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January, 1990
English

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Implication for the textile and garments sectors of export-oriented developing countries of the single EEC-market in 1992 with particular attention to Thailand's industry

Prepared for the Government of Thailand by the United Nations Industrial Development Organisation

Based on the work of P.J.B. Steele, expert in textile trade and trade development policy.

United Nations Industrial Development Organisation

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INTRODUCTION

GENERAL

This report has been prepared by the United Nations Industrial Development Organisation (UNIDO) on behalf of the Government of Thailand. It is based upon a study carried out by Mr P.J.B. Steele on the basis of work carried out in Western Europe.

The report is concerned with the implications for the textile and garment trade of exported-oriented developing countries of the emergence of the single European Community (EC) market after 1992 with particular reference to the likely effect on Thailand. It also considers in this context likely developments in the international textile trading regime.

TERMS OF REFERENCE

The study outline on the basis of which this report was prepared is quoted verbatim below:

The present situation

Present restrictions on free trade in textile products between the EC member-states and the effect of these on imports of such products;

The present regime governing imports of textile products into EC member-states from Third Country sources with reference any differences in the restrictions imposed on such imports with respect to the various states;

Thailand's position under this regime with particular reference to the bilateral textile trade agreement between that country and the EC;

The relative importance of Thailand as a supplier of textile products to EC member-states in the five year period 1984-88. The extent to which this reflects the trading regime governing these exports would be considered;

The situation after 1992

The objectives sought by the EC in establishing a unified market indicated in broad detail and the likely institutional changes to effect these objectives;

The implications of these changes for the remaining barriers to free trade in textile products between the EC member states;

The likely effect on the trading regime governing textile imports from Third Countries with particular reference to Thailand's relations with the EC;

The consequences for the relative volumes of textile products derived from internal trade as opposed to imports;

An assessment of the future opportunities for Thailand as a supplier of the EC market for textile products.

SUMMARY

The main findings of the study may be summarised as follows:

The remaining physical, technical and fiscal barriers to free trade within the EC had little effect on intra-Community trade in textile products. The absence of formal trade barriers (tariffs and quotas) had long since encouraged producers to regard the EC as a single market for trading purposes - those in Italy and Germany taking particular advantage of the opportunities created by this situation. The EC was the main source of textile imports for member-states and was also the main outlet for their exports. Only since the mid-1980s had there been any indication of third countries beginning to take advantage of their lower costs to regain some market share.

Imports into the EC from third countries, including Thailand, were presently governed by bilateral textile trade agreements negotiated by the EC Commission with its trading partners on behalf of its member-states. These were entered into under the provisions of the Multi-fibre Arrangement (MFA) which allowed for quantitative restrictions on imports of specific products from specific sources when these were judged likely to disrupt the domestic market of the importing country. The element of specificity in the MFA was an acknowledged derogation from the safeguard provisions of the GATT which provided that such measures should apply equally to all Most Favoured Nations. The EC habitually shared out the quotas it negotiated under the arrangement between the member-states and also negotiated special quotas for individual member-states in cases of particular need. This tended to make it more difficult for suppliers to make full use of their Community quotas.

The EC textile trade regime had the effect of curbing increases in imports when domestic demand for textile products was strong, but could not wholly prevent these. The pattern of EC imports overall was largely governed by economic factors, although the quotas applied to particular suppliers did tend to distort sourcing by guaranteeing higher cost producers with large quotas a disproportionate share of the market at the expense of lower cost competitors. It was possible to over-emphasise this effect, but it certainly held good in the case of standard products readily produced by other countries with smaller quotas.

Imports from Thailand had increased steadily since that country first began to trade with the EC in 1975. It was, however, still a minor supplier in 1988. In volume terms trade increased markedly after 1985 reflecting the strength of demand in the EC market, but, whereas imports of products not affected by restrictions continued to increase in response to this, those of restricted products were curbed by the effect of the quotas which began to affect growth-rates once they were fully utilised.

The effect of the removal of the final barriers to intra-Community trade was judged likely to have minimal consequences for EC suppliers' costs and thus unlikely to affect buyers' sourcing strategies directly. Indirectly, its chief effect was likely to be the

encouragement of present trends towards the development of production and distribution companies operating on a European scale. However, this was not considered to be a factor which would favour reliance on community sources as opposed to lower-cost imports from developing countries. The ending of the present system of quota-sharing was, in fact, seen as a major benefit to third country suppliers taken together with the expected evolution of pan-European distributors.

Changes in the present textile trade regime in the direction of freer trade under GATT rules expected to be agreed in the latest round of the GATT multilateral trade negotiations (MTN) were likely to favour increased imports from developing country suppliers because of lower production costs. The concomitant tightening of the GATT rules regarding market access and fair trading might serve to reduce the comparative advantage presently enjoyed by developing country producers in respect of yarns and fabrics because of the high level of investment in advanced technology in this area undertaken by the European industries. However, this factor was not thought likely to affect the present competitiveness of garment producers in developing countries because of the inherently labour-intensive nature of clothing manufacture which favoured suppliers with access to low-cost labour.

It was concluded that the effect of the possible move to an international regime favouring freer trade in respect of textile products was likely to benefit Thai exports to the EC, especially those of clothing. This reflected the ability of Thai producers to compete with those in the EC in terms of cost, a factor which would no longer be checked by the effect of quotas and the greater ease of servicing a single European market as opposed to a dozen national markets within a single customs union as was the case at present. It was recognised that the removal of present export incentives might effect the competitiveness of Thai producers relative to other developing world suppliers in the EC market, but, on balance to its advantage. This took into account the anticipated continuation of existing quantitative restrictions on China which was likely to prove Thailand's most dangerous competitor on grounds of cost. With respect to other suppliers, Thailand was well-placed to take advantage of the reduced competitiveness of Hong Kong, Taiwan and South Korea resulting from significant increases in their production costs. Those countries' present domination of the market was to some extent guaranteed by the large quotas they had secured under the MFA regime and the removal of these would be to increase their exposure to lower-cost producers which had also developed a reputation as reliable suppliers of quality goods such as Thailand. That country could, therefore expect to increase its present exports in volume as well as value terms, although it was not possible to quantify the effects of the various factors.

1. RESTRICTIONS ON INTRA-EC TRADE IN TEXTILE PRODUCTS

1.1. COMMUNITY TRADE BARRIERS

Absence of formal barriers

There are no formal barriers restricting textile trade between EC member-states in the form of discriminatory tariffs or quantitative limits - i.e. quotas.

Spain and Portugal constitute the chief exceptions to this general rule reflecting their late entry into the Community and the granting of transitional regimes to enable their industries to adapt to the rigours of free internal trade. Portugal was the chief beneficiary of this generosity: EC quotas on imports from Portugal were phased out in 1988, but Portuguese import quotas from the EC were not phased out until 1990 and the progressive reduction of its tariff barriers will not be completed until 1993.

With regard to intra-EC textile trade in general terms, however, there are numerous activities relating to the administration of trade generally and government economic management in broader terms which still constitute informal barriers to the free flow of these materials within the Community. These barriers can be categorised as physical, technical and fiscal.

Physical barriers

Border controls: The chief physical barriers to trade arise from the survival of border controls and take the form of an exaggerated insistence on the performance of formalities or arbitrary and therefore discriminatory use of customs rules. Excessive paperwork is a subject for particular complaint. Not only does this impose administrative costs on traders, but it also causes delays at national borders within the EC both of which tend to benefit domestic suppliers. France has a particularly bad name for these practices, but traders tend to bracket all the southern tier of states - Portugal, Spain, Italy and Greece - as offenders in this sense.

Ironically, it is the differing restrictions imposed on extra-EC imports by member-states that creates the greatest opportunities for delaying shipments of textile products originating in other parts of the Community. As will be seen, the quotas negotiated with third country suppliers by the EC on a Community basis are divided between the various member-states and, in addition, countries can claim additional protection against imports under Article 115 of the Treaty of Rome and may be granted "regional" - i.e. national - quotas for product categories from particular sources on which there is no "Community" quota. Thus it becomes necessary for the Customs authorities at each frontier to check the origin of all consignments and, in the case of imports, to ensure that they are properly allocated to the country's share of the Community quota or to its regional quota.

It is not possible to determine how far obstructions to internal EC trade arising from this sort of activity is the result of deliberate efforts on the part of the governments concerned to secure by administrative action protection for their domestic industries which they cannot secure through

official policy and how far it arises from the over-scrupulous administration by government agencies of regulations formulated in a more protectionist era. It is to be remarked, however, that in other areas of trade, particularly that in agricultural commodities, these governments have shown a willingness to administer regulations in ways which defeat the objectives of a free internal market when competitive imports from other member-states threaten the domestic market-shares of important sectors and sub-sectors of the national economies.

It seems to be generally acknowledged by those concerned with intra-EC trade that these obstacles are now less pronounced. It is likely that EC competition policy in the 1980s has been to wear down the scope for the deliberately discriminatory use of border controls.

Road traffic controls: Another important physical obstacle to free trade is the complexity of the regulations governing the movement of goods lorries through member-states. Admittedly, this does not discriminate directly against imports, but, insofar as it increases the freight-costs of trans-national traffic, it tends to favour domestic production.

Technical barriers

Capital movements: Restrictions on the free flow of capital practised by some of the member-states affect merchandise trade as well as direct investment. France and Italy are major offenders in this respect.

Currency differences: The lack of a single European currency also hinders trade as a result of movements in the values of the national currencies relative to each other. The effect of the European Monetary System has been to even out the effect of these movements and, therefore, to introduce greater certainty in traders' calculations as to the local currency value of the prices they impose and reduce the need for hedges against fluctuation in their pricing. The failure of the UK to join the system means that the hedging costs of exporting to that country are higher than elsewhere.

Public procurement policies: Many of the governments also pursue restrictive public procurement policies which have the effect of discouraging tendering by non-national suppliers.

In the case of textile products there are, of course, no national health requirements or manufacturing standards which provide many opportunities for obstructing intra-EC trade in the case of other product categories.

Fiscal barriers

The main fiscal barriers to internal trade are the differing value-added tax rates in the various countries. This tends to favour suppliers in those countries with lower rates in that their production costs are reduced. This could be addressed only by making VAT paid in one member-state deductible in another instead of, as at present, the full value of the imported product becoming liable. In addition, the practice of Italy in demanding payment of value-added tax by importers at the time of import rather than after it has been sold discriminates in favour of domestic producers.

1.2. THE EFFECT OF RESTRICTIONS

Integration of the EC as a textile trading area

The EC national markets for textiles (yarns and fabrics) and clothing have become progressively integrated since the establishment of the Community to the extent that suppliers have been encouraged to develop their trade with outlets in other member-states and distributors have been increasingly prepared to look to sources elsewhere in the Community. In each country dependence on imports has increased mostly to the benefit of Community suppliers. This is demonstrated in Table 1.1. below. Only in recent years has trade with third countries begun to regain some of its former relative importance.

Table 1.1.: EC trade in textiles and clothing, 1973-87
(US \$ bn)

	<u>1973</u>	<u>1977</u>	<u>1980</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Imports								
Textiles	9.05	13.64	22.77	18.57	18.99	20.22	26.61	32.87
Clothing	5.80	11.16	20.79	16.52	16.98	17.73	25.76	34.55
Total	14.85	24.80	43.56	35.09	35.97	37.95	52.37	67.42
Of which, from (%)								
EC								
Textiles	69.7	65.2	61.5	68.0	68.0	68.2	68.5	67.3
Clothing	56.7	49.2	44.3	52.1	51.1	52.9	52.6	49.8
Total	64.6	58.0	53.3	60.5	60.0	61.1	60.7	58.3
Exports								
Textiles	11.02	15.34	23.55	20.86	21.59	22.92	29.17	34.98
Clothing	4.91	8.48	14.17	13.65	14.35	15.92	22.17	27.46
Total	15.93	23.82	37.72	34.51	35.94	38.84	51.34	62.44
Of which, from (%)								
EC								
Textiles	58.1	59.3	60.4	61.9	60.8	61.6	63.6	64.9
Clothing	68.0	65.6	66.7	64.4	61.8	60.4	63.2	65.0
Total	61.1	61.5	62.8	62.9	61.2	61.1	63.4	65.0

Source: GATT: "International Trade"

Portugal and Spain are less integrated into the main EC trading area than the other member-states, largely as a consequence of their relatively late accession to the EC - 1986. Traditionally their industries had enjoyed heavy protection against imports, but had been allowed to compete in the EC markets as low-cost suppliers. The dismantling of the old protective barriers after they became members had an almost immediate impact on their trade with the rest of the Community which, as a result, became much more evenly balanced.

Factors in the growth of intra-EC trade

The growth of intra-EC trade in textile products was primarily a result of the Common Market which removed the main formal barriers to trade between the EC member-states. This encouraged producers which had previously concentrated on their domestic markets to operate on a wider European scale and their ability to do this was reinforced by the growing internationalisation of clothing fashions in the 1960s and 1970s.

There were, however, a number of other factors that promoted this end chiefly by imposing obstacles between the EC and overseas markets thus discouraging a more outward orientation. These included:

- The maintenance of tariffs barriers between the EC and other advanced economies which discouraged trade in both directions;
- The development of textile and clothing industries in developing countries which competed effectively with EC suppliers in third country markets in terms of price and, increasingly, in terms of quality. The imposition of quotas on exports from these countries to the EC favoured a higher level of intra-EC trade;
- The imposition of restrictions on imports by many developing countries. In any case, EC suppliers would have found it increasingly difficult to compete in these markets with producers located in the developing countries because of higher production costs.

Beneficiaries of integration

The main beneficiaries of the integration of the EC market were Germany and, increasingly, Italy, in the case of textiles and Italy in the case of clothing.

Germany's success largely reflected the returns of investment in advanced technology which enabled the textile producers in that country to secure substantial improvements in quality. Here the German industry seems to have adopted a different approach to that adopted by the US industry which took advantage of advanced technology to secure unit cost reductions. This was achieved by a disproportionate concentration on a relatively few homogeneous products where long production runs were possible - notably bottom-weight cottons such as denim. This enabled the US industry to compete with producers in developing countries - notably Hong Kong - in producing such fabrics, but did not affect its ability to respond to the demand of domestic clothing makers for the wide variety of top-weight fabrics they required to service the increasingly fashion-driven garment market. As a result, not only have they lost market share in the case of standard fabric constructions, but also in the case of higher quality materials which have been increasingly sourced from the Far East.

German textile production is still the preserve of medium-scale producers fulfilling specialist functions which gives the industry much greater flexibility than its US counterpart. The benefits of advanced technology are applied to the manufacture of quality yarns and fabric constructions where higher production costs are less of a factor in determining price

levels and to finishing processes that give finer results, but are also more flexible in responding to the different requirements of the market. In recent years standard yarns and fabric constructions have been increasingly imported in grey form from low-cost extra-EC sources - notably China and Pakistan - for finishing in Germany rather than being sourced locally. Because of the advanced nature of the technology employed, however, Germany has tended to resort less to this expedient than the UK and France.

Italy's success reflected, in part, the ability of its designers to generate fashions which the mass-markets of its EC partners were willing to buy. However, even more important was its success in organising the supply of these mass-markets in such a way as to minimise the impact of labour costs in a generally high-wage economy while avoiding the inflexibility which can result from relying on advanced technology and long production runs which are ill-adapted to the needs of the clothing market both from the point of view of the supply of the materials required by that industry and the production of clothing. (Clothing production has in any case proved remarkably resistant to the introduction of advanced technology that might reduce its inherent labour-intensity, largely because of the failure of to develop alternatives to the sewing-machine operator as a means of assembling and finishing garment components.)

The Italian response to this problem has been the outwork system whereby the various production processes have been devolved among a series of specialist producers operating on relatively small scales while only marketing and quality control was centralised in large units.

The main losers from the integration of the EC market have been the UK and France both of which failed to respond adequately to the needs of the intensely variegated textiles and clothing market that increasingly developed in the 1970s and 1980s. It seems likely, however, that the development of small-scale knitting and clothing enterprises in areas of high concentrations of immigrant population, where wages are very low - notably the East Midlands - is recreating in the UK that outwork network which has enabled the Italian industry to become a dominant supplier not only in the EC but also in the USA.

2. THE INTERNATIONAL TEXTILE TRADING REGIME**2.1. TEXTILES AND THE GATT****The free trade ideal**

For most of the period since the end of the Second World War in 1945 the main philosophical influence on the development of the trading regime governing relations between the advanced free market economies and between these countries and other less developed economies has been the GATT. This seeks a progressive diminution in the barriers to the free movement of goods and services between signatory nations. It has been the international expression of a central tenet of classical liberal economic theory that free trade is the surest way of securing to all nations the benefits of economic development.

The GATT is, of course, in large measure, a statement of an ideal, a pious aspiration even. The serious short-term consequences for established economic structures of unfettered import competition and the political tensions that can arise from this, on the one hand, and the efforts of many countries to bolster artificially the competitiveness of their exports, on the other, have ensured that most countries in the world maintain complex regimes to protect domestic production. Preferential trading arrangements between GATT signatories have also proliferated since 1945 - the EC being only the most significant of many instances. Nevertheless, successive rounds of multi-lateral trade negotiations (MTN) under the GATT have established limited targets for the reduction of protective mechanisms to be achieved over periods of years and considerable progress has been made in this direction, particularly with respect to fiscal controls (tariffs), less so with respect to physical barriers.

More important, perhaps, the very existence of GATT as a statement of an ideal influences the way in which the major economies approach the whole problem of international trade in general terms and ensures that there is continual moral pressure on them to move in the direction of greater freedom. The effect of this concept of morality on the behaviour and even the convictions of trade ministers cannot be dismissed as completely of no account.

