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Panel IV
Global trade liberalization:
Implications for industrial restructuring

Background Paper

Sectoral impact of the Uruguay Round Agreements: Export of textiles from Asian developing countries

Prepared by the

Indian Council for Research on
International Economic Relations (ICRIER)

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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PART - I

I : 1 MULTI-FIBRE ARRANGEMENT UNDER THE URUGUAY ROUND

The agreement on Textiles and Clothing provides a legal framework for the phasing-out of the MFA, leading to the "integration" of this sector into WTO at the end of the 10 year transition period. Since then, identical rules will apply to trade in textiles and clothing as to trade in other goods. All WTO members will have to phase out their existing restrictions during the specified 10-year period effective from 1.1.1995.

Phase-out Restrictions

The phasing-out process comprises two elements:

i)   The integration of products into the WTO, through the elimination of restrictions on products currently covered by the bilateral agreements negotiated under the MFA as existed on October 1, 1994 to be accomplished in four stages leading to their complete removal at the end of 10 years, and

ii)   an increase in the quotas of the products remaining under restrictions over the 10-year period, as per predetermined formulae.   (GATT 1994).

On the date of entry into the WTO Agreement, each member shall indicate those product categories which it will immediately integrate into GATT, accounting for no less than 16 per cent of its total volume of 1990 imports of Textiles and Clothing products as per definition given in the Annexures to the Agreement. A further 17 per cent will be integrated on the first day of the 37th month, another 18 per cent on the first day of the 95th month and the rest i.e. 49 per cent at the end of the transition period of 10 years. Each phase of integration will have to encompass products from stipulated groups of tops and yarns, fabrics, made-ups and clothing.

Increase in Quotas

The new Agreement provides for an increase in the growth rates prescribed in the bilateral agreements by applying a growth factor to the growth rates. During the first stage of three years, the growth factor would be 16%, during the second stage of four years, the growth factor would be 25% and for the last stage of three years, the growth factor would be 27%. These percentages would be applied on the growth rates existing at the commencement of each stage. Thus, in a category where the growth rate is 6% in 1994, it would become 6.9% in 1995, 8.70% in 1998 and 11.05% in 2002.

There are no guidelines under which the products likely to be phased out can be identified. In all possibilities, an importing country would identify three kinds of products for early integration like (i) the products where they are not

operating any restraints, (ii) the products where their domestic industry has negligible share, and (iii) the products where their domestic industry is relatively competitive.

It is likely that products that had never been subjected to restrictions would be integrated first and the integration of more sensitive items in each category would be postponed as long as possible. The end loading of the integration process, which postpones the integration of 49 per cent of each country's textile imports to the last day of transitional period has given rise to the concern that protectionist forces may make use of this time to build up political pressure for a postponement of the final stage.

The increase in growth rates will have little mitigating effect with respect to product categories where the initial negotiated growth rates are low. Further, during the transition period, new restrictions can be negotiated or imposed under a "transitional safeguard mechanism" on a discriminatory basis when importing countries determine that imports of textile and clothing products are causing "serious damage" to their domestic industries. Such safeguards cannot be applied to those products that have been integrated into the WTO but may, however, be applied against imports from countries that had never participated in the MFA, as well as from those that never restricted imports under the MFA (including those that were not the signatories), if the countries applying them notify their intention to make use of this clause. It is worth mentioning that

MFA was applicable only among its signatories whereas the Agreement on Textiles and Clothing and its various procedures and mechanisms apply to all members of WTO.

The Uruguay Round Agreement has also resulted in tariff cuts on textiles and clothing, though the extent of the reduction has been rather marginal. The details of tariff cuts and their implications have been discussed in Part II of this Report.

I : 2 Importance of Textile & Clothing in Exports from Asian Developing Countries

The textile industry (encompassing textiles and clothing) has been subject to various forms of government intervention, both in the developed and developing countries. The importance of the textile industry is due to its major role in generating employment and exports and the key role it has played in the initial industrialisation process in most countries. Since there is large domestic demand for textiles and clothing what is a basic necessity in all countries, the textile industry has been quite often the focus of import substitution policies in the developing world. The textile industry is of great significance for developing countries because it has high employment potential and can be set up relatively easily with low investment. Compared to the developed economies, where the textile industry has declined in importance, textile manufacturing is significant in developing countries and contributes as much as one-half to the manufacturing output of some countries.

The relative importance of the textile industry can be appreciated by looking at the ratio of textile and clothing exports in total manufacturing exports. As can be seen from Table-I:1, share of textiles in world's total exports was 4.8% in 1980. It went up to 6.9% in 1991. Share of textiles in total exports declined from 4.8% to 1.9% in developed market economies in the same period. It increased from 5.7% to 6% in developing countries between 1980 and 1991. Thus, exports of textiles and clothing is of relatively greater significance in the developing countries.

The textiles and clothing sector is regarded as the engine of growth in many developing countries. Table I:2 reveals that its share in select developing Asian countries' total manufacturing value-added has been between 10 to 40 per cent. Its contribution to exports has also been very significant as can be seen from Table-I:3.

Details regarding exports of textiles, yarn, fabrics, etc. (SITC 65) and clothing SITC (84) of select Asian developing countries for last five years are shown in Tables I:4 & I:5. The following conclusions can be drawn from Table I:4 and I:5.

i) Asian countries enjoy greater comparative advantage in clothing compared to textile sector. This is clearly reflected in much higher share of clothing in total exports of these economies as compared to that of textiles.

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Table I:1

Relative Importance of Textile In World Exports

Exporting Country Ground	Total Exports (Billion of Dollars)		
	1980	1985	1991
World	2,000.9	1,933.4	3,438.6
Developed Market economies[a]	1,258.9	1,266.9	2,507.1
Economies in transition	155.2	172.2	91.0
Developing Countries	586.8	494.3	840.5
Latin America	107.8	109.2	136.6
Africa	94.9	59.3	70.1
West Asia	211.0	104.8	105.1
South and East Asia	141.6	178.5	440.7
China[b]	20.4	30.1	75.1
	Textiles		
	1980	1985	1991
World	96.0	103.2	236.0
World	(100)	(100)	(100)
Developed market economies[a]	61.3	52.7	48.0
Economies in transition	5.0	4.6	1.4
Developing Countries	33.7	42.7	50.6
Latin America	2.2	2.3	1.7
Africa	1.2	1.3	1.7
West Asia	1.5	2.8	2.9
South and East Asia	23.1	29.8	34.9
China[b]	4.8	5.6	9.2

Source: UNCTAD Secretariat Computations, based on data from the
Statistical Division\DESIPA

a: Including South Africa
b: Including China, Democratic Peoples Republic of Korea,
Monglolia and Viet Nam. China accounts for more than 90
per cent of amounts shown.

Table I:2

<u>Percentage Share of Textiles and Clothing in Value Added in
Manufactiring in Select Asian Countries</u>

Country	1970	1991
Bangladesh	47	38
China	--	14
Hong Kong	41	36
India	21	12
Indonesia	14	16
Korea Rep. of	17	11
Malaysia	3	6
Pakistan	38	n.a.
Philippines	8	11
Singapore	5	3
Sri Lanka	19	29
Thailand	13	24

.Source: World Development Report, 1994.

Table I:3

<u>Percentage Share of Textiles, Clothing in Merchandise Exports</u>
<u>of Select Asian Countries</u>

Country	1970	1980	1992
Bangladesh	40	52.4	72
China	29	22.9	30
Hong Kong	44	33.2	40
India	25	20.2	25
Indonesia	0	0.6	18
Korea Rep. of	36	29.4	20
Malaysia	1	2.4	6
Pakistan	47	37.4	69
Philippines	1	..	10
Singapore	5	4.1	5
Sri Lanka	0	10.5	52
Thailand	1	9.2	17

Source: 1) World Development Report, 1994.
        2) GATT (1994)   International Trade: Trends & Statistics.

Table I:4

**Exports of Textile Yarn, Fabrics, etc.(SITC 65)
of Select Asian Countries**

(Thousand US$)

Country	1989	1990	1991	1992	1993
Bangladesh	--313000	305000 (11.0)	315000 (18.9)	323676 (17.0)	325000 (14.3)
China	7214742 (13.7)	7219447 (11.6)	8014114 (11.5)	8680766 (10.2)	8699000 (9.5)
Hong Kong	7607887 (10.4)	8223908 (10.0)	9802879 (9.9)	11057075 (9.2)	11290088 (6.56)
India	---	2179901 (12.1)	2530625 (14.1)	2933394 (15.0)	n.a
Indonesia	859599 (3.9)	1264058 (4.9)	1792068 (6.1)	2869625 (8.4)	2656234 (7.2)
Korea Rep. of	5392004 (8.6)	6083773 (9.3)	7314302 (10.2)	8220487 (10.8)	8963241 (10.9)
Malaysia	298072 (1.4)	325254 (1.3)	381348 (1.3)	488832 (1.4)	n.a.
Pakistan	2019000 (42.5)	2662564 (47.8)	3199807 (49.1)	3622883 (55.6)	3506944 (51.0)
Philippines	n.a.	92739 (1.1)	133281 (1.0)	124092 (1.2)	123165 (1.08
Singapore	798048 (1.8)	903201 (1.7)	1089979 (1.9)	1085062 (1.7)	1231731 (1.7)
Sri Lanka	32389 (2.1)	24941 (1.3)	54056 (2.0)	82309 (3.3)	n.a.
Thailand	759555 (4.8)	806566 (4.0)	931395 (4.0)	1140863 (4.0)	1397266 (3.8)

Note: Figures in parentheses indicate percentage share of textiles
(SITC 65) in country's total exports.

Source: UN International Trade Statistics Yearbook, Various Issues.

