should not be used as a guide for determining "market disruption."

It should also be noted here that the participating countries in the MFA with which the Community had agreements represented only one significant portion of the Community's total textile imports. A significant proportion of the Community's total textile imports came from countries outside the MFA (for example, countries of the Eastern Trading Area) and more importantly from those countries with which the EEC has a special relationship (for example, ACP countries under the Lome Convention). Imports from these associated countries are difficult to control and are likely, in some cases, to have greater potential of "market disruption" than products imported from the MFA developing countries. Yet another danger in this direction can come from subsequent unrestricted transfer of goods subject to quotas between member countries where scope exists for private parties to beat the complex rules of origin laid down for this purpose.

The U.K. already had high import penetration ratios when it entered the EEC due to its preferential treatment of the goods of the Commonwealth Countries. The EEC has special preferences for countries of the ACP and Medeterrean area. Considering these set of factors and the mechanics of the growth rates of imports from the MFA countries, it is not unnatural that the import penetration ratios should have turned out to be higher than, for example, in the U.S. situation. Thus there are further grounds to argue that higher import penetration ratios should not be used as an argument for imposing additional restraints on imports from the developing countries just because the scope for reducing imports from other sources is limited and the poor developing countries are completely at the receiving end.

3. <u>Net Balance of Trade:</u> Another argument advanced, especially by the European Textile Clothing Industries Associations for further restraints on the imports of textiles and clothing from low-cost sources of supplies relates to the net balance of trade for this sector. As may be seen from figures in Table V.5 that the net balance of trade in textiles and clothing which used to be in surplus in the early 1970's ($941 million in 1971) turned into a deficit of $846 million by 1975.

We have already pointed out to the misleading nature of this concept of net balance of trade in Sector I. We would like to restate that if net trade in other products closely related to "textiles" industry is taken into account, the picture could well be reversed even for 1975. Here we would like to assert that the concept of sectoral trade balance such as net trade in textiles and clothing (unlike the concept of overall balance of payments) is irrelevant for formulating public policy and its use would only put clock backward to an era of mercantilism.

4. <u>The privileged Access to the Market:</u> Yet another argument cited by some of the trade negotiators and businessmen in a few developed countries justifying reversal of liberalism in the new circumstances of recession relates to the belief that the developed countries have politically granted the privilege of relatively liberal access to the developing low-cost textile producing countries in the lucrative markets of the developed countries. According to this argument, easier access to these markets is not a matter of right for the developing countries.

The latter, in fact, continuing this line of reasoning, are benefitted by the quota system of imports of textiles and clothing by gaining a degree of certainty of the size of the market which will be available to them in the markets of the developed countries. Thus, it is argued that given a reasonable choice of accepting more restricted access to the markets of the developed countries under the recessionary conditions the developing countries are likely to accept it especially in view of the "guaranteed" size of the market compared to the alternative of uncertainty and probably more restrictive quotas.

It must be pointed out here that the "privileged access" argument has political overtones which put it beyond the scope of purely economic rationale for free trade system. It smacks of stronger political and economic power of the developed countries in dealing with the developing countries even in matters of enlightened self-interest such as trade. If pursued further, this argument is likely to sharply add to divisive elements into international politics and lead to further discriminatory pattern of trade which is most likely to reduce the economic welfare of the world. This trend could very well lead to a game theoretic situation in which trade favours would be exchanged for other favours--both economic and non-economic. In the end, the biggest casuality of such a power game would be the economic rationale for trade among countries of the world. That would certainly take world sufficiently backward in terms of economic progress. The existing power relationship between the developed and the developing countries, admittedly being between unequals, must not be exploited by the stronger party in pursuing such policies which would ultimately hurt their own enlightened self-interest as well as the long-term economic interests of the world as a whole.

<u>CONCLUSION:</u> We would conclude this section by observing that the basic objectives of the Multi Fibre Agreement are valid. Compared to its predecessor (LTA), the MFA has certainly represented an improvement in regulating world trade in "textiles". However, progress towards the long term objectives of achieving structural changes among developed and developing countries in line with the pattern of comparative advantage through appropriately designed and administered adjustment measures has not been much.

There have been indeed several problems in the implementation of the MFA. In general, the problems perceived by a number of developing as well as developed countries have been somewhat exaggerated. These problems are difficult but not insolvable. The next section suggests a framework of the guiding principles for renegotiating the MFA with a view to improve its working keeping in mind the interests of both exporting and importing countries.

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APPENDIX V.1

TEXT OF ARTICLE XIX OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE

Emergency Action on Imports of Particular Products

1. (a) If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

(b) If any product, which is the subject of a concession with respect to a preference, is being imported into the territory of a contracting party in the circumstances set forth in sub-paragraph (a) of this paragraph, so as to cause or threaten serious injury to domestic producers of like or directly competitive products in the territory of a contracting party which receives or received such preference, the importing contracting party shall be free, if that other contracting party so requests, to suspend the relevant obligation in whole or in part or to withdraw or modify the concession in respect of the product, to the extent and for such time as may be necessary to prevent or remedy such injury.

2. Before any contracting party shall take action pursuant to the provisions of paragraph 1 of this Article, it shall give notice in writing to the CONTRACTING PARTIES as far in advance as may be practicable and shall afford the CONTRACTING PARTIES and those contracting parties having a substantial interest as exporters of the product concerned an opportunity to consult with it in respect of the proposed action. When such notice is given in relation to a concession with respect to a preference, the notice shall name the contracting party which has requested the action. In critical circumstances, where delay would cause damage which it would be difficult to repair, action under paragraph I of this Article may be taken provisionally without prior consultation, on the condition that consultation shall be effected immediately after taking such action.

3. (a) If agreement among the interested contracting parties with respect to the action is not reached, the contracting party which proposes to take or continue the action shall, nevertheless, be free to do so, and if such action is taken or continued, the affected contracting parties shall then be free, not later than ninety days after such action is taken, to suspend, upon the expiration of thirty days from the day on which written notice of such suspension is received by the CONTRACTING PARTIES, the application to the trade of the contracting party taking such action, or, in the case envisaged in paragraph

I (b) of this Article, to the trade of the contracting party requesting such action, of such substantially equivalent concessions or other obligations under this Agreement the suspension of which the CONTRACTING PARTIES do not disapprove.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, where action is taken under paragraph 2 of this Article without prior consultation and causes or threatens serious injury in the territory of a contracting party to the domestic producers of products affected by the action, that contracting party shall, where delay would cause damage difficult to repair, be free to suspend, upon the taking of the action and throughout the period of consultation, such concessions or other obligations as may be necessary to prevent or remedy the injury.