Textiles a special case

Probably less progress has been made towards the realisation of the free trade ideals of the GATT in the case of textiles than with any other single category of goods, with the possible exception of agricultural commodities. In the case of textile products this reflects both the concerns of the major western economies and the needs and aspirations of the developing world.

Importance to the West: In all the major free market economies, the textile and clothing industries, are major employers of labour. This gives them a social and political significance which may exceed that derived from their actual contribution to the national economy.

In addition, these industries constitute significant markets for raw materials and semi-manufactures produced by other sectors of national

economies - in the case of the EC which imports much of its agricultural fibre either in the raw state or as yarns and fabrics, the main local supplier is the organic chemical industry which provides synthetic fibres, bleaches, dyes etc. Furthermore, they support significant industries which produce capital goods and spares.

It is also considered that a substantial textile fabric industry requires a clothing industry as an outlet for its products. Thus the EC argues that, despite considerable advances in economic efficiency achieved in recent years, the European textile industries would be hard hit by the disruption of clothing manufacture and this should, therefore, be sustained against import competition even though it has proved far less amenable to restructuring than has textile production. In addition to these considerations, a substantial degree of national self-sufficiency in both textile and clothing supply is traditionally regarded as a strategic necessity. (In the USA certainly, the ability to clothe the armed forces from national resources is a virtual shibboleth - if not for administrations, certainly for politically influential groups whose opinions cannot be ignored.)

Importance to developing countries: Against this perception of the importance of textile production for the well-being of their own economies, western statesmen are also well aware of the function of textile production in the effort of developing countries to develop export-oriented industries. It is generally recognised that textile industries with their relatively simple and labour-intensive technologies, low capital requirements and massive and assured markets constitute a particularly suitable means by which developing countries with a substantial resource of low-cost labour can take a first step towards higher levels of industrialisation.

The traditional concern of developing economies to become more than mere suppliers of basic commodities in return for imports of high value processed goods has been reinforced in recent years by the decline in the relative value of such commodities and the need to find additional sources of foreign exchange to service the massive burden of debt which was accumulated in the 1960s and 1970s in efforts to develop an industrial base more oriented to the domestic market. Western statesmen have, in fact, promoted economic restructuring to this end, both through international bodies such as the IMF and the World Bank and through national technical assistance agencies. This has meant that they have, in effect, encouraged the development of export-oriented textile enterprises that will challenge their own industries in their domestic markets.

The western economies have, therefore, found themselves needing, on the one hand, to protect themselves against the seemingly intolerable short term economic, political and even strategic consequences of allowing their domestic textile industries to be disrupted by the competition of low-cost imports and, on the other, to allow such imports as one of the more obvious means of avoiding the calamity of large-scale default by their Third World debtors. Underlying these immediate concerns is an almost visceral conviction that freer international trade would be to the long term benefit of the world economy.

In an effort to meet both these concerns they have resorted increasingly to regulation . This has the object of allowing the growth of imports from developing countries while checking the possibility of very rapid growth based on low prices which could seriously disrupt their domestic industries. It was hoped in this way to create an environment in which those industries could be rationalised and restructured thus becoming better fitted to meet the competition of exports.

2.2. FISCAL CONTROLS

Advanced economy tariff levels

It is, in part, a measure of the deference accorded free trade virtue by protectionist vice under the GATT that, even in the case of textile products, the major importers have accepted substantial reductions in the very high levels of tariffs that constituted the main protective mechanisms for domestic industries before the Second World War. On the other hand, their willingness to give ground here can be seen in a more cynical light as an acknowledgement of the relative inefficiency of fiscal controls as a means of effecting the regulation which the textile trade is perceived as requiring.

Table 2.1. below indicates trade-weighted average reductions in levels achieved by the major free market economies in the period 1973-87 during the Tokyo Round of the MTN - after the city where the negotiations were initiated. In general, the reductions of textile tariffs were rather lower than those relating to other manufactured goods, even although the latter were at much lower levels in 1973. The greatest reductions were achieved by the major economies - the USA, Canada, Japan and the EC member-states - while there was little movement in the case of the four EFTA countries. However, the USA and Canada, together with Austria and Finland, still maintained generally high tariff levels in 1987 compared to Japan, the EC and Sweden. Swiss tariffs were the lowest of the eight groups considered.

The data relating to the individual textile product categories indicate the tendency for tariff levels to be increased according to the stage of the production. Thus those on fibres are generally very low while those on clothing are very high. This reflects the increased vulnerability of western industries the greater the proportion of added-value. This is particularly the case with clothing because of the labour-intensity of garment manufacture, particularly the final assembling and finishing stages, which gives low-cost labour countries a comparative advantage in the case of this category of products which cannot be off-set by increased capital investment.

Limitations of tariff protection

Tariffs are considered to give inadequate protection in the case of textile products in that they cannot be deployed flexibly to respond to sudden upsets in the prevailing balance between domestic production and imports caused by sudden unforeseen arrivals of low-cost products. It is, however, just such sudden upsurges that pose the greatest threats of economic disruption in terms of unanticipated mill closures, labour lay-offs etc and consequential political disturbance.

Table 2.1: Reductions in average tariff levels during the period of the Tokyo Round (1973-1987)

(2)								
Country	Tariff level	Fibres	Yarns	Fabrics	Made-ups	Clothing	All textiles (excl. fibres)	All manufactures (excl. petroleum)
USA	Ad valorem 1987	3.5	9.0	11.5	7.5	22.5	19.0	5.0
	Reduction 1973-87	3.5	5.5	4.5	5.0	4.5	4.5	2.0
Canada	Ad valorem 1987	3.0	13.0	21.5	20.0	24.0	21.5	8.5
	Reduction 1973-87	1.0	3.0	4.0	3.0	1.5	2.5	5.0
Japan	Ad valorem 1987	0.5	6.5	9.5	11.5	14.0	11.5	5.5
	Reduction 1973-87	-	1.0	1.0	3.0	3.5	2.5	4.5
EC	Ad valorem 1987	0.5	7.0	10.5	7.5	13.5	11.5	6.0
	Reduction 1973-87	-	1.0	4.0	4.0	3.0	3.5	1.5
Austria	Ad valorem 1987	-	7.0	23.5	22.5	37.0	30.0	12.5
	Reduction 1973-87	-	1.5	3.5	3.0	-	0.5	2.0
Finland	Ad valorem 1987	0.5	6.5	28.5	19.0	39.0	29.0	6.0
	Reduction 1973-87	-	-	0.5	3.0	1.5	1.0	0.5
Sweden	Ad valorem 1987	0.5	7.5	13.0	8.0	14.0	12.5	4.5
	Reduction 1973-87	-	2.0	1.0	0.5	0.5	0.5	1.5
Switzerland	Ad valorem 1987	-	3.5	8.5	3.5	11.0	8.5	2.5
	Reduction 1973-87	-	1.0	2.0	0.5	2.5	2.0	1.0

Source: "Textiles and clothing in the world economy", BATT, 1984

Upsurges in imports tend to occur in the case of particular products from particular sources. The GATT provides for safeguards against this sort of disruption under Article XIX which allows countries to impose both fiscal and physical controls. However, it is required that measures taken under this article are subject to the principle of *erga omnes* - i.e. they must be applied equally against all Most Favoured Nations and not merely against the source of the disruptive imports - and, furthermore, those affected must be offered appropriate compensation for loss of trade. Both the EC and the USA are very reluctant to resort to this provision against a Third

Country because, under the *erga omnes* provision it would also require them to impose restrictions on each other. Because tariffs have to be set at a very high level to exclude textile products from low-cost developing countries the effect of this would be largely to exclude possibility of trade between each other - which, on the whole, does not rely on competitive pricing - with a consequent risk of damaging retaliatory action.

2.3. PHYSICAL REGULATION

Specific quantitative restrictions

The main instrument of control used to regulate the textile trade - certainly since the late 1950s - has been the quota. By this is understood a quantitative limitation on imports of specific products from specific sources when these are deemed to threaten to disrupt domestic markets. In other words, exports of a product to a particular destination from a particular source can be restricted if these are considered to pose a disruptive threat to the domestic industry in that destination while exports of the same product from another source which have yet to pose such a threat could be quite unrestricted. Similarly, exports of other products from the source subject to restrictions in the first instance would not be themselves subject to restriction if they did not pose the threat of disruption. In this context disruption takes on a particular technical meaning in that the materials at issue are being imported in such volumes as to be likely to displace those produced domestically and, therefore, to force the closure of uncompetitive national mills and endanger the livelihood of national work-forces.

The principle of specific restriction which is, thus, the central feature of the international textile trade regime, was formulated in the GATT Decision on Market Disruption of 1960. This allowed restrictions to be imposed selectively by importing countries when a sharp increase in imports of specific products from a specific source had occurred because of prices that could not be matched by domestic suppliers even though damage to the domestic market might not yet have occurred. As already noted, the limits would be placed on exports from offending countries and not generally on imports of the product in question from all sources as required by the *erga omnes* principle. It is important to note that, under the 1960 decision, it was not necessary to prove that the low prices which were causing or threatening market disruption were themselves a consequence of unfair trading practices on the part of suppliers. Such practices may, in fact, often be factors in the low prices of imported products - garment producers in western countries who are most likely to claim market disruption would argue that they are almost invariably the cause - but unfair trading as such was an issue quite distinct from market disruption and was dealt with separately within the GATT.

As already implied, the element of specificity in the imposition of these restrictions - whether as to product or source - is directly contrary to the *erga omnes* principle of GATT Article XIX. Thus arrangements which take advantage of the 1960 decision are acknowledged as derogations from the GATT - i.e. deliberate departures from its principles and rules.

Application of the Market Disruption decision

The 1960 decision was applicable to all products, but, in fact, it has only been used in respect of textiles. Further, it has only been applied by major industrialized economies against imports from developing countries and the communist world. The main beneficiaries of the protective measures which it permits have been the USA, the EC member states, Canada and the EFTA signatories - the Scandinavian countries, Austria and Switzerland.

The fact that use of the market disruption principle has been confined to textiles reflects the particular sensitivity of the advanced economies in this area for reasons that have been already rehearsed.

That it should have been directed only at developing country sources - Japan alone excepted² - is often cited as an instance of the discrimination the west habitually practices against these countries. Some degree of verisimilitude is lent this charge by the fact that the bulk of the textile products imported by the western countries also originates in those countries. (This is largely due to the scale of the intra-EC trade in textile products discussed in section 1. above.) However, a more convincing explanation of the phenomenon complained of is that in the case of developing country exports alone is the threat to western markets based upon low prices rather than considerations of style, quality etc.

2.4. THE MULTI-FIBRE ARRANGEMENT**Provenance of the MFA**

The GATT Arrangement Regarding International Trade in Textiles, more commonly known as the Multi-Fibre Arrangement (MFA), is the latest of a series of agreements entered into by the GATT signatories since 1961 to set aside the GATT rules and provide a multi-national framework within which individual importing countries can impose restrictions on imports of textile products from individual supplier countries. It was preceded in the 1960s by the Short Term Arrangement and the Long Term Arrangement, both of them like the MFA built around the concept of market disruption, but more limited in their scope. Having come into force in 1974 and been renewed three times - in 1977, 1982 and 1986 - the MFA has proved the most long-lasting of these arrangements.

The objectives of the MFA

The original format of the MFA was determined by the concerns of the western economies, particularly the USA and the EC member-states, and its development has been largely influenced by the particular nature of those concerns at those times when the arrangement came up for renewal. Its longevity is sufficiently explained by the continuing relevance of those concerns.

Essentially, it has had two objectives:

- To allow importing countries to protect their domestic industries from the damaging impact of unrestrained import competition based upon low prices;

- To allow an orderly growth of exports to those countries from low-cost Third World producers which is accepted as being to the benefit of both parties.

The corollary of the right to protect their domestic industries which the arrangement secures for importing countries is the obligation it imposes on them to ensure that these industries are restructured in such a way as to render them less vulnerable to low cost import competition. It is envisaged that this will mean that the special protection currently enjoyed by the industry will eventually become superfluous.

Principal features

The principal provisions of the MFA relating to the imposition of restraints on international trade in textile and apparel are:

- Countries may enter into bilateral agreements regulating trade in textile products by agreeing to impose quantitative restrictions on specific categories of imports of which are disrupting or threatening to disrupt the domestic market. Base quotas have to reflect the supplier countries' historical export performance - there can be no "roll back" although this principle was undermined by the EC in the 1977 version of the Arrangement - and later versions of the MFA have made special provision for new entrants which would have suffered if strictly historical criteria had been adhered to in the determination of base quotas.
- Products so restrained have to be allowed to grow at positive rates each year - 6 per cent was stipulated in MFA-I - although exceptions were allowed for particularly sensitive items. Again, new exporting countries, small suppliers and the least developed countries were to be allowed more generous growth provision.
- In order to allow for full utilisation of quotas there has to be "flexibility" in enforcing the maximum level permitted in any one year within certain limits for which minima were established. This is the origin of the concepts of "swing", by which the limits of one agreed quota may be exceeded as long as others were correspondingly adjusted, "carryforward", by which unused portions of the previous year's quotas can be carried forward to the present year and "carryover", by which certain proportions of the quotas established for the coming year can be borrowed for use in the current year.

New quotas

In the case of products not specifically covered, quotas could be introduced during the life of the agreement if market disruption was occurring or threatened. Where two countries could not agree to the imposition of quotas in these circumstances or could not agree at what level they should be imposed, the importing country could unilaterally impose restrictions during the life of the agreement. Again, reference was to be made to historical performance in determining the base quotas and annual growth was to be permitted after the first year.

Market disruption criteria

Despite considerable efforts on the part of the original MFA negotiators, no objective criteria of market disruption were agreed in 1973 and experience since the arrangement came into force has served only to increase the degree of subjectivity surrounding this key concept. There were, however, a number of guidelines:

- Market disruption had to relate to the existence or threat of serious damage to the domestic industry. This could be assessed with reference to such factors as sales, market share, profits, employment and production.
- The damage must be clearly connected with a sharp and substantial increase in imports from a particular source and/or prices set at a level considerably lower than those prevailing on the domestic market for similar products from local and other import sources for reasons not attributable to subsidies or dumping.

Surveillance

An international body known as the Textile Surveillance Body (TSB) was set up to supervise the functioning of the MFA. The TSB reviews all agreements and safeguard measures taken under the arrangement. It is also the principal forum for settling disputes. The developing countries - i.e. the countries chiefly affected by restrictions on textile products imposed by the advanced Western economies - consider that the effectiveness of the TSB is limited by the fact that of the eight seats four are allocated to "importers" and three of these are allocated to the USA, the EC and Japan on a permanent basis. (The fourth rotates between the Scandinavian countries and Canada.) The four "exporter" seats are occupied by developing country representatives who normally only have a short posting. This means that the Western representatives can build up a body of personal expertise and they are, in addition, better serviced by their domestic Governments. As a result the deliberations of the TSB tend to be biased in favour of the West and criticism of actions taken by Western governments is consequently muted. Whatever the merits of this complaint, it is difficult to dispute the point that the actions of Western countries have rarely been successfully challenged by the TSB.

A Textiles Committee of the GATT was set up to monitor the operation of the MFA. It is the final arbiter under the MFA for interpreting its provisions and is a court of appeal for disputes that cannot be resolved in the TSB.

Tightening of restrictions

There has been a tendency for the protective provisions available to importing countries under the MFA to become more stringent with each successive protocol of extension. This has generally reflected the preoccupations of the EC and the USA, with the party currently most concerned by import trends setting the pace. In MFA-II and MFA-III for instance, the EC was mainly concerned to secure provisions that would justify its intention of rolling back imports of the most sensitive categories from dominant suppliers - Hong Kong, the Republic of Korea, Taiwan and Macau. At that time the USA could afford to take a rather more

relaxed approach because of the relatively low levels of import growth it was currently experiencing. In MFA-IV in 1986, however, the USA was influenced by its experience of the import surge of the previous three years and tended to take the lead in introducing a more restrictive element into the arrangement.

The main additional restrictions introduced with MFA-IV were:

- Coverage of the MFA was extended to fibres other than the traditional cotton, wool, and manmade fibre - principally ramie, and silk blends. This reflected a surge of imports of ramie sweaters and other articles from China in 1985 and 1986.
- Importing countries could impose quotas unilaterally in the absence of agreement with the suppliers for two years instead of one year as previously.
- Underutilised quotas could be removed. This provision was intended to address the problem of sudden upsurges that could occur within quota limits if suppliers began to take full advantage of quotas which they had previously not fully utilised.
- Very large quotas from dominant suppliers could be adjusted when their heavy utilisation was having a growing impact on the market. Thus existing agreed quota levels could be frozen or even reduced if, at some stage during the life of an agreement, such levels seemed to pose a danger of market disruption. This measure was intended to justify *ex post facto* the action of the USA in 1986 renegotiating existing agreements with Hong Kong, South Korea and Taiwan despite the fact that these still had some time to run. Its effect was reinforced by a further provision allowing for growth-rates lower than 6 per cent in cases of particularly serious disruption.

These provisions were put forward by the USA specifically in order to plug the apparent loopholes in MFA-III which were identified as the main cause of the import surge of 1982-87.

c2.5 EC REGULATION OF TEXTILE TRADE UNDER THE MFA

MFA bilateral agreements

The EC's imports of textile products are governed by a series of agreements with suppliers throughout the world. These agreements are negotiated by the Commission on behalf of member-states under a mandate agreed by the Council of Ministers. The negotiators are assisted by a committee of national representatives set up under Article 113 of the Treaty of Rome - and hence known as the 113 Committee. At end 1989 the EC had entered into 19 such agreements.

