The Multi-Fiber Arrangement in the Loom of North - South Politics

Meeta Sehgal

College of William & Mary - Arts & Sciences

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THE MULTI-FIBER ARRANGEMENT IN THE LOOM OF NORTH - SOUTH POLITICS

A Thesis

Presented to

The Faculty of the Department of Government
The College of William and Mary in Virginia

In Partial Fulfillment
Of the Requirements for the Degree of
Master of Arts

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Meeta Sehgal
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Meeta Sehgal
(Author)

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Michael Clark

Donald Baxter

Alan Ward
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ABSTRACT

The Multi-Fiber Arrangement is a classic case of protectionism that was justified as a departure from the principles of the General Agreement on Tariffs and Trade (GATT) to fulfill the spirit and purposes of the GATT. In this paper, I identify three fundamental objectives of the MFA: to liberalize trade in textiles; to achieve expansion of trade while at the same time ensuring the orderly and equitable development of this trade and the avoidance of disruptive effects in individual markets; and, to further the economic and social development of developing countries by securing for them increased earnings from textile exports. I then examine empirical evidence to test whether these aims have been achieved. I find that none of the stated aims of the MFA has been fulfilled and that, worse, by establishing, in effect, a cartel of textile producers, the MFA has introduced unforeseen negative consequences of its own: it has made it extremely difficult for late industrializing countries of the Third World, like Bangladesh, to exploit gains from comparative advantage; it has benefitted politically strong, anti-market industrializing nations, like China; it has created vested interests among exporting countries as they compete for economic rents; and, most important, it has entrenched protectionism in the international trading system.
THE MULTI-FIBER ARRANGEMENT IN THE LOOM OF NORTH-SOUTH POLITICS
INTRODUCTION

This paper examines the Arrangement Regarding International Trade in Textiles, also known as the Multi-Fiber Arrangement (MFA), as a classic case of protectionism that predates by nearly a decade the protectionist challenge to the international trading order that began to emerge in the mid-1970s. It focuses on an important North-South issue that has become one of the thorniest items on the agenda of international trade. In the competition for markets between the North and the South, the textile industry has witnessed protectionism during the last thirty years and is, in fact, one of the most heavily protected sectors today.

The paper provides powerful evidence of limits of Northern tolerance for Southern competition. The textile industry is important to both developed countries (DCs) and less developed countries (LDCs), although it can be argued that it is more significant to developing countries given its labor-intensive character and low capital requirements. Developing nations enjoy a comparative advantage in trade in textiles and see it as a significant channel through which they can make in-roads into the development process. The North, however, has resisted imports from developing
nations. They have closed their markets significantly to imports from industrializing countries, although they have kept their markets open to imports from developed countries!

Protection in this sector has bypassed the effective framework of the GATT. The paper demonstrates that although the explicit rationale of the Arrangement was in conformity with the broader purposes of the GATT, it was a fundamental departure from the established principles of the GATT. I provide empirical evidence to demonstrate that in the thirty years of its operation, the Arrangement has failed to achieve any of its putative goals. Worse, the Arrangement has introduced market distortions of its own and, in effect, by creating a cartel among textile exporters, has first, made it extremely difficult for late industrializing countries of the Third World, like Bangladesh, to exploit gains from comparative advantage. Second, it has benefitted politically strong, anti-market industrializing nations, like China. Third, it has created vested interests among exporting countries as they compete for economic rents. Fourth, and most important, it has entrenched protectionism in the international trading system.

Before examining the MFA, however, it is important to consider its significance in light of broader developments in the international trading order since the Second World War.
GATT AND THE POSTWAR LIBERALIZATION OF TRADE

The collapse of the international economic system of the inter-war years set the stage for a new economic order after World War II. In the United States, the disastrous repercussions of the Smoot-Hawley Tariff Act of 1930, whereby virtually every industry was rewarded with its own made-to-order tariff, taught the architects of the postwar order the folly of such legislation. The high trade barriers and their counterproductive results during the Depression helped to stack the cards in favor of pro-trade forces, providing the ideological momentum for liberal international trade.¹ A wiser United States and a war-ravaged United Kingdom marshalled forces to reconstruct the economic system resulting in a new international economic order that recognized gains from free trade.

Such liberal sentiment was soon institutionalized. October 1947 witnessed the birth of the General Agreement on Tariffs and Trade (GATT). The preamble to the GATT eloquently declared its objective to be the pursuit of "reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce." Two major principles of the GATT

¹For a detailed account of the move towards trade liberalization after WWII and then the gradual move towards protection, see Jagdish Bhagwati, Protectionism (Massachusetts: MIT Press, 1989).
were nondiscrimination and multilateralism. These principles ensured that no country would be discriminated -- any trade concessions made to one country would apply to all. Managed trade, which seeks quantitative targets of outcomes in trade, instead of setting rules and letting the chips fall where they may, was barred by the Agreement.

The decade of the fifties and sixties saw a tremendous growth in international trade based on these solemn principles of the GATT. It witnessed the emergence of such economic giants as Hong Kong, Taiwan, Korea, and Singapore. Perhaps Japan offers the best example of the potential gains from free trade as the liberal trading order allowed Japan to recover from the cataclysmic events of the atomic bomb and emerge as an economic superpower.

However, by the second half of the 1970s, free trade had produced a fundamental reordering in the world's international economic and political relationships. The economic hegemony of America began to decline as Japan and then European nations lifted themselves out of the ruins of the world war. More importantly, as just mentioned, newly industrialized countries (NICs) began to emerge as economic forces to be reckoned with. This became a cause for much concern to developed countries as they began to lose their competitive edge in the world market. To preserve their leadership, rules governing international trade as embodied in the GATT began to lose their sanctity. The principles of
free trade, nondiscrimination and multilateralism were cast aside and international trade witnessed rapidly increasing barriers that undermined the principle of free trade. These barriers, more often, came in the form of non-tariff barriers (NTBs) that included the imposition of import quotas, voluntary export restraints, administrative authorizations to import, price monitoring procedures, customs clearance procedures, and manufacturing and export subsidies. Of all the NTBs, the most popular one is voluntary export restraints (VERs). In the early 1970s, there were fewer than a dozen known VERs in force. In 1980, the number had grown to 80. By 1990, the VERs totalled 200. Aside from growing in number and range of application, the VERs were directed with increasing frequency against exports from developing countries.2

Economists regard NTBs as worse than tariffs given their limited transparency and discriminatory character. This is because they cannot be quantified as tariffs and therefore do not provide some basis for assessing an "equivalence" of concessions on each side for measuring the significance of the bargain struck; neither can they be reduced to bilateral agreements and then generalized.3 This


makes them highly discriminatory and difficult to negotiate in the GATT rounds.

Thus, by the end of the 1970s, open trade was replaced by "managed trade" that was discriminatory and largely outside the effective framework of the GATT.