* * * * *

APPENDIX V.2

The Composition of the Textiles Surveillance Body: Country-wise Representation

(in addition to the Chairman, Mr. Wurth)

1974	1975	1976	1977
1. EEC	1. EEC	1. EEC	1. EEC
2. Japan	2. Japan	2. Japan	2. Japan
3. USA	3. USA	3. USA	3. USA
4. Sweden	4. Canada	4. Finland	4. Norway
5. Pakistan	5. Brazil	5. Egypt	5. Columbia
6. Republic of Korea	6. India	6. Jamaica	6. Hong Kong
7. Yugoslavia	7. Hong Kong	7. Rep. of Korea	7. Pakistan
8. Tripartite Seat	8. Tripartite Seat	8. Tripartite Seat	8. To be shared (for 3 months each) by:
(i) Mexico (April-July)	(i) Philli-ppines (Jan-April)	(i) Jamaica (Jan-April)	Malaysia
(ii) Austria (Aug-Sept.)	(ii) Austria (May-Aug)	(ii) Austria (May-Aug)	Hungary
(iii) Spain (Oct-Dec)	(iii) Turkey (Sep-Dec)	(iii) Singapore (Sep-Dec)	Turkey

Source: The *Textiles Surveillance Body* Reports

VI SUGGESTED APPROACHES TO THE RENEGOTIATION OF THE MFA

In the context of the plethora of breaches observed in the working of the General Agreement on Tariffs and Trade (GATT) during thirty years of the operation of this Agreement covering many aspects of the international commercial system, Hugh Corbet had remarked that "GATT principles do not need to be reformed as much as they need to be reasserted".[31] The same remark can also be made with respect to the question of the reform of the Multi Fibre Arrangement. As we have observed in the last section, the basic objectives laid down in Article 1 of this Arrangement still are equally valid objectives as they were at the time of its negotiation. At this time when the negotiations for the renewal of this Arrangement are in full progress, what needs to be ensured is that sufficient improvements are made in the operationalisation of the basic objectives which ensure better fulfillment of these objectives in the future. The renewed MFA must devise clearer guidelines backed by more effective multilateral surveillance for reconciling the delicate balance of the interests of the developed as well as developing countries considering both the short term and the long term objectives of the Arrangement.

To reassert the basic objectives of the Arrangement governing international trade in "textiles", we may more clearly state that its long run objectives would be the achievement of a more rational international division of labour and more equitable distribution of gains from freer trade in this sector while its short term objectives would be the achievement of an orderly expansion of world trade in this sector without causing undue hardship on the individual economies of both the developed and the developing countries of trade with special regard being paid to the difficulties of the lesser developed countries.

The guiding principles for the renegotiation of the Arrangement should be multilaterality in sanctioning discrimination in emergency restraints with time bound exceptions for certain marginal suppliers from among the lesser developed countries and fairness in terms of a progressive system of compensatory support to the affected parties in case the emergency restraints are to be continued beyond the initially agreed period backed by a commitment on the part of all participating countries to make multilateral surveillance more effective.

In renegotiating the MFA and the bilateral agreements under the provisions of the agreement, the developing countries must unitedly voice their concerns, say, under the forum of the United Nations Conference on Trade and Development (UNCTAD). A permanent textiles committee consisting of the representatives of the governments of the developing member countries of the MFA (possibly their carefully selected chief textile negotiators) should thrash out the various issues concerning the problems of their countries and resolve internal differences and take a united stand in line with the guiding principles mentioned above to the negotiation table under the auspices of the GATT. The UNCTAD's Textile Committee should be authorised to the new MFA and negotiate on behalf of the developing countries. Now is the time when the developing countries must voice their unified concerns over several issues relating to tariff as well as non-tariff barriers. The developing countries should demonstrate their political will for cooperation within themselves by resolving their conflicting interests through internal negotiations and not allow the developing countries to exploit their weaknesses on or behind the scene while renegotiating the MFA.

The developing countries will be better off trying to negotiate the MFA in terms of an integrated approach negotiating for tariff as well as non-tariff barriers simultaneously. The developed countries have successfully avoided bringing in discussion of non-tariff barriers on "textiles" within the scope of the negotiations on non-tariff barriers under the various rounds of the Multilateral Trade Negotiations. Even if it is recognised that "textiles" as one of the most sensititive items is somewhat unique having a history of over 16 years of operations of specially negotiated arrangements governing international trade in these commodities, it can easily be seen that whatever little concessions they might gain on the front of more liberal quotas under renewed MFA can easily be lost to them through higher tariffs or tariff-quotas which might be imposed by the developed countries in future (especially under the G S P scheme) and <u>vice-versa.</u>

It is well known that the developed countries have been adopting a system of "double protection" by hitting imports of textiles from the developing countries through higher than average rates of tariffs applied to the products of all industrial sectors and also through a relatively tight system of import quotas. Thus, for example, a recent Report of the U.S. Tariff Commission to its Senate Finance Committee revealed the following figures of the average tariff rates being the trade rated MFN rates, present ad valorem equivalent:[32]

	U.S.	EEC	Canada	Japan
Textiles	25.0	13.2	23.8	12.7
All Industrial Sectors	8.8	8.1	14.1	11.6

Being average tariff rates, the rates of tariffs on textiles actually conceal much higher tariff rates on many textile products. The UNCTAD Secretariat's Report on International Trade in Textiles and Developing Countries (cited earlier in Section V) points out that a 200 per cent tariff rate has been imposed by a developed country on imports of certain textile item since it had an unbound tariff structure.

The time for integrated negotiations on the tariffs and non-tariff barriers for trade in textiles is most appropriate now since negotiations for the future of MFA and the MTN both under the auspices of the GATT are simultaneously proceeding. If action is not taken now, the developing countries' case for negotiating effective barriers to their textile trade may easily go by default keeping in mind the attitudes of the developed countries.

We may discuss one more aspect of the GATT since this has had direct relevance in the case of the working of the MFA. The developed countries have interpreted their GATT rights to be supplementary to their rights and obligations under the MFA. As pointed out in Section V, a number of developed countries have unilaterally applied Article XIX restriction on their imports of textiles thus obviating the need for going through the consultation and justification procedures laid down for imposing new restrictions on textiles under the MFA. This has suddenly hurt the textile industry in a number of developing countries. The developing countries must protest against the raw treatment meted out to them under the "non-discriminatory" treatment of emergency restrictions on sharp and substantial increases in imports of products causing or threatening market disruption <u>without</u> being verified by an international surveillance body. The Textiles Surveillance Body was designed as a test case how Article XIX of GATT may be modified by subjecting the country seeking to impose new restrictions on the grounds of ' market disruption ' to the pressures of multilateral surveillance. In view of the fact that the developed countries have been imposing restrictions on imports of textiles in several cases under Article XIX rather than under the provisions of the MFA, the developing countries must seek reform of the Article XIX. This article needs to be modified from the point of developed countries not only in the interests of making the MFA a more effective instrument but also from general considerations. However, the latter aspect is beyond the scope of this paper. The only aspect of the GATT Article XIX which concerns us immediately relates to the need for enforcing the 'compensation' provisions of this article by insisting that the developed countries imposing unilateral restrictions on imports of textiles under this article should provide adequate compensation to the affected developing countries in the form of opportunities for equivalent export earnings to the latter countries by liberalising imports of other products. Such a condition could explicitly be incorporated in the revised MFA.

One of the most important revisions required in the MFA relates to the redefinition of the concept of market disruption. As pointed out in Section IV, the lumping of various products in broad categories like "shirts" etc. and citing the statistical evidence regarding "high" import-penetration ratio to justify the occurrence or threat of market disruption as is being currently advocated by the representatives of industry in the EEC is analytically on very weak grounds. We would suggest that relevant comparison for measuring market disruption from so-called cheap imports should be to compare imported products with comparable import-competing domestic products by each individual segment of consumer demand (end-use). Since this would not be practicable immediately, we would like to suggest that the NIMEX coding procedure be suitably modified to make it practical to collect data on some surrogate measurees of the 'end-use'.

The Surrogate measures which we would like to suggest for measuring market disruption are based on technical specifications and standards of quality of cloth and of finishing. The technical specifications would include indicators like (i) material used (cotton, Polyester, filament) and percentage of each of the materials used in case of blended products (ii) count of yarn used; (iii) type of construction measured by reed/picks or threads per square inch. The standards of quality can be based on measures like (i) abrasive resistence (ii) terstrength; and (iii) details of the tolerance limits on flaws. These comparisons would roughly indicate the market segment for which the textiles and clothing products are meant for.