Table I:5

Exports of Clothing & Accessories (SITC 84)
of Select Asian Countries

(Thousand US$)

Country	1989	1990	1991	1992	1993
Bangladesh	440000	585000 (21)	790000 (47.3)	1047215 (55)	1275000 (56.1)
China	8165406 (15.54)	9669191 (15.6)	12244691 (17.0)	16735161 (19.7)	18441000 (20.1)
Hong Kong	13993947 (19.1)	15406310 (18.7)	17959468 (18.4)	20070452 (16.8)	21013058 (12.2)
India		2532712 (14.1)	2531094 (14.1)	3105919 (9.5)	n.a.
Indonesia	1153244 (5.23)	1666017 (6.5)	2306192 (7.9)	3219413 (9.5)	3558912 (9.7)
Korea Rep. of	9242904 (14.8)	8019607 (12.3)	7533791 (10.5)	6867974 (9.0)	6229120 (7.6)
Malaysia	831378 (3.9)	1069987 (4.3)	1317100 (4.5)	1533248 (4.5)	1970000 (4.2)
Pakistan	722242 (15.2)	1027878 (18.5)	1923080 29.5)	1463417 (22.4)	1584558 (23.0)
Philippines	N.A.	681466 (8.3)	1878727 (21.2)	850832 (8.5)	868334 (7.6)
Singapore	1392722 (3.1)	1588029 (3.0)	1741204 (2.9)	1810432 (2.8)	1548782 (2.1)
Sri Lanka	466249 (30.5)	642849 (33.6)	1074198 (40.5)	1200667 (48.2)	n.a.
Thailand	1933740 (12.1)	2461855 (12.3)	2825347 (12.2)	3688566 (13.0)	4213396 (11.3)

Note: Figures in parentheses indicate percentage share of textiles (SITC 65) in country's total exports.

Source: UN International Trade Statistics Yearbook, Various Issues.

ii) Share of textiles in total exports has been increasing in the following countries.

     a) India

     b) Indonesia

     c) Rep. of Korea

     d) Sri Lanka

     e) Pakistan

iii) Share of textiles in total exports has been decreasing in the following countries

     a) Bangladesh

     b) China

     c) Thailand

     d) Hong-Kong

iv) Share of clothing has been increasing in the following countries.

     a) Bangladesh

     b) China

     c) Indonesia

     d) Malaysia

     e) Pakistan

     f) Sri Lanka

Share of clothing has been decreasing in the following countries.

     a) Hong Kong

     b) India

     c) Korea, Republic of

     d) Philippines

e) Singapore, and

f) Thailand

v) Exports of textiles and clothing together have been increasing in the following countries:

a) Bangladesh

b) India

c) Indonesia

d) Malaysia

e) Pakistan

f) Sri Lanka

In countries like Bangladesh, Pakistan and Sri Lanka, importance of this sector has increased so much so that this sector has started contributing about three fourths of exports in Bangladesh and Pakistan and more than half of exports in Sri Lanka.

vi) Share of textiles and clothing together in total exports has declined since 1989 in the following countries as can be seen from table-I:6.

a) Hong Kong

b) Rep. of Korea

c) Philippines

d) Singapore, and

e) Thailand

Table : I.6

Exports of Textiles and Clothing of Select Asian Countries

(Thousand US$)

Country	1989	1990	1991	1992	1993
Bangladesh	753000	990000 (32)	1105000 (66.2)	3070891 (67)	1600000 (70.4)
China	15380148 (29.3)	16888638 (27.2)	20258805 (28.2)	25415927 (29.9)	27140000 (29.6)
Hong Kong	21601834 (29.5)	23630218 (28.7)	27762347 (28.1)	31127527 (26.0)	32303146 (23.9)
India		4712613 (26.2)	5061716 (28.2)	6039313 --	--
Indonesia	2012843 (9.1)	2930075 (11.4)	4098260 (14.0)	6089038 (17.9)	6215146 (16.9)
Korea Rep. of	16434908 (26.3)	14103380 (21.7)	14848093 (20.6)	15088461 (19.8)	15192361 (18.5)
Malaysia	1129450 (5.3)	1395241 (5.5)	1698448 (5.8)	2022080 (5.9)	n.a.
Pakistan	2741242 (57.7	3690442 (66.2)	5122865 (78.6)	5086300 (69.0)	5091502 (74.0)
Philippines	n.a.	774205 (9.4)	2012008 (22.7)	974924 (9.9)	991499 (8.7)
Singapore	2190770 (4.9)	2491230 (4.7)	2831183 (4.8)	2895494 (4.6)	2780513 (3.8)
Sri Lanka	498638 (32.6)	667790 (34.9)	1128254 (42.5)	1282976 (51.5)	n.a.
Thailand	2693295 (16.9)	3268421 (16.3)	3756742 (16.3)	4829429 (17.0)	5610662 (15.0)

Note: Figures in parentheses indicate percentage share of textiles
         (SITC 65) in country's total exports.

Source: UN International Trade Statistics Yearbook, Various Issues.

One possible explanation is relocation of production from these countries due to increasing labour cost.

Wage Rates and Labour Productivity

Though developing countries enjoy the advantage of low wages, it is found that they are not necessarily the ones enjoying highest share in the textile trade in the world markets. As far as select developing Asian countries are concerned, these countries can be put into two categories: (i) countries in East and South-East Asia and (ii) countries in South Asia. Table I:7 reveals that the wage rates in textiles and clothing industry in the first category countries are higher than in the countries of second category. Labour productivity is also much higher in the former than in the latter. In the textile segment, there is a fall in the labour productivity in South Asia which is accompanied by an increase in wage per worker in contrast to the East and South-East Asian region where an increase in the former is associated with an increase in the latter. In the clothing segment, however, the Indian sub-continent reflects increase in labour productivity accompanied by increase in wage per worker. A similar trend is observed in the East and South-East Asian region.

Details of wage rate/labour productivity and value added in textiles and clothing industry in select Asian countries are shown in Table I:8.

Table 1:7

Labour Producitivity and wage earning per worker as a
percentage of the North American level (in constant
1985 dollars) in the textiles and clothing industry

	Indian Subcontinent						East and South-East Asia					
	Labour productivity			Wage per Worker			Labour productivity			Wage per Worker		
	1970	1980	1990	1970	1980	1990	1970	1980	1990	1970	1980	1990
Textiles Wearing	6.06	5.94	9.64	5.65	5.71	6.86	10.95	17.57	21.91	7.72	13.16	19.72
Apparel	5.22	5.19	9.1	4.08	5.47	5.71	15.45	20.74	26.57	10.37	20.93	27.82

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Table I:8

Wage Rates, Unit Labour Cost and Value Added in Textiles and Clothing Industries

Country	Unit Labour Cost 1980	1990	Value Added 1980	1990	Wage Rate 1980	1990
Textiles (ISIC 321)						
Bangladesh	51.28	47.11	217.00	188.00	0.44	0.22
India	48.63	56.37	2633.00	1210.00	0.9	0.59
Pakistan	28.26	22.22	539.00	526.00	0	0.76
Srilanka	35.65	25.19	27.00	31.00	0.31	0.18
Indonesia	29.28	19.63	419.00	611.00	0.53	0.30
Malaysia	30	28.36	179.00	217.00	1.44	1.73
Thailand	40.75	29.19	1233.00	1065.00	0	0.99
Hong Kong	40.86	59.39	1114.00	830.00	4.06	4.62
Korea Rep.	28.5	32.05	2649.00	4168.00	2.25	4.54
Singapore	45.38	42.38	74.00	54.00	3.46	6.72
Japan	41.63	18.18	15436.00	24882	8.49	17.47
Clothing (ISIC 322)						
Bangladesh	32.5	29.71	0.30	57.00	0.25	0.12
India	35.1	22.04	62.00	116.00	0.53	0.34
Pakistan	19.29	21.17	26.00	44.00	0	0.91
Srilanka	40.31	24.64	12.00	64.00	0.33	0.19
Indonesia	55.56	32.32	14.00	123.00	0.51	0.31
Malaysia	46.51	45.78	40.00	205.00	1.14	1.53
Thailand	58.6	40.46	437.00	366.00	0	0.93
Hong Kong	51.95	70.29	1919.00	1131.00	4.22	3.75
Korea Rep.	32.45	35.06	905.00	2075.00	1.74	3.72
Singapore	56.65	60.17	124.00	221.00	2.62	4.84

Source: UN, Industrial Statistics Yearbook, Various years

Notes: (a) percent
(b) $ million at constant prices
(c) $ million per thousand of employees

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Though textile and weaving industry has been considered traditionally as a relatively more labour intensive manufacturing industry wherein the comparative advantage is enjoyed by developing countries because of the cheap labour, these countries are not necessarily the leading exporters of textiles and clothing products. Of the 13 countries which are studied in this paper, only Hong Kong, South Korea, Chinese Taipei, China, Pakistan, India and Indonesia appear in the list of leading exporters of textiles in 1993. (Table I:9) Similarly, Hong Kong, China, Korea, Thailand, Chinese Taipei, India and Indonesia appear in the list of leading exporters of clothing in 1993. (Table I:10).

Moreover, a comparison of these countries' shares in world exports with their shares in their respective economy's merchandise exports reveals that in general, developed countries' share in world exports, is greater than share in their respective total merchandise exports. In other words, though textiles and clothing are not quite significant in their total exports, they are nevertheless major players in the world textiles and clothing trade. The situation in the case of developing countries is just the reverse.

This labour-intensive industry has been increasingly becoming a capital intensive one. As a result, developed countries as well as some NIEs have been able to maintain or improve competitiveness by offsetting the wage increases through technological innovation and more automation.