Discrimination between sources

The EC's main object in the agreements with individual suppliers which it enters into under the MFA is to secure its domestic textile and clothing industries from disruption by over-rapid growth of imports of low-cost materials from developing country sources. Subordinate to this aim is a

concern to take advantage of severe restraints placed upon the major suppliers to favour imports from the least developed countries. Thus there is an acknowledged policy of discriminating between sources.

In the negotiating mandate agreed by the Council of Ministers in 1977 Hong Kong, South Korea, Taiwan and Macau were identified as "dominant" suppliers on the basis of their historical export performance. Although its total shipments were considerably smaller than those of the other three, Macau was included largely because it was a substantial supplier of garments. Since 1977 these countries have always been subject to more stringent limitations on their trade than all other suppliers with particular regard to the establishment of the base levels for individual product quotas at the beginning of new bilateral agreements, permitted annual growth-rates for quotas, and the operation of flexibility - see above. It is likely that in the case of those products which the EC regarded as most sensitive in the context of possible market disruption quota levels actually declined between 1977 and 1982 and had still not recovered to earlier levels by 1986. This curb on growth was supposed to allow for faster rates by less developed suppliers, but in fact few of these were in a position to take advantage the EC's generosity in this matter.

There were no additions to the numbers of dominant suppliers since 1977 in respect of the rounds of negotiations that began under the 1982 and 1986 extensions of the MFA - MFA-III and MFA-IV. This was despite the fact that by 1986 China had emerged as a major source of both textiles and garments. The failure to treat China as a "dominant" in respect of the MFA-IV round can only be explained by geo-strategic considerations. There is considerable pressure to bring it into the first division of suppliers when the next round of agreements comes to be negotiated.

The basket-extractor mechanism

Agreements entered into by the EC are comprehensive which is to say that, in addition to the products covered by specific restrictions on their trade, exports of products not so covered are kept under surveillance and there are quantitative criteria which define when the EC may call upon its partners to consult on possible market disruption and the introduction of a new specific restriction. In fact, the use of this so-called basket-extractor mechanism is never automatic, and quantitative criteria are only one of the indicators used by the EC for assessing possible market disruption which is usually done following requests for particular protection from member-states under Article 115 of the Rome Treaty. In cases where market disruption is thought to have been established the EC will also decide if the problem is sufficiently wide-spread to warrant seeking a Community quota in respect of the offending product or whether the problem could be resolved by a regional quota in respect of a single member-state.

The use made of the basket-extractor mechanism broadly reflects the level of import activity. There were, for instance, very few cases in the period 1982-86 when economic factors coupled with strict regulation of the EC market encouraged suppliers to concentrate on developing US outlets, but the recovery of import demand in the EC, beginning in late 1984, brought about a rash of cases.

Regionalisation of quotas

Although most of the quotas imposed under EC bilateral agreements apply to the whole of the Community, the total limit is divided amongst the various member-states in proportion to their relative importance as importers of the category of product covered. Germany usually has the largest share followed by the UK, France, Italy and the Benelux countries. The division of Thailand's quotas are considered in the following section. In the agreements made by the EC prior to 1986 there was no provision for the transfer of one country's under-utilised quota to another country and this favour was granted by the EC entirely on an *ad hoc* basis. In the agreements negotiated under MFA-IV, however, it is possible to transfer quota from a country which has used less than 80 per cent of its allocation to a another country. The quantities which could be transferred were progressively increased in the case of each agreement.

The system of regional breakdown of quotas tends to make it more difficult for supplying countries to use to the full their Community quotas particularly in the case of products much in demand. This arose when there was inadequate quota to fill orders in one country and yet obstacles were placed in the way of using another member-state's allocation to make up the difference.

c2.6. THE EFFECT OF MFA RESTRICTIONS ON EC TEXTILE TRADE**Sources affected**

As intimated above, restrictions on exports to the EC under the MFA mainly affect the developing countries and the state-trading countries. Of these two groups, the developing countries are by far the more important as sources of textile products for the EC. Imports from state-trading countries tended to increase in both absolute and relative terms in the years 1977-88 covered by Table 2.1. below, but the relative increase was largely a factor of the very rapid growth in shipments from China. Imports from other state-trading countries fluctuated in this period between 5.5-6.0 per cent of the total in the case of textiles and between 14-18 per cent in the case of clothing. Imports from non-MFA sources - i.e. the advanced economies - tended to decline in relative importance over the period under consideration in the case of both product groups.

The period selected for analysis are the years covered by MFA-II, MFA-III and MFA-IV to date. These are considered significant from the point of view of assessing the affect of quotas on the trade pattern as the EC imposed stringent restraints on imports from the "dominant suppliers" under MFA-II and MFA-III and relaxed these restrictions marginally under MFA-IV. China was treated very much as a non-dominant developing country supplier throughout this period - i.e. far more leniently than Hong Kong, South Korea, Taiwan and Macau in respect of the growth-rates and flexibility provisions granted in respect of the main products imported.

Trend analysis

Textiles: Growth in imports of textiles was consistent throughout the period, but tended to be rather slower in the early 1980s and fell away in 1986 only to recover in the period 1987-88. This was consistent with the

pattern of intra-EC trade considered in section 1 above. Although imports from developing countries - i.e. those most affected by the MFA restrictions - grew fairly steadily over the period covered by the table, with the exception of 1986, their share of total imports tended to decline from 1977 to 1986 and had still not recovered to the 1977 level by 1988. In the case of China, however, growth in absolute and relative terms was consistent for the greater part of the period.

Table 2.1.: EC imports of textile products from third countries, 1977-88
(ECU bn)

	<u>All imports</u>		<u>Of which,</u>			
			<u>Developing countries</u>		<u>China</u>	
	<u>Textiles</u>	<u>Clothing</u>	<u>Textiles</u>	<u>Clothing</u>	<u>Textiles</u>	<u>Clothing</u>
	<u>% total</u>	<u>% total</u>	<u>% total</u>	<u>% total</u>	<u>% total</u>	<u>% total</u>
1977	4.083 100.0	4.591 100.0	1.537 37.6	2.526 55.0	0.128 3.1	0.042 0.9
1978	4.599 100.0	4.588 100.0	1.667 36.2	2.420 53.1	0.134 2.9	0.023 0.5
1979	5.746 100.0	5.703 100.0	2.053 35.7	3.073 53.9	0.190 3.3	0.038 0.7
1980	6.313 100.0	6.657 100.0	2.258 35.8	3.657 55.0	0.252 4.0	0.098 1.5
1981	6.305 100.0	7.309 100.0	2.151 34.1	4.457 61.0	0.325 5.2	0.164 2.3
1982	6.675 100.0	7.848 100.0	2.243 33.6	4.647 59.9	0.382 5.7	0.168 2.4
1983	7.298 100.0	9.284 100.0	2.416 33.1	5.221 56.2	0.414 5.7	0.332 3.6
1984	8.482 100.0	11.043 100.0	2.851 33.6	6.126 55.5	0.489 5.8	0.413 3.7
1985	9.263 100.0	11.744 100.0	2.980 32.2	6.181 52.6	0.577 6.2	0.499 4.3
1986	8.479 100.0	11.996 100.0	2.884 34.0	6.936 57.8	0.588 6.9	0.601 5.0
1987	9.168 100.0	14.506 100.0	3.375 36.8	8.496 58.6	0.633 6.9	0.928 6.4
1988	9.708 100.0	15.954 100.0	3.594 37.0	9.402 58.9	0.671 6.9	1.175 7.4

Source: COMITEXIL

Clothing: Imports of clothing grew in importance relative to textiles throughout the period. Again, the rate of growth rose markedly in 1987 and 1988. The developing countries were the major source throughout the period, but the rate of growth fluctuated markedly, falling away in 1978 and 1979 and again in 1982-85 with pronounced upward surges in 1980-81 and 1986-88. Again, imports from China grew steadily over the period.

The slow down in the rate of growth of imports in the early 1980s can be largely explained by the mini-recession which affected consumer spending in the main EC economies. This was reinforced by the buoyancy of the US economy at the time and the strength of the US dollar which had the effect of turning the attention of developing country exporters from the sluggish EC markets. In addition, the USA, as a single market serviced by a number of transcontinental distributors, was inherently more attractive to the major Far Eastern exporters than the EC where distribution was still for the most part still organised on a national basis and marketing was, as a consequence, more difficult. (The system of sharing the EC quotas tended to exacerbate this problem.) Similarly, the upturn after 1986 can be attributed to the recovery of the EC market, which actually got under way in 1985, and the down-turn in the US market at the same time. The effect of this latter development on major textile product exporters was reinforced by the fall in value of the US dollar from 1986 onwards.

This would suggest that the MFA restrictions were of secondary importance to economic factors in determining the pattern of imports by the EC. They had the effect of curbing growth during cyclical upswings as in the later 1970s and after 1986, as they had also in the USA in the early 1980s. This effect is particularly marked in the case of countries subject to very tight quota growth-rates and flexibility provision - e.g. the "dominant" suppliers. However, they do not prevent upsurges from restricted sources at the early stages of upward cycles as formerly under-utilised quotas become more heavily utilised. This is evidenced in the US market in the early 1980s and in the EC in the later years of the decade.

NOTES

¹ See the Report on the Textile and Clothing Industry: Commission of the European Communities; COM(88)653 FINAL

² Japan stands alone amongst the advanced industrial economies in that it has never itself used the Market Disruption Decision to impose restrictions on its trading partners. It is also unique in this company in that it has had restrictions imposed on its exports of textile products by the USA and the EC. In the first instance, it can be confidently asserted that Japan's forbearance in the matter of the use of MFA-sanctioned restrictions reflects more the particular efficacy of its unique array of regulations and restrictive market practices in repelling imports than the effect of any free trade virtue. With regard to the restrictions imposed on it, the Japanese textile and clothing industries have in recent years posed rather less of a competitive threat to those in the other advanced economies than was formerly the case: one of the major concerns of the USA in its latest agreement with Japan in 1987 was to prevent Korean textile producers from taking advantage of Japan's relative freedom from quotas to facilitate the entry of their more restricted products into the US market.

3. THE REGULATION OF THAI EXPORTS TO THE EC

3.1. THE BILATERAL TEXTILE TRADE AGREEMENT

General

Thailand's textile trade with the EC is regulated by bilateral agreement. That currently in force was negotiated in 1986 and came into effect in 1987. The original term was four years. However, the agreement was modified in 1988 in two *procès-verbaux* to take account of the effect on Thailand's quotas of the introduction of the Harmonised System of Tariff Nomenclature. At the same time it was agreed that the term should be extended to 1991.

The agreement and the MFA

The agreement was made under Article 4 of the MFA. This permits countries to agree to impose quantitative restrictions on exports of textile products from one of the partners to the other on a bilateral basis subject to the general provisions governing such agreements in the arrangement. (Under Article 3 importers may impose unilateral restraints on imports from a supplier country subject to their persuading the TSB that there is actual or threatened market disruption. The restraints which can be agreed under Art. 4 are, supposedly, less stringent than those allowed under Art. 3, but it is not necessary to secure the detailed approval of the TSB in each case where the importing country decides to seek additional restrictions. Thus there is an incentive on both importers and exporters to use Art. 4.)

The agreement specifically excluded the use of the MFA Art. 3 provisions and also the GATT Article XIX safeguard clause in respect of imports of products covered by it. In fact, in common with all the EC's bilateral agreements, this one covered all products made from cotton, wool and ~~wool~~ (CWM) products. Those not subject to specific quotas were governed by an administrative procedure which allowed for the imposition of quotas should any of them at any time be judged to have become disruptive of the EC market.

The EC did not, however, take advantage of the 1986 extension of the MFA to cover silk-blend and "other vegetable" fibre products. This reflected the small scale of EC imports of such items compared with that of the USA at the time the MFA was renegotiated.

Rules of origin

Unless otherwise specified the agreement only referred to products deemed to be of Thai origin. Determination of origin was according to EC rules. Broadly-speaking these require that the last major production process be carried out in the country of origin. Thus, cut and sewn garments, may be processed from imported fabrics and knitwear may be produced by linking imported panels.

3.2. MAJOR PROVISIONS OF THE AGREEMENT

Specific limits on exports

Specific limits (i.e. quotas) were established restraining Thailand's major

textile product exports. Most of these took the form of Community limits, although special regional quotas were established for the UK, France and the Irish Republic. Details are given in Table 3.1., including the modifications agreed in the 1988 *proces-verbaux*. It will be seen that the annual growth-rates allowed in respect of quotas for clothing in the most sensitive Group I category were somewhat higher than those allowed for Group I textiles.

Double-checking procedure

According to the usual EC requirement, all Thai shipments were to be accompanied by export licences. These are used by the EC in what is known as the double-checking procedure to ensure that suppliers do not ship in excess of their quotas. Under the system the appropriate agencies in each member-state issue an import authorisation to cover each export license received. These are issued subject to the source country still having quota left in respect of the categories in the shipment. In theory over-shipments can be embargoed, but in practice the EC is usually content to adjust the quota for the product in question in respect of the following year to make up the difference.

Outward processing trade

Special quotas were established for products subject to outward processing in Thailand. The EC's Outward Processing Trade (OPT) arrangements allow for cloth or cut goods made in a member-state to be finished in another country and then reimported into the EC on which duty is paid only on the value added to the final product outside the EC. This practice is intended to assist Community clothing manufacturers to meet the competition of developing country suppliers by allowing them to undertake the most labour-intensive processes in countries with relatively low-cost labour. In fact most of the EC OPT is carried out with countries of the Mediterranean littoral - although Mauritius has become more important in recent years. There is very little interest in OPT with a location so remote from the EC markets as Thailand and, as a result, the OPT quotas are usually hardly used.

Re-exports of textile products from Thailand

Imports of textile products into the EC for purposes of re-export outside were not to be taken into account in calculating quota-limits.

Regional quota-shares

The Community quotas shown in Table 3.1. were divided between the individual member-states as indicated in Appendix 1. It will be seen from this that the distribution of the quota-shares as they are called differs from category to category, although Germany is usually given the largest followed by the UK, France and Italy. Growth-rates can also vary in respect of each quota-share, those of the larger importers sometimes increasing more slowly than those to the smaller countries.

The process of dividing the quotas reflects the nature of the EC as a collection of country markets with differing abilities to absorb exports. This also explains why some countries are also given so-called regional

SECTION III

Table 3.1.: Imports from Thailand subject to quantitative restrictions under the 1987 Thai/EC textile trade agreement as amended in 1988.

CCN Category	Description	Unit	Quantitative limit				Annual growth-rate (%)	
			('000)					
			1987	1988	1989	1990	1991	
Group I A								
1 ^a	Cotton yarn							
2 ^b	Moven fabrics of cotton	Kg	(9,300)	(9,579)	(9,866)	(10,162)	(10,467)	3
2a ^c	Of which other than bleached & unbleached	Kg	(2,409)	(2,481)	(2,556)	(2,632)	(2,711)	3
3 ^b	Moven fabrics of discontinuous synthetic fibres	Kg	17,000	17,510	18,035	18,576	19,133	3
3a ^c	Of which other than bleached & unbleached	Kg	(4,462)	(4,596)	(4,734)	(4,876)	(5,022)	3
Group I B								
4 ^d	T-shirts etc	Pieces	11,150	15,394	16,167	16,975	17,824	5
4s ^e	Outfits	Pieces	N/A	2,191	2,322	2,461	2,610	6
5 ^d	Jerseys etc	Pieces	8,400	8,820	9,261	9,724	10,210	5
5s ^e	Outfits	Pieces	N/A	3,456	3,663	3,883	4,116	6
6 ^d	Men's & women's woven trousers etc	Pieces	2,050	3,424	3,608	3,802	4,006	5
7 ^d	Women's blouses etc	Pieces	2,600	3,080	3,238	3,403	3,578	5
8 ^d	Men's woven shirts	Pieces	2,200	2,342	2,426	2,512	2,601	3.5
Group II A								
22	Yarn of discontinuous synthetic waste fibres	Kg	1,685	1,786	1,893	2,007	2,127	6
Group II B								
12 ^f	Pantyhose, socks etc, knitted	Pairs	11,200	11,872	12,584	13,339	14,139	6
16	Men's woven suits	Sets	140	135	143	153	162	6
21	Woven parkas etc	Pieces	3,950	4,187	4,438	4,704	4,986	6
24	Nightwear	Pieces	2,523	2,674	2,835	3,005	3,184	6
26	Dresses	Pieces	2,800	2,968	3,146	3,335	3,535	6
29 ^f	Women's woven suits	Sets	180	164	174	184	195	6
73	Knitted track suits	Sets	1,655	1,754	1,860	1,971	2,088	6
Group III A								
37 ^g	Moven fabrics of artificial staple fibres	Kg	3,200	3,424	3,664	3,920	4,195	7
Group IIIb								
10	Gloves etc	Pairs	8,400	8,988	9,617	10,290	11,010	7
74 ^f	Women's knitted suits	Sets	388	12	16	21	26	33
75 ^h	Men's knitted suits	Sets	280	177	187	197	209	6

Note: ^a Italian regional quota; ^b Category 3 includes Cat. 2; ^c Cat. 3a is a sub-limit of Cat. 3. Cat 2a is a sub-limit of Cat 3a; ^d Increased as a result of migrations of products previously classified under Cat. 83 following introduction of HS.; ^e Supplementary categories composed of suits formerly classified under Cats. 16, 29, 74 and 75. Use of these supplementary quotas was restricted to individual producers in Thailand whose exports had been affected by the introduction of HS.; ^f UK regional quotas. The original 1986 limits were modified to permit the creation of Cats 4s and 5s; ^g Irish regional quota; ^h French regional quota introduced in a modification of the 1986 agreement. Later the annual limits were reduced to accommodate the creation of Cats. 4s and 5s.

Sources: EC/Thai agreement of 1986 (unpublished English text) and Proposal to EC Council, COM(88)754 FINAL.