To make this measure operational, the revised customs code would be enlarged to incorporate the above surrogate measures to indicate the broad level of differences in the expected performance of these products. Comparable data on import-competing products will have to be produced by the developed country seeking to impose restraints on imports to justify the threat of market disruption.

Another concept where there is a need for a techno-economic verification based on market information data to improve the measurement relates to the concept of Minimum Viable Production. The countries seeking to invoke this concept for restraining the growth rates of imports must provide data to the Textiles Surveillance Body so that an expert examination of the break-even point of the minimum viable size of the unit of production can be made and comparison with actual size of operation undertaken to justify or reject the claim.

To overcome the short term problems of adjustment in the markets of the developed-economies where the existence or immediate threat of occurence of market disruption is justified (as per criteria laid down above), we would favour the globalization of quotas determining the overall size of imports of the product in question which can safely be allowed. This exercise should explicitly take into the so-called "cumulative market disruption" effects of imports of directly comparable products from all sources, including imports from other developed as well as developing countries whether they are other members of a customs union or a free trade area or other associate countries who have been granted special preferences as a result of political or economic reasons. The implications of treating textiles as a unique sector on the required modification of the concept of "customs union" or a "free trade area" must be clearly brought home to all the countries of the world. The country-specific quotas then need not be emphasized except for exempting certain extremely marginal supplying countries for a limited period of time who would face undue hardship to their economies. The imports will be allowed on first-come-first served basis on the basis of marketing competitiveness of the products of various countries within the limit of a truly global quota.

If such a serious modification cannot be acceptable, the second best approach would be the limited globalization of such quotas product by product for the overall level of imports to be allowed under temporary emergency protection from all the developing countries and letting all major supplying countries compete within the negotiated overall limit— the only exceptions being reserving a smaller proportion (say 25 per cent) and determining differential country-specific quotas for the new and the lesser developed among the developing countries who have planned increases in industrial capacity specifically geared to export markets.

It is also essential to clarify that such globalized quotas should not be allocated to manufacturing or import trading firms within the developed countries on any pro-rata basis. The importers should equally compete among themselves for procuring imports from the sources of supply for whom the global limit has been set. This is likely to yield better prices for the suppliers from the countries who are being subjected to such a global quota.

Specifically imports of garments made out of certified handloom cloth whether by use of "hand-labour" or "machine based hand labour" should not be restricted for imports since they cannot directly disrupt the market for garments made in the developed countries under the criteria suggested by us. The certification procedures undoubtedly need to be strengthened in this respect.

While the above proposals would meet the short-term objectives of the renegotiated MFA in a better way than its predecessor, they would need to be supplemented with a major reform towards in agreed and supervised programme of longer term adjustment assistance programmes in developed countries seeking to renew temporary emergency measures on selected products beyond one to two years. As pointed out in Section V, the major weakness of the MFA has been neglect of the long-term objectives of the MFA. This needs to be rectified under the renegotiated MFA.

Since we would also explicitly like to incorporate the long term objectives of the MFA, the life of the MFA should be extended to five years or more. An expert study should be undertaken in the last year of the life of the MFA to review the dynamic comparative advantage of location of textile and industry product by product and location by location in each of the participating countries of the MFA. A five year plan of action of relocation of industrial activity should be formulated for ensuring shifts in patterns of investment production and trading at least at the level of each of the developed member countries versus the group of developing countries as a whole. Restrictions should not be put on the transfer of technology from the developed to the developing countries in this sector for which a special international agreement is supposed to be working for the long term benefit of the world as a whole.

By and large, the adaptability of the entrepreneurs of the developed countries to clearly defined and firmly scheduled programmes of structural adjustment have been demonstrated in their efforts to adjust to the pressures of import competititon from the other developed countries.[33] The ingeniousness of the "textile" trade negotiators would lie in negotiating a time-bound workable plan of adjustment assistance measures subject to follow up action under the supervision of a multilateral surveillance body such as the TSB.

The above suggested approaches to the renegotiation of the MFA clearly bring out the most important requirement of strengthening the role of the Textiles Surveillance Body. More powers of thorough enquiries in the countries seeking to impose temporary emergency restrictions on textiles and clothing should be conceded by the concerned member country to justify its claims for the validity of such actions. The country seeking such actions should accept the obligations to submit all necessary information within a sufficient period of time, say 30 to 60 days. To assist the TSB in the examination of each case on its merits, a standing advisory committee of professional experts drawn internationally should be constituted. The core staff of this Committee should consist of a few economists, marketing management experts and technologists and necessary supporting staff with a provision to coopt a few others if necessary. Besides the case-by-case reviews, this Committee should review all major developments in the field of "textiles" and initiate anticipatory thinking on the likely problems in this sector which will have to be faced by the international community in the near future.

Last, but not the least, each country seeking to impose restriction on the imports of "textiles" under any of the provisions of the renegotiated MFA must pay due consideration to the interests of the consumers especially as an anti-inflationary measure to reduce the cost of "textiles" as wage goods. At present, in the absence of organised lobby of the consumers in the developed countries and the persistence of an unproven belief that traders do not sufficiently pass on the advantage of cheap imports either to the consumers in the developed countries or to the producers in the exporting developing countries, sufficient weight is not given to the interests of the consumers and trade channels in the countries seeking to protect the interests of domestic producers of "textile" products.

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VII THE QUESTION OF THE EXTENSION OF THE MFA - APPROACH TO SOME OTHER SECTORS

The negotiation of the special arrangement for governing international trade in textiles in 1960's as explained in Section III was at the initiative of the United States backed by a few other developed countries to cope up with the special difficulties of the cotton textile industry in these countries. The spokesmen for these countries swore by the temporary and selective nature of such arrangements and justified the negotiation of the safeguard measures for restraining imports on somewhat "unique" problems faced by the cotton textile industry as a sector outside the general principles governing safeguard provisions under the GATT.

The temporary nature of the special safeguard measures for the "textile" sector on selective basis was underlined in the L T A. The Multi Fibre Arrangement made the coverage of products quite comprehensive (to include products based on wool and manmade and blends) but still maintained that the safeguard provisions were of temporary nature and would only be applied to "textiles" sector as an exception. Article 1:7 of the MFA proclaims that the "participating countries recognize that, since measures taken under this Arrangement are intended to deal with the special problems of textiles products, such measures should be considered as exceptional, and not lending themselves to application in other fields".

Yet, the precedent of sectoral arrangement having been set and having been in operation for over 17 years now, the temptations are great that considering the recent recessionary conditions the domestic producers of other labour-intensive products in the developed countries like leather and leather products including footwear might pressurize their governments in future to seek the extension of MFA to such products or to seek new sectoral arrangements like the MFA to govern international trade in such sectors.

Nothing could be more dangerous to the interests of long term economic welfare of the world as a whole than the extension of the MFA or MFA-type arrangements to other sectors because it can trigger a chain reaction process of further restrictions on the growth of world trade thereby limiting the potentials of gains from trade to both developed and more so to the developing countries of the world.

The experience of the working of the arrangement governing international trade in "textiles" from 1960 to 1975 confirms the hypothesis that world trade in textiles has grown at a much smaller rate than the rate of growth of world trade in all manufactured products. As shown earlier (section I), the share of world trade in textiles in the world trade has been nearly constant (around 6 per cent) throughout this period. Furthermore, the share of exports of "textiles" in the total world exports has been stagnant throughout the period of the MFA (around 38 per cent).

