CHAPTER 8
TEXTILES AND CLOTHING

As Adam Smith ([1776] 1998) pointed out, basic and proper clothing enables people to appear in public without shame and thus is an important means to human development. Clothing plays a crucial role in human development not only in the form of finished goods. The labour-intensive production of textiles and clothing generates significant employment—and productive employment provides people with the means for a decent standard of living and enhances their self-esteem and their participation in society. Moreover, in most economies, employment in textile and clothing production is biased towards women and thus has a gender dimension. But the processes often used in textile and clothing production may have serious adverse effects on human health and the environment. All these issues have implications for human development. So does the structure of international trade in textiles and clothing.

Textiles and clothing have received trade protection unprecedented in degree and duration. Indeed, even after the conclusion of the Uruguay Round agreements in 1994, which paved the way to trade liberalization around the world, strong inherent tendencies have remained to protect textiles and clothing. The issue of the liberalization of this trade has divided developing and industrial countries over the years. Even after the World Trade Organization (WTO) Ministerial Conference in Doha in 2001, the implementation issues that relate to the Uruguay Round agreement on textiles and clothing remain a key concern for developing countries.

THE ROAD TO AGREEMENT ON TEXTILES AND CLOTHING: A HISTORICAL REVIEW

The history of protectionism in textile and clothing trade is old and deeply rooted. Once an agreement on textile and clothing trade was reached, the tendency was to extend it again and again (box 8.1). For example, the Long-Term Arrangement, to commence 1 October 1962 and last for five years, was extended twice—first in 1967 and then in 1970—each time for three years. The story is the same for the Multifibre Arrangement (MFA).

Although box 8.1 identifies many of the milestones in agreements on textile and clothing trade, it does not cover some of the measures by individual countries

BOX 8.1 MILESTONES IN AGREEMENTS ON TEXTILES AND CLOTHING TRADE

- December 1955: Japan unilaterally restrains exports of cotton fabrics and clothing to the US.
- January 1957: Japan and the US reach a five-year agreement limiting Japan's overall textile exports to the US.
- November 1958: The UK signs a voluntary restraint agreement on cotton textile and clothing imports from Hong Kong, China (SAR).
- September 1959: The UK signs similar restraint agreements with India and Pakistan.
- July 1961: Agreement is reached on the Short-Term Arrangement.
- February 1962: Agreement is reached on the Long-Term Arrangement (LTA), to last five years.
- April 1967: Agreement is reached to extend the LTA for three years.
- October 1970: Agreement is reached to extend the LTA for another three years.
- December 1973: Agreement is reached on the Multifibre Arrangement (MFA), to last four years.
- December 1977: The MFA is extended for four years.
- December 1981: The MFA is renewed for another five years.
- July 1991: The MFA is extended pending the outcome of the Uruguay Round negotiations.
- December 1993: The draft final act of the Uruguay Round provides for a ten-year phase-out of all MFA and other textile quotas under the Agreement on Textiles and Clothing.

Source: Aggarwal, 1985; Finger and Harrison, 1996.

or groups. For example, in 1971, the US negotiated voluntary export restraints on wool and human-made fibres with Asian suppliers, and in 1977 the European Economic Community negotiated bilateral arrangements with developing countries before agreeing to the extension of the MFA.

As many Asian countries began to develop their textile and clothing industries in the 1960s and particularly in the early 1970s, it became obvious to the governments of importing countries that a more comprehensive package of restraints needed to be designed. They considered this essential to effective regulation of the rapidly expanding spectrum of textile and clothing products emerging from developing countries and threatening the textile and clothing industries in industrial countries. While the MFA contained wording underlining the agreement's short duration—just long enough to permit structural adjustment in industrial countries—this short-term nature had by no means become apparent by the end of the 1980s. What had become apparent was that the entire set-up had become so complex that there seemed to be almost no reasonable solution but to phase out the

TABLE 8.1

Textile and clothing exports of 13 leading exporters, 1965–96

(per cent)

	Share in world exports				Growth rate		
	1965	1973	1983	1996	1965–73	1973–83	1983–96
Textiles and clothing	79	73	67	65	15	10	10
Textiles	79	73	67	72	13	8	9
Clothing	80	73	67	60	19	13	10

Note: The 13 exporters are Belgium-Luxembourg, China, France, Germany, Hong Kong, China (SAR), India, Italy, Japan, the Republic of Korea, Taiwan (province of China), Turkey, the UK and the US.
Source: WTO, 1997.