Table I:9

Leading Exporters of Clothing, 1993
(Billion dollars and percentage)

Exporters	Value 1993	Share in World Exports 1980	Share in World Exports 1993	Average annual Change 1980-93	Average annual Change 1992	Average annual Change 1993	Share of Clothing in economy's merchandise 1980	Share of Clothing in economy's merchandise 1993
1. Hong Kong	21.0	-	-	12	12	5	24.5	15.5
Domestic exports	9.3	11.5	7.0	5	2	-7	34.1	32.2
re-export	11.7	-	-	32	23	16	4.7	11
2 China	18.4	4.0	13.9	21	36	10	8.9	20.1
3. Italy	11.8	11.3	8.9	8	4	-	5.9	6.6
4. Germany	6.7	7.1	5.1	6	12	-	1.5	1.8
5. Korea Rep. of	6.2	7.3	4.6	6	-9	-9	16.8	7.5
6. United States	5.0	3.1	3.7	11	27	18	0.6	1.1
7. France	4.6	5.7	3.4	5	10	-	2.0	2.2
8. Turkey	4.3	o.3	3.3	31	20	4	4.5	28.3
9. Thailand	4.2	0.7	3.1	24	3	11	4.1	11.4
10. Portugal	4.0	1.6	3.1	17	12	-	13.6	21.9
11. Chinese Taipei	3.7	6.0	2.8	3	-8	-9	12.3	4.4
12. India	3.6	1.5	2.7	15	23	15	6.9	16.5
13. Indonesia	3.5	0.2	2.6	32	40	11	0.4	9.5
14. United Kingdom	3.4	4.6	2.6	5	8	-	1.7	1.9
15. Netherlands	2.5	2.2	1.9	8	10	-	1.2	1.8
Above 15	91.2	66.9	68.7	-	-	-	-	-

Source: GATT, International Trade: Trends and Statistics, 1994

Notes: a Includes trade through processing z ones
      b 1992 instead of 1993
      c Retained imports are defined as imports less re-exports
      d Imports f.o.b.

Table I:10

Leading Exporters of Clothing, 1993
(Billion dollars and percentage)

Exporters	Value 1993	Share in World Exports 1980	Share in World Exports 1993	Average annual Change 1980-93	Average annual Change 1992	Average annual Change 1993	Share of Clothing in economy's merchandise 1980	Share of Clothing in economy's merchandise 1993
A Exporters								
1. Germany	11.9	11.4	10.3	5	5	-	3.3	8.1
2. Hong Kong	11.2	-	-	12	12	2	8.7	8.3
3 domestic exports	2.1	1.7	1.8	7	-2	-6	6.6	7.3
4. re-exports	9.1	-	-	20	17	4	13.0	8.6
5. Italy	10.0	7.6	8.7	7	8	-	5.3	5.6
6. Korea Rep. of	9.0	4.0	7.8	11	12	9	12.6	10.9
7. China	8.7	4.6	7.5	10	7	1	14	9.5
8. Chinese Taipei	8.2	3.2	7.1	12	3	8	3.0	9.7
9. Japan	6.7	9.3	5.8	2	8	-5	3.9	1.9
10. Belgium-Luxembourg	6.5	6.5	5.5	5	2	-	5.5	5.2
11. United States	6.0	6.8	5.2	4	5	2	1.7	1.3
12. France	5.4	6.2	4.7	4	8	-	3.0	2.6
13. United Kingdom	4.1	5.7	3.5	2	4	-	2.8	2.3
14. Pakistan	3.5	1.6	3.0	11	12	-2	33.5	52.4
15. India	2.9	2.1	2.5	8	16	-	13.3	15
Netherlands	2.6	4.1	2.3	1	3	-	3.1	1.9
Indonesia	2.6	0.1	2.3	37	62	-7	0.2	7.2
Above 15	90	74.9	78.1	-	-	-	-	-

Source: GATT, International Trade: Trends and Statistics, 1994

Notes: a Includes trade through processing z ones
     b 1992 instead of 1993
     c Retained imports are defined as imports less re-exports
     d Imports f.o.b

I :3 <u>Importance of European Union, United States and Canada as Export Markets for Developing Asian Countries</u>

European Union, United States and Canada taken together are of considerable importance for developing Asian countries as markets for their textiles and clothing exports. Of the two categories, viz. - textiles and clothing, level of exports of clothings is higher than that of textiles. To appreciate the importance of United States, European Union and Canada as export markets for developing Asian countries, following two exercises have been attempted in this section;

(i) Data on imports of textiles and clothing products into European Union, United States and Canada in absolute value from developing countries for last five years or more have been compiled and shares of these countries in EU, US and Canada's imports have been calculated. Depending upon the increasing and decreasing share of these developing Asian countries, in imports of US, EU and Canada's textiles and clothing products, countries with increasing and decreasing importance as exporters and importers, have been identified.

(ii) Data on total exports of textiles (SITC 65) and clothings (SITC 84) of Asian developing countries and imports of EU, US and Canada of both these items from these countries for 1992 have been complied. Percentage shares of EU, US, and Canada in exports of textile and clothing of these Asian developing countries have been calculated.

Details of imports of textiles (SITC 65) into EU, USA and Canada furnished in Table I:11, I:12 and I:13 reveal that there is one thing in common as far as imports of textiles in these

three markets from developing Asian countries are concerned. Share of China, India, Pakistan and Indonesia in US, EU and Canada's imports is increasing and that of Hong Kong and Philippines is declining. The share of Korea though fluctuating is more or less stagnant in EU, is declining in Canada and has declined in 1993, after experiencing an upward trend in the US market. Share of Thailand, Singapore, Sri Lanka and Bangladesh is quite insignificant in all these markets.

Data furnished in Table I:14, I:15 and I:16 reveal that compared to textiles, share of these countries in the clothing imports of EU, US and Canada is much higher. The same countries which performed relatively better in textiles are also experiencing increasing share in the imports of clothing of US, EU and Canada. These are China, India, Pakistan and Indonesia. In addition, shares of Malaysia, Bangladesh and Thailand are also increasing while those of Hong Kong and Korea have come down drastically. Share of Singapore has also come down.

On the basis of data furnished in six tables, it can be concluded that Hong Kong, Korea and Singapore are vacating the markets while China, India, Pakistan and Indonesia are assuming increasing importance as exporters of textiles and clothing to these markets.

Table I:11

Imports of Textile Products into EC-12 from Select
Developing Countries during 1986 to 1992

SITC : 65   MILLION ECU

COUNTRY	1986	1987	1988	1989	1990	1991	1992
BANGLADESH	-	-	-	-	-	-	-
CHINA	588	632	673	804	797	857	842
	(6.9)	(6.9)	(6.9)	(7.5)	(7.0)	(7.2)	(7.3)
HONG KONG	155	158	159	152	148	139	106
	(1.8)	(1.7)	(1.6)	(1.4)	(1.3)	(1.2)	(1.6)
INDIA	388	549	627	657	728	831	885
	(4.6)	(6.0)	(6.5)	(6.1)	(6.4)	(7.0)	(7.6)
INDONESIA	69	108	145	200	307	394	474
	(0.8)	(1.2)	(1.5)	(1.9)	(2.7)	(3.3)	(4.1)
MALAYSIA	42	38	46	54	52	68	68
	(0.5)	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)
PAKISTAN	295	357	387	417	504	558	551
	(3.5)	(3.9)	(4.0)	(3.9)	(4.4)	(4.7)	(4.7)
PHILIPPINES	6	9	15	20	23	32	30
	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
SINGAPORE	6	6	7	9	9	13	14
	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
SOUTH KOREA	274	272	308	357	360	392	348
	(3.2)	(3.0)	(3.2)	(3.3)	(3.2)	(3.3)	(3.0)
SRI LANKA							
TAIWAN	243	236	274	352	367	333	271
	(2.9)	(2.6)	(2.8)	(3.3)	(3.2)	(2.8)	(2.3)
THAILAND	166	166	202	193	237	243	229
	(2.0)	(1.8)	(2.1)	(1.8)	(2.1)	(2.0)	(2.0)
TOTAL (FROM ALL COUNTRIES)	8479	9168	9699	10730	11421	11887	11610
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	

Note : Figures in brackets denote % to total

Source : COMITEXTIL Bulletin (93/3)

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Table I:12

<u>Import of Textiles Products into US (SITC 65)</u>
<u>from Select Developing Countries</u>

(000 US$)

Country	1989	1990	1991	1992	1993
Bangladesh	45500 (0.71)	57889 (0.85)	39639 (0.54)	43337 (0.53)	47430 (0.53)
China	653378 (10.14)	693618 (10.27)	783418 (10.66)	981868 (11.95)	1073812 (12.12)
Hong Kong	199510 (3.1)	214316 (3.17)	239024 (3.25)	254960 (3.10)	193003 (2.18)
India	315339 (4.9)	325890 (4.82)	388937 (5.29)	472431 (5.75)	502856 (5.68)
Indonesia	71082 (1.1)	70114 (1.04)	89582 (1.22)	116626 (1.42)	143970 (1.62)
Korea Rep.	466859 (4.25)	512872 (7.6)	579716 (7.9)	682599 (8.31)	620253 (7.11)
Malaysia	32784 (0.51)	36368 (0.05)	50502 (0.69)	65298 (0.80)	71024 (0.80)
Pakistan	203510 (3.16)	235190 (3.48)	272261 (3.7)	316784 (3.86)	310702 (3.51)
Philippines	46838 (0.73)	58187 (0.86)	44100 (0.60)	46662 (0.57)	52311 (0.59)
Singapore	9377 (0.14)	9251 (0.14)	10472 (0.01)	8837 (0.11)	8434 (0.09
Sri Lanka	10431 (0.16)	12662 (0.19)	19939 (0.03)	17403 (0.21)	28873 (0.33)
Thailand	129368 (2.00)	127212 (1.88)	148757 (2.02)	220092 (1.21)	219306 (2.48)
Total	6441097	6750825	7347297	8214888	8854889

Source: UN Commodity Trade Statistics, D Series, Various Issues.

Note: Figures in brackets indicate the percentage shares
of respective countries in US total textile products imports

Table I:13

Imports of Textile Products (SITC 65) into Canada
from Select Developing Countries

				(000 US$)	
Country	1989	1990	1991	1992	1993
Bangladesh	3953	4910	3515	3284	3715
	(0.17)	(0.21)	(0.14)	(0.13)	(0.13)
China	103724	95936	117861	120866	141038
	(4.40)	(4.13)	(4.86)	(4.64)	(5.19)
Hong Kong	64134	55165	55386	58757	58668
	(2.72)	(2.37)	(2.28)	(2.26)	(2.16)
India	36717	30387	40272	42391	49936
	(1.56)	(1.30)	(1.66)	(1.63)	(1.84)
Indonesia	12710	14131	19574	29696	29761
	(0.54)	(0.61)	(0.80)	(1.14)	(1.09)
Korea	162424	137780	142085	118940	119852
	(6.89)	(5.92)	(5.86)	(4.57)	(4.41)
Malaysia	9891	10084	6589	10907	9130
	(0.42)	(0.43)	(0.27)	(0.42)	(0.34)
Pakistan	34752	38695	57490	61369	95208
	(1.47)	(1.66)	(2.37)	(1.59)	(3.50)
Philippines	2992	1973	2453	2145	2268
	(0.13)	(0.08)	(0.10)	(0.08)	(0.08)
Singapore	5505	6623	2933	1963	1570
	(0.23)	(0.28)	(0.12)	(0.07)	0.06)
Srilanka	735	2669	2855	1219	1199
	(0.03)	(0.11)	(0.12)	(0.05)	(0.04)
Thailand	14303	17813	21628	20021	23995
	(0.60)	(0.77)	(0.89)	(0.77)	(0.88)
Total	2357774	2325160	2424770	2604890	2717451

Source: UN Commodity Trade Statistics, D Series, Various Issues.