In fact, restrictions placed on, exports of textiles during the period of the economies of some of the developing countries and affected the progress of structural change in "textiles" industry in some of the countries -- for example by discouraging investment in manmade fibre industry in some developing countries after the inclusion of man made fibres in the MFA even when these countries possessed the other requsite resources.[34] Any tightening of the restrictions on the exports of certain clothing products from the developing member countries is likely to reverse the pattern of comparative advantage demonstrated by them in the market place. On balance, as pointed out in Section V, the MFA (and its predecessors) have paid scant attention to the long term objectives of promoting a more viable pattern of international division of labour through world trade in "textiles". Moreover, the review of the functioning of the Textiles Surveillance Body brings out glaring inadequacies of the performance of this Body for very good reasons as shown in Section V. As has been pointed out earlier, the TSB may be viewed as a test case as to how Article XIX of the GATT may be modified. The experience of multilateral surveillance for institutionalising review of the discriminatory restrictions under a sectoral approach has not been very satisfactory.

Yet another problem with the MFA has been that it has reduced international trade in textiles among developed and developing member countries to a virtual state of bilaterally agreed trade governed by multilaterism only in name. This is clear from the fact that a number of bilateral agreements negotiated under the MFA extend beyond the date of expiry of the MFA. Yet another pointer in this direction is the negotiation of bilateral agreements among major developed importing countries and the developing exporting countries before MFA has been renewed. The EEC is in fact reported to have made up its mind to first negotiate the bilateral agreements with major exporting developing countries and to negotiate renewal of the MFA with or without modifications only after seeing the results of the bilateral negotiations. The U.S. is reported to have already concluded a bilateral agreement with Hong Kong for the next year assuming that the MFA will be renewed. Thus multilateralism is clearly taking the back seat in favour of bilateralism in the negotiations for the future of the MFA representing a very dangerous trend!

Considering all the points listed above we would not be in favour of extending the MFA or negotiating MFA type arrangements to other sectors of world trade. Since the arrangements governing international trade in textiles have now come to stay, there is perhaps very little that the developing countries can do to force the developing countries to let the MFA lapse and revert back to the safeguard clauses of the GATT in case of sharp and substantial increases in the imports of "textiles". The only thing they can do is to voice their common concern and assert their stand on improving the working of the MFA. Unless the experience of the working of the renegotiated MFA proves the effectiveness of the

Textiles Surveillance Body to supervise and achieve both the long term and the short term objectives of the Arrangement in a sufficiently effective manner, the developed countries should curb any temptation to experiment further with the sectoral approach to discrimination of the MFA-type. As responsible partners in progress of the international community, the developed countries should refrain from forcing the developing countries to negotiate any more sectoral arrangements in international trade under the ever-existing real threat of imposing unilateral restrictions as it suits the former countries.

Jan Tumlir anticipated the danger of more sectoral arrangements due to the continuous existence of the precedence of the textiles case. He has therefore emphasized the need for generality in the desirable safeguard clause for counteracting the effects of suddenly sharp and substantial increases in imports for any particular product. He states that in the context of dynamic growth of world trade, "the only guarantee of order" in such a system "lies in the trading countries' acceptance of general principles of emergency protection, letting where necessary - only the modalities vary from industry to industry."[35] We could not agree more with him on this general conclusion.

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VIII

SUMMARY AND CONCLUSIONS

This study has primarily been concerned with the issues and perspectives on the historical evolution and working of the arrangements governing international trade in "textiles", particularly the latest such arrangement unofficially known as the Multi Fibre Agreement (MFA). While the problems of both the developed and the developing countries in the field of world trade in textiles and their implications for structural changes in the pattern of a more rational international division of labour have been discussed, special attention has been paid to the problems of the developing "textile" exporting countries with special reference to the Southeast Asian countries. The study has been mainly concentrated on the adjustment problems in the working of the MFA. The working of the multilateral surveillance for the implementation of the MFA through the Textiles Surveillance Body has been evaluated. In the light of the findings, the Study has to offer a few suggestions for renegotiating the MFA in the near future to achieve its objectives more effectively.

The study is divided into seven main sections. Section I provides an introduction to the statement of the problems to be studied and the approach adopted by this study. As a background to the problems to be studied, Section II highlights some recent trends in the growth of world textiles and clothing industries especially during the period 1970-75. These include a review of trends in consumer expenditure, production, employment, machinery in use and world trade. Section III presents the historical evolution of the arrangements governing international trade in "textiles". The main features of design and organisational aspects of the latest such arrangement, namely the MFA are discussed in Section IV. Section V provides an apprisal of the working of the MFA. Section VI outlines a few suggestions for renegotiating the MFA. And the question of VIII-2 the desirability of the extension of the MFA approach to some other sectors is examined in Section VII.

The main conclusions of this study relating to the appraisal and the future renegotiation for the MFA may be summarised as follows:

The basic objectives of the MFA like its predecessor (the LTA) are valid. These consist of the long term and the short term objectives. The long term objectives aim at the achievement of structural changes in the international textiles industry in a growing world for seeking a more viable pattern of international division of labour and freer trade in line with the principle of dynamic comparative advantage of all countries of the world, whether developed or developing. The short term objectives aim at a more orderly expansion of world trade in textiles without causing severe adjustment problems during the transition either to the developed countries or to the developing countries.

The MFA has been a definite improvement over the LTA in three major ways. The first one relates to increasing the coverage of the products beyond cotton textiles to wool, manmade fibres and blends mainly to meet the demands of the developed importing countries for reducing the pressures in their domestic economies to sharp increases in imports of the latter categories of products. The second one concerns the laying down of the guidelines for determining the threat or occurrence of market disruption which is the main operational safeguard provision in the MFA. And the third one consists of institutionalising the process of multilateral surveillance, by creating a standing body, namely, the Textiles Surveillance Board for overseeing the implementation of the MFA and particularly making the imposition of new restraints on imports subject to a multilateral reviews. Thus by its design, the MFA tried to achieve a balance of interests of the exporting and the importing member countries of the MFA. Even though most of the developing countries regarded the MFA (and similar earlier arrangements) as derogation from the general principles of the GATT they accepted the arrangements as being a satisfactory compromise in terms of the design since they provided certain benefits to them like a predefined degree of access to the markets of the developed countries and subjected the imposition of new restrictions to a process of multilateral surveillance through the TSB and also linked them with the undertaking of appropriate adjustment measures in the concerned countries towards a more viable globe production and trade structure in line with the dynamic principle of comparative advantage.

However, in practice, an appraisal of the working of the MFA provided in Section V shows that the long term objectives of the MFA were nearly neglected by most of the developed member countries. As for the achievement of the short term objectives, it appears that these were achieved leaving both the developed importing countries and more so the developing exporting countries dissatisfied with the implementation of the MFA in terms of achieving the balance of interests of the exporting and the importing countries.

From the point of the developing countries, the implementation of the MFA largely through the instrument of bilateral agreements and without sufficient powers with the TSB exposed them to a process of negotiation among participants with unequal strength resulting in tilting the balance of interest in favour of the developed importing countries. Through a proliferation of the number of restrictions imposed and considering the nature of these restrictions at disaggregated level of specific products of the greatest export interest to them in which they clearly possessed comparative advantage and also considering the cases of the violations of the provisions of the MFA as per the opinion of the TSB on which no (or insufficient) action was taken by the concerned developed countries imposing fresh restraints, the UNCTAD Secretariat has concluded that the developing countries have felt that the implementation of the MFA has left a lot to be desired. In addition, a number of developed countries have not hesitated to take unilateral actions outside the provisions of the MFA as it suited them without first exhausting the possibilities of consultations under the MFA and also not cared to pay any compensation to the affected developing countries.