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quotas in respect of products to which the national market is sensitive, but are no problem in the rest of the Community.

Transfers of regional quota-shares were permitted provided that the quota-share from which the transfer was made was utilised less than 80 per cent. Utilisation of such transfers was permitted up to 2 per cent of the quota-share appertaining to the country to which it was made. For 1988 this maximum was increased to 4 per cent, for 1989 8 per cent, for 1990 12 per cent and for 1991 16 per cent. The EC also undertook to consider increasing Community quotas if any region was still inadequately supplied.

Flexibility provisions

In order to facilitate full usage of quotas Thai suppliers are permitted to use some of the quota relating to the following agreement year as long as this does not exceed 5 per cent of the total quota for the category in question in the current agreement year. This carryforward is deducted from the following year's quota.

In addition, usage of quotas not fully utilised in any year is permitted in the following year up to a limit of 7 per cent of the total quota for the year from which the carryover is made.

In respect of Group I textile products transfers between Cats. 2 and 3 and from Cat. 1 to Cats. 2 and 3 may be made up to 7 per cent of the quantity limit to which the transfers are made. Transfers between Group I clothing Cats. 4, 5, 6, 7 and 8 may be made up to 7 per cent of the quantity limit to which the transfer is made.

Transfers into any category in Groups II and III may be made from any category or categories in Groups I, II and III up to 7 per cent of the quantitative limit to which the transfer is made. Tables of equivalence for use in transferring quota from one category to another were given in the agreement.

The increase in any category quota as a result of the application of these flexibility provisions is limited to 17 per cent in any one year.

Basket-extractor mechanism

Procedures were laid down to be followed when the EC wishes to introduce a new quantitative limit in respect of a product not previously subject to restraint.

The minimum criteria for establishing market disruption related imports into the EC in any one year from Thailand to total imports in the previous year as follows:

- 1 per cent for Group I categories;
- 5 per cent for Group II categories;
- 10 per cent for Group III categories.

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It was, however, made plain that the mere fact that imports had reached these levels need not trigger a request for consultations on a new quantitative level on the part of the EC.

The provisions also obliged the EC to accept all consignments of the category in question shipped before the consultation call. For its part Thailand was obliged to freeze its exports for three months at 25 per cent of the level achieved in the last calendar year or 25 per cent of the level resulting from the application of the criteria formula, whichever was the highest

Should it not prove possible to agree a quantitative limit the EC was permitted to introduce one unilaterally at 106 per cent of the level of imports in the last calendar year. There were provisions ensuring the application of an annual growth-rate on such a limit.

Circumvention

Where products of Thai origin were transshipped or re-routed in order to establish for them another national origin - and therefore evade the quota limits - the Thai quotas could be appropriately adjusted. Failing agreement the EC could act unilaterally in this matter. In earlier agreements the EC had been empowered to make punitive adjustments of quotas in the event of circumvention so this may be regarded as a measure of liberalisation.

c4. THAILAND AS A SUPPLIER OF THE EC MARKET, 1983-88

c4.1. IMPORTANCE AS A SOURCE OF SUPPLY

Thailand did not become a significant supplier of textile products to the EC market until 1975. Since then shipments to the EC have grown fairly steadily in relative as well as in absolute terms, although even in 1988 it was still a relatively small source in the context of total imports. (In that year it accounted for 5.6 per cent of total EC imports of textiles from developing countries and 4.9 per cent of garments.)

After 1981 clothing accounted for a growing proportion of total shipments. It is the common experience of developing country suppliers that the greater part of their trade with the EC - and, indeed, the USA - consists of garments, this being the area where their comparative advantage over domestic producers in the advanced industrial economies is most marked.

Table 4.1.: Thailand's relative importance as a source of textile products for the EC market, 1975-88
(Ecu m)

	Total EC imports			Of which, from Thailand			Proportion from Thailand (%)		
	Textiles	Clothing	Total	Textiles	Clothing	Total	Textiles	Clothing	Total
1977 ^a	4,083.40	4,590.66	8,674.06	58.44	34.35	92.79	1.4	0.8	1.1
1978 ^a	4,598.95	4,537.79	9,136.74	33.91	48.18	74.09	0.4	0.9	0.8
1979 ^a	5,745.92	5,702.79	11,448.71	83.40	59.34	142.74	1.5	1.0	1.2
1980 ^a	6,313.35	6,657.24	12,970.59	88.47	80.93	169.40	1.4	1.2	1.3
1981 ^b	6,305.21	7,309.03	13,614.24	81.06	116.49	197.55	1.3	1.6	1.5
1982 ^b	6,674.87	7,847.65	14,522.52	99.32	132.36	231.67	1.5	1.7	1.6
1983 ^b	7,297.70	9,283.95	16,581.65	109.10	129.25	238.34	1.5	1.4	1.4
1984 ^b	8,482.19	11,043.23	19,525.42	135.63	135.98	271.61	1.6	1.4	1.5
1985 ^b	9,262.70	11,744.37	21,007.07	184.02	180.82	364.04	2.0	1.5	1.7
1986 ^b	8,478.72	11,995.66	20,474.38	165.52	203.50	409.02	2.0	2.0	2.0
1987 ^c	9,167.78	14,506.19	23,673.97	166.36	360.87	527.22	1.8	2.5	2.2
1988 ^c	9,708.39	15,954.22	25,662.61	202.11	464.81	666.92	2.1	2.9	2.6

Note: ^a EC of 9; ^b EC of 10; ^c EC of 12.

Source: COMITEXIL

c4.2. IMPORTS OF RESTRICTED PRODUCTS

EC imports

It is difficult to discern trends in imports by the EC of individual product categories because of the effects of the introduction of the Harmonised System of tariff nomenclature in 1988. It will be seen, however, that imports of all textile products subject to restrictions under the agreement as revised in 1988 rose sharply in 1985 and 1986 and thereafter settled down at a fairly steady level in 1987 and 1988. Imports of unrestricted textiles, on the other hand, grew markedly over the whole period 1984-88. Much the same pattern was noted in the case of clothing with the exception that substantial growth continued into 1987.

The fall in the rate of growth of imports of restricted products in the latter part of the period covered by the table was a consequence of the

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Table 4.3: EC imports from Thailand of products subject to quantitative restrictions under the current agreement, 1984-88

COM Category	Description	Unit ('000)	1984	1985	1986	1987	1988	EC Quota usage (%)	
								1987	1988
Group I A									
1	Cotton yarn	Kg	1,026	3,182	10,238	12,469	14,312	N/A	N/A
2	Woven fabrics of cotton	Kg	8,176	9,599	9,267	10,055	9,069	108.1	94.7
3	Woven fabrics of discontinuous	Kg	6,718	7,736	8,101	7,398	5,982	43.5	34.2
Group I B									
4	T-shirts etc	Pieces	5,678	5,987	12,469	15,361	1,681	137.8	83.5
5	Jerseys etc	Pieces	6,015	5,744	8,936	7,082	9,447	84.3	77.0
6	Men's & women's	Pieces	1,780	1,944	2,041	2,088	2,969	98.0	86.7
7	Women's blouses etc	Pieces	1,561	1,493	2,553	2,120	2,550	81.5	82.8
8	Men's woven shirts	Pieces	1,057	1,115	1,752	1,818	1,815	82.6	77.5
Group II A									
22	Yarn of discontinuous synthetic waste	Kg	541	485	602	625	628	37.1	35.2
Group II B									
12	Pantyhose, socks etc, knitted	Pairs	6,599	4,750	7,773	11,372	12,752	101.5	167.4
16	Men's woven suits	Sets	290	328	785	1,882	2,584	N/A	N/A
21	Woven parkas etc	Pieces	2,088	2,941	3,638	4,045	4,084	102.4	97.5
24	Nightwear	Pieces	1,494	1,212	2,746	2,457	3,436	97.4	128.5
26	Dresses	Pieces	1,443	1,312	1,803	2,829	2,084	101.0	78.2
29	Women's woven suits	Sets	547	589	600	1,871	2,631	N/A	N/A
73	Knitted track suits	Sets	390	373	1,041	1,250	1,381	182.4	97.5
Group III A									
37	Woven fabrics of artificial staple	Kg	1,014	2,404	4,351	2,545	2,272	N/A	N/A
Group III B									
10	Gloves etc	Pairs	4,361	3,326	4,079	4,242	5,685	50.5	63.3
74	Women's knitted suits	Sets	713	787	1,359	3,306	3,221	N/A	N/A
75	Men's knitted suits	Sets	23	36	1,530	4,088	1,973	N/A	N/A
All restricted textiles		Kg	17,745	23,326	32,359	33,072	32,263		
All restricted clothing		Kg	7,494	7,721	14,162	21,594	21,645		
Other textiles		Kg	935	2,074	3,441	5,908	8,637		
Other clothing		Kg	1,286	1,979	3,338	3,686	7,685		

Sources: COMITEXIL and Table 3.1.

of the quotas. In 1984 and 1985 these were underutilised and this allowed for an upsurge of usage when the market recovered in 1986. However, from 1986 on quotas were fully utilised and growth was limited to the annual growth-rates agreed in the bilateral. (In the case of clothing a further upsurge was possible in 1987 because the agreement had introduced substantial increases in quota base-levels in the case of most products. In addition, more clothing categories were subject to restrictions in the new agreement.) However, the table illustrates the main characteristic of the NFA textile trade regime which is to curb the growth of imports of affected products when demand for these is very strong. However, it also demonstrates that the setting of quantitative limits allows for upsurges in imports as the market experiences cyclical upturns and previously under-utilised quotas become fully utilised. These upsurges are particularly

disruptive for domestic industries and, as noted in section 2, the EC and the USA have attempted to adjust successive MFA agreements to deal with the phenomenon - apparently with limited success.

Quota-utilisation

There are no data relating to the level of Community quota utilisation taking into account the effect on annual levels of flexibility provisions and downward adjustments for overshipments in previous years. However, Table 4.2. compares actual imports to the levels for 1987 and 1988 which were agreed in the bilateral as amended. This suggests very high levels of usage in the case of all clothing quotas, particularly those in the particularly sensitive Group I. Of the three Community textile quotas, Cat. 2 (woven cotton fabric) appears to be fully utilised, but Cats. 3 and 22 (mef fabrics and yarns) were under-utilised. However, it must be recalled that Cat. 2 was treated as a sub-category of Cat. 3 which means that the more the Cat. 2 level is utilised the more the level for Cat. 3 overall is reduced. Thus, utilisation of what was actually available under that category was much higher than the calculations in the table would suggest.

The generally high level of quota utilisation was confirmed by the EC despite their inability to supply the supporting evidence.

Use of quota-shares and regional quotas

Except in the case of the UK in 1989 it was not possible to secure data relating to usage of quota-shares and regional quotas by the individual member-states. However, the high levels of overall usage suggest that the countries with the largest shares and regional quotas were generally using these to the full. Thus, Germany, the UK, France and Italy constituted the largest markets in that general order.

UK quota-utilisation in 1989

UK utilisation of the Cat. 2 quota (cotton greige) was high, but that of processed Cat. 2a (processed cotton fabric) was limited. In the case of mef fabric categories 3 and 3a usage was also low - but see the remarks above.

In the case of the most sensitive Group I clothing categories, usage was high in the case of Cats. 4 and 5, less so in the case of 6, 7, and 8. UK interest in the specialist outfit categories 4s and 5s was modest.

There was hardly any take-up of the UK share of the Cat. 22 quota (synthetic yarn). Of the other Community clothing quotas, that on pantyhose etc (Cat. 12) was well-utilised, but mostly of the others only modestly.

Of its own regional quotas, Cat. 29 (women's woven suits) was fairly well taken up, but 16 (men's suits) and 73 (knitted track-suits) were only half utilised.

UK usage of Group I categories was, therefore, similar to the pattern for the EC as a whole - although it is likely that the continental states will have made more use of the special quotas for suits under Cats. 4 and 5. It would seem, however, that its usage of other quotas, especially those on clothing, was below the levels of Germany, France, Italy and the Benelux

countries.

Table 4.3: UK usage of shares of Thai Community quotas and its own regional quotas, 1987

CDI Category	Description	Unit ('000)	Agreed quota limit	Maximum shippable quantity ^a	Quantity licensed for import	Usage of quota ^b
Group I A						
2	Woven fabrics of cotton	Kg	1,048	1,108	981	88.5
2a	Of which other than bleached & unbleached	Kg	273	273	151	55.0
3	Woven fabrics of discontinuous synthetic fibres	Kg	2,037	2,243	954	42.5
3a	Of which other than bleached & unbleached	Kg	820	820	372	48.0
Group I B						
4	T-shirts etc	Pieces	4,480	4,525	3,907	86.0
4s	Outfits	Pieces	670	717	239	33.0
5	Jerseys etc	Pieces	2,757	2,876	2,660	92.5
5s	Outfits	Pieces	1,627	1,740	860	49.5
6	Men's & women's woven trousers etc	Pieces	361	412	331	80.5
7	Women's blouses etc	Pieces	434	482	345	72.0
8	Men's woven shirts	Pieces	228	262	167	64.0
Group II A						
22	Yarn of discontinuous synthetic waste fibres	Kg	369	364	22	6.0
Group II B						
12	Pantyhose, socks etc, knitted	Pairs	2,290	2,529	2,249	89.0
16 ^c	Men's woven suits	Sets	143	163	88	54.0
21	Woven parties etc	Pieces	968	1,103	628	57.0
24	Nightwear	Pieces	429	295	97	33.0
26	Bresses	Pieces	571	651	437	67.0
29 ^c	Women's woven suits	Sets	174	186	143	77.0
73 ^c	Knitted track suits	Sets	420	479	276	58.0
Group IIIb						
10	Gloves etc	Pairs	2,522	2,586	1,302	50.0
10a ^d			1,211	1,296	1,032	80.0
74	Women's knitted suits	Sets	16	20	12	62.0
C1 ^e			2,037	2,243	1,935	86.0
C2 ^e			820	820	543	66.0

Note: ^a Includes flexibility provision, quota-share transfers and adjustments for overshipment; ^b proportion of maximum shippable quantity in receipt of import license; UK regional quotas.

Sources: Trade sources

5. THE REALISATION OF THE SINGLE MARKET**5.1. OBJECTIVES**

The objective to be achieved by end-1992 is the establishment of an institutional frame-work that will facilitate the process of transforming the EC from a customs union of twelve national economic entities into a single market. The model aimed at is that of the USA, although there are substantial differences between the member-states as to the extent to which the various areas of sovereign authority should be subsumed into a quasi-federal structure. It is, however, common ground that the unified market should continue to expand after 1993, taking on more and more of the characteristics of a single economic entity. This is seen as making it possible for resources of people, materials and capital can be deployed to the maximum advantage.

5.2. MEASURES**General**

The achievement of these objectives is seen as requiring measures to remove the remaining barriers to the development of the single market and their replacement by institutions that promote that end. Existing barriers are broadly categorised as physical, technical and fiscal. The Commission's Internal Market White Paper which was published in 1985 listed some 300 matters that required to be addressed in these connections. By mid-1989 these had been reduced to 279 as some of the original 300 had been achieved or grouped together. Each of these points require a Community Directive approved by the General Council after discussion by national delegates and the EC Parliament.

Specific directives

Proposals in the White paper that will eventually become directives cover the following main areas:

- Liberalisation of financial services;
- Liberalisation of transport services;
- The creation of suitable conditions for co-operation in the field of industrial and intellectual property and company law generally;
- The opening up of the public procurement and information markets to tenders from all member-states;
- The harmonisation of technical and other standards;
- The removal of frontier controls and the harmonisation of import and export procedures for goods, such as veterinary and other health controls;
- The removal of fiscal barriers;
- The freedom of movement and settlement within EC countries for all

citizens of EC states.

Areas of uncertainty

VAT regimes: One of the major barriers to the evolution of the single market are the different rates of VAT charged in the member-states. As long as these differences exist so long will tax frontiers survive within the Community. It is considered unlikely that progress will be made in this area until at least 1996.

Monetary union: As noted in section 1, differences in exchange rate and foreign exchange controls are considered to be significant obstacles to intra-EC trade. These will not be swiftly resolved as long as national governments regard their ability to manage their exchange rates as a non-negotiable aspect of their sovereign authority. The UK Government is, however, committed to enter the European Monetary System "when the time is ripe" and it seems unlikely that this will still not have been done by 1993. This will remove the main cause of fluctuation in exchange rates between between the various European currencies.

Employment legislation: The UK Government is at present adamant in its refusal to introduce the proposed common employment legislation. However, this affects workers' rights and further restrictions on the labour market rather than the status of the single market as such.

6. IMPLICATIONS FOR THE SUPPLY OF TEXTILE PRODUCTS**6.1. GENERAL CONSIDERATIONS**

As noted in section 1, the bulk of EC trade in textile products is between member-states, largely as a result of the removal of formal barriers to trade consequent on the establishment of the Common Market. This encouraged producers to develop outlets in other member-states and distributors to look to those countries as possible sources of supply. At the same time other factors created disincentives to trade with third country suppliers. Since the mid-1980s, however, imports from external sources, particularly the developing countries, has grown substantially largely as a result of economic developments. In short, the remaining barriers to trade within the Community which are due to be largely removed by 1993 have not exercised a significant influence over the sourcing policies of buyers.

It has to be considered, therefore, whether the effect of the creation of the single market will bring about significant changes in the economic factors that affect the attractiveness or otherwise of EC supply sources.

6.2 THE ECONOMIC EFFECTS**Direct effects on costs**

The direct effects on costs of the removal of the present barriers to trade between member-states are expected to be minimal. The conclusion of the most authoritative review of this subject is that these could range between 0.5-1.5 per cent. The possibility of savings of this order is unlikely influence sourcing strategies.