MFA during the Uruguay Round. Thus the Uruguay Round Agreement on Textiles and Clothing (ATC) was born.

Although no systematic study was done of the human development implications of all these events in textile and clothing trade, it is easy to point to some probable and possible effects. First, the measures taken by industrial countries to protect their textile and clothing sectors probably did not maximize global employment and income. Asian countries could have gained greater human development benefits if they had had free access to industrial country markets. Second, even in developing countries the protection of the textile and clothing sector might have limited the benefits in productivity, higher wages and employment to the workforce in that sector, which had few links with others. Third, protection of textiles and clothing might have led to distorted and inefficient resource allocation, limiting public resources for the basic social services critical for well-being, particularly for poor people.

GROWTH IN TEXTILE AND CLOTHING TRADE

How has the flow of world trade in textiles and clothing developed over the past 30 years? The performance of 13 leading exporters of these products provides a summary picture (table 8.1). On the whole the shares of the leading exporters have tended to slowly shrink over the years. But the picture is quite different for textiles than for clothing. In textiles the 13 leading exporters have nearly held their own shares since 1973, when the MFA was enacted. In clothing, however, these exporters have been continually losing market share to other countries, particularly developing countries.

Breaking down these trends between industrial and developing economies yields a more varied picture. In textiles, the industrial economies lost as much market share as the developing economies gained during 1973–96. In other words, a reallocation took place between the industrial and developing economies within the group of leading exporters, and other countries were unsuccessful in capturing market share. In clothing, major shifts took place between the industrial and developing economies within the group of leading exporters during the same period, but also between the leading exporters and other countries.

Indeed, analysis of the situation four years before the Uruguay Round agreements and three years afterward shows that since the ATC has been in effect, the exporters not in that top group in 1997 were the ones able to increase their world market share. This is particularly true for clothing exports, in which these exporters almost doubled their share—from 4 per cent to 7 per cent—in just the three years from 1994 to 1997.

Thus countries other than the leading exporters also had impressive growth in textiles and clothing. In many of these countries the rapid growth had significant effects in areas that may have direct implications for human development. Take the example of Bangladesh. During the past decade and a half the real growth in exports of ready-made garments (12 per cent) was more than twice the real growth in GDP in the same period. This rapid growth contributed to an increase in real per capita income and played an important part in reducing the incidence of poverty. It also contributed to a significant increase in female employment. In Bangladesh more than 90 per cent of the 1.8 million workers employed in the ready-made garment sector are women, mostly from rural areas (Bhattacharya and Rahman, 2000). As many studies have pointed out, this employment has not only contributed to women's income but has also had positive effects on their educational attainment, on their decisions about marriage and on the number of children they desire (see, for example, Bhattacharya and Rahman, 2000; Jahan, 2002; and Rose, 2002). More broadly, the employment has increased their economic independence and improved their position within the household, resulting in the empowerment and liberation of women in Bangladesh society.

At the same time these female workers have often been the victims of exploitation, oppression and mistreatment at their workplace. They are frequently underpaid, forced to put in long hours, given no lunch break and provided no proper toilet facilities. They are not allowed to unionize, and they are denied workers' rights. As has been widely reported, there have been instances in which factory work floors were put under lock and key and hundreds of female workers died when fire broke out. And there have been instances in which female workers were subjected to sexual exploitation and rape by their employers.

The intention here is not to weigh the negatives against the positives. Instead, it is to show that the textile and clothing sector provides an important opportunity for empowering women socially and economically in many developing countries—but the strategy must be to take advantage of the positives and eliminate the negatives. Moreover, the negatives female workers face in this sector should not be used as an excuse for slowing liberalization under the ATC nor as justification for protection. The textile and clothing sector has helped increase women's freedom in many societies, and the negatives they face should be put into context.

The underlying dynamics of the agreements on textile and clothing trade

Whether textiles and clothing have received much greater protection over the past four decades than other internationally traded goods is an important question, but it is not the key issue relating to the MFA. Instead, the key issue is that textiles and clothing were exempted from basic GATT disciplines because of a deal struck between importing and exporting countries. This deal was cut outside the GATT legal framework by selling exporting countries the right to continue to export given amounts of textiles and clothing to importing (that is, industrial) countries. The selling point was simple: the exporting countries could capture the rents from restricting supply.

There was a flip side, of course: the exporting countries had to accept the quantitative limits dictated to them. These limits were based largely on the past performance of those exporters. The use of past performance naturally led to discontent among those not initially members and spawned problems along the way. The deal was carried out under the pretence of being only temporary—that is, lasting just long enough to permit the necessary structural adjustment in industrial countries. Moreover, the purveyors of the deal retained the option to apply contingent protection measures (such as anti-dumping proceedings) if imports grew fast.