Managed trade -- restricting imports, protecting domestic workers/jobs, manipulating exchange rates so exports are cheaper, earning a balance-of-payments surplus -- means to break all GATT rules. Managed trade means it is better to protect the income of steel, of textiles, than raise the total income of the nation, the industrial countries, and the world. It means more detailed control over sectors, firms and employees because government never gets it right for all players. It means permanent control, permanent protection, permanent government intervention.4

Jan Tumlir, GATT's director of economic research and analysis from 1964 to 1985, sums up the situation in today's international trading order well, when he says:

"The new protectionism is a very different animal. It has been growing gradually. Industries have used intelligent long-term planning in creating an expanded system of protection. The expansion moves sectorally ... each tailored to the special needs of the industry in question.... The protectionism of the 1930s was openly adversary; the new one, however, builds on negotiation. As a result the new protectionism is politically stronger because it accommodates a broader range of interests.... For all these reasons the new protectionism will be much more difficult to roll back."5


Towards the end of the Second World War the United States and United Kingdom met to decide the shape of the postwar international economic order. Governments of both countries wanted to avoid the economic policy mistakes during the interwar years. The 1944 Bretton Woods conference produced an agreement to establish the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank) institutions essential to an open trading regime, but limited in scope to international financial issues. In March 1948, over fifty countries signed the Havana Charter to form an International Trade Organization (ITO). But after the U.S. Congress failed to approve American participation in the ITO, "all that remained after years of intensive negotiations was a trade agreement signed in October 1947 designed to record the results of a tariff conference that was envisioned at the time as being the first of a number of such conferences to be conducted under the auspices of the ITO."\footnote{Jock A. Finlayson and Mark W. Zacher, "The GATT and the Regulation of Trade Barriers: Regime Dynamics and Functions" \textit{International Organization} vol. 35 no. 4 (Autumn 1981): 566.} The results of this conference were codified in the General Agreement on Tariffs and Trade (GATT) which consisted of the tariff
concessions agreed to by the twenty-three signatories. Since the ITO failed to materialize, the GATT was transformed from a temporary agreement into a normative institutional framework in which governments pursued multilateral regulation and discussed trade policy.\(^7\)

The preamble to the GATT eloquently declared its objective as the pursuit of "reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce." In pursuance of its objectives, the GATT laid down rules codifying the principles of multilateralism and nondiscrimination that would enable Contracting Parties to reap gains from free trade. Some of the principal norms of the GATT are:

1. **Nondiscrimination**: The former Director-General of GATT, Eric Wyndham-White declared the principle of nondiscrimination as the "cornerstone" of the GATT.\(^8\) "In the immediate postwar era it was regarded as the crucial GATT norm, if only because the immensely powerful United States saw it necessary for the both the expansion of its own trade and the forestalling of hostile economic blocs."\(^9\) The GATT

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\(^7\) Finlayson and Zacher, 562.


\(^9\) Finlayson and Zacher, 565.
The GATT commitment to nondiscrimination— or "unconditional most-favored-nation" (MFN) treatment, is cited in Article 1:1 of the General Agreement and requires that "any advantage, favor, privilege, or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories as all other contracting parties." The fact that unanimous consent is required to amend Article 1 underlines the importance attached to nondiscrimination at the time of GATT's formation.

(2) A "fix-rule" trading regime: The Agreement explicitly stated in Article 16 that a "fixed-quantity" regime or managed trade which seeks quantitative targets of outcomes in trade, instead of settling on rules and letting the chips fall where they may, is to be rejected.

(3) Multilateralism: Bilateral discriminatory agreements were discouraged through this principle. Trade rules under the GATT were to be extended without discrimination and to all members of the trading regime alike.

(4) Open Markets: Markets were to be opened through conventional reduction in trade barriers, and new disciplines were sought to be established by resort to mutuality and balance of concessions.

(5) Reciprocity: Trade concessions were to be contracted on the basis of "reciprocity", so that there would be mutual
exchanges.

The regime of freer trade reflected in the formulation of the GATT was justified by the developed countries (DCs) with the formal argument of economic efficiency of international trade. Trade tends to promote the international division of labor, to allocate limited resources and thereby to raise the standards of living in all trading countries. From this perspective, all of the GATT's work would be directed towards eliminating as many as possible barriers to international trade. Therefore, GATT Article XI prohibits the use of quotas or measures other than duties to restrict either imports or exports. The experience of widespread and escalating use of quotas during the 1930s influenced the ITO-GATT draftsmen to try to abolish this technique of trade restraint.10

Immediately following the birth of the GATT, the world witnessed an unprecedented growth in the volume of international trade. World trade expanded five fold between 1950 and 1970; world production expanded 4.5 times.11 World economic expansion quickened after 1960. Between 1960 and 1972 world trade grew by an average rate of 7.9 per cent a


year, world GNP by an average of 5 percent.\textsuperscript{12} These twenty years of remarkable gains in the volume of international trade have come to be known as the golden years of the GATT. Under the auspices of the GATT, there have been eight rounds of multilateral trade negotiations,\textsuperscript{13} each succeeding in reducing tariff levels substantially. In the United States, for example, the average tariff declined by nearly 95 percent over the forty years between the Geneva Round of 1947 and the start of the Uruguay Round in 1986— from an average of nearly 13 percent on dutiable imports in 1946 to an average of less than 5 percent by 1988.\textsuperscript{14}

The less-developed countries have, however, long maintained an ambivalent position vis-a-vis the GATT. The ambiguous language of the safeguard clause was a special cause for concern. Under the GATT safeguard clause (Article XIX), emergency protective action, such as imposition of quantitative restrictions or an increase in tariff rates, is permitted when imports enter "in such increased quantities or under such conditions as to cause or threaten serious injury to domestic producers." However, the word "serious" was not defined in the Arrangement. Nor did it establish

\textsuperscript{12}Hartland-Thunberg, 1.


time limits for the lifting of such safeguards. Article XIX thus makes it difficult to define the boundary between safeguard and protection and has increasingly been exploited by the industrial countries.

Also, labelling it a rich man's club, the LDCs' objections were rooted in the notion that neoclassical trade theory has little to offer for their specific problems. They were critical of the Agreement, alleging that, given the different levels of economic development between the North and South, across-the-board rules were not fair.

Additionally, the LDCs denounced certain specific rules of the GATT: reciprocity appeared to be hardly suitable to economic "have-nots": nondiscrimination seemed to threaten infant industry, whose protection was considered necessary for rapid industrialization.

For these reasons, the LDCs lobbied for special treatment under the rules of the GATT. At the first United Nations Conference on Trade and Development (UNCTAD) a report was designed to focus attention on the need for special rules for the trade of developing countries. Since this idea of preferences was inconsistent with the MFN clause, a new legal exception to MFN was drafted for the benefit of developing countries. In 1971, the Generalized System of Trade Preferences (GSP) was established which agreed to a "mutually acceptable system of generalized non-reciprocal and non-discriminatory preferences which would be
beneficial to developing countries."\textsuperscript{15} However, [the GSP] is still what we might call a subsidiary norm since the major trading states appear willing to make only limited sacrifices to promote the trade interests of the developing countries."\textsuperscript{16} In 1979 contracting parties accepted an "Enabling Clause" which set up a permanent legal framework for the differential and more favorable treatment of LDCs in international trade relations, notwithstanding the provisions of Article 1(1) of the General Agreement. The main provisions of the text read as follows:

Notwithstanding the provisions of Article 1 of the General Agreement, Contracting Parties may accord differential and more favorable treatment to developing countries, without according such treatment to other Contracting Parties.\textsuperscript{17}

The GATT has come to be regarded by most economists as the anchor of the postwar international trading order. It is accepted as the constitution of the international trading system. The GATT framework encompasses basic elements needed to institute a viable system of international trade regulation: an arena to discuss and review different policies and trends; a capacity to formulate rules to guide behavior and adapt to changing conditions; and a means to resolve, formally and informally, trade disputes arising

\textsuperscript{16}Jock and Finlayson, 582.
\textsuperscript{17}GATT, Document L/4903 of December 3, 1979.
among its members. It thus lends stability and predictability in the trading environment.