Note: Figures in brakets indicate percentage share of
    respective country in Canada's imports of
    Textile Products.

Table I:14

Imports of Clothing Products into EC-12 from Select Developing Countries during 1986 to 1992

SITC : 65   MILLION ECU

COUNTRY	1986	1987	1988	1989	1990	1991	1992
BANGLADESH	-	-	-	-	-	-	-
CHINA	601 (5.0)	928 (6.4)	1178 (7.4)	1412 (7.9)	2055 (10.0)	3398 (13.3)	3467 (13.1)
HONG KONG	2032 (16.9)	2222 (15.3)	2413 (15.1)	2440 (13.6)	2395 (11.7)	2724 (10.7)	2535 (9.6)
INDIA	465 (3.9)	616 (4.2)	662 (4.1)	738 (4.1)	1113 (5.4)	1104 (4.3)	1208 (4.6)
INDONESIA	57 (0.5)	112 (0.8)	200 (1.3)	321 (1.8)	448 (2.2)	742 (2.9)	909 (3.4)
MALAYSIA	90 (0.8)	160 (1.1)	197 (1.2)	205 (1.1)	387 (1.9)	533 (2.1)	583 (2.2)
PAKISTAN	166 (1.5)	213 (1.5)	248 (1.6)	198 (1.1)	409 (2.0)	538 (2.1)	538 (2.0)
PHILIPPINES	140 (1.2)	209 (1.4)	240 (1.5)	262 (1.5)	264 (1.3)	354 (1.4)	324 (1.2)
SINGAPORE	67 (0.6)	143 (1.0)	175 (1.1)	178 (1.0)	175 (0.9)	248 (1.0)	213 (0.8)
SOUTH KOREA	1173 (9.8)	1445 (10.0)	1503 (9.4)	952 (5.3)	995 (4.8)	1264 (4.9)	952 (3.6)
SRI LANKA							
TAIWAN	492 (4.1)	580 (4.0)	356 (2.2)	464 (2.6)	442 (2.2)	619 (2.4)	516 (1.9)
TOTAL(INCL. OTHER COUNTRIES)	11926 (100.0)	14506 (100.0)	15958 (100.0)	17985 (100.0)	20551 (100.0)	25553 (100.0)	26508 (100.0)

Note : Figures in brackets denote % to total.

Source : COMITEXTIL Bulletin(93/3)

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Table I:15

Imports of Clothing(SITC 84) into US from Select Developing Countries

(000'US$)

Country	1989	1990	1991	1992	1993
Bangladesh	359124 (1.38)	471322 (1.75)	479907 (1.73)	763160 (2.31)	7973326 (2.17)
China	3115894 (11.97)	3698837 (13.71)	4090260 (14.77)	5434546 (16.49)	6567885 (17.85)
Hong Kong	4207718 (16.16)	4225270 (15.66)	4282311 (15.46)	4603654 (13.97)	4258773 (11.57)
India	649448 (2.5)	709238 (2.63)	728852 (2.63)	1021642 (3.1)	1212910 (3.3)
Indonesia	621845 (2.4)	683303 (2.53)	633471 (2.29)	950644 (2.9)	1132351 (3.1)
Korea Rep.	3777376 (14.51)	3409208 (12.63)	2903996 (10.48)	2798415 (8.5)	2623021 (7.12)
Malaysia	620318 (2.38)	649016 (2.4)	744295 (2.69)	940364 (2.85)	1020662 (2.77)
Pakistan	226993 (0.87)	253491 (0.94)	263117 (0.95)	433011 (1.31)	473328 (1.28)
Philippines	942953 (3.62)	1143785 (4.24)	1116451 (4.03)	1309926 (3.97)	1404249 (3.81)
Singapore	60158 (2.54)	656220 (2.43)	636554 (2.3)	676389 (2.05)	642016 (1.74)
Sri Lanka	391011 (1.5)	465357 (1.72)	537298 (1.94)	715419 (2.17)	891407 (2.42)
Thailand	455359 (1.75)	513180 (1.9)	600697 (2.17)	841443 (2.55)	979835 (2.66)
World Total	26625982	26977361	27696150	3296089	36804521

Note: Figures in bracket indicate percentage share respective countries in Canada imports.

Source:- U.N. Commodity Trade Statistics, & Series of various years.

Table I:16

Imports of clothing (SITC 84) into Canada from
Select Developing Countries

000'US$

Country	1989	1990	1991	1992	1993
Bangladesh	10343 (0.47)	23271 (0.97)	20762 (0.94)	27651 (1.13)	38488 (1.47)
China	227311 (10.43)	299116 (12.52)	362026 (16.4)	473586 (19.46)	510479 (9.53)
Hong Kong	402095 (18.44)	390135 (16.34)	360017 (16.3)	415512 (17.07)	390022 (14.92)
India	64966 (2.98)	79992 (3.35)	78552 (3.56)	92578 (3.80)	101856 (3.90)
Indonesia	31412 (1.44)	42009 (1.76)	35450 (1.61)	454228 (1.86)	80188 (3.07)
Korea	368551 (16.90)	364159 (15.25)	268326 (12.15)	229010 (9.41)	208898 (8.0)
Malaysia	36899 (1.69)	55014 (2.30)	55592 (2.52)	60574 (2.49)	85458 (3.27)
Pakistan	24966 (1.14)	36176 (1.51)	34509 (1.56)	46635 (1.91)	50028 (1.91)
Philippines	44314 (2.03)	52266 (2.19)	51583 (2.34)	57199 (2.35)	60194 (2.30)
Singapore	22309 (1.02)	28353 (1.18)	23376 (1.06)	18568 (0.76)	19284 (0.74)
Sri Lanka	13790 (0.63	21963 (0.92	22302 (1.01)	18713 (0.77)	18204 (0.70)
Thailand	46020 (2.11)	53907 (2.26)	45569 (2.06)	52119 (2.14)	53521 (2.05)
Total	2180414	2388088	2207433	2434047	2613312

Note: Figures in bracket indicate percentage share
of respective countries in Canada imports.

Source:- U.N. Commodity Trade Statistics &
Service of various issues.

Of the three markets - European Union, United States and Canada - Canada is the least important export market for textiles and clothing for Asian developing countries as can be seen from Tables 1:17 to 1:22. The importance of United States and European Union varies for these countries. For India, the importance of European Union as an export market is the maximum, with 22% of its exports of textiles and 32% of its exports of clothing going to European Union. Next in importance is United States with a share 14% in textiles and 30% in clothing.

The European Union is also an important export market for clothing for Hong Kong, Malaysia, Pakistan, Indonesia, Philippines and Thailand.

The importance of USA as an export market is overwhelmingly high for Bangladesh, Malaysia and Sri Lanka with more than 50 per cent of exports going to the US. For the rest of the countries as well, US is an important export market for clothing as more than 20 per cent of their exports are absorbed by the US.

Table I:17

<u>Importance of EU as an Export Market for Textiles</u>
<u>for Select Developing Countries</u>

(US$ Mn)
1992

Country	Total Exports (FOB) of Textile of	EU's imports CIF of Textiles from	% Share of EU in Exports of Textiles of
Bangladesh	3237	--	--
China	8681	632.5	7.3
Hong Kong	11057	78.8	0.71
India	2933	658	22.42
Indonesia	2870	352.3	12.3
Korea Rep.	8220	258.7	3.15
Malaysia	489	50.5	10.3
Pakistan	3623	409.5	11.3
Philippines	1241	23.8	1.9
Singapore	1085	10.4	0.96
Sri Lanka	82	--	--
.Thailand	1141	183.9	16.1

Source: 1. UN Commodity Trade Statistics, D Series, 1993.
2. UN International Trade Statistics Yearbook, 1993.

Note: Percent share has been calculated by reducing imports by 10 per cent to adjust for freight and insurance.

Table I:18

Importance of USA as an Export Market for Textiles for Select Developing Countries

1992

(THOUSAND US$)

Country	Total Exports of Textile(FOB) of	USA's imports of Textiles (CIF) Textiles from	% Share of US in Exports of Textiles of
Bangladesh	323676	39003.3	12
China	8680766	883681.2	10
Hong Kong	11057075	229464	21
India	2933394	425187.9	14
Indonesia	2869625	115459.4	04
Korea Rep.	8220487	614339.1	07
Malaysia	488832	58768.2	12
Pakistan	3622883	285105.6	08
Philippines	124092	41995.8	34
Singapore	1085062	7953.3	07
Sri Lanka	82309	15662.7	19
Thailand	1140863	198083	17

Source: 1. UN Commodity Trade Statistics, D Series, 1993.
2. UN International Trade Statistics Yearbook, 1993.

Note: Percent share has been calculated by reducing imports by 10 per cent to adjust for freight and insurance.

Table I:19

<u>Importance of Canada as an Export Market for Textiles</u>
<u>Select Developing Countriess</u>

1992

(000 US$)

Country	Total Exports of Textile(FOB) of	Canada's imports of Textiles (CIF) Textiles from	% Share of Canada in Exports of Textiles of
Bangladesh	323676	2955.6	0.91
China	8680766	108779.4	1.25
Hong Kong	11057075	52917.3	0.48
India	2933394	38151.9	1.30
Indonesia	2869625	26726.4	0.93
Korea Rep.	8220487	107046	1.30
Malaysia	488832	9816.3	2.0
Pakistan	3622883	55232	1.52
Philippines	124092	1930.5	1.55
Singapore	1085062	1766.7	0.16
Sri Lanka	82309	1097	1.33
Thailand	1140863	18019	1.58

Source: 1. UN Commodity Trade Statistics, D Series, 1993.
2. UN International Trade Statistics Yearbook, 1993.