The differing effects of the Multifibre Arrangement on exporters

There is no denying that in many developing countries the textile and clothing trade under the MFA has yielded benefits with implications for human development. In Bangladesh, for example, the ready-made garment business grew from US$1 million in 1978 to US$4.5 billion in 2001, equivalent to 76 per cent of the country's exports. The apparel sector accounts for about a fourth of the economy's value added, a third of its manufacturing employment and a fifth of its annual investment. The sector employs about 1.8 million workers in its 2,800 factories and supports roughly US$2 billion of economic activity in such areas as banking, transport, insurance, packaging, real estate, utility services, consumer goods and hotels and tourism. About 80 per cent of garment accessories (such as belts, buttons and zippers), worth about US$0.5 billion, are now domestically produced. And the ready-made garment sector contributes about 85 cents of every dollar of incremental exports from Bangladesh (Bhattacharya and Rahman, 2000).

Yet the picture has been quite different in many other developing regions. In fact, in Africa the textile industry has had negative growth under the MFA. In 1974–94 the region's market share for eight textile products declined by an average of nearly 2.0 per cent a year, and its market share of cotton yarn by 0.1 per cent a year. So while the MFA has allowed the African textile industry some preferences, the industry has nevertheless shrunk (Sireh-Jallow, 2000). The MFA has thus undoubtedly had implications for human development.

The phase-out of the Multifibre Arrangement

The ATC, the agreed solution to the problems of the MFA, sets out a basic framework with some specific targets:

- The MFA is to be phased out in four tranches over ten years (1 January 1995, 1 January 1998, 1 January 2002 and 1 January 2005), encompassing 16 per cent, 17 per cent, 18 per cent and 49 per cent of all imports of specified textile and clothing products based on volumes in 1990.
- Imports of products not liberalized but under quota are allowed to grow by 16 per cent, 25 per cent and 27 per cent during the first three steps of the phase-out.
- Each of the four groups into which the spectrum of textile products has been broken (fabrics, clothing, made-up textile products and tops and yarns) must be included in each of the liberalization tranches during the ten years.
- The liberalization process for members is binding and final—that is, there is to be no extension of the quota phase-out beyond 2004.

For Africa the phase-out seems to have brought some benefits. For example, while its market share of the eight textile products declined by 0.7 per cent a year in 1994–96, this was significantly less than the 1.9 per cent annual decline between 1974 and 1994. And the market share of the African clothing industry grew by 0.1 per cent a year in 1994–96, a great improvement over the 2.5 per cent annual decline between 1974–94 (Sireh-Jallow, 2000).

But given the propensity of countries to protect their own interests, the ATC has defined a process for eventually integrating textiles and clothing under GATT principles that clearly allows too much leeway (box 8.2). The probable result will be less than optimal for human development in developing countries.

FACTORS AND EVENTS INFLUENCING THE PRESENT SITUATION IN TEXTILE AND CLOTHING TRADE

The present situation in textile and clothing trade is complex, reflecting the influence of several factors, events and trends.

Normal development trends

The effect of normal development trends can best be described as a growing up process in which countries switch to more physical- or human-capital-intensive areas of textile and clothing production as their incomes rise. The advance of economies such as the Republic of Korea and Taiwan (province of China) is particularly evident in their steadily growing share of the clothing export market as they became increasingly efficient in clothing production. In addition, in the early 1980s they shifted out of the labour-intensive production of clothing and concentrated on the capital-intensive production of textiles.

BOX 8.2 LEEWAY IN THE AGREEMENT ON TEXTILES AND CLOTHING

The Agreement on Textiles and Clothing (ATC) specifies and declares as binding the amount of ATC products (in essence, tariff lines of eight, ten or even more digits) to be brought under GATT principles. But it does not stipulate that textile and clothing products not under quota or other restraints will be more quickly brought under those disciplines. Thus the ATC products to be liberalized outnumber those specified in the Uruguay Round agreements and far outnumber those covered by actual restraints in the European Union, the US and other industrial economies. Moreover, nowhere does the ATC stipulate that the products covered by the Multifibre Arrangement (MFA) that are under quota but for which only the minimum quota is utilized (that is, cases of quota redundancy) should be integrated more quickly under GATT principles. And the volume treatment of ATC products ensures that the economic value of the products liberalized is only loosely correlated with the actual amount liberalized, because the prices of the products may be low.