However, since the mid-1970s, the GATT has not been able to guide or regulate international trade as it did before. Some economists, therefore, have argued that it has become less effective and credible as a trade constitution. Trade experience shows that over the last two decades, countries have ignored the mandate of the GATT and the ideals for which it stands. The history of North-South international trade reveals that in some sectors, like textiles, the North bypassed the principles of the GATT. Industrialized countries like the U.S. and consortiums like the EEC, have imposed quantitative barriers to trade, and have also conducted trade that is discriminatory by nature. They removed trade barriers for each other but erected increasingly stringent barriers for developing countries, although the GATT explicitly stated that trade should be conducted on the principle of nondiscrimination.

As pointed out earlier, such discriminatory protection came in the form of NTBs which affect suppliers more adversely than tariffs. "NTBs may be defined as including all governmental policies and practices which serve to

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distort the volume, direction, or product composition of international trade."\textsuperscript{20} GATT studies have shown that the share of world commodity export value of LDCs, other than Southern European and oil-exporting countries, declined from 19 percent to 12 percent from 1955 to 1976. Among other causes, reduced export earnings caused the same countries' share of commodity imports to fall from 21 percent to 15 percent over the same period.\textsuperscript{21}

\begin{table}
\centering
\caption{Relative Share of Imports Subject to Nontariff Measures, May 1985 (World Trade Weighted)}
\begin{tabular}{lccc}
\hline
& Agriculture & Manufacturing & Textiles & Clothing \\
\hline
\textbf{UNITED STATES} & & & \\
Imports from all countries & 11.5 & 5.6 & 47.8 \\
industrial countries & 11.7 & 2.7 & 25.5 \\
developing countries & 11.8 & 14.4 & 65.3 \\
\hline
\textbf{EUROPEAN COMMUNITY} & & & \\
Imports from all countries & 37.8 & 10.1 & 42.4 \\
industrial countries & 46.7 & 5.7 & 13.6 \\
developing countries & 27.5 & 21.4 & 65.2 \\
\hline
\end{tabular}
\end{table}


\textsuperscript{21}Hartland-Thunberg, 20.
The table above illustrates the rise in protectionism in the form of NTBs and reveals the discriminatory pattern of protectionism whereby industrialized nations have a freer access to each other's markets as compared to market shares of developing countries.

The table reveals that the textile sector has been unusually singled out for restrictions. Such protectionism warrants closer examination and this is what the paper focuses on. In the following chapters, I examine the rationale and implications of the MFA. In the next chapter, I provide a brief history of the MFA, stressing its increasingly protectionist nature which is in contradiction to the aims cited in the text of the Arrangement. In chapters 3, 4, and 5 I identify three principal aims of the Arrangement which were: to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products; to achieve the expansion of trade while at the same time ensuring the orderly and equitable development of this trade and the avoidance of disruptive effects in individual markets; and, to further the economic and social development of developing countries. In each of these chapters, I take up each of the aims individually and provide empirical evidence to show that none of the stated aims has been fulfilled or worked towards since the Arrangement came into effect.
CHAPTER 2

International trade in textiles accounts for nearly five percent of the total world trade and nearly nine percent of world trade in manufactures. The textile industry is significant to the national economies of both developed as well as less developed countries. It provides employment to a large percentage of the national population of both the Northern and Southern countries. In the United States, for example, one out of eight industrial jobs is in the textile or apparel industry, which employs over 2.25 million workers, including nearly 1 million women and minorities. The textile and apparel industry supports an additional million workers in other sectors of the U.S. economy, including agriculture, manufacturing, transportation, and services.\textsuperscript{22}

The importance of the textile sector in less developed countries cannot be overstated. It is one of the major industries in which developing nations enjoy comparative advantage, given the relatively unsophisticated methods of production and low wages. It does not require massive capital investment as most other industries do. Most

\textsuperscript{22}Ying Pik Choi, Hwa Soo Chung and Nicolas Marian, \textit{The MFA in Theory and Practice} (London: Francis Printer, 1985), 3.
importantly, its labor-intensive characteristic is a boon for overpopulated Third World countries. It is a haven for unskilled and semi-skilled laborers found in abundance in these economies. The industry employs approximately 30 percent of the labor force in all developing countries.\textsuperscript{23}

Today, the textile and apparel industry is by far the most protected industry in the world. In fact, duties on textile imports are over six times the average of non-textile imports. For nearly twenty-five years, under the Multi-Fiber Arrangement, the United States and other industrialized countries have taken special measures to curb imports of textiles and apparel from developing countries. Protection in other sectors like steel and automobiles have come and gone but the textile industry has not witnessed any relief from restrictive trade barriers. By 1990 the United States had 1000 individual quotas and 38 bilateral "agreements", all negotiated under the MFA.

The following discussion examines the origins of the MFA and traces its historical record of increasing protectionism. I show how it was supposed to be a temporary arrangement for a period of four years to give the developed nations the time to regain their competitive edge and how it continued its lease on life so that it exists to this day.

BIRTH OF THE MFA

The roots of the MFA can be traced to the early 1960s with the signing of the Short Term Cotton Textiles Arrangement (STA) in 1961, followed by the more comprehensive Long Term Cotton Textile Arrangement (LTA) in 1962. During the 1950s, the US cotton textile industry was facing a crisis due to an excess capacity in cotton textiles, a rising demand for synthetic fibers, and more important, increased imports from Japan. To redress these difficulties, at least partially, American decision-makers confronted Japan. The Japanese were asked either to restrain their exports of cotton textiles "voluntarily" or face the possibility of Congress passing quotas on Japanese goods, the spread of state and local boycotts against Japanese textiles, and the implementation of restrictive tariffs, which were likely to be recommended by the United States Tariff Commission.24 The outcome was the first VER in postwar period. Japan, with its heavy reliance on American markets for its textile trade, agreed to "voluntary" restraints, fearing to enter into any legislated bilateral agreements that "might at any time be upset by a capricious Congress."25 This proved to be a watershed in the history


of North-South protectionism. It set the precedent for the next thirty years of crippling restraints in the international textile trading regime.

At this time developing countries like India, Portugal, Hong Kong and Egypt stepped in and began to flood U.S. markets with their cotton textile exports. The U.S. government concluded that some sort of a global market arrangement was necessary to limit imports. It set up the Working Party on the Avoidance of Market Disruption in 1959. Under its aegis, in July 1961 an international Short Term Arrangement (STA) was established. It authorized one-year restrictions for 64 categories of cotton textiles to avoid market disruption until a more permanent mechanism could be negotiated. In February 1962, 19 major trading nations adopted the Long Term Arrangement (LTA) which was renewed in 1967 and again in 1970 through 1973 to facilitate "orderly development of the trade in such products [cotton textiles] so as progressively to increase export possibilities of less developed countries and territories of Japan, while at the same time avoiding disruptive conditions in import markets."\(^{26}\)

"Disruptive conditions" were defined as instances of sharp import increases associated with low import prices not attributable to dumping or foreign subsidies. The LTA, 

therefore, targeted imports from developing countries as these nations were the low cost suppliers. Also, the LTA provided that restrictions could be applied against individual countries rather than on a most-favored-nation basis. The Arrangement, therefore, violated two significant principles of the GATT—nondiscrimination and multilateralism.