Note: Percent share has been calculated by reducing imports by 10 per cent to adjust for freight and insurance.

Table I:20

Importance of USA as an Export Market for Clothing
for Select Developing Countries

(Thousand US$)

Country	Total Exports (FOB) of Clothing of	USA's imports CIF of Clothing from	% Share of US in Exports of Clothing of
Bangladesh	1047215	686844	65
China	16735161	4891091.4	29
Hong Kong	20070452	4143288.6	20
India	31105919	919477.8	30
Indonesia	3219413	855579.6	26
Korea Rep.	6867974	2518573.5	36
Malaysia	1533248	846327.6	55
Pakistan	1463417	389709.9	26
Philippines	850832	1178933.4	--
Singapore	1810432	608747.1	33
Sri Lanka	1200667	643877.1	53
Thailand	3688566	757298.7	20

Source: 1. UN Commodity Trade Statistics, D Series, 1993.
        2. UN International Trade Statistics Yearbook, 1993.

Note: Percent share has been calculated by reducing imports by 10 per cent to adjust for freight and insurance.

Table I:21

Importance of EU as an Export Market for Clothing for
Select Developing Countries

(US$ mn)

1992

Country	Total Exports (FOB) of Clothing of	EU's imports CIF of Clothing from	% Share of EU in Exports of Clothing of
Bangladesh	1047	--	--
China	16735	2576.9	15.4
Hong Kong	20070	1884.13	9.4
India	3106	997.6	32.12
Indonesia	3219	657.7	20.5
Korea Rep.	6868	707.6	10.3
Malaysia	1533	520.1	33.9
Pakistan	1463	400.0	27.3
Philippines	851	240.8	28.3
Singapore	1410	158.3	11.2
Sri Lanka	1201	--	--
Thailand	3688	540.4	14.6

Source: 1. UN Commodity Trade Statistics, D Series, 1993.
        2. UN International Trade Statistics Yearbook, 1993.

Note: Percent share has been calculated by reducing imports by 10 per
cent to adjust for freight and insurance.

Table I:22

Importance of Canada as an Export Market for Clothing for Select Developing Countries

1992

(000 US$)

Country	Total Exports (FOB) of Clothing of	Canada's imports CIF of Clothing from	% Share of Canada in Exports of Clothing of
Bangladesh	1047215	24886	2.37
China	16735161	426227.4	2.55
Hong Kong	20070452	373960.8	1.86
India	3105919	83320.2	2.68
Indonesia	3219413	40885.2	1.27
Korea Rep.	6867974	206109	3.00
Malaysia	1533248	54516.6	3.55
Pakistan	1463417	41971.5	2.87
Philippines	850832	51479	6.00
Singapore	1410432	16711	1.18
Sri Lanka	1200667	16841.7	1.40
Thailand	3688566	46907	1.27

Source: 1. UN Commodity Trade Statistics, D Series, 1993.
2. UN International Trade Statistics Yearbook, 1993.

Note: Percent share has been calculated by reducing imports by 10 per cent to adjust for freight and insurance.

IMPACT OF MFA ABOLITION ON EXPORTS FROM DEVELOPING COUNTRIES WITH SPECIAL FOCUS ON ASIAN EXPORTERS

II:1 Effects of the Uruguay Round

The conceptual and emperical problems associated with the computation of the UR impact are very formidable. There is no standard methodology to measure the impact of the liberalisation. Much more problemetical is the issue how fast or even at all, the negotiated outcome will be really faithfully implemented by the countries. There are reasons to believe that at least in the .case of textiles and clothing, specific country responses can be tardy and in some cases anti-liberalisation through introduction of new types of non-tariff barriers.

However, before analysing the possible effects, a very concise summary of the results are in order.

1. The Uruguay Round reduced the average tariff rates in the developed countries on import of manufactures from the developing countries, without substantially solving the tariff escalation problem. The relevant data are (Abreu 1995)

Table II.1

Tariff cuts Under Uruguay Round

Product Category	Pre UR (Av. tariff rate)	Post UR (Av. tariff rate)
Raw Materials	2.1	0.8
Semi-manufactures	5.4	2.8
Finished Products	9.1	6.2

2. Textiles and Clothing is one sector where the relative tariff cuts have been lower than the average. The developed countries have agreed to lower their average tariff on import of industrial products from all sources by 6.3 per cent to 3.8 per cent, a reduction of 40 per cent. However, the reduction in the case of textiles and clothing is estimated to be only 22 per cent. The relevant data are (GATT 1994)

Table II.2

Tariff Reduction for Textiles and Clothing

	Pre UR	Post UR	Per cent Cut
Import from all sources	15.5	12.1	22
Import from developing economies	14.6	11.3	23

Note: Tariff averages weighted by imports from respective sources.

3. Further detailed analysis of the tariff profile of developed countries reveal that tariff above 15 per cent will continue to apply to 27 per cent of import of textiles and clothing.

The most detailed exercise on the effect of the Uruguay Round has been carried out by the GATT (GATT 1994). Based on an econometric model, the estimates have been made under three different assumptions. The first version of model assumes perfect competition and constant returns to scale. In the second version, external scale economies are introduced while in the third, monopolistic competition replaced the assumption of perfect competition.

The results are in Table II.3.

Table II.3

Estimated Increase in Exports in Volume Terms

	Version 1	Version 2	Version 3
Textiles	17.5	18.0	72.5
Clothing	69.4	87.1	105.6

The abolition of the MFA can have the following type of consequences:

The quota rent associated with MFA will disappear. Under certain assumptions, this will lead to price reduction and consequentially increase in import demand.

- The price reduction of items originating in the quota countries will lead to a relative price advantage in their favour, assuming there will not be any response from the non-quota suppliers. This can result in substitution of sources.

- The trade-liberalisation due to the UR is expected to result in an increase of global income. To the extent, the income elasticity demand for textiles & clothing is positive, there will be an increase in demand, including import demand.

- The freeing of the quota items from the pre-determined control regime may result in higher secular growth rates.

Quota Rent & Related Issues

Discussion on MFA abolition has primarily focused on the quota rent. It is generally postulated that the exporting countries administering the quota regime can appropriate for them the quota rent which is the result of the restricted supply in the importing countries.

The logic behind the quota rent concept can be seen from Figure 1.

Figure - 1

39
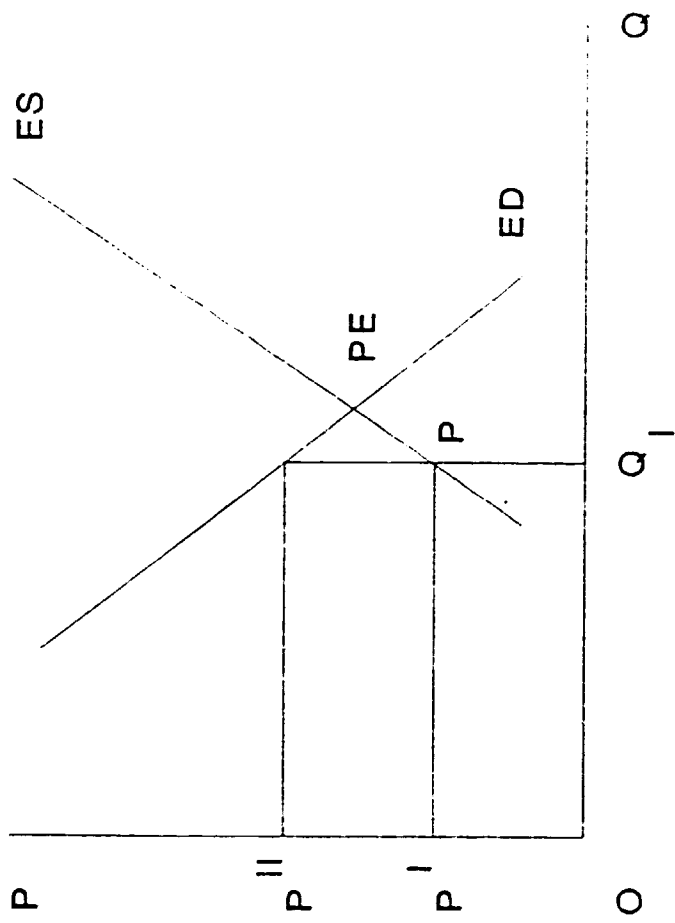
The importing country's Excess Demand curve is shown as ED while the Excess Supply curve of the Rest of the World is shown as ES. The equilibrium price, in the absence of any tariff or quota intervention will be PE. Let's assume that a quota of Q_1 is imposed. The exporters will be willing to supply OQ_1 quantity at OP' price, whereas the buyers will be willing to pay OP". The difference between OP" and OP' is the premium which will be attached to the import or export licence, depending on the type of administrative controls. Since under MFA, the quotas are administered by the exporting countries, the quota premium will get localised there subject to some assumptions. If the licences are sold or auctioned, the premium will accrue to the governments. If these are allocated to the exporting firms, based on whatever administrative criteria, the exporting firms will be the beneficiaries.

For analysing the impact of quota restrictions, usually the concept of tariff equivalents are used. The concept can be explained with reference to Figure 1 above. The difference between OP" and OP', let's say is equal to T. If a specific tariff of T is imposed, identical import of OQ will be made, as the ES curve will shift upward to intersect the ED curve at that point. This is the logical basis for the equivalence of tariffs and quotas (Kala Krishna)[1]. This explanation is, however, crucially dependent upon the assumption of perfect competition prevailing in all the relevant markets.

While there are some studies which reveal the possibilities of loss on an aggregative basis for the developing countries as a whole from the MFA, most evidence show that many developing

countries did enjoy substantial quota rents. Results of one such empirical exercise are shown in Table - II.4.

