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AGREEMENT ON TEXTILES AND CLOTHING: ANOTHER WTO FAILURE?

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Abstract

The historical GATT-Uruguay Round Agreement was signed in April 1994 after years of difficult negotiations. Although the Textiles and Clothing sector was not included, a separate agreement, the Agreement on Textile and Clothings (ATC) was also signed with the specific purpose to dismantle the complex quota system in place and gradually incorporate the sector to the rules and disciplines of GATT-UR in a period of ten years. At the verge of the established deadline, the liberalization results achieved seem disappointing for most textile exporting countries. Implications of these results are affecting the new round of WTO negotiations. What went wrong? Is there anyone to blame? We analyze the ATC rules and discuss the roots of the misunderstanding and the expectations for 2005.

Introduction

The Textile and Clothing industry (T&C) represents US $370 billion in world exports, almost 8% of the world total trade in manufactured goods (WTO, 2001). Being labor intense, the industry offers developing countries an alternative to advance early stages of industrialization with high potential of employment generation and export expansion. T&C exports account for more than 70 % of total exports in Bangladesh and Pakistan, 50% in Sri Lanka and around 25% in India and China. Given the disparity in labor costs between developed and developing countries, it is not surprising that trade restrictions have been the norm in T&C trade since the 1930's. From its induction in 1947 GATT was able to incorporate most industrial sectors into its rules and disciplines with the exclusion of T&C. GATT-Uruguay Round (GATT-UR) with its seven years of multilateral trade negotiations was not the exception. However; GATT-UR (and the created WTO) saw what for many could finally be the end of the sector's especial treatment in the context of world trade liberalization: The Agreement on Textiles and Clothing (ATC). ATC, signed by WTO members in 1994, was supposed to eliminate in a period of ten years the existing system of bilateral quota restrictions or "Multifibre Arrangement" (MFA) to fully integrate the T&C sector to the rules and disciplines of GATT-UR and WTO by January of 2005. To avoid major disruptions in the importing countries industry, ATC established a gradual integration of products and expansion of existing quotas (only kept by the US, EU, Canada, and Norway at that moment) in three stages. ATC was received with great expectations for developing countries, especially for those whose exports were restrained by the MFA system. T&C trade was expected to greatly expand trade and to crate at least 20 million new jobs in exporting countries (World Bank). Evaluation of results in terms of trade liberalization at the beginning of the third stage has been, to say the least, controversial.

Discussion

The Multifibre Arrangement (MFA)

The T&C world trade has been taking place outside of GATT rules but within the framework of consecutive multilateral agreements that provided some level of transparency. These temporal arrangements established sets of bilateral restrictions or quotas agreed by importers and exporters. The Long Term Cotton Arrangement governed the period 1962 –1973 and the Multifibre Arrangement (MFA) was established for the period 1974-1994. Gradually, many importing countries left MFA (Sweden, Switzerland, Australia among them). By 1994, MFA members were four importers (The US, EU, Canada, and Norway) and some 30 exporting countries with a total of 1,300 T&C bilateral importing quotas. MFA members also agreed with a quota expansion mechanism that was increasing each quota volume with rates going from 1% to 6% a year. Although in 1994 it was not possible to incorporate the T&C sector to the GATT-UR, the MFA members agreed to dismantle the MFA system in a 10-year period. The ATC was born with the goal of fully incorporate the sector to GATT-WTO rules but in a gradual process that would give importing countries the transition period to adjust their productive systems to the new rules avoiding sudden and costly disruptions. In summary the MFA system of bilateral restrictions would be disappearing in 10 years to be finally eliminated by January 1, 2005.

The Agreement on Textiles and Clothing (ATC)

The ATC was signed in 1994 simultaneously with the GATT-UR General Agreement generating great expectations among developing countries, especially those with comparative advantages in T&C and exports constrained by the MFA system. The anticipation was that during the period 1995-2005 the MFA system would gradually eliminate quotas, generating a smooth transition to the total integration of the sector to the GATT-WTO system of disciplines. The major components of the ATC agreement were: a) the designation of a "product coverage" or "list of products" subject to MFA restrictions, out of which the importing countries could select the items to gradually integrate to GATT-WTO rules, b) the "integration program" in three stages: 1995-1997, 1999-2001 and 2002-2004, c) a "quota liberalization system" also in those three stages, and d) a mechanism of "transitional safeguards."