Since the LTA regulated intervention only in cotton products, LDCs stepped up exports of wool and man-made fiber products. In response the US government drafted the Arrangement Regarding International Trade in Textiles which sought to expand the LTA to encompass trade in man-made fiber and wool-based products in addition to cotton textiles. Thus the Multi-Fiber Arrangement was born. "The MFA marked the beginning of a highly sophisticated, comprehensive protectionism ... establish[ing] a precedent for multilateral restrictions that [were] potentially more harmful than anything that preceded it."27

The first Arrangement (MFA I) appropriated from the LTA the "market disruption" concept, the authorization to negotiate bilateral agreements, and the power to impose unilateral quotas. As a concession to exporters, a quantitative specification was laid down with respect to the restrictions. There was to be a minimum 6 percent annual growth rate in quotas for products under restraint.

27Yoffie, 162.
Exceptions were provided to this rule. For example, growth rates could be lower than 6 percent when it was clear that a situation of market disruption would recur if the higher growth rate was applied. This "exception" clause was used frequently by developed nations. For example, for the wool industry, U.S. bilateral agreements under the MFA have provided for growth no more than 1 percent annually on grounds that a higher growth rate would cause market disruptions at home.

When the MFA came up for renewal in 1977, member states pressed for greater control over LDC exports. The extension protocol renewing the MFA contained an amendment that allowed "jointly agreed reasonable departures". How "jointly agreed" the departures were between developed and developing countries is debatable. MFA II not only allowed growth of quotas at less than 6 percent but also zero or negative growth in products considered "sensitive" by importing countries. The EEC managed to use this clause to establish global quotas for all low cost-countries for a number of what it considered to be "sensitive" products: cotton yarn, cotton fabric, spun synthetic weaves, knit shirts, sweaters, trousers, blouses and woven shirts.28

In December 1981, MFA III was signed. The new element introduced was that of "anti-surge" which allowed the developed nations to take "appropriate" measures against sudden sharp increases in imports of sensitive products. "Market disruption" was redefined to include the overall growth of the market for the product in the importing country and thus could take into account any decline in growth resulting from any factor. In 1983, the Reagan administration authorized a new "trigger" mechanism for initiating "calls." A "call" is a governmental action to restrict imports of a category of textiles or apparel not already under quota restraints. The government makes a call by issuing a market statement which spells out the factors which in its judgment is creating a situation whereby domestic producers are being injured. Under the new procedure, market disruption will be presumed to have occurred and discussions for controls will be triggered automatically when (i) global imports of a specific category of goods has grown by 30 percent or when the ratio of imports to domestic production is greater than 20 percent and (ii) when imports from a specific supplier country equal one percent of total US production in that category. "MFA III is a standstill agreement. It protects the biggest producer of textiles, the United States, and the largest importer and exporter of textiles, the European Community. It does not give the non-Lome, non-Mediterranean less
developed countries a chance to expand their textile and clothing exports. No magic of the market place is permitted to work for the less developed countries under MFA III.\textsuperscript{29}

In July 1986 MFA IV was signed for five years. It underscored the determination of the signatories to continue protectionism in the textile sector. Restrictive elements like the anti-surge tool, a broadening of the coverage to include all vegetable fibers like silk and ramie, reaffirmation of the lower positive growth rate in the case of "recurrence of exacerbation of a situation of market disruption" and the recognition of the rate of growth of per capita consumption as a relevant indicator in recurrence and exacerbation of a market disruption situation, made the MFA IV emerge as a highly protectionist Arrangement that finds no parallel in international trade.

In the Uruguay Round of GATT negotiations (1986-1990), the MFA featured prominently on the agenda. Again, the North won the rounds of debates so that the MFA has been renewed again, although for only two years. It is scheduled to expire in December 1992.

\textbf{RATIONALE OF MFA}

For all its protectionist history, the stated objectives of the MFA were noble, calling for the promotion

and liberalization of trade in textiles and Third World development. Article 1 stipulated the aims of the MFA:
-- to achieve expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products. (Article 1, para. 2)
-- ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets and on individual lines of production in both importing and exporting countries. (Article 1, para. 2)
-- to further the economic and social development of developing countries and secure a substantial increase in their export earnings from textile products. (Article 1, para. 3)

Thus, DCs as well as LDCs were to benefit. The MFA was explicitly justified as a temporary device to give the textile industry of the developed countries the time and breathing space to regain its competitive edge while ensuring at the same time that developing countries did not lose their advantages from trading in a sector in which they enjoyed comparative advantage. Trade was to expand, to become open and liberal, and markets in both sets of countries were to be prevented from disruption.

However, the MFA has not achieved its aims. Either the aims were ignored in trade transactions or conceptual weaknesses were exploited. This is what I focus on in the following chapters.
"The basic objectives shall be to achieve the expansion of trade, the reduction of barriers to such trade and the progressive liberalization of world trade in textile products..."

Article 1, para. 2

The MFA established the promotion and liberalization of trade in textiles as one of its essential aims. During the drafting of the MFA, developed countries defended the Textile Arrangement on grounds that it would promote world trade by increasing the number of developing countries exporting textiles. They argued that open competition for access to the markets of developed countries would have resulted in a few efficient developing countries capturing an even larger share of the world export market than they would have under the MFA. Their justification for the Arrangement was that since it provided them the right to impose and regulate quotas, they could provide quotas to small suppliers and new entrants by cutting back on imports from larger suppliers. Thus the MFA would promote trade by getting more countries into the orbit of international trade by either providing market shares or increasing market
shares.  

The table below gives an idea of market shares of developing countries in developed-country textile markets. A cursory glance at the table would lead one to believe that less developed countries were significantly flooding developed-country markets. For example, imports into OECD countries from these suppliers rose from under $600 billion in 1963 to $2.8 billion in 1973 and $8.7 billion in 1984.

Table 2.  
Imports into the OECD from 25 developing countries, 1963, 1973, and 1984  
(million dollars, percentage shares in parentheses)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>China</td>
<td>30.6</td>
<td>329.0</td>
<td>329.0</td>
</tr>
<tr>
<td>South Korea</td>
<td>4.4</td>
<td>303.3</td>
<td>1,038.5</td>
</tr>
<tr>
<td>Taiwan</td>
<td>7.4</td>
<td>221.2</td>
<td>734.6</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>72.5</td>
<td>306.4</td>
<td>545.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>n.a.</td>
<td>26.7</td>
<td>31.6</td>
</tr>
<tr>
<td>Subtotal</td>
<td>114.9</td>
<td>1186.6</td>
<td>3,891.7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>35.7</td>
<td>267.3</td>
<td>534.4</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>n.a.</td>
<td>44.2</td>
<td>255.0</td>
</tr>
<tr>
<td>India</td>
<td>308.3</td>
<td>423.3</td>
<td>706.3</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0.2</td>
<td>0.5</td>
<td>7.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.6</td>
<td>45.8</td>
<td>246.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.4</td>
<td>4.0</td>
<td>119.8</td>
</tr>
<tr>
<td>Philippines</td>
<td>2.7</td>
<td>17.8</td>
<td>37.6</td>
</tr>
<tr>
<td>Subtotal</td>
<td>347.8</td>
<td>802.9</td>
<td>1,907.0</td>
</tr>
</tbody>
</table>

[continued next page]