In addition, the agreed upon increase in quota growth rates during liberalization means very little if the actual growth rates are small. Since the growth rates assigned to major suppliers are quite low, little can be expected from this stipulation. For example, for Hong Kong, China (SAR) 85 per cent of the products under quota have growth rates of 3 per cent or less, and for China the growth rates are less than 4 per cent. The growth rates for most Asian countries are less than 5 per cent.

Finally, the lack of agreement on the manner in which liberalized items are to be distributed across the four types of textile and clothing products to be liberalized, beyond the requirement that some amounts from each group must be included, left the door open to a perverse development: all sensitive products (largely clothing) have been shifted to the last liberalization tranche.

Source: Jahan, 2002.

Of course, some of this export growth must be attributed to the MFA, since countries maintained production activities, but with higher value added shares, to capture rent from the quotas they held. Thus it could be contended that the MFA hindered countries from following an efficient development plan: it kept productive resources flowing into the textile and clothing industries long after they should have been flowing into more efficient production activities such as consumer goods.

Shifting factor intensities of production

The difference in the capital intensities of production between the textile and clothing industries has been one factor driving trade flows in their products. But the MFA has also played a part. In the textile industry major advances in technology have helped maintain production in industrial countries. The greater capital intensity in the textile industry also helps explain why, given the possibility of efficiently carrying out different stages of production in different locations, it has become worthwhile for such countries as Germany, Italy and the US to produce the capital-intensive inputs and then have them made into clothes just east or south of their border.

But the pattern may change once non-tariff barriers are removed. It is quite likely that it was the MFA that kept major European producers from establishing large spinning and fabric manufacturing facilities in the countries with high productivity and low labour costs—that is, in Asia. After all, given the existence of quotas, the European companies could not be sure that such facilities would be able to produce at adequate capacity. But with quotas now being eliminated, these producers may invest in Asia—and indeed, there are indications that this is occurring.

Another issue relates to the production of machines. With ever-larger shares of the textile and clothing industries now being located in developing countries, textile machinery companies have begun to establish production facilities in these countries. These facilities not only assemble textile machines but also test them on-site. Even more important, the companies are creating machines better adapted to conditions in developing countries. But this shift will apply to only parts of the industry, since there are still reasons to maintain research and production facilities in industrial countries (such as the productive interface between the industry and technical universities).

Fallacy of composition

World trade in many manufactures, mainly labour-intensive products, has been accelerating, raising the risk that once export growth goes beyond some threshold, prices will drop sharply. This is the well-known problem of the fallacy of composition, or the adding up problem: on its own a small developing country can substantially expand its exports without flooding the market and significantly reducing the prices of the products, but this may not be true for the developing world as a whole or even for large countries such as China or India. Rapid growth in exports of labour-intensive products could potentially lead to a reduction in the terms of trade large enough so that the benefits of the increased volume of exports may be more than offset by losses due to lower prices—that is, to immiserizing growth.

The fallacy of composition may be quite relevant to trade in textiles and clothing, whose production is quite labour-intensive. Between 1980–98 textiles and clothing were among the most dynamic products in world trade, growing by an average of more than 13 per cent a year. They were surpassed only by electronic and electrical goods, with a growth rate of more than 16 per cent a year. Markets for clothing have been more competitive than those for most other manufactures. In 1997–98 the index of market concentration for clothing was about 400, compared with more than 800 for electronics. Moreover, developing countries have attempted simultaneous export drives in textiles and clothing. And there have been signs that the terms of trade have been weakening for developing countries in textiles and clothing.

But whether these trends will lead to the fallacy of composition in textile and clothing trade will depend on many other factors, including market access conditions for these products, the pace of diversification in developing countries' exports, the full implementation of the ATC and growth in China's market share. Developing countries face significant barriers to market access. Trade in textiles and clothing continues to be governed by quota regulations, and developing countries encounter high tariffs, tariff escalation and increased use of contingent forms of protection, notably anti-dumping actions and new barriers such as labour and environmental standards. Tariffs in most industrial countries increase with the level of processing for textiles and clothing, particularly compared with leather, foot wear and travel goods. Such products are often excluded from preferential tariff schemes such as the Generalized System of Preferences. And tariff peaks in industrial countries for non-agricultural products are concentrated in textiles and clothing. Taken together, clothing and footwear represent more than 60 per cent of developing country products affected by tariff peaks. Developing countries, by lowering tariffs on textile and clothing imports from other developing countries, could also reduce the risk of fallacy of composition in this sector.