Table - II.4

Quota Rents in Textiles and Clothing

($ million)

Country/Region	Textiles	Clothing
New Zealand	13	2
Korea	119	555
Indonesia	97	512
Malaysia	65	330
Philippines	7	363
Singapore	7	365
Thailand	.53	396
China	378	2223
Hong Kong	48	1249
Taiwan	95	515
Brazil	65	43
Mexico	41	181
Rest of L. America	46	619
M. East and N. Africa	84	390
E. Europe and Former S.U.	87	430
South Asia	566	1375

Source: Harrison, et al (1995)

There are, however, both conceptual and empirical problems in using either the quota rent or tariff equivalent (Anderson & Neary). The basic issue with respect to quota rent are two. First, there is no agreement among the economists as to whether

such quota rent really accrues to the exporting countries under MFA type of arrangements. Second, there are also doubts as to how these quota rents can get split between the two parties, even if such rents do exist.

So far as the first issue is concerned, its logical process can be seen from Figure 2.

In the absence of any governmental intervention, the world equilibrium price and volume are PE and QE respectively. A quota level of Q will raise the price to P" and reduce the quantity traded to Q'. Assuming that licences are allocated to the exporting firms, the increase in price realisation will accrue to them which, however, has to be adjusted against the loss resulting from the fall in volume. There is no certainly that the former will always be greater than the latter. The above analysis shows the possibility of net loss to the exporting countries. In a more realistic MFA type scenario, where one part of the global market is quota-bound while the other is not, the estimation of loss will have to consider the possibility of a price reduction in the quota-unbound markets due to the transfer of larger quantities of supplies as a result of the inability to sell more in the quota bound markets.

It is advisable to regard these estimates as broad order of magnitudes because of the sensitivity of the results to assumptions and data bases. However, one point appears to be clear. The quota premiums are expected to be high for those countries which export a substantial part of their textiles and

Figure - 2
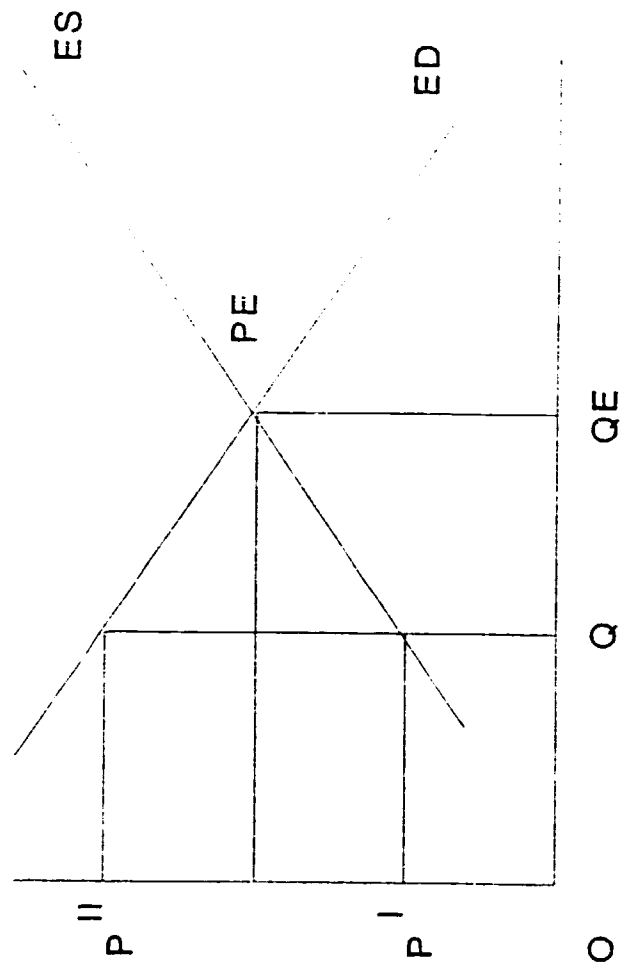
clothing to the quota-restricted countries. Data on the share of exports to the MFA countries for some exporting countries is in Table -II.5.

The loss of these premiums will have to be offset in terms of higher volume of exports consequent to fall in prices. Whether this will-happen will depend on the value of the elasticity of demand. Since this elasticity refers to the excess demand, there are reasons to believe that this will be sufficiently high (GATT 1994).

Table II.5

Shares of Textiles and Apparel Exports to
MFA Quota and Non-Quota Markets, 1983
(Per cent)

Country	Quota	Non-Quota
China	52	48
Hong Kong[1]	93	7
India	87	13
Indonesia -	78	22
Pakistan	47	53
Philippines	92	8
Rep. of Korea	71	29
Sri Lanka	98	2
Thailand[2]	53	47

Notes: [1] 1986

[2] 1987

Source: Hamilton(Ed) Textiles Trade & The Developing Countries.

When an export firm is faced with quota restrictions in a specific market, it has basically two strategic options. First, depending on the market power it enjoys, it can raise the export price to appropriate the scarcity rent generated by the quota imposition. This is the classical quota rent as discussed above. Second, since quotas are administered in terms of quantity, it can upgrade the quality, enter a different market segment with a higher unit price and unit profit realisation.

One study (Erzan, Goto, Holmes) which, however, did not attempt to decompose the effect into these two components, found that the increase in unit values was considerably greater in the case of shipments under binding quotas compared to those falling under non-binding quotas. Binding quotas were defined as those categories which had utilisation rates of 90 per cent or above during the observation period. It was reported that during 1981-87, the average annual growth rate of unit value of the bound category was 1.9 per cent, as against 0.8 per cent growth rate for the unbound category. For USA, the respective rates were 9.1 and 3.4 per cent while for Canada, these were 11.6 and 2.7 per cent. The difference in the rates were really staggering: twice in the case of EC, somewhat less than three times in USA and more than four times in the case of Canada. While a part of these differences can be attributed to quality upgradation, there is little doubt that quota rent also must have been an important factor.

However, the fact that quota rent might have been there, it does not automatically follow that the exporting firms could appropriate it. Introduction of imperfect competition in the

analytical frame has resulted in the concept of 'rent-sharing' as against 'rent appropriation'. If the market power is with the exporters, they will be the price-makers and they will set up prices which will be inclusive of the scarcity rent of licences. This is what is called 'rent appropriation'. In contrast, there can be situations where the market power can be with the importers. For example, in the clothing imports, it was reported that large retail outlets in USA had monopsony power. (Goto) When the buyers can exercise market power, the quota rent will get split between the buyer and the seller. This is called rent sharing. In such situations, the value of a license to sell will be less than the quota premium (Erzan, Krishna & Tan). Analysing the Hong Kong's export of clothing to the USA under the MFA restricted categories, they found that the rent was more or less equally shared in the case of some product groups while in others, importers managed to appropriate the lion's share. The share of US ranged from 48 per cent for skirts to 94 per cent for play suits.

An exercise on Mexican exports of clothing under MFA restricted categories to USA showed similar results (Bannister). It was found that the Mexican FOB price of apparel in the USA, adjusted for tariffs and transport costs, were consistently lower than the unit value of production. After the possible explanations in terms of differences in composition and quality were rejected, it was concluded that in the case of two quota-bound groups, viz., woven shirts and underwear, rent-sharing did take place. In particular, US importers might obtain upto 49 per cent of the available rent.

In an exercise for the USA (Hufbauer & Elliott), it was estimated that quota rent gain due to abolition of MFA restriction on textiles would be $ 713 million and $ 5411 million for clothing. However, it was observed that these were possibly overestimates, as the estimation procedure did not account for the possibility of rent sharing.

Since most recent research results clearly indicate that rent-sharing did take place and the sharing might even be more in favour of the importers, the net loss to the exporters consequent upon the abolition of MFA is going to be much less than originally anticipated which may be more than offset by the beneficial impact of price reduction.

Tariff Equivalents

Since MFA involves quota restrictions, the nominal tariffs will not show the real level of trade restrictions, except in the cases where the quotas are not binding. The most widely accepted measure to take care of this problem is to use tariff equivalents. (For a recent critique of the use of tariff equivalent as a measure of policy restrictiveness see, Anderson & Neary).

When both tariff and quotas are in operation, the trade liberalisation will result in a fall in prices, from PQ as under the quota regime to PF under the free trade. The tariff equivalent of the quota is assumed to be

$$(PQ - PF) - (PF.T)$$

where T is the _ad valorem_ tariff rate.

Most estimated tariff equivalents are subject to very high margin of error due to data deficiency as well as estimation procedures. However, these estimates can be taken as broad order of magnitudes. One recent exercise covering some of the countries included in the present paper has estimated tariff equivalents (Anderson & Neary). The results are shown in Table-II.6.

Table II.6

Tariff Equivalents of Textiles under MFA
(27 categories)

Exporter and year	Average tariff equivalent (per cent)
Bangladesh	
1987	189.9
1988	182.8
Hong Kong	
1983	30.9
1984	28.5
1985	19.2
1986	29.4
1987	33.2
1988	19.3
India	
1983	80.0
1984	73.2
1985	127.1
1986	225.3
1987	140.6
1988	154.2
Indonesia	
1983	23.4
1984	65.5
1985	71.8
1986	127.1
1987	168.3
1988	175.6

Korea, Rep. of

1983	90.8
1984	67.9
1985	96.0
1986	74.7
1987	56.1
1988	27.3

Thailand

1983	72.8
1984	38.3
1985	67.5
1986	48.7
1987	50.9
1988	45.5

Source: Anderson & Neary.

Two points emerge from these estimates. First, there are very wide variations in tariff equivalents across countries. So, the possibilities of large scale dispersions of the benefits of MFA abolition will also be equally great. Second, the inter-temporal variations also had been substantial. While the tariff equivalents had increased on a trend basis in the case of India and Indonesia, it had declined in Republic of Korea and Thailand.

Given the nature of data and associated computational problems, it will not possibly serve much purpose to estimate the impact of the once for all reduction in import prices consequent to MFA integration/abolition. Given normal expectation of a relatively high import elasticity of demand, exporting countries should be able to secure a net gain in exports (after adjusting for any loss on quota rent account).

What most probably is more important to analyse is a totally different dimension. Whether it will be strategically more desirable not to reduce price but opt for more quality

upgradation and value-addition in the long term. Even in a purely theoretical framework, in a multi-country framework and in a highly differentiated product category (clothing), a firm may maximise profits by not passing on the benefits of possible price reduction to final buyers.