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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Haiti</td>
<td>2.9 (0.5)</td>
<td>6.7 (0.2)</td>
<td>15.9 (0.2)</td>
</tr>
<tr>
<td>Dominican Rep.</td>
<td>0.0 (0.0)</td>
<td>0.1 (0.0)</td>
<td>3.2 (0.0)</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>0.0 (0.0)</td>
<td>0.4 (0.0)</td>
<td>1.4 (0.0)</td>
</tr>
<tr>
<td>Colombia</td>
<td>1.4 (0.2)</td>
<td>38.9 (1.4)</td>
<td>56.2 (0.6)</td>
</tr>
<tr>
<td>Peru</td>
<td>0.3 (0.0)</td>
<td>2.6 (0.1)</td>
<td>115.0 (1.3)</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.9 (0.3)</td>
<td>144.7 (5.1)</td>
<td>573.3 (6.6)</td>
</tr>
<tr>
<td>Argentina</td>
<td>2.3 (0.4)</td>
<td>9.8 (0.3)</td>
<td>11.1 (0.1)</td>
</tr>
<tr>
<td>Uruguay</td>
<td>1.4 (0.2)</td>
<td>2.7 (0.1)</td>
<td>22.6 (0.3)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>10.2 (1.7)</td>
<td>205.8 (7.2)</td>
<td>798.8 (9.2)</td>
</tr>
<tr>
<td>Greece</td>
<td>6.4 (1.1)</td>
<td>122.9 (4.3)</td>
<td>411.3 (4.8)</td>
</tr>
<tr>
<td>Portugal</td>
<td>58.7 (9.9)</td>
<td>262.1 (9.2)</td>
<td>575.1 (6.6)</td>
</tr>
<tr>
<td>Spain</td>
<td>29.1 (4.9)</td>
<td>109.9 (3.9)</td>
<td>451.8 (5.2)</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.5 (0.4)</td>
<td>78.1 (2.7)</td>
<td>467.9 (5.4)</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>20.7 (3.5)</td>
<td>72.9 (2.6)</td>
<td>152.6 (1.8)</td>
</tr>
<tr>
<td>Subtotal</td>
<td>117.3 (19.9)</td>
<td>645.9 (22.7)</td>
<td>2058.8 (23.8)</td>
</tr>
<tr>
<td>Total</td>
<td>590.2 (100)</td>
<td>2,841.2 (100)</td>
<td>8,656.3 (100)</td>
</tr>
</tbody>
</table>

n.a. not available


If these nominal values are deflated by an index of unit values of exports from industrial countries, the annual growth rates in real terms was 11.1 percent in 1963-73 and 4.0 percent in 1973-84.31 Growth in the 1970s was therefore relatively slow especially when seen in comparison with overall manufactured exports from developing countries.

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(defined narrowly to exclude processed foods and copper) which grew in real terms at 15.6 percent annually from 1965 to 1973 and 12.4 percent from 1973 to 1980.32

From the data provided it is evident that in the early 1960s, India and Hong Kong dominated developing country exports of textiles. Later in the decade and early 1970s, South Korea and Taiwan achieved extraordinary export growth to capture approximately 10 percent of textile exports each. In a third distinct phase, mainland China emerged forcefully in the market to capture nearly 18 percent of developing-country exports of textiles.

It is clear from the table that there has been no similar explosive growth in exports from countries other than Korea, Taiwan, and China. On the contrary, there have been major declines in market shares: for India, from 52 percent of textiles in 1963 to 8 percent in 1984; Colombia's market share was halved from 1.4 to 0.6 percent. By region, the five East Asian countries doubled their share in textiles from 1963 to 1984 to nearly half of the export market. In contrast, the rest of Asia, including India, experienced a decline in trade share from 59 percent of developing-country exports in 1963 to only 22 percent in 1984. In Latin America, only Brazil achieved a relatively large share of textile exports. For their part, the Mediterranean countries of Europe held relatively constant

32 Cline, 141.
market-shares, at approximately one-fifth of developing-country exports.

The table therefore reveals a highly skewed distribution of textile exports from developing countries to the industrial countries. The four big suppliers (Hong Kong, Korea, Taiwan and China) in 1984 accounted for 44.6 percent of textile exports. This extreme concentration raises significant policy issues. In particular, it means that insofar as the protection regime gives rise to quota rents for suppliers, a disproportionate share of these rents have been captured by the four East Asian countries. (Economic rents and their effects will be discussed in detail in chapter 5). The MFA, therefore, has not expanded trade in textiles for developing countries as a bloc. Selected countries have had market shares increased at the expense of weaker nations or new-comers.

The case of China warrants special attention. As is evident from the table, China's exports of textiles have accelerated rapidly in recent years. United States authorities have tended to be more accommodating to China than to the other large East Asian suppliers. This is because China is in a much stronger position to threaten political retaliation against restriction. Thus, the final version of the 1985 bill for textile quotas in the United States omitted China from the large cutbacks to be imposed on the other three large East Asian suppliers because
legislators were concerned that China would close its own market.\textsuperscript{33} Previously, China had succeeded in repelling tighter restrictions by threatening to cut off imports of agricultural products from the United States.\textsuperscript{34}

Africa is absent from the list of the top 25 developing-country suppliers of textiles. It must be stressed that open trade in these products could be especially important to many low-income countries in Africa. These sectors are among the few for which the unsophisticated level of industrial production in these countries permits exports. While African nations typically do not face quotas today, the scope for future growth of their exports is necessarily constrained by the overall regime of textile protection, which probably already discourages investment for export expansion by posing the threat of quota imposition if exports do rise substantially. "In a regime of open trade, relatively rapid growth of textile exports from latecomers among developing countries could be expected. There would probably be a natural evolution away from concentration of these exports among Korea, Taiwan, and Hong Kong. In a regime of protected global trade in textiles, policymakers play a major role in

\textsuperscript{33}Washington Times, 1 July 1986, A8.

allocating the scarce resource of an export market among the many claimants in the developing world. It is not clear that the present method of this allocation is either the most equitable or the most efficient."^{35}

Thus, the system of managed trade that the textile sector has been subjected to tends to create circumstances in which established firms, countries with already substantial export interests and large trading nations enjoy advantages over new firms, countries with as yet small export sectors and developing countries in general. It can be concluded therefore that the MFA did not liberalize and expand trade. MFA I stipulated that quotas would grow annually by 6 percent. However, no attempts were made to increase levels of quotas, and bilateral agreements were negotiated with sharply limited quota growth. For example, the U.S. government, in 1977 offered Hong Kong a five year agreement limiting the increase in quotas to 1.5 percent.^{36} Since 1974, when the first MFA came into effect, not once has a quota for any country been increased by the target annual rate of 6 percent.

The MFA, therefore, did not realize its objective of trade liberalization in textiles. It may have opened markets for some countries like China, liberalizing trade with them.

^{35}Cline, 143.

It did not do this, however, on a nondiscriminatory basis. It closed or reduced market shares for politically less favored countries like India. The MFA has hence not succeeded in reducing trade barriers or discrimination but has instead given the DCs a legal mechanism to erect and tighten barriers—a mechanism for doing so in discriminatory ways.
CHAPTER 4

"The basic objectives shall be to achieve expansion of trade while at the same time ensuring the orderly and equitable development of this trade and avoidance of disruptive effects in individual markets."

Article 1, para. 2

"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. The factors causing market disruption are a sharp and substantial increase or imminent increase of imports of particular products from particular sources."

Annex A

This chapter is essentially a continuation of the last: the previous chapter discussed the MFA aim of promoting and liberalizing trade; this chapter examines how conditions were stipulated in the very same Article whereby liberalization could be curtailed, and the volume of imports from developing countries cut back drastically. The conditions of import restrictions were phrased in ambiguous terms which the North has interpreted to its own purposes. The chapter begins by discussing this conceptual weakness in the Arrangement, and then focuses on the question, "Is market disruption in the textile sector primarily caused by imports from developing countries"?

As cited above, one aim of the MFA was to avoid "market
disruption? How do we know when it exists? Who is responsible for the disruption? What caused it? How do we define "orderly growth"? How do we distinguish attempts to assure "orderly" growth from protectionism? Nowhere in the Arrangement do we find explanations or answers to these basic questions.