The risk of fallacy of composition in textiles and clothing has serious implications for human development. With simultaneous export drives by developing countries, the prices of textiles and clothing may fall, leading to lower wages for the workers in this sector. Since most of these workers are unskilled, alternative employment opportunities are slim. The result will be greater job insecurity and lower income and purchasing power. The ripple effects will be felt in poorer health and education outcomes, lower standards of living and shaky safety nets. Since women make up most of the workforce in textiles and clothing, they will bear the brunt of all these adverse effects as well as a decline in their economic independence, participation and social empowerment.

The Multifibre Arrangement and its tariff and non-tariff barriers

It has been argued that of all the trade liberalization measures agreed to in the Uruguay Round, eliminating the MFA would yield the greatest global welfare gains. Based on a computable general equilibrium (CGE) model, it was estimated at the end of the Uruguay Round that liberalizing textile and clothing trade would account for almost 40 per cent of the total welfare gains expected from the trade liberalization measures (François, 1996). The model is subject to qualifications, and changes in the world economy since the model was estimated may alter some of its results (box 8.3). Yet it is broadly indicative of the significant global welfare losses stemming from protectionism in textiles and clothing.

Tariffs on textiles and clothing have long been high relative to those on other products. While the unweighted pre–Uruguay Round tariff in the European Union was 5.7 per cent for all manufactured products, for textiles it was 10.1 per cent and for clothing 12.3 per cent. The structure for US tariffs is assumed to be quite similar, though the tariff rates are higher on average. Post–Uruguay Round tariffs on textiles and clothing in industrial countries remain highest except for

Box 8.3 Welfare gains from liberalizing textiles and clothing trade: Qualifications to the models

Based on a computable general equilibrium (CGE) model, the global welfare gains from the liberalization of trade in textiles and clothing has been estimated to be 40 per cent of the gains from the liberalization of all trade. But this estimate and others based on similar models are subject to qualifications, as the models fail to take into account crucial aspects of the Multifibre Arrangement (MFA).

First, quota rents applied in the models as accruing to exporting economies reflect the world as it was in the 1980s, particularly the world as it was in Hong Kong, China (SAR). (Quota rents are the amounts paid by traders or producers that need quotas to holders of quotas in an exporting country for specific textile and clothing products destined for specific importing countries. The quota rents vary according to the level of demand and the monthly fluctuations in demand. To the extent that they remain in exporting countries, they represent the amount of income transferred to such countries from importing countries.) Times have changed, and quota rents in Hong Kong, China (SAR) and other exporting economies have been declining sharply and in many cases even approaching zero. Thus one of the main factors said to be reducing global welfare seems to be disappearing.

Second, economies such as Hong Kong, China (SAR), the Republic of Korea and Taiwan (province of China) have long since begun to produce offshore many of the textile and clothing products that they used to manufacture domestically. In doing so they are still taking advantage of quota rents. The CGE model calculations of welfare gains do not allow for capital flows from Hong Kong, China (SAR)—or other exporting economies—to a second economy and, perhaps more important, do not allow for the transfer back to Hong Kong, China (SAR) of rents accruing to this capital. Thus the models do not correctly take into account the distribution of the welfare gains among developing economies or regions—nor perhaps the size of those gains.

The straightforward CGE estimates of welfare gains from eliminating the MFA may well be wrongly specified and, to the extent that quota rents have not been correctly adjusted to current levels, overstated.

Source: Krishna and Tan, 1997.

those on agricultural products, ranging from three to five times the tariffs for all industrial goods. Moreover, the tariff reductions in this product category have been among the smallest (table 8.2). All this reflects the sensitivity of this sector to liberalization and the strong desire to continue to protect it. It also shows that industrial countries still need to reduce tariffs considerably to truly improve market access. Since the tariff rates have not changed much, there has probably been little effect on the trade in textiles and clothing of developing countries.

The quota system established under the MFA and now being eliminated by the ATC has also generated a structure of exporting countries that has little to do with comparative advantage and much to do with market shares based on the availability of quotas. And if this changing trend (gradual elimination of the quota system) points to likely developments under the system without quotas that is to be introduced on 1 January 2005, major lower-cost suppliers today will lose out to countries like China.