Although the agreement was signed with full knowledge and acceptance by all MFA members, it is important to analyze some key elements to understand the disparity of expectations. The "list of products" was defined as to include all T&C items that were previously subject to MFA or MFA-type quotas (yarns, fabrics, mad-up textile products, and clothing) in "at least one" importing country. This meant that the list could include items that had never been under restriction for some importing countries. The "integration program" (see Graph 1) was based on the gradual integration to WTO rules (GATT-UR) of subsets of the "list of products" representing a growing percent of each importing country's imports volume of 1990. These percents were established as: 16% for the first stage (1995-1997), an additional 17% for the second stage (1998-2001) and a 18% percent for the third stage (2002-2004) while the remaining 49% would be integrated in January 1 of 2005 (yes, in only one day). It is important to clarify that "integration" does not mean elimination of all trade restrictions but to use only those governed by GATT-WTO disciplines. Thus, although integration means the automatic elimination of quantitative restrictions (quotas) and any form of discriminatory trade policies, it does not preclude the imposition of the tariffs that each country has negotiated with WTO. Additionally, ATC mandates to increase the remaining quota growing rates (part of the MFA arrangement) by 16%, 25%, and 27% at the beginning of each one of the respective three stages of the liberalization program. Since these percent increases were supposed to be applied to existing quota growing rates (between 1% to 6%), the real compound effect was not spectacular providing for total cumulative (ten years) expansion of 54% for the quotas previously growing at 3% (Graph 2). Finally, ATC allowed for "special transitional safeguard mechanisms" which would provide importing countries some protection against damaging surges in T&C imports which are not yet integrated under GATT-WTO.

Evaluation of the First Two Stages

ATC also provided for the creation of the Textiles Monitoring Body (TMB) within WTO to supervise the implementation of the agreement. Based on the reports of TMB, the evaluation of the first two stages of the ATC agreement showed that despite the fulfillment of the agreed percentages of T&C products integrated by the importing countries, the elimination of the existing restrictions under MFA was very slow. Actually, during the first stage (1995-1997) practically no quotas were eliminated except by Canada. At the end of the second stage (1998-2001), the US and the EU "integration process" had integrated some products previously subject to quotas but representing a small percent of their 1990 total imports. For example during the second stage (1998-2001), the EU integrated 20 product categories out of which 14 had been subject to MFA quotas; however, the latter accounted for only 4% of the EU imports of 1990.

In summary, the four importing countries have more than fulfilled their integration commitments (to GATT-WTO) during the first two stages of the ATC program (cumulative 33% of the 1990 volume imports of the "list of products"). (Table 1). Nevertheless, during those seven years (1995-2001) only 107 quotas had been eliminated and consequently the rest of the 1318 original quotas (1211 or 80% of the original number in 1995) would have to be removed during the three remaining years (January, 2002-January2005) (Table 2). Moreover, since most of the "integrated products" had been in the lowest value ranges (yarns and fabrics), the percent of the 1990 imports to be integrated in the last three years of the program will be not just be the 67% of volume but probably around 80% of the 1990 import value (ITCB estimation). It is true that all quotas have been growing at the agreed rates but for most of them the growth by the second stage would have been only above the 30% of the 1995 level.

Developed Importing Countries Perspective. The ATC agreement has been faithfully and scrupulously fulfilled during the first two stages. The integration percents of the respective 1990 imports volumes have been surpassed in every case. The remaining quotas have been growing at the agreed rates, and the use of the transitory safeguard mechanism has been used only when needed and according with the stipulated regulations. The cost of the implementation has been high in terms of the reduction of domestic production and employment in the industry. Norway decided to anticipate the implementation and in 2002 unilaterally integrated the 100% of their 1990 imports to GATT-WTO eliminating all pending restrictions. The other three (US, EU, and Canada) have reconfirmed that they will accomplish the full integration by January 2005 as stipulated in the ATC agreement.

Developing Exporting Countries Perspective. The results of the first two stages are disappointing. Most of the "integration" to GATT-WTO rules has occurred in T&C products of little commercial interest while the high value items seem to be kept out until the end of the program. The importing countries have extensively used the 'transitory safeguard mechanisms" to keep the protection of their industries and the EU has excessively used the "anti-dumping" instruments allowed by WTO. Some countries have modified their "Rules of Origin" regulation to additionally restrict imports. Most of the growth in T&C imports in the developed countries has occurred through their Regional Trade agreements favoring very specific countries: Mexico (through NAFTA) and the CBI (Caribbean Basin) countries by the US; Turkey and some North African and Eastern European countries by the European Union. There is concern that the importing countries will not be able to complete the integration process by the January 2005 deadline. Some multilateral agencies have indirectly backed the position of developing countries.