Some of the developed importing countries of the MFA have, however, felt that the implementation of this arrangement has not enabled them to check sharp and substantial increases of imports of some of the textile products and coupled with the recession in their domestic economies has accentuated the already existing special problems faced by their textile industry. The domestic producers lobby in several developed countries has claimed that the continued inflow of "cheap imports" during recessionary conditions has led to unbearable position causing substantial unemployment, too high import penetration ratios in several products leaving very little proportion of home market for domestic import-competing industry and a substantially adverse net balance of trade for their country compared to earlier situation of surplus. They have, therefore, urged their governments to renegotiate the MFA which should be more restrictive.

This Study, viewing both sides of the picture, concludes that there have been short term advantages of the MFA to both the developed and the developing countries. Despite several problems with the implementation of the MFA and relative ineffectiveness of the TSB in several instances, the developing countries could have ended up with having to bear more restrictions than they have had to face during the period of the MFA. In a broader context, the TSB which might be regarded as a test case as to how Article XIX of the GATT may be modified may be said to have had some restraining influence on the developed member countries from intensifying new restrictions on imports from developing member countries particularly when much of the period of MFA coincided with the prevalance of recessionary domestic conditions.

On the other hand, the case for tightening restrictions on imports of textiles from the so called "cheap import" sources being advocated by the protectionist lobby on the grounds of substantially adverse effects on employment, market disruption du to very high rates of import penetration and deficit in the sectoral trade balance is being highly exaggerated. Recognising the special difficulties of the textiles and clothing industries in several developed countries, especially the problems of affecting structural adjustments, we have argued that increased imports of these products from the developing countries is not a major cause of the current difficulties and that the concepts being deployed to measure adverse effects to the economies of the developed countries are analytically very weak resulting in misleading campaign. The developed countries, especially the EEC, should not pay too much attention to the case made out by the domestic protectionist lobby while renegotiating the MFA.

This Study has made the following suggestions for improving the effectiveness of the renegotiated MFA (reasserting the general objectives as under existing MFA):

i) The guiding principles for the renegotiation of the Arrangement should be multilaterality in sanctioning discrimination in emergency restraints with time bound exemptions for certain marginal suppliers from among the lesser developed countries and fairness in terms of a progressive system of compensatory support to the affected parties in case the emergency restraints are to be continued beyond the initially agreed period backed by a commitment on the part of all participating countries.

ii) Evolving a consensus on the common stand of the developing countries on the issues and expressing them through a Textiles Committee on the UNCTAD;

iii) Attempting to negotiate the MFA in terms of an integrated approach combining tariff and non-tariff barriers under the GATT;

iv) Seeking a system of progressive compensation from the developed countries invoking GATT's Article XIX to affected countries when resort is not taken to the MFA approach;

v) Redefining market disruption by statistically verifiable comparison of the affected Market segment which is comparable; we have suggested a new information system (customs code) to incorporate a few broad qualitative differences due to variations in technical specifications and standards of cloth, material used and finishing;

vi) Redefining statistically verifiable concept of Minimum Viable Production

vii) Globalization or Limited Globalization of quotas when justifiable new restrictions on imports have to be imposed reserving a smaller proportion for the new and lesser developed marginal supplier countries in a time bound programme; and letting importers compete freely for procurement of imports within the limit of the appropriately worked out overall quota;

viii) Clearly exempting garments made out of handloom cloth whether by hand-labour or a combination.of hand and machine labour at the final stage of conversion but simultaneously strengthening the certifying procedure for the basic cloth used;

ix) Working out a five yearly adjustment assistance programme among the countries with relative comparative disadvantage in major product lines reviewed every five years and monitered and reviewed annually; extending the life of the new MFA to five years to facilitate five years to facilitate five-year plan of adjustment of production, investment and trade;

x) Strengthening of the role of TSB through voluntary acceptance of the obligation of each participant to submit all necessary information for reviewing each of the unilateral actions as well as bilateral actions and also authorising the TSB's new committee of professional experts to conduct field enquiries within the territory of the participating country as well as the undertaking of payment of fair compensation to the affected parties multilaterally negotiated under the codified procedures; and institutionalising market research to anticipate the new developments in the future which would require immediate action; and last but not the least

xi) Formally giving due weightage to the interests of the consumers and distribution trade channels in the developed importing countries.

Finally, on the question of the desirability of the extension of the MFA approach to other sectors, this study warns against the dangers of submitting to such temptations. It argues that considering the experience of the implementation of the MFA and particularly the existing weaknesses of the TSB, it should be clearly undesirable to even think about the real possibilities of extending the MFA or the MFA type approach to other sectors. Since it would be nearly impossible to do away with the continuation of the MFA for the textiles sector, the best hope for the world would be to renegotiate the MFA with operational improvements some of which have been suggested in this study.

* * * * *

POST - SCRIPT

The long drawn-out diplomatic process of negotiations for the future of the Arrangement Regarding International Trade in Textiles (more popularly known as the MFA or simply as the Arrangement) beyond December 31, 1977 culminated with the agreement among the member countries of the Arrangement at the meeting of the Textiles Committee on December 14, 1977 to renew this Arrangement for the next four years. The General Agreement on Tariffs and Trade announced this agreement in a Press Release on December 15, 1977. The full text of the Press Release is reproduced in the Appendix to this Post-Script.

As may be seen from the text of this Press Release, the extension of the Arrangement will be legalised through signatures by the concerned governments of the member countries. It is provided in the Protocol that the extended MFA will come into force on January 1, 1978 for all the member countries whose governments accept it by this date. It will become effective for other member countries who accept it late from the date their governments communicate their approval.

It may be noted that while no changes have been made in the original text of the Arrangement, reference has however been made in the Protocol to certain understandings which are recorded in Conclusions adopted at the Meeting of the Textile Committee on December 14, 1977. The Press Release reproduced in the Appendix to this Post-Script contains the text of the protocol and the Conclusions referred to in this paragraph.

The preface to the text of the said Protocol and Conclusions highlights three facets of the renewed MFA. First, it emphasizes the fact that the 42 present signatories of the MFA, counting the Nine-nation EEC as one signatory, according to the latest available estimates (for 1976), account for well over four-fifths (more than $40 billion out of estimated $50 billion) of world trade in textiles and clothing. The presumption is that this position will continue to largely hold within the life span of the extended MFA. The second point highlighted in this preface relates to the reaffirmation of the basic objectives of the MFA by all the members of the Textiles Committee. Specifically, the "primary aims" of the MFA are "to ensure the expansion of trade in textile products particularly for the developing coun- . . and progressively to achieve the reduction of trade barriers and the liberalization of world trade in textile products while, at the same time, avoiding disruptive effects on individual markets and on individual lines of production in both importing and exporting countries".[36] The third and the final point highlighted in this Press Release relates to the uniqueness of the Textiles Surveillance Body which supervises the implementation of the MFA which would continue to function within the extended lifetime of the MFA.

As of January 14, 1978, 23 countries (counting EEC as 9 countries) had signed the protocol extending the MFA with full commitment or provisionally subject to due process of governmental approval. The signatories, so far are:

1. Hong Kong; 2. India; 3. Japan; 4. Brazil (subject to final government approval); 5. U.S.A; 6. EEC (representing 9 countries); 7. Colombia; 8. Mexico; 9. Thailand; 10. Sri Lanka; 11. Singapore; 12. Romania; 13. Austria, (subject to completion of Constitutional procedures); 14. Switzerland (subject to completion of Consitutional procedures); and 15. Guatemala (pending governmental approval).