TABLE 8.2

Post–Uruguay Round tariff rates and concessions in selected countries and groups

(per cent)

Product category	European Union		US		Developing countries		Industrial countries	
	Rate	Reduction	Rate	Reduction	Rate	Reduction	Rate	Reduction
Agriculture[a]	15.7	–5.9	10.8	–1.5	17.4	–43.0	26.9	–26.9
Textiles and clothing	8.7	–2.0	14.8	–2.0	21.2	–8.5	8.4	–2.6
Metals	1.0	–3.3	1.1	–3.8	10.8	–9.5	0.9	–3.4
Chemicals	3.8	–3.3	2.5	–4.9	12.4	–9.7	2.2	–3.7

a. Excludes fish. Data for agriculture include the tariff equivalents of non-tariff barriers.
Source: Finger and Harrison, 1996.

For developing countries, one of the most visible impacts of the MFA is the trend away from quota prices or rents. With the elimination of the quota system, these rents may disappear. And in some exporting economies the structure and location of quota rents may change. Consider the case of Hong Kong, China (SAR), the only economy for which consistent and reliable data on quota rents are available (box 8.4).

Regional trade agreements and changing locational demands

Regional integration schemes, together with the changes in locational demands resulting from just-in-time policies and ever-faster fashion cycles, have had a major effect on trade flows of textiles and clothing. For example, in Europe the completion of the single market, the expansion of the European Union and the attempts to integrate Central and Eastern European economies have all prompted textile and clothing industries to rethink corporate strategies. Given the importance of minimizing the economic distance between production and consumption locations in such a time-conscious industry as fashion, it is clearly easier to achieve just-in-time production, rapid reordering and a quick fashion response by working with neighbouring countries rather than Asian exporters. On the other side of the Atlantic, the North American Free Trade Agreement (NAFTA) has had a similar effect in shifting demand away from Asian suppliers of textiles and clothing.

BOX 8.4 QUOTA RENTS: THE CASE OF HONG KONG, CHINA (SAR)

Data on utilization rates and rents for quota in the European Union and the US show that Hong Kong, China (SAR) has been able to maintain quota rents only in knitted clothes, for which the value added content and the quality requirements are quite high. Its quota rents have dropped considerably in all other areas, even though quota utilization rates have remained quite high in many cases.

But this is only half the story. Producers from Hong Kong, China (SAR) have long since moved their production to offshore locations, where they are presumably capturing quota rents. Thus the welfare losses for consumers in importing countries may be just as large as before.

Source: Jahan, 2002.

In addition, in both Europe and the US, offshore processing legislation has enabled firms to circumvent MFA quotas and helped induce them to establish more than just arm's-length production platforms in neighbouring countries. The offshore processing trade also makes nearer locations cheaper. And because tariffs are applied only to the value added when domestically produced intermediate inputs are re-imported as a final or near-final product, it can lead to considerable cost savings relative to direct importation.

As a result of these forces, the flow of the European Union's trade in textiles and clothing has changed. Since 1993 Asian countries, particularly East Asian countries, have been losing out to Mediterranean countries—from Turkey to Morocco—in the markets of Germany, Italy, Sweden and the UK. And in the US market they have been losing out to Latin American countries, whose market share nearly doubled during 1990–97, accounting for almost all the decline in the share of imports from Asia.

Implications for human development

All these factors and events influencing the present situation in textile and clothing trade will have significant impacts with implications for human development. For example, regional trade agreements and changing locations of production and offshore processing trade will rob many developing countries of their potential for further growth and trade in textiles and clothing. Lost business will mean lost jobs and income, with women especially affected. Thus while textile and clothing trade will contribute to human development in some regions, it will do so only at the expense of others.

The changing factor intensities of production will lead to the concentration of capital-intensive—and higher value added—production of textiles and clothing in the industrial world. Meanwhile, many developing countries will continue to be engaged in less productive, low-skilled, lower value added activities, with little potential for boosting income, growth and other aspects of human development.

Tariff and non-tariff barriers in textile and clothing trade will continue to restrict developing countries' access to global markets, retarding their economic growth and thus their ability to generate employment and income. Moreover, lower export revenue may mean lower government revenue, limiting public provisioning of basic social services such as education and health care.

THE FUTURE OUTLOOK FOR TEXTILE AND CLOTHING TRADE

Only marginal progress has been made in phasing out MFA and other quotas on textiles and clothing. The world was successful in reaching an agreement on textile and clothing products in the form of the ATC. But in the Uruguay Round it has been just as unsuccessful in structuring the agreement in a way that will effectively bring textiles and clothing under the multilateral trade framework during the phase-out period. As the previous section shows, many factors have influenced the process over the years. And a look ahead suggests that many factors will continue to do so in the future as well.