Is ATC a WTO Failure?

As explained earlier, developed countries are technically correct in arguing that the required percentage of products integration had been met as nothing in ATC stated that a certain percentage of products under quota would be required to be integrated at each stage. Also, according with the agreement, it is the right of each member to choose the products as long as they integrate at least one product from each group in each stage of integration. However, developing countries expected progressive liberalization in all the four groups indicated earlier including textile and clothing during the life of the ATC. Contrary to their expectations, developed countries have mostly integrated low value-added yarns, fabrics and textile made ups, which are also imported from developed countries.

From the arguments put forth by both the groups (developing exporters and developed importers), it clear that the difference between their positions could be traced to the differing views on what was expected during the life of the ATC. Developing countries argue that as per Article 1.5 of the ATC, gradual phasing out of quotas during the transition period, not just at the end of that period, was a necessary condition of full implementation. On the other hand, the importing members, i.e., developed countries, interpreted the ATC as the full integration of textile and clothing sector into GATT and WTO discipline by January 1, 2005 with no constraint on the products to be integrated during each stage. From their point of view, the ATC left the choice entirely to the importing members as to which textile and clothing products were to be integrated during each stage as long as they satisfy volume requirements of each stage and full integration by the end of the transition period.

Outcome of another key aspect of integration process, i.e., increase in the rate of annual quota growth has also been controversial. Developing countries argue that actual pre-ATC growth rates were low for major products resulting in very small addition to the existing growth rate during the first two stages. According to them, ATC implementation during the first two stages had amounted to only 0.73% per year in EU, 1.03% in the U.S. and 1.22% in Canada. On the contrary, developed countries had emphasized that the quota growth rate increases had resulted in substantial rise in their imports. For example, clothing imports in the EU had increased by 54% during 1995 to 2000. Similarly, in Canada, total-clothing imports had increased by 71% from developing countries since 1994. In addition, developed countries had used the example of Norway, which had removed all of its remaining quota restrictions by January 1, 2001, four years in advance of agreed deadline.

It is obviously clear from the above discussion that both groups differ substantially on the interpretation of the various provisions of the agreement and are unlikely to change their positions under any circumstances. But developing countries need to realize that pattern of product integration followed by most importing countries seem to be logical and similar to what has happened to tariff reduction commitment under Uruguay round agreement. Before signing the agreement, developing countries should have the knowledge that developed counties are likely to postpone integration of most sensitive products until the end of the period unless and otherwise it is specifically indicated in the agreement. Even with all these disagreements and slow progress of integration after seven years of transition period, it is still little too early to conclude that ATC has failed to achieve its ultimate goal of complete integration of textile and clothing trade. All members, particularly developed countries, still reaffirm their commitment to achieve full implementation of the ATC by January 1, 2005.

Implications for 2005 and WTO Negotiations

If as expected the ATC agreement will be respected and fulfilled by January 1, 2005, most of the MFA existing bilateral quotas would be eliminated in a very short period of time which most of them probably just in one day: January 1st of 2005. As a matter of fact that day 49% of the 1990 import volume will be fully integrated to the GATT-UR round rules. However, given the integration strategy followed by the importing countries (low value items first), the percent of the 1990 imports *value* to be integrated that day would probably be above the 60% and close to 70%. Although this sudden end is totally possible and legitimate within the ATC agreement it may be questionable if such strategy is the best for the importing countries industry. The gradualism that inspired the spirit of ATC would have then resulted in an abrupt change. Although "integration" to GATT-WTO rules means phasing out of quotas, it does not imply elimination of tariffs. However for countries like China it would mean a drastic reduction in the "equivalent importing tariff" .For the US the "tariff equivalent" of average T&C quotas from China are estimated in 40% and in January 1995 they would drop to an US tariff average of 15%. It is likely however that most firms within the T&C sector of Canada, the US and the EU would have made the required adjustments and appropriate business decisions by the deadline of ATC, and as such, the impact would not be as large as some anticipate. In any case, it could be expected that the direction of trade would be altered with Chinese, and South Asian T&C production replacing some of the EU, Canadian, and US imports now flowing from countries favored so far with free trade prerogatives (Mexico, Caribbean countries, Turkey, Morocco etc).