Markets can be classified into product and factor (labor and capital) markets. Markets are disrupted when either of these fails to clear. In an ideal market, market disruption never occurs. In the real world, of course, markets rarely function perfectly. Disruption occurs periodically, but this is the way competition always works. In the case of the textile industry, we find a factor market disruption. This has manifested itself in the form of unemployed labor. For over twenty-five years, the MFA has been justified, and in fact, has been made more protectionist, on grounds that market disruption has occurred in the textile industry of developed countries and has been caused by "sharp and substantial" increases or "imminent increases" in imports from "low cost" suppliers. How much is "sharp"? How much is "substantial"? How is "imminent increase" determined -- what factors tell us that imminent increase is occurring? There is no clarification or qualification of any of these terms in the Arrangement. The term "market disruption" lies at the core of the Arrangement. Its acceptance and incorporation legitimized
the discriminatory imposition of quantitative restraints against developing countries. What this chapter is particularly interested in, therefore, is establishing whether, in fact, the so-called market disruption (here interpreted as loss of jobs in the textile sector) has been caused by imports from developing countries.

In the course of the last twenty five years, industrialized nations like the U.S. have complained of market disruption, or unemployment due to imports from developing countries. Economists in their findings have, however, argued that such a connection between imports and unemployment in the textile sector is extremely limited:

"What is interesting is...that import competition causes only a small fraction of employment losses for most industries. The bulk of employment change comes from changing labor productivity, real wages, general levels of demand, or changes in expenditure patterns. The fact that these results seem to hold up using a variety of methods suggests robustness, and makes it difficult to comprehend the continued vociferousness of labor and industry."37

Using various methods of analysis, economists have attacked the argument that imports are adversely affecting employment in the textile and apparel industry. Peter Isard

(Vintage-Capital model)\textsuperscript{38}, Charles R. Frank, Jr.\textsuperscript{39}, Anne O. Krueger\textsuperscript{40} (Accounting Method), Catherine Mann (General Equilibrium Model)\textsuperscript{41}, and Richard B. McKenzie (Statistical Regression Analysis)\textsuperscript{42} have all reached the conclusion that job losses in the textile and apparel industry can be attributed to mechanization, rising labor productivity and consumer demand and preferences.

This chapter focuses on the impact of domestic variables on employment in the textile sector. The introduction of sophisticated technology and its effects, the concomitant rise in labor productivity, and fundamental changes in skills required by the industry appear to be the most important cause of employment erosion. In addition, consumer demand and industrial competitiveness have, in varying degrees, affected employment in the industry over the last three decades.


\textsuperscript{41}Catherine Mann, 174-195.
TECHNOLOGY AND ITS EFFECTS

In the 1960s, the conjuncture of a booming economy, the relatively steep decline in interest rates, revision of depreciation rates, beneficial tax adjustments and rising imports encouraged textile firms to invest in new equipment. Capital investment more than doubled in the five years from $330 million in 1961 to $820 million in 1966. The seventies witnessed smaller outlays due to the recession but by 1977 the outlays had recovered to $1.2 billion. Capital expenditure began to climb steadily once again reaching $1.62 in 1980, soaring to $2.0 billion in 1987 and then hitting a record high of $2.2 billion in 1988 and 1989.43

Such massive investments saw the textile industry emerge as one of the most mechanized manufacturing sectors in the US.44 These investments radically modified existing machinery, and introduced high-tech machinery and equipment including micro-electronic technology like computers.

Computer-controlled operations are growing on an extensive scale in the textile and apparel industries. They are now used directly in labor processes such as running looms, dyeing and finishing. Robots, controlled by computers, have increasingly replaced semi-skilled and

43 U.S. Industrial Outlook, various issues/years

unskilled workers as they have been programmed to perform a wide array of functions ranging from unloading materials from trucks to placing heavy beams of yarns in racks, from placing the filling yarn on conveyor belts to delivery to weaving sheds. Computers have been introduced in accounting, inventory control, production planning and inspection of the plant.

Such automation has filtered into every production process. Manual operations including creeling (loading), doffing, repairing broken fibers, operating machine controls have been transferred in varying degrees to machines, sometimes integrating distinct processes to increase efficiency. The spinning operation is a prime example of such transference and integration. Workers in this process used to comprise approximately 20 percent of all mill machine workers. The new technique, "rotor" or "open-end spinning", has eliminated this 20 percent of the textile labor force. Productivity has in turn increased 400 to 500 percent by eliminating the conventional spindle and integrating the roving, spinning and winding process. Also, while manual doffing took an average of 18.65 minutes, automatic doffing performs the same task in 7.07 minutes.45

Sophisticated technology, brings in its wake high labor productivity. Between 1973 and 1984 textile employment

decreased by approximately 264,000 workers while, at the same time, worker productivity rose by 49 percent. Overall (1960-1984 period) worker productivity, defined as monetary value of real shipments per worker, increased 147 percent, rising in real (1984) dollars from $31,407 per worker in 1960 to $77,526 per worker in 1984. According to an index compiled by the Department of Commerce, between 1977 and 1990, textile mill productivity, as measured by output per worker hour has increased some 37 percent. This averages out to 3.9 percent, versus, 3.0 percent for all manufacturing annually. (A one percent increase in productivity in textiles can be expected to lead to a 0.46 percent reduction in textile employment).

State-of-the-art technology has mechanized labor processes and enhanced labor productivity to such high levels that there has been a fundamental change in the need for, and type of workers in, this industry today. Managers see a much more urgent need for literacy and math skills among their operators to run the machinery. Workers have to have the ability to respond to a more varied, faster changing work environment. They have to have a broader grasp of the production process if they are to contribute to the goal of preventing rather than simply responding to machine

46 McKenzie, 164.


48 McKenzie, 170.
With such a fundamental change in the production process, it is inevitable that employment will be affected. Thus, to attribute market disruption to imports from developing countries is to ignore the fact that the problem is largely internal and to shift responsibility for adjustment from domestic to international actors.

THE EFFECTS OF CHANGES IN CONSUMER TASTES

Consumers are ultimately the most important determinants of production and supply of any product. The textile and apparel industry, particularly the apparel industry, is extremely vulnerable to the whims of consumers. The business is a risky one, due largely to the frequent changes in seasons, styles, and fashions. This volatility is a nonimport-related cause of some of the attrition that took place in the industry. Some decline in the number of firms and in employment in particular product segments within the apparel industry resulted from changes in consumers' preferences. Men's tailored clothing, women's dresses, and heavily tailored coats lost ground to more casual, nontailored varieties, separate blouses and skirts, pantsuits and year-round raincoats. In addition, the move to women's separates also decreased the demand for full slips. Many companies went out of business by attempting to hold on to these declining product lines, rather than shifting to
Also, the industry finds itself constantly guessing as to how much consumers are willing to spend on textiles and clothing for a particular year or season. Consumer spending over the years has been very sluggish and erratic. In 1988, for example, the apparel industry found that consumers kept their wallets and pocketbooks tightly closed going on a sudden shopping spree towards the end of 1988 and early 1989 when annual consumer spending stood at 8.1 percent above year earlier levels. It then began a steady decline, hitting 6.2 percent by October. Although apparel expenditure has been climbing since 1975, from $65 billion in 1975 to 165 billion in 1989, apparel expenditure as percentage of disposable income has shown a steady decline since 1975. While in 1975, the percentage was 5.4, by 1985 it was 4.7, reaching a record low of 4.5 in 1989. Hence consumption has not helped the industry at all. Low levels of consumption have either forced the industry to cut back production, or as in the case of smaller enterprises to close down their plant. Thus to identify imports as the main reason for unemployment is simply inaccurate.