The Agreement on Textiles and Clothing: Dilution and postponement

The ATC watered down the liberalization process by including a far wider range of textile and clothing products in the group to be liberalized than was ever included in the MFA to begin with. And it postponed any significant liberalization until the final tranche of 1 January 2005, when it is hoped that the most sensitive products will be subject to basic WTO disciplines.

This disingenuous result is best represented by simply noting that less sensitive products, such as tire cords, tampons and tents, were liberalized by Canada, the European Union and the US in the first liberalization tranche of 1 January 1995 (Baughman and others, 1997). But the European Union barely included the highly sensitive clothing sector, liberalizing only 1 per cent of the quota for clothing imports, rather than the targeted 17 per cent. The story for the US was much the same. For Hong Kong, China (SAR), which has Asia's second largest share of clothing among its exports (79 per cent), clothing accounted for some 6 per cent of the products liberalized in the first tranche, and only 4 per cent in the second tranche. With progress like this, how will things stand at the time of the last tranche in January 2005, when 49 per cent of products are supposed to be liberalized?

The potential dangers of contingent protectionism

Whether the shift in textile and clothing trade resulting from regional trade agreements or offshore processing trade can be considered a diversion away from efficient sources is an open question that requires in-depth analysis. It is most crucial to determine whether trade flows will remain essentially the same after all trade restrictions are removed.

It is true that the European Union and the US have generally wanted to exclude the most competitive textile and, especially, clothing products as long as possible. Since most of these happen to be produced in Asia, its countries have been most affected by slow growth in quotas and slow liberalization. Major importing countries and groups in the industrial world appear to be willing to continue with the status quo in textile and clothing trade, fostering the risk of an impasse in liberalization in 2005.

The ATC safeguard mechanism attempts to limit the leeway for instituting such protectionist measures. But there are ways of getting around the ATC safeguards, including, most seriously, anti-dumping measures and technical barriers to trade (box 8.5). The introduction of the ATC in 1995 was not followed by a surge in such contingent protectionist measures. But they do hold a potential for undermining the letter and spirit of the ATC in the future.

BOX 8.5 WAYS TO GET AROUND THE SAFEGUARDS OF THE AGREEMENT ON TEXTILES AND CLOTHING

One way to get around the safeguards of the Agreement on Textiles and Clothing (ATC) is to use anti-dumping measures. The other is to apply technical barriers to trade. In the days to come the process for initiating anti-dumping proceedings should be subject to revision. The biggest problem is that it is the industry claiming to be affected by dumping that is responsible for requesting an anti-dumping investigation. In the past such requests have sometimes been founded on incorrect—if not outright fabricated—information about who is dumping imports and how severe the effect of the dumping is.

The situation relating to technical barriers to trade is even more ambiguous. The Uruguay Round agreements do not question the right of countries to introduce technical standards that they feel are necessary. These standards merely have to be applied in a way that does not discriminate between foreign and domestic producers. Even the conditions under which the technical standards are applied are not subject to question. So far, however, there appears to be no proliferation of technical standards for textile and clothing products that are intended to serve as contingent protection.

Source: Jahan, 2002.

China's accession to the World Trade Organization

The accession of China to the WTO in 2001 has important implications for textile and clothing trade, particularly for many least developed countries. First, China is projected to be the biggest winner in the post-MFA era, taking over fully 10 per cent of the world garment trade in the next ten years (Spaninger, 1999a). Second, China is a major producer in almost every important export category for many least developed countries which specialize in low-value items. Third, China has shown excellent performance in the few categories that have been liberalized thus far. In the category including cotton dressing gowns, robes and the like, China's exports to the US market increased by 483 per cent between the first half of 2001 and the first half of 2002. In the same period such exports from Bangladesh, a least developed country, fell by 42.7 per cent. China also experienced a surge in overall garment exports to the US market in the first half of 2002, with its export volume increasing by more than 41 per cent and its export value by over 12 per cent compared with the first half of 2001. Meanwhile, Bangladesh saw its export volume to the US market fall by almost 10 per cent and its export value by over 14 per cent.

As countries like Bangladesh lose out to countries like China, many garment exporting countries in the developing world fear a bleak future, expecting extensive restructuring in the world garment trade in the post-MFA era. While the most competitive producers may prosper, many garment manufacturing units will close or downsize in low-income countries, with serious consequences for human development (box 8.6).