The disappointment of the exporting developing countries with the pace of the ATC results has already been an issue for the multilateral negotiations of the new WTO round. Under their pressure, the Doha ministerial declaration includes further liberalization on agriculture and textile industries as the key elements for the success of any eventual multilateral agreement. In this proposition, the developing countries seem to have the support from multilateral institutions like UNCTAD, UNIDO, the IMF and the World Bank. So the future of the T&C tariffs of developed countries would be under great pressure after 2005. It is already expected that the developed countries would react to the ATC fulfillment with increased anti-dumping cases. The arguments of labor-standards and eco-labeling are also sounding in the trade negotiation tables as the next instrument to slow down the free flow of T&C products from the developing to the developed countries. In benefit of the overall process of trade liberalization lead by WTO, it is expected that the ATC agreement be fulfilled to its integrity by January 1, 2005 and that any further liberalization of the T&C sector would be as transparent as possible to all parties involved.

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Table 1. Number of Quotas Eliminated in First Two Stages.

WTO Member	Total no. of T&C quotas	Stages 1&2	Early Elimination	TOTAL Eliminated Quotas
USA	**750**	2	11	**13**
EU	**219**	14	0	**14**
Canada	**295**	29	0	**29**
Norway	**54**	0	51	**51**

Source: X. Tang. Using WTO, TMB Ntofications.

Table 2. Percentage of Volume and Value of Imports Integrated in First Two Stages.

	Percentage of Imports			
	Volume			Value
	Yarns-Fabrics	Clothing	Total	Total
USA	29.3	3.9	33.2	17.3
EU	32.0	2.5	34.3	21.6
Canada	32.2	1.4	33.6	29.7
Norway	36.0	4.3	40.5	23.9

Source: X. Tang. Using WTO, TMB Ntofications.

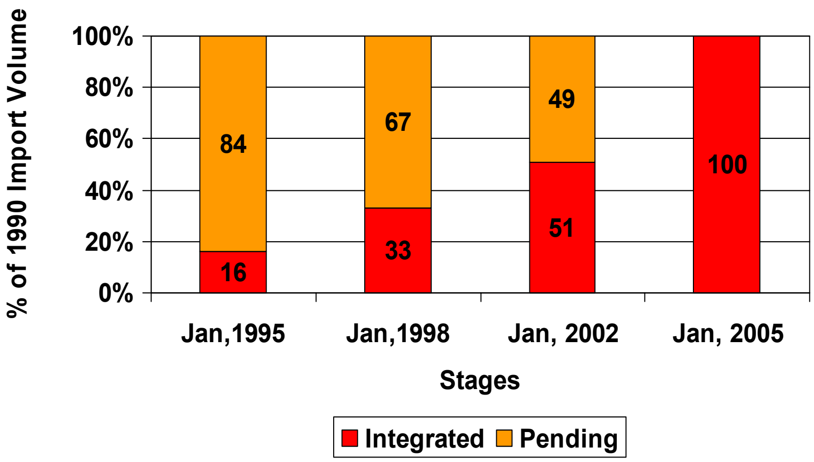

Figure 1. ATC Integration Process by Stages.

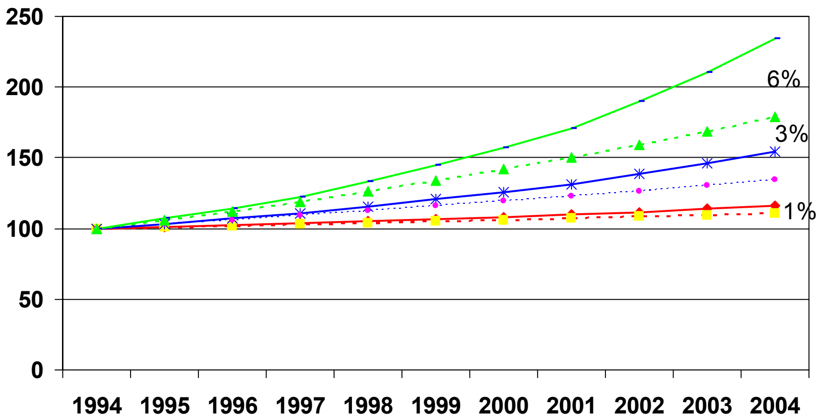

Figure 2. Quota Expansion: ATC vs MFA.