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49 Jeffrey S. Arpan, Jose de la Torre and Brian Toyne, The U.S. Apparel Industry: International Challenge, Domestic Response (Georgia: Business Publishing Division, Georgia State University, 1982), 95.
INTRA- AND INTER-INDUSTRY COMPETITIVENESS

Inter- and intra-industry competition has also caused a significant displacement of workers. Domestic competition with other industries over traditional textile markets has been increasing. For example, developments in the manufacture of paper and plastics forced textile manufacturers to compete in domestic markets such as bagging and automobile upholstery.

"In any competitive industry, competitive attrition always takes place. Many of the US apparel firms that closed in the past two decades would have closed even without import competition, because they could not compete with more efficient domestic firms."\(^5^0\)

During the last couple of decades, the textile and apparel industry has undergone a major structural change. Intra-industry competition has wiped out a large number of smaller units in the industry. The introduction of new forms of technology and synthetic fiber production is affordable mainly to large firms. They are in a better position to exploit discoveries and find new markets. Smaller enterprises cannot compete effectively with consolidated firms such as Burlington Industries and J.P. Stevens that have become pacesetters in the industry. And bankruptcies and mergers have increased since the early 1960s, displacing a large part of the textile and apparel labor force.

Thus, most of the jobs lost in the textile and apparel

\(^{50}\)Arpan, et al, 93.
industry in the last three decades were caused by plant modernization, changes in demand, and industry consolidation rather than by imports from low-cost suppliers.
"A principal aim in the implementation of this Arrangement 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 1, para. 3

The MFA thus embodied a noble aim of Third World country development. One way the MFA was supposed to benefit developing countries was by providing them quota rents. Quota rent is the value of import licenses equal to the difference between the domestic market wholesale price of the product and the tariff-inclusive supply price of the competing import. In the case of an import-licensing scheme, the recipients of the import licenses are likely to enjoy the quota rents. In the case of a voluntary export-restraint agreement like the MFA, since quotas are administered by the exporting country, the exporting country in principle captures the quota rent. The distribution of rent within the exporting country varies according to the peculiarities of the allocation system of each restrained country, and the amount of the rent depends upon the strength of demand and
degree of restraint.51

COST OF RENT-SEEKING ACTIVITIES

Technically, rents are beneficial, providing exporting countries with additional earnings. In reality, however, rent seeking or the competition for rents involves high costs for the seekers, as demonstrated by Anne Krueger.52 The process of acquiring rents nullifies its benefits. The real resources used up in such activity are generally regarded as being wasted because their use does not create new wealth but merely transfers existing wealth between groups or individuals. Rent seeking takes various forms, the most obvious of which are direct lobbying of politicians (involving such costs as trips to the capital city and establishing premises there), over-investment in physical plant (to qualify for licenses allocated in proportions to firms' capacities), bribery and other forms of corruption. Krueger's findings reveal that in many countries these quota rents (and the associated rent-seeking costs) can be very large indeed. For example, she calculates that in India in 1974, total rents amounted to 7.3 percent of GNP. Of this figure, rents associated with import licenses represented


over two-thirds. In 1978, quota rents in Turkey were calculated to be about 15 percent of GNP. Moreover, there is reason to suppose that the rent seeking associated with quota licenses is just the tip of the iceberg. For example, by including other distortions such as price controls and rationing, Mohammed and Whalley estimate total contestable rents to be somewhere between 30 and 45 per cent of GNP.53

While it is true that some developing countries are partly compensated by these rents, their importance has been exaggerated. It is not clear how much of the rent accrues to the exporting country in actual practice. Trade diversion erodes the potential rent accruing to developing countries as importers can buy from non-restrained sources. Moreover, the restrained supplier also runs the risk of not being able to fill his export quota, for which he will be penalized by his own government by being allocated a smaller export quota next period.54

QUOTAS AND VESTED INTERESTS

New entrants, small suppliers, and poor countries with little or no political clout are unable to reap any of the benefits stemming from quota rents so that they suffer with

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54 Choi, et al. 106.
no hope of economic or social development. This is mainly because quota rents cause vested interests. In fact, a recurring theme in a study of the MFA by the GATT Secretariat in 1984 was the role of the vested interests created by the MFA.\textsuperscript{55} The study showed that under a system of voluntary export-restraint agreements, there is a need to develop procedures for distributing the export-licenses. This can stimulate the creation of cartel-like agreements among existing exporters which tend to keep out new firms. If the export licenses, as is usually the case, are distributed on the basis of past performance, new firms may not be able to get on the allocation list or may receive only a token amount of export licenses. As in the case of the quota rents, this creates vested interests in the status quo among established exporting firms.\textsuperscript{56}

QUOTAS AND PRODUCT QUALITY

Another line of defense for the MFA was that quotas encourage restrained countries to upgrade the quality of their items. How far is this true? Small suppliers and new entrants do not experience these advantages. Their industrial base is modest compared to that of leading supplier countries. They do not possess the machinery

\textsuperscript{55}GATT Secretariat, Textiles and Clothing in the World Economy, GATT Doc. 84-1473 (Geneva: GATT Secretarial, 1984).

required to produce material that is of a higher quality than those produced in countries like Japan and Hong Kong.

It was argued that if a country was unable to compete due to failure to upgrade its quality of product, this would have beneficial consequences. It would encourage the country to move into less-restrained or non-restrained categories and tap new markets, or diversify out of clothing and textiles into more capital-intensive industries, such as automobiles, chemicals and steel. However, experience shows that when a country diversifies into a non-restrained category, with the growing specter of protectionism it is not long before the non-restrained category becomes a restrained one.

As Ying-Poi Chik, et al. point out, quota systems have demonstrated adverse effects over the years:\(^{57}\)

1) Most quota allocations tend to favor established firms at the expense of new firms, thereby inhibiting competition among firms and reducing efficiency in the textile and clothing industry of developing countries. This encourages the cartelization of firms, which tends to raise the price of textiles and clothing products, not only for exports but for domestic consumption as well.

2) The bilateral restrictions tend to place a heavy administrative burden on developing countries which may lack the experience and capacity to run the system efficiently.

\(^{57}\)Ying-Pik Choi, et al, 25.
Where an administrative infrastructure is in place the discretionary power of the bureaucracy in allocating quotas tends to favor larger, more established firms.

3) The quota system entails much more uncertainty for potential investors and policy makers alike than other forms of protection. It is hard to gauge when policy makers will render the quotas more or less restrictive, since quota system is subject to pressure from protectionist lobbies and other political considerations. This element of uncertainty adversely affects small suppliers more than large suppliers as larger suppliers are able to recover faster than poorer nations if an expected quota has been denied.

Therefore, technically, quotas entail benefits for restrained suppliers, but it must be stressed that these gains are dwarfed by losses stemming from having to restrain exports, and therefore production and employment, in sectors in which they possess clear comparative advantage. Import controls in viable industries like textile and clothing has slowed economic growth in most developing countries. The reduction in the capacity to import capital goods has been particularly significant in recent years because of severe balance of payments constraints and growing debt burdens. During the 1970s and 1980s Mexico and Brazil each accumulated over $100 billion in foreign debt. For either country the foreign debt exceeds its annual GNP and is
several times its foreign exchange earnings each year.\textsuperscript{58}

\textbf{THE CASE OF BANGLADESH}

Article 1, para 3 obliges developed countries to avoid actions that would adversely affect the economies of the developing exporters. However, evidence proves that these obligations have not been respected. Restraints have been imposed on imports from developing countries without consideration of their level of economic development. Even poor, heavily-aided countries like Bangladesh have found themselves subjected to substantial restraints.