Indirect effects on costs

Just as the creation of the Common Market stimulated trade between member-states, the institutional changes scheduled to be completed by 1993 are expected to facilitate the development of companies which operate on a European scale by removing present disincentives to investment and the cross-border movement of goods and capital as well as serving to stimulate a movement in this direction by bringing about a greater awareness of the potential of the single market. In other words, companies will become more "European-minded" and, therefore, more inclined to take advantage of the new opportunities which will be opened up for both producers and distributors. The question remains, however, whether this will necessarily favour European sourcing.

European scale operation

The company operating on a European scale will be seeking to use its power in the market place to negotiate the most favourable terms with suppliers and to exercise the greatest possible influence over the strategies of retail outlets. By these means it will try as far as possible to secure the economies to be derived from the scale of its operation and, thus, become more competitive. A possible impediment to the evolution of such companies is the survival of national differences in taste in clothing as this affects styles, fabrics, colours etc. As already noted, however, there has been a process of convergence here in Europe and, indeed, throughout the

world and, insofar as differences are still significant, they chiefly affect the sort of tailored outerwear worn on more formal occasions. This accounts for only a relatively small part of the total clothing market and even in this area there has been considerable internationalisation in taste.

Essentially such companies will organise the sourcing of products and their distribution on a European as opposed to a national scale. It is important to note that such companies have already made their appearance and the formal creation of the single market will, at most, encourage and facilitate this process. There would seem to be scope for several types of operation:

- Those which organise production for onward sale to wholesale and retail outlets. This type of organisation is probably best exemplified at present by the Italian companies Benetton and Gruppo Finanziario Tessile both of which have wholly-owned manufacturing plant outside Italy in addition to making use of the Italian industry's specialist outward processing network. They also create onward links with distributors throughout the EC. Given the high costs of manufacturing clothing in Europe, this is increasingly likely to be done through outward processing contracts, with European cut goods or fabrics shipped outside the EC for assembly and finishing. This is already a well-established pattern with the German industry where suppliers have links with contractors in Eastern Europe and Yugoslavia as well as with Greece inside the Community while, increasingly, the French industry also looks to North Africa for such services or further afield in Mauritius.
- Companies which are essentially wholesalers placing orders for contract production and distributing to a wide range of retail outlets. Important examples of such companies are presently found in Germany, including Schiesser AG, Mey and USA. The suppliers of these companies are in Germany itself, Greece and the Far East. Their main outlets are currently in Germany, but they also supply retailers elsewhere in the northern tier of member-states - although not in the UK.
- Major retail groups which purchase centrally on behalf of their outlets. The retail distribution of garments in the UK is presently dominated by such companies of which the largest is Marks & Spencer. There are also important examples in Germany such as Kaufhof, Hertie and Karstadt. Again these operate primarily on a national basis, but many have acquired outlets in more than one EC country. Marks & Spencer is established in France while the UK C&A group has been "in Europe" for many years. There are also specialist clothing shops such as Mothercare, Laura Ashley and Habitat which have outlets in a number of EC countries.
- Another possible development of the single market is the mail-order house operating on a European scale. It is understood, however, that the development of such businesses is hampered by the complications of national VAT structures. As already noted, these are not due to be harmonised until at least 1996.

Effects on sourcing

The mere fact that more such companies might evolve as a result of the single market would not, of course, necessarily benefit European producers. As already noted, for most textile and clothing products there are limits to the scale of production and major suppliers are those which organise supply from a number of separate sources through outward processing. Because of the costs of production in the EC, especially labour, this increasingly, involves the use of contractors outside the EC.

The US experience is probably relevant, especially as that country is the acknowledged exemplar for the European single market. For many years major clothing producers in the USA have only produced their more expensive lines in that country while more standard items destined for the mass-market have been contracted out, mainly to Far Eastern suppliers. Increased manufacturing costs in the USA and the strength of the US dollar at the time encouraged a massive growth of import sourcing in the early 1980s, much of it by US clothing producers.

An alternative to this is the outward processing of cut goods which is encouraged by the 807 duty-break. The growth of the US outward processing trade has undoubtedly been stimulated by the tightening of US restrictions on imports under the agreements negotiated during the MFA-IV round: although standard 807 goods are subject to restrictions in the same way as other imports, the main 807 sources in the Caribbean have been less affected by such restrictions and, under the Caribbean Textile Access programme, there is unrestricted access for 807 products assembled from cut goods manufactured from US-made fabrics. In effect, US clothing manufacturers have become, essentially, suppliers, using their own domestic production facilities only when it appeared economic to do so.

Again, in the case of companies which are essentially distributors and have no manufacturing facilities of their own, the example of the USA demonstrates organisations which service a giant single market have no national loyalties if the products they require can be more economically sourced elsewhere. In addition, as a single market served by a limited number of distributors is much easier for overseas producers to supply than the EC: which is still to a very large extent a collection of national markets serviced by distribution networks that transcend national boundaries. This reflects not only reduced marketing costs, but the scale of the orders placed. This was one of the factors that caused major Hong Kong suppliers to concentrate their marketing effort on the USA in the early 1980s and maintain this emphasis after the downturn of the US market in 1987. Thus the development of a single EC market could be expected to make Europe more vulnerable to overseas producers able to supply products of the desired quality to agreed delivery schedules with whom European producers cannot compete on grounds of cost.

Already such a trend is evident. Hong Kong knitwear producers have been able to establish themselves in the Italian market relying on a combination of high quality and cost that the local industry cannot match despite its acknowledged world supremacy as a supplier of knitted garments. It is significant that Marks & Spencer which used to emphasise the fact that its merchandise was UK sourced has in recent years encouraged its suppliers to

look further afield - including the Far East. Portmans Ltd. in the UK which is the buying arm of the Sears group tends to look to Hong Kong first and turns to EC sources only if its Hong Kong suppliers have inadequate quota. German distributors also tend to favour non-European sources to the extent that they will look to European producers even for quality products only when shortage of quota prevents them from securing their full requirements in Hong Kong.

Quick response

The main advantage enjoyed by local producers in respect of such consumers is their proximity to the market place which can enable them to respond much more immediately to the constant changes that characterise the clothing market, particularly in the case of ladieswear where fashions change almost every season. The development of "quick response" supply strategies in recent years enables retailers to reduce considerably the inventory costs that have been traditionally associated with supplying such a market and can be particularly burdensome to major distributors servicing many outlets. "Quick response" is, as yet relatively undeveloped in EC clothing markets, but it may be a factor which will eventually favour a greater reliance on local producers.

NOTES

¹ See "The cost of non-Europe in the textile-clothing industry"; IFO-Institut für Wirtschaftsforschung-Prometeia Calcolo Srl; Document of the Commission of the European Communities; 1983.

² Under item 807 of the US tariff system US manufacturers may export component parts to another country for assembly and reimport the finished goods paying duty only on the value added outside the USA. This concession was developed as a means of encouraging US industries to maintain domestic manufacturing facilities and associated material requirements by allowing them to take advantage of low-cost labour overseas for particularly labour-intensive processes. It was also a way of promoting economic activity in particularly favoured developing countries. 807 contracts have proved particularly appropriate to the garment industry. See P.J.B. Steele, "The Caribbean clothing industries: the US and Far East connections", *op. cit.*

³ "Quick response" is the generic term used in the USA to describe a whole package of management techniques and technologies whereby the domestic textile industries - fabricmakers as well as clothing manufacturers - attempt to capitalize on their one undoubted competitive advantage over importers which is their proximity to the immediate consumer. Quick response associates a rapid exchange of data right through the clothing production and distribution process with sophisticated management processes and the most advanced production technology with the object of reducing the response time of producers and distributors to demand trends in the retail market. This means that costly inventories at each stage of manufacture and distribution can be reduced to a minimum to be replenished on a "just in time" basis - common in other areas of manufacturing and food distribution - and the risks of over- and under-ordering, particularly characteristic of the fashion end of the clothing market, can be sensibly reduced.

c7. THE EXTRA-EC TEXTILE TRADING REGIME AFTER 1992**c7.1. THE EFFECT OF THE SINGLE MARKET**

As already indicated, the main effect of the completion of the single market and especially the abolition of controls on cross-border trade will be to make it very difficult to enforce a system of sharing Community import quotas on textile products between the various member-states. For the same reason member-states will no longer be able to request special protection against imports under Article 115 of the Treaty of Rome and be given regional quotas.

The effect of this on the pattern of imports from third countries into the EC is uncertain. It is possible that countries that have enjoyed a high degree of protection until now, Greece, Spain and Portugal, will see disproportionate increases in their imports. It is also likely, however, that it is countries with well-established importer networks, such as Germany and the UK, will also see increases in third country sourcing as importers in those countries, which often complain of shortage of quota, place larger orders. Suppliers will also find it easier to deal with known customers than to open up relatively undeveloped markets.

Whatever the outcome in this respect, the measure seems likely to be an unqualified benefit to third country suppliers because of the increased flexibility they will derive from being able to use their quota-allocations wherever they will in the EC. This will be particularly advantageous if, as seems likely, the single market encourages the evolution of distributors operating on a European scale who will place very large orders on behalf of retail outlets throughout the Community. The experience of Hong Kong suppliers noted in the previous section suggests that this makes a market easier to service and considerably increases its attractions as an export outlet.

c7.2. THE FUTURE OF THE MFA**Importance of the textile import regime**

The analysis of the pattern of imports into the EC in section 1 suggested that the main factors underlying the growing importance of third country imports after 1985 were the upturn in demand in member-states as they emerged from the mini-recession of the early 1980s and a corresponding down-turn in the attractiveness of the US market as a result of the weakening of the US dollar - although some major suppliers, notably Hong Kong were not affected by this. The upsurge in EC imports would not have been possible, however, had there not been considerable under-utilisation of quotas in the previous year as a result of the relative weakness of its market and the strength of that in the USA. Similar rates of growth cannot be expected in subsequent years given that quotas were by then much more fully utilised and suppliers would be confined to agreed growth-rates plus flexibility. Similarly, the virtual capping of supplies from Hong Kong, South Korea and Taiwan as a result of the particularly restrictive agreements of 1986 and the fall in Chinese exports in 1988 following substantial embargoes on overshipments in 1987 made the US market much less attractive to importers leaving aside the decline in demand. However, under-utilisation of US quotas in 1988 made it possible for imports of

restricted products in the first ten months of 1989 to increase by some 15 per cent over levels achieved in the comparable period in the previous year.

Another aspect of the present textile trade regime is the extent to which it guarantees markets to suppliers in particular countries irrespective of their competitiveness. The object of the MFA of creating shortages of low-cost textile products from particular sources in advanced country markets thus enabling high-cost domestic producers to continue to trade at economic prices has as its corollary that those in possession of quota can rely on selling their products even though they may be unable to match the prices offered by a lower-cost supplier. Thus, it is argued, by way of example, a Hong Kong shirtmaker with quota can sell in the USA despite the fact that a Thai company can offer an equivalent product at some 15-20 per cent lower cost because the Thai company has inadequate quota.

The outcome of the Uruguay Round

The present MFA which governs bilateral textile trade agreements between the major importers and developing country suppliers, including Thailand, will come to an end in 1991. The nature of the successor regime - whether it will be once again extended or replaced by some other arrangement or whether the notion of a special regime for the textile trade will be altogether abandoned - will be largely determined by the outcome of the Uruguay Round of multilateral trade negotiations under the GATT which are due to be completed by the middle of 1990. It is impossible to foresee the outcome of the MTN with any degree of certainty at the beginning of 1990. However, Annex II analyses the known negotiating positions of the various parties and the balance of forces and, on this basis, offers a speculative forecast.

The following seem likely to be the main points agreed upon:

- The MFA will not be renewed and textile trade will be returned to GATT rules - or rather brought under GATT rules effectively for the first time;
- That there will be a period of transition during which the present MFA regime is phased out. The exact programme cannot easily be determined, but it seems likely that suppliers in less-developed economies will be favoured over those in more advanced economies - such as Thailand. The length of the period of transition is also uncertain. The author suggests that a period of five years would be adequate if the parties can agree on other matters - see below - but this could be highly optimistic. The most authoritative estimate from an EC source (the German textile industry association) is that it might take from 9-15 years;
- That GATT rules will be strengthened, limiting the opportunities for developing countries to impose restrictions on imports into their own market and to indulge in unfair trading practices in respect of their exports by means of subsidies or dumping. In addition, it will be made easier to enforce intellectual property rights in ideas and trademarks. Such measures will be the price of the West's agreeing to abandon the principle of quantitative restriction of imports;

- The GATT Article XIX safeguard clause will be modified allowing quantitative restrictions to be imposed against particular suppliers in respect of specific products in cases of particular need. Again, the West attaches particular importance to this.

Short-term implications for EC imports from third countries

The above scenario suggests that there will be little change in the international textile regime for some little time after 1991 and it seems likely that the EC will renew its main bilateral trade agreements. In respect of the more developed suppliers - such as Thailand - these should have much the same coverage as those currently in force. Some of the less sensitive quotas might be abandoned and there will be more generous base-levels, growth-rates and flexibility provisions for the rest. These quotas are rarely fully-utilised and such concessions seem unlikely to have much practical effect on the level of imports. Growth-rates and flexibility provision would presumably be increased progressively in respect of the most sensitive quotas as a preliminary to phasing these out. The EC is committed to favouring the less-developed sources in this process, but the extent to which they will be able to benefit from this significantly to increase their market share is in doubt.

In general, the regime during this transitional phase will tend to favour some increase in the growth-rate of imports into the EC from the developing world - assisted by the ending of quota-sharing and Article 115 regional quotas. The pattern of growth will, however, still be mainly determined by economic developments and their effect on EC demand.

Longer-term implications for EC imports

The effects of free trade: The effect on imports of the ending of quantitative restrictions on textile exports and the introduction of a free trade regime under the GATT is necessarily more speculative. Assuming that unfair trading is banned and some more effective means are found of enforcing this - and this seems to be a minimum requirement for the West's agreeing to abandon the MFA - the questions remain to be resolved as to how far this would affect the competitiveness of developing country producers *vis-a-vis* the EC domestic industries and also the competitiveness of developing country producers in relation to each other. Of particular interest is the effect on producers in Hong Kong, the major supplier, whose production costs relative to other producers have increased inexorably in recent years largely as a consequence of the growth of the Hong Kong economy, and also those in the Republic of Korea which have had a similar experience and for much the same reason - although in their case the availability of investment and export incentives eases the predicament of producers in that country.

The large quotas presently held by Hong Kong probably make it easier for certain producers to survive in the market place in the face of competition from those in less costly manufacturing locations - such as Thailand. Manufacturers of standard items such as men's business shirts are probably most at risk here. This would suggest that under free trade they would lose their market.

However, it is important to note that the possession of quota does not necessarily guarantee markets: Trinidad & Tobago, for instance, has been unable to benefit from its agreement with the USA largely because its high costs make it an uneconomic manufacturing location. Singapore also finds it hardly worth its while to use its EC quotas because of its high manufacturing costs - although it is noticeable its exports to the USA seem to have been less affected by this.

Nevertheless, the chief factor in Hong Kong's continuing domination of the world market is its concentration on high-value items where the margin of profit is proportionally higher and which are not easily manufactured elsewhere. Its position is also reinforced by its reputation for efficiency and reliability as a supplier which has caused EC and US buyers to regard it as their first choice of manufacturing locations. This confidence will not be easily transferred to other sources of supply. It seems most reasonable, therefore, to assume that, while the removal of most specific quantitative restrictions on trade in textile products will increase the competitive pressures on Hong Kong's relatively high-cost industry, the benefits to other sources of supply will accrue only over a considerable period of time. Similar remarks might be made of such sources as the Republic of Korea and Taiwan.

The effects of fair trade: Another significant issue to be considered is the effect on exports from developing countries of the likely strengthening of GATT rules and disciplines as these affect access to those country's domestic markets and international trading practices - particularly those that make possible below-cost pricing of exports. This is not easily resolved in the absence of more data relating to the extent to which the possession of protected markets makes it possible for developing country producers to compete more effectively in international markets. It is also uncertain how far the benefit such producers derive from investment and export incentives affects their competitiveness in respect of the domestic industries in the advanced economies as against other developing country suppliers which also seek to sell in those markets.

In the case of the EC, the industry takes the view that its investment in advanced textile technology has enabled it to reduce its unit costs to developing country levels. It would maintain that subsidy of production alone enables suppliers in those countries to compete successfully in EC markets. It is acknowledged, on the other hand that EC garment industries probably could not compete with those in developing countries even if the latter abandoned their subsidies because of the inherently labour-intensive nature of this activity. The only area where Western producers have a definite comparative advantage is in the case of high-fashion garments the demand for which at the time they appear on the market cannot be readily determined. In this instance, with proper "quick response" technology, they are in a far better position than those in the Far East to react quickly if their proves to be a ready demand for the products.

Intellectual property: The question of intellectual property as this affects trade in textiles and garments is likely to prove a contentious issue for two reasons:

- There is considerable pirating of Western producers' trade marks and designs. It is possible that this is not of great significance in the

trade with Western countries, which mostly consists of the filling of contracts placed by Western buyers. However, there is said to be substantial counterfeiting of famous brand-name Western garments with well-known brands both for domestic sale in developing countries and for export - especially to the Middle East - and this enables the perpetrators to be more competitive when bidding to supply Western contracts;

- The contract nature of most exports from third countries, whereby suppliers adopt the specifications given them by Western buyers rather than generating their own designs, opens up a rich field for dispute over the origins of such specifications.

A tightening of the rules regarding intellectual property could affect developing country exports to the West firstly by depriving suppliers of the revenues of trade in counterfeit. It is also quite possible that the administrative mechanisms that will need to be introduced to secure intellectual property in products so ephemeral as textiles and garments will make it more difficult even for legitimate trade to be carried on.