BOX 8.6 EFFECTS OF PHASING OUT THE MULTIFIBRE ARRANGEMENT ON HUMAN DEVELOPMENT IN BANGLADESH

Phasing out the Multifibre Arrangement (MFA) is likely to lead to the closure and downsizing of garment manufacturing units in Bangladesh—a potentially disastrous outcome for many of the estimated 1.8 million workers in the garment sector. Most of these workers are girls or young women who migrated from rural areas, often in response to a crisis—flooding or erosion, injury or illness of the primary income earner. Their families depend on their wages, and surveys show that 80 per cent of the families of garment workers would fall below the poverty line without that source of income.

Surveys have shown that without the wages of a garment worker, 80% of garment workers' families would fall below the poverty line. Female garment workers provide 46% of their total family income, while 23% of unmarried garment workers (both male and female) account for their families' primary source of income. Moreover, 70% of workers have migrated from rural to urban areas because of a push or crisis, such as displacement from flooding or erosion, or because the prime income earner has been injured or fallen sick. All in all, it is clear that workers' families can be expected to face enormous financial difficulties when a factory closes.

Closure of a large number of garment manufacturing units would leave few options for young female workers. The garment sector is the only source of large-scale formal employment for women. Other possibilities include tailoring, domestic work and office cleaning, but none of these jobs provides the comparatively high and consistent wages or relatively good working conditions found in the garment sector. Even worse, many female workers have little or no work experience outside garment production and thus few other skills. So the loss of garment jobs would translate into higher poverty and the loss of employment opportunities for women.

Moreover, the effects would be felt beyond the garment manufacturing sector. Many industries feed off garment exports—from textile and accessory production to transport, hotel, banking and shipping services. An estimated $2 billion in economic activity is derived from garment exports as a result of these linkages. The larger economy of the poor also relies heavily on garment workers' wages. Surrounding the garment factories are innumerable small shops and vendors selling food, cosmetics, clothing, medicines and the like. And with a sizeable share of garment workers' wages returning to villages as remittances, the village economy has received a big impetus from the garment industry. Thus a broad decline in that industry would harm far more poor people than most estimates suggest.

Source: Rose, 2002; Paul-Majumder and Begum, 2000.

An uncertain future

The major textile and clothing exporting countries, primarily in the developing world, increasingly distrust the major importing countries, primarily in the industrial world. And that trend is not good. At the 1996 WTO ministerial meeting in Singapore the developing countries' frustrations over the industrial world's intentions and actions with respect to textile and clothing trade led these countries to virtually threaten to allow this trade to collapse if significant changes were not made. The developing countries called for a structure of liberalization that would reduce the probability of an impasse in 2005 when the remaining 49 per cent of textile and clothing products have to be liberalized.

At the 2001 WTO Ministerial Conference in Doha liberalization of textiles and clothing was a key concern for developing countries in relation to the implementation of the Uruguay Round agreements. Annex II of the Doha Decision on Implementation-Related Issues and Concerns contains important provisions to encourage faster movement on liberalizing textile quotas and agreement by liberalizing countries to exercise restraint in applying anti-dumping measures for two years after textiles and clothing are fully liberalized. How these provisions will work in practice remains to be seen. But the present situation in textile and clothing trade suggests that the world may be sitting on a time bomb ready to explode on 31 December 2004.

The bigger picture—human development

All these issues need to be addressed in the context of human development. Implementing the ATC properly and in a timely way is not necessary just because the global community agreed to do so. It is also essential because liberalizing trade in textiles and clothing will bring economic and human development benefits to people in developing countries. Similarly, the issues of tariff and non-tariff barriers, anti-dumping, offshore processing and ATC safeguards should be tackled from that broader perspective. Taking the bigger picture into account, the policy implications are the following :

- It is important to ensure that quotas are eliminated and that the MFA is phased out by December 2004 and not replaced by escalating anti-dumping cases in textiles and clothing.
- Misuse of the ATC safeguard mechanism should not be allowed. Particular attention must be paid to technical barriers to trade, as they offer a way of getting around the safeguards.
- The phase-out of the MFA should reduce tariff protection in the large North American and European markets enough to allow access for competitive developing countries affected by regional trade arrangements.
- Supportive measures should be in place to assist the least developed countries and specific population groups in both developing and industrial countries, especially women, who may be worst affected by the MFA phase-out.

The immediate purpose of all these policy measures should be to expand developing countries' access to and opportunities in textile and clothing trade. But the ultimate aim should be to enhance the capabilities and choices of their people. In the final analysis the issues affecting textile and clothing trade should be viewed not merely as international trade issues but as broader human development issues.

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