Bangladesh is one of the poorest countries in the world. Like any other developing nation, her exports are predominantly agricultural. In particular, the heavy dependence on jute and jute products (Bangladesh's chief item of export -- the world demand for which had decreased noticeably between 1965 and 1983) meant that other exports had to emerge to fill the gap left by the shrinking demand. Fortunately for her, businessmen from the Republic of Korea ventured into Bangladesh to transfer finance and technology for increased production of clothing. The result was several new clothing companies, leading to increased volumes of clothing exports that were competitive in world markets. Bangladesh's exports of clothing increased from almost

nothing in fiscal year 1980-81 (less than one percent of total exports) to about twelve and a half percent in fiscal year 1984-85. Unfortunately for Bangladesh, she proved to be too competitive. The United Kingdom, France, the United States and Canada, all slapped quotas on Bangladesh, albeit in accordance with provisions of the MFA and bilateral agreements under it.

It is necessary here to look at the statistics of Bangladesh's imports into the developing nations to get an idea of the injustice meted out to her. In 1984, Bangladesh's share of imports of manufactured goods into DCs from LDCs amounted to 0.3 percent, compared with 50 percent for East Asia's super-exporters (Japan, Hong Kong, Taiwan etc.). Bangladesh's share in DCs' imports of clothing from LDCs amounted to 0.2 percent, whereas imports from the super-exporters accounted for more than 60 percent. And, in the case of total clothing imports of the US from LDCs in 1984, Bangladesh had a share of 0.32 percent as against 66.7 percent for the super-exporters.

The immediate impact on production in Bangladesh was to close down operations that had just started up. It is true that production capacities in Bangladesh were being expanded very rapidly but is such action justified in the case of a


60 Spinager, 80.
country like Bangladesh, even if it is strictly speaking legal? Being one of the countries at the very bottom of the development ladder, Bangladesh learned how special is the treatment actually accorded to her. The elbow room in foreign trade for a country without international political clout is limited, at least in textiles and clothing, the natural starting point of an export-oriented strategy for development.

CONCLUSION

Thus, we see that the North has not fulfilled an important objective of the MFA—to assist the development of developing countries. It has instead, inter alia, reduced their export earnings, in turn reduced their capacity to import sophisticated machinery that is so essential for production and, consequently, development. The MFA has reduced benefits from specialization as it has forced developing countries to forgo output and exports in an industry in which they have comparative advantage. More important, it has reduced employment opportunities. A common characteristic of developing countries is overpopulation. It is well known that an advantage of expanding trade is increased employment. The North, through the MFA, has deprived the South from giving its burgeoning numbers an opportunity for employment and improving its standard of living. We cannot even begin to determine the consequences
of protectionism under the MFA when it is imposed on a poor, densely populated country like Bangladesh where the current population is 116.6 million and expected to double in less than 28 years!
CONCLUSION

The preceding discussion has made it clear that the MFA did not realize its stated aims. Textile trade has not expanded; there has been no reduction in barriers to textile trade; and, no progressive liberalization of world trade in textiles. LDCs have not witnessed gradual increases in market shares as promised by the MFA. Quotas never rose annually by the stipulated figure of 6 percent. Each protocol of renewal was more stringent than the previous preventing liberalization that may have occurred if the "magic" of market place was allowed to work.

The MFA did not benefit all developing nations as was expected. It prevented most of them from reaping benefits stemming from comparative advantage. It provided the industrialized countries a legal mechanism to impose restrictions and hence precluded them from increasing export earnings through trade in textiles. Newly industrializing countries were singularly affected by the MFA. They were squeezed out by politically stronger suppliers like the NICs, which enjoyed higher status in the international trading order, and prevented them from breaking in and
securing market shares. In addition, competition for rents involved high costs which they could ill afford.

The MFA has emptied the GATT of much of its substantive content. The basic GATT principles of nondiscrimination, predictability and transparency, so essential for an efficient liberal trading order have been eroded. Admittedly, industrialized countries attempted to reconcile the MFA with the spirit of the GATT: the stated objectives of the MFA promised liberalization of textile trade, avoidance of market disruptions, and the economic and social development of developing nations. However, in execution, the MFA consistently and unambiguously violated the spirit of the GATT. It violates the most-favored-nation principle by permitting discriminatory treatment among supplier countries. It breaks the general GATT mandate of applying tariff rather than quota protection. It undermines the principle of assured market access through tariff binding by making access contingent. Importantly, the MFA also establishes a precedent of imposing quantitative restrictions against developing nations (in this case Japan as well) but not against industrial countries.

The gap between the developed countries' rhetoric on free trade and fact, as evidenced through the MFA, has been well expressed by Hugh Corbert, Director of Trade Policy Research Center in London:

If the liberal principles of the international trading system, as expressed by the General Agreement on
Tariffs and Trade (GATT) are to be preserved for the benefit of all, merely verbal assertions by the governments of developed countries of their commitment to these principles are not enough. Governments have to demonstrate that they mean what they say. They have to repudiate the precedents for departures from those principles. They have to convey a signal to the unprotected industries. In short, they have to start dismantling restrictive trade measures such as the Multi-Fiber Arrangement, 'voluntary' export restraint agreements, and non-tariff devices which destroy trade.61

No causal link has been established between low-cost imports from "particular sources" and "market disruption" in importing countries. Yet, the MFA has now entered its fourth decade, becoming more protectionist with each renewal. It was stated in no uncertain terms that the Arrangement would be temporary. Yet it has controlled trade and allocated market shares in textiles for over thirty years.

Besides affecting LDCs adversely, the MFA has also imposed costs on American consumers. Total consumer costs of protection amount to $2.8 billion annually in textiles. The average American householder pays about $238 every year to retain some 235,000 jobs in the textile and apparel sectors rather than elsewhere in the global economy. The consumer cost per job saved is approximately $135,000 in textiles.62

It would not be wrong to state that the North has a narrow vision of reality. It ignores certain fundamental

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62Cline, 15.
facts of economics. Third World nations will endeavor to develop economically and socially. They will step up exports of goods in which enjoy comparative advantage. Any growth of manufactured exports by developing nations means competition for developed nations. Many industries in the developed nations will have to downsize as they to reduce their costs in order to compete. Layoffs will occur. New opportunities are created. Adjustments have to be made. This is how a free market works.

To turn to protection as a response to competition is unwise. Experience has shown that import restrictions rarely solve the problems of a domestic industry in the way that they were originally intended to. Such restrictions generally become a shelter from world competition and an excuse to avoid dealing with the problem of productivity, quality, innovation, and price. Rather than growing stronger, the industry becomes dependent on government protection and falls further behind its worldwide competition. The MFA is a highly protectionist Arrangement that should be phased-out if there is to be an international trading order in textiles that is open and liberal, just and equitable, a trading order envisaged by the GATT.
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VITA

MEETA SEHGAL

Born in Calcutta, India, 13 July, 1965. Graduated from Modern High School for Girls in Calcutta, India, April 1984. Earned the Bachelor of Arts degree in Political Science from St. Xavier's College, Calcutta, May 1988. Currently a Master of Arts candidate at the College of William and Mary, Virginia. The course requirements for this degree have been completed, but not the thesis: Fabric of Tranny: The Multi-Fiber Arrangement in the Loom of North-South Politics.