A reading of the 'Conclusions of the Textiles Committee adopted on 14 December 1977' would leave a distinct impression regarding the unshakable faith in the spirit of mutual cooperation and understanding in resolving through negotiations-multilaterally and specifically bilaterally-whatever problems remain or might crop up in the implementation of the MFA. The Textiles Committee, therefore, agreed that there was no special need to change the text of the original MFA and the MFA in its present form should be extended for the next four years keeping in mind the 'Conclusions' adopted at the meeting where this decision has been taken.

While the text of the said Protocol and the 'Conclusions' have been drafted with skill and read very well and therefore are likely to be least controversial, they do not bring out the facts regarding the process of negotiating a number of bilateral agreements for 1978 taking precedence over the multilateral negotiations for the future of the MFA. It is an open secret that both the U.S.A. and the EEC, particularly the latter completed bilateral agreements with a number of so-called low-cost developing countries regarding permissible imports of textiles and clothing into their markets for 1978 which were generally far more restrictive than the agreements for 1978. While the U.S. was in favour of extending the MFA as it is, the trade negotiator of the EEC openly announced that conclusion of bilateral agreements with low-cost textiles supplying developing countries within a deadline unilaterally set by it to its satisfaction was a pre-condition to the EEC's agreeing to extend the MFA as is. The EEC was able to "successfully" complete bilateral agreements with 20 such countries (including Hong Kong but excluding India, Brazil, Egypt and Pakistan) within the time-limit set by the mandate given to the trade negotiators by the European Economic Commission. Following this lead other developing countries are most likely to accept "tougher" and "more restrictive" bilateral agreements with the EEC for the next year.

The EEC has also succeeded in getting agreement from a number of low-cost textiles supplying developing countries in bilateral agreements regarding the introduction of a "trigger mechanism" based on "statistical monitoring" of imports of a wider net of textiles and clothing items where the EEC would reserve the right to negotiate import restrictions in case imports of specific items in future show an upsurge to levels unacceptable to the EEC. The EEC has succeeded in getting incorporated into the 'Conclusions of the Textiles Committee adopted on 14 December 1977 an explicit consideration of the "evolutionary and cyclical nature of trade in textiles" for determining future policies of importing and exporting countries for trade in these products.

The EEC has learnt, though later than the U.S., that by controlling the base line and the quotas on specific products from specific countries primarily through bilateral agreements which are permitted and now further encouraged in the approach adopted by the Textile Committee on the extension of the MFA, it can easily allow the theoretically high-sounding annual growth rate of 6 per cent for imports of textiles and clothing from the developing member countries of the MFA. The developed countries, especially the EEC, have reason to be happy with the manner in which the MFA has been renewed without opening the bandora's box of attempts to modify the text of the original agreement.

The renewal of the MFA in a practical sense, therefore, currently means the triumph of protectionism over liberalism in the immediate future of world trade in textiles for the developing countries. The shift in policy of the EEC within a relatively short period of time from that of possibilities of encouraging structural change in world trade in textiles and clothing in favour of developing countries over time to that of giving precedence to its domestic short and medium term economic objectives can be distinctly observed.[38] The EEC and a few other developed countries have succumbed to pressures of domestic protectionist lobbies and chosen to ignore the observations of international bodies like the GATT and the International Monetary Fund regarding the dangers of increased protectionism in world trade.[39]

The developing countries have in this process missed this crucial opportunity coming at the end of four years to get modifications of the MFA which would while taking negotiated solutions to solve the currently short-term problems of mutual trade in textiles would also secure a phased out time bound plan of relocation of this industry among the developed and the developing countries for meeting the long term objectives of the MFA. The immediate future of expansion of exports of textiles and clothing from developing countries looks bleak.

On balance, as per current reckoning, the mere fact of renewal of the MFA combined with the bilateral agreements secured by developed countries like the EEC, does not make it a step forward towards the objective of establishing a new and just international economic order. Much, however, depends, on how the renewed MFA is implemented during the next four years. One hopes that having armed themselves with additional powers of restricting imports of textile products from the developing countries, good sense will prevail and the developed countries will not pursue more and more restrictive policies in this respect year-after-year. Equally, the developing countries on whom the major burden of adjustment has been currently thrown, would do their best by more skillfully negotiating bilateral agreements with the developed countries and encourage the exporting units to appropriately change the product-mix in this sector to take advantage of whatever opportunities are avilable to them for expanding their trade with the developed countries within the framework of the extended MFA. Of critical importance in getting the best out of the extended MFA for the next four years would be the strengthening of the Textiles Surveillance Body for achieving its objectives. The focus now for multilateral negotiations must shift to finding workable plan to strengthen this institution. It may not be inappropriate to close this Post-Script by drawing attention to the relevant recommendations presented in this Study for strengthening of both the systems and organisational structure of the Textile Surveillance Body. These may be considered by the policy makers as an input for improvement in the implementation of the renewed MFA.

APPENDIX TO POST-SCRIPT

"MULTIFIBRE ARRANGEMENT EXTENDED FOR FOUR MORE YEARS" TEXT OF THE PRESS RELEASE BY THE GENERAL AGREEMENT ON TARIFFS AND TRADE, GATT/1208 DATED DECEMBER 15, 1977

The Arrangement Regarding International Traditional Trade in Textiles-widely known as the Multifibre Arrangement - is to be extended for a further four years, beginning on 1 January 1978.

The decision to extend the Arrangement was taken at a meeting on 14 December of the Textiles Committee, the governing body of the Arrangement, on which all its signatories are represented.

Extension of the Arrangement will be by a legal Protocol, which is now open for signature by governments. No changes are being made in the Arrangement's text. However, reference is made in the Protocol to certain understandings which are recorded in Conclusions adopted by the Committee on 14 December. The texts of the Protocol and the Conclusions are given below:

The Arrangement was originally negotiated in late 1973, and entered into force for a four-year period on 1 January 1974. Its 42 present signatories (counting the 9-nation European Community as a single signatory) account for well over four-fifths - more than $40 billion - of world trade in textiles and clothing. The aim of the Arrangement is reaffirmed in the Conclusions just adopted as being "to ensure the expansion of trade in textile products, particularly for the developing countries, and progressively to achieve the reduction of trade barriers and the liberalization of world trade in textile products while, at the same time, avoiding disruptive effects on individual markets and on individual lines of production in both importing and exporting countries".

A unique feature of the Arrangement is the Textiles Surveillance Body which supervises its implementation. It consists of an independent Chairman and eight members so chosen as to constitute a balanced representation of participating countries.

PROTOCOL EXTENDING THE ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES

THE PARTIES to the Arrangement Regarding International Trade in Textiles (hereinafter referred to as "The Arrangement").

ACTING pursuant to paragraph 5 of Article 10 of the Arrangement, and

REAFFIRMING that the terms of the Arrangement regarding the competence of the Textiles Committee and the Textiles Surveillance Body are maintained, and

CONFIRMING the understandings set forth in the Conclusions of the Textiles Committee adopted on 14 December 1977, copy of which is attached herewith,

HEREBY AGREE as follows:

1. The period of validity of the Arrangement, set out in Article 16, shall be extended for a period of four years until 31 December 1981.

2. This Protocol shall be deposited with the Director-General to the CONTRACTING PARTIES to the GATT. It shall be open for acceptance, by signature or otherwise, by the parties to the Arrangement, by other governments accepting or acceding to the Arrangement pursuant to the provisions of Article 13 thereof and by the European Economic Community.