II:2 An Alternative Strategy for Export Maximisation

Discussion in the academic circles on the possible impact of MFA abolition has focussed on the quota rent loss and increase in import demand due to reduction in prices and some results arising out of that have been presented above. These analyses presupposed that abolished tariff-quota induced possible price reductions will always be passed forward to the final end-user market. This assumption does not appear to be realistic either in theoretical or business grounds, more so on the latter. For example, in situations where prices could have been reduced due to devaluation/depreciation of the exchange rate, exporters do not always pass on the entire benefits. They can and sometime do keep the Dollar price constant, appropriating the benefits of the exchange rate adjustment for them. There has been some evidence of this in India's export trade.

In textiles & clothing market, a once for all reduction in price will hardly have a market expansionary impact, given the nature of demand. What is more plausible is a supply-switch, away from non-quota suppliers to former quota-suppliers. The impact will be more of trade-diversionary nature. The extent of this will be dependent upon the current level of market penetration of the quota countries in total imports, assuming away the domestic supply component. It is further assumed that products are similar.

Since the data on MFA-related exports are not available easily, it is considered that all exports of textiles from the developing countries are quota-constrained. Obviously these will be over-estimates but can definitely be taken as broad order of magnitudes.

We have calculated these shares for the US market for both textiles and clothing for 1993 which are presented in Table-II.7.

Table II.7

Share of Developing Countries in
US Import of Textiles & Clothing
(1993)

.SITC	Description	
651	Textile yarn	28.2
652	Cotton fabs, woven	69.1
653	Fabs. man-made	50.0
654	Other tax, fabs, woven	37.5
655	Knit, irochet, fabs	68.8
841	Men's, boys' clothing X. knit	92.0
842	Women's, girls' clothing X. knit	93.0
843	Men's, boys' clothings knit	96.0
844	Women, girls clothimgs knit	91.8
845	Other tex. apparel nes	92.9
846	Clothing Accessories, fabs.	70.01

(Source: UN, Commodity Trade Statistics)

The figures are revealing. For the entire garments category, the share of the developing countries are higher than 90 per cent. In several textile categories, it is around 70 per cent. In such a market situation, the scope of source diversion is extremely limited. Since neither market expansion nor market-share expansion, except of marginal nature, can be anticipated, the optimisation strategy might as well be price maintenance. In fact, over a longer time frame, the objective should be price increase.

The reason behind this assertion lies in the fact that so far the developing countries have made entry and market consolidation essentially through penetration pricing. This involved offering lower prices for both perceived or real quality differentials. This was also necessitated by relatively poor market power vs established distributive/import agencies.

To find out the extent only quality variations could explain the difference in unit value realisation, SITC section 651 (textile yarn) was considered in detail. This is more or less a standardised product and, therefore, quality variations are expected to be less among different suppliers. And, therefore, prices across the sources should also be broadly similar. The actual position is, however, totally different. The relevant data are presented in Table-II.8 which presents unit values of textile yarn import in USA in 1992 by different sources. It is found that in the unit value realisations of the developing countries, the dispersion is very high. Unit value realisation of 12 developing countries for this category have been calculated. With the average price of the Asian Developing

Countries as 100, the unit value Indices varied from a low of 28 for Bangladesh to 239 for Philippines.

Table II.8

Unit Value Realisation of Select Asian
Asian Countries in USA
(1992)

(SITC 651)

Asian Developing Countries (Av)	100
Bangladesh	28
China	132
Hong Kong	170
India	51
Indonesia	93
Rep. of Korea	169
Malaysia	117
Pakistan	107
Philippines	239
Singapore	158
Sri Lanka	36
Thailand	100

Source: UN Commodity Trade Statistics, 1992.

Since SITC 651 is still a relatively large product category and, therefore, product composition can be an important variable in explaining these variations, a sub-category of SITC 651.3 cotton yarn excluding thread was selected for a similar exercise. In this sub-category, the price variations cannot primarily be due to compositional factor, Relevant data are in Table -II.9.

Table II.9

Unit Value Realisation of Select Asian Countries in USA
(1992)

651.3	Cotton yarn ex. thread (US Dollar per Metric Ton)
World	3944
Devd.	6392
Devg.	691
China	3384
India	5122
Indonesia	2906
Korea Rep.	4327
Sri Lanka	2959
Thailand	3422

The overall picture in this case as well is similar to SITC 651. The conclusion, therefore, appears to be that there are strong marketing factors in operation which determine the unit value realisation. It is quite evident that if the developing countries can improve their price realisation, say even to 80 per cent of the level of prices realised by the developed country suppliers, their foreign exchange earnings will be much more than what can be expected by price reduction, assuming realistic price elasticity values which will be quite low. It is obvious that if a single country follows this strategy, while others do not, it will be a net loser. What is suggested is not a cartelisation which in any case will not work. But what is proposed is a conscious developmental product upgradation strategy which will

be a win-win situation for both the exporters and the importers, because the latter will pay higher prices for better products. There is enough evidence in trade literature to substantiate the view that the buyers abroad, while procuring from developing countries, are willing to pay higher prices for assured quality and delivery. Price by itself is increasingly becoming a less important determinant of buying behaviour. It is, therefore, imperative that the developing countries focus on this aspect in the post-MFA market scenario to optimise their gains than on price reduction and consequential export expansion.

Export growth in the Post-MFA period should come from another source. It has been emperically found that the rate of growth of non-quota bound categories had been higher than the corresponding growth rates of the bound categories. For the EC, the volume growth rate of the non-bound categories was 6.7 per cent as against 5.4 per cent for the bound categories during 1981-87. The corresponding growth rates for USA were 13.6 per cent and 2.4 per cent. (Erzan, Goto and Homes). Since these restrictions will go under the new system, volume growth could be anticipated.

II:3 Distribution of Gains from MFA Abolition

While the GATT study quoted above shows the overall gains that can be expected, the distribution of the global benefits among the exporting countries will depend upon several factors. First, those countries whose products of textiles and clothing are going more to the 'MFA' importers well stand to gain more. Second, a country whose portfolio of products under the textiles & clothing category are more quota constrained currently will

also gain relatively more. These two factors are in fact related. Third, since in the post MFA period, the country monopoly will no longer be there, those exporting countries which are more efficient producers will be able to secure a higher market share at the cost of less efficient producers.

There—is some indirect evidence as to the relative efficiency levels of exporters of textiles from the developing countries. An exercise looked at the countries which could improve their market shares in the product categories where exports were under binding restrictions for Hong Kong, Republic of Korea and Taiwan. (Erzan, Goto and Holmes). The period of observation was 1981-87 and the markets were USA and EC. Relevant data are presented in Table-II.10. The basic rationale behind the exercise was that if the volume of shipments of the market leaders were restricted, those not subject to quota or had not reached the ceiling, would have an opportunity to export more. Less established exporters from the developing countries were more likely to be the beneficiaries, though there could also be a possibility of trade diversion in favour of the developed countries, which were also not quota-barred. Though the exercise was for a different objective, the results on a cross-section basis do reveal which developing countries could increase their market shares. And if that increase can be hypothesised to be due to a country's relative competitiveness, inference can be drawn from that past experience as to who may be the winners in future unconstrained markets.

It is found that almost the same group of countries had done better both in EC and USA. It lends credence to the hypothesis

that those countries which could significantly increase their market shares were more competitive and possibly will do equally well in the post-MFA period. These countries are Indonesia, Bangladesh, Sri Lanka, China, Thailand and Pakistan.

Table - II.10

Change in Market Shares of Select Developing Countries In Quota-Restricted Categories for Hong Kong, Rep. of Korea & Taiwan
(1981-87)

Exporting Country	EC	USA
Bangladesh	1.22	102.22
.China	1.68	1.23
India	0.94	1.06
Indonesia	4.74	4.51
Malaysia	0.99	2.63
Pakistan	1.56	1.27
Philippines	0.95	0.98
Singapore	0.65	1.26
Sri Lanka	1.87	1.63
Thailand	1.52	1.30

Values more than 1 signifies that the countries concerned increased their market share in 1987 over 1981.

Source: Erzan, Goto, Holmes.
Extracted from Tables 4-4 and 4-5

Another study on Asian trade and comparative advantage also throws some light on the possible winners in the free market scenario (Rao & Das). The study has estimated the Revealed

Comparative Advantage Indices for major export products of the region, including textiles and clothing. RCA Index is defined as

$$RCAI_{ij} = (xij/xit)/(xjw/xtw)$$

Where   xij = country i's export of product j

xit = country i's total exports

*jw =--World export of product j

xtw = World total exports

The results of the calculations are shown in Table II.11.

Table   II.11

RCAI FOR TEXTILES

SITC	Country with Highest RCAI	
	1985	**1989**
651	Pakistan (15)	Pakistan (29)
652	Pakistan (31)	Pakistan (18)
653	Korea (8)	Pakistan (11)
654	Bangladesh (93)	Bangladesh (53)
655	Hong Kong (7)	Hong Kong (12)
656	China (13)	Hong Kong (5)
657	Hong Kong (3)	Hong Kong (4)
658	Bangladesh (91)	Bangladesh (61)
842	Sri Lanka (16)	Sri Lanka (12)

843	Nepal (29)	Nepal (36)
844	Bangladesh (71)	Bangladesh (113)
845	Hong Kong (13)	Hong Kong (9)
846	Hong Kong (10)	Sri Lanka (10)
847	Sri Lanka (11)	Sri Lanka (13)

(Source : Rao & Das)

It is found that in 14 out of 15 three digit SITC categories of textiles & clothing, the countries with highest RCAIs are Bangladesh, Pakistan, Hong Kong, Sri Lanka and Korea. Bangladesh, Pakistan and Sri Lanka are the countries which fared well in the exercise earlier cited. Hong Kong and Rep. of Korea are, of course, established exporters.

From these data, it is clear that the benefits of market expansion due to abolition of MFA could most probably be internalised by these countries to a large extent, due to their relative production and marketing efficiency.