NOTES

¹ In considering the future pattern of trade in textile products between the advanced economies of the West - including the EC - and the developing countries it is impossible to ignore the question of the likely consequences of Hong Kong's return to Chinese sovereignty in 1997 on the ability of its textile industry to continue to function as at present. Its present importance as a source is such that its future in this respect must affect the trading opportunities of alternative sources of low-cost, high quality products - amongst which Thailand must be included. Having said this it has to be acknowledged that the matter is highly speculative and beyond the scope of the present exercise. It has, accordingly, been assumed that the present political difficulties which appear to cloud the future of the Colony will be resolved and the the common economic ambition of China and the United Kingdom that it should continue as a thriving free market economy after the take-over will be achieved.

8. FUTURE OPPORTUNITIES FOR THAI TEXTILE EXPORTS TO THE EC

8.1. THE EFFECT OF THE SINGLE MARKET

End of quota-sharing

Like other developing country suppliers, Thai textile producers will benefit from the removal of most of the remaining barriers to intra-EC trade insofar as this will make it no longer possible for the EC to divide its Community quotas among member-states as at present or to impose regional quotas in respect of individual countries. As intimated this is likely to bring about the cessation of this practice in any form and the establishment of a single market for imports as much as for internal trade. This will make it much easier for Thai exporters to fully utilise their quota allocations.

Evolution of European-scale production and distribution

The main consequence of the evolution of the single European market for the market in textile products in the EC is likely to be the encouragement this gives to producers and distributors to organise their operations on a European rather than a national scale. In the case of production, this is likely to result in more European companies engaging in outward processing, especially in garment manufacture in order to secure the benefits of lower-cost labour in the less-developed regions of the EC or in third countries. (In the latter instance, an increase in outward processing trade would require some relaxation of the present limits the EC places on this which would not be affected by the single market as such.) Thai producers would be unlikely to win a substantial proportion of EC's outward processing trade because of their geographic remoteness and an extension of this practice might make it more difficult for them to compete in terms of price. In general terms, however, this is not expected to have a significant effect on the pattern of sourcing.

The evolution of European-scale distribution companies is, if anything, likely to benefit Thai producers insofar as such companies are likely to welcome the increased flexibility in sourcing arising from the ending of quota-sharing.

8.2. THE CHANGE IN THE INTERNATIONAL TEXTILE TRADE REGIME

The move towards a freer trade environment

Thai trade with Europe seems more likely to be affected by changes in the present textile trade regime as this affects EC trade with third countries generally than by the evolution of the single European market. If, as seems likely, the changes result in a freer trading environment this could have consequences for Thailand in the form of fewer and larger quotas with more generous growth-rates and flexibility provision and ultimately the removal of all quantitative restrictions except in the most exceptional circumstances. The question remains, however, how far the Thai industry will benefit from this development in that it will not only be able to compete for a larger share of the EC market with European producers - which will almost certainly be to its benefit - but will also be obliged to compete with other developing country suppliers which, like itself, are no

longer constrained by quotas. It is known that influential figures in the industry believe that the present quotas limit the effects of price competition in the market place by limiting the opportunities for such low-cost suppliers as China and Bangladesh and thus guarantee them market share.

It is judged that this represents an over-reaction for a number of reasons:

- China, whose industry must be considered the greatest threat to that of Thailand in terms of the prices it can charge on international markets is likely to continue to be a restricted source because of its inability to conform to GATT requirements relating to fair trading practices. For reasons which are argued in appendix II, it is considered likely that these restrictions will take the form of quotas as at present and China already fully utilises these quotas. It is concluded, therefore, that China will not be allowed to take over the EC market to the exclusion of other suppliers even if this was within its productive capability.
- Insofar as quotas guarantee market-shares to those who possess them - and the extent to which they do is debatable - those chiefly at risk from freer trade would appear to be the relatively high cost producers in Hong Kong, South Korea and Taiwan. As already noted, these industries - particularly in the case of Hong Kong - have tended to concentrate on the production of higher-value items within the various restricted category ranges where their relatively high costs constitute less of a competitive disadvantage. It would not be easy for less-experienced competitors to challenge them in these areas. (Fashion knitwear would seem to be a particular case in point.) However, partly because of its very large quotas, Hong Kong is still a major supplier of such standard items as men's business shirts, women's slacks and leisurewear with a lower fashion content. These can be produced elsewhere and Thailand has already demonstrated its ability to produce things to the satisfaction of buyers in both the EC and the USA, in particular winning contracts to produce them for prestigious designer-labels which might previously have gone to Hong Kong. This reflects not only its present relatively low production costs, but also its capability to produce orders to precise specifications within acceptable quality tolerances to exacting delivery schedules which are considered equally as important as low prices in determining the sourcing strategies of buyers in the West. This suggests that the Thai industry will be better placed than most to compete with Hong Kong in a freer market despite the very close links the Colony's producers have established with outlets on both sides of the Atlantic.

It is concluded, therefore, that Thailand is more likely to benefit than to lose were it to be obliged to compete in a less restricted marketing environment.

The strengthening of GATT rules

The corollary of freer trade in textile products is likely to be fairer trade with substantial restrictions imposed on the right of the developing country suppliers to protect their domestic markets and to subsidise

exports by means of incentives. Assessment of the comparative advantages of the Thai industry should, therefore, take account of the effect on its costs of the possible withdrawal of present textile specific subsidies and export incentives and other tax-based incentives available to all exporters. The latter were modified in 1989 - partly as a result of pressure from the EC and the USA in the GATT negotiations, but they are still considered export-effective and the possibility of further changes in the event of agreement to phase out the MFA must be considered.

Such changes would, however, affect all suppliers except those who can claim benefit of the GATT rules which ease the application of the fair trading provisions in the case of "infant industries" and particular balance of payments problems. However, these rules are usually accepted as justifying restrictions in access to domestic markets rather than unfair export trading practices. Furthermore, the sort of countries which might successfully pray them in aid are unlikely to be significant competitors in overseas markets.

On balance, it seems likely, therefore, that the effect on the Thai industry of strengthened GATT rules would, be to reduce the present competitive advantage over European producers which it derives from present subsidies rather than to affect its own competitiveness vis-a-vis other developing world suppliers. As suggested above, this loss of comparative advantage might affect its ability to export cotton textile products, but would be unlikely to affect exports of garments which constitute the bulk of its trade with the EC in value terms.

NOTES

See "Distortions of competition in world textile trade:" GESINTEXTIL, Frankfurt-am-Main, 1989.

APPENDIX I: REGIONAL SHARES OF TARIFF QUOTAS IN THE EC, 1987-91

Category	Country	Unit	1987		1988		Growth-rate			
			Quota-share		Quota-share		1988/87	1989/88	1990/89	1991/90
		('000)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
Group I - A										
1	Italy	Kg	No limit		5,150		3.0	3.0	3.0	
2	Germany		3,508	37.72	3,618	37.77	3.1	3.1	3.1	2.5
	France		432	4.65	472	4.93	9.3	8.7	8.0	15.7
	Italy		2,243	24.12	2,283	23.83	1.8	1.8	1.7	1.5
	Benelux		777	8.35	804	8.39	3.5	3.4	3.2	2.9
	UK		971	10.44	1,010	10.54	4.0	3.8	3.5	2.1
	Eire		55	0.59	55	0.57				
	Denmark		1,167	12.55	1,168	12.19	0.1	0.2	0.2	0.2
	Greece		30	0.32	37	0.39	23.3	18.9	15.9	11.8
	Spain		96	1.03	107	1.12	11.5	15.0	17.1	18.8
	Portugal		21	0.23	25	0.26	19.0	20.0	20.0	8.3
	EC		9,300	100.00	9,579	100.00	3.0	3.0	3.0	3.0
2a	Germany		914	37.94	923	37.20	1.0	1.1	1.3	1.2
	France		44	1.83	58	2.34	31.8	31.0	15.8	18.2
	Italy		308	12.79	322	12.98	4.5	2.8	3.9	3.5
	Benelux		287	11.91	290	11.69	1.0	2.1	2.0	1.3
	UK		228	9.46	250	10.08	9.6	9.2	8.1	8.5
	Eire		3	0.12	3	0.12			33.3	25.0
	Denmark		584	24.24	585	23.58	0.2	0.2	0.2	0.2
	Greece		5	0.21	7	0.28	40.0	14.3	12.5	11.1
	Spain		31	1.29	36	1.45	16.1	16.7	16.7	14.3
	Portugal		5	0.21	7	0.28	40.0	14.3	12.5	11.1
	EC		2,409	100.00	2,481	100.00	3.0	3.0	3.0	3.0
3	Germany		5,646	33.21	5,808	33.17	2.9	2.9	2.6	3.3
	France		1,293	7.61	1,478	8.44	14.3	13.0	12.3	4.1
	Italy		4,888	28.75	4,914	28.06	0.5	0.5	0.7	0.9
	Benelux		1,503	8.84	1,523	8.70	1.3	1.2	1.2	2.1
	UK		1,896	11.15	1,968	11.24	3.8	3.5	4.1	5.0
	Eire		140	0.82	142	0.81	1.4	1.4	1.4	1.4
	Denmark		1,429	8.41	1,444	8.25	1.0	1.0	1.1	1.4
	Greece		49	0.29	53	0.30	8.2	7.5	8.8	11.3
	Spain		126	0.74	144	0.82	14.3	19.4	6.4	32.2
	Portugal		30	0.18	36	0.21	20.0	19.4	18.6	13.7
	EC		17,000	100.00	17,510	100.00	3.0	3.0	3.0	3.0
3a	Germany		1,470	32.94	1,493	32.48	1.6	1.5	1.5	1.7
	France		131	2.94	154	3.35	17.6	17.5	16.0	11.0
	Italy		771	17.28	783	17.04	1.6	1.7	1.8	1.6
	Benelux		496	11.12	507	11.03	2.2	2.2	1.9	2.7
	UK		725	16.25	773	16.82	6.6	6.1	5.7	5.7
	Eire		64	1.43	65	1.41	1.6	1.5	1.5	1.5
	Denmark		740	16.58	741	16.12	0.1	0.1	0.1	0.1
	Greece		5	0.11	7	0.15	40.0	28.6	33.3	16.7
	Spain		52	1.17	62	1.35	19.2	17.7	16.4	16.5
	Portugal		8	0.18	11	0.24	37.5	18.2	15.4	20.0
	EC		4,462	100.00	4,596	100.00	3.0	3.0	3.0	3.0

APPENDIX I

Category	Country	Unit ('000)	1987		1988		Growth-rate			
			Quota-share (%)	Quota-share (%)	Quota-share (%)	Quota-share (%)	1988/87 (%)	1989/88 (%)	1990/89 (%)	1991/90 (%)
Group I - B										
4	Germany		2,582	23.16	3,462	22.49	34.1	3.7	3.6	5.5
	France		3,037	27.24	4,179	27.15	37.6	3.3	3.4	2.2
	Italy		779	6.99	1,227	7.97	57.5	13.3	13.5	11.8
	Benelux		897	8.04	1,270	8.25	41.6	5.7	7.5	5.0
	UK		3,150	28.25	4,321	28.07	37.2	3.6	3.9	3.5
	Eire		47	0.42	72	0.47	53.9	11.7	26.0	5.0
	Denmark		441	3.96	605	3.93	37.2	4.2	2.3	2.2
	Greece		56	0.50	75	0.49	34.7	7.2	26.0	5.0
	Spain		132	1.18	137	0.89	3.8	29.8	5.0	43.2
	Portugal		29	0.26	45	0.29	53.9	44.9	5.0	31.3
	EC		11,150	100.00	15,394	100.00	38.1	5.0	5.0	5.0
4S1	Germany				1,179	53.81		6.0	6.0	6.0
	France				210	9.58		6.2	5.8	5.9
	Italy				11	0.50			9.1	8.3
	Benelux				142	6.48		6.3	6.0	6.3
	UK				633	28.89		5.8	6.0	6.1
	Eire				-	-				
	Denmark				14	0.64		7.1	6.7	6.3
	Greece				-	-				
	Spain				2	9				
	Portugal				-	-				
	EC		N/A		2,191	100.00		6.0	6.0	6.1
5	Germany		2,530	30.12	2,594	29.41	2.5	2.9	2.7	3.1
	France		912	10.86	1,048	11.88	14.9	13.8	13.1	11.2
	Italy		720	8.57	806	9.14	11.9	11.3	10.8	10.2
	Benelux		877	10.44	904	10.25	3.1	2.8	2.7	2.4
	UK		2,644	31.48	2,702	30.63	2.2	2.0	1.9	1.8
	Eire		103	1.23	109	1.24	5.8	5.5	4.3	5.0
	Denmark		510	6.07	524	5.94	2.7	2.7	2.6	2.5
	Greece		35	0.42	44	0.50	25.7	13.6	14.0	12.3
	Spain		57	0.68	69	0.78	21.1	27.5	33.0	35.9
	Portugal		12	0.14	20	0.23	66.7	30.0	23.1	21.9
	EC		8,400	100.00	8,820	100.00	5.0	5.0	5.0	5.0
5s	Germany				828	23.96		5.9	6.0	
	France				879	25.43		6.0	5.9	
	Italy				5	0.14			20.0	
	Benelux				178	5.15		6.2	5.8	
	UK				1,535	44.42		6.0	6.0	
	Eire				-	-				
	Denmark				31	0.90		6.5	6.1	
	Greece				-	-				
	Spain				-	-				
	Portugal				-	-				
	EC		N/A		3,456	100.00	0		6.0	6.0

APPENDIX I

Category	Country Unit ('000)	1987		1988		Growth-rate		1990/89 (%)	1991/90 (%)	
		Quota-share (%)	Quota-share (%)	Quota-share (%)	Quota-share (%)	1988/87 (%)	1989/88 (%)			
6	Germany	679	33.12	1,446	67.16	113.0	4.4	4.7	4.2	
	France	298	12.10	367	17.05	48.0	9.0	8.8	9.7	
	Italy	206	10.05	263	12.22	27.7	10.6	10.0	9.7	
	Benelux	280	13.66	618	28.70	120.7	4.5	4.2	4.5	
	UK	298	14.54	342	15.88	14.8	5.6	5.0	4.5	
	Eire	10	0.49	21	0.98	110.0	9.5	8.7	8.0	
	Denmark	213	10.39	237	11.01	11.3	1.3	1.3	1.6	
	Greece	19	0.93	21	0.98	10.5	9.5	8.7	8.0	
	Spain	78	3.80	89	4.13	14.1	3.4	5.4	7.2	
	Portugal	19	0.93	20	0.93	5.3	10.0	9.1	8.3	
	EC	2,050	100.00	3,424	159.03	67.0	5.4	5.4	5.4	
7	Germany	1,024	39.38	1,198	43.88	17.0	2.8	2.6	2.5	
	France	313	12.04	447	16.37	42.8	8.9	8.8	9.1	
	Italy	382	14.69	448	16.41	17.3	8.0	7.9	6.3	
	Benelux	295	11.35	344	12.60	16.6	3.8	3.6	4.3	
	UK	306	11.77	342	12.53	11.8	5.6	5.0	5.5	
	Eire	15	0.58	18	0.66	20.0	11.1	10.0	9.1	
	Denmark	180	6.92	190	6.96	5.6	2.1	2.6	2.0	
	Greece	17	0.65	19	0.70	11.8	10.5	9.5	8.7	
	Spain	60	2.31	65	2.38	8.3	10.8	13.9	18.3	
	Portugal	8	0.31	9	0.33	12.5	22.2	18.2	23.1	
	EC	2,600	100.00	3,080	112.82	18.5	5.1	5.1	5.1	
8	Germany	488	22.18	526	23.10	7.8	3.2	3.9	2.3	
	France	164	7.45	204	8.96	24.4	9.3	8.1	9.5	
	Italy	405	18.41	423	18.58	4.4	4.0	4.3	4.1	
	Benelux	290	13.18	313	13.75	7.9	2.9	2.5	2.4	
	UK	202	9.18	216	9.49	6.9	5.6	4.8	5.0	
	Eire	15	0.68	16	0.70	6.7	6.3	5.9	5.6	
	Denmark	524	23.82	526	23.10	0.4	0.2	0.2	0.4	
	Greece	16	0.73	17	0.75	6.3	5.9	11.1	5.0	
	Spain	79	3.59	83	3.65	5.1	7.2	3.4	9.8	
	Portugal	17	0.77	18	0.79	5.9	5.6	10.5	4.8	
	EC	2,200	100.00	2,342	102.85	6.5	3.6	3.5	3.5	
Group II - A										
22	Germany	441	26.17	464	23.98	5.2	5.4	5.3	4.9	
	France	150	8.90	170	9.52	13.3	14.1	12.9	13.7	
	Italy	471	27.95	474	26.54	0.6	0.2	0.4	0.6	
	Benelux	152	9.02	163	9.13	7.2	5.5	5.8	4.4	
	UK	319	18.93	343	19.20	7.5	7.6	7.3	7.6	
	Eire	9	0.53	10	0.56	11.1	10.0	18.2	7.7	
	Denmark	22	1.31	26	1.46	18.2	15.4	13.3	14.7	
	Greece	24	1.42	26	1.46	8.3	3.8	3.7	7.1	
	Spain	81	4.81	92	5.15	13.6	14.1	13.3	10.9	
	Portugal	16	0.95	18	1.01	12.5	16.7	14.3	12.5	
	EC	1,685	100.00	1,786	100.00	6.0	6.0	6.0	6.0	