3. This Protocol shall enter into force on 1 January 1978 for the countries which have accepted it by that date. It shall enter into force for a country which accepts it on a later date as of the date of such acceptance.

4. Done at Geneva this fourteenth day of December one thousand nine hundred and seventy-seven in a single copy in the English French and Spanish languages, each text being authentic.

<u>Conclusions of the Textiles Committee adopted on 14 December 1977</u>

1. The participants in the Arrangement exchanged views regarding the future of the Multifibre Arrangement (MFA).

2. It is clear from the annual and major reviews of the MFA undertaken by the Textiles Committee that certain importing and several exporting countries have encountered practical difficulties in the implementation of the provisions of the MFA. Discussions in this respect covered a wide range of areas of satisfaction as well as dissatisfcation. These difficulties, some of which are of a long-standing nature, affect seriously the trade and economic development of developing countries.

3. Members of the Textiles Committee recognized that there continued to be a tendency for an unsatisfactory situation to exist in world trade in textile products, and that such a situation, if not satisfactorily dealt with, could work to the detriment of countries participating in international trade in textile products, whether as importers or exporters or both. It could adversely affect prospects for international cooperation in the trade field and could have unfortunate repercussions

n trade relations in general, and the trade of developing countries in particular.

4. Some participating countries, importing as well as exporting, felt that there was a need for modifications to be made to the text of the MFA. Others were of the opinion that any difficulties that may have arisen were due to problems of implementation, and that the provisions of the MFA are adequate to deal with such difficulties. It was agreed that any serious problems of textile trade should be resolved through consultations and negotiations.

5.1. As regards that was described by one major importing participant in its statement to this Committee as its pressing import problems, the Textiles Committee recognized that such problems should be resolved bilaterally under the provisions of Article 4 or Article 3, paragraphs 3 and 4.

5.2 The Committee noted one major importing participant's statement concerning the basis upon which it intended to achieve its stated objectives by bilateral consultations and negotiations and noted the expression of goodwill and flexibility made by certain exporting participants now predominant in the exporting of textile products of all the three fibres covered by the Arrangement.

5.3 The Committee agreed that within the framework of the MFA, any such consultations and negotiations should be conducted in a spirit of equity and flexibility with a view to reaching a mutually acceptable solution under Article 4, paragraph 3 or Article 3, paragraphs 3 and 4, which does include the possibility of jointly agreed reasonable departures from particular elements in particular cases.

5.4 It was agreed that any such departures as mentioned in sub-paragraph 3 above would be temporary and that participants concerned shall return in the shortest possible time to the framework of the Arrangement.

5.5 The Committee also urged all participants concerned to move promptly to negotiate mutually acceptable solutions in the spirit of the MFA.

5.6 The Committee affirmed that, in seeking such solutions, the interests of the developing countries, new entrants, and small suppliers shall be recognized, and the provisions of Article 1, paragraph 4, would be fully kept in view.

6. The Committee recognized that countries having small markets, an exceptionally high level of imports and a correspondingly low level of domestic production are particularly exposed to the trade problems mentioned

in the preceding paragraphs, and that their problems should be resolved in a spirit of equity and flexibility. In the case of those countries, the provisions of Article 1, paragraph 2, should be fully implemented.

7. The Committee reaffirmed that the two organs of the Arrangement, the Textiles Committee and the Textiles Surveillance Body should continue to function effectively in their respective areas of competence.

8. It was reiterated that in the future implementation of the MFA, the special problems of developing countries shall be fully taken into account in a manner consistent with the provisions of the MFA, in particular Articles 1, paragraph 3 and 6 thereof.

9. All participants saw mutual cooperation as the foundation of the Arrangement and as the basis for dealing with problems in a way which would promote the objectives and aims of the MFA. Participants emphasized that the primary aims of the MFA are to ensure the expansion of trade in textile products particularly for the developing countries, and progressively to achieve the reduction of trade barriers and the liberalization of world trade in textile products while, at the same time, avoiding disruptive effects on individual markets and on individual lines of production in both importing and exporting countries. In this context, it was felt that in order to ensure the proper functioning of the MFA, all participants would refrain from taking measures on textiles covered by the MFA outside the provisions therein before exhausting all the relief measures provided in the MFA.

10. Taking into account the evolutionary and cyclical nature of trade in textiles and the importance to both importing and exporting countries of prior resolution of problems in a constructive and equitable manner for the interest of all concerned, and on the basis of the elements mentioned in paragraphs 1 through 9 above, the Textiles Committee considered that the MFA in its present form should be extended for a period of four years subject to confirmation by signature as from 15 December 1977 of a Protocol for this purpose.

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FOOT NOTES

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1 Michael Meacher, Member of the British Parliament observes "A major question on future of world trade is being hammered out at Geneva and elsewhere which goes well beyond its immediate subject of textiles. The renewal of the Multi-Fibre Arrangement (MFA) which governed international trade in last three years is important in its own right given the special problem of the textile industry in U.K. and elsewhere in the West. But it also reflects wider issues that may increasingly dominate the world trade scene over the rest of this country." From the speech as reported in <u>the Guardian</u> (London), May 11, 1977.

"We cannot stand silently watching our own industry's decline" says a statement issued by Burlington Industries. It further adds, "We are therefore compelled to speak out publicly to alert all those who are affected by this danger - employees, shareholders, suppliers, legislators, customers and friends in the communities where we operate". The Financial Times, Wednesday, April 13, 1977.

2 See GATT: Study on Textiles, L/3797.op. cit., p. VII-12; For an evaluation of the objectives and achievements of the LTA, see the International Trade in Cotton Textiles and the Developing Countries: Problems and Prospects, Report by the United Nations Conference on Trade and Development Secretariat: New York, 1974, TD/B/c.2/117/Rev.1

3 Study on Textiles, op.cit., p. IV-34

4 General Agreement on Tariffs and Trade, International Trade 1976/77, Geneva, 1977, p.61

5 For a detailed analysis of the trends in world trade in textiles and clothing during 1970-75, with special reference to the relative performance of the developed countries and the developing countries in this trade, the readers are referred to Syed A. Abbas, "Review of International Trade in Textiles from the Standpoint of Developing Countries", paper presented at the Seminar on Multi Fibre Arrangement organised by the Commonwealth Secretariat in Hong Kong in May 1977.

6 The following account of the history of the commercial policy of the United States and Japan relating to the arrangements negotiated for the regulation of the Japanese exports to the U.S. is largely based on a study by Warren Hunsberger. For further details, see Warren Hunsberger, Japan and the U.S. in the World Trade, (Study prepared for the Council on Foreign Relations), New York, Harper & Row, 1964.

7. For a general analysis of the currently prevailing quantitative import restrictions (or non-tariffs measures) especially of the nature of "Voluntary export restraints " in world trade in the present series of papers sponsored by the Trade Policy Research Centre, London (U.K.) under its Programme of Studies for proposals for a New International Economic Order. Vijay G. Pande," Quantitative Import Restrictions, "Voluntary Export Restraints" and Emergency Protection", Paper No.14.

8 These data are cited in "New GATT Textiles Arrangement Aims at Orderly Trade Expansion," Commerce Today, (Office of Textiles,

99. *Commerce Today*, Vol. IV No.9, February 4, 1974, *op.cit.*

100 General Agreement on Tariffs and Trade, *Arrangement Regarding* International Trade in Textiles, Geneva, 1974. Our purpose in this section is to highlight only a selected provisions of this Arrangement.