Conclusion

It can, therefore, be concluded that:

i) given the fact that there had been widespread quota rent sharing, the loss to the MFA exporting countries from the Asian region is not expected to be very high.

ii) Since the available tariff equivalents data reveal that the trade restrictiveness had been fairly high, price reduction, if actually implemented, may more than

compensate the quota-rent loss, under normal elasticity assumptions.

iii) However, given the present market penetration ratios of the Asian developing countries in the clothing sector, especially in the USA, possibility of gain through elasticity of substitution appears to be limited.

iv) Given the fact that the unit value realisation had been so far very poor for majority of these countries, there is a strong case for up-gradation of product quality and marketing services, with a view to achieving a higher unit price realisation.

RECENT DEVELOPMENTS IN TEXTILE INDUSTRY AFFECTING FUTURE EXPORT PROSPECTS FROM ASIAN COUNTRIES

III:1 Technological Issues

The withdrawal of MFA is supposed to open export opportunities for developing countries. However, the extent of benefits which could really accrue is not clear. This is because of various measures adopted by developed countries for modernisation of the textile industry for improving the level of international competitiveness. These measures include development of a 'quick response' approach to take advantage of geographical proximity to retailers and to keep ahead of more far flung producers in meeting fashion demand, and governments' encouragement for initiatives in sales, technology, research and training. In countries like France, the United States and the United Kingdom, heavy investments of capital deepening form have taken place in the textile industry. There is increasing use of computers in measuring systems, control and command of textile machines for quality control and data monitoring. Computer aided design makes it easier and cheaper for manufacturers to switch production lines and to provide a wide range of designs in their catalogues. Also automatic factories are being developed in which production processes are aided by the use of programmable robots which transport materials from one machine to another or onto palettes or other carriers for a more efficient material flows. Moreover, on-line quality control during product manufacture is being developed for reducing faults and quality losses. (Yang, 1994).

In the case of textile industry, introduction of capital intensive equipment resulting in increased labour productivity did succeed in partially reversing the shift in comparative advantage in favour of low wage developing countries. However, the clothing industries in developed countries have not witnessed high labour productivity gains. This is mainly because of the limited scope for radical technical change for the production process in the manufacture of readymade garments.

There are three stages involved in the manufacture of clothing: (i) a pre-assembly phase which involves grading and cutting cloth; (ii) an assembly or sewing phase and (iii) a finishing process that includes inspection, pressing and packing. In these three stages, the second stage is labour intensive and accounts for a much larger proportion of total costs. Technological upgradation have had the greatest impact on pre-assembly stages which could not substantially influence the labour costs. Traditionally, competition in the clothing industry has been primarily on the basis of cost. The developing countries were able to derive comparative advantage on account of their own low-wage costs. In future, non-price factors such as design, quality and variety will become increasingly more important. Such a trend will have strategic implications for exporters from developing countries.

III:2 Linkages Between Trade Issues And Societal Concerns: Consequences for Exports of Select Asian Countries

In the ensuing years, EU and U.S.A. are expected to put increasing pressures on the social and environmental clauses. It is very much likely that trade issues may get linked to the labour standards, human rights treatment and protection of

environment. Already EU including other countries have insisted that WTO put these issues as agenda for discussion. EU has already declared a special system of incentives in the form of additional tariff preferences to the GSP beneficiaries who will effectively implement the social and environmental clauses. This is a danger signal to the developing countries because their social and environmental standards are sub-optimal, compared to developed countries. After the Uruguay Round, the developing countries will lose out on the GSP front as the MFN rate will come down. But whatever little benefit still remains in the GSP system may get further eroded due to its linkage to social concern issues.

Under the GSP Scheme of the EU, preferences will not be granted in respect of products subject to anti-dumping or anti-subsidy measures unless it can be shown that the said duties were based on a price reflecting the preferential tariff arrangements granted to the countries. This measure is a real danger to textile exporters because a host of textiles products in the EU markets are subject to community's anti-dumping duties. If the items under anti-dumping investigations are also excluded from the GSP facility, then the situation will get worse. Apart from MFA quota, anti-dumping duties is the next important barrier to textile exporters from the developing countries to the EU market.

In the New GSP Scheme, EU wants to take steps for effective environmental protection through the enforcement of International Convention on Environment and Agenda 21. For this purpose EU intends to apply .1 incentives arrangements initially for tropical wood products from forests which are sustainably managed

in conformity with International Tropical Timber Organisation (ITTO) standards. It is understood that the margin of additional incentives being considered under these conditions may be 20 per cent of the MFN tariff.

Environmental protection is a universal concern. The industrialised and affluent countries have focussed on the global ecological balance and 'clean' technologies. Eco-standards relating to production as well as processing is a new issue gaining importance as an instrument of environment policy. (Weimann 1994).

Environmental protection measures for the textile sector would virtually cover the entire product life cycle from cultivation to waste disposal. Eco-standards would make their presence felt in all the following areas:

* Cultivation of cotton

* Spinning of the yarn

* Weaving of fabric

* Dyeing, finishing and refining the fabric

* Manufacture of garments

* Packaging of the product for sale

* Usage of the clothing and its care

* Recycling or disposal of waste

Chemicals which have been red-listed under the newly Chlorinated Phenols especially petachloropherol (PCP) (ii) Organ-chlorine and Organo Phosphorous Pesticides, (iii) dyes based on aromatic amines such as benzidine (iv) Heavy metal and (v) Chlorinated benzenes. (ITC Report 1994).

Hitherto, there are several product-related standards stipulated for textiles, some of which include:

- A ban on the use of PCP

- An obligation to label 'close to skin' products containing more than .15% of formaldehyde.

- All supplies are expected to be free of carcinogenic substances and from acutely toxic (less than 200 mg/kg) dye and supplementary material.

- Dyes containing benzidine be avoided. They are known to produce toxicity. Substances for dyes containing benzidines are mineral dyes and pigment dyes.

- An alternative for formaldehyde as a glazing agent to improve the brilliance and finishing could be done only mechanically which would render formaldehyde superfluous.

- A new limit for formaldehyde may well follow the Japanese 'Law 112' of 1974.

- There is a higher sensitivity for certain products such as baby clothes or undergarments. In terms of the Japanese 'Law 112" all deliveries are required to contain not more than 500 ppm (outer clothing 500 ppm, underclothing i.e. garments clinging directly in contact with skin, 300 ppm, and baby clothing 50 ppm).

- No halogenous dyestuffs containing bromide, chloride and fluorine besides ureas be used.

- Products must not contain any carcinogenic substances, organic chlorine and fire-resistant chemicals.

- Deliveries containing nickel should be clearly marked, when the content is higher than 0.5 micrograin.

- Products should not be treated against microbes.

- Silks should not contain any heavy metal salts.

Germany has been the trendsetter in the campaign for eco-friendly products, including textiles and clothing. Eco-labels marking clean garments are to be introduced by the German textile industry, building up a possible trade barrier against producers who are not able to comply with these standards. The eco-labels will be given only to textiles which have been made from organic cotton and processed without harmful chemicals. (Jha, 1993).

Two Eco lables of the German textile industry are:

MST (Maskenzeichen Schadstoffgeprufee Textilien) which sets product norms and indicates a lower content of hazardous substances.

MUT (Maskenzeichen Umwelt-Schonede Textilien) sets the norms for the production process. The MUT is for intermediate textile products.

There is a rising demand for eco-textiles from department stores. There is also an increasing trend both at regulatory and on the industry level to introduce stricter eco-requirements for textiles. Areas like bedsheets, towelling and underclothing, baby clothes are going to see very strict standards.

With the phasing out of the MFA, the manufacturers of textiles in developed countries would be looking forward towards eco-management to give them an edge against low labour cost countries. Rising concerns about environmental protection coupled with introduction of robotics and automation by developed country manufacturers which could counter the cost advantage of the labour intensive process may result in blunting the competitive edge of the Asian textile/clothing exporting countries.

Textile Import Curbs by United States

US has recently adopted protectionist measures like cotton fee, harbour fee and the changes in the rules of origin of textiles entering the US to shield the domestic textile industry. The US claims that cotton fee is imposed to facilitate R & D in cotton industry whereas the harbour fee is levied on all port users, both domestic and foreigners as the cost of port maintenance.

Within the WTO framework, US is free to impose restrictions to protect its textile industry which employs nearly 2 mn. people. The US has made heavy investments in the textile sector and is looking forward to quick response and commensurate speedy movement of goods from the importers to stand it in good stead.

III:3 NAFTA - Impact of NAFTA on Textiles and Garments of Select Asian Countries

North American Free Trade Agreement was signed by Mexico, Canada and USA in 1993 and became effective from January 1994. NAFTA includes specific industrial Rules of Origin which may pose problems for countries in Asia. (Moore, 1994) This Rule is mainly important for the textile sector where it is more restrictive than comparable rules in other regional arrangements. The Agreement provides for completely duty free trade within 10 years for the textile and clothing industries. The duties would be cut in a phased manner. This would be mainly for textile products made of North American fibre and clothing products made out of North American yarn.

The strict Rules of Origin of triple transformation and quadruple transformation may force some of the Mexican producers to buy material from local market which may not be

internationally competitive. This rule will discriminate against the products of Asian countries as compared to Mexican products for the import of intermediates like textile yarn or fibre. MFN ad-valorem tariff rates for the US imports may not be high for these intermediate products but the rule of origin with minimum domestic content and high tariff rates on the final product (i.e. items-of the apparel industry) will certainly lead to increase in the domestic production. The removal of non tariff barriers, particularly MFA quota will prove advantageous to Mexico in case of select products of textiles and apparel industry. Labour in Mexico has a literacy rate of 80% and it is much more adaptive than the third world countries because of high literacy rate. US clotex firms have been investing highly in Mexico and the pace is likely to pick up further due to those developments.

NAFTA is likely to hurt garment imports more than import of textiles. In terms of raw cotton products, USA is the largest producer in the world. Added to this, it has one of the world's largest textile industry which has been fighting the third world suppliers more efficiently and successfully than EU and Japan.

US textile industry is likely to shrink and a substantial part of production capacity is likely to be shifted to Mexico. Apparel production is also likely to follow the same pattern. The relocation will make Mexican products, which actually will be mostly American products, more cost/price competitive. Their subsequent duty free import in USA and Canada will heighten the competitive pressure for the Asian textile and clothing exports.

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