APPENDIX I

Category	Country	Unit ('000)	1987		1988		Growth-rate			
			Quota-share (%)	Quota-share (%)	Quota-share (%)	Quota-share (%)	1988/87 (%)	1989/88 (%)	1990/89 (%)	1991/90 (%)
Group II - B										
12	Germany		4,471	39.92	4,522	38.09	1.1	1.0	1.1	1.6
	France		1,484	15.04	1,806	15.21	7.2	7.2	7.4	7.2
	Italy		1,234	11.04	1,353	11.40	9.5	9.5	8.6	8.3
	Benelux		891	7.9%	976	8.22	9.5	8.3	8.6	7.1
	UK		1,911	17.06	2,092	17.62	9.5	9.5	8.6	8.3
	Eire		74	0.66	81	0.68	9.5	8.6	9.1	8.3
	Denmark		231	2.06	256	2.16	10.8	10.5	9.9	8.4
	Greece		146	1.30	158	1.33	8.2	8.2	7.6	7.1
	Spain		469	4.19	530	4.46	13.0	13.0	13.5	13.4
	Portugal		87	0.78	98	0.83	12.6	13.3	13.5	13.5
	EC		11,200	100.00	11,872	100.00	6.0	6.0	6.0	6.0
16	UK		140		135		-3.6	5.9	7.0	5.9
21	Germany		1,034	26.18	1,785	42.63	72.6	5.9	6.0	5.9
	France		840	21.27	893	21.33	6.3	3.0	3.0	3.5
	Italy		447	11.32	508	12.13	13.6	9.4	8.5	8.0
	Benelux		414	10.48	487	16.41	65.9	4.8	5.4	5.1
	UK		842	21.32	914	21.83	8.6	5.9	5.9	6.0
	Eire		30	0.76	40	0.96	33.3	7.5	4.7	6.7
	Denmark		150	3.80	171	4.08	14.0	2.3	2.9	3.3
	Greece		33	0.84	38	0.91	15.2	15.8	15.9	15.7
	Spain		133	3.37	161	3.85	21.1	18.0	14.7	14.2
	Portugal		27	0.68	32	0.76	18.5	15.6	16.2	14.0
	EC		3,930	100.00	5,229	124.89	32.4	6.0	6.0	6.0
24	Germany		1,242	49.23	1,248	46.67	0.5	0.9	0.7	0.9
	France		348	13.79	385	14.40	10.6	8.8	8.8	7.9
	Italy		134	5.31	158	5.91	17.9	16.5	15.8	14.6
	Benelux		271	10.74	282	10.35	4.1	3.9	3.4	4.3
	UK		326	12.92	375	14.02	15.0	14.4	13.8	11.3
	Eire		14	0.55	16	0.60	14.3	12.5	11.1	10.0
	Denmark		75	2.97	78	2.92	4.0	3.8	3.7	6.0
	Greece		26	1.03	30	1.12	15.4	13.3	8.8	10.8
	Spain		68	2.70	80	2.99	17.6	16.3	16.1	16.7
	Portugal		19	0.75	22	0.82	15.8	13.6	12.0	14.3
	EC		2,523	100.00	2,674	100.00	6.0	6.0	6.0	6.0
26	Germany		775	27.68	805	27.12	3.9	3.9	4.9	4.9
	France		383	13.68	420	14.15	9.7	8.3	8.6	8.1
	Italy		325	11.61	353	11.89	8.6	8.8	6.8	7.1
	Benelux		452	16.14	455	15.33	0.7	1.1	1.3	0.6
	UK		475	16.96	521	17.35	9.7	9.6	8.2	8.4
	Eire		18	0.64	20	0.67	11.1	10.0	9.1	8.3
	Denmark		211	7.54	212	7.14	0.5	0.5	0.5	0.5
	Greece		23	0.82	26	0.88	13.0	11.5	13.8	12.1
	Spain		115	4.11	130	4.38	13.0	13.1	12.9	13.3
	Portugal		23	0.82	26	0.88	13.0	11.5	13.8	12.1
	EC		2,800	100.00	2,968	100.00	6.0	6.0	6.0	6.0

APPENDIX I

Category	Country	Unit ('000)	1987		1988		Growth-rate			
			Quota-share (%)		Quota-share (%)		1988/87 (%)	1989/88 (%)	1990/89 (%)	1991/90 (%)
29	UK		180		164		-8.9	6.1	5.7	6.0
73	Germany		346	20.91	383	21.84	10.7	9.4	9.5	7.4
	France		143	8.64	164	9.35	14.7	14.6	14.4	14.0
	Italy		214	12.93	226	12.88	5.6	5.8	5.4	7.5
	Benelux		311	18.79	313	17.84	0.6	0.6	1.0	0.9
	UK		385	23.26	400	22.81	3.9	5.0	4.5	4.3
	Eire		22	1.33	22	1.25				
	Denmark		173	10.45	174	9.92	0.6	0.6	0.6	0.6
	Greece		28	1.69	29	1.65	3.6	3.4	3.3	6.5
	Spain		27	1.63	35	2.00	29.6	17.1	17.1	16.7
	Portugal		6	0.36	8	0.46	33.3	12.5	22.2	18.2
	EC		1,655	100.00	1,754	100.00	6.0	5.9	6.1	6.0
Group III - B										
37	Italy		3,200		3,424		7.0	7.0	7.0	7.0
Group III - B										
10	Germany		3,072	36.57	3,166	35.22	3.1	3.5	3.3	3.2
	France		1,052	12.52	1,219	13.56	15.9	13.8	12.0	10.4
	Italy		365	4.35	457	5.08	25.2	23.6	22.5	22.0
	Benelux		1,044	12.43	1,084	12.06	3.8	3.6	4.0	4.6
	UK		2,345	27.92	2,435	27.09	3.8	3.6	4.0	3.9
	Eire		60	0.71	68	0.76	13.3	10.3	8.0	7.4
	Denmark		96	1.14	119	1.32	24.0	22.7	18.5	18.5
	Greece		118	1.40	131	1.46	11.0	8.4	7.7	7.2
	Spain		180	2.14	227	2.53	26.1	23.8	22.8	22.0
	Portugal		68	0.81	82	0.91	20.6	19.5	18.4	14.7
	EC		8,400	100.00	8,988	100.00	7.0	7.0	7.0	7.0
74	UK		365		12		-96.7	33.3	31.3	23.8
75	France		N/A		177			5.6	5.3	6.1

Source: Commission of the European Communities, *op. cit.*

APPENDIX II: THE FUTURE OF THE TEXTILE TRADE REGIME

THE PUNTA DEL ESTE DECLARATION

It is common ground among all countries that are party to it that the present textile trading regime enshrined in the MFA should be terminated and that international trade in textile products (including clothing) should be carried out under the general rules of the GATT. The agreement in 1986 extending the MFA protocol for the fourth time coincided with the opening of the Uruguay Round of multilateral trade negotiations (MTN) on further progress under the GATT and a separate Working Group on textiles was established within this framework. The Punta del Este Declaration, which set out the objectives of the objectives to be pursued over the whole period of the Uruguay Round - i.e. until 1991 - contained the following reference to textiles:

Negotiations in the area of textiles and clothing shall aim to formulate modalities that would permit the eventual integration of this sector into GATT on the basis of strengthened GATT rules and disciplines, thereby also contributing to the objectives of further liberalization of trade.

Analysis of this statement suggests that the parties committed themselves in two main areas:

- Firstly, to find ways of bringing to an end the various systems under which textile trade could be subject to restrictions not permitted under the GATT and bringing the trade under GATT rules. (In addition to the MFA and the bilateral agreements governed by it there are a number of other restrictive regimes relating to textile trade between GATT members.) The wording indicates, however, that the parties did not expect the integration into the GATT to be achieved instantaneously, but rather that, once the decision had been taken, there would be a period of transition during which extra-GATT restrictions would continue to be permitted as the process was carried forward;
- To make the GATT rules and disciplines more effective. The implication here is that this would have to be attended to before the integration of the textile trade could be completed.

It is important to note that the object of bringing textile trade into the GATT was perceived as contributing to the achievement of the wider GATT objective of a more liberal international trade regime applying to all commerce between the nations. In other words, it was not envisaged that the GATT regime would become generally more restrictive in order to accommodate textiles. This has significance in view of the evolution of the debate within the Textiles Working Group.

The first of the commitments in the Punta del Este Declaration - the agreeing of a programme for bringing textiles under GATT rules - was to prove very fertile ground for disputes between the parties and these had by no means been resolved by the end of 1989 - i.e. less than a year before the round was scheduled to end. However, the second commitment, the process of "strengthening GATT rules and disciplines", proved to be an area of

disagreement altogether more fundamental. Here the parties were divided not so much over the technicalities of how to reach an agreed goal as over the nature of the goal they were seeking to reach. Nevertheless, unless there could be some meeting of minds on this point, it was unlikely that there would be any progress in achieving a more liberal textile trading regime.

THE ATTITUDES OF THE PARTIES

The protagonists

Broadly speaking, the parties involved in the discussion of the future of the textile trade regime divided into two main groups, the advanced economies - the term "the West" is used in this report for the sake of convenience - and the developing world. However, while the West finds itself in broad agreement as to its objectives, the group representing the developing world finds itself divided into a number of distinct factions with different opinions as to the desirable outcome of the negotiations.

The position of the West

Reasons for abolishing the MFA; The West - which in this context means the USA and the EC member-states supported more or less by Canada and the EFTA group but excluding Japan - are agreed that it would be desirable to end the MFA as a derogation from the GATT. As it stands it is forever a cause for dispute between them and the Third World suppliers of textile products, both in general terms and in the details of the application of individual agreements. It is also a major obstacle to the realisation of those free trade objectives enshrined in the GATT of which the Western countries are the chief proponents. As long as the MFA survives on their insistence it is a standing reproach to the genuineness of their commitment to these ends.

Furthermore, the MFA is an obstacle to the development of export-oriented textile industries in the Third World which the West is well aware is of the utmost importance to the economic development of those countries. This remains the case even although the fifteen years of its existence have seen a massive expansion of third world exports of textile products to the West and very few developing countries find themselves in the position of having the possibility of further significant expansion denied them because of the operation of the arrangement. It is generally accepted that the underdevelopment of much of the Third World poses far more of a threat to the advanced economies than does the continued erosion of the market share of their domestic textile industries.

Continuing need for regulation: Nevertheless, the concerns that lead the West to institute the present textile regime as a derogation from the GATT were as potent at the beginning of the 1990s as they were in 1973 or in 1960 when the market disruption principle was formulated.

Purely on the grounds of general economic disruption which would result from the sudden retraction or disappearance of large sections of the textile and garment industries, the West has reason to be concerned at the consequences of a simple sweeping away of the MFA. The question has, however, in addition, an important political dimension. Despite the considerable reductions in the numbers they employ over the period of the MFA, the textile industries of the West are still large employers of labour

and, as such, are - or are perceived as - considerable political forces.

This is particularly the case in the USA where the cause of protecting the jobs of textile and clothing workers by imposing further restraints on imports of these products attracts powerful allies in the shape of politically organised feminist and ethnic groups - a natural enough attraction given the composition of that work-force. More seriously for the free market tendency in the US government, the cause has been seized upon by more populist elements in the Democratic party as a means of embarrassing successive Republican administrations. At a less calculating level, it appeals to the sensibilities of those who resent what they see as the sacrifice of American interests to the benefit of contriving foreigners.

The political potency of protectionism in the middle 1980s was evidenced by the passage of highly protectionist bills through both Houses of Congress which were only narrowly defeated at the end of the day by Presidential vetoes. These measures were undoubtedly assisted by the massive surge in imports of the period 1982-86 and it might have been supposed that the reduction of this pressure from 1987 similarly reduced the force that they represented. The poor showing of protectionist candidates during the Presidential primaries early in 1988 even in states with high concentrations of textile workers could be seen as confirmation of this. Nevertheless, towards the end of 1989 protectionist sentiment was still sufficiently strong to cause the Senate Appointments Committee to refuse to confirm ambassadorial status on Mr R. Sorrini, the President's nominee as Chief Textile Negotiator - a move which should probably be interpreted as a warning shot. More seriously, yet a third protectionist bill was being mooted at the end of that year the provisions of which, were they to be passed into law, would undoubtedly be inimical to any attempt to liberalise the textile trade on an international basis. The industry claimed to have no knowledge of when the bill would be introduced if it was introduced at all. This could reflect some doubt as to the viability of such a measure in the political climate then prevailing, but the mere rumour of its introduction is probably intended to influence the President's negotiating posture in the final stages of the Uruguay Round in the same way as the severely restrictionist bill then in Congress had influenced President Reagan's approach to MFA-IV in 1986.

In the EC protectionist sentiment appears to be less of a danger to the realisation of the Uruguay Round objectives in respect of the textile trade than it does in the case of the USA. This is illusory in that it takes no account of the fact that the EC has, on the whole, taken more effective measures to protect its industries than has the USA and these have been able to afford to be less openly politically aggressive.

However, it is generally acknowledged that the EC was instrumental in ensuring successively more restrictive MFA regimes in the first and second protocols of extension - MFA-II and MFA-III - and the bilateral agreements it entered into covering the period 1977-86 were certainly more stringent than those of the USA, particularly as they applied to major suppliers such as Hong Kong. The effect of this on EC imports has been already noted in the main text - especially in relation to those into the USA - although it is also argued in this report that the attractions of the US market arising from the economic circumstances of the period 1982-86 were probably more

important in bringing about the disproportionate growth of Third World exports to the USA than the relatively less severe restraints the US Government imposed on such exports under MFA II and MFA III. Although the EC was able to adopt a more liberal posture in respect of MFA-IV this was because its initial position was more restrictive.

The upturn in EC imports in recent years - again probably more a factor of developments in the US and European markets than of any reduction in the severity of EC restrictions - does seem to have resulted in heightened activity by the textile industry political lobby and this was reflected in the negotiating posture of the Commission in respect of the Uruguay Round. Although this was less overtly anti-GATT than that which the US industry lobby would have imposed upon its Government had its trade legislation been successful, it could pose just as great a danger to the successful integration of textile trade into the agreement.

Perceived dangers of a free trade regime for textiles: There is the fundamental consideration that, despite the considerable degree of restructuring of the textile and garment industries of the advanced Western economies which took place in the 1970s and 1980s - and which would probably not have taken place without some form of regulation - these industries still cannot compete with developing country producers in supplying the requirements of their own domestic markets. This reflects the comparative advantages of Third world suppliers in terms of production costs, particularly low-cost labour, which would always tend to make them more competitive in a free market. The labour-intensive nature of the garment industry and its resistance to technological development in respect of sewing operations makes the West more vulnerable in this area, but it also has difficulties in competing with lower cost producers in the supply of yarns and fabrics - particularly those top-weight materials which are mainly required for garment production.

In addition to these doubts about the wisdom of exposing their industries to competition from sources that enjoy irreducible comparative advantages in terms of low production costs - thus continuing to threaten that market disruption based on price that the MFA regime and its predecessors was designed to avert - the West also fears that the removal of this protection could result in an increased threat of disruption based on unfair trading practices. Of particular concern here are:

- Production and export incentives based on preferential treatment in areas of fiscal and credit policy and access to foreign exchange;
- Predatory pricing supported by state subsidies;
- The closure of developing country markets to imports of textile products, including high-value fashion items only produced in the West;
- Lack of respect for intellectual property in the matter of logos, designs etc. Western producers complain in particular of the pirating of textile constructions and patterns the preparation of which can account for 10 per cent of total production costs according to some reports and of the common practice of placing a small sample order with a Western garmentmaker which will develop the style and

specifications which Western buyers will then ask a developing country producer to use in supplying the main order;

- Charging domestic producers lower prices for national textile raw materials.

It can be argued that at the present time these practices are usually intended to give those indulging in them an advantage with respect to other low-cost suppliers and that, in any case, their damaging impact in the West can be regulated by the use of quantitative restrictions. The Western industries would deny that they are wholly unaffected by such activities even with the MFA - the question of intellectual property, for instance, is hardly touched by quantitative restrictions - and, if they remained unchecked after the termination of the arrangement, the position would become considerably worse. Particularly at risk would be those areas of the market where the Western industries had made themselves competitive by investment in advanced technology or where their ability to originate and respond quickly to fashionable developments should be an inherent advantage.

Such unfair trading practices and unjustified protectionism are supposed to be addressed by various provisions under the GATT, but the efficacy of these in the case of products so ephemeral as most textile and clothing items is limited. Their impact is also reduced by the provisions in the GATT which make special allowances for "infant industries" and where balance of trade considerations can be claimed to justify a protectionist regime. It is for this reason that the West has insisted that the subjection of international textile trade to GATT rules should, at the very least, be accompanied by a strengthening of those rules in these areas.

Attitudes in the developing world

The International Textiles and Clothing Bureau: In general terms the supplier countries of the Third World have been less equivocal in their support for the Uruguay Round objective than those of the West, principally because they are likely to be the immediate beneficiaries of any move to remove the present restrictions on their trade in textile products based on market disruption considerations.

Single-minded advocacy of the ending of the MFA has certainly characterised the stance of the International Textile and Clothing Bureau (ITCB). This body is, in effect, a suppliers' club established to achieve that end and, in the meantime, to act as some sort of counterbalance to the overweening economic advantage of the West in the negotiation of the general trade regime - it was originally set up to provide them with technical assistance in the negotiation of the second protocol of extension of the MFA in 1982 - and individual bilateral agreements. Its membership includes all the major developing country textile and clothing suppliers with, however, a few significant exceptions. The nature of these exceptions serves to point up certain underlying tensions and even fissiparous tendencies within the ITCB alliance.

The position of the NICs: Significant suppliers which are not members of the ITCB include Thailand, Malaysia and the Philippines in South East Asia, the Dominican Republic and Haiti in the Caribbean and Mauritius in the

Indian Ocean. The rationale for their absence is not certain in every case and it is not known whether it is always based on deliberate policy as opposed to a failure to take a decision.