11 There are three related studies on this subject prepared under the auspices of the General Agreement on Tariffs and Trade. (i) GATT: Textiles Committee: *Production and Trade in Textiles and Clothing 1974-76*: Report by the Secretariat, COM. TEX/W/35, 29 October 1976; (ii) GATT: Textiles Committee: *Report on Adjustment Assistance Measures: Note by the Secretariat*, COM. TEX/W/36 29 October 1976; and (iii) GATT, Textiles Surveillance Body: *Report of the Textiles Surveillance Body to the Textiles Committee*, October 1976, COM. TEX/SB/196, 5 November 1976. The other study is United National Conference on Trade Development: *International Trade in Textiles and Developing Countries*, Report by the UNCTAD Secretariat, TD/B/C.2/174, 12 May 1977.

12. Development Research Institute, Hong Kong: *Development and* Perspective of a Lothing Colony, (Translated Summary of Progress Report No.6 under the Research Project on Industrial Re-adjustment and the International Division of Labour), Tilburg (Netherlands), March 1977.

13. Government of Hong Kong (Department of Commerce and Industry), 'Export of Textiles from Hong Kong: A History of Quota Controls from their inception upto 30th September 1971' p.1.

14. The adaptability of the Hong Kong's industry to the commercial policies of the main importing countries is remarkable indeed. During our personal discussions with some of the industrialists in Hong Kong, we were told that the industry was more concerned about the need for an early decision of the developed countries on the future of the MFA so that they could plan their business for the future before the changes become effective. We were also informed about some of the Hong Kong's manufacturers of clothing setting up production in countries like Macao largely to take advantage of more liberal and underutilized quotas of exports of textiles and clothing from such countries.

15 *International Trade In Textiles and Developing Countries, op.cit p.7*

16. *GATT. Textiles Surveillance Body, Report of the Textiles Surveillance Body to the Textiles Committee*, op.cit.

17. Study on Textiles, op. cit., p.IV-41, Para 1

18 Ibid, p.IV-43, para 3

19 Study on Textiles, op. cit., p.IV-39

20 International Trade in Textiles and Developing Countries, op.cit., p.10

21 Some of these studies are:

Carolin Miles, "Employment in the Industrialised Countries";

UNCTAD, Adjustment Assistance Measures, Report by the UNCTAD Secretariat, TD/121/Supp.1, Geneva: United Nations, 1972; Gerhard Fels, "Adjustment Assistance to Import Competition" in Hugh Corbet and Robert Jackson, (eds.), In Search of a New World Economic Order, London: Croom Helm, 1974, Chapter 14; Institut fur Wezwirstchaft (Kiel), Structural Adjustments in the German Economy, Summary of Main Report (Translated by Gotz Schreiber, Washington, D.C.; World Bank, March 31, 1976; and Development Research Institute, Industrial Re-adjustment in Developed Countries and Industrialization of Developing Countries. Translated Summary of Progress Report No.3. Tilburg (Netherlands).

22 Institut fur Welwirtschaft (Kiel), Structural Adjustments in the German Economy op. cit., p.4

23 GATT, Textiles Surveillance Body, Report of the Textiles Surveillance Body to Textiles Committee, op. cit., p.4

24 Jan Tumlir, "Emergency Protection against Sharp Increases in Imports" in Hugh Corbet and Robert Jackson (eds.), In Search of a New Economic Order, Op. cit., p.262

25 Development Research Institute, The European Clothing Industry: Problems and developments, Tilburg (Netherlands); Translated summary of progress Report No.4

26 Frank Wolter, "Adjusting to Imports from Developing countries: The Evidence from a Human-Capital Rich-Resources Poor Country," paper presented to a Symposium at Kiel, December 8-9, 1976, Table A-6. Cited by D. Keesing in a mimeographed study on "Trade Liberalization and Export Promotion" prepared at the World Bank, Washington D.C. (U.S.A.)

27. F. Baro explains that the "constant increase in labour cost and the reluctance of many workers to perform boring and repetitive work have engaged textile and machinery manufacturers in search of advanced solution which find their expression in the automation of Intersectings, High Draft Finishers and Spinning Frames as far as preparation and spinning of fibres are concerned.". F. Baro, "Automation on Preparatory and Spinning Machinery", Canadian Textile Journal, September 1976, p.119.

28 As reported in a news item in Guardian (London), July 7, 1977

29 Institut fur Welwirstschaft (Kiel), <u>Structural Adjustments in the German Economy to Increasing Manufactured Goods Imports from LDCs. op.cit.</u>, p.5

30 These figures are taken from the U.S. Department of Commerce, <u>Cotton, Wool and Manmade Fibre Textiles and Apparel</u>, U.S. Production, Imports and Import/Production Ratios, Washington D.C., December 1976

31 Hugh Corbet, "Global Challenge to Commercial Diplomacy", <u>Pacific Community</u> (Tokyo), October 1971, 9.223

32 Cited by S. Narasimhan in his paper on "The Multi-Fibre Arrangements and the MTN", presented at a seminar on 'Multi Fibre Arrangement' organised by the Commonwealth Secretariat in Hong Kong from May 9 to 13, 1977

33 Jan Tumlir has stated this fact in the following words: "European experience shows, though, that industries faced with an irrevocable schedule of trade liberalisation pour all their energy into adjustment and achieve it quite quickly" and clarifies that in case of an agreement on safeguard clauses, "pressure on governments from their own industries demanding protection is likely to [illegible] considerably". See Jan Tumlir, "Emergency Protection against [illegible] sharp increases in imports", op. cit.

34 The UNCTAD Secretariat's Report on International Trade in Textiles and Developing Countries has also made this point. To Quote: "The broadening of coverage of the Arrangement Regarding International Trade in Textiles to include man-made fibres has discouraged investors from establishing manmade fibre industry even in developing countries which possess the requisite financial, technical and raw material resources to do so," <u>op. cit.</u>

35. Jan Tumlir "Emergency Protection against Sharp Increase in Imports". op. cit. p. 264

36. From the 'Conclusions of the Textiles Committee adopted on 14 December 1977' reporduced in the Appendix to the Post-Script.

37 Reuter's News dated January 14, 1978 as printed in the Financial Express (Bombay) dated January 15, 1978.

38. For substantiation of this statement, see Rhys David, "UK Textiles: A new Lease of life," in the Financial Times Survey (London), dated January 27, 1978.

39 The General Agreement on Tariffs and Trade noting the growing tendency towards protectionism in international trade in 1976-77 commented that protectionism "has become a dangerous political force". It further stated that the "spread of protectionist pressures may well prove to be the most important current development in international economic policies, for it has reached a point at which the continued existence of an international order based on agreed and observed rules may be said to be open to question". The General Agreement on Tariffs and Trade. International Trade 1976-77, op. cit., p.1 and p.22. The latest annual report of the International Monetary Fund has made the following observation on the emerging trend of protectionism in international trade: "The domestic and external difficulties being experienced by many countries, particularly with respect to the problem of unemployment, have given rise to pressures for protectionist measures. On the whole, such pressures have been resisted, and there have been relatively few instantes of recourse to trade restrictions by major trading nations. Nevertheless the persistence of such pressures, as evident from rising protectionist sentiments in particular industries in some industrieal countries, continues to be cause for serious concern". This Report has gone on to give a stern warning in this connection in the following words: "If the forces of protectionism are not resisted the resort to restrictions on trade would harm the open international trading system; It would not provide any real solution to the economic problems confronting the industrial economies and could have effects destructive of prosperity in the world economy". See, the International Monetary Fund, Annual Report 1977, Washington D.C. 1977, p.2.

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