The example of Thailand suffices, however, to indicate the uncertainty of at least one group of suppliers faced with the possibility of the ending of the MFA. Here the failure to join seems to be based on the doubts of the industry as to the benefits of such a development given the country's status as a newly industrialised economy. Industry policy on this matter in Thailand appears to be strongly influenced by the larger quotaholders which believe they are guaranteed secure markets for their products by the present system and do not relish the prospect of having to compete in an unregulated market, particularly with Chinese producers which are likely to have an increasing labour-cost advantage given the rapid expansion of the Thai economy. The ability of the industry tail to wag the national dog in this instance may be to some extent a reflection of the present hiatus in the national decisionmaking machinery in Thailand as the Government and the Industry develop institutions appropriate to the country's comparatively recent status as a major supplier. It is by no means certain, however, that a policy body more representative of the national interest would necessarily come to a different conclusion as to what this might be than has the present industry caucus.

Less developed textile suppliers: Apart from the NICs, another group of supplier countries which have doubts as to the benefits of ITCB policy of promoting the integration of the textile trade within the GATT rules are those which have proved unable to take advantage of low labour costs to the same extent as those in South and East Asia because of deficiencies in economic management either on a company or a national level. Within the ITCB a number of the South American members fall into this category.

In the Caribbean the failure of the Dominican Republic to join the bureau may reflect the extent to which the industry on that island depends on its outward processing trade with the USA. This is known to have made it increasingly reluctant to accept investment in cut-make-trim operations by Hong Kong suppliers for fear of aggravating the USA and similar considerations may underlie its stance, or lack of stance, on this issue - assuming, of course, that it is a deliberate policy decision. (Jamaica, which is a member of the bureau, has, on the other hand, tended to take a far more robust attitude vis-vis the USA in the matter of the overseas companies it is prepared to see investing in its clothing industry and, as far as can be determined is genuinely enthusiastic at the prospect of the ending of quantitative restrictions on its trade with the MFA.)

Attitudes of more developed economies: The doubts entertained by Thailand and perhaps some of the other NICs - for instance, its ASEAN partner Malaysia - seem to be justified by the attitudes of the even more successful economies, notably Hong Kong, Singapore and South Korea. These also accept that trade liberalisation could result in substantial loss of market share as the quota system is dismantled which could create major problems in the short-term because of the extent to which employment currently depends on their textile and garment industries.

Unlike the lesser NICs, however, the Governments of Singapore and Hong Kong take a more equable view of the prospect as they see their comparative

advantages as textile and garment suppliers being steadily undermined by low-wage producers and they would prefer to see the resources presently devoted to these activities being redeployed in areas more appropriate to their current state of economic development. Even within the MFA Singapore is no longer able to compete in large areas of the garment market and its quotas are largely under-utilised. Hong Kong is still competitive, but mainly in the high-value segments of the market into which it has increasingly moved in recent years. It may be said of these two countries that their position with regard to the textile objectives of the Uruguay Round reflects their genuine attachment to the free trade principles which they consider underlie their economic success.

Unlike the other Tiger governments, that of South Korea evidently intends that the country should remain a major textile supplier. It also recognises, however, that, given its increasing wage-rate differentials compared to other producers, this can only be ensured if the industry concentrates on high-value areas of the market and takes advantage of the latest available technology. A variety of production and export incentives have been introduced to encourage this.

ITCB and fair trade: The above analysis of the known attitudes of ITCB member and non-member states suggests that the attachment of Third World suppliers to the principle of integrating the textile trade within the GATT largely depends on their assessment of the benefits of the removal of the MFA restrictions. However, this rarely goes hand in hand with a belief in the merits of free trade as it affects their own markets. Many suppliers wish to protect their own domestic markets for balance of payments reasons or to provide an economic base to support their export efforts; others wish to be able to promote their export sales by the use of incentives or predatory pricing policies - included in this number being the relatively mighty and phenomenally successful Korea as has been already noted. Thus, they have tended to oppose the attempt of the West to widen the discussion of the integration of the textile trade into the GATT away from mere consideration of the removal of MFA restrictions.

PRESENT NEGOTIATING POSITIONS

GATT mid-term review

In April, 1989, produced a statement on the position reached in the Uruguay Round of negotiations. The decision on textiles gave no indication of any agreement in the two main areas of dispute - the ways of integrating textile trade within the GATT regime and the nature of the GATT regime within which it would be integrated - but it clarified somewhat the objectives the parties had agreed to pursue as compared with the Punta del Este declaration.

The main elements were:

- A programme for bringing the trade within the GATT rules would be determined by the end of the round - i.e. in 1990 before the termination of MFA-IV which, by implication, would not be extended yet again when it came to its period in 1991;
- There would be a progressive phasing out of trade restrictions

- beginning after the end of the round - i.e. the MFA and other arrangements would not be abolished immediately;
- Integration would still be on the basis of "strengthened GATT rules and disciplines", but, as in 1986, there was no indication of what this might mean;
- Special attention would be paid to the needs of less developed countries. There was no elaboration of this point, but it may be presumed that the parties intended it to mean that this would apply both during the period of phasing out of non-GATT restrictions and after the trade was fully integrated into the GATT when the LDCs would still be spared the full rigours of unrestricted international competition.

Phasing out non-GATT regimes

Suggested approaches: At end-1989 there was still no agreement between the parties on the first substantive issue to be resolved, i.e. the programme for phasing out non-GATT restrictions on the textile trade and its integration into the GATT regime. A number of ITCB member-states had made suggestions, including Pakistan - whose submission is reported to have been made as early as February, 1988 - India and Indonesia, which broadly proposed a progressive movement away from restrictions beginning with the right to introduce new restrictions and then reducing the number of existing restraints. Switzerland also submitted a proposal, chiefly remarkable for its suggestion that the parties to restrictive agreements should themselves determine the programme for ending them. This notion was specifically rejected by the ITCB on the reasonable grounds that such an arrangement would require bilateral agreements which would be difficult to implement within a multilateral framework.

There had been no official proposal in this regard from the EC at end-1989. However, the influential German industry had evolved a three-phased programme which it saw as being worked out over periods of 3-5 years. It is not unreasonable to assume that this will colour the approach finally adopted by the EC and, in view of the weight of the Community in determining the final outcome, it seems worth-while elaborating on it a little. Briefly the German programme, emanating from Gesamttextil, envisaged that:

- In phase one the number of agreements negotiated under the new international arrangement succeeding the MFA would be considerably less than those concluded under MFA-IV, presumably favouring the less developed countries. Where agreements were negotiated the number of quotas would be considerably reduced. Again this is likely to affect principally categories outside the most sensitive Group I. The system of categorisation might also be simplified which it is claimed would have the effect of creating greater flexibility in deliveries - although at present the rather broad EC categories are judged to be more effective in curbing suppliers' efforts to evade restrictions by modifying specifications than the more narrowly defined US categories. The EC would also suppress purely regional quotas under Article 115. Finally OPT arrangements would be liberalised.

- In phase two growth rates and flexibility provisions would be increased on a step by step basis and abolition of the more marginal quotas would proceed. It is envisaged, however, that this process would concentrate on primary products - presumably grey goods and basic fabrics - while the protection of made-up goods would advance more slowly. This would be in line with the EC view of the importance of maintaining an EC garment industry if only as a market for its textile products. The basket-extractor mechanism would be retained only for extreme emergency cases.
- In the third phase the hard core of quotas would be subject to progressively higher growth rates and gradually phased out. There would be no basket-extractor mechanism.

The EC emphasis on safeguards: As already noted, the EC had adopted no official line regarding the mechanics of integration other than that these should be progressive as from the ending of the MFA in mid-1991. It is understood that in its submission to the Textile Working Group on the subject more emphasis was placed on the need to retain safeguard provisions against market disruption during the phasing out process which might be based on MFA Article 3 and 4 provisions. This seems to have been completely unacceptable to the ITCB. (It may also be presumed from the stance of the EC on the continuing need for safeguards against disruption in *extremis* that some of the EC member-states will query the Gesamttextil suggestion that there should be no basket-extractor mechanism in the third phase of its proposed programme.)

The US approach: The USA had made no suggestion on the matter of phasing out the restrictive regime by end-1989. The apparent reluctance of the USA to commit itself almost certainly reflects the administration's fear of the industry lobby and its unwillingness to open up a domestic hornets' nest by showing its hand too soon. It is likely, however, that it is also quite happy for the EC to take a leading role as in the 1977 and 1982 MFA negotiations. In most areas it probably supports the EC approach.

More specifically with regard to the transition regime, it is widely believed that the US government had considerable sympathy with a suggestion from Canada that non-GATT restrictions should be replaced by others which did not offend against the GATT *erga omnes* rule. These included tariff-quotas - perhaps along the lines of the GSP - and global import quotas. However, these latter had been the key element of the 1987 Trade Bill which President Bush had roundly condemned as a presidential candidate and which his predecessor had been obliged to veto in the closing weeks of his administration. It would be an extraordinary development for Mr Bush ever to allow his administration to be associated openly with a proposal to introduce such a system, yet it is reported that the possibility has been actively studied.

It should be noted that the ITCB condemned the Canadian proposal notion on the grounds that the object was to liberalise international trade not introduce new restrictions. It could be that it was also concerned that such measures might be introduced for a transitional period and then become insidiously permanent in the same way as MFA itself. It seems unlikely, however, that either Canada or the USA ever regarded this as more than a negotiating ploy and that their real objectives for the phasing out

period - period undetermined - were for a quasi MFA regime, broadly similar to that also intended by the EC.

Strengthening GATT rules and disciplines

As already indicated, the EC has tended to emphasise the need to ensure that the integration of textile trade into the GATT system should go hand-in-hand with the strengthening of GATT rules and they made it quite plain that they saw this as referring to such matters as equality of access to developing country markets, fair trading provisions - including more effective anti-dumping procedures for use in textile cases and non-discriminatory pricing of raw materials - and respect for intellectual property. Although the US Government has yet to commit itself in this area it is known that these matters are of equal concern to its own industry and it is likely that it too will insist on a parallelism between progress in this area and the ending of the MFA regime.

For its part the ITCB insists that the Punta del Este commitment was to bring textile trade into the GATT and it resists the notion that this should be dependent on any other factor. This seems a dubious argument: insofar as that commitment was specific at all it was specific that integration of textile trade into the GATT should be on the basis of strengthened GATT rules and disciplines. The ITCB argued, however, that whatever was meant by that its members did not mean by it what the EC was now arguing that it meant. It also made the point that the matters raised by the EC were all being discussed by other negotiating groups in the round. This was not denied by the EC, but it asserted that it would be in order for the textiles group to note what was going forward in those areas and to make its views known.

Continuation of specificity

An even more contentious proposal of the EC related to continued protection against market disruption based on lower prices not dependent on unfair trading practices even after the MFA was phased out and textiles came under the GATT. As already noted, the GATT safeguard clause, Article XIX, provides that measures taken under it must apply *erga omnes* and it was this that had prompted the original 1960 market disruption decision which permitted specific restrictions as a deliberate derogation from the GATT.

The EC made it clear that it considered that "strengthening the GATT rules and disciplines" included the possibility of imposing specific restrictions under Article XIX in exceptional circumstances. Perhaps the clearest evidence of its commitment is the fact that this notion was introduced in the safeguards negotiating group and not the textiles group which strengthens the supposition that it is not merely regarded as a negotiating ploy, i.e. an impossible stipulation which can be abandoned if there is satisfactory progress regarding GATT rules and disciplines as they affect the textile trade. Market disruption as a consequence of fair price competition is likely to remain a major concern of the West whatever the provisions regarding fair trade. Although the USA had not pronounced on this issue at the time of writing, there seemed no reason to doubt that it would be prepared to follow the EC lead.

The proposition was, of course, entirely unacceptable to the ITCB, which

regarded the ending of the principle of selective restrictions as the *sine qua non* of its entire negotiating strategy. It was accurately remarked that to give way on this point would be in effect to allow the MFA to hi-jack the GATT. It might be added that the proviso that such restrictions would be confined to exceptional circumstances could give no comfort to exporting countries as every single restriction introduced under the MFA was supposed to represent a response to an exceptional circumstance.

SPECULATIONS ON FUTURE TRADING REGIME

A lengthy transition from specific restriction

Consideration of the future of the textile trading regime after the ending of MFA-IV must necessarily be highly speculative at end-1989 given the apparently irreconcilable positions of the protagonists in the Uruguay Round MTN textiles group as indicated above. Nevertheless, it is safe to conjecture that there will be a lengthy phasing out period during which the regime will have many of the features of the present MFA, including specific safeguard restrictions. The West will almost certainly insist on this and the ITCB seems inclined to accept that process of moving textile trade into the GATT must be gradual. In addition, as noted, a good many of the bureau's members are inclined to see the MFA system as offering a degree of market security which they are certainly reluctant to forgo for the more bracing atmosphere of free trade.

What is less certain are the steps that will be taken during this period to phase out the MFA. Some latitude will undoubtedly be shown by the West to the least developed countries in foregoing the right to introduce new restrictions under any basket-extractor mechanism and even in giving up existing restraints. Such an approach would probably be tailored to allow the EC and the USA to maintain existing preferences in respect of their clients in the Mediterranean and Caribbean respectively. (At the moment the EC imposes no quantitative restrictions on its ACP partners under the Lome Convention although, unlike tariffs on items manufactured from yarn, this right is not specifically abjured.)

It is more difficult to see how this will be arranged in the case of major suppliers, in whose number Thailand will almost certainly be included. In the case of the EC the division of categories into progressively less sensitive groups may give some indication as to which restrictions will be the first to be abandoned or allowed more generous annual growth-rates and flexibility provisions. The USA may also feel obliged to give up its aggregate quotas in respect of these suppliers at a fairly early stage.

Some hard cases

The position of suppliers outside the GATT will present some problems. Although it is difficult to see a US administration differentiating between Taiwan and its fellow tigers the EC might have no compunction in doing so. It is, however, difficult to believe that Taiwan's position could be made less favourable than it is at present. The possibility that an administration will be elected to office willing to renounce Nationalist pretensions to the unity of China and seek independent status in the World Community cannot now be ruled out before the end of the century. This would, of course, pose an uncomfortable dilemma for the West and must

affect the textile regime it imposes on Taiwan.

Special treatment for China will certainly be necessary given the unlikelihood of that country conforming even to the present GATT regime yet alone "strengthened rules and disciplines." The most likely outcome here seems to be for little or no change with existing restrictions and growth-rates continuing to apply. It is, indeed, possible to envisage an alternative scenario in which minimum prices would be set for Chinese products as suggested by Gesamttextil and there are precedents for treating state trading countries in this way with regard to other categories of trade. The author believes, however, that inertia and the difficulty of administering such a rule in respect of textiles and garments given the ephemeral nature of many of the products will prompt the first course. This would be profoundly unsatisfactory for the industries of the West, but *raison d'etat* will probably continue to prevail in the formulation of Western trading policies.

Strengthened GATT rules

In practice the length of the transition period could be largely determined by the willingness of the developing world to agree that the GATT rules should be modified to give the West some of what it wants in respect of fair trading practices. (Equal access to suppliers' domestic markets may be accepted as less important given that Western exports to the Third World are likely to be confined to the peripheral high fashion end of the market. On the other hand, a protected domestic market can be held to constitute a hidden subsidy which strengthens the hand of the local industry in making export sales.) It seems unlikely that the ITCB group would push its opposition to any advance here to the point of endangering the main objective, especially as the West is prepared to concede the argument of the need to protect infant industries and balance of payments positions in respect of the least-developed countries. Given these considerations the author believes - probably optimistically - that the transitional regime could probably be ended within five years. After all, the Western industries are unlikely to be any more immunised against market disruption on price at the end of fifteen years such as Gesamttextil proposed than any shorter period and, if the West is genuine in its commitment to give up the MFA regime, there would seem no purpose to be served by prolonging the day.

Market disruption safeguards

The issue of whether specific safeguards against threatened market disruption based on price can be brought within the GATT ambit is likely to prove altogether more contentious. As already suggested, there is every reason to suppose that this is a very serious proposition on the part of the EC which will be whole-heartedly supported by the USA because it meets an inescapable economic requirement. It seems unlikely, on the other hand, that the ITCB members could accept a provision that holds out the possibility of replicating the whole MFA framework of restrictions.

One possibility might be to accept that there will be specific restrictions while internationalising the process of their introduction with a view to making them more of the exceptional recourse they were originally intended to be. There are probably two essential requirements here:

- That clear criteria should be established for determining market disruption which leave minimum room for administrative discretion. Of this it can only be said that textile negotiators have failed to discover such criteria for some thirty years;
- That there should be an international tribunal to determine all cases where market disruption is claimed and the appropriate response if this is proved. In other words, restrictions should cease to be the subject of bilateral agreements reflecting the relative economic and diplomatic influence of the parties. Such a body should be an independent entity based on such examples as the centre for the settlement of international investment disputes than the present TSB which is manned by representatives of national groupings.

It should be said that, so far as is known, this sort of solution to the problem has yet to be considered. Almost certainly, however, some solution will have to be found allowing specific restrictions under Article XIX.

NOTES

¹The members of the ITCB are the Argentine, Bangladesh, Brazil, China, Colombia, Egypt, Hong Kong, India, Indonesia, Jamaica, South Korea, Macau, Mexico, Pakistan, Peru, Singapore, Sri Lanka, Turkey, Uruguay and Yugoslavia.

²Concerning the Caribbean clothing producers, see P.J.B. Steele, "The Caribbean Clothing Industries: The US and Far Eastern Connections," Economist Intelligence Unit Special Report No. 1147, 1988.

³See "Distortions of competition in world textile trade"; Publications on textile policy, volume 7; Gesamttextil; Frankfurt-am-Main; 1989.

⁴See A.W. Wolff, "The reality of world trade in textiles and apparel," FFACT, Washington DC, 1987